

**Northport-East Northport  
Union Free School District**

**Initial Risk Assessment  
Pertaining to the Internal Controls  
of District Operations**

**February 2018**

## **INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED UPON PROCEDURES**

The Board of Education  
Northport-East Northport Union Free School District

We have performed the procedures enumerated below, which were agreed to by the Northport-East Northport Union Free School District (the "District"), solely to assist the District. This agreed upon procedures engagement was performed in accordance with auditing standards established by the American Institute of Certified Public Accountants and the applicable standards contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We have prepared our February 2018 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting July 1, 2017 through January 31, 2018. The initial Risk Assessment and related internal audit plan concentrates on the following key internal control areas:

- Governance and Planning
- Budget Development
- Accounting and Reporting
- Revenue and Cash Management
- Grants
- Payroll
- Human Resources
- Benefits
- Purchasing and Related Expenditures
- Facilities/Capital Projects
- Fixed Assets
- Food Service
- Extraclassroom Activity Fund
- Information Systems
- Student Data Management
- Pupil Personnel Services
- Transportation
- Safety and Security

We are available to discuss this report with the Board of Education or others within the District at your convenience.

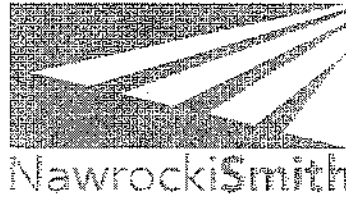
Our engagement is limited in scope and will be confined to our agreed-upon procedures. We will not be conducting an audit or review of the district's financial statements and therefore we will not express an opinion or any other form of assurance on them.

At the end of our engagement, we will present the results of applying the agreed-upon procedures in the form of our findings in a report. Our report should be used only for the intent of the original users of this report, and will include a statement indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. As such, using this report for anything other than the original intent of the agreed-upon procedures could mislead the readers. You must notify us immediately if the original users of the report change.

Very truly yours,

***Nawrocki Smith LLP***

February 28, 2018



**Northport-East Northport Union Free School District**

**Initial Risk Assessment  
Pertaining to the Internal Controls  
of District Operations**

**February 2018**

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**Northport-East Northport Union Free School District**  
**Initial Risk Assessment**  
**February 2018**

**Risk Assessment Overview**

This Risk Assessment report provides a presentation of our view of the school district's risk pertaining to its financial operations. It gives the District's administration the information necessary to help optimize its overall performance. The report identifies, expresses, and prioritizes the key program risks so that the District's administration can focus on those areas most critical to its success. This analysis is used to define the District's risk profile. It will provide an overview of the risks facing the District's operations.

In accordance with the laws of New York, 2005, Chapter 263, all school districts and BOCES were required to establish an internal audit function no later than July 1, 2006 and be in operation no later than December 31, 2006. This function should include, at a minimum, development of a risk assessment of district operations, including but not limited to:

- A review of financial policies, procedures and practices
- An annual review and update of such risk assessment
- Annual testing and evaluation of one or more areas of the District's internal controls
- Preparation of reports which analyze significant risk assessment findings
- Recommended changes for strengthening controls and reducing identified risk; and specifying time frames for implementation of such recommendations

Pursuant to Section 170.12 – Regulations of the Commissioner of Education – School District Financial Accountability, each school district must prepare a corrective action plan, approved by the Board of Education in response to findings to final reports issued by the internal auditor. This plan should include expected dates of implementation and should be filed with the New York State Education Department.

**Internal Audit Objectives**

The objectives of our engagement are as follows:

- Develop an understanding of the critical business processes of the District within each functional area
- Identify and qualify risks based on the understanding of the business processes and stated business rules
- Identify stated controls that are currently in place to address those risks and ascertain if they are operating effectively
- Recommend improvements in internal controls

**Northport-East Northport Union Free School District**  
**Initial Risk Assessment**  
**February 2018**

**Scope and Methodology**

The Board of Education has engaged Nawrocki Smith as the District's internal auditor. In compliance with New York State Laws, we have performed an initial risk assessment with respect to policies, procedures, and internal controls pertaining to District operations. The procedures applicable to the District's risk assessment were performed during February 2018 and were carried out in order to determine an internal audit plan for fiscal year 2017/2018 and thereafter. This risk assessment will be updated annually to reflect any changes in the current control environment and the existing internal audit plan.

Our risk assessment consisted of the following methodology:

- Perform interviews of Administration and other appropriate personnel
- Document procedures within key functional areas
- Identify key controls and perform audit tests of those controls
- Assess effectiveness of the key controls
- Identification and review of organization structure
- Analysis of risks that are a threat to the achievement of objectives
- Create a risk profile and internal audit plan

In addition to the above procedures, we have also evaluated and considered the following within our overall risk assessment:

- District policies and procedures
- Recent focus of State Comptroller Audits
- Board of Education/Audit Committee Meetings
- Materiality to Financial Statements
- Changes in management or key personnel
- Financial reports provided to the Board
- External auditor management letters
- District corrective action plans
- Organizational chart and job descriptions

**Northport-East Northport Union Free School District**  
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**Internal Audit Initial Risk Assessment Summary**

We have analyzed eighteen (18) Business Process areas within the District and have developed an internal audit plan based upon our assessment of each area. Each of the eighteen (18) Business Processes contains multiple categories for which an extensive cycle analysis will be performed during the proposed time period noted within the risk rating and internal audit plan. The plan as presented will be revised each year based upon the annual risk assessment update and events/requests that occur during the year which impact the priority of future internal audit services.

The results of our initial risk assessment are summarized below and in the tables presented on pages 5 through 6. We have utilized a "Low," "Moderate," and "High" control risk rating assessment scale of the District.

**Current Year Ratings**

<b><u>Rating</u></b>	<b><u>Count</u></b>	
High	-	0.00%
Moderate	8	10.13%
Low	71	89.87%
<b>Total</b>	<b>79</b>	<b>100.00%</b>

- The February 2018 risk assessment contains seven (7) current year recommendations.

We have summarized below the selected areas for an intensive cycle review:

**Proposed Cycle Reviews:**

- Revenue and Cash Management
- Information Systems

**Other Planned Internal Audit Services:**

- External Audit Corrective Action Plan Monitoring
- Facilities/Capital Projects Internal Control Meeting
- Initial Risk Assessment Report Recommendations Follow-Up
- Annual Risk Assessment Update as of January 2019
- Other Internal Audit Services at the Request of the District/BOE

**Northport-East Northport Union Free School District**  
**Initial Risk Assessment**  
**February 2018**

**Risk Rating and Internal Audit Plan**

√ = Internal Audit Services Provided  
★ = Business Cycle Review Complete

X = Proposed Business Cycle Review  
T = Limited Testing of Business Process

	Business Process	Business Process Categories	RISK		YEAR OF SERVICE		
			Inherent Risk	Control Risk Jan-18	17-18	18-19	Subsequent Years
1	<b>Governance and Planning</b>	Governance and Control Environment	H	L			X
		Required Policies and Procedures	H	L			X
2	<b>Budget Development</b>	Budget Development	H	L			X
		Budget Monitoring and Reporting	M	L			X
3	<b>Accounting and Reporting</b>	Financial Accounting and Reporting	H	L			X
		External/Internal/Claims Auditing	H	L			X
		Fund Balance Management	H	L			X
4	<b>Revenue and Cash Management</b>	Real Property Tax	M	L	X		
		State Aid	H	L	X		
		Out of District Tuition/Reimbursable Expenses	M	L	X		
		Use of Facilities	L	L	X		
		Donations	M	L	X		
		Vending Machines	H	M	X		
		Cash Receipts	H	L	X		
		Cash/Investment Management	H	L	X		
		Petty Cash	L	L	X		
		Bank Reconciliations	H	M	X		
5	<b>Grants</b>	Online Banking	H	L	X		
		General Processing	H	L			X
		Grant Application	M	L			X
		Expenditures and Allowable Costs	H	M			X
		Cash Management	M	L			X
6	<b>Payroll</b>	Reporting and Monitoring	H	L			X
		Payroll Disbursements	H	L			X
		Overtime Payments	H	L			X
		Payroll Accounting and Reporting	H	L			X
		Payroll Tax Filings	H	L			X
7	<b>Human Resources</b>	Payroll Reconciliation	H	L			X
		Employment Requisition/Hiring	H	L			X
		Personnel Evaluation	H	L			X
		Employee Attendance	H	L			X
8	<b>Benefits</b>	Termination	H	L			X
		Eligibility	H	L			X
		Benefit Calculations	H	L			X
		Patient Protection and Affordable Care Act	H	L			X
9	<b>Purchasing and Related Expenditures</b>	Retiree Benefits	H	L			X
		Purchase Order System/Vendor Database	H	L			X
		Purchasing Process	H	L			X
		Payment Processing	H	L			X
		Employee Reimbursements	H	L			X
		Credit Cards	H	L			X

**Northport-East Northport Union Free School District**  
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	Business Process	Business Process Categories	RISK		YEAR OF SERVICE		
			Inherent Risk	Control Risk	17-18	18-19	Subsequent Years
				Jan-18			
10	<u>Facilities/Capital Projects</u>	Facilities Maintenance and Work Order Process	H	L	T		
		Capital Project Planning and Monitoring	M	L	T		
		Capital Project Funding and Payments	M	L	T		
		Recordkeeping and Reporting	H	L	T		
11	<u>Fixed Assets</u>	Inventory/Capitalization Policy	H	L			X
		Acquisition and Disposal	H	L			X
		Inventory Process and Recordkeeping	H	L			X
12	<u>Food Service</u>	Sales Cycle and System	H	M			X
		Inventory and Purchasing	M	M			X
		Free and Reduced Meals	M	L			X
		Federal and State Reimbursement	M	L			X
		Financial Reporting and Monitoring	M	L			X
13	<u>Extracurricular Activity Fund</u>	General Controls	H	M			X
		Revenue	H	M			X
		Expenditures	M	M			X
		Reporting	H	L			X
14	<u>Information Systems</u>	Governance	H	L	X		
		Network Security	H	L	X		
		Application Security	M	L	X		
		Physical Security	H	L	X		
		Inventory	H	L	X		
		Disaster Recovery	H	L	X		
15	<u>Student Data Management</u>	Registration and Enrollment	H	L		X	
		Student Attendance	H	L		X	
		Student Performance	H	L		X	
16	<u>Pupil Personnel Services</u>	Budgeting and Planning	M	L			X
		STAC Reimbursement	M	L			X
		Medicaid Reimbursement	M	L			X
		RFP and Contracts	H	L			X
17	<u>Transportation</u>	Fleet Inventory and Maintenance	H	L			X
		Bus Routing and Planning	H	L			X
		Labor and Supervision	H	L			X
		Contract Management	H	L			X
		State Aid	H	L			X
18	<u>Safety and Security</u>	Plan Development and Strategy	H	L			X
		Building Access and Security System	H	L			X
		Compliance and Incident Reporting	H	L			X
		Safety and Security Monitoring	H	L			X



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**Inherent Risk** - Inherent risk is the risk of a material misstatement in the un-audited information assuming the absence of internal controls procedures.

**Control Risk** - Control risk is the risk that a material misstatement in the un-audited information will not be detected and corrected by the management's internal control procedures on a timely basis.

**Risk Assessment Observations and Recommendations**

*Current Year Observations and Recommendations*

**Revenue and Cash Management**

1. We noted a difference between the book balance and the adjusted bank balance for two (2) District bank accounts for both November and December 2017. Although there was no indication as to the reason for the variance documented on the bank reconciliation, upon informing the Treasurer it was determined that the difference was a result of an error that occurred when the District transitioned to a new accounting system.
  - *We recommend that the District make a journal entry to correct the difference between the book balance and adjusted bank balance for the accounts noted above. Going forward any differences should be documented on the bank reconciliation and noted as a reconciling item. In addition, if a difference is not expected to be resolved in the following month a journal entry should be made to correct it on District records.*
2. We noted that the District does not have a written agreement with the vending machine company that is responsible for filling and servicing the vending machines within the District.
  - *We recommend that the District enter into a formal written agreement with the vending machine company that is currently filling and servicing the vending machines within the District. This will assist to ensure the District receives an accurate commission based on the agreement and that the vending machines are properly maintained and filled according to the District's wellness policy.*

**Grants**

3. We noted that it was indicated that PAR forms are not completed as frequently as they should be for those employees whose salaries are partially paid for by grant funds.
  - *We recommend that the District complete PAR forms monthly whenever an employee's salary is partially paid from a grant. As per NYSED Grants Finance, "documentation beyond regular payroll records is required for an employee who is funded by a federal grant program". This includes a certification with the employee's name and position, the period of employment, and the name of the federal program. PAR forms also must be completed after the work is done, signed and dated by the employee, and maintained with regular payroll records.*

**Food Service**

4. We noted, upon interviews conducted with the Director of Food Services, that the District does not have documented procedures and guidelines regarding cash management process within the District's cafeterias. Operations are carried out based on past practice.

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- *We recommend that the District consider having Nawrocki Smith conduct observations of the cash management process for a sample of school locations and document the observed procedures. The objective of the observations will be to assess the operating effectiveness of the cafeteria's cash receipts process including accountability and safekeeping, and to obtain knowledge as to each individual's job duties and involvement in the cash receipt process.*
- 5. We noted, upon review of prior year external audit reports, that there were discrepancies regarding food service inventory counts. It should be noted that the District's corrective action plan is for the Director of Food Services to continue to provide training to the staff regarding product organization and food inventory controls.
  - *We recommend that the District implement their corrective action plan regarding food service inventory controls. This will ensure that food service inventory is properly monitored and reports are accurate.*

**Extraclassroom Activity Fund**

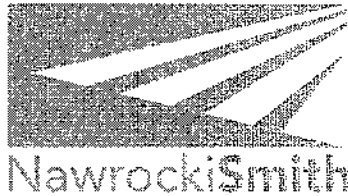
6. We noted, upon review of prior year external audit reports, that there were several comments regarding the general controls surrounding the Extraclassroom Activity Funds such as lack of student involvement, clubs with no financial activity, and clubs that did not reconcile their records with the Central Treasurer. In addition, there were revenue related comments regarding deposits that were not made timely and access to the school safe not being properly restricted.
  - *We recommend that the District implement their corrective action for the Treasurer to continue to provide oversight and guidance to Central Treasurers and club advisors during quarterly visits to the buildings. It was indicated that all comments would be addressed during the quarterly visits.*

**Transportation**

7. We noted that although the District has purchased the Servicefinder fleet maintenance and inventory management system, the Transportation Department has not implemented the system and is currently carrying out the following tasks manually:
  - a) Manage parts inventories
  - b) Schedule repairs and routine maintenance
  - c) Coordinate bus availability and repairs based on transportation operations
  - d) Calculate and categorize costs per bus and repair
  - e) Assign repairs to the district mechanic or vendors
  - *We recommend that the Transportation Department consider implementing Servicefinder to its fullest potential and develop procedures to track supplies and labor used in the department's operations. This will assist the Transportation Department in tracking supply inventories, in keeping complete and accurate vehicle maintenance history, reducing costs and vehicle downtime, and in analyzing and deciding on new equipment purchases.*

**Exhibits**

- Exhibit I***      Internal Audit Plan for 2017/2018
- Exhibit II***     History of Internal Audit Reports Issued



**Northport-East Northport Union Free School District**

**2017/2018 INTERNAL AUDIT PLAN**

**(Based upon February 2018 Initial Risk Assessment)**

**Proposed Cycle Reviews**

- Revenue and Cash Management
- Information Systems

**Status**

Planned for May-18  
Planned for May-18

**Additional Internal Audit Services**

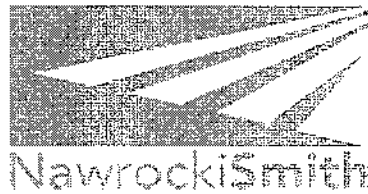
- Facilities/Capital Projects Internal Control Meeting
- Initial Risk Assessment Report Recommendations Follow-Up
- External Audit Corrective Action Plan Monitoring
- Annual Risk Assessment Update as of January 2019
- Other Internal Audit Services at the Request of the District

**Status**

Planned for Jul-18  
Planned for Dec-18  
Planned for Dec-18  
Planned for Jan-19  
As Requested

**Tentative On-Site Internal Audit Schedule**

- May 21<sup>st</sup> – May 25<sup>th</sup>



**Northport-East Northport Union Free School District**  
**Internal Audit - Nawrocki Smith**  
**History of Internal Audit Reports Issued**  
**Exhibit II**

<b><u>Report Type</u></b>	<b><u>(*)</u> <u>2012</u></b>	<b><u>(*)</u> <u>2013</u></b>	<b><u>(*)</u> <u>2014</u></b>	<b><u>(*)</u> <u>2015</u></b>	<b><u>(*)</u> <u>2016</u></b>
<b><u>Cycle Reviews</u></b>					
Accounting and Reporting	-	-	-	-	-
Benefits	√	-	-	-	-
Budget Development	-	-	-	-	-
Extraclassroom Activity Funds	-	√	-	-	-
Facilities/Capital Projects	-	-	-	-	-
Fixed Assets	-	-	-	√	-
Food Service	-	-	√	-	-
Governance and Planning	-	-	√	-	-
Grants	-	-	-	-	-
Human Resources	-	-	-	-	√
Information Systems	√	-	-	-	-
Payroll	-	-	-	-	√
Pupil Personnel Services	-	-	-	-	-
Purchasing and Accounts Payable	-	-	-	√	-
Revenue and Cash Management	-	√	-	-	-
Safety and Security	-	-	-	-	-
Transportation	-	-	-	-	-
Risk Assessment	-	√	√	√	√

(\*) Prior Internal Auditor