



**Cold Spring Harbor Central School District
Risk Assessment Update Report
For the Period Ending
June 30, 2014**

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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 Information Technology issued by our firm during the period ending June 30, 2013 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, 2015:

Extensive System Reviews:

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:

- Procurement and Claims Processing

Extensive System Proposed:

Fiscal Year Ending June 30, 2015:

- Fund Balance Management and Reserves

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Moderate Risk Items

Current Year Review

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:

- 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 is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has 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 is not being allocated to this reserve and there was no evidence of usage of funds in the reserve.
- We noted interest is not being allocated to the capital reserve on a pro-rata basis.

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

- All District reserves are legally adopted by the Board and the reserve balances are reaffirmed on an annual basis.
- All of the decisions for funding and utilizing each reserve are presented to the Board to adopt which includes updated funding amounts and any other necessary changes that may have occurred during the year.
- The District has procedures in place to utilize the reserves for their intended purposes during the year and the utilization is communicated to the Board.
- The District budgets for the related expenditures and appropriated reserve as a revenue source.
- The District's employee benefits accrued liability reserve, which is specifically for payment of compensated absences upon separating from the District, does not exceed the District's estimated liability.

Low Risk Items

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Current Year Review

CASH MANAGEMENT

CASH AND INVESTMENT MANAGEMENT

Current Control Risk Level: Low (L)

Reason for Risk Level: Based on our internal audit on cash management, we have assessed the control risk for the District's cash and investment management processes as low based on the following reasons:

- We noted the District's reorganization minutes appoint the Treasurer as the authorized signer. Furthermore, in the absence of the Treasurer, the Board President or Vice-President is then authorized to sign checks on behalf of the District. However, we noted at First National Bank, the only authorized signatures present are the Treasurer and the Board President. We also noted that the bank account utilized for the Cold Spring Harbor Central School District's Self-Funded Dental Plan is under the District's federal identification number; however the Plan administrator is signing the checks. However, we noted the District is now reviewing the claims submitted with the check register and bank reconciliations as a compensating control for the above.
- We noted the District has unclaimed funds on file at the Office of New York State Comptroller. It is our understanding that the District has since claimed these funds from the Office of the State Comptroller.
- We noted the review of the year-end reconciliations of the petty cash accounts held by the various buildings is not documented. We also noted at the Goosehill Primary School where some approvals were missing on the petty cash requests. However, we noted the District will ensure the review of the year-end reconciliations of the petty cash accounts be documented on a going forward basis. Additionally, we noted that applicable personnel will be reminded of the procedure that all petty cash requests need to be approved prior to payment.

PAYROLL

PAYROLL DISTRIBUTION

Control Risk Level: Low (L)

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

- Every payroll, a designated custodian will pick up the paychecks from the payroll department, and must sign to verify that they have picked up the checks for delivery.

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- The District requires employees to carry the school identification and sign in order to collect their paycheck.

PAYROLL ACCOUNTING AND REPORTING

Control Risk Level: Low (L)

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

- The Board of Education has appointed the District's Superintendent as the official payroll certification officer. The *Payroll Transaction Report* is then submitted to the Superintendent for review and approval.
- The *Payroll Change Report* is submitted to the Claims Auditor for review on an ongoing basis.
- District timesheets are submitted to payroll with appropriate supervisory approval signatures before payroll is processed, including all overtime hours worked. Prior approval is also required for the overtime.
- There are controls in place within the payroll department whereby the mathematical accuracy of timesheets are checked.
- The District's payroll department is notified of Board approved stipends from the Board agendas.

TAX FILINGS AND RECONCILIATION PROCESS

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's tax filing and reconciliation processes based on the following reason:

- The District has filed all required tax filings in a timely manner, we also noted the District does reconcile the quarterly IRS 941 Form to the District's expenditure ledger on a quarterly basis.

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:

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- 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 before payment is rendered.
- Our testing of separation payments for the fiscal year noted no exceptions.

HUMAN RESOURCES

EMPLOYMENT REQUISITION AND HIRING

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:

- The District utilizes a *Professional Recruitment Plan* and the guidelines as part of the recruitment process.
- 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 the obtainment of fingerprint clearance as required by state education laws.
- The Board approves all new hires, which is documented in the minutes of the Board meetings.
- A new hire package is provided to all newly appointed District employees that include the required documentation that is to be prepared.

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*.

EMPLOYEE ATTENDANCE

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 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.

Corrective Action Plan

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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