

Scarsdale Union Free School District

Risk Assessment Update Report

June 8, 2018

Risk Assessment Update Report

To the Board of Education and Audit Committee
Scarsdale Union Free School District
Scarsdale, New York

We have performed the annual risk assessment update of the Scarsdale Union Free School District (District) as required by Chapter 263 of the Laws of New York, 2005 and as per our agreement of July 1, 2017.

This engagement is in accordance with auditing standards generally accepted in the United States of America and the applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also considered the guidelines promulgated by the New York State Education Department in connection with such risk assessments.

Specifically, we performed the following:

- Reviewed our understanding of the critical business processes of the District. These critical business processes included, but were not limited to:
 - Governance and planning
 - Accounting and reporting
 - Revenue and cash management
 - Payroll and related benefits
 - Purchasing and related expenditures
 - Facilities and equipment
 - Student services
 - Student related data
 - Information technology
- Identified the key risks based on our understanding of these business processes.
- Identified the stated controls that are currently in place to address those risks.

These procedures were accomplished through interviewing District management and accounting and other departmental personnel to determine the flow of accounting information and controls placed in operation. The scope of our engagement did not include testing the operating effectiveness of such controls.

Our procedures were not designed to express an opinion on the internal controls of the District, and we do not express such an opinion. Additionally, because of inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. Also, projections of an evaluation of the accounting system and controls to future periods are subject to the risk that procedures may become inadequate because of changed conditions.

We would like to express our appreciation for the cooperation and assistance that we received from the District's administration and other employees during our engagement, especially the Business Office personnel.

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

Cullen & Danowski, LLP

June 8, 2018

SCARSDALE UNION FREE SCHOOL DISTRICT

Introduction

June 8, 2018

Chapter 263 of the Laws of New York, 2005 requires most districts to create an internal audit function. The creation of this function requires districts to engage either a qualified audit firm or individual to make an initial risk assessment of the design of the district's internal controls; annually update this assessment; and, periodically test these controls for operational effectiveness and efficiency. This report addresses the second requirement, which is an annual risk assessment update.

Internal controls are the checks and balances over the various processes or functions that comprise the operations of a district. As previously mentioned, we have identified the following key processes to be considered in the risk assessment update (Note: each one of the key processes is comprised of sub-functions.)

- Governance and planning
- Accounting and reporting
- Revenue and cash management
- Payroll and related benefits
- Purchasing and related expenditures
- Facilities and equipment
- Student services
- Student related data
- Information technology

One key element in any internal control system is the concept of **segregation of duties**. This concept ensures that one person cannot execute a transaction without at least one other individual checking his or her work. Of course, where segregation of duties is not feasible, the district can employ compensating controls.

Nevertheless, there are some important concepts that should be understood when reviewing internal controls. These concepts are:

- An internal control system is designed to provide reasonable but not absolute assurance in safeguarding the assets of the district.
- The concept of reasonable assurance recognizes that the cost of the internal control should not exceed the benefits derived.
- There are inherent limitations that should be recognized in considering the potential effectiveness of any internal control system, e.g., errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. More importantly, it is **collusion** that poses the greatest threat to any internal control system. If two employees collude in order to circumvent the controls set up by the district, they could perpetrate a fraud.

The initial risk assessment required the internal auditor to obtain an understanding of both the inherent and control risks associated with the various functions within the District. The risk assessment update requires the internal auditor to identify the changes in procedures, policies, personnel, and systems that may have an impact on these risks and possibly alter the initial risk assessment's level of control risk.

Control risk measures the adequacy of internal controls designed to mitigate the inherent risk within the process. In this engagement, we have assessed the control risk based upon our interview process. The testing of the controls, which is performed during the detailed testwork, could support the lowering of the prior control risk assessment associated with individual processes and sub-functions.

SCARSDALE UNION FREE SCHOOL DISTRICT

Introduction (Continued)

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We have organized this report into the following four sections:

The first section is a risk assessment table. In this table, we identify the processes or functions that we have reviewed. This table includes our assessment of the control risk associated with each process. There are two control risk columns to reflect the prior year risk assessment level and the current year risk assessment level based on the results of the risk assessment update as well as the detailed testwork performed for selected processes. **Since the testing of controls has not been done for all processes, it is important to note that this table should not be viewed as the final assessment of the District's control environment.** The Risk Assessment Table also includes our suggestions for processes to be tested during the coming year. However, the decision of which processes to review in detail is at the discretion of the Audit Committee.

The second section includes the current observations and recommendations based on new findings identified during this risk assessment update. These are categorized based upon the areas of our audit program similar to the prior risk assessment report and these findings have been considered in the assessment of the level of control risk.

The third section contains the current status of the observations and recommendations that are still open for areas of potential improvement in the District's internal controls or operations included in the following reports:

<i>Report Type</i>	<i>Issue Date</i>	<i>Area(s)</i>
Risk Assessment	June 9, 2017	District-wide
Agreed-Upon Procedures	June 8, 2017	Transportation

These results have been considered in the assessment of the level of control risk.

The fourth section contains the observations and recommendations included in the prior risk assessment and/or agreed-upon procedures reports that are now considered closed. The fact that these items have been implemented or resolved was considered in the assessment of the level of control risk.

Some of the recommendations may require a reassignment of duties and/or an addition to Business Office personnel. However, any enhancement of controls should be done after a careful cost-benefit analysis.

Corrective Action Plan:

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan, approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department (NYSED).

The District should submit the Corrective Action Plan (CAP) along with the respective Internal Audit Report via the NYSED Portal.

SCARSDALE UNION FREE SCHOOL DISTRICT

Risk Assessment Table

June 8, 2018

*(L=Low, M=Moderate, H=High) **

Business Process Area	**Date of Detail Testing	Control Risk		Proposed Detail Testing
		Prior Year	Current Year	
Governance and Planning				
Governance Environment		L	L	
Control Environment		M	M	
Strategic Planning		M	M	
Budget Development		M	M	
Budget Administration		M	M	
Accounting and Reporting				
Assessing Financial Condition		L	L	
Financial Accounting and Reporting		M	M	
Auditing		L	L	
Financial Oversight		L	L	
Fund Balance Management		M	M	
Revenue and Cash Management				
Real Property Tax		L	L	
State Aid		M	M	
Medicaid		M	M	
Out of District Tuition		M	M	
Use of Facilities		L	L	
Donations		M	M	
Collection & Posting of Receipts	07/15/10	L	L	
Cash Management	07/15/10	L	L	
Investment Management		M	M	
Petty Cash		L	L	
Bank Reconciliations		M	M	
Grants and Special Education				
General Processing/Monitoring		M	M	
Grant Application		L	L	
Allowable Costs		M	M	
Cash Management		L	L	
Reporting and Monitoring		M	M	
Compliance		M	M	
Special Education - Financial Activities	05/21/15	L	L	
Payroll, HR and Related Benefits				
Payments to Employees ***	06/02/14	L	L	
Allocation of Expenditures ***	06/02/14	L	L	
General Employee Administration ***	06/02/14	L	L	
Hiring/Termination of Employees ***	06/02/14	L	L	
Annual Salary Rollover & Mid-Year Increase	06/09/16	L	L	
Employee Attendance		M	M	
Employee Benefit Administration		M	M	
Time Clock System	04/18/12	L	L	

* The assessment of control risk is based on three levels of severity (low, moderate, high) related to the probability of a negative occurrence in the absence of controls designed to reduce the inherent risk within the respective process.

** Indicates the issuance date of an agreed-upon procedures report (AUP) for that area.

*** Area was also reviewed and included in the AUP Report dated May 14, 2008.

SCARSDALE UNION FREE SCHOOL DISTRICT
Risk Assessment Table (Continued)
June 8, 2018

(L=Low, M=Moderate, H=High) *

Business Process Area	**Date of Detail Testing	Control Risk		Proposed Detail Testing
		Prior Year	Current Year	
Purchasing and Related Expenditures				
PO System	06/14/09	L	L	
Payments Outside PO System		M	M	
Purchasing Process	06/14/09	L	L	
Allocation of Expenditures	06/14/09	L	L	
Payment Processing	06/14/09	L	L	
Travel and Conferences		M	M	
Credit Cards		M	M	
Facilities				
Facilities Maintenance		M	M	
Construction Planning		M	M	
Construction Monitoring		M	M	
Construction Completion		M	M	
Capital Assets				
Acquisition: Information Technology Assets	05/21/15	L	L	
Acquisition and Disposal		M	M	
Inventory		M	M	
School Environment				
Safety and Security		M	M	
Student Transportation				
Fleet Maintenance	06/08/17	M	M	
Personnel Compliance	06/08/17	M	M	
Facilities Maintenance and Security	06/08/17	M	L	
Food Service				
Federal and State Reimbursement	04/18/12	L	L	
Sales Cycle and System	04/18/12	L	L	
Inventory and Purchases	04/18/12	L	L	
Eligibility Verification	04/18/12	L	L	
Extracurricular Activity Fund				✓
General		M	M	
Cash and Cash Receipts		M	M	
Expenditures and Purchasing		M	M	
Inventories		L	L	
Student Related Data				
Tracking Student Attendance		M	M	
Student Performance Data		M	M	
Information Technology				
Governance		M	M	
Network Security		M	M	
Financial Application Security		M	M	
Other Application Security		M	M	
Disaster Recovery		M	M	

* The assessment of control risk is based on three levels of severity (low, moderate, high) related to the probability of a negative occurrence in the absence of controls designed to reduce the inherent risk within the respective process.

** Indicates the issuance date of an AUP report for that area.

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CURRENT OBSERVATIONS AND RECOMMENDATIONS

GOVERNANCE AND PLANNING

Internal Audit Reports – Corrective Action Plan

We found that the District has not prepared a Corrective Action Plan (CAP) related to the Risk Assessment Update Report and the Agreed-Upon Procedures Report issued in June 2017, as required by Commissioner of Education Regulation (CR) §170.12(e)(4).

We recommend that the District establish procedures to ensure compliance with CR §170.12(e)(4) by preparing a Board-approved CAP and filing within 90 days of issuance with the New York State Education Department (NYSED).

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (OPEN ITEMS)

PAYROLL, PERSONNEL AND RELATED BENEFITS

Health Insurance – Payroll Deduction Register and Records

Risk Assessment Update – 2016

We recommended that the Human Resources (HR) Department develop procedures to perform periodic reconciliations of the payroll deduction register and the payroll records to the health insurance provider invoice to ensure accuracy and completeness of the information, since we found that the District began to require bargaining units to contribute to the cost of health insurance beginning in the 2014-15 year.

Risk Assessment Update – 2017

We were informed that the HR Manager reconciled the District records to the health insurance invoice during the summer of 2016, but another reconciliation had not been planned until the summer of 2017. We recommended that the HR Department develop procedures to perform a reconciliation of the health insurance provider invoice to the District records and to the payroll deduction register at least twice during the year. We also recommended that these reconciliations be documented and filed in the HR Department.

Risk Assessment Update – 2018

We found that the District has changed the health insurance provider and plans to implement this recommendation based on the invoices to be received from the new provider.

FACILITIES

District Vehicles – Facilities Department

Risk Assessment Update – 2017

We recommended that the District consider adding District logos, lettering and numbers to the Facilities Department work vehicles to identify them as official assets, and to reduce the risk of potential use of these vehicles for personal reasons. Although the District work vehicles used by the Facilities Department staff have the proper license plates that include “Scarsdale School District” on the plates, stronger controls would include these vehicles having logos or lettering noting that these assets are the property of the District.

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Risk Assessment Update – 2018

We note that the District still needs to address this recommendation.

STUDENT TRANSPORTATION

District Vehicles – Miles Per Gallon Calculations

Agreed-Upon Procedures – 2017

We recommended that the District establish procedures for the Supervisor to review the miles per gallon calculations for District vehicles per the invoices from the Village and investigate any amounts that are unusual or above an established range. The reason for such variance should be investigated and documented.

Risk Assessment Update – 2018

We note that the Supervisor created a Village Maintenance Billing 2017-18 spreadsheet to facilitate the monitoring of the Village expenses for the fiscal year. The monthly expenses are entered into the spreadsheet to record the key categories: staff salaries, automotive parts, staff overtime and utilities. This information is based on the monthly invoices that the Village bills the District. We understand that the Supervisor plans to create a Village Fuel Billing 2017-18 spreadsheet, similar to the Village Maintenance Billing spreadsheet, and will make notes related to the review of the miles per gallon calculations.

Field Trips and Athletic Trips

Agreed-Upon Procedures – 2017

We recommended that the District improve the processes related to field trips and athletic trips as follows:

- a) Prepare a listing of the field trips that are paid for by the District and distribute to the schools and the Department.
- b) Define the approval requirements related to signing the Transportation Request Forms to grant permission for the field trip (e.g., principal, department head, etc.)
- c) Require that each coach or designee sign the Transportation Request Forms upon the return from an athletic event to confirm the return time of the bus.
- d) Review procedures to determine if it is necessary to complete the Transportation Request Form with the bus driver's hourly rate, the miles traveled and calculating the cost of the trip when there is no charge to the school or department.
- e) Determine if the Supervisor must approve the Transportation Request Forms.
- f) Revise the Transportation Request Forms as necessary.

Risk Assessment Update – 2018

We note that the District has begun to address these items and plans to complete this initiative for the 2018-19 year.

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STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)

REVENUE AND CASH MANAGEMENT

Library Funds – Lost Book Fines

Risk Assessment Update – 2015

We noted that the District had developed procedures to have the Middle School (MS) submit any lost book fines to the Business Office. We recommended that the District establish these procedures for the elementary schools.

Risk Assessment Update – 2016 and 2017

We understood that the District planned to investigate this matter with the elementary schools.

Risk Assessment Update – 2018 (This item is now closed)

We found that the Business Office is working with the elementary schools to develop procedures related to any lost book fines.

PAYROLL, PERSONNEL AND RELATED BENEFITS

CSI Time Clock Module – Payroll

Risk Assessment Update – 2012

We recommended that the District consider revising procedures with the other bargaining units that consist of hourly employees, particularly the aides and bus drivers, to require them to use the CSI Time Clock module to record their arrival and departure time each day, since the process to calculate the hours for these employees was very labor intensive and had potential for errors. The implementation of having all hourly employees follow the same procedures as the facilities employees, using the CSI Time Clock module and swipe cards, should result in additional significant operational efficiencies.

Risk Assessment Update – 2013

We understood that the Information Technology (IT) Department had mapped out the scenario for aides (wiring, locations). However, we were informed that the Personnel Department ceased moving forward with this initiative during the summer of 2013, even though the use of the CSI Time Clock module had proven to be very beneficial with the Facilities Department employees.

Risk Assessment Update – 2014

We noted that the District was addressing the implementation of the CSI System's position controls and salary guides, and planned to address this item during the 2015-16 year. We again recommended that the District consider revising procedures with the other bargaining units that consist of hourly employees to require them to sign-in and sign-out each day, particularly the aides and bus drivers, since the process to calculate the hours for these employees was very labor intensive and had potential for errors. The implementation of having all hourly employees follow the same procedures as the Facilities Department staff, using the CSI Time Clock module and swipe cards, should result in additional significant operational efficiencies.

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Risk Assessment Update – 2015 and 2016

We found that the District was in the process of considering this recommendation.

Risk Assessment Update – 2017

We found that the District had determined that the CSI Time Clock module needed to be replaced with a more robust software program, so the District was investigating other time management systems and had included this item in the 2017-18 budget. We had noted that the District had viewed a demo from a potential vendor (i.e., Frontline) and its VeriTime biometric time management system. We understood that the District still needed to evaluate and view demos of other systems before making a decision. After choosing a time management system, the District would establish a timeline for rolling out the new system to staff within the selected bargaining units.

Risk Assessment Update – 2018 (This item is now closed)

We note that the District has replaced the CSI Time Clock module and installed new biometric time clocks (i.e., TimeClock Plus), which integrate with the CSI SMARTS payroll module. The employees from the Transportation Department, Facilities Department and the hourly aides are required to use the biometric time clocks. We understand that the District is looking into adding other staff (e.g., substitute teachers, interns and other hourly employees that are non-aligned with a bargaining unit) to use the biometric time clocks.

Substitute Rates and Leave Replacement Rates

Risk Assessment Update – 2016

We recommended that the District follow the Board policy related to salary payments for per diem and retired substitute teachers and nurses or continue with the current practice, but revise the Board policy. We also recommended that the District consider paying leave replacements at 1/200th of salary class, only after the teacher that they are covering has come off payroll.

Risk Assessment Update – 2017

We understood that the District was working towards hiring leave replacements at step 1 where possible and was moving away from hiring retirees as leave replacements. We again recommended that the District align the Board policy and current practice related to salary payments for per diem and retired substitute teachers and nurses, which states that the retired substitute should be paid at 1/200th of the salary class at the time of retirement only after working 21 or more days in the same assignment. We also recommended that the District consider paying leave replacements at 1/200th of salary class, only after the teacher that they are covering had come off payroll. Prior to that date, the leave replacement would be paid at the daily substitute rate.

Risk Assessment Update – 2018 (This item is now closed)

We found that the District has addressed this comment. We also note that the District has established procedures to include the salary amounts for all staff on the personnel reports of the Board agendas.

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STUDENT TRANSPORTATION

Surveillance Cameras

Agreed-Upon Procedures – 2017

We recommended that the District resolve the issue with the non-working monitor related to the external surveillance cameras at the Compound, so the head bus drivers can view the outside activities at that location.

Risk Assessment Update – 2018 (This item is now closed)

We note that the District has fixed the monitor related to the external surveillance cameras at the Compound.

District Courier

Agreed-Upon Procedures – 2017

We recommended that the District consider having the District Courier assume the task of dropping the mail from the Administrative Office to the post office and discontinue having a transportation employee perform this task. We also recommended that if an employee does a task outside of the normal bus driver duties, the employee would indicate on the timesheet the hours that this task is performed.

Risk Assessment Update – 2018 (This item is now closed)

We found that the District Courier has been assigned the task of dropping the mail from the Administrative Office to the post office. We also note that the District established procedures to require an employee to indicate on the timesheet the hours that a task is performed outside of the normal bus driver duties,

Review and Approve Employee Timesheets

Agreed-Upon Procedures – 2017

We recommended that the District establish procedures to require all transportation employee timesheets be reviewed and approved by one of the head bus drivers with a signature or initial indicating that the review was performed.

Risk Assessment Update – 2018 (This item is now closed)

We note that District has installed biometric time clocks and the process requires the head bus drivers and the Supervisor to review, edit as necessary and approve all transportation employees' hours prior to processing the payroll each cycle.

Village Invoices

Agreed-Upon Procedures – 2017

We recommended that the District establish procedures to require the Village to provide documentation to support parts and materials expenses on the invoice based on a threshold amount (e.g., \$300) and to include explanations for overtime charges. In addition, we recommended that the District coordinate with the Village to clearly define the other types of charges that should be included on the monthly invoice and appropriate percentage amount, if applicable (e.g., HVAC condenser, elevator repairs, etc.).

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Risk Assessment Update – 2018 (This item is now closed)

We found that the District has established procedures to require the Village to provide documentation to support parts and materials expenses on the invoice when the amount is \$300 or more and to include explanations for overtime charges. In addition, the District has coordinated with the Village to clearly define the other types of charges that should be included on the monthly invoice and appropriate percentage amount, if applicable.

District Vehicles – Official Plates

Agreed-Upon Procedures – 2017

We recommended that the District ensure that all District vehicles have the required Scarsdale School District official license plates.

Risk Assessment Update – 2018 (This item is now closed)

We note that the District has obtained the required Scarsdale School District official license plates for the vehicles that still needed these plates, with one remaining vehicle to be changed upon the upcoming registration renewal.

