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INTERNAL CONTROL RISK ASSESSMENT for

RUSH-HENRIETTA CENTRAL SCHOOL DISTRICT



Rush-Henrietta Central School District
2034 Lehigh Station Road
Henrietta, NY 14467

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BACKGROUND/OBJECTIVE:

In 2005, the Office of the New York State Comptroller (OSC) along with the New York State Education Department (SED) produced the “Five-Point School Financial Accountability Plan.” The Plan promotes stronger internal controls, improves school district audits and strengthens the roles of boards of education in conducting appropriate oversight. One component of the Five-Point Plan requires all districts to establish an internal audit function, which must include the development, annual updating, and reporting on a risk assessment of district operations.

The Rush-Henrietta Central School District (“Rush-Henrietta” or sometimes referred to as “The District”) outsourced its internal audit function and engaged EFPR Group, LLP (“EFPR” formally EFP Rotenberg) to serve as its internal auditor. The risk assessment was last updated in a report issued on April 4, 2018.

In February 2019, we again reviewed relevant reports and documents and met with a variety of administrative staff to update our understanding of the processes and existing controls over District operations. This report is the product of our updated assessment of the District’s risk profile and is intended to satisfy the annual update as required by the “Five Point Plan.”

Our approach to understanding controls was to meet with appropriate personnel for each respective area and to discuss and understand processes and procedures. In addition, where necessary, we performed walk-throughs of transactions cycles and/or performed tests of transactions. After compiling this information, the audit areas were prioritized into three categories: high risk, moderate risk, and low risk.

This risk assessment identifies the areas that we believe are most susceptible to material misstatements going undetected, given existing procedures and internal controls in those areas. Strengthening control procedures helps increase the likelihood that any such misstatements would be detected and corrected by staff and management during the normal course of their duties.

INFORMATION GATHERING:

In performing our risk assessment, we reviewed the following district records:

- Financial statements for year ended June 30, 2018
- Management letters for year ended June 30, 2018
- Extraclassroom Activities financial statements and management letter for year ended June 30, 2018
- Policy manuals
- Board minutes
- Tax Collector reporting
- Internal Claims Auditor reporting
- Schedule of outstanding accounts receivable
- Budget Status Report
- Athletic admissions receipts
- Overtime reporting
- Historical Food Service financial reporting
- Audit Committee Charter

INFORMATION GATHERING (Continued):

We also interviewed the following individuals:

- Kelly Aylward, Treasurer, Purchasing Agent
- Jenna Cowie, Benefits Coordinator
- Kristin Dioguardi, Assistant Director of Human Resources
- Mary Ann Exler, Payroll Supervisor
- Maria Hamilton, Internal Claims Auditor
- Brad Malone, Director of Information and Communication Technology
- Karen Marchand, Athletics
- Karen Milburn, Director of Information Systems
- Ken Nelson, Facilities Director
- Shirley Smith-Gravanda, Transportation Director
- Jeanne Stratton, Cash Receipts
- Rachel Sullivan, Accounts Payable Clerk
- Geraldo Torres, Food Service Director
- Andrew Whitmore, Assistant Superintendent for School Finance & Operations

PROCEDURES APPLIED:

In February 2019, EFPR met with the staff noted above to update our understanding of current personnel, processes, and procedures. We employed guidelines established by the New York State Education Department (SED) and the Office of the State Comptroller (OSC) as a basis for determining the adequacy of existing controls and processes over District operations. Significant changes in personnel and procedures (if applicable) were identified through discussions with management and staff. The changes were evaluated to determine their impact on the control environment and have been documented and incorporated in the revised risk assessment.

Each general area of the District and the specific control cycle is listed below with relevant observations for each. Our recommendations and suggested enhancements are summarized for your review. Finally, based on our evaluation, we have assigned each cycle a risk level. These levels can be listed as low, moderate or high.

RESULTS:

A summary table of the control cycles and their associated level of risk, from both the 2017-18 risk assessment and this year’s updated risk assessment, is presented below:

UPDATED RISK ASSESSMENT SUMMARY

CONTROL CYCLES	LEVEL OF RISK 2017-18	LEVEL OF RISK 2018-19	FINDINGS / COMMENTS / SIGNIFICANT CHANGES FROM PRIOR YEAR
Governance / Budgeting	Low	Low	The District should establish a Charter to govern the activities of its Audit Committee in accordance with Education Law 2116-c.
Cash Receipts and Revenues	Low	Low	Revenue collected for athletic admissions should be deposited in full. Subsequent donations of these receipts should be requested and authorized through the standard disbursement process.
Transportation	Low	Low	No significant changes or concerns noted.
Food Service	Low	Low	No significant changes or concerns noted.
Extraclassroom Activity Fund	Low	Low	No significant changes or concerns noted.
Facilities, Equipment, and Inventory	Low	Low	No significant changes or concerns noted.
Purchasing, Claims, Accounts Payable, Cash Disbursements	Moderate	Moderate	No significant changes or concerns noted.
Payroll and Personnel	Moderate	Moderate	No significant changes or concerns noted.
Accounting, Reporting, and Information Technology	Low	Low	We observed that the District’s server room in the high school was not equipped with a fire extinguisher. New regulations addressing data security and privacy requirements are expected to take effect July 1, 2019.

Note – in formulating the level of risk, as displayed on the attached matrix, consideration is given to both inherent risk (categories such as budget size, and financial exposure/potential loss) and control risk (categories such as major changes in operations, programs, systems and personnel). Due to the high level of inherent risk in some control cycles (Cash Disbursements and Payroll), risk may be elevated beyond the control of the District.

RESULTS (Continued):

Each general area of the District and the specific control cycle is listed below with relevant observations and/or comments for each. Our recommendations and suggested enhancements are summarized for your review.

1. Governance / Budgeting:

Finding:

- a.) It does not appear that the District has formally established a Charter to govern the activities and responsibilities of its Audit Committee.

Recommendation:

- a.) We recommend that the District create a Charter that establishes the authority of the Audit Committee and outlines its mission, duties, and responsibilities in accordance with Education Law 2116-c.

2. Cash Receipts and Revenues:

Finding:

- a.) During our review of athletic admissions receipts, we noted one event for which we could not identify an associated deposit. Athletics informed us that the proceeds from admissions for this event were never deposited because they were donated to a charity to benefit cancer research.

Recommendation:

- a.) We suggest that all future admissions receipts be deposited in full, with all appropriate supporting documentation, after each event to properly account for any monies received. Subsequent donations of any/all of these receipts should be made only after being requested and authorized through the standard disbursement process.

3. Transportation:

Comment:

Based on our observations and discussions with management, this area appears to be functioning adequately at this time with no significant concerns noted.

RESULTS (Continued):

4. Food Service:

Comment:

Based on our observations and discussions with management, this area appears to be functioning adequately at this time with no significant concerns noted.

5. Extra-Classroom Activity Fund:

Comment:

Based on our observations and discussions with management, this area appears to be functioning adequately at this time with no significant concerns noted.

6. Facilities, Equipment, and Inventory:

Comment:

Based on our observations and discussions with management, this area appears to be functioning adequately at this time with no significant concerns noted.

7. Purchasing, Claims, Accounts Payable and Cash Disbursements:

Comment:

Based on our observations and discussions with management, this area appears to be functioning adequately at this time with no significant concerns noted.

8. Payroll and Personnel:

Comment:

Based on our observations and discussions with management, this area appears to be functioning adequately at this time with no significant concerns noted.

RESULTS (Continued):

9. Accounting, Reporting and Information Technology:

Findings:

- a.) During a tour of the server room at the high school we observed that there was no fire extinguisher located in the server room or adjacent areas.

Recommendations:

- a.) We recommend the District ensure that it has fire extinguishers placed in its server rooms so that they are readily available in the event they are needed. Although the typical gaseous fire suppression systems are too expensive to be practical in a school district environment, a fire extinguisher is much more economical and can help suppress a small fire before it grows large enough to significantly damage hardware or the building itself. The type of fire extinguishers used should be rated to effectively extinguish electrical fires and they should be inspected annually.

Comments:

- a.) The State Education Department has proposed regulations to strengthen the security of personally identifiable information for students and school personnel. The regulations are outlined in New York State Regulation Law 2-d and are expected to take effect July 1, 2019. The regulations will require school districts to implement policies and practices that adhere to the NIST framework for technology standards and guidelines, and include components related to data security and privacy requirements. Technology Services is aware of the proposed regulations and is in the process of evaluating the requirements against its current policies and practices. Given the complexities involved in these new regulations, the District should also consider having a gap analysis performed by a properly credentialed third party to ensure that it will be fully compliant with the regulations when they take effect.

SUMMARY:

As described and noted above, each area has been assigned a level of risk. The attached Exhibit A represents a summarization of all the categories we considered in formulating our risk assessment.

This document can be used as a tool to assist the Board and/or Audit Committee of the Rush-Henrietta Central School District in selecting specific control cycles in which to examine in further detail, as required by the “Five-Point Plan.”

CLOSING COMMENTS:

We would like to thank the audit committee and central administration staff of the Rush-Henrietta Central School District for their assistance and cooperation in formulating this risk assessment of the District.

Rush-Henrietta Central School District Risk Assessment 2018-19

Appendix A

Note: For each control cycle rate the perceived risk from 0-3. 0= No risk 1=low 2=Medium 3=High

Note: For the total column, risk was calculated: 0-5 = low, 6-10 = Medium, 11+ = High

In formulating the level of risk, consideration is given to both inherent risk (categories such as budget size, and financial exposure/potential loss) and control risk (categories such as major changes in operations, programs, systems and personnel). Due to the high level of inherent risk in some control cycles (Cash Disbursements and Payroll), risk may be elevated beyond the control of the District.

Control Cycle	Date or Results of last Audit/Examination	Management letter Comments	Budget Size	Financial Exposure / Potential loss and Risk	Major Changes in Operations, Programs, Systems and Controls	Personnel Changes	EFPR Evaluation (From Below)	Total Risk Score
Governance and Planning								
1	Budgeting / Governance	0	1	1	0	1	0	3
Revenue and Cash Management								
2	Cash Receipts & Revenues ♦Cash Management & Investments ♦State Aid ♦Real Property Taxes ♦User Charges	0	3	2	0	0	0	5
Student Services								
3	Transportation	0	1	1	0	0	0	2
4	Food Service	0	1	2	1	0	0	4
5	Extraclassroom Activity Fund	1	1	1	0	0	0	3
6	Facilities, Equipment and Inventory ♦Capital Assets ♦Capital Projects ♦Indebtedness ♦Inventory Controls (School Lunch)	0	2	2	0	0	0	4
Purchasing and Expenditures								
7	Purchasing, Claims Processing & AP and Cash Disbursements	0	3	3	0	1	0	7
8	Payroll and Personnel	0	3	3	0	0	0	6
9	Accounting, Reporting & I.T.	1	1	2	0	1	0	5

EFPR EVALUATION

Note: EFPR evaluated risk was determined by checklists, inquiry of staff and auditor observations

Control cycle	EFPR Evaluated Risk	
Budgeting / Governance		
Procedures are adequate and being followed	1	District should establish a Charter to govern the activities of its Audit Committee.
Proper segregation of duties	0	
Adequate staffing	0	
Concerns from staff	0	
Total EFPR evaluated risk	0	

Cash Receipts & Revenues

Procedures are adequate and being followed	1
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Revenue collected for athletics admissions should be deposited in full.

Transportation

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Food Service

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Extracurricular Activity Fund

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Facilities, Equipment and Inventory

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Purchasing, Claims Processing & AP and Cash**Disbursements**

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Payroll and Personnel

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Accounting, Reporting & I.T.

Procedures are adequate and being followed	1
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

District's server room should be equipped with a fire extinguisher.
New regulations addressing data security and privacy requirements are expected to take effect 7/1/19.