



UPDATED INTERNAL CONTROL RISK ASSESSMENT FOR



CARMEL CENTRAL SCHOOL DISTRICT

**Carmel Central School District
81 South Street
Patterson, NY 12563**

April 9, 2021

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BACKGROUND/OBJECTIVE:

In 2005, the Office of the New York State Comptroller (OSC) along with the New York State Education Department (SED) produced the “Five-Point School Financial Accountability Plan.” The Plan promotes stronger internal controls, improves school district audits and strengthens the roles of boards of education in conducting appropriate oversight. One component of the Five-Point Plan requires all districts to establish an internal audit function, which must include the development, annual updating, and reporting on a risk assessment of district operations.

The Carmel Central School District (“Carmel” or sometimes referred to as “The District”) outsourced its internal audit function and engaged EFPR Group, CPAs, PLLC (“EFPR”, formally Toski & Co.) to serve as its internal auditor. The risk assessment was last updated in a report issued on April 14, 2020.

In March 2021, we again reviewed relevant reports and documents and met with a variety of administrative staff to update our understanding of the processes and existing controls over District operations. This report is the product of our updated assessment of the District’s risk profile and is intended to satisfy the annual update as required by the “Five-Point Plan”.

Our approach to understanding controls was to meet with appropriate personnel for each respective area and to discuss and understand processes and procedures. In addition, where necessary, we performed walk-throughs of transaction cycles and/or performed tests of transactions. After compiling this information, the audit areas were prioritized into three categories: high risk, moderate risk, and low risk.

The risk assessment identifies the areas that we believe are most susceptible to material misstatements going undetected, given existing procedures and internal controls in those areas. Strengthening control procedures helps increase the likelihood that any such misstatement would be detected and corrected by staff and management during the normal course of their duties.

INFORMATION GATHERING:

In performing our risk assessment, we reviewed the following district records:

- Financial statements for year ended June 30, 2020
- Management letters for year ended June 30, 2020
- Extraclassroom Activities financial statements for year ended June 30, 2020
- Policy manuals
- Board minutes
- Internal Claims Auditor reporting
- Accounts Receivable reporting
- Current year appropriation status report
- Bank reconciliations
- Cash receipts journal
- Treasurer’s reporting

INFORMATION GATHERING (Continued):

We also interviewed the following individuals during the risk assessment update:

- Julie Anker, Benefits Coordinator
- Lurline Cabanillas, Payroll Clerk
- Tom DeMarchi, Accountant
- Diane Fanning, Accounts Payable Clerk
- Linda Haywood, Assistant Business Manager
- Lorraine Howe, Payroll Clerk
- Toni Ann Karlsson, Internal Claims Auditor
- Joe Keenan, Director of Data Management
- Juanita Kettlewell, Personnel Clerk
- Susan Krinsky, Accountant
- Patrick Rodia, Director of Food Services
- Dave Salvo, High School Extra Class Treasurer
- Eric Stark, Assistant Superintendent for Business
- Joanne Stevens, Personnel Clerk
- John Weise, Director of Facilities
- Kathy Vanacoro, Middle School Extra Class Treasurer

PROCEDURES APPLIED:

In March 2021, EFPR met with the staff noted above to update our understanding of current personnel, processes, and procedures. We employed guidelines established by the New York State Education Department (SED) and the Office of the State Controller (OSC) as a basis for determining the adequacy of existing controls and processes over District operations. Significant changes in personnel and procedures (if applicable) were identified through discussions with management and staff. The changes were evaluated to determine their impact on the control environment and have been documented and incorporated in the revised risk assessment.

RESULTS:

A summary table of the control cycles and their associated level of risk, from both the 2019-20 risk assessment and this year's updated risk assessment, is presented below:

UPDATED RISK ASSESSMENT SUMMARY

CONTROL CYCLES	LEVEL OF RISK 2019-20	LEVEL OF RISK 2020-21	COMMENTS / SIGNIFICANT CHANGES FROM PRIOR YEAR
Governance / Budgeting	Low	Moderate	There has been uncertainty regarding anticipated state aid due to COVID-19 which could impact the budgeting process.
Cash Receipts and Revenues	Low	Low	No significant changes or concerns were noted at this time.
Transportation	Low	Low	No significant changes or concerns were noted at this time.
Food Service	Low	Moderate	Food Service operations are being impacted by COVID-19 which are expected to result in significant operating losses.
Extraclassroom Activity Fund	Low	Low	No significant changes or concerns were noted at this time.
Facilities, Equipment, and Inventory	Low	Low	No significant changes or concerns were noted at this time.
Purchasing, Claims, Accounts Payable, Cash Disbursements	Moderate	Moderate	No significant changes or concerns were noted at this time.
Payroll and Personnel	Moderate	Moderate	No significant changes or concerns were noted at this time.
Accounting, Reporting, and Information Technology	Low	Moderate	District should consider conducting phishing prevention exercises. District should evaluate whether implementing an insurance program for devices would be beneficial for managing costs of lost/damaged devices.

Note – in formulating the level of risk, as displayed on the attached matrix, consideration is given to both inherent risk (categories such as budget size, and financial exposure/potential loss) and control risk (categories such as major changes in operations, programs, systems and personnel). Due to the high level of inherent risk in some control cycles (Cash Disbursements and Payroll), risk may be elevated beyond the control of the District.

RESULTS (Continued):

Each general area of the District and the specific control cycle is listed below with relevant observations and/or comments for each. Our recommendations and suggested enhancements are summarized for your review.

Governance / Budgeting:

Comment:

COVID-19 has created uncertainty with respect to the budgeting process in New York State public schools. Schools experienced a 20% deferral to their final 2019-20 aid payments. Schools have also been uncertain whether their aid for 2020-21 will be adjusted. Additionally, as the budget for 2021-22 is being developed there has been concern that aid in future year(s) could also be impacted. Consequently, there was concern that school districts could see substantial cuts to their anticipated state aid both in the current and subsequent year(s). Based on recent developments, the state has been distributing the amounts deferred last year and it appears that the worst case scenarios are likely to be avoided by New York State utilizing federal assistance to backfill planned reductions in state aid. However, much remains uncertain and there continues to be concerns regarding impacts to aid for next year and beyond. We encourage the District to ensure that conversations between the Board of Education and management are timely and transparent with respect to state aid updates that could impact budgeting and spending decisions.

Cash Receipts and Revenues:

Comment:

This area appears to be functioning adequately at this time with no significant concerns noted.

Transportation:

Comment:

This area appears to be functioning adequately at this time with no significant concerns noted.

RESULTS (Continued):

Food Service:

Comment:

Food Service operations in school districts are being significantly impacted by COVID-19. Carmel's program experienced a loss from operations of \$140,171 during the 2019-20 school year due to the effects of the shutdown during the spring of 2020. Due to the hybrid learning models that have been adopted during 2020-21, there are significantly fewer students in most schools on any given day. This, along with other operational changes (i.e. reductions to a la carte), has lowered student participation and the number of meals served. This will have a direct impact on revenue and is expected to lead to a substantial operating loss again for the current school year. Management appears to be monitoring the program's financial performance closely and efforts have been made to minimize labor costs. We encourage management to continue to monitor the program closely in an effort to minimize operational losses this year.

Extra-Classroom Activity Fund:

Comment:

This area appears to be functioning adequately at this time with no significant concerns noted.

Facilities, Equipment, and Inventory:

Comment:

This area appears to be functioning adequately at this time with no significant concerns noted.

Purchasing, Claims, Accounts Payable and Cash Disbursements:

Comment:

This area appears to be functioning adequately at this time with no significant concerns noted.

RESULTS (Continued):

Payroll and Personnel:

Comment:

This area appears to be functioning adequately at this time with no significant concerns noted.

Accounting, Reporting and Information Technology:

Findings:

- a.) Based on discussions with Technology personnel, it does not appear that the District has a formal process in place related to performing phishing prevention exercises. Phishing is the attempt to acquire sensitive information such as usernames, passwords, financial details, or other personal information, often for malicious reasons. Successful phishing campaigns are a leading cause of data breaches and other events that compromise an organization's network. Phishing is also the delivery mechanism of choice for ransomware and other malware. Conducting phishing prevention exercises, through sending test emails to staff, can be useful in assessing the effectiveness of the required annual awareness training and reinforcing its importance with personnel.
- b.) Given the necessity for remote learning during the current COVID-19 pandemic, the District has distributed devices to virtually all of its students. This represents a significant increase in the number of District devices that are in service, all of which now remain with the students for both in-school and remote instruction. At this time, the District has not implemented a voluntary insurance program that can help students and the District manage the risk associated with lost, stolen, or damaged devices.

Recommendations:

- a.) We encourage the District to consider developing a formal phishing prevention program that can be used to evaluate the effectiveness of its cybersecurity awareness training efforts. The District should also consider potential disciplinary responses for personnel who fail these exercises, including warnings, remedial training, or further reprimands for employees who fail multiple exercises.
- b.) Although the District has not yet experienced significant costs related to lost or damaged devices, we encourage the District to evaluate whether implementing an optional insurance program for students could help both the District and students/families in managing the risk of increased repair and replacement costs associated with the increased number of devices in service.

SUMMARY:

As described and noted above, each area has been assigned a level of risk. The attached Exhibit A represents a summarization of all the categories we considered in formulating our risk assessment.

This document can be used as a tool to assist the Carmel Audit Committee in selecting specific control cycles which to examine in further detail, as required by the “Five-Point Plan.”

CLOSING COMMENTS:

We would like to thank the central administration staff of the Carmel Central School District for their assistance and cooperation in formulating this risk assessment of the District.

Carmel Central School District Risk Assessment 2020-21

Appendix A

Note: For each control cycle rate the perceived risk from 0-3. 0= No risk 1=low 2=Medium 3=High

Note: For the total column, risk was calculated: 0-5 = low, 6-10 = Medium, 11+ = High

In formulating the level of risk, consideration is given to both inherent risk (categories such as budget size, and financial exposure/potential loss) and control risk (categories such as major changes in operations, programs, systems and personnel). Due to the high level of inherent risk in some control cycles (Cash Disbursements and Payroll), risk may be elevated beyond the control of the District.

Control Cycle	Date or Results of last Audit/Examination	Management letter Comments	Budget Size	Financial Exposure / Potential loss and Risk	Major Changes in Operations, Programs, Systems and Controls	Personnel Changes	EFPR Evaluation (From Below)	Total Risk Score
Governance and Planning								
1 Budgeting		0	1	1	3	0	1	6
Revenue and Cash Management								
2 Cash Receipts & Revenues ♦Cash Management & Investments ♦State Aid ♦Real Property Taxes ♦User Charges	2017-18 (Medicaid)	0	3	2	0	0	0	5
Student Services								
3 Transportation		0	1	1	0	2	0	4
4 Food Service	2014-15	0	1	2	3	0	1	7
5 Extraclassroom Activity Fund	2010-11	0	1	1	0	0	0	2
6 Facilities, Equipment and Inventory ♦Capital Assets ♦Capital Projects ♦Indebtedness ♦Inventory Controls (School Lunch)	2009-10	0	2	2	0	0	0	4
Purchasing and Expenditures								
7 Purchasing, Claims Processing & AP and Cash Disbursements	2008-09, 2015-16	0	3	3	0	1	0	7
8 Payroll and Personnel	2013-14, 2016-17 2019-20 Comp Absences	0	3	3	2	0	0	8
9 Accounting, Reporting & I.T.	2010-11 (NYS)	0	1	3	0	2	1	7

EFPR EVALUATION

Note: EFPR evaluated risk was determined by checklists, inquiry of staff and auditor observations

Control cycle	EFPR Evaluated Risk	
Budgeting		
Procedures are adequate and being followed	0	There has been uncertainty regarding anticipated state aid due to COVID-19 which could impact the budget process.
Proper segregation of duties	0	
Adequate staffing	0	
Concerns from staff	3	
Total EFPR evaluated risk	1	

Cash Receipts & Revenues

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Transportation

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Food Service

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	3
Total EFPR evaluated risk	1

Food Service operations are being impacted by COVID-19 which are expected to result in significant operating losses.

Extraclassroom Activity Fund

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Facilities, Equipment and Inventory

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Purchasing, Claims Processing & AP and Cash Disbursements

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Payroll and Personnel

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Accounting, Reporting & I.T.

Procedures are adequate and being followed	2
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	1

The District should consider implementing phishing prevention exercises.
District should consider implementing an insurance program for devices issued to students.