

**Michael T. Wolff, CIA
Advisory Services**

Averill Park Central School District
Attn: Board of Education/Audit & Finance Committee
146 Gettle Road
Averill Park, NY 12018

March 17, 2020

Re: 2019-2020 Risk Assessment

The 2019—2020 annual update of the Financial Risk Assessment for the Averill Park Central School District has been completed. The purpose of the engagement was to assist the District in complying with the regulations imposed by the 2005 School Financial Oversight and Accountability Legislation.

The purpose of the financial risk assessment is to review the internal controls that the district has in place to prevent errors, detect fraud, ensure that financial reporting is accurate and that the district assets are safeguarded. In conducting the financial risk assessment key staff members were interviewed to obtain an understanding of the financial processes, internal controls, and general operating procedures. Additionally, transactions were randomly selected & tested in the following areas: cash receipts and cash disbursements covering the period of December 1, 2018 – November 30, 2019.

During the review there were minor exceptions identified, however, none of the exceptions taken singularly or in aggregate appear to rise to the level of a significant deficiency or material weakness of internal controls. The following pages summarize our examination findings and recommendations.

It was a pleasure working with the staff of the Averill Park Central School District and if there are any questions concerning this report, the review, or if we can be of assistance in the future please feel free to contact us.

Sincerely,



Michael T. Wolff, CIA
Internal Control Specialist
Michael Wolff Advisory Services

Comments and Recommendations

The items listed below represent a summary of the risk assessment update for the 2019-2020 year. None of the issues identified singularly or in aggregate represent a significant deficiency or material weakness of the internal controls.

Financial Area:

Financial Reporting, Budgeting, and District Governance: The oversight by the Board and Administration is imperative to ensure the assets of the district are protected, public funds are used appropriately, and the district is in compliance with various rules and regulations.

We reviewed the minutes of the Board meeting and various committees. As part of this review, we analyzed the information given to the Board for content, timeliness, and transparency. We reviewed the process of establishing the budget, monitoring progress throughout the year, and performing budget transfers. We also reviewed the process of creating the annual financial reports as well as periodic reports that are presented to the Board of Education for monitoring purposes.

Observations:

The communication between administration and the Board, (Board Committees) has been consistent and transparent. The Board has received financial status updates, payroll and personnel updates and has been involved in the budgeting process.

Based on a review of the minutes and the information transacted, the district's Board appears to have sufficient information for monitoring the activity of the District.

Payroll: We reviewed the payroll process including, hiring, performing background checks, maintaining personnel files, regulatory filings, terminations, preparing payroll, salary changes, vacation and sick time record keeping, benefits, and account reconciliations.

Observations: There were no significant changes in personnel or processes, therefore, the risk (s) associated with these functions remains unchanged. The staff appears knowledgeable in the areas of processing payroll and the procedures appear sound. However, the following was noted:

- The first pay for 10-month employees includes a full paycheck even if they have not worked a full two weeks. This causes the situation of paying for services that have not been received which is generally not allowed by law. Additionally, the district is potentially at risk if an employee resigns or terminates with little notice. Typically in these situations, the district is at a risk of loss since recovering the prepaid wages may be unsuccessful.

Recommendations: When preparing future payroll calendars, schedule the first pay for 10-month employees to reflect the number of days worked before the payday.

Cash Receipts: We review the cash receipt process to ensure there are sound internal controls, for receiving, safeguarding, processing, and recording receipts. Included in this process were electronic ACH transactions, tax receipts, petty cash, and cafeteria funds. We also tested 3 cash receipt transactions for proper documentation, accounting accuracy and timeliness of deposits. There were no significant changes in personnel or these processes, therefore, the risk(s) associated with these functions remains unchanged.

Observations:

- All the cash receipts were found to have supporting documentation and in general, all controls were followed. However, during our review, we noted equipment sold to employees,

that had been declared surplus by the Board. Although the district is receiving funds for the surplus equipment, the sale should be open to the public to obtain the best price.

- One deposit (\$360) was not deposited in the three days recommended by the Comptroller. Although the holiday break may have contributed to some of the time, the event was held on 12/21/19 and the deposit was not made until 1/7/2020. To reduce the risk of loss or unauthorized use, cash should be deposited in a timely manner.

Payables and Disbursements: We reviewed the cash disbursement process to ensure there were sound controls for acquiring goods and services, receiving goods and services, processing competitive bids, and the controls for the use of credit cards and petty cash. We also tested 35 cash disbursement transactions with no material exceptions noted. As part of the payable process, we reviewed the procedures performed by the Claims Auditor. There were no significant changes in personnel or these processes, therefore, the risk(s) associated with these functions remains unchanged.

Observations:

- 1 of the 36 items tested were purchased prior to the Purchase Agent authorizing the purchase by issuing a PO. (“Confirming PO”) This exception was not reported to the Board as part of the Claims Auditors report.
- 3 of the 36 payables were submitted on claim forms instead of using purchase orders prior to the service being performed.
- 1 vendor had a blanket PO for \$7,000 for electrical supplies. A purchase of \$8,000 was charged to this PO for specific items/services. The \$8,000 purchase should have had a PO created just for this purchase and the blanket PO should have been used for miscellaneous items.
- Based on discussions, the claims auditor has not attended any training for some time.
- The Board policies do not address Federal Purchases and the procedures to be followed under the Federal Government’s Uniform Guidance.

Recommendations:

1. Purchasing policies should be reviewed with staff to ensure that purchase orders are obtained for all purchases, before the purchase being made.
2. It is recommended that the Claims Auditor attends periodic training to remain current in their skill set. Additionally, the Claims Auditor should report findings that are discovered during the claims review. (e.g. no PO, confirming PO’s, no quotes, sales tax, etc.) The Claims Auditor is the appointed eyes of the Board for reviewing expenses and should report accordingly.
3. The District should update its Board policy to address Federal purchases required under the Uniform Guidance regulation.

Cash, Investments, Bank Reconciliations: We reviewed the controls over the safeguarding, recording, and reconciling of the Districts, cash and investment accounts without exception. We reviewed the November 2019 bank reconciliations for all accounts.

Observations: 43 outstanding checks totaling \$3,271 that are greater than 90 days old. In the scholarship account, the oldest check was from 2015.

Other than these outstanding items the staff and procedures have remained constant and the internal controls appear to adequately monitor the risks.

Cafeteria Operations—We reviewed the process of safeguarding cafeteria cash, reconciling the cash registers, tracking and safeguarding food inventories and reporting on cafeteria operations without exception.

General Comment: It has become a State-wide issue for school districts to incur significant expenses as a result of negative, student lunch fund balances. Averill Park’s Board and Administration have been monitoring this issue and we recommend continuing since these unknown expenses presents a risk of loss.

Transportation—Being a School district with limited in-house transportation, the risk associated with this function is also limited.

Observations: In August 2018, the NYS Comptroller issued a report on School Bus Safety which was a State-wide audit. This audit had many recommendations and one highlight was that districts are responsible for when they use outside agencies for transportation. A review of the Board’s policies noted that there is a policy that authorizes the use of charter buses and field trips. In addition to this policy, the district has an “unofficial procedure” to have the buses and drivers reviewed by the Transportation department or a school administrator prior to departure.

Recommendations: The district is currently performing a “best practice” of vetting charter drivers and companies; we recommend that a written policy/procedure is created and distributed to all staff to ensure all employees are aware of the procedure.

Information Technology: We reviewed the general security control procedures for safeguarding the district’s network, providing and removing access, and the documented procedures for disaster recovery.

Observations: Based on our interview with the director of IT and review of IT purchasing polices the following was noted:

- The district’s Disaster Recovery Plan is in draft and is need of updating.

Recommendations: The District’s disaster recovery plan should be updated and approved by the Board.

Fixed Assets—We reviewed the processes for ordering, receiving, safeguarding and tracking the district’s fixed assets. A physical inventory has been performed in the last year, which is considered a best practice. Most fixed assets are information technology assets which although walkable are controlled by the IT department with the inventory monitored.

Observation: See comment under “purchasing and payables” about selling surplus materials to the general public.

Extra-classroom Activity Funds (“ECAF”)—We interviewed the Central Treasurer and reviewed the procedures for processing ECAF transactions and safeguarding all funds, as well as recording all appropriate sales tax. The district began using an Extra-classroom Auditor who periodically reviews the documentation of the clubs and their activities. This is a “best practice” and assists the district in minimizing exposure or at least notifying the district in advance of problems.

Observation #1 - The district established the ECAF Auditor position, however policies or procedures haven’t been created to identify the Auditors procedure, authority and expected reports.

Observation #2 - A review of the Club Auditor’s preliminary review of 2019-20 noted that several deficiencies have been noted by the clubs. Many of the clubs did not submit documentation for review. At the time of our review, the results of that review had not yet been communicated.

Recommendation #1 - The district should create an outlined policy or procedure for the ECAF Auditor which identifies the roles, responsibilities, and authority or reporting lines.

Recommendation #2 - A procedure manual specific to Averill should be created. This guide would assist the ECAF advisors, student treasurer's and central treasurer's by providing consistent procedures and forms for their use. Additionally, it is recommended that training is provided to all the Advisors, Student Treasurers, and Central Treasurers at the beginning of the school year.

Additional Considerations:

The regulatory and financial environment that the School District operates within is constantly changing and risks should be continually and/or periodically monitored. The following items are listed as either a reminder or suggestion for the district to consider in mitigating risks within this working environment. Please note these items are listed solely as a reminder and are not indicative of any deficiencies noted during our review.

1. The Board of Education ("BOE") and/or Audit Committee should continue to monitor the corrective action plans from the Management Comment letters provided by your external auditors, and any corrective actions taken as a result of this report.
2. The NYS Comptroller's Office issued an audit in July 2019 on a sample of 17 school districts examining their compliance with the New York State Safe Schools Against Violence in Education (SAVE) Act. It is anticipated that this will become an area of focus for the Comptroller's Office. Compliance with this act should be monitored.
3. The NYS Education Department issued a notice in July 2019 of the increased risk from ransomware and threats to cybersecurity. The District should continue to monitor cybersecurity programs and incident response plans.