

South Orangetown Central School District

Risk Assessment Update Report

For the Period Ending

October 15, 2021

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Board of Education
South Orangetown Central School District
160 Van Wyck Road
Blauvelt, New York 10913

We have completed our risk assessment update of the South Orangetown Central School District (the "District") for the period ending October 15, 2021. The objectives of the engagement were to assist the Board of Education in ensuring that the District's risks are identified and that appropriate internal controls are in place to mitigate those risks.

In connection with the development of the risk assessment, we have performed the following procedures:

- Gained an understanding of the internal controls for the following key business processes:
 - Governance and Planning
 - Accounting and Reporting
 - Cash Management
 - Revenue and Billings
 - Grants
 - Payroll
 - Human Resources
 - Benefits
 - Purchasing and Related Expenditures
 - Facilities and Capital Projects
 - Capital Assets
 - Food Service Operations
 - Extraclassroom Activity Fund
 - Information Technology
 - Student Related Data and Services
 - Transportation Services
 - Student Services

- Identified the risks that could inhibit the District in achieving its goals;

- Identified the internal controls that the District has in place that are designed to mitigate identified risks; and

- Identified key areas where the District can strengthen existing internal controls and/or create additional internal controls.

The results of our procedures are presented on the following pages.

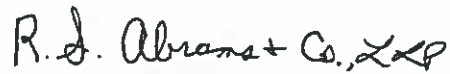
As noted, the purpose of our engagement was to assist you in improving the process by which you monitor and manage the risks that face your District. However, it is ultimately your responsibility to assess the adequacy of your risk management system.

In performing our engagement, we relied on the accuracy and reliability of information provided by District personnel. We have not audited, examined, or reviewed the information, and express no assurance on it.

We would like to acknowledge the courtesy and assistance extended to us by personnel of the District. We are available to discuss this report with the Board of Education or others within the District at your convenience.

This report is intended solely for the information and use of the Board of Education, the Audit Committee, and the management of the District and is not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "R.S. Abrams & Co., LLP". The signature is written in dark ink and is positioned below the "Very truly yours," text.

R.S. Abrams & Co., LLP
November 2, 2021

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Executive Summary

This report serves to address the first requirement of Chapter 263 of the laws of New York, 2005, which requires all school districts to form an internal audit function. The internal audit function requirement includes the engagement of a qualified audit firm or individual to make an assessment of risk surrounding the design of the District's internal controls, annual updates of the initial risk assessment, and testing of these controls on a periodic basis for operational effectiveness.

This risk assessment update is intended to provide management with information to enhance and strengthen the South Orangetown Central School District (the "District") controls and to reduce the District's risk relating to its financial processing and reporting operations.

We determined the status for the current year's risk assessment update through various methods, including inquiry of appropriate District personnel involved in these processes, observation of the controls in place, results of internal control questionnaires related to the various business units, and testing the controls where necessary to determine if they have been put in place and are functioning as intended.

Additionally, we have reviewed the results of reports issued by our firm during the fiscal year ending June 30, 2021, including reports on Purchasing and Related Expenditures and Facilities and Capital Projects, to determine if relevant controls have been put in place based on those reports.

The risk assessment requires an internal auditor to obtain an understanding of the risks associated with the various business processes within the District. This requirement involved two categories of risk assessment:

- **Inherent Risk** - the risk associated with the nature and type of transactions processed due to complexity, materiality, and quantity of the transactions.
- **Control Risk** – the risk that the internal control system is not adequately designed to prevent or detect errors or irregularities on a timely basis that could be material individually or when aggregated with misstatement in other balances or account classes.

The risk areas have been identified and appropriate risk levels have been determined. The risk levels are defined as follows:

- **High Risk** – these are areas identified as posing the greatest potential risk for the District and which carry the highest priority. Any outstanding items will be carried over and re-evaluated in the following year's risk assessment.
- **Moderate Risk** – these are areas identified as to be of second level priority and will be addressed after the high-risk items are completed. Any outstanding items will be carried over and re-evaluated in the following year's risk assessment.
- **Low Risk** – these areas are considered lowest priority and will be addressed after the high and moderate risk items are completed.

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We have summarized our assessment of inherent risk and control risk for the current year, as well as our testing plan, in our *Assessment of Risk and Testing Plan* (See Appendix A).

Process Review Summary and Proposed Business Processes

The following represents the business process where we have provided internal audit services and the business processes we are proposing.

Extensive System Reviews:

- Period Ending June 30, 2016: Capital Projects
- Period Ending June 30, 2017: Human Resources
- Period Ending June 30, 2018: Payroll and Benefits
- Period Ending June 30, 2019: Transportation and Information Technology
- Period Ending June 30, 2020: Human Resources
- Period Ending June 30, 2021: Purchasing & Related Expenditures and Facilities and Capital Projects

Extensive Systems Proposed:

- Period Ending June 30, 2022: Information Technology
- Period Ending June 30, 2023: Grants

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Current Year Review

CASH MANAGEMENT

CASH AND INVESTMENT MANAGEMENT

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk as low for the District's cash and investment management processes based on the following reasons:

- The District has adopted policy No. 6240, *Investments*, which addresses procedures surrounding the treatment of District investments.
- The District has adopted policy No. 6670, *Petty Cash Accounts*, which establishes the District's petty cash funds at an amount not to exceed \$100, which is in accordance with state requirements.
- The District tracks the amount of collateral that is being held by third party banks on a monthly basis to verify that the value of pledged securities is sufficient to cover the District's deposits in excess of federal insurance limits.

WIRE TRANSFERS AND BANKING CONTROLS

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the control risk for the District's wire transfers and banking controls as low based on the following reasons:

- For interbank and intrabank wire transfers, the Deputy District Treasurer or Supervisor of Fiscal Services logs onto the banking institution's website to initiate a wire transfer. A print out of the initiation of the wire transfer and other related supporting documentation is forwarded to the Supervisor of Fiscal Services or Deputy Treasurer to review. Once reviewed, the Supervisor of Fiscal Services or Deputy Treasurer logs onto the banking institution's website to release the transfer of funds. This is a strong banking control to ensure that not one individual has the ability to transfer funds from District bank accounts.
- The confirmation of the transfer of funds is printed, initialed by the Treasurer and attached to the relevant supporting documentation before being filed away.
- The District adopted policy No. 6415, *Electronic or Wire Transfers*, surrounding the monitoring of the transfer of funds via online banking between various accounts and the transfer of funds from District accounts to non-District accounts.
- The District utilizes positive pay for payroll accounts and disbursement accounts.
- The District enables ACH blocks on certain bank accounts preventing ACH debits from being processed.
- The District enables ACH filters that only allow pre-approved debits to be processed.

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BANK RECONCILIATIONS

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk as low for the District's bank reconciliations processes based on the following reasons:

- Monthly bank reconciliations prepared by the Supervisor of Fiscal Services are reviewed and approved by the School Business Administrator on a monthly basis prior to the Board of Education (Board) receiving the treasurer reports.
- The Supervisor of Fiscal Services provides the monthly treasurer reports to the Board.
- The District investigates and tracks outstanding checks and reconciling items monthly.
- The District has procedures regarding the treatment of old outstanding checks and reconciling items.

However, during our testing, we noted three out of thirty bank reconciliations included outstanding checks older than one year in the general fund. Based on the above factors however, this alone does not warrant the level of risk to be raised above low.

BENEFITS

BENEFITS ELIGIBILITY AND CALCULATIONS

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk as low for the District's benefits eligibility and calculations processes based on the following reasons:

- The benefits clerk has access to the various employment contracts to ensure all fringe benefits have been properly identified.
- The District provides all new hires with the appropriate paperwork regarding benefits, which includes the required notification of the right to join the retirement system.
- The District contracts with a compliance agent regarding the District's 403(b) benefits.
- The calculation of fringe benefits is reviewed and approved by an appropriate administrator prior to being recorded within the accounting information system.

MEDICAL BENEFITS

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk for the District's medical benefits process as low based on the following reasons:

- Changes to enrollment are reviewed and approved by a responsible administrator prior to being processed.

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- Someone other than the individual responsible for enrolling/removing employees from the health plan reviews the monthly health insurance invoice changes from the prior month.
- The health insurance buyout list is reviewed and approved by an appropriate administrator, and the review includes a comparison to the detailed health insurance invoice.
- Employees must complete the appropriate enrollment forms and submit them to the benefits clerk along with any required forms of documentation to support family coverage.
- The District offers employees a cash payment in lieu of District provided health insurance at a cost savings to the District, which is based on the applicable bargaining unit's employment contract.
- Five employees declining health insurance were selected for testing to ensure they properly declined health insurance and to determine if they were properly paid for their buy back options as per their employment contracts, noting no findings.

RETIREE HEALTH INSURANCE

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the control risk for the District's retiree health insurance processes as low based on the following reasons:

- The District has a process to contact all retirees, their spouses and/or dependents to obtain updates of their contact and eligibility information.
- Retirees are billed by United Healthcare directly for their share of premiums.
- Retirees are required to complete a form annually confirming that they are not eligible to receive a Medicare reimbursement from another source in order to receive a Medicare reimbursement from the District.
- All retirees must submit a copy of their Social Security letter detailing their Medicare premium amount in order to receive a Medicare reimbursement from the District.
- Medicare reimbursements are reviewed and approved by the claims auditor prior to payment being issued.
- Five employees receiving Medicare reimbursements were selected for testing, noting no findings.

EXTRA CLASSROOM ACTIVITY FUND

GENERAL CONTROLS

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk as low for the District's extra classroom activity fund general controls based on the following reasons:

- The District's policy No. 5211-R, *Regulation Rules for the Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds*, states the rules and regulations governing the management of student activity funds.

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- The District adopted administrative regulation No. 5211, *Extra-Classroom Activity Funds*, stating the Board recognizes the educational values inherent in student participation in the extracurricular life of the school, and supports the concept of the formation of student groups for such purposes as building sound social relationships, developing interests in an academic area, and gaining an understanding of the elements and responsibilities of good citizenship.
- The District formally appointed a central treasurer who is responsible for having custody of all funds.
- Profit and loss statements are prepared for the District's extra classroom activity fundraising activities.
- The District maintains formal club charters for all extra classroom activity accounts that list, at a minimum, the name of the club and the names of the student officers and faculty club advisors.
- The signed charters are forwarded to the Board of Education for approval on an annual basis with approval of the club charters documented in the minutes of the Board of Education meeting.
- The extra classroom activity accounts and faculty advisors are reviewed and approved by the Board of Education on an annual basis.

CASH, CASH RECEIPTS AND DISBURSEMENTS

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's extra classroom activities cash, cash receipts and disbursements processes based on the following reasons:

- New York State sales tax compliance is monitored by the extra classroom central treasurer in the business office.
- The principal account clerk in the business office files the quarterly sales tax returns.
- The District's extra classroom activity fund issues pre-numbered pre-printed duplicate copy cash receipts or activity treasurer receipts when collecting funds.
- The District's extra classroom activity funds maintain sufficient documentation, such as photocopies of checks, to support cash receipts.
- Invoices and/or receipts are properly cancelled after payment to prevent potential duplicate payments.
- The District's extra classroom activity fund utilizes pre-numbered pre-printed triplicate copy payment orders when requesting a disbursement check to be issued.
- The District's extra classroom activity fund bank accounts are reconciled on a monthly basis.

However, during our testing, we noted two out of ten disbursements had invoices that did not include sales tax. Based on the above factors however, this alone does not warrant the level of risk to be raised above low.

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STUDENT SAFETY AND PERFORMANCE DATA

STUDENT ATTENDANCE

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk at low for the District's student attendance process based on the following reasons:

- The District has adopted policy No. 5100, *Student Attendance Policy*, which is a comprehensive attendance policy that addresses the requirements outlined by the Commissioners Regulations.
- The District has procedures in place for student attendance taking at each of the District locations.
- The District maintains a record of each pupil's presence, absence, tardiness, and early departure in a register of attendance.
- District codes are in place to properly identify the reason for absence, tardiness, or early departure.
- The District's attendance policy distinguishes between excused and non-excused absences, tardiness and early departures.
- An electronic system (*PowerSchool*) is in place at the District to collect, calculate, summarize and report attendance data.
- The District's student attendance reports are checked by more than one employee to verify accuracy and are filed on time.
- Ten new entrants to the District were selected for testing to ensure the District is requesting and maintaining the proper documentation for new entrants. No findings were noted during our testing.

STUDENT PERFORMANCE DATA

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk at low for the District's student performance data processes based on the following reasons:

- The District has assigned data personnel and building administrators the responsibility for the accumulation of data surrounding student dropouts, test scores, enrollment and cohorts.
- There are review procedures in place whereby student performance data is compared to prior years and similar schools to assess the reasonableness of the data prior to certification and submission to the State Education Department.
- District personnel reviews published data on the School Report Card and utilizes the School Report Card as a tool to improve student performance.
- The District has assigned appropriate personnel with the responsibility of ensuring that student performance data is secure, reliable and accurate.

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STUDENT SECURITY AND SAFETY

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk as low for the District's student security and safety processes based on the following reasons:

- The District has formed a safety team that is responsible for overseeing the District's safety procedures to ensure that the District's students are educated in a safe environment by developing the District's safety plans.
- The District has adopted a comprehensive district-wide school safety and building level safety plan on crisis intervention and emergency response and management.
- The District's comprehensive public school safety program incorporates the four basic components as required, which are building condition surveys, annual visual inspections, a five-year capital facilities plan and monitoring system procedures.
- The District has an emergency management plan as required by Commissioners Regulations §155.17.
- The District has adopted policy No. 8130, *School Safety Plans and Teams*, which addresses the District's procedures for conducting fire drills during the school year.
- The District performs fire drills and lockdown drills in accordance with Education Law 807 and evacuation drills are performed in accordance with Commissioner's Regulation 155.17.

TRANSPORTATION SERVICES

STUDENT TRANSPORTATION

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk at low for the District's student transportation processes based on the following reasons:

- The District has adopted policy No. 8410, *Student Transportation*, which addresses the District's procedures surrounding the transportation of students in the District.
- The District has appointed the Transportation Coordinator as the designee responsible for administering the transportation program.

TRANSPORTATION CONTRACTS

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk for the District's transportation contracted services compliance as low based on the following reasons:

- We noted transportation services contracts were determined by request for proposals and were approved by the Commissioner of Education.

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- The transportation contract includes a clause that authorizes the Board to increase or decrease the level of service without altering the terms of the agreement.
- The District maintains relevant documentation surrounding contracts, contract extensions, bidding information, rider lists, mileage records and allocated expenses.

TRANSPORTATION STATE AID

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk for the District's transportations state aid compliance as low based on the following reasons:

- The School Business Administrator monitors the receipt of transportation aid and reviews the Transportation Formula Aid Output report on an annual basis for accuracy.
- The School Business Administrator reviews the receipt of transportation aid to ensure that transportation state aid payments are effectively monitored.

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Appendix A

<i>Legend</i>		
■	Extensive system process review proposed	
✓	Extensive system process review completed	
•	Process evaluated	
<i>H = High M = Moderate L = Low</i>		

BUSINESS PROCESSES & SUBPROCESSES	<i>Inherent Risk</i>		<i>Control Risk</i>		<i>Audit Plan</i>		
	10/16/20	10/15/21	10/16/20	10/15/21	2021	2022	2023
GOVERNANCE & PLANNING							
Governance and Control Environment	H	H	L	L			
Budget Development and Administration	H	H	L	L			
Budget Transfers	M	M	L	L			
ACCOUNTING & REPORTING							
Financial Accounting and Reporting	H	H	L	L			
Auditing	M	M	L	L			
Fund Balance Management	H	H	L	L			
Reserves and Fiscal Health	H	H	L	L			
CASH RECEIPTS							
Collection and Posting of Receipts	H	H	L	L			
CASH MANAGEMENT							
Cash and Investment Management	H	H	L	L	•		
Wire Transfers and Banking Controls	H	H	L	L	•		
Bank Reconciliations	M	M	L	L	•		
REVENUE & BILLINGS							
School Billing Controls	M	M	L	L			
GRANTS							
General Processing and Monitoring	M	M	L	L			■
Allowable Costs and Compliance	M	M	L	L			■
PAYROLL							
Payroll Distribution	H	H	L	L			
Payroll Accounting and Reporting	H	H	L	L			
Tax Filings and Reconciliation process	M	M	L	L			
HUMAN RESOURCES							
Employment Requisition and Hiring	H	H	L	L			
Employment Resignations, Retirements and Termination	H	H	L	L			
Employee Attendance	H	H	L	L			
Employee Personnel Files	H	H	L	L			
Evaluations	H	H	L	L			
Salary Agreements	H	H	L	L			
Separation Payments	L	L	L	L			
Board Policies	H	H	L	L			
BENEFITS							
Benefits Eligibility and Calculations	H	H	L	L	•		
Medical Benefits	M	M	L	L	•		
Retiree Health Insurance	M	M	L	L	•		
PURCHASING & RELATED EXPENDITURES							
Purchasing Process and Purchase Order System	M	M	L	L	✓		
Payment Processing	M	M	L	L	✓		
Travel and Conferences	M	M	L	L	✓		

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Appendix A

<i>Legend</i>							
■	Extensive system process review proposed						
✓	Extensive system process review completed						
•	Process evaluated						
<i>H = High M = Moderate L = Low</i>							

FACILITIES & CAPITAL PROJECTS	10/16/20	10/15/21	10/16/20	10/15/21	2021	2022	2023
Facilities Maintenance	H	H	L	L	✓		
Construction Planning and Monitoring	M	M	L	L	✓		
Final Building Projects Reports	H	H	L	L	✓		

CAPITAL ASSETS	10/31/18	10/15/21	10/16/20	10/15/21	2021	2022	2023
Acquisition, Disposal and Capitalization Policy	H	H	L	L			
Inventory Tracking	H	H	L	L			

FOOD SERVICE OPERATIONS	10/16/20	10/15/21	10/16/20	10/15/21	2021	2022	2023
Federal and State Reimbursement	M	M	L	L			
Sales Cycle	H	H	L	L			
Inventory and Purchasing	M	M	L	L			
Eligibility Verification	M	M	L	L			

EXTRA CLASSROOM ACTIVITY FUND	10/16/20	10/15/21	10/16/20	10/15/21	2021	2022	2023
General Controls	H	H	L	L	•		
Cash, Cash Receipts and Disbursements	H	H	L	L	•		

INFORMATION TECHNOLOGY	10/16/20	10/15/21	10/16/20	10/15/21	2021	2022	2023
Governance	M	M	L	L		■	
Network Security	H	H	L	L		■	
Financial Application Security	H	H	L	L		■	
Student Related Data Security	H	H	L	L		■	
Disaster Recovery	H	H	L	L		■	
Permissions/Access Controls	H	H	L	L		■	

STUDENT SAFETY AND PERFORMANCE DATA	10/16/20	10/15/21	10/16/20	10/15/21	2021	2022	2023
Student Attendance	H	H	L	L	•		
Student Performance Data	H	H	L	L	•		
Student Security and Safety	M	M	L	L	•		

TRANSPORTATION SERVICES	10/16/20	10/15/21	10/16/20	10/15/21	2021	2022	2023
Student Transportation	M	M	L	L	•		
Transportation Contracts	M	M	L	L	•		
Transportation State Aid	M	M	L	L	•		

STUDENT SERVICES	10/16/20	10/15/21	10/16/20	10/15/21	2021	2022	2023
STAC	H	H	L	L			
Medicaid	H	H	L	L			