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Watertown City School District:
FY 2024/25 Annual Risk Assessment

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December 2, 2025

Board of Education
Watertown City School District
1351 Washington Street
Watertown, New York 13601

We have completed the annual update of the financial risk assessment for the Watertown City School District. One of the requirements of the 2005 School Financial Oversight and Accountability legislation is to update the risk assessment annually. Our engagement was designed to revisit the risks identified in the previously issued report and provide a report on the organization's steps taken to mitigate those risks, as well as, identify new risks as conditions change within the District.

The purpose of the financial risk assessment was to review the internal controls that the District has in place to prevent errors, detect fraud and ensure that financial reporting is accurate and that the District assets are safeguarded. In conducting the financial risk assessment, we considered significant classes of assets and transactions. We interviewed key staff to obtain an understanding of the financial processes.

We noted some areas where the District could improve the internal control structure. Our recommendations follow in the attached report.

Should you need assistance in implementing our recommendations, or other requirements of the 2005 legislation, we will be glad to help.

RELIABILITY OF INFORMATION

As noted, the purpose of our engagement was to assist you in improving the process by which you monitor and manage the risks that face the District. However, it is ultimately your responsibility to assess the adequacy of your risk management system.

In performing our engagement, we relied on the accuracy and reliability of information provided by District personnel. We have not audited, examined, or reviewed the information, and express no assurance on it.

DISTRIBUTION OF THE REPORT

This report is intended solely for the information and use of the Board of Education and management of Watertown City School District and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the individuals in your organization for their cooperation. Over time, it will be necessary to reassess your risks to ensure that they have not changed and to ensure that your risk management system is functioning properly. Through our ongoing involvement with you as a client and our knowledge of your District and its processes, we are in a unique position to assist you with that process. Please contact us at any time should you desire such services.

Sincerely,

Kenneth R. Ziobrowski

Ken Ziobrowski, CIA, CFE
Internal Audit Manager
Questar III BOCES

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Inherent Risk Areas

Below is a summary of inherent risks that should be addressed as part of conducting the annual independent audit and the ongoing internal audit function:

RISK AREA	DESCRIPTION	RECOMMENDATION TO ADDRESS RISK
Changing Environment	The District operates in an environment of complex or frequently changing compliance requirements. The risk to the District is that as compliance regulations change complexities place task burdens on the district employees. The complexity of the tasks increases the risk that the District could feel adverse consequences if it were to lose a key person in the business office.	To mitigate this risk, the District should require business office personnel to document all critical financial processes, such as payroll, purchasing, accounts payable and IT processes. These documents should be reviewed, tested and updated as processes change. In addition, employees should be cross-trained to cover all critical processes during vacations, absences or vacancies in financial positions.
Complex Transactions	The entity has a mix of program types funded by third parties that could motivate management to shift costs or manipulate accounting transactions.	A properly functioning claim audit procedure will review the appropriateness of expenditures to the various programs.
Segregation of Duties	The segregation of duties is an issue within school districts primarily due to limited staffing and/or changes to employee responsibilities. There may be instances where the District has risk exposure and no mitigating controls.	Segregation of duties issues can be addressed in several ways: <ul style="list-style-type: none"> • The District could reassign work so that checks and balances are put in place and no one person has a span of control that is too extensive; • Additional review procedures could be developed and implemented either at the beginning or end of the process; or • The involvement of the claims auditor or internal audit function could be increased.
Prior Audits	Internal Audit has performed the following audits that will require a follow-up: <ul style="list-style-type: none"> • Extraclassroom Activity Fund – FY 2013/14 • Medicaid Claiming – FY 2014/15 • Attendance – FY 2015/16 • Transportation – FY 2016/17 	The Board of Education (BOE) should consider having Internal Audit perform follow-up audits to ensure management corrective actions to audit observations are working effectively and efficiently.

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RISK AREA	DESCRIPTION	RECOMMENDATION TO ADDRESS RISK
	<ul style="list-style-type: none"> • Business Office Operational Efficiency – FY 2017/18 • Operations & Maintenance Operational Efficiency Audit – FY 2018/19 • Grants: DoDEA III and Pre-K III – FY 2019/20 • Title IX Athletics Equity – FY 2020/21 • Concussion Management – FY 2021/22 • Information Technology – FY 2022/23 • Staff Attendance – FY 2023/24 • Title 1 Grant Audit – FY 2024/25 	

Assessment of Risk

Below is an assessment of the District’s internal controls for each functional area which are classified as low; moderate; or high risk. The assessment is based on the likelihood and impact that an unfavorable event would have on the District. The functions that we deemed to be high risk areas are critical to the operation of the District or are assets susceptible to misappropriation. In addition, this information may be used by the Board of Education for developing an audit plan for the upcoming year.

Functional Area	Audit Date	Risk Classification		Comments
		Prior Year	Current Year	
Cash – Business Office	Business office Operational efficiency audit 2017-18	Low/Moderate	Low/Moderate	Minimal cash handled
Cash – Lunch Program		Low	Low	
Cash – Extraclassroom	2013-14	Moderate	Moderate	
Cash – Petty Cash		Low	Low	
Accounts Receivable		Moderate	Moderate	
Accounts Receivable – Special Education		Moderate	Moderate	
Accounts Receivable – Medicaid	2014-15	Moderate	Moderate	
Accounts Receivable – Federal		Low/Moderate	Low/Moderate	
State Aid		Moderate	Moderate	
Accounts Payable		Moderate	Moderate	
Payroll		Moderate	Moderate	
Human Resources	Staff attendance 2015-16	Moderate	Moderate	
Purchasing		Moderate	Moderate/High	Confirming purchase orders are being used.
Facilities Usage Billing		Moderate	Moderate	
Fixed Assets Accountability		Moderate	Moderate/High	Fixed Asset Transfer Forms are not being used.
Inventory – Lunch Program		Low/Moderate	Low/Moderate	
Inventory – Operations & Maintenance	O&M operational efficiency audit 2018-19	Moderate	Moderate	
Inventory – Extraclassroom		Moderate	Moderate/High	No Inventory Control Forms
Employee Benefits (include retirees)		Low	Low	
Employee Expense Reimbursements		Low	Low	
Information Systems	2022-23	Moderate	Moderate	
Capital Projects		Moderate	Moderate	
Budgeting		Low/Moderate	Low/Moderate	
Claims Auditing		Moderate	Moderate	
Workers Compensation		Moderate	Moderate	

Prior Years' Comments and Recommendations

We noted the following issues within functional areas that could use improvement to their internal controls. The comments and recommendations provide a tool for management to assist in developing or maintaining a risk management system that mitigates risk to an acceptable level as determined by the Board of Education. The issues were identified from prior risks assessments and are summarized in the table below along with our recommendations and updates as of **FY 2024/25**:

FINANCIAL AREA IMPACTED	DESCRIPTION OF CONDITION	RECOMMENDED SOLUTION
Banking	The annual reorganization meeting minutes did not specify the maximum amount which may be kept on deposit at any one time in each designated bank as in accordance with BoE policy 4202 and in accordance with General Municipal Law Section 10(2)(a).	The BoE should specify in the annual reorganization meeting the maximum amount which may be kept on deposit at any one time in each designated bank.
	Updated September 2024: There has been no change from the prior year risk assessment.	
	During the reorganizational meeting in July of 2021, the District had established a petty cash fund of \$200 each for food service and athletics. According to School Law 37 th edition page 282, "in districts employing more than eight teachers, the balance on hand in the fund may not exceed \$100 at any time."	The District should ensure that per School Law, each petty cash fund established does not exceed \$100. If the food service and athletics department need more than \$100 of funds to utilize, the funds should be deemed as "start-up" funds, not petty cash funds.
	Updated September 2024: There has been no change from the prior year risk assessment. The amounts have been approved within the 7/2/24 reorg minutes.	
	We noted for wire transfers and ACH payments that only one individual is required to initiate and approve the wire/ACH. The Assistant Superintendent for Finance will sign off on the manual wire transfer form for approval; however, the Assistant Superintendent for Finance signs off after the wire transfer has been approved by the bank. We noted for ACH payments there is no second approver.	The District should require all wire transfers and ACH payments to have two individuals involved in the process; one individual to initiate the payment and a separate individual to approve the transfer.
Updated September 2024: There has been no change from the prior year's risk assessment.		

FINANCIAL AREA IMPACTED	DESCRIPTION OF CONDITION	RECOMMENDED SOLUTION
<p>Claims Auditing</p>	<p>The Payroll Clerk was appointed as the alternate claims auditor. However, the Payroll Clerk processes payroll which is considered a business operation. This is a position that is not forbidden by School Law, but it is recommended by SED not to have a claims auditor that has responsibilities within the business operations. Please refer to the following information regarding the state requirements:</p> <p>Who does not qualify as a claims auditor:</p> <ul style="list-style-type: none"> • A member of the district’s board; • A clerk or treasurer of the board; • The superintendent; • Any district official responsible for business management; • An employee under direct supervision of the superintendent; • The district’s purchasing agent; • Any clerical or professional personnel directly involved in accounting and purchasing; and • Any individual responsible for business operation. 	<p>The District should assign someone independent and separate from the business office operations as the deputy claims auditor. According to the state requirements, it lists the following individuals eligible for claims auditing:</p> <p>Who does qualify as a claims auditor:</p> <p>Candidates for the position must should have or be able to obtain expertise in district finances and have expertise with purchasing policies.</p> <p><i>Candidates may include:</i></p> <ul style="list-style-type: none"> • A district employee; • A person hired through an inter-municipal or shared service agreement; • An outside contractor; • A BOCES employee – however, the BOCES and the employee must meet all other requirements and it may not be appropriate for a BOCES to provide claims auditing services to one of its component districts since most of these districts would have material and significant contract payments to that BOCES; • An employee exempt from Civil Service classification (however, employees currently classified under civil service do not lose this classification); and <p>A district resident or nonresident</p>
	<p>Updated September 2024: There has been no change from the prior year risk assessment. We noted the deputy claims auditor will only perform claims auditing in the Claims auditors’ absence. We noted the Deputy Claims Auditor has not performed claims auditing in several years.</p>	
	<p>The Claims Auditor has not attended a formal Claims Auditor training. According to the New York State Comptroller’s Improving the Effectiveness of Your Claims Auditing Process pamphlet, the claims auditor should attend training specific to the responsibilities of the position.</p>	<p>To ensure best practices, the Claims Auditor should attend a training course relating to the responsibilities of the claims auditing position.</p>

FINANCIAL AREA IMPACTED	DESCRIPTION OF CONDITION	RECOMMENDED SOLUTION
	<p>Updated September 2024: There has been no change from the prior year risk assessment.</p>	
	<p>The Claims Auditor does not review to ensure bidding was completed for a purchase if bidding was required.</p>	<p>The Claims Auditor should ensure the claims are in agreement with Board policy 4402 Competitive Bidding. Additionally, according to the OSC Improving the Effectiveness of Your Claims Auditing Process guide, the Claims Auditor should review to ensure bidding was completed if applicable and that documentation should be retained and reviewed by the Claims Auditor showing the lowest responsible bidder was awarded for the contract.</p>
	<p>Updated September 2024: There has been no change from the prior year risk assessment.</p>	
<p>Inventory Controls – Operations & Maintenance</p>	<p>The Operations & Maintenance department does not have a formal inventory accountability system for parts, supplies, and equipment. The department is currently relying on staff to perform a visual count for maintaining inventory levels but is not consistently documenting what the District has on hand. The department supervisor is concerned that this could potentially lead to excessive ordering or improper accountability. The department has not implemented a perpetual inventory system for parts and supplies. In addition, the department does not perform a complete physical inventory and compare results to identify variances.</p>	<p>The District should consider implementing an inventory accountability program. The District should also ensure the appropriate staff are trained to effectively utilize the program and evaluate the benefits of implementing a full perpetual system for operations & maintenance parts and supplies. A full perpetual system would consist of updating inventory daily.</p> <p>Inventory would be updated when new items are purchased and when existing items have been recorded on work orders as used. A responsible individual should make necessary adjustments to inventory when new items are purchased and when existing items have been used. Additionally, an appropriate individual should perform a physical inventory and document the results (annual or semi-annual basis).</p>
<p>Updated September 2024: The district now utilizes Help Desk Management software for work orders. It has the ability to track inventory & schedule maintenance on fleets, but the District is not currently using these features. These features are not able to be implemented due to limited staff and trainings.</p>		

FINANCIAL AREA IMPACTED	DESCRIPTION OF CONDITION	RECOMMENDED SOLUTION
Financial Reporting and Budgeting	The District’s unassigned fund balance is in excess of the 4% allowable by NYS law.	The District could take steps to reduce its fund balance so that it’s in compliance with NYS regulations. This reduction in fund balance could result in a reduced tax levy.
	<p>Updated September 2024: During our review of the financial statements ending June 30, 2024, we noted the District has a fund balance of 24.75% which is in excess of the allowable per NYS law.</p>	
Extraclassroom Activity Funds (ECAF)	ECAF has two credit cards assigned to the program that were not identified in Board Policy 4601: Use of Credit Cards. These two credit cards are in the name of the ECAF Auditor/Comptroller but are District owned credit cards and currently not under the control of the business office.	The Board Policy 4601 should be revised to include the ECAF credit cards. Additionally, the District should consider maintaining control over the cards by the Business Office
	<p>Updated September 2024: There has been no change from the prior year risk assessment.</p>	
	We noted from our discussion with the ECAF Auditor/Comptroller there were three clubs without financial activity for at least two consecutive years. This may be an indication that these are not bona fide clubs. In addition, there were clubs at each of the elementary schools, which may not be bona fide clubs. Note: The ECAF Auditor/Comptroller has suggested closing these clubs prior to the interview.	The District should identify clubs that are not bona fide and remove them from the extraclassroom activity fund. In order for elementary clubs to be bona fide clubs, they should follow the guidelines identified from the New York State Education Department’s (SED) Finance Pamphlet 2. The district should consider moving non-bona fide club funds to the Trust & Agency fund for accountability purposes.
	<p>Updated September 2024: During our review of the financial statements ending June 30, 2024, we found that the same clubs as last year still have no financial activity. Additionally, we have noted that there are numerous other clubs for the 24/25 fiscal year that have no financial activity.</p>	

FINANCIAL AREA IMPACTED	DESCRIPTION OF CONDITION	RECOMMENDED SOLUTION
	<p>We noted during our review of extraclassroom internal controls that money received by extraclassroom activities are being held by the club advisors for an excessive amount of time before depositing funds with the central treasurer. Instead of depositing money daily with the central treasurers during fundraisers, the advisors are waiting 3-5 days until the fundraiser is over. This waiting period puts the District at risk for misappropriation of assets and potential theft or loss of the clubs' funds.</p> <p>Updated September 2024: The Central Treasurer advised that most clubs deposit funds within a timely manner; she gives them a 3-day time frame to do so. Often, they are timely. It is a similar situation to the prior year there has been some improvement.</p>	<p>We recommend that throughout the course of a fundraiser, regardless of the length of time, money should be brought down to the central treasurers the same day it is given to the club advisor. Once it is received by a central treasurer, it is no longer the responsibility of the club advisor and lessens the risk of theft or loss. Additionally, this lowers the liability to the club advisor should funds be misappropriated.</p>
<p>Information Technology</p>	<p>Most server rooms and data closets are locked up, however the IT Director noted that there are design issues with some of the server switch rooms. The District Office and Wiley building transformers are stored in the data closet which creates warm temperatures in the closets where the server switches are located. Since these storage locations do not have air conditioning, staff have been instructed to leave the door open to keep the room cool. This is a potential security issue if an employee or student walked in and interrupted the connection.</p> <p>Note: A similar comment was identified in a prior year risk assessment.</p> <p>Updated September 2024: The data closets at Wiley now have air conditioning and no longer have this issue, however, the remaining locations have not undergone any changes. The IT Director advised that the infrastructure capital project should resolve this issue.</p>	<p>The District should consider installing air condition units in the server switch closets and keep doors locked with limited access. This would ensure that the server switches are properly protected and minimize the potential risk of interrupting the District's servers.</p>

FINANCIAL AREA IMPACTED	DESCRIPTION OF CONDITION	RECOMMENDED SOLUTION
State Aid	There is not an independent review of the ST-3 form after the business manager completes it.	The District should assign an employee in the business office to review the ST-3 State Aid form for accuracy. The assigned employee should also receive training on how to complete the form.
	<p>Updated September 2024: There has been no change from the prior year risk assessment.</p>	
Human Resources	An exit interview is not performed when employees resign from the District.	It is important to collect information from employees who have resigned. Undertaking an exit interview can identify areas that you can improve to help retain other staff. An exit interview should be offered to all employees who have resigned. This interview can be carried out by the employee's immediate manager, HR, or by providing the employee a self-addressed employee form for them to fill out on their own and send back to you. Exit interviews can identify both positive and negative reasons for departure: relationship with supervisors, their perception of pay, training, career opportunities and performance appraisal systems. They should also seek to gain the departing employees views on the working conditions offered by your District and ask for some suggestions for improvement. If you do collect exit interview information, then ensure that there is a process in place for appropriate and timely follow-up action to be taken on that feedback, otherwise, there is little value in collecting the information.
	<p>Updated September 2024: The District sends out an exit survey when staff leave the district. A paper copy will be sent out if the online form is unable to be completed. These surveys ask the same questions that would be asked during a formal exit interview. The Assistant Superintendent for Personnel advised that formal exit interviews are sometimes conducted depending on the given circumstances; the District is not consistent with conducting exit interviews regularly.</p>	

FINANCIAL AREA IMPACTED	DESCRIPTION OF CONDITION	RECOMMENDED SOLUTION
	<p>The District performs an annual rollover of accrued paid time off. The process is manual in that a clerk must enter the rules into the system based on each contract and will manually enter paid time off amounts. There is no review of the entry upon completion.</p>	<p>The District should assign an individual to review the entries made annually to the rules that govern the rollover of accumulated paid time off for each employee.</p>
	<p>Updated September 2024: The Payroll Clerk will review and audit the times at the end of the year; however, all accrued time and contract rules are still entered manually.</p>	
<p>Cash Receipts</p>	<p>The Accounts Payable Clerk maintains a cash receipt log for the incoming cash/checks to the business office. We noted the Treasurer also maintains a cash receipt log. When the Treasurer deposits the receivables to the bank, she will reconcile the deposit slip to her own cash receipt log instead of the accounts payable clerk's log.</p>	<p>The Treasurer should be reconciling the account payable clerk's cash receipt log to the bank deposit slip. The Treasurer should not be reconciling her own log to the bank deposit slip.</p>
	<p>Updated September 2024: There has been no change from the prior year risk assessment.</p>	
<p>General</p>	<p>The District does not have a mechanism to report an anonymous tip of suspected fraud or abuse, nor has the District adopted a Board policy regarding allegations of fraud.</p>	<p>The District should consider establishing a location on its website that employees, vendors and customers can use to report suspected abuse in an anonymous manner. Alternatively, all employees of the organization should be informed that they can report suspected fraud and abuse by visiting the NYS Comptroller's website. The policy should include language on what steps staff should take in the event they have suspected instances of fraud, waste, or abuse occurring in the District. The policy should be presented and approved by the District's Board of Education.</p>
	<p>Updated September 2024: There has been no change from the prior year's risk assessment.</p>	
<p>Fixed Assets</p>	<p>The District has not had a full physical inventory of fixed assets in the last five years.</p>	<p>To ensure best practices, the District should seek to have a full physical inventory of fixed assets conducted.</p>

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FINANCIAL AREA IMPACTED	DESCRIPTION OF CONDITION	RECOMMENDED SOLUTION
	Updated September 2024: There has been no change from the prior year's risk assessment.	

Issues Identified in the Current Year

We noted the following issues within functional areas that could use improvement to their internal controls. The comments and recommendations provide a tool for management to assist in developing or maintaining a risk management system that mitigates risk to an acceptable level as determined by the Board of Education. The issues were identified from the **FY 2024/25** risk assessment and are summarized in the table below along with our recommendations:

FINANCIAL AREA IMPACTED	DESCRIPTION OF CONDITION	RECOMMENDED SOLUTION
Fixed Assets	The District has an asset transfer form, but it is not regularly completed whenever assets are transferred between locations. Staff is incorrectly creating work orders whenever assets are transferred.	The District should instruct staff to complete asset transfer forms whenever assets are moved between locations and advise staff that the work order system should not be used to report the transfer of assets between locations.
Banking	The limits of credit cards were changed without the approval of the Board of Education.	Changes to credit card limits, in addition to their usage, are subject to Board approval.
Extraclassroom Activity Funds (ECAAF)	Clubs are not completing inventory control forms.	Clubs should complete inventory control forms before and after each fundraiser to ensure accurate inventory counts and to reduce the risk of lost or stolen items.
Purchasing	Orders are being fulfilled prior to the review of the purchasing agent. The only time that the purchasing agent signs off on purchases is when goods and services are rendered. This is also known as a confirming purchase order.	The purchasing agent should be reviewing and signing off on each purchase order prior to their fulfillment.

Cleared Comments

We noted the following issues within functional areas that were noted in previous reports and subsequently corrected. Below is a listing of such items and their solutions.

FINANCIAL AREA IMPACTED	DESCRIPTION OF CONDITION	MANAGEMENT RESPONSE
<p>Inventory Controls – Operations and Maintenance</p>	<p>The off-road diesel fuel tank does not have an operational fuel gauge. The current controls do not provide adequate fuel usage accountability.</p>	<p>Update September 2024: A new digital electronic fuel disbursement pump has been installed. A four-digit code has been assigned to every user who utilizes the tank to pump gas. The fuel device allows for the printing of historical usage and has effectively eliminated the potential for any outside usage. Users also have a FOB that can be used instead of the 4-digit code if necessary. There are 7 maintenance and 9 custodial employees that can access the pump.</p>
<p>Facilities Usage</p>	<p>The District has not established a formal process to schedule building and athletic use by outside organizations. The information is recorded on a wall board and on an Excel spreadsheet at the O&M Office. Additionally, the billing process is performed outside the Business Office.</p>	<p>Update September 2024: The Facilities department now utilizes ML Schedules software as a method for tracking facilities usage. Outside organizations can access a form via the district website. Once filled out and submitted online, the district wide calendar is automatically updated to display the scheduled event to all users.</p>