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**COLD SPRING HARBOR CENTRAL
SCHOOL DISTRICT
*RISK ASSESSMENT UPDATE REPORT
FOR THE YEAR ENDING
JUNE 30, 2010***

**Cold Spring Harbor Central School District
Risk Assessment Update Report
For the Year Ending June 30, 2010**

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**Cold Spring Harbor Central School District
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Overview

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 requirements are as follows:

1. Engagement of a qualified audit firm or individual to make an initial assessment of risk surrounding the design of the district's internal controls;
2. **Annual update of the initial risk assessment;** and
3. 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.

The initial risk assessment required 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 assessment:

- **Inherent Risk** - the risk associated with the nature and type of transactions processed due to complexity, materiality and quantity of the transactions. Factors that may affect inherent risk include, but are not limited to: the nature of transactions and the history of errors in the account, the degree of judgment involved in determining the account balance and the amount of unusual or complex transactions. The assessment of inherent risk excludes the effect of any related controls.
- **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. This can result from the internal control system losing its effectiveness over time and is a function of the effectiveness of the design and operation of internal control in achieving the District's objectives relevant to the preparation of the District's financial statements.

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Objectives

The primary objectives of our risk assessment update were to:

- Gain an understanding of the primary business functions of the District for each major business process;
- After gaining an understanding of each significant business process, identify the risks that could inhibit the District in achieving its goals;
- Identify the internal controls that the District has in place that are designed to mitigate identified risks;
- After evaluating the effectiveness of the controls in place, make recommendations to management to strengthen existing controls and/or to create additional controls.

Report Components

The risk assessment update report that follows is comprised of the following two components:

1. Assessment of inherent and control risk of the District's primary business processes and sub-processes presented in tabular form, which details the specific processes that were reviewed. This risk assessment includes our assessment of risk as of June 30, 2009 and the updated risk assessment as of June 30, 2010.
2. Risk assessment update for the District's primary business processes and sub-processes in narrative form, which details whether Management has implemented our recommendations from our risk assessment as of June 30, 2009. This section also provides the details of the change and the reasons for the change in our assessment of inherent and control risk from the risk assessment update as of June 30, 2009 to our current risk assessment as of June 30, 2010.

Methodology of Risk Assessment Update

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 reports issued by our firm during the fiscal year ending June 30, 2010, including reports on the District's extraclassroom activity fund to determine if relevant controls have been put in place based on those reports. We have also reviewed and updated the controls from reports issued in the prior fiscal year to determine if the

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controls are still functioning as intended.

Process Review Summary

The following represents the business processes where we have provided internal audit services during the current fiscal year:

Extensive System Reviews:

- Extraclassroom Activity Fund

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✓	Extensive system process review completed
■	Extensive system process review proposed
•	New processes evaluated
N/A	Process not evaluated for the year ended 6/30/09
H = High M = Moderate L = Low	

BUSINESS PROCESSES & SUBPROCESSES	Inherent Risk		Control Risk		Audit Plan		
Governance and Control Environment	H	H	L	L			
Budget Development and Administration	H	H	L	L			
Medicaid Compliance	N/A	H	N/A	L		•	
Financial Accounting and Reporting	H	H	L	L			
Accounting	M	M	L	L			
Fund Balance Management	H	H	L	L			
Reserves and Fiscal Health	N/A	H	N/A	M		•	
Billings	M	M	L	L			
Collection & Posting of Receipts	H	H	M	M			
Cash and Investment Management	H	H	L	L			
Wire Transfers and Banking Controls	N/A	H	N/A	M		•	
General Processing and Monitoring	M	M	L	L			
Grant Application	M	M	L	L			
Allowable Costs and Compliance	M	M	L	L			
ARPA Compliance	N/A	H	N/A	L		•	
Payroll Distribution	H	H	L	L	✓		
Payroll Accounting and Reporting	H	H	L	L	✓		
Tax Filings and Reconciliation process	M	M	L	L	✓		
Separation Payments	N/A	H	N/A	L		•	
Employment Requisition and Hiring	M	M	L	L	✓		
Employment Termination	M	M	L	L	✓		
Employee Attendance	H	H	L	L	✓		
Eligibility	M	M	L	L			
Benefit Calculations	H	H	M	L			
Purchasing Process and Purchase Order System	H	H	M	M			
Payment Processing	H	H	L	L			
Travel and Conferences	H	H	M	M			
Facilities Maintenance	H	H	L	L			
Construction Planning and Monitoring	M	M	L	L			

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✓	Extensive system process review completed
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BUSINESS PROCESSES & SUBPROCESSES	Inherent Risk		Control Risk		Audit Plan		
Acquisition, Disposal and Capitalization Policy	H	H	L	L			
Inventory Tracking	H	H	H	M			
Federal and State Reimbursement	M	M	L	L			■
Sales Cycle	H	H	L	L			■
Inventory and Purchasing	M	M	L	L			■
Eligibility Verification	M	M	L	L			■
General Controls	H	H	M	M		✓	
Cash, Cash Receipts and Disbursements	H	H	M	M		✓	
Governance	M	M	M	M			
Network and Financial Application Security	H	H	L	L			
Disaster Recovery	H	H	L	L			
Permissions	N/A	H	N/A	M			
Student Attendance	H	H	L	L			
Student Performance Data	H	H	L	L			
Student Transportation	M	M	L	L			
Student Security and Safety	H	H	L	L			

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Status of Prior Year Findings

GOVERNANCE AND PLANNING

BUDGET DEVELOPMENT AND ADMINISTRATION

Previous Control Risk Level: **Low (L)**

Prior Year Findings: During our prior year risk assessment update we noted one instance in which a budget transfer was not approved by the Superintendent.

Current Year Status: Based on the sample tested during our risk assessment update, the budget transfers were properly approved by the Superintendent.

Updated Control Risk Level: **Low (L)**

AUDITING

Previous Control Risk Level: **Low (L)**

Prior Year Findings: During our prior year risk assessment update we noted that the District had not adopted policies that outline the responsibilities of the internal claims auditor and external auditor.

Current Year Status: During our risk assessment update we noted that the District still has not adopted policies that outline the responsibilities of the internal claims auditor and external auditor. We understand that the Board performed its first review of the internal claims auditor and the external auditor Board policies in June and the final adoption occurred in July 2010.

Updated Control Risk Level: **Low (L)**

REVENUE AND CASH MANAGEMENT

COLLECTION AND POSTING OF RECEIPTS

Previous Control Risk Level: **Moderate (M)**

Prior Year Findings: During our prior year risk assessment we noted that the cash receipt log did not indicate the corresponding *Finance Manager* cash receipt number and the adult education fees were not forwarded to the business office until several weeks after the funds were received. Additionally, the District did not perform periodic spot checks at all District locations collecting

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cash receipts to verify that miscellaneous cash receipts, such as lost text book fees, are being properly collected at the building level.

Current Year Status: During our risk assessment update we noted that the adult education fees are still not forwarded to the business office until several weeks after the funds are received. Additionally, the District still does not perform periodic spot checks at all District locations collecting cash receipts to verify that miscellaneous cash receipts, such as lost text book fees, are being properly collected at the building level. However, the cash receipt log now indicates the corresponding *Finance Manager* cash receipt number. As such, we continue to assess the level of control risk as moderate.

Updated Control Risk Level: **Moderate (M)**

PAYROLL

PAYROLL DISTRIBUTION

Previous Control Risk Level: **Low (L)**

Prior Year Finding: During our prior year risk assessment we noted that all employees did not have to sign for their payroll checks. Only employees receiving a negotiable check were required to sign the Check Sign-in Sheet when picking up their paycheck.

Current Year Status: During our risk assessment update we noted that the District now requires all employees to sign the Check Sign-in Sheet when picking up their paycheck.

Updated Control Risk Level: **Low (L)**

PAYROLL ACCOUNTING AND REPORTING

Previous Control Risk Level: **Low (L)**

Prior Year Finding: During our prior year risk assessment we noted that the District did not implement procedures to perform a comparison of the vendor master file to the payroll master file to assist in monitoring potential conflict of interest and the proper classification of vendor versus employee.

Current Year Status : During our risk assessment update we noted that the School Finance Manager performed a comparison of the vendor master file to the payroll master file to assist in monitoring potential conflicts of interest.

Updated Control Risk Level: **Low (L)**

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BENEFITS

BENEFIT CALCULATIONS

Previous Control Risk Level: **Moderate (M)**

Prior Year Finding: During our prior year risk assessment we noted that the District had improperly reported life insurance premium payments on three employee's 2008 IRS W-2 Forms. The 2008 IRS W-2 Forms for those tested showed the premium payments in box 12 of their W-2 Form under code "C" rather than being reported in box 1 and 14 as "non-cash life."

Current Year Status: Based on the sample tested during our risk assessment update, fringe benefits were properly reported on employee's 2009 IRS W-2 Form. As such, we have lowered our assessment of control risk to low.

Updated Control Risk Level: **Low (L)**

PURCHASING AND RELATED EXPENDITURES
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PURCHASING PROCESS AND PURCHASE ORDER SYSTEM

Previous Control Risk Level: **Moderate (M)**

Prior Year Finding: During our prior year risk assessment we noted that the Interim Assistant Superintendent for Business was also the District's purchasing agent.

Current Year Status: During our risk assessment update we noted that the Interim Assistant Superintendent for Business is still the District's purchasing agent. As such, we continue to assess the level of control risk as moderate.

Updated Control Risk Level: **Moderate (M)**

TRAVEL AND CONFERENCES

Previous Control Risk Level: **Moderate (M)**

Prior Year Findings: During our prior year risk assessment we noted that only the Conference Expense Voucher is stamped "AUDITED AND PAID" by the claims auditor rather than the invoices and/or receipts. Additionally, the District did not update the *Reimbursement for Employee and Board of Education Expenses for Conferences* policy to include a requirement for the submittal of proof of attendance.

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Current Year Status: Based on the sample tested during our risk assessment update, receipts submitted for reimbursement are still not stamped "AUDITED AND PAID" by the claims auditor. Additionally, the District has not updated the *Reimbursement for Employee and Board of Education Expenses for Conferences* policy to include a requirement for the submittal of proof of attendance. We understand that the Board performed its first review of the revised *Reimbursement for Employee and Board of Education Expenses for Conferences* policy in June and the final adoption occurred in July 2010. As such, we continue to assess the level of control risk as moderate.

Updated Control Risk Level: **Moderate (M)**

FACILITIES AND CAPITAL PROJECTS
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FACILITIES MAINTENANCE

Previous Control Risk Level: **Low (L)**

Prior Year Findings: During our prior year risk assessment we noted that the District did not have a Plant Facilities Administrator policy that included procedures for preventative and routine maintenance activities. In addition, we noted that the District had not performed a cost and energy conservation study to help reduce energy costs and to determine the District's eligibility for energy performance contracts.

Current Year Status: During our risk assessment update we noted that the District still does not have a Plant Facilities Administrator policy that included procedures for preventative and routine maintenance activities. We continue to recommend that the District implement a Plant Facilities Administrator policy to address these items. In addition, we noted that the District has received requests for proposals to conduct the cost and energy conservation study and is currently in the process of performing a cost benefit analysis within this area.

Updated Control Risk Level: **Low (L)**

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CAPITAL ASSETS

INVENTORY TRACKING

Previous Control Risk Level: **High (H)**

Prior Year Findings: During our prior year risk assessment we noted the following items regarding inventory tracking:

- The District did not have procedures to track the movement of capital assets between District locations. The practice was to move the capital asset to the new location without notifying the business office.
- Periodic inspections were not being performed by the District to determine that all assets were present, in usable condition, located in the assigned area and accurately recorded on the capital asset inventory.
- Capital assets were not properly tagged when received to facilitate the tracking of inventory during the school year. The practice was that the District tagged the capital assets at the end of the school year.
- The Information Technology Department did not maintain an up to date inventory of all technology related capital assets.

Current Year Status: During our risk assessment update we noted the following items regarding inventory tracking:

- The District still does not have procedures to track the movement of capital assets between District locations. Current practice continues to be moving the capital asset to the new location without notifying the business office. We understand that the District intends on implementing procedures to track the movement of capital assets during the next school year.
- Periodic inspections are still not being performed by the District to determine that all assets are present, in usable condition, located in the assigned area and accurately recorded on the capital asset inventory.
- The Information Technology Department is currently in the process of updating its inventory of all technology related capital assets.

However, we noted that the District now tags capital assets when they are received to facilitate the tracking of the inventory during the school year. As such, and based on the above, we have lowered our assessment of control risk to moderate.

Updated Control Risk Level: **Moderate (M)**

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FOOD SERVICE OPERATIONS

SALES CYCLE AND SYSTEM

Previous Control Risk Level: **Low (L)**

Prior Year Findings: During our prior year risk assessment we noted that the District had not established a meal charge policy that outlines the limits for charged meals.

Current Year Status: During our risk assessment update we noted that the District still has not established a meal charge policy that outlines the limits for charged meals. We continue to recommend that the District establish a meal charge policy that details the limits for charged meals.

Updated Control Risk Level: **Low (L)**

EXTRACLASSROOM ACTIVITY FUND

GENERAL CONTROLS

Previous Control Risk Level: **Moderate (M)**

Prior Year Findings: During our prior year risk assessment we noted that the District did not have a Board policy approving extraclassroom activity charters. In addition, the Board did not formally approve the extraclassroom activity clubs in the Board minutes.

Current Year Status: During our risk assessment update we noted that the District still does not have a Board policy approving extraclassroom activity charters. In addition, the Board still does not formally approve the extraclassroom activity clubs in the Board minutes. We understand that the District intends on implementing policies and procedures to address these items during the next school year. As such, we continue to assess the level of control risk as moderate.

Updated Control Risk Level: **Moderate (M)**

CASH, CASH RECEIPTS AND DISBURSEMENTS

Previous Control Risk Level: **Moderate (M)**

Prior Year Findings: During our prior year risk assessment we noted that invoices were not stamped "PAID" to properly cancel invoices and/or receipts after payment. In addition,

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supporting documentation, such as photocopies of checks, was not being maintained for cash receipts.

Current Year Status: During our risk assessment update we noted that invoices are still not stamped "PAID" to properly cancel invoices and/or receipts after payment. In addition, supporting documentation, such as photocopies of checks, is still not being maintained for cash receipts. We understand that the District intends on implementing procedures to address these items during the next school year. As such, we continue to assess the level of control risk as moderate.

Updated Control Risk Level: **Moderate (M)**

INFORMATION TECHNOLOGY

Previous Control Risk Level: **Moderate (M)**

Prior Year Findings: During our prior year risk assessment we noted that the District did not have a computer control policy. Additionally, the District did not have a formal Information Security Breach and Notification policy as required by State Technology Law §208.

Current Year Status: During our risk assessment update we noted that the District still has not adopted a computer controls policy or an Information Security Breach and Notification policy. We understand that the Board performed its first review of the Information Security Breach and Notification policy in June and the final adoption occurred in July 2010. As such, we continue to assess the level of control risk as moderate.

Updated Control Risk Level: **Moderate (M)**

FINANCIAL APPLICATION SECURITY

Previous Control Risk Level: **Low (L)**

Prior Year Finding: During our prior year risk assessment we noted that the District did not periodically review audit trails for less restricted users in *Finance Manager*.

Current Year Status: During our risk assessment update we noted that the District still does not periodically review audit trails for less restricted users in *Finance Manager*. We continue to recommend that as a best practice, the District implement a procedure to review the audit trails for less restrictive users, perhaps on a sample basis.

Updated Control Risk Level: **Low (L)**

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Current Year Testing

GOVERNANCE AND PLANNING

MEDICAID COMPLIANCE

Current Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the control risk for the District's Medicaid compliance processes as low based on the following reasons:

New regulations that impact Medicaid providers require the implementation of the following for school districts:

- Implementation of a Medicaid Compliance Program for all districts that order, provide, bill or claim \$500,000 or more from Medicaid in a 12-month period (recommended for all other Districts);
- Appointment of a Compliance Officer for all District's that bill Medicaid;
- Implementation of a mandatory confidential disclosure policy; and
- Mandatory Medicaid certification training for all "relevant employees"

Although the District bills an immaterial amount for Medicaid billings, we recommend that the District take steps to ensure that the above four aspects of the new regulations are put in place at the District to prevent potential non-compliance and the risk of exclusion from the Medicaid program.

ACCOUNTING AND REPORTING

RESERVES AND FISCAL HEALTH

Current Control Risk Level: Moderate (M)

Reason for Risk Level: We have assessed the control risk for the District's reserves and fiscal health as moderate based on the following reasons:

- The District exceeded the legal limit of the unreserved-undesignated fund balance for the fiscal years ending June 30, 2009 by \$81,893 and June 30, 2007 by \$665,042. However, the District maintained an unreserved-undesignated fund balance within legal limits for the fiscal year ending June 30, 2008, which was 4% of the ensuing year's budget.
- We noted that the District's reserves are maintained in accordance with related laws and regulations. However we noted that the District's employee benefits accrued liability reserve, which is specifically for payment of compensated absences upon separating from the District, is overfunded.

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- We performed analytics on the District's audited financial statements for the past three fiscal years, including a review of fund balances, reserves and operating results. Based on this review, we noted the following:
 - The District has consistently maintained a current ratio significantly better than 2 to 1, which is a standard indicator of fiscal health. For the fiscal year ending June 30, 2009, it was 3.3, for the fiscal year ending June 30, 2008, it was 2.9 and for the fiscal year ending June 30, 2007, it was 3.1. The standard indicator represents for every one dollar the District owes, it should have two dollars available in current assets. As can be seen, the District shows no signs of fiscal stress.
 - The District has ended the past three years with an operating surplus and has maintained an increasing fund balance.

REVENUE AND CASH MANAGEMENT

WIRE TRANSFERS AND BANKING CONTROLS

Current Control Risk Level: Moderate (M)

Reason for Risk Level: We have assessed the control risk for the District's wire transfers and banking controls as moderate based on the following reasons:

- The District does not have written policies and procedures regarding the processing of wire transfers.
- For intra-bank wire transfers, the School Finance Manager initiates and processes the wire transfer. In a properly segregated control environment for wire transfers, separate individuals should initiate and release the transfer.

While our assessment of control risk is moderate based on the above factors, we also note the following controls, while functioning effectively, did not justify a control risk lower than moderate since we considered the entire control environment in making our assessment.

- For inter-bank wire transfers, the School Finance Manager initiates the wire transfer and the clerk typist in the business office approves and releases the transfer of funds. This is a strong banking control to ensure that not one individual has the ability to transfer funds from District bank accounts.
- Monthly, the journal entries are provided to the Interim Assistant Superintendent for Business to review and approve.
- Our testing of wire transfers revealed no instances of non-compliance with the District's procedures as outlined above.

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GRANTS

ARRA EDUCATION STABILIZATION FUND (ESF) COMPLIANCE

Current Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the control risk for the District's ARRA Education Stabilization Fund compliance as low based on the following reasons:

- We noted that the District has properly segregated the accounting for the ARRA ESF by creating separate revenue and appropriation codes within their accounting information system. Separate accounting within the District's accounting information system is required as part of the unprecedented transparency that is part of the ARRA ESF.
- We noted that the District has filed the required Section 1512 quarterly reporting on a timely basis, and supporting documentation to substantiate the reporting was proper. Such supporting documentation included support for the number of jobs that the District saved with their ARRA ESF funds. In addition, the Interim Assistant Superintendent for Business, who is charged with filing the Section 1512 reports, has completed training surrounding the application and reporting requirements.

However, we noted that the District has not filed any Request for Funds for a Federal or State Project forms ("FS-25") during the fiscal year to request funds from the District's allotment of ESF funds. The District plans on filing a request for funds before year-end to assist in the cash flows of the general fund.

PAYROLL

SEPARATION PAYMENTS

Current Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the control risk for the District's separation payments process as low based on the following reasons:

- We noted strong controls in place regarding the District's attendance recordkeeping processes, which are a prerequisite to ensuring that separation payments for accumulated leave balances are calculated properly. Such controls include the following:
 - Reviews are performed at each District location of the monthly *Absenteeism Report*, including sign-offs by the Principals, before they are forwarded to the Personnel Assistant in the business office.
 - Attendance is tracked within *Finance Manager*, rather than tracking leave balances manually.

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- After the rollover has taken place, the Personnel Assistant prints an *Employee Attendance Record* which is forwarded to the employee to review. Employees are to contact the Personnel Assistant only if they disagree with the District's records.
- We noted that the Personnel Assistant and Payroll Supervisor obtain copies of the Board resolutions that include employees that are separating from the District.
- The Personnel Assistant sends an email to the Payroll Supervisor that contains the effective date of retirement/resignation and how many days the employee is entitled to receive payment for upon separation from the District.
- The Payroll Supervisor will calculate the final separation payment, which will be reviewed and approved by the Interim Assistant Superintendent for Business and the audit committee before payment is rendered.
- Our testing of separation payments for the fiscal year, of which there were one that we tested, we noted the following:
 - Approval signatures were present for the payment. This was evidenced by the sign-off of the Interim Assistant Superintendent for Business.
 - Assumptions utilized for the separation payment agreed to the employee's related bargaining unit contract, including the proper entitlements.
 - Board of Education approvals existed and the dates of separation per the Board of Education meeting minutes agreed to the calculation.
 - Payments were recalculated without exception.
 - Accumulated leave balance and the final salary utilized agreed to supporting documentation.

INFORMATION TECHNOLOGY

PERMISSIONS

Current Control Risk Level: Moderate (M)

Reason for Risk Level: We have assessed the control risk for the District's information technology permissions as moderate based on the following reasons:

- Our review of user permissions within the accounting information system noted permissions granted to various employees that are not consistent with their job responsibilities. Examples of such permissions included the following:
 - The payroll clerk, secretary to the Director of Facilities and the part-time accounts payable clerk has permission to perform budget transfers, cash receipts and journal entries.
 - The payroll clerk has access to the earnings schedule in the *Negotiation Manager* module and the permission to perform system user maintenance to add or update employees.
 - The secretary to the Director of Facilities, the part-time accounts payable clerk, the School Finance Manager, the Director of Technology, the accounts payable

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clerk and the payroll clerk have the ability to convert a purchase requisition to a purchase order.

- The secretary to the Director of Facilities, the part-time accounts payable clerk, the clerk typist in the business office, the District Treasurer, the Director of Technology, the accounts payable clerk and the payroll clerk have access to vendor maintenance.

While our assessment of control risk is moderate based on the above factors, we also note the following controls, while functioning effectively, did not justify a control risk lower than moderate since we considered the entire control environment in making our assessment.

- We noted during our risk assessment update that the District has a formally documented procedure for assigning new users permissions to the accounting information system. The District requires the requestor/end user to complete a *Request for Finance Manager Access* form which is approved by the Interim Assistant Superintendent for Business then forwarded to the Director of Technology to create or update the user account.
- The District has procedures in place to periodically review and document the review of user permissions within *Finance Manager*.