

Scarsdale Union Free School District
Risk Assessment Update Report
June 4, 2019

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, 2018.

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 4, 2019

SCARSDALE UNION FREE SCHOOL DISTRICT

Introduction

June 4, 2019

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 8, 2018	District-wide
Agreed-Upon Procedures	June 7, 2018	Purchasing and Disbursements

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 4, 2019

*(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)
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(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 ***	06/07/18	L	M	
Payments Outside PO System		M	M	
Purchasing Process ***	06/07/18	L	M	
Allocation of Expenditures ***	06/07/18	L	L	
Payment Processing ***	06/07/18	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	L	
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	
Extraclassroom Activity Fund				
General	06/03/19	M	M	
Cash and Cash Receipts	06/03/19	M	M	
Expenditures and Purchasing	06/03/19	M	M	
Inventories	06/03/19	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.

*** Area was also reviewed and included in the AUP Report dated June 14, 2009.

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CURRENT OBSERVATIONS AND RECOMMENDATIONS

FOOD SERVICE

Food Service Program Operations

Risk Assessment Update – 2019

We note that there have been key changes related to the District's food service program that includes providing lunches to the elementary schools and having a new food service manager. We understand that there are opportunities to improve the food service program operations, since we noted the following:

- *There is a lack of formal procedures to monitor the negative account balances of the students and the adults.*
- *There is no Board policy to facilitate the handling of negative account balances that would include communications to the parents/guardians based on the number of meals that participants are able to charge when they have a negative balance on their account.*

We recommend that the District improve the food service program operations by developing formal procedures to monitor the negative account balances and establishing a Board policy to facilitate the handling of negative account balances.

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 noted that the District had changed the health insurance provider and planned to implement this recommendation based on the invoices to be received from the new provider.

**SCARSDALE UNION FREE SCHOOL DISTRICT
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Risk Assessment Update – 2019

We found that the HR Department prepared a reconciliation of the enrollee listing from the third party administrator of the health insurance plan (UMR) to the payroll deduction register. We were informed that there were 8 exceptions noted with 6 instances due to changes in coverage types (i.e., single to family or family to single) and 2 instances due to employees who received health insurance coverage, but there were no payroll withholdings for these participants. We note that the District had correctly processed these adjustments via refunds or collections through payroll deductions dating back to July 2018. We understand that subsequent to our fieldwork, the District has determined the procedures and frequency (twice annually) of performing this reconciliation. We will follow up on this item again during the 2020 risk assessment due to the 8 exceptions noted and to review the newly established reconciliation process.

PURCHASING AND RELATED EXPENDITURES

Purchasing Handbook

Agreed-Upon Procedures – 2018

We recommended that the District develop a purchasing handbook that covers the requirements related to purchasing activities. This would facilitate the creation of standard practice to be followed by the requisitioners. This would also establish consistency to be followed by the employees regarding the purchasing processes. We understood that the District planned to have the handbook in place during the 2018–19 year. Some of the key items that should be addressed in the handbook include:

- a) Reference to the Board policies and regulations related to purchasing.
- b) Required documentation to be scanned and submitted to the Purchasing Agent. Define the specific records to be provided by the requisitioners that would ensure compliance with the District's purchasing policy, regulations and protocols.
- c) Define the processes related to bids, quotes and contracts. The requisitioners should scan the pricing information related to the items purchased, when feasible, and should record the bid number on the purchase order (PO).
- d) Require the requisitioner to ensure that the items purchased are included in the bid.
- e) Require the requisitioner to scan all quotes that are obtained.
- f) Require the requisitioner to include notes and a letter from the vendor when the purchase relates to a sole source vendor. The letter should be scanned into the PO as supporting documentation.
- g) Require that all invoices for projects with time and material bids have third party invoices attached to substantiate any mark-up percentage detailed in the bid. In addition, this documentation should be attached to the invoice.
- h) Require the requisitioner to provide an explanation if there is a confirming PO. This documentation should be scanned into the PO.
- i) Procedures related to blanket POs to create efficiencies by using an estimated annual amount paid to a vendor to reduce the number of instances to increase a PO or create a new PO for the same vendor.
- j) Define the required information to be included when the requisitioner creates the PO. This may include adding notes into the SMARTS system and may not necessarily be included in the printed PO.
- k) Reimbursements to employees related to conferences, athletics, professional development, etc.

**SCARSDALE UNION FREE SCHOOL DISTRICT
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Risk Assessment Update – 2019

We note that the District and the Purchasing Agent have made progress with establishing more consistency and standardization with the purchasing activities. This includes creating a spreadsheet to list the proper information related to quotes, including contract numbers and links to contracts within the spreadsheet. We understand that the Purchasing Agent and Purchasing Clerk are in the process of developing the purchasing handbook in coordination with defining the purchasing protocols.

Purchases Requiring Quotes – Local Vendors

Agreed-Upon Procedures – 2018

We recommended that the District review the process related to purchases from a local vendor not on a bid or state contract when the amount exceeds the District’s purchasing policy for amounts allowable without soliciting quotes.

Risk Assessment Update – 2019

We understand that the Purchasing Department has been meeting with various departments in the District to educate the requisitioners regarding requirements under the Board’s purchasing policy. In addition, the Purchasing Agent has canvassed other districts to determine how they handle these circumstances.

Vendor Invoices – Labor and Material Costs

Agreed-Upon Procedures – 2018

We recommended that the District develop procedures to ensure that all invoices from the vendors include a breakdown of costs between labor and material to allow for a comparison of pricing on the invoice to bid pricing.

Risk Assessment Update – 2019

We note that the District is in the process of having a revised vendor contract reviewed by their legal counsel. This includes a proposed provision in the standard contract for services that will require bidders to provide quotes for all work resulting from annual contracts to be estimated using both labor and materials costs.

STUDENT TRANSPORTATION

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) Revise the Transportation Request Forms as necessary.

**SCARSDALE UNION FREE SCHOOL DISTRICT
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Risk Assessment Update – 2018

We noted that the District still needed to address these items.

Risk Assessment Update – 2019

We understand that the District plans to address these items prior to the 2019-20 year.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)

GOVERNANCE AND PLANNING

Internal Audit Reports – Corrective Action Plan

Risk Assessment Update – 2018

We recommended that the District establish procedures to ensure compliance with Commissioner of Education (CR) §170.12(e)(4) by preparing a Board-approved CAP and filing within 90 days of issuance with the NYSED related to the Risk Assessment Update Report and the Agreed-Upon Procedures Report.

Risk Assessment Update – 2019 (This item is now closed)

We note that the District prepared a CAP related to the recommendations in the Agreed-Upon Procedures Report, which was the detailed review of the purchasing and disbursement functions. However, the District did not prepare a CAP for the Risk Assessment Update Report until we informed the Assistant Superintendent for Business that the District is required to prepare a CAP for all final audit reports issued by the District's internal auditor as per CR §170.12(e)(4). We note that the District has established procedures to ensure that a CAP is prepared for all internal audit reports going forward.

PURCHASING AND RELATED EXPENDITURES

Board Approvals – In-District Bids

Agreed-Upon Procedures – 2018

We recommended that the District establish procedures to ensure that the Board approves all in-district bids that are rolled over from one year to the next. Also, when multiple vendors send in a bid, a letter would be prepared and sent to the vendors that had not been awarded the bid. These documents would be filed in the bid file.

Risk Assessment Update – 2019 (This item is now closed)

We found that the District had established procedures to ensure that the Board approves all in-district bids that are rolled over from one year to the next and a letter is prepared when multiple vendors send in a bid that is sent to the vendors that had not been awarded the bid. Also, these documents are filed in the bid file.

**SCARSDALE UNION FREE SCHOOL DISTRICT
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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.

Risk Assessment Update – 2018

We noted that the District still needed to address this recommendation.

Risk Assessment Update – 2019 (This item is now closed)

We understand that the District has decided against adding District logos, lettering and numbers to the Facilities Department work vehicles at this time and plans to take this recommendation into consideration in the future.

STUDENT TRANSPORTATION

District Vehicles – Miles Per Gallon Calculations

Agreed-Upon Procedures – 2017

We recommended that the District establish procedures for the Transportation 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 noted that the Transportation Supervisor created a Village Maintenance Billing 2017-18 spreadsheet to facilitate the monitoring of the Village expenses for the fiscal year. The monthly expenses were entered into the spreadsheet to record the key categories: staff salaries, automotive parts, staff overtime and utilities. This information was based on the monthly invoices that the Village billed the District. We understood that the Transportation Supervisor planned to create a Village Fuel Billing 2017-18 spreadsheet, similar to the Village Maintenance Billing spreadsheet, and would make notes related to the review of the miles per gallon calculations.

Risk Assessment Update – 2019 (This item is now closed)

We note that the Transportation Supervisor has created a Village Fuel Billing spreadsheet, similar to the Village Maintenance Billing spreadsheet, to formally document their review of the miles per gallon calculations and to include any relevant notes based on this mileage review.

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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) 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.
- b) 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.
- c) Determine if the Transportation Supervisor must approve the Transportation Request Forms.

Risk Assessment Update – 2018

We noted that the District had started to address these items and planned to complete them by the 2018-19 year.

Risk Assessment Update – 2019 (This item is now closed)

We found that the District has implemented recommendations (a) and (b) above. We also understand that District has determined that the Transportation Supervisor isn't required to approve the Transportation Request Forms, since there are other required approvals (i.e., school administrator and transportation coordinators in the bus yard).

