



Great Neck Public Schools

**Annual Risk Assessment Update
Pertaining to the Internal Controls
of District Operations**

June 2018

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

The Board of Education
Great Neck Public Schools

We have performed the procedures enumerated below, which were agreed to by Great Neck Public Schools (the "District"), solely to assist the District. This agreed upon procedures engagement was performed in accordance with auditing standards established by the American Institute of Certified Public Accountants and the applicable standards contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 updated our June 2017 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting July 1, 2017 through June 30, 2018. The updated 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
- Security and Safety
- Cyber Security

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

Our engagement is limited in scope and will be confined to our agreed-upon procedures. We will not be conducting an audit or review of the district's financial statements and therefore we will not express an opinion or any other form of assurance on them.

At the end of our engagement, we will present the results of applying the agreed-upon procedures in the form of our findings in a report. Our report should be used only for the intent of the original users of this report, and will include a statement indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. As such, using this report for anything other than the original intent of the agreed-upon procedures could mislead the readers. You must notify us immediately if the original users of the report change.

Very truly yours,

Nawrocki Smith LLP
September 6, 2018



Great Neck Public Schools

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June 2018

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Risk Assessment Overview

This Risk Assessment report provides a presentation of our view of the school 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 risks facing the District's 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 and qualify 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 as the District's internal auditor. In compliance with New York State Laws, we have performed an annual update to the District risk assessment with respect to policies, procedures, and internal controls pertaining to District operations. The procedures applicable to the annual update of the District's risk assessment were performed during the fiscal year ending June 2018 and were carried out in order 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 control environment and the existing internal audit plan.

Our risk assessment consisted of the following methodology:

- Perform interviews of Administration and other appropriate personnel
- Document procedures within key Functional Areas
- Identify key controls and perform audit tests of those controls
- Assess effectiveness of the key controls
- Identification and review of organization structure
- Analysis of risks that are a threat to the achievement of objectives
- Create a risk profile and internal audit plan

In addition to the above procedures, 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
- External auditor management letters
- District corrective action plans
- Organizational chart and job descriptions

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Internal Audit Risk Assessment Update Summary

We have analyzed nineteen (19) Business Process areas within the District and have developed an internal audit plan based upon our assessment of each area. Each of the nineteen (19) Business Processes contains multiple categories for which an extensive cycle analysis will be performed during the proposed time period noted within the risk rating and internal audit plan. The plan as presented will be revised each year based upon the annual risk assessment update and events/requests that occur during the year which impact the priority of future internal audit services.

The results of our update risk assessment are summarized below and in the tables presented on pages 5 through 6. We have utilized a “Low,” “Moderate,” and “High” control risk rating assessment scale of the District.

Current Year Rating

<u>Rating</u>	<u>Count</u>	
High	-	0.00%
Moderate	16	19.28%
Low	67	80.72%
Total	83	100.00%

Changes from Prior Year

<u>Category (*)</u>	<u>Count</u>	
“High” to “Low”	-	0.00%
“High” to “Moderate”	-	0.00%
“Moderate” to “Low”	2	40.00%
“Low” to “Moderate”	3	60.00%
“Moderate” to “High”	-	0.00%
Total	5	100.00%

(*) Refer to pages 5 through 6 for business process rating changes.

- The June 2018 risk assessment update contains ten (10) current year recommendations.
- The June 2017 risk assessment update report contained five (5) recommendations:

<u>Status of Prior Year</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Complete</u>	<u>Total</u>
# of Recommendations	1	4	-	5

We have summarized below our work plan for the 2018/2019 fiscal year:

Cycle Review:

- Grants

Other 2018/2019 Planned Internal Audit Services:

- Key Control/Other Testing (See “T” categories on Pages 5-6)
- External Audit Corrective Action Plan Monitoring
- Purchasing Cycle Recommendations Follow-Up
- Periodic Internal Audit Status Reports
- Annual Risk Assessment Update as of June 2019
- Other Internal Audit Services at the Request of the District/BOE

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Risk Rating and Internal Audit Plan

√ = Internal Audit Services Provided	X = Proposed Business Cycle Review
★ = Business Cycle Review Complete	T = Limited Testing of Business Process

	Business Process	Business Process Categories	RISK				YEAR OF SERVICE			
			Inherent	Control		Prior Years	18-19	19-20	Subsequent Years	
				16-17	17-18					
1	Governance and Planning	Governance and Control Environment	H	L	L				X	
		Required Policies and Procedures	H	M	M	√	T		X	
2	Budget Development	Budget Development	H	L	L				X	
		Budget Monitoring and Reporting	H	M	M	√	T		X	
3	Accounting and Reporting	Financial Accounting and Reporting	H	M	M	√	T		X	
		External/Internal/Claims Auditing	H	L	L	√			X	
		Fund Balance Management	H	L	L	★			X	
4	Revenue and Cash Management	Real Property Tax	M	L	L	★			X	
		State Aid	H	L	L	★			X	
		Out of District Tuition/Reimbursable Expenses	M	L	L	★			X	
		Use of Facilities	L	L	L	★			X	
		Donations	M	L	L	★			X	
		Vending Machines	H	L	L	★	T		X	
		Cash Receipts	H	L	L	★	T		X	
		Cash/Investment Management	H	L	L	★			X	
		Petty Cash	L	L	L	★			X	
		Bank Reconciliations	H	L	L	★	T		X	
Online Banking	H	L	L	★			X			
5	Grants	General Processing	H	L	M		X			
		Grant Application	M	L	L		X			
		Expenditures and Allowable Costs	H	L	L		X			
		Cash Management	M	L	L		X			
		Reporting and Monitoring	H	L	M		X			
6	Payroll	Payroll Disbursements	H	L	L	★				
		Overtime Payments	H	L	L	★				
		Payroll Accounting and Reporting	H	L	L	★				
		Payroll Tax Filings	H	L	L	★				
		Payroll Reconciliation	H	L	L	★				
7	Human Resources	Employment Requisition/Hiring	H	L	L	★				
		Personnel Evaluation	H	M	L	★				
		Employee Attendance	H	L	L	★				
		Termination	H	L	L	★				
8	Benefits	Eligibility	H	L	L	★				
		Benefit Calculations	H	L	L	★				
		Patient Protection and Affordable Care Act	H	L	L	★				
		Retiree Benefits	H	L	L	★				
9	Purchasing and Related Expenditures	Purchase Order System/Vendor Database	H	L	M	★				
		Purchasing Process	H	M	M	★	T			
		Payment Processing	H	L	L	★				
		Employee Reimbursements	H	L	L	★				
		Credit Cards	H	L	L	★				

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	Business Process	Business Process Categories	RISK				YEAR OF SERVICE		
			Inherent	Control		Prior Years	18-19	19-20	Subsequent Years
				16-17	17-18				
10	Facilities/ Capital Projects	Facilities Maintenance and Work Orders	H	L	L	★			
		Capital Project Planning and Monitoring	M	L	L	★			
		Capital Project Funding and Payments	M	M	M	★	T		
		Recordkeeping and Reporting	H	L	L	★			
11	Fixed Assets	Inventory/ Capitalization Policy	H	L	L			X	
		Acquisition and Disposal	H	L	L			X	
		Inventory Process and Recordkeeping	H	L	L			X	
12	Food Service	Sales Cycle and System	H	M	M	★			
		Inventory and Purchasing	M	L	L	★			
		Free and Reduced Meals	M	L	L	★			
		Federal and State Reimbursement	M	L	L	★			
		Financial Reporting and Monitoring	M	L	L	★			
13	Extraclassroom Activity Fund	General Controls	H	M	M	√			X
		Revenue	H	M	M	√			X
		Expenditures	M	M	M	√			X
		Reporting	H	M	M	√			X
14	Information System	Governance	H	L	L	★			
		Network Security	H	L	L	★			
		Application Security	H	L	L	★			
		Physical Security	H	L	L	★			
		Inventory	H	M	M	★			
		Disaster Recovery	H	M	M	★			
15	Student Data Management	Registration and Enrollment	H	L	L				X
		Student Attendance	H	L	L				X
		Student Performance	H	L	L				X
16	Pupil Personnel Services	Budgeting and Planning	M	L	L	★			
		STAC Reimbursement	M	M	M	★	T		
		Medicaid Reimbursement	M	L	L	★			
		RFP and Contracts	H	L	L	★			
17	Transportation	Fleet Inventory and Maintenance	H	L	L	★			
		Bus Routing and Planning	H	L	L	★			
		Labor and Supervision	H	L	L	★			
		Contract Management	H	L	L	★			
		State Aid	H	M	L	★			
18	Safety and Security	Plan Development and Strategy	H	L	L				X
		Building Access and Security System	H	L	L				X
		Compliance and Incident Reporting	H	L	L				X
		Safety and Security Monitoring	H	L	L				X
19	Cyber Security	General Controls	H	N/A	L				X
		Information & Asset Security	H	N/A	L				X
		Vulnerability Assessment	H	N/A	L				X
		Incident Response & Recovery	H	N/A	L				X

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Inherent Risk - Inherent risk is the risk of a material misstatement in the un-audited information assuming the absence of internal controls procedures.

Control Risk - Control risk is the risk that a material misstatement in the un-audited information will not be detected and corrected by the management's internal control procedures on a timely basis.

Risk Assessment Observations and Recommendations

Current Year Observations and Recommendations

Budget Development

1. We noted that budget transfers did not have supporting documentation attached to budget transfer forms. However, an explanation was provided on budget transfer forms and we did not find any of the budget transfers to be unreasonable or unnecessary.
 - *We recommend that supporting documentation be attached to the budget transfer forms. An alternative would be to reference the location of supporting documentation (i.e. vendor invoice number).*

Accounting and Reporting

2. We noted that journal entries are entered directly into the District's accounting system by the Auditor/Accountant or Treasurer and approved by the Assistant Superintendent for Business or Auditor/Accountant, respectively, anywhere from one (1) to five (5) months after entry. It should be noted that journal entry detail is noted on a memorandum, e-mail, or some type of supporting documentation such as a budget transfer form, purchase order, wire transfer confirmation, or WinCap report. All wire transfers are approved by the Assistant Superintendent for Business prior to processing.
 - *We recommend that the proper approval be obtained for all journal entries within one (1) month of processing. This will ensure that journal entries are reviewed and approved in a timely manner.*

Purchasing and Related Expenditures

3. While Policy #6700 *Purchasing* properly documents District procedures regarding purchasing and is in compliance with New York State, Education, and General Municipal Law ("GML"), we noted that it does not provide any guidance for purchasing procedures outside of GML competitive bidding thresholds.
 - *We recommend that the District consider updating Policy #6700 Purchasing to include purchasing procedures outside of GML required competitive bidding. This will standardize procedures for purchases that fall below GML requirements.*
4. We noted that the vendor database contains a total of fifteen (15) vendors with duplicate names, fifty (50) vendors with duplicate addresses, and twenty-one (21) vendors with duplicate phone numbers.

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- *We recommend that the District conduct an annual review of the vendor database to determine if there are duplicate vendors that should be inactivated. This will help ensure only vendors with ongoing business activities with the District are active and prevent duplicate payments to vendors with multiple entries in the database.*
- 5. We noted that nine (9) active vendors did not have a Form W-9 on file. However, upon notifying the District, the vendors were contacted to obtain a completed Form W-9. In addition, two (2) vendors did not properly sign and date the Form W-9.
- *We recommend that the District make every effort to obtain a completed Form W-9 prior to entering a vendor into the accounting system. This will ensure that there is proper documentation on file and complete and accurate vendor information is entered into the accounting system.*

Extraclassroom Activity Funds

- 6. We noted that employee stipend payments for club and activity advisors do not require submission and review of documentation regarding club rosters or meeting dates and times to support that the employee has met the hour and week requirement for a club or that activities are taking place throughout the school year. Many employees advise more than one (1) club or activity so without club and activity meeting information we were unable to confirm that club and activity meeting dates and times do not overlap.
- *We recommend that club and activity advisors document meeting dates and times and that there be a review of the meeting dates and times prior to payment. This will help ensure that each club meets the hour and week requirements as per the Teacher's Contract and those employees receiving stipend payments for more than one (1) club or activity are able to perform duties for each club or activity.*
- 7. We noted advisors selected for testing received a stipend for clubs or activities that were not included in the quarterly Statements of Extraclassroom Activity Funds.
- *We recommend that all active clubs and activities be included on each school's quarterly Statement of Extraclassroom Activity Funds and year-end Extraclassroom Activity Funds Statement of Cash Receipts and Disbursements. This will help ensure that any clubs and activities for which an employee is paid a stipend for are in fact active and being properly reported by the Central Treasurers to the Board of Education. If a club or activity is not active the District should reconsider payment of an employee stipend for that club or activity.*

Information Technology

- 8. We noted that the District's offsite backup location is the North High School. The District's financial software, Wincap, staff and student documents and the email system are all backed up to this location.
- *We recommend that the District consider an offsite backup location that is not on District property. Ideally, offsite backup should be at a location far from the District such as upstate or at a BOCES location. This will help ensure that in the event of a local emergency situation, off site backups will not be affected.*

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9. We noted that the District’s Disaster Recovery Plan includes a testing and validation of recovery strategies schedule and log for key systems. Some systems, such as the back-up generators and Wincap, are managed by a department outside Technical Support. These departments do not complete the log to document that the required testing and validation steps have been performed.
- *We recommend that these departments inform Technical Support when testing and validation of their assigned system has been completed. This will ensure that all required elements of the Disaster Recovery Plan are tested and fully documented.*
10. We noted three (3) instances in which items were tagged and observed, but the asset tag number could not be located on the District’s inventory listing. We also noted two (2) instances where the asset tag number on the asset did not agree to the tag number included in the inventory listing and two (2) instances where the location of the asset on the inventory listing did not correctly report where the asset was currently located.
- *We recommend that the District complete an asset observation and ensure that asset tags are properly reported and included on the District’s inventory listing. This will help ensure that items are properly reported and can be identified for tracking purposes.*

Status of Prior Year Recommendations

We have performed follow-up internal audit services applicable to our previously issued risk assessment update report dated June 2017. The services we performed included observing and evaluating the implementation status of the District’s action plan in respect to our risk assessment recommendations.

The June 2017 risk assessment update report identified five (5) recommendations within two (2) distinct business process areas. The District has completed or taken action on the five (5) recommendations as follows:

<u>Business Process</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Complete</u>	<u>Total</u>
Food Service	1	3	-	4
Purchasing and Related Expenditures	-	1	-	1
Total	1	4	-	5

Food Service

Recommendation from June 2017 Risk Assessment: We recommend that the District review the negative balance reports from the point of sale software and determine if procedures should be updated to limit the amount of credit extended to each student. We also recommend that the District incorporate procedures into the policy to collect funds at the end of each school year to reduce the amount of funds the District cannot recover. This will ensure that negative balances are minimized and have a limited effect on sales.

Status at June 2018: In Process.

Recommendation from June 2017 Risk Assessment: We recommend that the safe be locked at all times during the day to ensure the security of its contents. Access should be limited to a few individuals. This will enhance control over the contents maintained in the safe.

Status at June 2018: Complete.

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Recommendation from June 2017 Risk Assessment: We recommend that the District monitor commission payments received and contact the vendor when payment is not received in a timely manner. This will ensure that the District receives all monies owed on a timely basis.

Status at June 2018: In Process.

Recommendation from June 2017 Risk Assessment: We recommend the Director of Food and Nutrition Services review the procedure with all staff to ensure that all locations prepare daily production reports. This will help ensure that daily production reports are prepared timely and accurately.

Status at June 2018: In Process.

Purchasing and Related Expenditures
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Recommendation from June 2017 Risk Assessment: We recommend that the required procedures be followed before a purchase requisition is submitted to the Purchasing Agent. The District's Purchasing Policy outlines quote, bid, and RFP requirements for purchases according to the dollar amount. The total anticipated annual expenditures and type of vendor must be considered when determining whether quotes, a formal bid, or a RFP is needed to support the purchase requisition. This will ensure that the District is receiving the most competitive pricing for products and services and in compliance with Policy #6700 Purchasing and General Municipal Law.

Status at June 2018: In Process.

Exhibits

Exhibit I History of Internal Audit Reports Issued

Exhibit II Internal Audit Plan for 2018/2019

Great Neck Public Schools

Nawrocki Smith - Internal Audit

2018/2019 INTERNAL AUDIT PLAN

(Based upon June 2018 Initial Risk Assessment)

2018/2019 Cycle Review

Status

- Grants

Planned for Nov-18

Key Control Testing

Status

- Cash Receipts
- Vending Machines
- Capital Project Funding/Payments
- Purchasing Process
- Bank Reconciliations
- STAC Reimbursement
- Budget Transfers
- Journal Entries

Planned for Oct-18
Planned for Feb-19
Planned for Mar-19
Planned for Mar-19
Planned for Apr-19
Planned for Apr-19
Planned for May-19
Planned for May-19

Additional Internal Audit Services

Status

- Quarterly Status Reports
- Purchasing Cycle Recommendations Follow-Up
- External Audit Corrective Action Plan Monitoring
- Annual Risk Assessment Update as of June 2019
- Other Internal Audit Services at the Request of the District

Quarterly
Planned for Jun-19
Planned for Jun-19
Planned for Jun-19
As Requested

Tentative On-Site Internal Audit Schedule

October 16th	March 7th
November 8th	April 4th
December 6th	May 9th
January 3rd	June 5th
February 11th	