



# **INTERNAL CONTROL RISK ASSESSMENT for**

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## **RUSH-HENRIETTA CENTRAL SCHOOL DISTRICT**



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

**April 28, 2020**

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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 February 24, 2020.

In April 2021, 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, 2020
- Management letters for year ended June 30, 2020
- Extraclassroom Activities financial statements and management letter for year ended June 30, 2020
- Policy manuals
- Board minutes
- Tax Collector reporting
- Internal Claims Auditor reporting
- Schedule of outstanding accounts receivable
- Budget Status Report
- Athletic admissions receipts
- Overtime reporting

### **INFORMATION GATHERING (Continued):**

We also interviewed the following individuals:

- Kelly Aylward, Treasurer, Purchasing Agent
- Jenna Cowie, Payroll & Benefits Supervisor
- Maria Hamilton, Internal Claims Auditor
- Brad Malone, Director of Information and Communication Technology
- 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 April 2021, 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 2019-20 risk assessment and this year's updated risk assessment, is presented below:

### **UPDATED RISK ASSESSMENT SUMMARY**

<b>CONTROL CYCLES</b>	<b>LEVEL OF RISK 2019-20</b>	<b>LEVEL OF RISK 2020-21</b>	<b>FINDINGS / COMMENTS / SIGNIFICANT CHANGES FROM PRIOR YEAR</b>
Governance / Budgeting	Low	Moderate	There is a significant amount of uncertainty regarding anticipated state aid due to COVID-19 which will impact the budgeting process.
Cash Receipts and Revenues	Moderate	Low	No significant changes or concerns noted.
Transportation	Low	Low	No significant changes or concerns noted.
Food Service	Low	Moderate	Food Service operations are being significantly impacted by COVID-19 which will likely lead to operating losses.
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	District should consider conducting phishing prevention exercises.

**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:**

#### **Comment:**

COVID-19 is creating a tremendous amount of uncertainty with respect to the budgeting process in New York State public schools. Schools experienced a 20% reduction to their final 2019-20 aid payments. Schools have also been uncertain how their aid for 2020-21 will be adjusted. Additionally, as the budget for 2021-22 is being developed there has been concern that aid in future year(s) could also be impacted. Consequently, there has been significant concern that school districts will see substantial cuts to their anticipated state aid both in the current and subsequent year(s). Based on recent guidance, it appears that these worse case scenarios are likely to be avoided by New York State utilizing federal assistance to backfill reductions in state aid. However, there continues to be concerns regarding impacts to aid for next year and beyond. We encourage the District to ensure that conversations between the Board of Education and management are timely and transparent with respect to state aid updates that could impact budgeting and spending decisions.

### **2. Cash Receipts and Revenues:**

#### **Comment:**

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

### **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:**

Food Service operations in school districts are being significantly impacted by COVID-19. Rush-Henrietta's program experienced a loss from operations of \$330,000 during the 2019-20 school year due to the effects of the shutdown during the spring of 2020. Due to the hybrid learning models that have been adopted during 2020-21, there are significantly fewer students in most schools on any given day. This, along with other operational changes (i.e. reductions to a la carte), has lowered student participation and the number of meals served. This will have a direct impact on revenue and is expected to lead to a substantial operating loss again for the current school year. Management appears to be monitoring the program's financial performance closely and efforts have been made to minimize labor costs. We encourage management to continue to monitor the program closely in an effort to minimize operational losses this year.

### **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.

## **RESULTS (Continued):**

### **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.

### **9. Accounting, Reporting and Information Technology:**

#### **Finding:**

- a.) Based on discussions with Technology personnel, it does not appear that the District has a formal process in place related to performing phishing prevention exercises. Phishing is the attempt to acquire sensitive information such as usernames, passwords, financial details, or other personal information, often for malicious reasons. Successful phishing campaigns are a leading cause of data breaches and other events that compromise an organization's network. Phishing is also the delivery mechanism of choice for ransomware and other malware. Conducting phishing prevention exercises, through sending test emails to staff, can be useful in assessing the effectiveness of the required annual awareness training and reinforcing its importance with personnel.

#### **Recommendation:**

- a.) We encourage the District to work towards implementing a formal phishing prevention program that can be used to evaluate the effectiveness of its cybersecurity awareness training efforts. The District should also consider potential disciplinary responses for personnel who fail these exercises, including warnings, remedial training, or further reprimands for employees who fail multiple exercises.



**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 2020-21

## 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
<b>Governance and Planning</b>								
1 Budgeting / Governance		0	1	1	3	1	1	7
<b>Revenue and Cash Management</b>								
2 Cash Receipts & Revenues	Medicaid 2018 High Cost Aid - 2020	0	3	1	0	1	0	5
<ul style="list-style-type: none"> <li>♦Cash Management &amp; Investments</li> <li>♦State Aid</li> <li>♦Real Property Taxes</li> <li>♦User Charges</li> </ul>								
<b>Student Services</b>								
3 Transportation		0	1	1	0	0	0	2
4 Food Service		0	1	2	3	0	1	7
5 Extraclassroom Activity Fund	Student Café 2019	1	1	1	0	0	0	3
6 Facilities, Equipment and Inventory		0	2	2	0	0	0	4
<ul style="list-style-type: none"> <li>♦Capital Assets</li> <li>♦Capital Projects</li> <li>♦Indebtedness</li> <li>♦Inventory Controls (School Lunch)</li> </ul>								
<b>Purchasing and Expenditures</b>								
7 Purchasing, Claims Processing & AP and Cash Disbursements		0	3	3	0	0	0	6
8 Payroll and Personnel		0	3	3	1	2	0	9
9 Accounting, Reporting & I.T.		0	1	3	0	0	0	4

### EFPR EVALUATION

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

Control cycle	EFPR Evaluated Risk	
<b>Budgeting / Governance</b>		
Procedures are adequate and being followed	0	There remain concerns about COVID-19 impact on state aid next year and beyond, which may impact budget process.
Proper segregation of duties	0	
Adequate staffing	0	
Concerns from staff	2	
<b>Total EFPR evaluated risk</b>	<b>1</b>	

**Cash Receipts & Revenues**

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

**Transportation**

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

**Food Service**

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	3
<b>Total EFPR evaluated risk</b>	<b>1</b>

Food Service operations are being significantly impacted by COVID-19 which will likely lead to operating losses.

**Extraclassroom Activity Fund**

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

**Facilities, Equipment and Inventory**

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

**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
<b>Total EFPR evaluated risk</b>	<b>0</b>

**Payroll and Personnel**

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

**Accounting, Reporting & I.T.**

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

District should consider conducting phishing prevention exercises.