

**Cold Spring Harbor Central School District
Risk Assessment Update Report
For the Period Ending
March 31, 2013**

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Board of Education
Cold Spring Harbor Central School District
Cold Spring Harbor, NY 11724

We have completed our risk assessment update of the Cold Spring Harbor Central School District (the "District") for the period ending March 31, 2013. The objectives of the engagement were to assist the Board of Education (the "Board") in ensuring that the District's risks are identified and that appropriate internal controls are in place to mitigate those risks.

In connection with the development of the risk assessment, we have performed the following procedures:

- Gained an understanding of the internal controls for the following key business processes:
 - Governance and Planning
 - Accounting and Reporting
 - Cash Receipts
 - Cash Management
 - Revenue and Billings
 - Grants
 - Payroll
 - Human Resources
 - Benefits
 - Purchasing and Related Expenditures
 - Facilities and Capital Projects
 - Capital Assets
 - Food Service Operations
 - Extraclassroom Activity Fund
 - Information Technology
 - Student Related Data and Services
 - Transportation Services
 - Student Services
- Identified the risks that could inhibit the District in achieving its goals;
- Identified the internal controls that the District has in place that are designated to mitigate identified risks; and

- Identified key areas where the District can strengthen existing internal controls and/or create additional internal controls.

The results of our procedures are presented on the following pages.

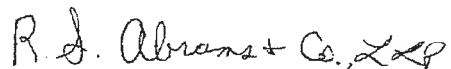
As noted, the purpose of our engagement was to assist you in improving the process by which you monitor and manage the risks that face your District. However, it is ultimately your responsibility to assess the adequacy of your risk management system.

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.

We would like to acknowledge the courtesy and assistance extended to us by personnel of the District. We are available to discuss this report with the Board or others within the District as your convenience.

This report is intended solely for the information and use of the Board, the Audit Committee and the management of the District and is not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

A handwritten signature in dark ink that reads "R.S. Abrams & Co., LLP". The signature is written in a cursive, flowing style.

R.S. Abrams & Co., LLP

April 18, 2013

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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 report on Capital Assets issued by our firm during the period ending May 31, 2012 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.
- **Low Risk** – these areas are considered lowest priority and will be addressed after the

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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, 2014:

Extensive System Reviews:

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:

- Procurement and Claims Processing

Extensive System Proposed:

Fiscal Year Ending June 30, 2014:

- Cash Management

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Low Risk Items

Status of Prior Year Items

CASH MANAGEMENT

BANKING SECURITY

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

Prior Year Findings: During our prior year risk assessment we noted the following regarding the District's banking security:

- The District had not dedicated and restricted one computer to be utilized for processing wire transfers.
- The banking institutions did not send independent notification, such as an email, of transfers after they had been completed to an appropriate administrator.

Current Year Status: During our risk assessment update we noted the following regarding the District's banking security:

- The District has dedicated and restricted one computer that is to be utilized for processing wire transfers.
- The banking institutions send independent notification, such as an email, of transfers after they have been completed to an appropriate administrator.

Based on the above factors, we have lowered our assessment of control risk to low.

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

PURCHASING AND RELATED EXPENDITURES
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TRAVEL AND CONFERENCES

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

Prior Year Findings: During our prior year risk assessment, based on the sample tested, we noted four disbursements did not contain proof of attendance.

Current Year Status: During our risk assessment update we noted that all of the disbursements reviewed contained proof of attendance.

As such we have lowered our assessment of control risk to low.

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

CAPITAL ASSETS

INVENTORY TRACKING

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

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

- Periodic inspections were 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 was in the process of updating its inventory of all technology related capital assets.

Current Year Status: During our risk assessment update we noted that periodic inspections are 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.

However, the Information Technology Department has updated inventory of all technology related capital assets. Additionally, the District has engaged the services of an outside appraisal company to perform a full capital asset valuation.

Based on the factors above we have lowered our assessment of control risk to low.

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

FOOD SERVICE OPERATIONS

VENDING MACHINES

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

Prior Year Findings: During our prior year risk assessment we noted the following regarding the District's vending system:

- Meter readings were not monitored for the water vending machine that was operated by the school lunch department.
- The Nickerson Vending Company was not removing sales tax for the sales of taxable items contained in several vending machines in the elementary schools and the junior/senior high school that are located in the teacher's lounges.
- The statement of sales that the District received from the vending machine vendors did not provide a detail of the items sold nor did it indicate meter readings.

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Current Year Status: During our risk assessment update we noted the following regarding the District's vending system:

- Meter readings are monitored for the water vending machine that is operated by the school lunch department.
- The Nickerson Vending Company is removing sales tax for the sales of taxable items contained in several vending machines in the elementary schools and the junior/senior high school that are located in the teacher's lounges.
- The statement of sales that the District receives from the vending machine vendors does provide a detail of the items sold nor does it indicate meter readings.

As such we have lowered our assessment of control risk to low.

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

Current Year Review

GOVERNANCE AND PLANNING

GOVERNANCE AND CONTROL ENVIRONMENT

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

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

- The Board of Education receives monthly revenue and appropriation status reports for all funds as required by Commissioner's Regulation §170.2.
- Trial balances for all funds, formal fund balance projections and cash flow projections are provided to the Board of Education on a monthly basis.
- The District did review and readopt the required Board policies on an annual basis.
- The District has adopted all of the legally required policies.

BUDGET DEVELOPMENT AND ADMINISTRATION

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

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

- The District has adopted budget policies that include policies surrounding the District's budget development and preparation procedures and budget administration.

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- All of the District's budget information is posted on the District's website for easy access to the District's residents.
- The District mass encumbers all known obligations, including such items as BOCES obligations and salaries at the beginning of the fiscal year, which is an important aspect of proper budgetary controls to allow management to arrive at a reasonably accurate estimate of uncommitted appropriations at year end.
- The District's accounting information system has controls in place whereby encumbrances cannot be placed in excess of budgeted amounts.

BUDGET TRANSFERS

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

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

- The District has proper controls in place surrounding budget transfers; including proper authorizations, segregation of duties between the initiation, authorization and recording of budget transfers, as well as recording budget transfers after appropriate approvals have been obtained.
- The District utilizes a form to initiate the transfer in the accounting information system, which facilitates the initiators and approvers signatures.
- The individual who processes the budget transfers in the accounting information system is independent of the accounts payable function.

OPEN MEETINGS LAW

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

Reason for Risk Level: We have assessed the control risk for the District's compliance with the open meetings law as low based on the following reason:

- Supporting documentation is made available on the District's website prior to each Board meeting and all relevant documents are made available at each Board meeting.

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ACCOUNTING AND REPORTING

FINANCIAL ACCOUNTING, REPORTING AND OVERSIGHT

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

Reason for Risk Level: We have assessed the level of control risk as low for the District's financial accounting, reporting and oversight processes based on the following reasons:

- All journal entries are approved by the Assistant Superintendent for Business and the month end close cannot be performed in the accounting information system without this approval.
- All financial transactions have adequate supporting documentation and are posted on a timely basis.
- The District utilizes *Finance Manager* as their accounting information system which integrates the major business operations such as payroll, purchasing, account payables, budget management and general ledger maintenance.
- The District prepares Treasurer's reports, revenue status reports and appropriation status reports on a monthly basis for presentation at the Board meetings.
- Treasurer's reports, revenue status reports and appropriation status reports are reviewed by the Assistant Superintendent for Business at a minimum, on a monthly basis and any unusual balances are investigated and resolved.

AUDITING

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

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

- The District has adopted formal Board policies to outline the responsibilities of the internal auditor, claims auditor and external auditor.
- The District has appointed an independent external auditor, claims auditor, and internal auditor in accordance with State laws.
- Request for proposals have been performed for the retention and appointment of the independent external auditor.
- Management of the District is diligent in responding to audit findings within the required time frame by filing a corrective action plan.
- Audit adjustments are questioned and reviewed prior to recording and any supporting documentation is obtained from the external auditor.
- The Board accepts, by resolution, the independent auditor's report annually, which is in compliance with laws and regulations.

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FUND BALANCE MANAGEMENT

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

Reason for Risk Level: We have assessed the level of control risk as low for the District's fund balance management processes based on the following reason:

- The District has controls in place within the accounting information system whereby overrides are not permitted to release a purchase order if appropriations are insufficient.
- Formal fund balance projections are prepared for the Board starting in February to assist in managing fund balance and with budget development, as recommended by the NYS Comptroller.
- The District mass encumbers all known obligations at the beginning of the fiscal year, including such items as salaries and fringe benefits, debt service obligations, utilities and other service contracts as a control to properly project the fund balance at the end of the fiscal year and to maintain budgetary control.

RESERVES AND FISCAL HEALTH

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

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

- The District has not exceeded the unassigned fund balance legal limits for the past three fiscal years, which was 4% of the ensuing year's budget.
- 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, 2012 it was 2.0; for the fiscal year ending June 30, 2011, it was 2.3 and for the fiscal year ending June 30, 2010, it was 3.0. 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 is above this standard indicator.

However, the District has ended the past two years with an operating deficit and has not maintained an increasing fund balance. Based on the above factor, this alone does not warrant the level of risk to be raised above low.

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CASH MANAGEMENT

CASH AND INVESTMENT MANAGEMENT

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

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

- The District monitors cash balances and transfers excess cash to interest bearing bank accounts to maximize the earnings potential of the District's idle cash balances.
- The Treasurer prepares a monthly bank reconciliation report which is reviewed by the Assistant Superintendent for Business.
- The District has the required Board of Education policy in place surrounding the treatment of District investments and the policy was readopted at the July 2012 organizational meeting as required by State regulations.
- The bank depositories authorized by the Board of Education at the July 2012 organizational meeting agrees to the list of authorized depositories as stated in the District's investment policy.

BANK RECONCILIATIONS

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

Reason for Risk Level: We have assessed the control risk for the District's bank reconciliation procedures as low based on the following reasons:

- Although the finance manager reviews the monthly bank reconciliations to ensure that the ending book balance, bank statement balance and general ledger balance are accurate, the review is not documented.
- The treasurer prepares a monthly *Treasurer's Report* which indicates the activity within each bank account and ending book balance.
- The treasurer investigates bank transfers to determine that both sides of the transaction have been properly recorded on the books.
- The monthly bank reconciliations and *Treasurer's Reports* are prepared on a timely basis.
- The *Treasurer's Reports* are provided to the Board monthly.
- A sample of treasurer reports and bank reconciliations were reviewed noting the book balance agreed to the trial balance account with no discrepancies.

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BENEFITS

ELIGIBILITY

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

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

- The District provides all new hires with the appropriate paperwork regarding benefits, which includes the required notification of the right to join the retirement system.
- The District contracts with a compliance agent (OMNI) regarding the District's benefits, including benefit eligibility.

BENEFITS CALCULATIONS

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

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

- Administrator fringe benefits are verified to the administrator's contracts, which are Board approved and all fringe benefits are reviewed and approved by a responsible administrator.

RETIREE HEALTH INSURANCE

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

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

- The District contacts retirees, their spouses and/or dependents to obtain updates of their contact and eligibility information.
- The health benefits clerk reconciles the detailed health insurance invoice to the District's records on a monthly basis.
- Our testing of retirees' health insurance revealed no instances of non-compliance with the District's procedures as outlined above.

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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
Attention: John Cushin

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Assessment Of Risk and Testing Plan
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Appendix A

Legend		
✓		Extensive system process review completed
■		Extensive system process review proposed
•		New process evaluated
N/A		Process not evaluated for the period ending 5/31/12
H = High M = Moderate L = Low		

BUSINESS PROCESSES & SUBPROCESSES	Inherent Risk		Control Risk		Audit Plan		
GOVERNANCE & PLANNING	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Governance and Control Environment	H	H	L	L			
Budget Development and Administration	H	H	L	L			
Budget Transfers	N/A	L	N/A	L		•	
Open Meetings Law	H	H	L	L	•		
ACCOUNTING & REPORTING	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Financial Accounting and Reporting	H	H	L	L			
Auditing	M	M	L	L			
Fund Balance Management	H	H	L	L			
Reserves and Fiscal Health	H	H	L	L			
GASB Statement 54	M	M	L	L			
CASH RECEIPTS	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Collection & Posting of Receipts	H	H	L	L			
CASH MANAGEMENT	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Cash and Investment Management	H	H	L	L			■
Wire Transfers and Banking Controls	H	H	L	L			■
Bank Reconciliations	H	H	L	L	•		■
Banking Security	H	H	L	L	•		■
REVENUE AND BILLINGS	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Tuition and Health Services Controls	M	M	L	L			
GRANTS	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
General Processing and Monitoring	M	M	L	L			
Grant Application	M	M	L	L			
Allowable Costs and Compliance	M	M	L	L			
PAYROLL	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
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	H	H	L	L			
HUMAN RESOURCES	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Employment Requisition and Hiring	M	M	L	L			
Employment Termination	M	M	L	L			
Employee Attendance	H	H	L	L			
BENEFITS	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Eligibility	M	M	L	L			
Benefits Calculations	H	H	L	L			

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Appendix A

Legend		
✓		Extensive system process review completed
■		Extensive system process review proposed
•		New process evaluated
N/A		Process not evaluated for the period ending 5/31/12
H = High M = Moderate L = Low		

BUSINESS PROCESSES & SUBPROCESSES	Inherent Risk		Control Risk		Audit Plan		
PURCHASING & RELATED EXPENDITURES	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Purchasing Process and Purchase Order System	H	H	L	L			
Payment Processing	H	H	L	L			
Travel and Conferences	H	H	L	L			

FACILITIES & CAPITAL PROJECTS	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Facilities Maintenance	H	H	L	L			
Construction Planning and Monitoring	M	M	L	L			
Final Building Projects Reports	H	H	L	L			

CAPITAL ASSETS	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Acquisition, Disposal and Capitalization Policy	H	H	L	L	✓		
Inventory Tracking	H	H	L	L	✓		

FOOD SERVICE OPERATIONS	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Federal and State Reimbursement	M	M	L	L			
Sales Cycle	H	H	M	L			
Inventory and Purchasing	M	M	L	L			
Eligibility Verification	M	M	L	L			
Vending Machines	H	H	H	L			

EXTRA CLASSROOM ACTIVITY FUND	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
General Controls	H	H	L	L			
Cash, Cash Receipts and Disbursements	H	H	L	L			

INFORMATION TECHNOLOGY	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Governance	M	M	L	L		✓	
Network Security	H	H	L	L		✓	
Financial Application Security	H	H	L	L		✓	
Disaster Recovery	H	H	L	L		✓	
Permissions	H	H	L	L		✓	

STUDENT RELATED DATA AND SERVICES	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Student Attendance	H	H	L	L			
Student Performance Data	H	H	L	L			
Student Attendance	H	H	L	L			
Student Performance Data	H	H	L	L			
Student Security and Safety	H	H	L	L			

TRANSPORTATION SERVICES	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
Student Transportation	M	M	L	L			
Transportation Contracts	L	L	L	L			
Transportation State Aid	M	M	L	L			

STUDENT SERVICES	05/31/12	03/31/13	05/31/12	03/31/13	11-12	12-13	13-14
STAC	H	H	L	L			
Medicaid	H	H	L	L			