



Great Neck Public Schools

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

June 2019

**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 2018 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting July 1, 2018 through June 30, 2019. 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
July 25, 2019



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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 2019 and were carried out in order to determine an internal audit plan for fiscal year 2019/2020 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	17	20.48%
Low	66	79.52%
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”	-	00.00%
“Low” to “Moderate”	1	100.00%
“Moderate” to “High”	-	0.00%
Total	1	100.00%

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

- The June 2019 risk assessment update contains four (4) current year recommendations.
- The June 2018 risk assessment update report contained ten (10) recommendations:

<u>Status of Prior Year</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Complete</u>	<u>Total</u>
# of Recommendations	-	2	8	10

We have summarized below our work plan for the 2019/2020 fiscal year:

Cycle Review:

- Revenue & Cash Management

Other 2019/2020 Planned Internal Audit Services:

- Key Control/Other Testing (See “T” categories on Pages 5-6)
- External Audit Corrective Action Plan Monitoring
- Grants Cycle Recommendations Follow-Up
- Quarterly Internal Audit Status Reports
- Annual Risk Assessment Update as of June 2020
- 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	19-20	20-21	Subsequent Years	
				17-18	18-19					
1	Governance and Planning	Governance and Control Environment	H	L	L				X	
		Required Policies and Procedures	H	M	M	√			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	√	X			
		Cash Receipts	H	L	L	√	X			
		Cash/Investment Management	H	L	L		X			
		Petty Cash	L	L	L	√	X			
		Bank Reconciliations	H	L	L	√	X			
		Online Banking	H	L	L		X			
5	Grants	General Processing	H	M	M	★				
		Grant Application	M	L	L	★				
		Expenditures and Allowable Costs	H	L	L	★				
		Cash Management	M	L	M	★				
		Reporting and Monitoring	H	M	M	★				
6	Payroll	Payroll Disbursements	H	L	L	★	T			
		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	L	L	★				
		Employee Attendance	H	L	L	★	T			
		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	M	M	★				
		Purchasing Process	H	M	M	★				
		Payment Processing	H	L	L	★	T			
		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	19-20	20-21	Subsequent Years
				17-18	18-19				
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	★			
		Recordkeeping and Reporting	H	L	L	★			
11	Fixed Assets	Inventory/ Capitalization Policy	H	L	L		T	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	√	T		X
		Expenditures	M	M	M	√	T		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	★			
		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	L	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	L	L				X
		Information & Asset Security	H	L	L				X
		Vulnerability Assessment	H	L	L				X
		Incident Response & Recovery	H	L	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

Grants

1. We noted that checks were issued prior to a purchase being made. These checks were issued for estimated amounts to Target and Party City and given to an employee to make an instore purchase. It should be noted that the estimated amount of \$127.33 issued to Party City was based on a specific list of items and proof of purchase was subsequently provided. The check issued to Target, in the amount of \$4,000, was used to purchase eight (8) \$500 gift cards.
 - *We recommend that all purchases are made prior to the check issuance. If the vendor does not accept a purchase order, the District should consider using another vendor or processing the purchase by way of an employee reimbursement. In addition, gift cards should not be purchased with grant funds as it cannot be confirmed that the items purchased are allowable as per the grant guidelines.*

2. We noted that a student field trip was paid from the IDEA Part B, Section 611 grant, however, the expenditure was not included on Form FS-10 and is not an allowable expenditure as per grant guidelines. In addition, the payment was made prior to the field trip and based upon a per pupil rate. However, a list of students was not included with the invoice to confirm the accuracy of the amount paid.
 - *We recommend that Form FS-10 include all anticipated grant expenditures and that those expenditures are allowable and comply with the grant guidelines. Grant funds should not be utilized for expenditures not included in Form FS-10 and not allowable as per grant guidelines. In addition, we recommend that payments for field trips be made the same day or after the field trip date and include documentation such as a student listing to confirm the accuracy of the invoiced amount.*

3. We noted that PAR forms were not completed for all employees paid from a grant during the 2017-2018 school year.
 - *We recommend that PAR forms are completed whenever an employee is paid from a grant. As per NYSED Grants Finance, "documentation beyond regular payroll records is required for an employee who is funded by a federal grant program." This includes a certification with the employee's name and position, the period of employment, and the name of the federal program. PAR forms also must be completed after the work is done, signed and dated by the employee, and maintained with regular payroll records.*

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4. We noted that five (5) out of the six (6) grants selected for testing had carryover amounts after Form FS-10-F was completed for the 2017-2018 school year. Two (2) of the carryover amounts exceeded ten percent (10%) of the amended grant amount.
- *We recommend that going forward the District make every effort to fully spend the approved budget for each grant. This will reduce the risk of the NYSED not allowing all outstanding funds to be carried over into the next school year or possibly decreasing the approved grant budget in future years due to under spending.*

Status of Prior Year Recommendations

We have performed follow-up internal audit services applicable to our previously issued risk assessment update report dated June 2018. 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 2018 risk assessment update report identified ten (10) recommendations within five (5) 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>
Budget Development	-	-	1	1
Accounting and Reporting	-	-	1	1
Purchasing and Related Expenditures	-	1	2	3
Extraclassroom Activity Funds	-	-	2	2
Information Technology	-	1	2	3
Total	-	2	8	10

Budget Development

1. **Recommendation from June 2018 Risk Assessment:** 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).

Status at June 2019: Not Complete.

Accounting and Reporting

2. **Recommendation from June 2018 Risk Assessment:** 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.

Status at June 2019: Not Complete.

Purchasing and Related Expenditures

3. **Recommendation from June 2018 Risk Assessment:** 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.

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Status at June 2019: Not Complete.

4. **Recommendation from June 2018 Risk Assessment:** 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.

Status at June 2019: Not Complete.

5. **Recommendation from June 2018 Risk Assessment:** 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.

Status at June 2019: In Process.

Extraclassroom Activity Funds

6. **Recommendation from June 2018 Risk Assessment:** 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.

Status at June 2019: Not Complete.

7. **Recommendation from June 2018 Risk Assessment:** 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.

Status at June 2019: Not Complete.

Information Technology

8. **Recommendation from June 2018 Risk Assessment:** 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.

Status at June 2019: Not Complete.

9. **Recommendation from June 2018 Risk Assessment:** 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.

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Status at June 2019: Not Complete.

10. **Recommendation from June 2018 Risk Assessment:** 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 at June 2019: In Process.

Exhibits

Exhibit I History of Internal Audit Reports Issued

Exhibit II Internal Audit Plan for 2019/2020

Great Neck Public Schools

Nawrocki Smith - Internal Audit

2019/2020 INTERNAL AUDIT PLAN

(Based upon June 2019 Initial Risk Assessment)

2019/2020 Cycle Review

Status

- Revenue & Cash Management

Planned for Sept-19

Key Control Testing

Status

- Employee Attendance
- Payroll Disbursements
- Extraclassroom Activity Funds-Cash Disbursements
- Extraclassroom Activity Funds-Cash Receipts
- Fixed Assets Inventory
- Cash Disbursements
- Budget Transfers
- Journal Entries

Planned for Feb-20
Planned for Feb-20
Planned for Mar-20
Planned for Mar-20
Planned for Apr-20
Planned for Apr-20
Planned for May-20
Planned for May-20

Additional Internal Audit Services

Status

- Quarterly Status Reports
- Grants Cycle Recommendations Follow-Up
- External Audit Corrective Action Plan Monitoring
- Annual Risk Assessment Update as of June 2020
- Other Internal Audit Services at the Request of the District

Quarterly
Planned for Jun-20
Planned for Jun-20
Planned for Jun-20
As Requested

Tentative On-Site Internal Audit Schedule

September 24th
October 29th
November 6th
December 18th
January 14th
February 5th
March 11th
April 9th
May 5th
June 9th