



Pearl River School District

**Initial Risk Assessment
Pertaining to the Internal Controls
of District Operations**

December 2018

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES**

The Board of Education
Pearl River School District

We have performed the procedures enumerated below, which were agreed to by the Pearl River School District (the "District"), solely to assist the District. This agreed upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We have developed our Initial Risk Assessment by performing certain internal audit procedures pertaining to the time period ending December 31, 2018. The Initial Risk Assessment and related internal audit plan concentrates on the following key internal control areas:

- Governance and Planning
- Budget Development
- Accounting and Reporting
- Revenue and Cash Management
- Grants
- Payroll
- Human Resources
- Benefits
- Purchasing and Related Expenditures
- Facilities/Capital Projects
- Fixed Assets
- Food Service
- Extraclassroom Activity Fund
- Information Systems
- Student Data Management
- Pupil Personnel Services
- Transportation
- Safety & Security
- Cybersecurity

We are available to discuss this report with the Board of Education or others within the District at your convenience.

These agreed upon procedures do not constitute an examination or audit of the District's financial statements. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Pearl River School District and Board of Education and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Very truly yours,

Nawrocki Smith LLP
February 6, 2019

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RISK ASSESSMENT OVERVIEW

The Risk Assessment report provides a presentation of our view of the District's risk pertaining to its financial operations. It gives the District's administration the information necessary to help optimize its overall performance. The report identifies, expresses, and prioritizes the key program risks so that the District's administration can focus on those areas most critical to its success. This analysis is used to define the District's risk profile. It will provide an overview of the key risks facing the District's financial operations.

In accordance with the laws of New York, 2005, Chapter 263, all school districts and BOCES were required to establish an internal audit function no later than July 1, 2006 and be in operation no later than December 31, 2006. This function should include, at a minimum, development of a risk assessment of district operations, including but not limited to:

- a review of financial policies, procedures and practices
- an annual review and update of such risk assessment
- annual testing and evaluation of one or more areas of the District's internal controls
- preparation of reports which analyze significant risk assessment findings
- recommended changes for strengthening controls and reducing identified risk; and specifying time frames for implementation of such recommendations

Pursuant to Section 170.12 – Regulations of the Commissioner of Education - School District Financial Accountability, each school district must prepare a corrective action plan, approved by the Board of Education in response to findings to final reports issued by the internal auditor. This plan should include expected dates of implementation and should be filed with the New York State Education Department.

INTERNAL AUDIT OBJECTIVES

The objectives of our engagement are as follows:

- Develop an understanding of the critical business processes of the District within each functional area
- Identify key risks based on the understanding of the business processes and stated business rules
- Identify stated controls that are currently in place to address those risks and ascertain if they are operating effectively
- Recommend improvements in internal controls

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SCOPE AND METHODOLOGY

The Board of Education has engaged Nawrocki Smith LLP as the District's internal auditor as of October 2018. In compliance with New York State Laws, we have performed a risk assessment with respect to policies, procedures, and internal controls pertaining to the District's financial operations. Our risk assessment was performed in order to assess risk areas within the District and to determine an internal audit plan for fiscal year 2018/2019 and thereafter. This risk assessment will be updated annually to reflect any changes in the current risk environment and the existing internal audit plan.

Our risk assessment consisted of the following:

- Perform interviews of administration and other appropriate personnel
- Document procedures within key functional areas
- Identify key controls and perform audit tests of those controls
- Make observations and recommendations pertaining to key controls
- Identify and review strategic plans and organization structure
- Analyze risks that are a threat to the achievement of objectives
- Create a risk profile and internal audit plan for 2018/2019 and thereafter

We have also evaluated and considered the following within our overall risk assessment:

- District Policies and Procedures
- Recent Focus of State Comptroller Audits
- Board of Education/Audit Committee Meetings
- Materiality to Financial Statements
- Changes in Management or Key Personnel
- Financial Reports Provided to the Board of Education
- External Auditor Management Letters
- District Corrective Action Plans
- Organizational Chart and Job Descriptions

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INTERNAL AUDIT INITIAL RISK ASSESSMENT SUMMARY

We have analyzed nineteen (19) business process areas within the District and have developed a long-term internal audit plan based upon our initial assessment of each area. Each of the nineteen (19) business processes contains multiple business process categories for which an extensive cycle analysis will be performed during the noted time period. The plan as presented will be revised each year based upon an annual risk assessment update and events that have occurred during the year which will impact the priority of future internal audit services.

The results of our initial risk assessment are summarized below and, in the tables, presented on pages 5 and 6. We have utilized a "Low," "Moderate," and "High" control risk rating assessment scale of the organization.

- Out of the 19 business process categories assessed:

<u>Category (*)</u>	<u>Count</u>
"Low" Ratings for All Processes	5 26.32%
"Moderate" Ratings for Some Business Processes	14 73.68%
"High" Ratings for Some Business Processes	- 0.00%
Total	19 100.00%

(*) See Pages 5 & 6 of this report for further details

- The 19 business process categories collectively contain 85 business processes. Out of the 85 processes assessed we have determined the following ratings:

<u>Rating</u>	<u>Count</u>
High	- 0.00%
Moderate	25 29.41%
Low	60 70.59%
Total	85 100.00%

- Our December 2018 initial risk assessment consisted of the following observations and recommendations pertaining to key controls:

<u>Category</u>	<u>Recommendations</u>
Policies	6
Monitoring Internal Controls	3
Accounting Software Controls	4
Business Processes	19
Total	32

Pursuant to the District's request, we will be performing an extensive analysis on the Pupil Personnel Service business process during the fiscal years ending June 30, 2019.

We recommend the following Cycles for the District's consideration for the fiscal year ending June 30, 2020: Payroll, Facilities/Capital Projects, Accounting & Reporting, Extracurricular Activity Fund.

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RISK RATING AND INTERNAL AUDIT PLAN

√ = Testing During Risk Assessment
★ = Business Cycle Review Complete

X = Proposed Business Cycle Review
T = Limited Testing of Business Process

	Business Process	Business Process Categories	RISK		YEARS OF SERVICE		
			Inherent	Control	18-19	19-20	Subsequent Years
1	Governance and Planning	1 Governance Environment	H	L			X
		2 Control Environment / Policies & Proc.	H	L			X
2	Budget Development	3 Budget Development	H	M			X
		4 Budget Monitoring & Reporting	H	M			X
3	Accounting & Reporting	5 Financial Accounting and Reporting	H	M	√	X	
		6 External/Internal/Claims Auditing	H	M		X	
		7 Fund Balance Management	H	L		X	
4	Revenue and Cash Management	8 Real Property Tax	M	L			X
		9 State Aid	H	L			X
		10 Out of District Tuition/Reimbursable Exp.	M	L			X
		11 Use of Facilities	L	L			X
		12 Donations	M	L			X
		13 Vending Machines	H	L			X
		14 Cash Receipts	H	M			X
		15 Cash/Investment Management	H	M			X
		16 Petty Cash	L	L			X
		17 Bank Reconciliations	H	M	√		X
5	Grants	18 Online Banking	H	L			X
		19 Accounts Receivable	H	L			X
		20 General Processing/Monitoring	H	L			X
		21 Grant Application	M	L			X
		22 Expenditures & Allowable Costs	H	L			X
6	Payroll	23 Cash Management	M	L			X
		24 Reporting and Monitoring	H	L			X
		25 Payroll Disbursements	H	L	√	X	
		26 Overtime Payments	H	M		X	
		27 Payroll Accounting & Reporting	H	L		X	
7	Human Resources	28 Payroll Tax Filings	H	L		X	
		29 Payroll Reconciliation	H	L		X	
		30 Employment Requisition/Hiring	H	L			X
		31 Personnel Evaluation	H	M	√		X
		32 Termination	H	L			X
8	Benefits	33 Employee Attendance	H	L			X
		34 Eligibility	H	L			X
		35 Benefit Calculations	H	L			X
		36 Patient Protection and Affordable Care Act	H	L			X
		37 Retiree Benefits	H	L			X
9	Purchasing and Related Expenditures	38 ERS/TRS	H	L			X
		39 PO System/Vendor Database	H	M			X
		40 Purchasing Process	H	L			X
		41 Payment Processing	H	L	√		X
		42 Employee Reimbursements	H	L			X
2		43 Credit Cards	H	L			X

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	Business Process		Business Process Categories	RISK		YEARS OF SERVICE		
				Inherent	Control 18-19	18-19	19-20	Subsequent
10	Facilities/Capital Projects	44	Facilities Maintenance & Work	H	M		X	
		45	Construction Planning & Monitoring	M	L		X	
		46	Capital Project Funding & Payments	M	L		X	
		47	Recordkeeping & Reporting	M	L		X	
11	Fixed Assets	48	Inventory/Capitalization Policy	H	M			X
		49	Acquisition and Disposal	H	L			X
		50	Inventory Process & Recordkeeping	H	L			X
12	Food Service	51	Sales Cycle and System	M	M			X
		52	Inventory and Purchasing	M	L			X
		53	Free & Reduced Meals	M	L			X
		54	Federal and State Reimbursement	H	L			X
		55	Financial Reporting & Monitoring	H	L			X
13	Extracurricular Activity Fund	56	General Controls	H	M		X	
		57	Revenue	H	M		X	
		58	Expenditures	M	M		X	
		59	Reporting	M	L		X	
14	Information System	60	Governance Security	H	L			X
		61	Network Security	H	M			X
		62	Inventory	H	L			X
		63	Application Security	H	L			X
		64	Physical Security	H	L			X
		65	Disaster Recovery	H	M			X
15	Student Data Management	66	Registration & Enrollment	H	L			X
		67	Student Attendance	H	L			X
		68	Student Performance	H	M			X
16	Pupil Personnel Services	69	Budgeting and Planning	H	M	X		
		70	STAC Reimbursement	H	M	X		
		71	Medicaid Reimbursement	H	L	X		
		72	RFP and Contracts	H	M	X		
17	Transportation	73	Fleet Inventory and Maintenance	H	L			X
		74	Bus Routing and Planning	H	L			X
		75	Labor and Supervision	H	L			X
		76	Contract Management	H	L			X
		77	Federal and State Reimbursement	H	L			X
18	Safety & Security	78	Plan Development & Strategy	H	L			X
		79	Building Access & Security System	H	L			X
		80	Compliance and Incident Reporting	H	L			X
		81	Safety & Security Monitoring	H	L			X
19	Cyber Security	82	General Controls	H	M			X
		83	Information & Asset Security	H	L			X
		84	Vulnerability Assessment	H	M			X
		85	Incident Response & Recovery	H	M			X

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Inherent Risk - Inherent risk pertains to the overall school district industry. Inherent risk is the risk that a material misstatement may occur assuming the absence of internal controls.

Control Risk - Control risk pertains specifically to the Pearl River School District. Control risk is the risk that a material misstatement will not be detected and corrected by Management's internal controls on a timely basis.

NEXT STEPS

Our audit in each area noted above will include an in-depth evaluation and validation testing of key controls to ensure the operating effectiveness of these controls. Upon completion of our evaluation of each area, we will be providing the District with a report containing observations and recommendations to improve the internal control environment as well as a narrative of the procedures and key controls within those procedures.

The following sections of this report provide a summary of our initial observations and recommendations pertaining to each area within the financial operations of the District. These observations and findings are based upon the procedures performed as noted within the "Scope and Methodology" section of this report. Upon our evaluation of each area, as noted above, we will be providing an in-depth report and present additional observations and recommendations that may come to our attention.

1.GOVERNANCE AND PLANNING

The objective of our risk assessment within governance and planning is to assess whether controls are in place to ensure that the District's goals and objectives are effectively and efficiently met, laws and regulations are complied with, resources are adequately safeguarded, and efficiently used, and reliable data is obtained, maintained, and accurately and fairly disclosed in reports. We interviewed key personnel and reviewed pertinent documentation to assess that this functional area has the proper internal controls.

Summary of Controls

- The District has reported deficiencies of revenue over expenses that increased from \$1,155,761 in 2016/2017 to \$1,519,400 in 2017/2018. The following table summarizes the net change in fund balance during fiscal years 2013/2014 through 2017/2018:

<u>Total Governmental Funds</u>	<u>2013/2014</u>	<u>2014/2015</u>	<u>2015/2016</u>	<u>2016/2017</u>	<u>2017/2018</u>	<u>Trend</u>
Revenues	63,630,659	64,553,066	65,561,670	66,522,231	68,200,207	
<i>Change from Prior Year</i>	<i>N/A</i>	<i>922,407</i>	<i>1,008,604</i>	<i>960,561</i>	<i>1,677,976</i>	
<i>% Change from Prior Year</i>	<i>N/A</i>	<i>1.45%</i>	<i>1.56%</i>	<i>1.47%</i>	<i>2.52%</i>	
Expenditures	62,498,329	63,559,294	64,771,384	67,677,992	69,719,647	
<i>Change from Prior Year</i>	<i>N/A</i>	<i>1,060,965</i>	<i>1,212,090</i>	<i>2,906,608</i>	<i>2,041,655</i>	
<i>% Change from Prior Year</i>	<i>N/A</i>	<i>1.70%</i>	<i>1.91%</i>	<i>4.49%</i>	<i>3.02%</i>	
Excess/(Deficiency) of Revenues Over Expenditures	1,132,330	993,772	790,286	(1,155,761)	(1,519,440)	
Other Financing Sources	-	-	101,756	-	-	
Net Change in Fund Balance	1,132,330	993,772	892,042	(1,155,761)	(1,519,440)	
<u>Fund Balance (Deficit)</u>						
Beginning of Year	5,222,141	6,354,471	7,348,243	8,240,285	7,084,524	
End of Year	6,354,471	7,348,243	8,240,285	7,084,524	5,565,084	
<i>Change from Prior Year</i>	<i>N/A</i>	<i>993,772</i>	<i>892,042</i>	<i>(1,155,761)</i>	<i>(1,519,440)</i>	
<i>% Change from Prior Year</i>	<i>N/A</i>	<i>15.64%</i>	<i>12.14%</i>	<i>-14.03%</i>	<i>-21.45%</i>	

Source: Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2014 through 2018

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- The District is governed by five (5) Board of Education Trustees. All members have completed the required six hours of training on fiscal oversight, accountability, and fiduciary responsibilities within the first year of their term.
- The Board of Education has not established committees but meets monthly throughout the school year to discuss the following:
 - Audits, Budget, Finance
 - Policies
 - Facilities
 - Capital Projects
- The official minutes of the Board of Education indicate for each meeting the time of convening, Trustees present and absent, others present, and any late arrivals or early departures. The official minutes record the "yes" or "no" votes on each resolution. The official minutes are currently up to date and are written in a clear and concise manner. The District Clerk maintains a supplemental file to support and reference the minute's book. The official minutes indicate the required Board of Education action on the appointment and resignation of employees.
- The Board of Education has adopted a code of ethics for officers and employees which is provided to each employee at orientation.
- The District maintains an organizational chart by department to indicate the responsible parties.
- The District has a policy manual that is uploaded on the District's website. The policies include business management functions and responsibilities. When applicable, the policies contain legal references on which the policies are based. The District subscribes to the New York State Board Association to obtain updates of required fiscal management policies on an ongoing basis.

Observations/Recommendations

1. The District has not developed documented guidelines, specific job descriptions, or a formal program to cross-train its Business Office staff in respect to accounting and reporting, accounts payable, human resources, and payroll. Current procedures are carried out based upon the past practices and verbal guidelines provided by prior and current administration and employees.
 - *The District should develop documented guidelines regarding the accounting and reporting, accounts payable, human resources, and payroll processes. Procedures should be periodically reviewed to ensure that responsibilities are adequately performed at the Business Office and comply with District policies. The District should develop formal job descriptions to describe the qualifications for each position as well as the duties assigned to the position within the Business Office. This is important as it enhances the understanding of each employee's responsibilities and provides opportunity to assess proper separation of duties and further cross training.*
2. The Board of Education has not established Advisory Committees pertaining to policies, audits, and facilities.
 - *According to its Policy 2250 (Board Committees), the Board of Education should consider establishing advisory committees pertaining to policies, audits, and facilities. In selecting committees, the Board of Education should consider appointing members to the committees*

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representing diverse stakeholder groups and have specialized knowledge. The Board of Education should also consider developing a charter for each committee to define their responsibilities, the required frequency of meetings, and how they will interface with the Board of Education, the Administration and the District's auditors.

2.BUDGET DEVELOPMENT

The objective of our risk assessment within the budget development area is to assess whether proper internal controls are in place to gain an understanding as to how the District monitors the current year's budget, develops next year's budget and the methodology for forecasting and monitoring fund balance. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has the proper internal controls.

Summary of Controls

- We noted minimum variances between the actual and budgetary general fund revenue and expenditures during fiscal years 2015/2016 through 2017/2018 as follows:

	<i>Revenue (GF)</i>			<i>Expenditures (GF)</i>			<i>Excess/(Deficiency) of Revenues Over Expenditures (GF)</i>		
	<u>2015/2016</u>	<u>2016/2017</u>	<u>2017/2018</u>	<u>2015/2016</u>	<u>2016/2017</u>	<u>2017/2018</u>	<u>2015/2016</u>	<u>2016/2017</u>	<u>2017/2018</u>
Budget	63,503,163	64,584,721	65,675,114	63,734,297	64,494,320	66,715,987	(231,134)	90,401	(1,040,873)
Actual	63,838,654	64,593,232	66,164,778	62,879,540	64,530,800	66,308,948	959,114	62,432	(144,170)
Difference	335,491	8,511	489,664	(854,757)	36,480	(407,039)	1,190,248	(27,969)	896,703
% Difference	0.53%	0.01%	0.75%	-1.34%	0.06%	-0.61%	-514.96%	-30.94%	-86.15%

(GF) – General Fund

Source: General Fund Comparative Schedule of Revenues, Expenditures and Changes in Fund Balance -Budget and Actual Years Ended June 30, 2016 through 2018

- The “General Fund Comparative Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Years Ended June 30, 2018” of the audited financial statements indicates a variance between the budgetary and actual excess/(deficiency) of revenues over expenditures (GF) of \$896,703, or approximately 86.15%, attributed to the following:
 - Revenue from use of property.
 - Savings in programs for students with disabilities, pupil services, and pupil transportation.
- The Business Office has completed the development of a budget calendar and an administrative timetable to assist the administrative staff in implementing the budget calendar.
- Revenue estimates are reviewed regularly during the fiscal year.
- The Business Office prepares fund balance projections beginning in December of each year. During the budget season, there is ongoing communication between the Business Office, Administrators, Building Principals, and the Board of Education to refine the District's budget.

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Observation/Recommendations

3. The Business Office has not established internal controls to prevent over-commitment of budgetary expenditures within its financial application system, WinCap. This is a risk as negative balances may appear at any time during the year.
 - *The Business Office should explore the software capabilities of WinCap to prevent expenditures creating negative balances in budgetary codes. Financial application controls that prevent the cost overruns or estimation errors will assist the District in monitoring year-to-date revenues and expenditures against corresponding budgetary estimates.*
4. Budget transfers more than \$3,000 require approval of the Board of Education. The Business Office has not developed a budget transfer form to formally document the request and approval of budget transfers. In the past, Administrators sent email requests to the Business Office to conduct budget transfers to facilitate the prompt payment of bills. However, the Business Office is in the process of developing a standardized budget transfer form to document the request and approval of budget transfers.
 - *The Business Office should finalize the standardized budget transfer form to document the request and approval of budget transfers. The budget transfer forms should document the requestor, the request date, the account codes, the approver, and the approval date and should be accompanied by explanation and documentation supporting the transfer. This will help identify any issues in the current budget, help create more accurate budget projections, and facilitate in the creation of a more accurate budget for the successive year.*

3.ACCOUNTING AND REPORTING

The objective of our risk assessment within the Accounting and Reporting area is to assess whether proper internal controls are in place to ensure that the District's financial position is properly disclosed and reported. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has the proper internal controls.

Summary of Controls

- The Business Office maintains up to date journals and ledgers for all District funds.
- The Business Office has implemented within WinCap, controls to ensure that encumbrances are placed prior to the release of a purchase order and the system prevents the release of a purchase order if the appropriation is insufficient. Additionally, salaries and known contracts are encumbered in the beginning of the year.
- The Board of Education receives the following monthly reports: District Treasurer reports, budget status reports, appropriation status reports and revenue status reports, and claims audit reports. Additionally, the Board of Education receives quarterly Extraclassroom Activity Fund reports from the District Treasurer.
- The District has contracted with an independent auditor to review and provide an opinion of the annual financial statements. The external auditor presents an annual report to the Board of Education

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indicating the audit procedures and a summary of the audit results for the year. The Board of Education reviews and accepts the Annual Financial Report.

Observations/Recommendations

5. We have conducted limited key control testing in the journal entry area and based upon the testing procedures performed, we noted that certain journal entry forms did not contain the approval signatures or the approval dates.

➤ *The Business Office should establish a process whereby all journal entries are reviewed and approved by the Assistant Superintendent for Business. Also, the journal entry forms should document the signature of the individual approving the journal entry and the approval dates of each transaction. A supervisory review of the journal entries prevents an employee from entering improper entries into the system without being detected.*

6. The District has contracted with an internal Claims Auditor to review the claims and the warrants on weekly basis. The review function of the accounts payable checks, supporting documentation, and check registers is documented and provided in a summary form to the Board of Education. Although the Claims Auditor is aware of the required audit procedures, there are opportunities for improvement in the overall process.

➤ *Formal claims audit procedures should consist of:*

- a) Verification of the accuracy of invoices and claim forms.*
- b) Ensuring proper approval of all purchases; checking that purchases constitute appropriate expenses of the Organization.*
- c) Determining that purchase orders have been issued in accordance with purchasing policy.*
- d) Comparison of invoices or claims with previously approved contracts.*
- e) Reviewing price extensions, claiming of applicable discounts, inclusion of shipping and freight charges.*
- f) Approving all charges that are presented for payment which are supported with documentary evidence indicating compliance with all pertinent laws, policies and regulations.*

The review function should be documented and communicated to the Board of Education monthly. At the Board's request, Nawrocki Smith will assist the Business Office in developing the aforementioned internal controls and sample claims audit reports and exhibits that will be utilized by the District. We will also conduct follow-up on effectiveness of new procedures and provide training in respect to the format and contents of a year-end report indicating the historic trend of the claims audit observations.

The benefit of such reporting provides the District information pertaining to the clerical accuracy of the accounts payable processes and verification as to whether purchasing policies are being followed on a Departmental and employee level basis.

4.REVENUE AND CASH MANAGEMENT

The objective of our risk assessment within the Revenue and Cash Management area is to assess whether controls are in place to ensure that all revenue and cash is properly safeguarded. This area includes revenue (property taxes, state aid, etc.), cash receipts, wire transfers, investments, and petty cash. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has the proper

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internal controls such as adequate separation of duties, ongoing monitoring of functions, adequate security, and timely reconciliations.

Summary of Controls

- The District's general fund revenue increased overall by 3.64% from \$63,838,654 in 2015/2016 to \$66,164,778 in 2017/2018 as follows:

<u>Revenue-General Fund</u>	<u>2015/2016</u>	<u>2016/2017</u>	<u>2017/2018</u>	<u>Trend</u>
Real Property Taxes	47,073,753	47,458,875	48,557,121	—
Other Tax Items	6,006,630	5,896,021	5,960,063	—
Charges for Services	166,331	115,053	115,231	—
Use of Money & Property	514,476	594,280	883,842	—
Sale of Property & Compensation for Loss	371	690	4,645	—
State Aid	9,489,891	10,041,847	10,330,943	—
Federal Aid	7,589	2,087	448	—
Miscellaneous	579,613	484,379	312,485	—
Total Revenue	63,838,654	64,593,232	66,164,778	—
<i>Change From Prior Year</i>	<i>N/A</i>	<i>754,578</i>	<i>1,571,546</i>	
<i>% Change From Prior Year</i>	<i>N/A</i>	<i>1.18%</i>	<i>2.43%</i>	

Source: Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Years Ended June 30, 2016 through 2018

- We noted minimum variances between the actual and budgetary general fund aid revenue during fiscal year 2017/2018 as follows:

<u>General Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>	
<u>State Aid</u>	8,721,001	8,645,139	(75,862)	-0.87%
Basic Formula Aid	1,396,652	1,410,133	13,481	0.97%
BOCES Aid	155,000	153,081	(1,919)	-1.24%
Computer Software Aid	63,629	65,503	1,874	2.95%
Library Aid	17,000	17,087	87	0.51%
Tax Limitation Aid	40,000	40,000	-	0.00%
Subtotal	10,393,282	10,330,943	(62,339)	-0.60%
<u>Federal Aid</u>				
Medical Assistance	10,000	448	(9,552)	-95.52%
<u>Miscellaneous</u>				
Refunds of Prior Year's Expenditures	10,000	12,627	2,627	26.27%
Refunds for BOCES Aided Services	200,000	205,791	5,791	2.90%
Other	90,000	94,067	4,067	4.52%
Subtotal	300,000	312,485	12,485	4.16%
Total Aid	10,703,282	10,643,876	(59,406)	-0.56%

Source: General Fund Schedule of Revenues and Other Financing Sources Compared to Budget Year Ended June 30, 2018

- The Business Office records the District's State Aid revenue within WinCap once received. The Business Office records a receivable when the tax levy warrant has been issued for collection.
- The Business Office monitors the tax levy collections and State Aid revenue during the budget process and presents related information within the revenue status reports to the Board of Education.

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- The Business Office prepares the invoices for health related services based on employee salaries and contracted services. The following table summarized the District's receivables during fiscal years ending June 30, 2016 through 2018:

<u>Receivables-General Fund</u>	<u>2015/2016</u>	<u>2016/2017</u>	<u>2017/2018</u>	<u>Trend</u>
Accounts Receivables	11,759	9,270	72,077	—
State & Federal Aid	620,959	354,846	366,953	—
Due from Other Governments	716,195	729,887	683,959	—
Due from Other Funds	-	203,217	1,248,718	—
Total Receivables	1,348,913	1,297,220	2,371,707	—
<i>Change From Prior Year</i>	<i>N/A</i>	<i>-51,693</i>	<i>1,074,487</i>	
<i>% Change From Prior Year</i>	<i>N/A</i>	<i>-3.83%</i>	<i>82.83%</i>	

Source: Financial Statement Balance Sheet Governmental Funds for Years Ended June 30, 2016 through 2018

- The District utilizes School Dude, a web-based facilities application, to monitor the building usage. Internal and external groups are required to fill out an application through School Dude and provide an insurance certificate for use after school hours. The application is reviewed and approved by the Facilities Director. Additionally, the District utilizes a standard fee, which is communicated to user groups and listed on the permit prior to the actual usage of the facility. The Business Office tracks the building usage billings and receipts.
- The Board of Education accepts and approves monetary and tangible donations. The approval of donations is documented within the Board of Education minutes. The Business Office records monetary donations in WinCap and tangible donations in the District's property ledger.
- The District has vending machines and has contracted with its food service provider, Aramark, to maintain vending machine inventory and collect respective sales. The food service provider deposits the funds from the vending machines and food sales into the bank and a courier returns the bank receipts to the Business Office for data entry. The Business Office records the vending machine collections within the District's School Lunch Fund.
- Responsibilities for cash receipt functions are separated from cash disbursement duties.
- The District places a restrictive endorsement on incoming checks as soon as they are received.
- Cash receipts are recorded and deposited daily. If the funds are not deposited the same day, the Business Office maintains the money in a locked safe until the next business day. The District utilizes a remote deposit machine to process the deposits of checks directly to the District's bank accounts. The machine prints out a deposit log from the bank for confirmation. The Accounts Receivable Clerk prepares deposit slips and records the cash receipts into WinCap. A courier makes the physical bank deposits.
- Cash receipts are recorded directly in WinCap in numeric sequence, including voids. The District Treasurer reconciles the cash receipt listing to the actual deposits during the bank reconciliation process.
- We have conducted limited key control testing in the bank reconciliation area and based upon the testing procedures performed, we noted that the bank reconciliations were performed monthly and reported the deposits in transit or outstanding checks.

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- For the 2018/2019 fiscal year, the Board of Education has approved petty cash funds throughout the District as follows:

<u>#</u>	<u>Location</u>	<u>BOE Approved Amount</u>
1	Administrative Office	100
2	High School	100
3	Middle School	100
4	Evans Park Elementary School	50
5	Franklin Elementary School	50
6	Lincoln Avenue Elementary School	50
7	Maintenance Department	50
8	Athletic Department	50
9	Transportation Department	50
	Total	900

When an account requires to be replenished, receipts and memos requesting reimbursements are sent to the Business Office and an Account Clerk prepares a standard petty cash voucher for each receipt. The Business Office reviews each petty cash voucher before they are forwarded to the Accounts Payable Clerk for processing. The Claims Auditor reviews the payments for accuracy.

Observation/Recommendations

7. We noted that the District maintains four (4) investment accounts that have limited activity and maintain minimal balances.
 - *The Business Office should review the necessity of each investment account and eliminate any unnecessary accounts.*

5.GRANTS

The objective of our risk assessment within the grants area is to ensure that all federal and state revenue is properly safeguarded and related expenditures are incurred for approved grant purposes. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has the proper internal controls.

Summary of Controls

- The District Treasurer and Director of Pupil Personnel Services and Assistant Superintendent for Curriculum & Instructional Service periodically monitor the actual costs and compare them to the estimated costs.
- The District Treasurer with the assistance of Director of Pupil Personnel Services and Assistant Superintendent for Curriculum & Instructional Service prepares the following documents when applying for grants:
 - Form FS-10
 - Narratives
 - Data related to the District's demographics
 - Assurances
 - Curriculum documentations and plans

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- The grant applications are reviewed and approved by the Superintendent of Schools. The grant applications are submitted in a timely manner. The District receives grant award notices.
- The District does not have grants that require cost sharing allocations and reporting.
- Deposits from grant funding are traced to the bank statements.
- The District Treasurer maintains the following documentation within each grant file:
 - Budget Report and Budget Amendments
 - Form FS-10F
 - Correspondence to Business Office and Payroll
 - Reports from Finance Manager indicating revenues and expenditures
- Payroll certifications for employees whose salary is paid from grants are maintained on file.

Observations/Recommendations

8. We noted variances between the budgetary and actual grants revenue reported during fiscal year 2017/2018 as follows:

<u>Project #</u>	<u>Project Title</u>	<u>Budget</u>	<u>08/02/18 Paid To Date</u>	<u>Difference (*)</u>
21182560	TITLE I A&D IMPROV ACAD ACHMT F/DISA	242,578	48,594	(193,984)
32180775	IDEA-PART B, SECTION 611	526,459	105,291	(421,168)
33180775	IDEA-PART B, SECTION 619	27,597	5,519	(22,078)
80182560	EMERGENCY IMPACT AID-DISPLACED STUD	20,250	-	(20,250)
147182560	TITLE IIA,TEACH/PRIN TRNG/RECRUITMT	67,560	13,512	(54,048)
409187460	UNIVERSAL PRE-K GSPS	77,485	38,742	(38,743)
Total		961,929	211,658	(750,271)

Source: Federal and State Grant Status Report from the New York State Education Department as of August 2, 2018
 (*) Calculations are subject to change pending the receipt of additional information

- *Although the Business Office prepares and submits Form FS-25 – Request for Funds for a Federal or State Project on a minimum quarterly basis, we recommend the Business Office to review and verify within its internal records that the District received the awarded grant funds.*

6.PAYROLL

The objective of our risk assessment was to determine if the internal controls over payroll are adequate to ensure that assets are properly safeguarded and that employees are paid accurately. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has the proper internal controls.

Summary of Controls

- The Payroll Clerk maintains supporting documents to ensure that payment is made for services rendered and maintains employee authorizations to support deductions from payroll checks.
- The Payroll Clerk verifies that all employees are placed on payroll and that all retired, resigned, and leave of absence employees are removed from payroll upon receipt of the Board of Education agenda and the retirement or resignation letter.

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- Form 941 – Employer's Quarterly Federal Tax Return are prepared by the Payroll Clerk and reviewed by the District Treasurer.
- Undistributed checks are returned to the Payroll Office. The Payroll Office reviews the unclaimed paychecks or paystubs to ensure that inactive employees do not continue to receive payments from the District.
- We conducted key control testing in the payroll disbursement area. No discrepancies were noted.
- The Assistant Superintendent for Human Resources and Community Services certifies the District's payroll.
- Payroll timesheets are reviewed and approved by the respective building Principal. Overtime hours are pre-approved by the Assistant Superintendent for Human Resources and Community Services.

Observation/Recommendations

9. Although the Payroll Office maintains annual salary notices supporting the rate of pay of each employee for each fiscal year, the salary notices are not signed by the employees indicating their acknowledgment.
 - *All employee salaries and applicable wage rates should be properly authorized, approved, and documented to support the employee status and earnings reported in the payroll application, WinCap. When a formal process exists to document authorized changes to salaries and wages, the opportunity for fraudulent or erroneous payroll changes to occur without detection decreases. An alternative to the above recommendation is to analyze the capabilities of the WinCap application to issue an annual salary notice to all employees indicating their respective earnings for each current fiscal year. A copy of the employee salary notice should be maintained in the employee's file.*

7.HUMAN RESOURCES

The objective of our risk assessment was to determine if the internal controls over personnel are adequate to ensure that duties are properly separated and that employees are paid accurately and in accordance with board approval. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has the proper internal controls.

Summary of Controls

- Prospective employees are nominated by the building level Administrators and approved by the Board of Education. The Board of Education documents within the meeting minutes the employee's appointment and the Human Resource Department enters relevant new employee information into WinCap.
- The Human Resource Department maintains a confidential personnel file for each former and current employee within a locked office.

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- The Facilities Department maintains leave request forms to document and approve an employee's leave request. The forms are maintained within the employee's personnel files. The Human Resources Department tracks the accumulated employee leave balance in WinCap.

Observation/Recommendations

10. The Human Resource Department reviews the accrual leave balances of each employee on an annual basis. The review process is conducted by analyzing the date, amount, and type of leave days reported on the timesheets and in WinCap. However, the accrual leave balances are not documented and communicated to each employee within the annual salary notice.

➤ *The Human Resource Department should consider exploring the software capabilities of WinCap to include with employees' leave accrual balances within the annual salary notices. Any discrepancies in the calculation of leave accrual balances should be communicated to the Human Resources Department for further investigation.*

11. All employees except for Facilities staff document the request and approval of their leave days through an online employee attendance application, AESOP.

➤ *The District should consider implementing timeclocks and an employee attendance management software that will communicate with the District's accounting management software to account for the entrances and exits of staff employed at the building level including the Facilities, Buildings and Grounds, and Security Departments.*

12. Instructional employees are evaluated in accordance with APPR guidelines. Non-instructional employees receive a formal evaluation from their immediate supervisor. Formal annual evaluation results are reviewed and signed by each individual employee, as required by the employment agreements. We conducted limited key control testing in the employee evaluation area for the fiscal year 2017/2018 and noted one instance where an employee evaluation was not maintained on file.

➤ *Employee evaluations are used as a tool by Administrators to identify employees' strengths and weaknesses, document personnel decisions (including promotions, layoffs and transfers), and to meet legal requirements. The District should continue its efforts to evaluate the employees on an annual basis to adhere to the respective employee bargaining unit agreement or contract.*












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8.BENEFITS

The objective of our risk assessment was to determine if the internal controls over benefits are adequate to ensure that duties are properly separated, and that employee fringe and Medicare benefits are paid accurately and in accordance with their bargaining unit agreements. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has proper internal controls.

Summary of Controls

- The District's employee benefits remained consistent and ranged from \$13,376,311 in 2015/2016 to \$14,141,444 in 2017/2018 as follows:

<u>Employee Benefits</u>	<u>2014/2015</u>	<u>2015/2016</u>	<u>2017/2018</u>	<u>Trend</u>
State Retirement	974,320	717,909	789,482	
Teachers' Retirement	4,321,996	3,412,284	2,707,326	
Social Security	2,220,600	2,287,465	2,447,225	
Workers Compensation Benefits	199,956	226,055	233,204	
Life Insurance	17,255	5,513	5,786	
Unemployment Insurance	1,931	12,780	4,183	
Disability Insurance	3,000	3,000	3,000	
Hospital, Medical, and Dental Insurance	6,250,764	6,661,750	7,907,706	
Welfare Fund	44,505	47,300	37,960	
Flex Plan	5,180	2,255	5,572	
Total Benefits	14,039,507	13,376,311	14,141,444	
<i>Change From Prior Year</i>	<i>N/A</i>	<i>-663,196</i>	<i>765,133</i>	
<i>% Change From Prior Year</i>	<i>N/A</i>	<i>-4.72%</i>	<i>5.72%</i>	

Source: Financial Statements General Fund Schedule of Expenditures and Other Financing Uses Compared to Budget Years Ended June 30, 2015, 2016, and 2018. Years Ended June 30, 2017 was not made available.

- The District offers health insurance coverage to full-time employees. Depending on the bargaining unit agreement, District employees are offered dental, vision, and life insurance through their respective union.
- The Benefits Department utilizes eligibility forms indicating newly hired employees, changes in the number of dependents, changes in the eligibility status, and retirees. In the event of a change in the eligibility status, the employee is required to provide supporting documentation such as a marriage certificate, birth certificate, divorce decree, and social security numbers.
- The Benefits Department records eligibility data such as single or family coverage within WinCap. Additionally, the Benefits Department transmits online or through facsimile the eligibility data to the insurance carriers and third-party administrators.
- In the event of an employee on a leave of absence, the Benefits Department removes any benefit payables applicable to the absent employee. Additionally, the Benefits Department sends notifications to the insurance carriers and third-party administrators of the cancellation of benefits.
- The Benefits Department calculates the benefits payable based on the notifications submitted by the employees, the bargaining unit agreements, and the individual employment agreements. The Benefits Department reconciles, prior to payments, the monthly billings and employee listings provided by the

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insurance carriers to the District's payroll deduction reports and benefit listings maintained in WinCap. The Claims Auditor reviews monthly benefits billings and payments.

- The District contracted with a consulting firm to perform an analysis of the District's compliance with the Patient Protection and Affordable Care Act (ACA).
- The District distributed Healthcare Exchange Notifications to all full-time employees indicating the availability of the federal mandated health insurance exchanges. The District provides this notification to all new hires as part of the orientation process.

Observations/Recommendations

No recommendations at this time.

9. PURCHASING AND RELATED EXPENDITURES

The objective of our risk assessment within the purchasing and accounts payable area is to ensure that the District's assets are properly safeguarded and that laws and regulations are being followed. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has the proper internal controls.

Summary of Controls

- The District utilizes a purchase requisition module within WinCap to generate purchase orders. All requisitions and purchase orders are approved by the Business Office.
- The District has separated the functions of ordering (Building Level Secretaries), approving requisition and purchase orders (Business Office), receiving (Building Level Secretaries), invoice processing, (Business Office), and voucher preparation (Business Office) to be performed by different individuals.
- The Business Office maintains vendor files and applicable payments in alphabetical and numerical order, respectively.
- Signatures and dates on receiving reports are sufficiently legible and entered in WinCap to determine the person receiving the merchandise and date of receipt.
- The Claims Auditor reviews claims prior to the release of payment on a weekly basis. The Business Office has made continuous efforts to communicate to District employees the need to eliminate, to the extent possible, confirming purchase orders.
- The District has implemented positive pay as a check fraud detection service to monitor checks processed for payment and match them against the District's bank accounts. This affords the District the opportunity to reject unauthorized payments before incurring loss.
- The Business Office secures blank checks and check stock in a locked closet to prevent their misuse.
- The District Treasurer, is the signatory on District checks and maintains her signature disk password protected. Checks are signed electronically. The District has designated one printer in the Business Office to print checks.

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- The District has a purchasing policy which contains the required elements of General Municipal Law. In addition, the District utilizes state, county, and BOCES contracts to reduce the cost of bidding. The Business Office obtains written quotes for purchases that are not subject to the bid process.
- The Business Office provides potential vendors with a bid packet including general conditions of bidding and a statement of collusion to be signed by the vendor. The Business Office advertises the formal bids within the local newspaper to submit their bid prior to a selected due date. At the bid opening, the Business Office announces vendor services and price proposals and documents the bid results on a vendor summary sheet.
- The District has a policy in place regarding the authorization and reimbursement of expenditures.
- The District does not maintain credit cards.
- We conducted key control testing in the cash disbursement area. No exceptions were noted.

Observation/Recommendations

No recommendations at this time.

10.FACILITIES/CAPITAL PROJECTS

The objective of our risk assessment was to determine if the internal controls over Facilities and Capital Projects are adequate to ensure that duties are properly separated, and that the maintenance of facilities are properly managed. We interviewed key personnel and reviewed pertinent documentation to assess whether the functional area has proper internal controls.

Summary of Controls

- The District reported a negative capital fund balance as of June 30, 2018. The District has funded the negative balance through BANs in August 2018.

<u>Project Title</u>	<u>Authorization</u>	<u>Expenditures</u> <u>YTD</u>	<u>Difference</u>	<u>Total</u> <u>Funding</u>	<u>Fund Balance/(Deficit)</u>
District-Wide Reconstruction	17,660,000	17,267,632	(392,368)	17,660,000	392,368
High School Electrical Upgrade	860,000	621,006	(238,994)	621,006	-
Middle School Electrical Upgrade	405,000	218,215	(186,785)	218,215	-
High School Reconstruction	1,750,000	1,305,378	(444,622)	1,750,000	444,622
Crooked Hill Purchase	4,900,000	4,900,000	-	1,500,000	(3,400,000)
District-Wide Reconstruction-2017	32,182,000	1,741,087	(30,440,913)	687,177	(1,053,910)
Total	57,757,000	26,053,318	(31,703,682)	22,436,398	(3,616,920)

Source: Capital Projects Fund Project-Length Schedule Inception of Project Through June 30, 2018

- The District utilizes SchoolDude as a work order system to log, track and monitor the status of periodic maintenance or repair requests. A work order is initiated by the requestor through the system and forwarded to the Facilities Director indicating the reasons of maintenance or repair. The Facilities Director forwards the request to a maintenance staff member assigned to perform the work. The maintenance staff member responds to the Facilities Director upon assignment and completion of the work.

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- The Facilities Department secures its vehicles after business hours at the Grounds Building and at the District's Maintenance Shops.
- The District maintains a Building Survey Conditions Report every five (5) years.
- Construction projects receive Board of Education approval prior to commencement. The Business Office, Facilities Department, and Architect meet during the initial stages of project development. The Architect submits project plans to the State in a timely manner.
- The District transmits updated/new building floor plans to law enforcement and fire officials when applicable.
- Upon approval from the Superintendent of Schools, the Business Office files the final cost reports to the State.

Observation/Recommendations

13. Although the School Dude work order system has the functionality, the Facilities Department has not utilized the system to track supplies used in project, track labor hours for each work order/project, or track all work performed on an individual piece of equipment.

➤ *The Facilities Department should consider decentralizing the work order request process and allow District employees to directly input their requests into the system. This will eliminate the data entry process from the Facilities Department and will allow the Director – Buildings Grounds and Security to monitor effectively the completion status of work orders. Furthermore, the Facilities Department should consider utilizing School Dude to its fullest potential and develop procedures to track supplies and labor used in a worker order. This will assist the Facilities Department in balancing supply inventories, in tracing reported time for a sample of items to actual timesheets to ensure agreement, and in analyzing and deciding on new equipment purchases.*

14. The Director of Facilities does not maintain a monitoring schedule of the routine service calls and preventative maintenance services.

➤ *The Facilities Department should consider developing a formal and documented preventive maintenance schedule for District equipment and vehicles that will provide for:*

- *Maintaining equipment in safe operating condition*
- *Ensuring each equipment is operating at peak efficiency*
- *Maximizing equipment life*
- *Minimizing equipment service failures*
- *Meeting or exceeding manufacturers' maintenance requirements*
- *Maintaining a system of permanent equipment maintenance records*
- *Administering an equipment warranty recovery program*

A preventive maintenance schedule will assist the District in:

- *Extending the life of building components, thus sustaining buildings' value.*
- *Helping the Facilities Department operate at peak efficiency, including minimizing energy consumption.*
- *Preventing failures of building systems that would interrupt school activities.*
- *Provide maintenance in ways that are cost-effective.*

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This will assist the Facility Department in increasing its controls over the timely completion of the scheduled routine service calls and ensure that preventative maintenance inspections are completed in a timely manner.

15. The Facilities Department does not utilize GPS technology to monitor vehicle usage, location, efficiency and performance.

➤ *The District should consider the cost/benefit options of utilizing GPS technology to monitor all or some of District vehicles. A computerized monitoring system will allow the Director of Facilities to verify the location of each District vehicle, assess acceptable idle time and gas utilization, and receive real-time notifications of potential speeding violations.*

11.FIXED ASSETS

The objective of our risk assessment within the fixed assets area is to assess whether controls are in place to ensure that all capital assets are properly safeguarded from loss and that their value is maintained. To safeguard the assets of the District there should be a capital asset policy that clearly states the District's objectives and procedures to achieve those objectives. The policy should state when periodic inventories should be conducted, how assets are recorded and maintained, how assets will be physically identified as belonging to the District and procedures for disposal of assets. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has proper internal controls.

Summary of Controls

- The District reported the following capital asset balances for the fiscal years 2012/2013 through 2014/2015:

<u>Capital Asset</u>	<u>2015/2016</u>	<u>2016/2017</u>	<u>2017/2018</u>	<u>Trend</u>
Land	1,009,625	964,799	963,800	\\
Construction-in-Progress	76,379	1,690,805	3,046,465	\\
Improvements Other than Buildings	128,115	109,813	91,511	\\
Buildings and Improvements	39,159,647	38,029,536	36,939,243	\\
Machinery and Equipment	398,932	438,251	380,338	\\
Total Capital Assets, Net of Accumulated Depreciation	40,772,698	41,233,204	41,421,357	\\

Source: Financial Statements for Years Ended June 30, 2016 through 2018.

- The Board of Education approves all fixed asset disposals.
- The District has a capitalization policy of \$10,000 or more for financial statement reporting purposes. The District also monitors equipment with a cost of \$500 or more for insurance reporting purposes. Fixed assets are recorded at historic costs and depreciated on a straight-line basis.
- The District has contracted with CBIZ to perform inventory valuations. The latest fixed asset appraisal was conducted in December 2017. The Business Office maintains and updates an Excel spreadsheet to record all purchases, disposals, and changes in location of fixed assets at the end of each fiscal year.

Observations/Recommendations

16. The District does not have formal procedures to monitor the movement of capital assets on an occurrence basis. The lack of oversight in the fixed asset movements is a risk as the Business Office

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may not be able accurately document and monitor the movement of fixed assets and the District's property ledger may not accurately reflect the District's assets at the building level.

- *The District should develop a "Transfer Request Form" indicating the request for movement of a fixed asset from building to building. The building level Administrator or Department Head who requests the movement should complete the standardized request form. The transfer request form should serve as a mode of communication to the Business Office to review and approve such request. Once reviewed, the Business Office, or another designated employee, should update the inventory schedule to reflect the status of the asset's location.*

12.FOOD SERVICE

The objective of our risk assessment was to determine if the internal controls for the District's school lunch program are adequate to ensure the safeguarding of assets. The school lunch program is primarily operated for the needs of the student population and includes breakfast and lunch programs. Any profit generated from the program is used for the betterment of the school lunch program. In addition, any expenditures of the program are governed by the Commissioner of Education regulations and the dietary requirements of the USDA. Funding for the school lunch program is derived from, but is not limited to, sales of meals and meal reimbursements. The accounting records of the school lunch program must reflect all receipt and disbursement activities and the financial activities should be reported to the Board of Education. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has proper internal controls.

Summary of Controls

- The District has contracted with Aramark to manage its school lunch program. The Head Cooks order food weekly and update an inventory of supplies monthly. The Food Service Director from Aramark reviews and approves the weekly food supply orders.
- The Board of Education has adopted school lunch/nutrition and Wellness policies.
- The District utilizes the Mosaic POS system at all cafeterias. The POS system improves confidentiality control over meal participants. The school lunch program charges sales taxes only to adult meals.
- The District claims federal and state aid for its lunch programs. Aramark prepares monthly operating statements which are forwarded to the Business Office for review. The Business Office reports the monthly operating statements to the State through the State's website.
- The District mails free/reduced price meals to each eligible student's home. The Business Office conducts an income verification of a sample of applications in accordance with State regulations.
- Aramark has assigned the Head Cooks to conduct a double count verification of cash received at the register. Additionally, overages/shortages under a \$2 threshold per register are investigated as the vendor indicated this as a range of acceptability.

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Observations/Recommendations

17. The District's school lunch program had a positive fund balance that has exceeded its three (3) month average of school lunch fund expenditures during fiscal years 2015/2016 through 2017/2018 as follows:

<u>Revenue</u>	<u>2015/2016</u>	<u>2016/2017</u>	<u>2017/2018</u>	<u>Trend</u>
Use of Money & Property	196	333	962	
State Aid	8,145	8,225	8,488	
Federal Aid	169,538	184,925	190,930	
Food Sales	389,755	437,403	443,833	
Total Revenue	567,634	630,886	644,213	
<u>Expenditures</u>				
Cost of Food Sales	476,123	553,938	561,844	
Total Expenditures	476,123	553,938	561,844	
Excess of Revenues Over Expenditures	91,511	76,948	82,369	
<u>Fund Balance</u>				
Beginning of Year	439,151	530,662	607,610	
End of Year	530,662	607,610	689,979	
Three (3) Month of Expenses	119,031	138,485	140,461	
Fund Balance in Excess of Expenses	411,631	469,126	549,518	

Source: Combining Statement of Revenues, Expenditures and Changes in Fund Balances Non-Major Governmental Funds Years Ended June 30, 2016 through 2018

- *The Food Service Department should establish quarterly reporting to the Business Office pertaining to the monitoring of the school lunch fund balance to ensure that the balance is not more than three-month's average expenditures. Federal Regulation, 7CFR Part 210.14b, limits the net cash resources within the school lunch fund to an amount that does not exceed three months average expenditures.*

13.EXTRACLASSROOM ACTIVITY FUND

The objective of our risk assessment within the extraclassroom activity fund is to ensure that the District personnel and students have controls in place safeguarding their assets. The District should have policies and procedures administering the operations of the extraclassroom activity fund. The responsibility of the Central Treasurer involves the preparation of activity fund checks, recording receipts and disbursements, preparing bank deposits, reconciling bank statements, and providing the board at least quarterly a statement of each fund's activity. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has the proper internal controls.

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Summary of Controls

- The District has approximately 46 extraclassroom activity clubs within two (2) schools. The District reported a total fund balance of \$479,734 within the extraclassroom activity funds at the end of the 2017/2018 fiscal year as follows:

<u>School</u>	<u>Clubs</u>	<u>Beginning Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Balance</u>
High School	39	392,959	717,425	687,946	422,438
Middle School	7	45,969	47,982	36,655	57,296
Total	46	438,928	765,407	724,601	479,734

Source: Extraclassroom Activity Funds Statement of Cash Receipts, Cash Disbursements and Cash Balances Year Ended June 30, 2018

- All extraclassroom activity clubs are required to designate a Student President and Treasurer annually.

Observation/Recommendations

18. Based upon our analysis of the extraclassroom activity financial statements we noted that certain clubs were financially inactive during the last two (2) fiscal years.

➤ *The Board of Education should review the necessity of each club and eliminate any unnecessary clubs. (Those for which there has been no financial and operational activity during the prior two (2) fiscal periods. Disposing/re-allocating of remaining funds from a Club that no longer operates should be done in a consistent manner and approved by the Board of Education for each occurrence.*

19. The Board of Education has not appointed Extraclassroom Treasurer for each school. Currently, the District Treasurer maintains records in WinCap indicating the receipts, disbursements, and balances for each extraclassroom activity club. The District Treasurer prepares monthly bank reconciliations and prepares quarterly reports indicating the receipts, disbursements, and balances for each Extraclassroom Activity Club to the Board of Education.

➤ *The Board of Education should consider appointing Central Treasurers at the High School and Middle School to manage and account Extraclassroom activity fund at the building level. The District Treasurer should perform sample audits of the Club Advisors' books and records. Audit results are documented and communicated with the Central Treasurers.*

20. The District Treasurer and Club Advisors utilize forms for the receipt and disbursement of funds. Although Club Advisors are generally aware of the required procedures and their attempts to utilize the standardized forms, there are opportunities for improvement in the overall process. During the course of our audit we noted that the deposit and payment request forms are not utilized in a consistent manner to indicate the students' involvement when the transactions are processed.

➤ *The District should consider reviewing and updating, where needed, the District's extraclassroom activity training and guidance pertaining to the process of student involvement and attendance in fundraising, deposits, disbursements, sales tax, and accounting procedures.*

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14. INFORMATION SYSTEMS

The objective of our risk assessment was to determine if the internal controls over information technology were functioning to ensure that controls are in place for the District's financial management system. Strong internal controls for the District's financial management system include proper separation of duties, appropriate permissions to the respective modules within the computer system and assurance of the accuracy of data generated from the system. There should also be a Board policy addressing computer controls for information technology. This policy would address the appropriate permissions, remote access, daily off-site backup, and disaster recovery plan. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has proper internal controls.

Summary of Controls

- The District's policy manual includes a computer acceptable use policy. District officers and employees are required to acknowledge their receipt of the District's computer use policy prior to gaining access to a District computer.
- The District has developed a long-term technology plan. The District also prepares an annual instructional technology plan indicating the District's technology goals, infrastructure, inventory, software and support, curriculum, professional development, investment plan, status of initiatives, and monitoring and evaluation.
- The Information Technology Department has oversight of creating, modifying, and deleting user accounts in the District's active directory. All requests for new or revised user permissions within Finance Manager are pre-approved by the Director of Business Administration.
- The District has contracted with BOCES to maintain the District's information system governance security, network security and financial application security.
- The Information Technology Department has established protocols to prevent building level Administrators and Clerical employees from saving data on their personal desktops or laptops. This is a good control as storing data on the network ensures that, if a user's computer breaks down, that data will not be lost and could be accessed from the network by logging on from another computer.
- The District maintains daily off-site backups of the District's emails, WinCap activities, and non-instructional staff, administrators, and group shares at the Lower Hudson Regional Information Center ("LHRIC") BOCES.

Observation/Recommendations

21. The Information Technology Department has not developed a documented disaster recovery plan in respect to the District's active directory indicating the alternative processing procedures in the event of loss or interruption of the information technology function.
 - *The District should consider developing a Disaster Recovery Plan to include its current backup and restoration procedures and the current stakeholders responsible to carry out the plan. Based upon our analysis of the current plan we recommend including the following:*

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- *Information pertaining to the backup and recovery programs for books and records that encompass both hard copy and electronic data.*
- *Identification and backup of mission-critical systems.*
- *Assessment and consideration of financial and operational risks.*
- *Definition of alternative communication options between employees and the organization.*
- *Establishment of alternative physical locations for employees, with special attention initially to employees who staff the organization's immediate offsite information systems recovery team(s).*
- *Impacts on critical constituents, external clients, government agencies and other relevant organizations in the event of a disruption of continual processing or service.*
- *Continuation of mandated, legislated regulatory reporting in the event of a disruption of continual processing or service.*
- *Established authorization and access rights to copies of the disaster recovery plan distributed to users.*

The Information Technology Department should test the disaster recovery plan on an annual basis to ensure it works as intended and that users know their duties during a disaster. The testing results should be documented and formally communicated to the Superintendent of Schools.

22. The Information Technology Department has not scheduled a full interruption test of the District's data backup to be conducted by the LHRIC and LHRIC's restoration procedures, to ensure that the system will perform as intended and that users know how to carry out their duties in the event of a disaster. The LHRIC evaluates the backups of the District's applications and data on a weekly basis.
- *The Information Technology Department should work with the LHRIC to develop a testing schedule of restoration procedures of the District's data backup for each critical application hosted at the LHRIC. Each backup restoration test should be performed on an annual basis to ensure that the restoration process works as intended and that the Business Office as well as other Departments are able to recover data and perform functions, if needed. District employees and/or Internal Auditors should participate during the restoration procedures. The testing results should be documented and communicated to the Superintendent of Schools for review.*

15.STUDENT DATA MANAGEMENT

The objective of our risk assessment was to determine whether the district adequately control access to student data management. Strong internal controls for the District's student data management system include proper separation of duties, appropriate permissions to the respective modules within the computer system and assurance of the accuracy of data generated from the system. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has proper internal controls.

Summary of Controls

- The Registration Department utilizes E-School to register students within the District. Parents meet with the Registration Department and provide proof of residence including birth certificate, immunization records, and transcripts. The Registration Department reviews the documents and imports the student's demographic data into E-School.

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- The Registration Department utilizes E-School to track student attendance and monitors exception reports for students who are absent for a period over 30 days.
- E-School is also utilized as an electronic grade book system that maintains student class rosters in which teachers input student grades and track academic progress. E-School is also utilized to track students' grades (input by District staff), monitor student performance, generate student report cards, and maintain student permanent records (i.e., transcripts).
- Generally, teachers enter/edit grades throughout the marking period and submit final grades by an established date every marking period. Grade changes that occur after the submission of final grades need to be done by a Building Administrator that has extended permissions that allow them to make changes after the close of the marking periods.

Observation/Recommendations

23. The District has not developed documented guidelines pertaining to the procedures, monitoring, and auditing of student grade changes.

➤ *The District should develop documented guidelines regarding the procedures, monitoring, and auditing of student performance. Documented guidelines should include procedures regarding requesting and approving student grade changes and monitoring audit logs pertaining to student grade changes made within the student data management application. Procedures should be periodically reviewed to ensure that responsibilities are adequately performed at the District.*

24. The District does not have a formal form or procedure and only relies on emails to request a grade change. The failure to document approvals and the reasons for necessary student grade modifications increases the risk that such changes are not properly authorized and supported, which places the integrity of the student's permanent record at risk. The District has not developed monitoring audit logs within the student data management application to review potential unauthorized changes. The lack of review of audit logs increases the risk that unauthorized grade modifications could occur and become undetected.

➤ *The District should develop standardized request form for documenting the request and approval of a student grade change. Any requests to make grade changes should be made in writing directly to a Principal detailing the reason for the need to change, or record, a grade after the lockout date. Upon approval, the form should be forward to one individual other than Building Administrators to make the appropriate changes. This control will ensure that documentation is retained to show who authorized the grade change, the reason for the change, and who entered the student grade change in E-School.*

The District should explore the software capabilities within the student data management system to generate audit logs to monitor user access and student grade changes within lock out periods. The District should designate an individual separate from the users who enter student grades in the system to review and determine the appropriateness of student grade changes. The review process should be documented and formally communicated to the Assistant Superintendent for Curriculum and Instruction.



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16. PUPIL PERSONNEL SERVICES

The Pupil Personnel Service (PPS) environment is ever changing as demands for services are on the rise as are the costs associated with such services. As a result, Districts are finding it more and more difficult to monitor spending and properly budget for subsequent year financial requirements. Strong internal controls within this area offer increased assistance for future budget monitoring and planning. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has proper internal controls.

Summary of Controls

- The District's program for student with disabilities comprised of approximately 14.95% of total expenditures and increased by approximately 8.07% from \$9,489,228 in 2014/2015 to \$10,255,415 in 2017/2018 as follows:

	<u>2014/2015</u>	<u>2015/2016</u>	<u>2017/2018</u>	<u>Trend</u>
Programs for Children with Disabilities	9,489,228	8,791,453	10,255,415	
<i>Change From Prior Year</i>	<i>N/A</i>	<i>-697,775</i>	<i>1,463,962</i>	
<i>% Change From Prior Year</i>	<i>N/A</i>	<i>-7.35%</i>	<i>16.65%</i>	
Total Expenditures	61,741,067	62,745,188	66,308,948	
% of Total Expenditures	15.37%	14.01%	15.47%	

Source: Financial Statements General Fund Schedule of Expenditures and Other Financing Uses Compared to Budget Years Ended June 30, 2015, 2016, 2018. Years Ended June 30, 2017 was not made available.

- The Director of Pupil Personnel Services and the Business Office communicate on an ongoing basis in respect to planning during the budget season. The Director of Pupil Personnel Services prepares a detail breakdown of the students and applicable services provided within the District and at separate locations.

Observations/Recommendations

25. The Pupil Personnel Service Department controls can be improved over the STAC approval forms, reconciliation of invoices to the STAC approval forms and the student's IEPs, and monitoring the status of reimbursements to the original amounts billed and submitted to the New York State Education Department.

- *By April of each year, the Pupil Personnel Service Department should report to the New York State Education Department the annualized reimbursable special education tuition costs on the STAC forms for all district operated, BOCES and other public school programs that exceed the District's high cost tuition threshold. To maximize aid, the Pupil Personnel Service Department should verify the student enrollment dates, the actual class sizes, the student's level of services determined by their IEPs, the salaries and benefits for all staff and substitutes that provide related services, equipment purchased for students, and other purchased services.*

The Pupil Personnel Service Department should monitor periodically the status of the Excess Cost Aid to ensure that the District receives the estimated reimbursement amounts and communicate to the Business Office any identified discrepancies.

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17. TRANSPORTATION

The objective of our risk assessment was to determine if the internal controls for the District's transportation program are adequate to ensure the safeguarding of assets. Strong internal controls within this area offer increased assistance for future budget monitoring and planning. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has proper internal controls.

Summary of Controls

- The District's transportation expenditures increased by approximately 6.64% from \$2,940,209 in 2014/2015 to \$3,135,458 in 2017/2018 as follows:

	<u>2014/2015</u>	<u>2015/2016</u>	<u>2017/2018</u>	<u>Trend</u>
District Transportation	157,839	167,776	180,692	—
Contract Transportation	2,587,370	2,432,527	2,578,814	—
Transportation from BOCES	195,000	233,927	375,952	—
Total Pupil Transportation	2,940,209	2,834,230	3,135,458	—
Change From Prior Year	N/A	-105,979	301,228	
% Change From Prior Year	N/A	-3.60%	10.63%	

Source: Financial Statements General Fund Schedule of Expenditures and Other Financing Uses Compared to Budget Years Ended June 30, 2015, 2016, 2018. Years Ended June 30, 2017 was not made available.

- The District has outsourced its transportation program to various BOCES, Velco Coach, and Chestnut. The District maintains two (2) for special education routes. Fuel purchases and payments are included with the vendor contract.
- The District has in place a policy regarding the determination of eligibility for transportation services. The Transportation Department utilizes Transfinder software to develop, schedule, and monitor school bus routes, bus drivers, and aides.
- Transportation contracts are in compliance with New York State Education Department guidelines, and state and federal regulations. Contracts are filed with New York State Education Department in a timely manner.
- The Transportation Department receives a notification from the New York State Department of Motor Vehicles of bus driver disqualifications.

Observation/Recommendations

26. It was represented that the Transportation Supervisor does not review vendor transportation invoices prior to payment processing.

- *The District should consider designating the Transportation Coordinator to review the transportation vendor invoices and verify that the reported claimed costs are accurate and that the reported services are supported by bus route schedules and requests for services. The review process should include a reconciliation of the bus and van rates between the invoices and contracts and a verification of the reported routes to the bus routing schedules prepared by the Dispatchers. In the event of reporting discrepancies, the Transportation Coordinator should contact the transportation vendors to resolve them. Upon approval, the Transportation*

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Coordinator should date and signs off on the invoices and notify the Accounts Payable Department to process payments. This will enhance the Transportation Department's control over its accounts payable process and the monitoring of the Transportation Department's budget.

27. The Transportation Department does not actively perform spot checks of the vendors' bus driver abstracts to ensure compliance with DMV 19A file requirements.

- *The Transportation Department should consider requesting from its transportation vendors complete copies of a sample of bus driver DMV 19A files and perform spot checks of their files to ensure compliance with DMV 19A requirements.*

18.SAFETY & SECURITY

The objective of our risk assessment was to determine if the internal controls of security, safety and compliance are adequate to ensure that developed safety and security procedures are in place to meet the organizational objectives for continuous business operations and welfare of the school population. Documented, knowledgeable oversight of security, safety and compliance can increase the District's control over its resources. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has proper internal controls.

Summary of Controls

- The Security Department has developed District wide and building level safety and security plans to address pre-crisis readiness such as:
 - Pre-Crisis Information
 - Plans
 - Post Emergency Response
 - Access to Floor Plans
 - Communication Systems
 - Coordination with State Wide Plan

The building safety and security plans are updated annually.

- The building level Administrators conduct routine compliance checks of security procedures, including fire drills, and communication systems. The results of their compliance checks are forwarded to the Security Department for review.
- Incident reporting is handled by the building level Administrators. Depending on the severity of each incident, the Security Department and the Superintendent of Schools are involved to address any communications to the community and corrective actions.

Observations/Recommendations

No recommendations at this time.

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19.CYBERSECURITY

The objective of our risk assessment was to determine if the internal controls over cybersecurity are functioning to ensure that controls are adequate and that developed cybersecurity procedures are in place to ensure that the data of the organization is protected and to prevent interruption in the day to day operations of the organization. We interviewed key personnel and reviewed pertinent documentation to assess whether this functional area has proper internal controls.

Summary of Controls

- The Information Technology Department has developed anti-encryption mechanisms in the District's email and wireless servers.
- The District stores personal identifiable information ("PII") in various applications which are password protected. The Information Technology Department has developed controls for users to change their password periodically.
- Access to critical systems and networks is deactivated immediately for former employees and vendors.

Observations/Recommendations

28. The District has not developed cybersecurity security policies or formal documented procedures to address breach notification in the event there is a Personal Identifiable Information ("PII") compromise or breach. Without established policies and formal written procedures addressing notification of a breach of PII and periodic reporting to the Board, there is an increased risk that the School may lose important financial data and suffer serious interruption in operations.

- *The District should adopt written policies and procedures to address breach notification. The policies and procedures should include a crisis management and communication plan that involves employees/individuals who handle PII and tested as appropriate. This should enable sufficient business continuity in event of a cyber security breach. Crisis management should include incident response and forensics, where warranted.*

29. The District has not developed a formal training regarding cybersecurity, phishing email, social engineering, protecting personally identifiable information, and social media guidelines and related risks.

- *The District should develop and provide periodic cybersecurity awareness training for all employees including new hires, Information Technology Department, and job positions that handle PII. The training should explain the proper rules of behavior for using information technology systems, the insider type of threats from a cyber security perspective, and the implications of a cyber security breach. The training should also include guidance on use of social media, Bring Your Own Device ("BYOD"), and how to respond to a phishing or ransomware attacks.*

30. The Information Technology Department has not implemented an intrusion detection system and does not actively monitor system alerts in respect to the District's network activity.

- *The Information Technology department should develop an intrusion detection system (IDS) to inspect all inbound and outbound network activity and identify suspicious patterns that may*

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indicate a network or system attack from someone attempting to break into or compromise The District's network. By reviewing the recorded activity and any potential intruders into the network, the Information Technology Department will be able to determine if the firewall or IDS settings will indicate potential attacks or other problems that need to be addressed.

31. The District has not conducted penetration tests to identify potential vulnerability within the school's network. The lack of penetration tests is a risk as The District may not be aware of the existence of security weaknesses.
 - *The District should consider having a third party separate from the Information Technology Department conduct a penetration test to circumvent security features of the system and exploit vulnerabilities to gain unauthorized access. This is an effective way for The District to identify and prioritize the real-time risks to a network security environment.*
32. The District's insurance coverage is limited to cybersecurity threat and breaches that may cause business and operational interruption damages.
 - *The District should verify that its cybersecurity policy includes coverage clauses pertaining to network security and privacy liability, data recovery business interruption, privacy regulatory defense and penalties, crisis management and customer notification, data extortion, and payment card fines and penalties.*



Pearl River School District

Ann Marie Tromer
Assistant Superintendent for Business
135 West Crooked Hill Road
Pearl River, New York 10965-2730
TromerA@pearlriver.org
Phone: 845-620-3999

February 25, 2019

Darin V. Iacobelli
Nawrocki Smith LLP
290 Broad Hollow Road, Suite 115E
Melville, NY 11747

Dear Darin:

The Pearl River School District (the 'District') has received the report titled "Pearl River School District, Initial Risk Assessment Pertaining to the Internal Controls of District Operations, December 2018."

The Board of Education and the District's Administration extend a thank you for the time and effort devoted to the initial risk assessment and the detailed examination of internal controls.

The Pearl River School District hereby submits a Corrective Action Plan for the Risk Assessment Report which is required under Section 170.12 of the Regulations of the Commissioner of Education in response to issues identified in the 2018/2019 Risk Assessment Report provided to the district by our internal auditors. Please note that the information below is intended to ensure that the district properly accounts for the findings contained in the report.

Recommendation #1

The District should develop documented guidelines regarding the accounting and reporting, accounts payable, human resources, and payroll processes. Procedures should be periodically reviewed to ensure that responsibilities are adequately performed at the Business Office and comply with District policies. The District should develop formal job descriptions to describe the qualifications for each position as well as the duties assigned to the position within the Business Office. This is important as it enhances the understanding of each employee's responsibilities and provides opportunity to assess proper separation of duties and further cross training.

Response #1

The Business Office and Personnel Office will work to prepare formal job descriptions for all positions.

Recommendation #2

According to its Policy 2250 (Board Committees), the Board of Education should consider establishing advisory committees pertaining to policies, audits, and facilities. In selecting committees, the Board of Education should consider appointing members to the committees representing diverse stakeholder groups and have specialized knowledge. The Board of Education should also consider developing a charter for each committee to define their responsibilities, the required frequency of meetings, and how they will interface with the Board of Education, the Administration and the District's auditors.

Response #2

District Administration will suggest the Board of Education to consider establishing advisory committees.

Recommendation #3

The Business Office should explore the software capabilities of WinCap to prevent expenditures creating negative balances in budgetary codes. Financial application controls that prevent the cost overruns or estimation errors will assist the District in monitoring year-to-date revenues and expenditures against corresponding budgetary estimates.

Response #3

The Business Office is continually working to maximize Wincap software capabilities to increase internal controls. The District has set Wincap Purchasing controls such that employees preparing Purchase Orders can only allocate any items purchased to budget codes that have sufficient funds to cover the expense. This control will eliminate negative balances in budgetary codes.

Recommendation #4

The Business Office should finalize a standardized budget transfer form to document the request and approval of budget transfers. The budget transfer forms should document the requestor, the request date, the account codes, the approver, and the approval date and should be accompanied by explanation and documentation supporting the transfer. The Board of Trustees should also develop a policy indicating the approval process of budget transfers based on threshold dollar amounts. Furthermore, the Business Office should explore the Senior Systems capabilities to generate a report of the recorded budget transfers for tracking purposes. This will help identify any issues in the current budget, help create more accurate budget projections, and facilitate in the creation of a more accurate budget for the successive year.

Response #4

The Business Office has finalized a standardized budget transfer form and it is posted on the District website for easy access to all staff members.

Recommendation #5

The Business Office should establish a process whereby all journal entries are reviewed and approved by the Assistant Superintendent for Business prior to entering them into the system. Also, the journal entry forms should document the signature of the individual approving the journal entry and the approval dates of each transaction. A supervisory review of the journal entries prevents an employee from entering improper entries into the system without being detected.

Response #5

All journal entries are now reviewed and approved by the Assistant Superintendent for Business on a monthly basis.

Recommendation #6

Formal claims audit procedures should consist of: a) Verification of the accuracy of invoices and claim forms. b) Ensuring proper approval of all purchases; checking that purchases constitute appropriate expenses of the Organization., c) Determining that purchase orders have been issued in accordance with purchasing policy., d) Comparison of invoices or claims with previously approved contracts., e) Reviewing price extensions, claiming of applicable discounts, inclusion of shipping and freight charges., f) Approving all charges that are presented for payment which are supported with documentary evidence indicating compliance with all pertinent laws, policies and regulations.

Response #6

The District had recently engaged with a new Claims Auditor who will institute formal claims audit procedures and prepare detail monthly reports for the Board of Education.

Recommendation #7

The Business Office should review the necessity of each investment account and eliminate any unnecessary accounts.

Response #7

The Business Office has closed all unnecessary checking and investment accounts.

Recommendation #8

Although the Business Office prepares and submits Form FS-25 – Request for Funds for a Federal or State Project on a minimum quarterly basis, we recommend the Business Office to review and verify within its internal records that the District received the awarded grant funds.

Response #8

The Business Office now reviews and follows up on all outstanding accounts receivable on a regular basis.

Recommendation #9

All employee salaries and applicable wage rates should be properly authorized, approved, and documented to support the employee status and earnings reported in the payroll application, WinCap. When a formal process exists to document authorized changes to salaries and wages, the opportunity for fraudulent or erroneous payroll changes to occur without detection decreases. An alternative to the above recommendation is to analyze the capabilities of the WinCap application to issue an annual salary notice to all employees indicating their respective earnings for each current fiscal year. A copy of the employee salary notice should be maintained in the employee's file.

Response #9

The Business Office is currently working to implement the Wincap Employee Self-Serve portal. The portal enables the District to electronic send out annual salary notices whereby employees can review and approve online. The salary notices are saved electronically on the Wincap Employee Self-Serve system.

Recommendation #10

The Human Resource Department should consider exploring the software capabilities of WinCap to include with employees' leave accrual balances within the annual salary notices. Any discrepancies in the calculation of leave accrual balances should be communicated to the Human Resources Department for further investigation.

Response #10

The Wincap Employee Self-Serve portal mentioned in Response #9 above also maintains leave balances for the employees to view.

Recommendation #11

The District should consider implementing timeclocks and an employee attendance management software that will communicate with the District's accounting management software to account for the entrances and exits of staff employed at the building level including the Facilities, Buildings and Grounds, and Security Departments.

Response #11

The District agrees with the recommendation and will consider implementation.

Recommendation #12

Employee evaluations are used as a tool by Administrators to identify employees' strengths and weaknesses, document personnel decisions (including promotions, layoffs and transfers), and meet legal requirements. The District should continue its efforts to evaluate the employees on an annual basis to adhere to the respective employee bargaining unit agreement or contract.

Response #12

The District agrees with the recommendation and will continue all efforts to evaluate employees.

Recommendation #13

The Facilities Department should consider decentralizing the work order request process and allow District employees to directly input their requests into the system. This will eliminate the data entry process from the Facilities Department and will allow the Director – Buildings Grounds and Security to monitor effectively the completion status of work orders. Furthermore, the Facilities Department should consider utilizing School Dude to its fullest potential and develop procedures to track supplies and labor used in a worker order. This will assist the Facilities Department in balancing supply inventories, in tracing reported time for a sample of items to actual timesheets to ensure agreement, and in analyzing and deciding on new equipment purchases.

Response #13

The District currently uses School Dude software to maintain all work orders. All work orders are processed through the Principal's and Director's offices so they are aware of all concerns. The District does not intend to allow all employees access to this system. The District has found that the School Dude system is not effective in tracking supplies and labor.

Recommendation #14

The Facilities Department should consider developing a formal and documented preventive maintenance schedule for District equipment and vehicles that will provide for: o Maintaining equipment in safe operating condition, o Ensuring each equipment is operating at peak efficiency, o Maximizing equipment life, o Minimizing equipment service failures , o Meeting or exceeding manufacturers' maintenance requirements, o Maintaining a system of permanent equipment maintenance records, o Administering an equipment warranty recovery program. A preventive maintenance schedule will assist the District in: o Extending the life of building components, thus sustaining buildings' value, o Helping the Facilities Department operate at peak efficiency, including minimizing energy consumption, o Preventing failures of building systems that would interrupt school activities., o Provide maintenance in ways that are cost-effective.

Response #14

The Facilities Department will work to develop a formal preventive maintenance schedule for equipment and vehicles.

Recommendation #15

The District should consider the cost/benefit options of utilizing GPS technology to monitor all or some of District vehicles. A computerized monitoring system will allow the Director of Facilities to verify the location of each District vehicle, assess acceptable idle time and gas utilization, and receive real-time notifications of potential speeding violations.

Response #15

The District agrees with the recommendation and will consider implementation.

Recommendation #16

The District should develop a "Transfer Request Form" indicating the request for movement of a fixed asset from building to building. The building level Administrator or Department Head who requests the movement should complete the standardized request form. The transfer request form should serve as a mode of communication to the Business Office to review and approve such request. Once reviewed, the Business Office, or another designated employee, should update the inventory schedule to reflect the status of the asset's location.

Response #16

The transfer of assets from one location to another is insignificant. However, the Business Office will develop an 'Asset Transfer Form' to be completed for those minor occasions.

Recommendation #17

The Food Service Department should establish quarterly reporting to the Business Office pertaining to the monitoring of the school lunch fund balance to ensure that the balance is not in excess of three-month's average expenditures. Federal Regulation, 7CFR Part 210.14b, limits the net cash resources within the school lunch fund to an amount that does not exceed three months average expenditures.

Response #17

The Business Office currently reviews the Food Service Fund on a regular basis and is aware of the excess Fund Balance. The District has been accumulating these funds to be used for planned Summer 2019 capital improvements in the HS kitchen and cafeteria.

Recommendation #18

The Board of Education should review the necessity of each club and eliminate any unnecessary clubs. (Those for which there has been no financial and operational activity during the prior two (2) fiscal periods. Disposing/re-allocating of remaining funds from a Club that no longer operates should be done in a consistent manner and approved by the Board of Education for each occurrence.

Response #18

The Business Office has created Extraclassroom Activity Funds Policies and Procedures. All Club Advisors were trained in November 2018. The Business Office has reviewed all Clubs and have re-allocated any funds from non-student run accounts to Trust & Agency accounts.

Recommendation #19

The Board of Education should consider appointing Central Treasurers at the High School and Middle School to manage and account Extraclassroom activity fund at the building level. The District Treasurer should perform sample audits of the Club Advisors' books and records. Audit results are documented and communicated with the Central Treasurers.

Response #19

The District agrees with the recommendation and will plan to add a Central Treasurer stipend for the 2019-20 School Year.

Recommendation #20

The District should consider reviewing and updating, where needed, the District's Extraclassroom activity training and guidance pertaining to the process of student involvement and attendance in fundraising, deposits, disbursements, sales tax, and accounting procedures.

Response #20

Same as response #18.

Recommendation #21

The District should consider developing a Disaster Recovery Plan to include its current backup and restoration procedures and the current stakeholders responsible to carry out the plan. The Information Technology Department should test the disaster recovery plan on an annual basis to ensure it works as intended and that users know their duties during a disaster. The testing results should be documented and formally communicated to the Superintendent of Schools.

Response #21

The District agrees with the recommendation and will consider implementation.

Recommendation #22

The Information Technology Department should work with the LHRIC to develop a testing schedule of restoration procedures of the District's data backup for each critical application hosted at the LHRIC. Each backup restoration test should be performed on an annual basis to ensure that the restoration process works as intended and that the Business Office as well as other Departments are able to recover data and perform functions, if needed. District employees and Internal Auditors should participate during the restoration procedures. The testing results should be documented and communicated to the Superintendent of Schools for review.

Response #22

The District agrees with the recommendation and will consider implementation.

Recommendation #23

The District should develop documented guidelines regarding the procedures, monitoring, and auditing of student performance. Documented guidelines should include procedures regarding requesting and approving student grade changes and monitoring audit logs pertaining to student grade changes made within the student data management application. Procedures should be periodically reviewed to ensure that responsibilities are adequately performed at the District.

Response #23

The Assistant Superintendent for Curriculum and Instruction will work with Principals and Guidance Counselors to document guidelines regarding the procedures, monitoring, and auditing of student performance.

Recommendation #24

The District should develop standardized request form for documenting the request and approval of a student grade change. Any requests to make grade changes should be made in writing directly to a Principal detailing the reason for the need to change, or record, a grade after the lockout date. Upon approval, the form should be forward to one individual other than Building Administrators to make the appropriate changes. This control will ensure that documentation is retained to show who authorized the grade change, the reason for the change, and who entered the student grade change in E-School.

The District should explore the software capabilities within the student data management system to generate audit logs to monitor user access and student grade changes within lock out periods. The District should designate an individual separate from the users who enter student grades in the system to review and determine the appropriateness of student grade changes. The review process should be documented and formally communicated to the Assistant Superintendent for Curriculum and Instruction.

Response #24

Same as Response #23.

Recommendation #25

By April of each year, the Pupil Personnel Service Department should report to the New York State Education Department the annualized reimbursable special education tuition costs on the STAC forms for all district operated, BOCES and other public school programs that exceed the District's high cost tuition threshold. To maximize aid, the Pupil Personnel Service Department should verify the student enrollment dates, the actual class sizes, the student's level of services determined by their IEPs, the salaries and benefits for all staff and substitutes that provide related services, equipment purchased for students, and other purchased services.

The Pupil Personnel Service Department should monitor periodically the status of the Excess Cost Aid to ensure that the District receives the estimated reimbursement amounts and communicate to the Business Office any identified discrepancies.

Response #25

The District has selected the Pupil Personnel Service Department as the area for the Internal Audit detail review to be completed in Spring of 2019. Based on the results of this review, the District will determine where to institute internal controls.

Recommendation #26

The District should consider designating the Transportation Coordinator to review the transportation vendor invoices and verify that the reported claimed costs are accurate and that the reported services are supported by bus route schedules and requests for services. The review process should include a reconciliation of the bus and van rates between the invoices and contracts and a verification of the reported routes to the bus routing schedules prepared by the Dispatchers. In the event of reporting discrepancies, the Transportation Coordinator should contacts the transportation vendors to resolve them. Upon approval, the Transportation Coordinator should dates and signs off on the invoices and notifies the Accounts Payable Department to process payments. This will enhance the Transportation

Department's control over its accounts payable process and monitoring the Transportation Department's budget.

Response #26

The Transportation Coordinator now reviews and approve all transportation vendor invoices before payment is made.

Recommendation #27

The Transportation Department should request from its transportation vendors at the beginning of each school year updates of their bus driver listings and abstracts. The Transportation Department should also consider requesting from its transportation vendors complete copies of a sample of bus driver DMV 19A files and perform spot checks of their files to ensure compliance with DMV 19A requirements.

Response #27

The District agrees with the recommendation and will institute such a review on a regular basis.

Recommendation #28

The District should adopt written policies and procedures to address breach notification. The policies and procedures should include a crisis management and communication plan that involves employees/individuals who handle PII and tested as appropriate. This should enable sufficient business continuity in event of a cyber security breach. Crisis management should include incident response and forensics, where warranted.

Response #28

The District agrees with the recommendation and will consider implementation.

Recommendation #29

The District should develop and provide periodic cybersecurity awareness training for all employees including new hires, Information Technology Department, and job positions that handle PII. The training should explain the proper rules of behavior for using information technology systems, the insider type of threats from a cyber security perspective, and the implications of a cyber security breach. The training should also include guidance on use of social media, Bring Your Own Device ("BYOD"), and how to respond to a phishing or ransomware attacks.

Response #29

The District agrees with the recommendation and will consider implementation.

Recommendation #30

The Information Technology department should develop an intrusion detection system (IDS) to inspect all inbound and outbound network activity and identify suspicious patterns that may indicate a network or system attack from someone attempting to break into or compromise The District's

network. By reviewing the recorded activity and any potential intruders into the network, the Information Technology Department will be able to determine if the firewall or IDS settings will indicate potential attacks or other problems that need to be addressed.

Response #30

The District agrees with the recommendation and will consider implementation.

Recommendation #31

The District should consider having a third party separate from the Information Technology Department conduct a penetration test to circumvent security features of the system and exploit vulnerabilities to gain unauthorized access. This is an effective way for The District to identify and prioritize the real-time risks to a network security environment.

Response #31

The District agrees with the recommendation and will consider implementation.

Recommendation #32

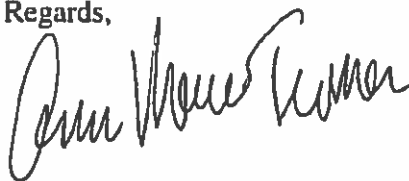
The District should verify that its cybersecurity policy includes coverage clauses pertaining to network security and privacy liability, data recovery business interruption, privacy regulatory defense and penalties, crisis management and customer notification, data extortion, and payment card fines and penalties.

Response #32

The District agrees with the recommendation and will consider implementation.

Thank you.

Regards,

A handwritten signature in black ink, appearing to read "Ann Marie Turner". The signature is fluid and cursive, with the first name "Ann" being the most prominent.