



Great Neck UFSD

Risk Assessment Report

February 2021



CERINI
& **LLP**
ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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The Board of Education
Great Neck UFSD
345 Lakeville Road
Great Neck, New York 11020

Board of Education:

We have been retained to function as the internal auditor for the Great Neck UFSD (hereinafter, "the District"). Our responsibility is to assess the internal control system within the District, and to make recommendations to improve upon possible control weaknesses or deficiencies. In doing so, we hope to provide assurance to the District's Board, management, and residents, that the fiscal operations of the District are being handled appropriately and effectively.

BACKGROUND

The first step of the internal audit process is to develop a detailed risk assessment of the operations, systems, and controls in place within the District. One of the primary purposes of a risk assessment is to identify risk and devise a risk-based audit plan that determines where internal audit resources could best be utilized. To develop our risk assessment, we interviewed a number of staff members from various departments within the District with a primary focus on the Business Office. This provided us with valuable, candid insight of the detailed processes and procedures that take place on a daily basis within the District.

In addition to our interviews, we reviewed the District's most recently available external auditor report, claims auditor reports, Board meeting minutes, and key Board policies. The results of our review are as follows:

Review of External Audit Management Letter:

We have reviewed the management letter for the year ending June 30, 2020 from Cullen & Danowski, LLP, the District's external auditors, to determine if any additional key items arose during the District's external audit that were not previously considered in our risk assessment. Based on our review, there were no major current year findings that would cause our risk assessment to be modified. Should we determine that our risk assessment needs to be revised based on the current year audit, we will notify the Board of any changes in our audit plan.

Review of Claims Auditor Reports:

We have reviewed the claims audit reports prepared by R.S. Abrams & Company, LLP. Based on our review of the claims auditor's findings, we have not identified any areas of risk that were not identified during our risk assessment. Should we determine that our risk assessment needs to be revised based on future reviews, we will notify the Board of any changes in our audit plan.

Review of Board Minutes:

We have been reviewing the minutes of the Board meetings on an on-going basis. Based on our review, we did not note any significant items that would create additional risk.

Review of Board Policies:

The District proactively reviews and assesses current policies to determine whether existing policies should be revised or new policies should be implemented to strengthen the internal control environment of the District. The District has a Policy Committee which is responsible for keeping the District's policies current by reviewing and updating district policy on a regular basis and suggesting possible additions and/or modifications for consideration by the full Board. In addition, we noted that the District has been meeting and working with a BOCES consultant to ensure they are in compliance with all required policies. As part of our internal audit function, we review policies that may have a potential impact on operations and/or financial management. For the 2020-2021 school year, we noted that there were no new Board policies or amendments to any existing Board policies with fiscal implications. If any policies are implemented or revised during the fiscal year, we will review those items to determine the impact on our risk assessment.

Our processes allowed us to identify potential areas of risk within the District and will allow us to design pointed tests of controls to analyze the inner-workings of the District based upon input from the District's management, audit committee, and/or Board. The results of our current risk assessment will provide the foundation for future testing of the District's control environment and related operations.

RISK ASSESSMENT PROCESS:

Risk is defined as internal and external factors that hinder the District's ability to meet its mission, goals, and objectives. Risks should be assessed by considering the likelihood and impact of such risks in relation to specific objectives. For each area, we have identified the strengths and areas for improvement based on discussions with District staff, the results of our prior tests performed, and the results of our walk-through testing of specific areas. We have classified each area as either "High", "Moderate", or "Low" in order to plan testing of each area over the course of the next five years. It is important to note that this report only identifies the District's risks, and it does not make any conclusions about the operational effectiveness of internal controls. An area could be classified as a high risk for two reasons: 1) because of its materiality to the District's fiscal budget and degree of importance to the District's overall operations; and/or 2) because the area lacks sufficient controls, polices, and procedures for key processes.

In assessing risk, we consider both inherent risk - the risk associated within a system based upon the nature of transactions processed by that system (i.e., quantity, complexity, value, etc.) - and control risk - the risk that the system of internal control is not adequately designed to prevent or detect errors or irregularities. Risks can be further categorized by

the likelihood or probability that a negative event will occur, and the impact that such an event will have on the business operations (see the chart below).

		Impact				
		Trivial	Minor	Moderate	Major	Extreme
Probability	Rare	Low	Low	Low	Moderate	Moderate
	Unlikely	Low	Low	Moderate	Moderate	Moderate
	Moderate	Low	Moderate	Moderate	Moderate	High
	Likely	Moderate	Moderate	Moderate	High	High
	Very Likely	Moderate	Moderate	High	High	High

As such, our assessment focused on the following areas due to their significance to the District’s overall operation as well as areas the Office of the State Comptroller has been focusing on during their recent audits. These include:

- information technology environment
- special education services and federal grants
- human resources (HR)
- payroll
- employee attendance tracking
- employee benefits
- purchasing and accounts payable
- extraclassroom activity fund
- student registration and residency verification
- treasurer functions and cash receipts
- transportation
- food service operations
- use of facilities
- inventory and fixed assets

The proposed 5-year test plan is documented in Appendix A. Please note that the internal audit approach is a fluid process, and our recommended testing may need to be modified based upon information uncovered during future testing or external factors.

Our evaluations for each area, along with the related risk classifications, are further detailed in the report as per the report section listed in the chart.

We will be available to meet with the Board and Audit Committee to discuss our risk assessment report and proposed audit plan.

We appreciate the cooperation and assistance provided by the District staff during our risk assessment process. We understand the fiduciary duty of the Board of Education, as well as the role of the internal auditor in ensuring that the proper control systems are in place and functioning consistently with the Board’s policies and procedures.

Should you have any questions regarding anything included in our report, please do not hesitate to contact us at (631) 582-1600.

Sincerely,

Cerini & Associates LLP

Cerini & Associates, LLP
Internal Auditors

**APPENDIX A
PROPOSED 5-YEAR TEST PLAN**

Report Section	Area of Detailed Review	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
A	Benefits (Eligibility and Payments)	X				
B	Information Technology (Environment, Inventory, and Access Permissions)		X			
C	HR and Payroll (Employee Attendance Tracking)			X		
D	HR and Payroll (Employee Salary Payments, Personnel Files, and Changes in Employment)				X	
E	Special Education (Revenues and Expenditures) OR (Delivery of Services)					X
	Areas Reviewed by Predecessor Internal Auditor - To Be Monitored					
F	Extraclassroom Activity Fund					
	Purchasing and Accounts Payable					
	Other Areas Assessed - To Be Tested as Needed					
G	• Treasurer Function and Cash Receipts					
	• Transportation					
	• Student Registration and Residency Verification					
	• Buildings and Grounds					
	• Food Service Operations					

A. PROPOSED TEST PLAN RECOMMENDATIONS 2020-2021

Area: Benefits

Risk Classification: Moderate-High

The District offers health insurance coverage only to eligible persons. Eligibility includes current and former employees as well as their families. The District has several processes to ensure that health benefit expenses are controlled. This includes requiring employees to provide proof of eligibility when requesting family health insurance coverage (i.e., marriage and birth certificates), and performing regular reconciliations of the health insurance invoices. In addition, the District requires retirees who are entitled to a Medicare Part B reimbursement to complete a form stating that they are not receiving the benefit from another entity. Beginning with the 2020 calendar year, this reimbursement will be paid annually. Employees who decline coverage must complete appropriate forms. We were informed that the health insurance invoices are reconciled by the Benefits Agent on a regular basis. As employee and post-retirement benefits represent a significant expense to the District, we recommend testing this area as follows:

Review of Eligibility and Payments:

We recommend reviewing the internal controls over benefits including the procedures surrounding: the reconciliation of health insurance bills; the modifications to and tracking of changes in benefit coverage; the receipt, recordkeeping, and review of retiree and COBRA payments; the issuance of Medicare Part B premium reimbursements; and the issuance of health insurance declinations payments.

B. PROPOSED TEST PLAN RECOMMENDATIONS 2021-2022

Area: Information Technology

Risk Classification: Moderate - High

As part of our risk assessment, we include the Information Technology (IT) environment, due to its pervasiveness throughout the District. The IT functions in the District are performed under the direct supervision of the District Technology Director. School districts are required to report not only financial data, but other statistical data such as student performance, attendance, and special education placements. Such data is used as the basis for various reports that affect state aid. The District utilizes a number of applications to store this data. Therefore, it is critical that the District's applications are appropriately safeguarded, and that segregation of duties is maintained within the systems. Access controls are intended to provide reasonable assurance that computer resources are protected from unauthorized use and modifications. To control electronic access, a computer system or application needs a process to identify and differentiate among users. User accounts identify users and establish relationships between the user and a network, computer, or application. The system administrator creates these accounts. These accounts contain information about the user, such as passwords and access rights to files, applications, directories, and other computer resources. Lastly, maintaining detailed, up-to-date inventory records for all computer hardware and software licenses is essential so that the current technology infrastructure is accurately represented, and so that future technology needs can be determined. Technology assets are inventoried and tracked by the IT Department. Due to the current environment, the rise in cybersecurity threats to

school districts as a whole and the increased reliance on software and devices to support many of the District's financial and academic endeavors, we recommend testing of this area as follows:

Review of Information Technology Environment Controls, Inventory, and Access Permissions:

Since the IT environment is rapidly changing, our review would assess whether internal controls are sufficiently implemented surrounding wireless access, remote access, data backup, web filtering, and intrusion detection, as well as assessing whether the District has detailed, up-to-date inventory records for the computer hardware and software license agreements. We will also ensure that proper procedures exist to reflect the disposition of assets. Lastly, we will examine the specific access controls and administrative capabilities within WinCap (financial management system) to ensure there is adequate segregation of responsibilities, and that access is properly restricted. This will involve the review and use of audit trails to monitor key financial/operational transactions.

C. PROPOSED TEST PLAN RECOMMENDATIONS 2022-2023

Area: Human Resources and Payroll

Risk Classification: Moderate - High

A good HR and payroll system ensures that employees receive compensation and benefits to which they are entitled to and includes an adequate timekeeping system that ensures employees are accurately paid for time worked. Employees are permitted to be absent from their regularly scheduled position for a variety of reasons from personal matters to school-related functions such as trainings and meetings. In some cases, the District is required to have a substitute worker fill in for staff that is absent. Therefore, it is imperative that the District has procedures to ensure timekeeping records record the date and the time worked and track the costs to cover absent employees. These measures can help ensure that employees are accurately paid for time worked. The absence of adequate controls over timekeeping may leave a payroll system susceptible to error, abuse, or even fraud. We recommend further testing of this area as follows:

Review of Employee Attendance Testing:

Our review would include evaluating District policies and procedures in place related to tracking and communicating attendance, assessing compliance with applicable District employee contracts, assessing whether absences are properly recorded in the District's financial system, WinCap, and assessing whether employees are properly paid based on attendance balances.

D. PROPOSED TEST PLAN RECOMMENDATIONS 2023-2024

Area: Human Resources and Payroll

Risk Classification: Moderate - High

The salaries that the District pays to its employees represent the largest expenditure of the District. It is therefore essential that the District institute measures to ensure that the procedures for recording, maintaining, and tracking employee benefits and salaries are

accurate and complete, and reflect compensation paid to only valid employees of the District. Personnel files are essential to the District and its Payroll Department as they provide a record of each employee's employment history, and for this reason, employers should ensure they are accurately documenting an employee's career. Each employee should have his or her own personnel file that contains a completed Form I-9 with appropriate support documents to substantiate that the District verified the employment eligibility for that employee as required by Federal law. In addition, personnel files should include an offer letter, job application/resume, annual salary notices, Board approval, college transcripts, licenses/certifications, and performance evaluations, if applicable. These documents can be either kept in paper form or electronically and must be kept according to various document retention schedules. Changes in an employee's status should be formally documented and communicated to other District departments (e.g., payroll and information technology) in a timely manner. Due to the large nature of this expense and the immediate communication demands required of the Human Resources Department, we recommend testing of this area as follows:

Review of Employee Salary Payments, Personnel Files, and Changes in Employment:

Our testing of the internal controls over human resources and payroll will include assessing whether salary payments are in compliance with District employee contracts, are properly documented, and are correctly calculated. In addition, we will assess procedures for hiring, terminating, changing employment status and/or pay status, as well as compliance with contracts and/or other regulations, and assessing whether changes in an employee's status are being effectively communicated to other District departments.

E. PROPOSED TEST PLAN RECOMMENDATIONS 2024-2025

Area: Special Education/Pupil Personnel Services

Risk Classification: Moderate

The Office of Pupil Personnel Services is an important part of the District from both an expenditure and revenue perspective. The Department is responsible for coordinating Special Education services, including resource room and related services for students in the District as well as coordinating out of district placements. The District uses IEP Direct to enter progress notes and session notes and to track services provided to students. The District uses an outsourced consultant to process all Medicaid claims. The District also has an account clerk in the Office of Pupil Personnel Services Department involved in overseeing the certain administrative aspects of the Medicaid process. Furthermore, the Department is also responsible for tracking Medicaid eligible students and providing services in compliance with Medicaid regulations to ensure that it can claim for Medicaid reimbursement for eligible students. As a result, this area contains a higher level of inherent risk. Due to the significance of revenues and expenditures within this area, especially in the STAC and Medicaid processes, we recommend testing of this area as follows:

Review of Special Education Revenues and Expenses

Our review would include assessing whether the District is properly receiving the revenue it is entitled to and that PPS related expenditures are valid and proper.

OR

Review of Special Education Services

Our review would include assessing whether student IEP mandates are appropriately being met and documented.

F. AREAS REVIEWED BY PREDECESSOR INTERNAL AUDITOR - TO BE MONITORED

Area: Extraclassroom Activity Fund

Risk Classification: Low-Moderate

Extraclassroom activity funds are defined in the Regulations of the Commissioner of Education as "[f]unds raised other than by taxation or through charges of a board of education, for, by, or in the name of a school, student body or any subdivision thereof." In essence, Extraclassroom funds are funds operated by and for the students. The District has procedures associated with recording, approving, and tracking revenues and expenditures to increase controls over club activities. The District's external auditors are required to audit the extraclassroom fund on an annual basis and perform tests of internal controls of monetary transactions performed by the clubs. In addition, the District's predecessor internal auditors, reviewed the extraclassroom activity fund in its fiscal 2018 risk assessment. Based on the results of prior reviews performed by the external and predecessor internal auditors, and our current assessment of procedures performed, we will monitor this area and the open recommendations made by the District's external and predecessor internal auditors.

Area: Purchasing and Accounts Payable

Risk Classification: Moderate

The District's appointed Purchasing Agent approves all purchase orders prior to encumbrance to ensure that funds are available, and budgets are not overspent. The Purchasing Agent is responsible for reviewing all requisitions and ensuring proper backup exists before creating a purchase order. When invoices are received, they are reviewed by the requisitioner, accounts payable clerk, and claims auditor to ensure the payment is appropriate. Section 1724 of the Education Law states that any claim being paid by a school district must be audited before it can be released. All vendor payments are reviewed by the District's claims auditor, who is independent of the District's purchasing and payment processes and provides monthly reports to the Board detailing those instances that were noted during the review of claims that do not adhere to the District's purchasing policy. In addition, the District's predecessor internal auditors, reviewed the purchasing and grant related accounts payable activity in its fiscal 2018 and fiscal 2019 risk assessment, respectively. Based on the results of prior reviews performed by the predecessor internal auditors and our current assessment, we will monitor this area and the open recommendations made by the District's predecessor internal auditors.

G. OTHER AREAS ASSESSED - TO BE TESTED AS NEEDED

Area: Treasurer Functions and Cash Receipts

Risk Classification: Low-Moderate

Education Law establishes the Treasurer as the custodian of all District monies, responsible for not only depositing monies in designated banks but disbursing them only upon receipt of a signed warrant or certified payroll. The District's Treasurer is responsible for financial record keeping as well as other duties including wire transfers and certain journal entries. The Treasurer is also responsible for preparing the monthly bank reconciliations and Treasurer's Report to the Board. Bank reconciliations are reviewed by the Assistant Superintendent for Business.

The District has specific controls surrounding wire transfers and certain journal entries. Wires for accounts payable and payroll are performed by the District Treasurer and subsequently reviewed by management. Furthermore, journal entries performed by the Treasurer are approved and signed by management. In addition, the District uses the online payment system, MySchoolBucks, for food and has recently incorporated the acceptance of credit card payments through MySchoolBucks. Based on our understanding of management's oversight, we recommend further testing in this area on an as-needed basis.

Area: Transportation

Risk Classification: Low-Moderate

The District has a small fleet, but a majority of its transportation services are contracted out for daily runs to and from school, as well as for athletic events and field trips. In addition, the claims auditor reviews all transportation invoices and verifies that rates charged agree with the contractual agreement. Routes have been set using the TransFinder and RouteFinder software applications, and patterns are reviewed annually by the District to determine cost effectiveness. Based on our understanding of management's oversight, we recommend further testing in this area on an as-needed basis.

Area: Student Registration and Residency Verification

Risk Classification: Low-Moderate

There have been changes in legislation regarding student enrollment and residency as they pertain to homeless and/or undocumented children. The District has registration forms available both printed and through the District's website. The District has also implemented an online registration system available to reduce data errors and facilitate the registration process. In addition, the District receives and maintains necessary documents for each student and has procedures to ensure that students reside in the District and that student files are accurately documented. Based on our understanding of

controls and management oversight, we recommend further testing in this area on an as-needed basis.

Area: Buildings and Grounds

Risk Classification: Low-Moderate

The District allows certain groups to use the school facilities. The District governs such use through Board Policy #1500 *Public Use of District Facilities*, as well as through complying with Education Law. This policy provides detailed guidance regarding the application process, the criteria for those groups eligible to use District facilities, and insurance required. The District also has the application and reference material related to the fee structure associated with usage available on the District website. Requests for building usage are received and monitored by the Athletics Department. The Athletics Department coordinates with the Buildings and Grounds Department if security and/or custodial staff are needed. Based on our understanding and the current climate, we recommend testing on an as-needed basis.

Area: Food Service Operations

Risk Classification: Low-Moderate

The District provides meals in each school building. Every school provides lunch, a la carte, and adult meals. The District participates in the National School Lunch Program, which allows qualifying students to receive meals for free or at a reduced-price and provides federal and state reimbursements for meals served. The District also participates in the Summer Food Service Program, which allows the District to provide its students with free meals during the summer months when school is not in session. The District currently operates a point of sales (POS) system to record transactions as students and staff purchase items from the cafeteria. In addition, the District uses the online payment system, MySchoolBucks, for food. The District's predecessor internal auditors reviewed this area in fiscal 2017 and monitored their recommendations. The District has since implemented the predecessor internal auditors' recommendations as noted from the predecessor internal auditors' updated risk assessment reports and our understanding of controls and management oversight in the area. Therefore, we recommend testing of this area on an as-needed basis.