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UPDATED INTERNAL CONTROL RISK ASSESSMENT FOR

WEST IRONDEQUOIT CENTRAL SCHOOL DISTRICT



West Irondequoit Central School District
321 List Avenue
Rochester, NY 14617

June 9, 2017

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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 West Irondequoit Central School District (“West Irondequoit” or sometimes referred to as “The District”) outsourced its internal audit function and engaged EFPR Group, CPAs, PLLC (“EFPR”) to serve as its internal auditor. The risk assessment was last updated in a report issued on July 6, 2016.

In June 2017, 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 transaction 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.

The 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 misstatement would be detected and corrected by staff and management during the normal course of their duties.

INFORMATION GATHERING:

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

- Financial statements for years ended: June 30, 2016
- Management letters for years ended: June 30, 2016
- Current and prior years’ budgets
- Policy manuals
- Board minutes
- Current year appropriation status report
- Cash receipts log
- Schedule of current year invoices issued by the District
- Schedule of outstanding accounts receivable
- Accounts payable warrants
- Payroll registers
- Tax collector reporting
- Internal claims auditor reporting

INFORMATION GATHERING (Continued):

We also interviewed the following individuals during the risk assessment update:

- James Brennan, Assistant Superintendent for Business
- Diane Connelly, Accounts Payable
- Scott Ertel, Director of Technology
- Leslie Ferriter, Benefits
- Pat Hartman, Internal Claims Auditor
- Sandra Klem, Payroll
- Betsy LoGiudice, Director of Food Service
- Greg Pheterson, District Treasurer
- Sandra Sandford, Secretary to the Assistant Superintendent for Business
- Ann Sick, Benefits

PROCEDURES APPLIED:

In June 2017, 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 Controller (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 2015-16 risk assessment and this year’s updated risk assessment, is presented below:

UPDATED RISK ASSESSMENT SUMMARY

CONTROL CYCLES	LEVEL OF RISK- 2015-16	LEVEL OF RISK- 2016-17	COMMENTS / SIGNIFICANT CHANGES FROM PRIOR YEAR
Governance / Budgeting	Low	Low	No significant changes or concerns noted at this time.
Cash Receipts and Revenues	Moderate	Low	No significant changes or concerns noted at this time.
Transportation	Low	Low	No significant changes or concerns noted at this time.
Food Service	Low	Low	No significant changes or concerns noted at this time.
Extra-classroom Activity Fund	Low	Low	Faculty advisers and student treasurers should periodically sign off on accuracy of reporting from Central Treasurer. District should monitor whether clubs remain active and modify list of approved faculty adviser stipends accordingly.
Facilities, Equipment, and Inventory	Low	Moderate	Temporary increase due to marginal changes in risk score related to turnover in program management.
Purchasing, Claims, Accounts Payable, Cash Disbursements	Moderate	Moderate	No significant changes or concerns noted at this time.
Payroll and Personnel	Moderate	Moderate	District to implement a new payroll related module in WINCAP for electronic time submission.
Accounting, Reporting, and Information Technology	Low	Low	District should begin to consider the impacts of implementing GASB #75.

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 Receipts, 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.

Governance / Budgeting

Comment:

This area appears to be operating effectively with no significant concerns noted.

Cash Receipts and Revenues

Comment:

This area appears to be operating effectively with no significant concerns noted.

Transportation

Comment:

This area appears to be operating effectively with no significant concerns noted.

Food Services

Comment:

This area appears to be operating effectively with no significant concerns noted.

Extra-classroom Activity Fund

Findings:

- a.) We noted that there appears to be an informal process for the Central Treasurer to periodically review and confirm the activity recorded in the financial ledgers maintained by the student clubs. However, this process could be strengthened to include documentation that faculty advisers and student treasurers have reviewed and agreed with the Central Treasurer's records.

RESULTS (Continued):

Extra-classroom Activity Fund (Continued)

- b.) During our review of the Extra-Classroom Activity Fund’s financial statements, we noted several clubs that had no financial activity during 2015-16. We also noted that the District has approved faculty advisor stipends for some of these clubs. If these clubs are no longer active, it may not be appropriate for these stipends to be paid in subsequent years.

Recommendations:

- a.) We recommend that both the faculty adviser and student treasurer be required to periodically sign off on the accuracy of their club’s transactions and fund balance. This will help ensure that both are in agreement with the official financial records of each club maintained by the Central Treasurer.
- b.) We encourage the District to monitor the status of all extra-classroom activity clubs. If a club is deemed to be inactive, the District should take appropriate action to modify its list of approved faculty stipends.

Management’s Response:

- a.) The District will include a sign-off by the faculty advisors and student treasurers that they agree with periodic analysis of the financial ledgers by the Central Treasurer. In addition the District will investigate a common method (potentially Excel) for ledger to be recorded by the various treasurers to help ensure consistency.
- b.) The District will confirm that all clubs not currently financially active are active clubs. Any that are not will be discontinued to ensure that stipends are not paid.

Facilities, Equipment, and Inventory

Comment:

This area appears to be operating effectively with no significant concerns noted.

Purchasing, Claims, Accounts Payable, Cash Disbursements

Comment:

This area appears to be operating effectively with no significant concerns noted.

RESULTS (Continued):

Payroll and Personnel

Comment:

The District intends to implement a new payroll related module in WINCAP for the 2017-18 school year. This module will allow employees to enter certain categories of their time electronically in WINCAP. The necessary approval escalations are being developed to ensure that time entered in this fashion will be reviewed and properly approved by management. The module will only be used initially for certain types of extra-pay items, and then likely expanded over time. Risk is heightened when new systems are introduced. The District should develop a plan to monitor and evaluate the accuracy of this process, especially during the transition period.

Accounting, Reporting, and Information Technology

Comment:

The District provides postemployment benefits to retired employees in accordance with the provisions of various collective bargaining agreements. The District currently adheres to GASB Statement #45, *Accounting and Financial Reporting by employers for Postemployment Benefits Other than Pensions*, which provides guidance on how to account for related expenses and obligations for these items. Under GASB #45, the District's unfunded actuarial accrued liability (UAAL) is disclosed in the footnotes of its financial statements. However, only the amount of the accumulated annual OPEB costs which exceed the actual OPEB contributions has been required to be recorded on the face of the financial statements. This OPEB obligation was \$11,669,260 for the year ended June 30, 2016.

Beginning with the 2017-18 school year, the District will be required to implement GASB #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The significance of this new standard will include its effect on annual OPEB cost recognition, particularly in the year of implementation. The necessary accrual-based liability will become the entire unfunded net OPEB liability. For the 2015-16 fiscal year the District's UAAL was \$60,500,112. This amount represented 190% of the annual payroll of active employees covered by the plan.

We have discussed this comment with the Audit Committee and they are aware of the changes that will be made to the financial reporting as it relates to the adoption of this standard.

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 West Irondequoit Audit Committee in selecting specific control cycles which to examine in further detail, as required by the “Five-Point Plan.”

CLOSING COMMENTS:

We would like to thank the central administration staff of West Irondequoit Central Schools for their assistance and cooperation in updating this risk assessment of the District.

West Irondequoit Central School District Risk Assessment 2016-17

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 Receipts, 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	Total Risk Score
Governance and Planning								
1 Governance / Budgeting		1	0	1	0	0	0	2
Revenue and Cash Management								
2 Cash Receipts & Revenues ♦Cash Management & Investments ♦Real Property Taxes ♦User Charges	Medicaid Billing 2009-10 Cash Collections 2015-16	0	3	2	0	0	0	5
Student Services								
3 Transportation		0	1	1	0	0	0	2
4 Food Service		0	1	1	0	0	0	2
5 Extraclassroom Activity Fund		1	1	2	0	0	1	5
Facilities, Equipment and Inventory								
6 ♦Capital Assets ♦Capital Projects ♦Indebtedness ♦Inventory Controls (School Lunch)	Overtime 2010-11 Change Orders 2008-09	0	2	2	0	2	0	6
Purchasing and Expenditures								
7 Purchasing, Claims Processing & AP and Cash Disbursements		0	3	3	0	0	0	6
8 Payroll and Personnel	Medical Insurance 2012-13 Independent Cont vs. Emp 2014-15 Payroll 2016-17	0	3	3	1	0	0	7
9 Accounting and Reporting and I.T.	Segregation of Duties 2011-12	0	1	1	0	0	0	2

EFPR EVALUATION

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

Control cycle	EFPR Evaluated Risk
Governance / Budgeting	
Procedures are adequate and being followed	0
Proper segregation of duties	0
Staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Cash Receipts & Revenues

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

Transportation

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

Extracurricular Activity Fund

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

Faculty adviser and student treasurer should periodically sign off on the accuracy of reporting from the Central Treasurer. District should monitor whether clubs remain active and modify list of approved faculty adviser stipends accordingly.

Facilities, Equipment and Inventory

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

District intends to implement a new payroll related module in WINCAP for electronic time submission.

Accounting and Reporting and I.T.

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

District should begin to consider the impacts of implementing GASB #75.