

**South Orangetown Central School District**

***Risk Assessment Update Report***

***For the Period Ending***

***October 31, 2022***

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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, 2022, including reports on Information Technology and Risk Assessment Update, 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
- Period Ending June 30, 2022: Information Technology

Extensive Systems Proposed:

- Period Ending June 30, 2023: Grants
- Period Ending June 30, 2024: Student Services

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**Current Year Review**

**Low Risk Items**

**GOVERNANCE AND PLANNING**

**GOVERNANCE AND CONTROL ENVIRONMENT**

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

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

- The Board receives monthly Treasurer's reports, trial balances, revenue status reports, appropriation status reports and Internal Claims Auditor's reports for all of the District's funds, as well as, monthly or quarterly extraclassroom activity funds reports which are formally accepted by the Board of Education ("the Board").
- The District has adopted Policy No. 5300 *Code of Conduct*, which addresses the required elements.
- The District has adopted Policy No. 2160, *School District Officer and Employee Code of Ethics*, which demonstrates the Board's commitment to cascading an ethical environment within the District and complies with General Municipal Law §806.
- An Audit Committee has been appointed in accordance with Chapter 263 of the Laws of 2005 and a related audit committee charter has been developed and adopted by the Board.
- The District has adopted Policy No. 6690, *Audit Committee*, which designates and appoints an Audit Committee for purposes of overseeing and carrying out the Board's policies and the performance of related duties and responsibilities.
- The Board has received the required training in accordance with Chapter 263 of the Laws of New York 2005.
- An organization chart that details the lines of communication within the District is in place.
- The District makes all Board policies available to employees on the District's website. Further, by publishing the policies on the District's website, the Board ensures transparency to the residents of the District.

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**BUDGET DEVELOPMENT AND ADMINISTRATION**

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

**Reason for Risk Level:** We have assessed the level of control risk as low for the District's budget development and administration processes based on the following reasons:

- The District mass encumbers all known obligations, which is an important aspect of proper budgetary controls to allow management to arrive at a reasonably accurate estimate of uncommitted appropriations at year end.
- The District's AIS has controls in place whereby encumbrances cannot be placed in excess of budgeted amounts.

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- The District has procedures in place to compare actual expenditures to budgeted expenditures and actual revenues to budgeted revenues.
- We noted the District has adopted the budget policies surrounding the District's budget development, preparation procedures and budget administration.

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**BUDGET TRANSFERS**

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

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

- The District utilizes a formal *District-Wide Budget Transfer Request Form* to initiate the transfer in the AIS, which facilitates the approver's signatures.
- The individual who processes the budget transfers in the AIS is independent of the accounts payable function, ensuring proper segregation of duties between the initiation, authorization and recording of budget transfers.
- Our selection of budget transfers revealed no instances of non-compliance with the District's policies and procedures.
- The District has adopted policy No. 6150, *Budget Transfers*, which authorizes the Superintendent to approve budget transfers between any one-line-item account in an amount up to \$25,000. Any one-line-item account budget transfers exceeding \$25,000 will require Board approval.

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**SCHOOL DISTRICT WEBSITE**

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

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

- The District posted the following required documents on its website:
  - Office of the State Comptroller audit reports and corrective action plans as required by *General Municipal Law §33(2e)*.
  - Current Year Original, Adopted Budget.
  - Current Year Final Budget.
  - External Audit Report and Corrective Action Plan as required by *General Municipal Law GMU §30(7)*.
  - Board of Education accepted Multi-Year Financial Plan as required by *General Municipal Law GMU §30(7)*.

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- The District posted the following recommended documents on its website:
  - Budget to Actual Information for Expenditures and Revenues.
  - Comprehensive Property Tax Report Card.
  - We also noted the District will be posting the Internal Audit Reports and Corrective Action Plans on a going forward basis as recommended by the Office of the State Comptroller.

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<b>ACCOUNTING AND REPORTING</b>
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**FINANCIAL ACCOUNTING AND REPORTING**

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

Reason for Risk Level: We have assessed the level of control risk as low for the District’s financial accounting and reporting processes based on the following reasons:

- The District utilizes a formal *Journal Entry Form* that indicates the reason for the journal entry.
- Journal entries are entered into the accounting information system (“AIS”) and are reviewed by a separate individual. The journal entries are not posted until they have been approved and reviewed to ensure accuracy.
- All financial transactions have adequate supporting documentation and are posted on a timely basis.
- The District utilizes *nVision* as their AIS which integrates the major business operations such as accounting, bidding, budget management, requisitions, receivables, payroll and human resources.
- Trial balances for all funds are included in the monthly Treasurer’s Report.
- The Accountant II prepares bank reconciliations which are approved by the Supervisor of Fiscal Services.
- Treasurer reports, revenue status reports, appropriation status reports and warrants are reviewed at a minimum, on a monthly basis and any unusual balances are investigated and resolved.
- Based on our selection of journal entries tested, we noted no exceptions.

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**AUDITING**

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

Reason for Risk Level: We have assessed the control risk as low for the District’s auditing processes based on the following reasons:

- The District has appointed an independent external auditor, claims auditor, and internal auditor in accordance with State laws.

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- Request for proposals have been performed for the retention and appointment of the independent external auditor and/or internal auditor.
- Management of the District is diligent in responding to audit findings within the required time frame by filing a corrective action plan.
- The Board accepts, by resolution, the independent auditor's report annually, which is in compliance with laws and regulations.

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**FUND BALANCE MANAGEMENT**

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

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

- The District has adopted policy No. 6300, *Fund Balance* which outlines guidance for the desired level of fund balance, as well as the types of fund balance maintained.
- The District has controls in place within the AIS where overrides cannot be performed if appropriations are insufficient.
- The District mass encumbers all known obligations at the beginning of the fiscal year, including items such as salaries and fringe benefits, debt service obligations, utilities and other service contracts, as a control to properly project the fund balance at the year end and to maintain budgetary control.
- Fund balance accounts are reviewed on a quarterly basis, to ensure amounts are valid and in compliance with the District's policies and procedures.

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**RESERVES AND FISCAL HEALTH**

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

Reason for Risk Level: We have assessed the level of control risk as low for the District's reserves and fiscal health based on the following reasons:

- We noted the District's reserves are maintained in accordance with related laws and regulations.
- NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a District can retain to no more than 4% of the District's budget for the general fund for the ensuing fiscal year. The District was slightly over the allowable unassigned fund balance at 4.21% for the fiscal year ended June 30, 2022. We recommend the District continue to lower the unassigned fund balance amount within allowable limits.
- In the fiscal year ending June 30, 2022, the District's school lunch fund had an operating surplus which resulted in positive unassigned fund balance.



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- We performed analytics on the District’s audited financial statements for the past three fiscal years, including a review of fund balances, reserves and operating results. Based on this review, we noted the following:
  - The District’s current ratio has been consistently rising over the past three fiscal years and was 4.95 to 1, which is a standard indicator of fiscal health, in the fiscal year ending June 30, 2022. The standard indicator represents for every one dollar the District owes; it should have two dollars available in current assets.

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**PAYROLL**

**PAYROLL DISTRIBUTION**

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

Reason for Risk Level: We have assessed the level of control risk as low for the District’s payroll distribution processes based on the following reasons:

- An individual who is independent from the payroll processing function is responsible for bundling the checks by distribution location and verifying that all checks have been accounted for.
- The Superintendent has been appointed by the Board as the Payroll Certification Officer.
- Most employees have direct deposit and any remaining printed payroll checks are mailed directly to the employees.
- The Internal Claims Auditor reviews all payroll including new and old employee contracts for accuracy.

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**PAYROLL ACCOUNTING AND REPORTING**

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

Reason for Risk Level: We have assessed the control risk as low for the District’s payroll accounting and reporting processes based on the following reasons:

- The District has written procedures surrounding the payroll processing operations.
- The *Transactions and Earnings Register* and *Timesheet Entry Report* generated by *nVision* are reviewed by the Internal Claims Auditor, the Supervisor of Fiscal Services and the senior payroll clerk for each payroll. The review is conducted to determine that variances between pay periods for contractual employees appear reasonable, and to ensure that all time reported by hourly employees is accurately recorded.
- Payroll for per diem substitutes, special pays per Board agenda, clubs and coaches is also reviewed.
- There is proper segregation of duties between entering employees’ annual salary and/or pay rate into the AIS and the processing of payroll.

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- At the beginning of each fiscal year, a salary roll forward is performed utilizing the negotiations module in *nVision*. The Personal Assistant and the senior payroll clerk review the *Contract and Rate Report* and the *Earnings Projections Report* for bargaining units, to ensure all employees were included during the roll forward process.
- The District requires overtime to be preapproved for custodians working over fifteen hours and the preapproval must be submitted to the payroll clerk. All overtime timesheets are required to include a description of the work performed.

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**TAX FILINGS AND RECONCILIATION PROCESS**

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

Reason for Risk Level: We have assessed the control risk as low for the District's tax filings and reconciliation processes based on the following reasons:

- The quarterly IRS Forms 941 are reconciled by the Accountant II and the Supervisor of Fiscal Services prior to submission.
- All required tax filings are performed in a timely manner.
- The IRS Forms W-2 are reviewed and approved by the Supervisor of Fiscal Services prior to distribution.

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**CAPITAL ASSETS**

**ACQUISITION, DISPOSAL AND CAPITALIZATION**

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

Reason for Risk Level: We have assessed the level of control risk as low for the District's acquisition, disposal and capitalization processes based on the following reasons:

- The District has adopted policy No. 6691, *Capital Assets Accounting*, which outlines the procedures that the District must follow regarding capitalizing purchased items.
- The Purchasing Supervisor reviews purchase orders to determine if it includes items which need to be capitalized. A *Capital Asset Form* is utilized by the requestor to tag the item prior to placing it in service. Copies of *Capital Asset Forms* are returned to the Purchasing Supervisor.
- The Purchasing Supervisor submits updates to the appraisal company including additions, construction work in process and any disposals.
- The District has adopted policy No. 6900, *Disposal of District Property*, which outlines the procedures that the District must follow regarding disposals of such items.
- All asset disposals must be approved by the Board prior to disposal.

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**INVENTORY TRACKING**

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

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

- The District has implemented procedures for the tagging or tracking of capital assets.
- The District has implemented procedures to monitor the movement of capital assets with the building location or from one location to another.
- Periodic inspections of capital assets are performed to ensure that assets are in usable condition and are in their assigned locations.
- The District utilizes an outside appraisal company to track the District's assets.

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**FOOD SERVICE OPERATIONS**

**FEDERAL AND STATE REIMBURSEMENTS**

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

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

- Federal and state reimbursements are submitted utilizing the New York Child Nutrition website, which alerts the District if the number of meals is inconsistent, allowing for timely corrections.
- The District utilizes a system called *My School Apps* where student's parents can submit the free and reduced application electronically online. A paper application is also acceptable.
- Controls within the POS system are strong, where students type in their identification number that drives their meal status (free, reduced or paid).

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**SALES CYCLE**

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

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

- The District has adopted Policy No. 5405, *Wellness Policy* which outlines the District's commitment to provide an environment that promotes and protects children's health, well-being and ability to learn by supporting healthy eating and physical activity.
- The District has adopted policy No. 8505 and Regulation No. 8505-R, *Meal Charge and Prohibition Against Shaming*, which outlines the procedures that are to be followed regarding students who forget their money or do not have sufficient funds in their meal accounts.

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- On a monthly basis, surprise register counts are performed.
- On a daily basis, a District courier picks up all bank deposits from the District's locations then delivers the deposits to the bank.

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**INVENTORY AND PURCHASING**

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

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

- The food service operations of the District include a requirement to perform a monthly inventory of all food and non-food items, including government commodities.
- Based on the results of the monthly commodities inventory and the needs of the food service operations, the District's food service vendor is able to properly plan and purchase the required level of stock.
- An inventory count is performed on a quarterly basis.

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**ELIGIBILITY VERIFICATION**

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

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

- The District has appropriate procedures in place for the review of student free and reduced meal applications.
- Following federal guidelines, the District performs the required annual income verification review of 3% of the free and reduced meal applications that were submitted.
- The District properly classifies students on the free and reduced program after receiving direct certification notifications from government agencies.
- The District mails free and reduced meal applications to each student's parents. Additionally, the registration office and the main offices in each location have applications available, as well as applications are available on the District's website.

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