



**Cold Spring Harbor Central School District  
Risk Assessment Update Report  
For the Period Ending  
June 30, 2015**

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**Executive Summary**

This report serves to address the second requirement of Chapter 263 of the laws of New York, 2005, which requires all school districts to establish an internal audit function. The internal audit function requirement includes the engagement of a qualified audit firm or individual to make an initial assessment of risk surrounding the design of the District's internal controls, annual updates of the initial risk assessment and testing of these controls on a periodic basis for operational effectiveness.

This risk assessment update is intended to provide management with information to enhance and strengthen the District's controls and to reduce the District's risk relating to its financial processing and reporting operations.

We determined the status for the current year's risk assessment update through various methods, including inquiry of appropriate District personnel involved in these processes, observation of the controls in place, results of internal control questionnaires related to the various business units and testing the controls where necessary to determine if they have been put in place and are functioning as intended.

Additionally, we have reviewed the results of the reports on Cash Management and the Risk Assessment Update issued by our firm during the period ending June 30, 2014 to determine if relevant controls have been put in place based on the report.

The risk assessment requires an internal auditor to obtain an understanding of the risks associated with the various business processes within the District. This requirement involved two categories of risk as follows:

- **Inherent Risk** - the risk associated with the nature and type of transactions processed due to complexity, materiality and quantity of the transactions.
- **Control Risk** – the risk that the internal control system is not adequately designed to prevent or detect errors or irregularities on a timely basis that could be material individually or when aggregated with misstatement in other balances or account classes.

The risk areas have been identified and appropriate risk levels have been determined. The risk levels are defined as follows:

- **High Risk** – these are areas identified as posing the greatest potential risk for the school district and which carry the highest priority. Any outstanding items will be carried over and re-evaluated in the following year's risk assessment.
- **Moderate Risk** – these are areas identified as to be of second level priority and will be addressed after the high-risk items are completed. Any outstanding items will be carried over and re-evaluated in the following year's risk assessment.

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- **Low Risk** – these areas are considered lowest priority and will be addressed after the high and moderate risk items are completed.

We have summarized our assessment of inherent risk and control risk for the current and prior year, as well as our testing plan, in our *Assessment of Risk and Testing Plan* (See Appendix A).

**Process Review Summary and Proposed Business Processes**

The following represents the business processes where we have provided internal audit services and the business processes we are proposing for the fiscal year ending June 30, 2016:

Extensive System Reviews:

Fiscal Year Ending June 30, 2015:

- Fund Balance Management and Reserves

Fiscal Year Ending June 30, 2014:

- Cash Management

Fiscal Year Ending June 30, 2013:

- Information Technology

Fiscal Year Ending June 30, 2012:

- Capital Assets

Fiscal Year Ending June 30, 2011:

- School Lunch Operations

Fiscal Year Ending June 30, 2010:

- Extraclassroom Activity Funds

Fiscal Year Ending June 30, 2009:

- Personnel and Payroll Processing

Fiscal Year Ending June 30, 2008:

- Purchasing and Related Expenditures

Extensive System Proposed:

Fiscal Year Ending June 30, 2016:

- Capital Projects

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**High Risk Items**

Based on our review there were no prior year high risk and no current year high risk findings.

**Moderate Risk Items**

Based on our review there were no prior year moderate risk findings.

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**Low Risk Items**

**Status of Prior Year Findings**

**ACCOUNTING AND REPORTING**

**RESERVES AND FISCAL HEALTH**

Previous Control Risk Level: Moderate (M)

Prior Year Findings: During our prior year risk assessment update we noted the following on the District's reserves and fiscal health:

- We noted the District's unemployment reserve had a balance of \$200,116 as of June 30, 2013. As per GML §6-M, the unemployment reserve fund should be utilized to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer had elected to use the benefit reimbursement method. However, we noted no usage recorded in the unemployment reserve from July 1, 2010 to June 30, 2014.
- We noted the District's reserve for tax reduction had a balance of \$347,340 as of June 30, 2014. However, we noted interest was not being allocated to this reserve and there was no evidence of usage of funds in the reserve.
- We noted interest was not being allocated to the capital reserve on a pro-rata basis.

Current Year Status: During our risk assessment update, we noted the following on the District's reserves and fiscal health:

- Effective January 2015, the District has implemented a procedure whereby expenditures for unemployment payments are made directly from the reserve fund. The District will maintain a related budget line in the general fund for purposes of replenishing the unemployment reserve fund as needed.
- We noted interest was not being allocated to the capital reserve on a pro-rata basis. It is our understanding that the District will review the allocation of interest revenues to the various reserves with the external auditor during the year-end audit process.

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The District's reserve for tax reduction had a balance of \$347,340 as of June 30, 2014 however, we noted there was no evidence of usage of funds in the reserve. Additionally, cash flow projections are not provided in the monthly financial packet submitted to the Board for review. Based on the above factors however, this alone does not warrant the level of risk to be raised above low.

Updated Control Risk Level: (L)

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**Low Risk Items**

**Current Year Review**

**PURCHASING AND RELATED EXPENDITURES**

**PURCHASING PROCESS AND PURCHASE ORDER SYSTEM**

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's purchasing process and purchase order system based on the following reasons:

- The District's Purchasing Agent verifies that quotes/bids are obtained for authorized District purchases.
- The District procures goods and/or services from time to time utilizing other governmental agencies contracts and BOCES cooperative bids to help reduce the costs of bidding.
- The accounting information system prevents the creation of a requisition and purchase order if appropriations are not sufficient.
- A new *Vendor Form* and an IRS-W9 form is completed for a new vendor request which is approved by the Interim Assistant Superintendent for Business before a new vendor can be added.
- The District has implemented procedures to perform a comparison of the vendor master file to the payroll master file to assist in monitoring potential conflicts of interest and the proper classification of vendor versus employee. We noted this procedure is performed by the Finance Manager on an annual basis.

The District has adopted Policy No. 6700 *Purchasing* that outlines the purchasing guidelines and regulations however, the policy does not specifically name the individual responsible for purchasing as required by Chapter Law 402 of the Laws of 2007. We recommend the District update Policy No. 6700 *Purchasing* to include the individual responsible for purchasing. Based on the above factors, this alone does not warrant the level of risk to be raised above low.

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**PAYMENT PROCESSING**

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Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's payment processing based on the following reasons:

- Check warrants are signed by the Claims Auditor.
- The Treasurer records all checks in a check log.
- Based on our sample of the funds reviewed in the check signing log for appropriate signatures, gaps in check number sequence, as well as, for accuracy to the corresponding warrants, we noted no exceptions.

Based on our sample of payments tested, we noted three instances where the invoice predated the purchase order. However, the instances appear to be minimal. Based on the above factors, this alone does not warrant the level of risk to be raised above low.

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**TRAVEL AND CONFERENCE**

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Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's travel and conference process based on the following reasons:

- Requests for conferences are approved by the Assistant Superintendent for Curriculum and Instruction and by the applicable building principal.
- The District utilizes "My Learning Plan" to track and plan for staff development, which includes maintaining a history of conference attendance.
- The District requires that employees submit a pre-conference approval form that must be approved by the authorized parties above.
- The District has a conference policy in place that requires all employees to provide proof of attendance prior to being reimbursed for travel and conference expenses. Acceptable forms of proof include a *Certificate of Attendance* from the conference or letters from the hosting organization.
- Reimbursements require original itemized receipts as supporting documentation for reimbursement. Included in this requirement are MapQuest printouts when submitting mileage reimbursement requests.

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**HUMAN RESOURCES**

**EMPLOYMENT REQUISITION AND HIRING**

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Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's employment requisition and hiring processes based on the following reasons:

- There is adequate segregation of duties between the District's personnel and payroll functions surrounding the input of new employee demographic data and payroll information in the accounting information system.
- The District's personnel department completes a *New Employee Personnel File Checklist* to ensure all pertinent documentation has been received.
- The District verifies all applicable step and levels for newly hired instructional positions, which includes obtaining proof of previous experience and relevant certifications or transcripts.
- Background and reference checks are performed on all newly hired employees, including fingerprint clearance as required by state education laws.
- The Board approves all new hires, which is documented in the Board minutes.
- A new hire package is provided to all newly appointed District employees that include the required documentation to be completed.

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**EMPLOYMENT TERMINATION**

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Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's employment termination processes based on the following reasons:

- The Board approves all employees who are terminating their employment with the District, which is based on a "Resignation/Retirement" letter prepared by the employee.
- Proper controls are in place regarding the inactivation of the employee in the payroll module of the District's accounting information system. The personnel department will inactivate the employee in *Finance Manager* and the payroll department will inactivate the employee in the payroll module of *Finance Manager*.
- Based on our sample of termination payouts tested, we noted no exceptions.

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**EMPLOYEE ATTENDANCE**

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Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's employee attendance processes based on the following reasons:

- Monthly attendance reports are submitted by each building and provided to the personnel department who verifies that supporting documentation has been received for each absence noted.
- Absences are recorded in *Finance Manager* as well as, in attendance books.
- At the end of the year, the personnel department prints a *Draft Attendance Report* and each absence form in the respective employee file is verified against the *Draft Attendance Report* for accuracy.
- After the attendance has been rolled over to the following year, a print out is provided to each employee for the year being closed out and for the upcoming year indicating the attendance accruals.
- Days that have been taken by the employee and rolled over days are recorded in the employee's attendance book.
- Based on our sample of attendance tested, we noted no exceptions.

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<b>GRANTS</b>
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**GENERAL PROCESSING, MONITORING**

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Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's grant processing and monitoring processes based on the following reasons:

- The District has developed and adopted the required *Title I Parental Involvement* policy in place to be in compliance with laws and regulations (Section 1118 (a) (2), ESEA.
- We noted the Executive Director of Special Education and her assistant are required to authorize payments for grants and to ensure that expenses charged to the grant are appropriate and allowable.
- The Executive Director of Special Education and her assistant perform a weekly review of the grants budgets and expenditures to ensure budgets are not overspent.
- The Executive Director of Special Education and her assistant receive emails from New York State and the District's attorney to be current on regulations regarding the grants.
- The District properly files FS-25 forms requesting funds during the course of the project to ensure sufficient cash flow exists for the grant period.
- The District has procedures in place to verify that final expenditure reports agree to the District's accounting information system.

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**ALLOWABLE COSTS AND COMPLIANCE**

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Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk for the District's grant allowable costs and compliance processes as low based on the following reasons:

- The District ensures that proper documentation is maintained for employees whose salaries are charged to grants.
- The District requires that personnel activity reports (A-87's) are prepared for employees that are charged to the District's grants, in accordance with federal requirements.
- The District's external auditors perform a "single audit" as required under federal guidelines to test allowable costs and compliance.
- The District requires written contracts with the approved special education providers (ASEPs) which provides for a vendor relationship between the District and the ASEP.
- The District requires that after the grant is approved, ASEPs provide the District with a signed contract before payment is issued
- There is a proper level of review and approvals in place to verify that the expenditures for the grants are allowable and are in compliance with grant agreements.

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**Corrective Action Plan**

The District is required to prepare a corrective action plan in response to any findings contained in the internal audit reports. As per Commissioner's Regulations §170.12, a corrective action plan, which has been approved by the Board, should be submitted to the State Education Department within 90 days of the receipt of a final internal audit report.

The approved corrective action plan and a copy of the respective internal audit report should be sent to the following address:

New York State Education Department  
Office of Audit Services, Room 524 EB  
89 Washington Avenue  
Albany, New York 12234