

**Blind Brook
Union Free School District**

Risk Assessment Update Report

April 25, 2011

Risk Assessment Report

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

We have performed the annual risk assessment update of the Blind Brook Union Free School District (District) as required by Chapter 263 of the laws of New York, 2005 and as per our agreement of August 19, 2010.

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 Blind Brook 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

April 25, 2011

BLIND BROOK UNION FREE SCHOOL DISTRICT

Introduction

April 25, 2011

Chapter 263 of the laws of New York, 2005 requires all school 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 requiring 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 prior 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.

BLIND BROOK UNION FREE SCHOOL DISTRICT

Introduction (Continued)

April 25, 2011

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:

Report Type	Issue Date	Area (s)
Risk Assessment	April 26, 2010	District Operations
Agreed-Upon Procedures	October 20, 2010	Purchasing

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.

Commission of Education Regulation 170.12(e)(4) requires that a corrective action plan, approved by the board, must be filed within 90 days with the New York State Education Department. The District should send the Corrective Action Plan (CAP) along with the respective Internal Audit Report via mail or email to the addresses listed below. The report needs to accompany the CAP to allow the Office of Audit Services (OAS) to reconcile the District's CAP to the report to ensure all items have been addressed (i.e., the CAP is not missing anything)

Submission Information – Mail and email:

New York State Education Department (NYSED)
Office of Audit Services (OAS)
89 Washington Avenue
Room 524 EB
Albany NY 12234
Fsanda133@mail.nysed.gov

OR

Contact:

Mr. John Cushin
(515) 474-5928

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Risk Assessment Table
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(L=Low, M=Moderate, H=High)

Business Process Area	*Date of Detail Testing	Control Risk		Proposed Testing
		Prior Year	Current Year	
Governance and Planning				
Governance Environment		M	M	
Control Environment		M	M	
Strategic Planning		M	M	
Budget Development		M	M	
Budget Administration		M	M	
Accounting and Reporting				
Assessing Financial Condition		M	M	
Financial Accounting and Reporting		M	M	
Auditing		M	M	
Financial Oversight		M	M	
Fund Balance Management		M	M	
Revenue and Cash Management				
Real Property Tax		L	L	
State Aid		M	M	
Medicaid		L	L	
Out of District Tuition		M	M	
Use of Facilities		L	L	
Donations		L	L	
Collection & Posting of Receipts		M	M	
Cash Management		M	M	
Investment Management		M	M	
Petty Cash		L	L	
Bank Reconciliations		M	M	
Grants and Special Education				
General Processing/Monitoring		M	M	
Grant Application		M	M	
Allowable Costs		M	M	
Cash Management		M	M	
Reporting and Monitoring	STAC	M	M	
Compliance	3/4/2009			
Payroll, HR and Related Benefits				
Payments to Employees	12/11/2007	L	L	
Allocation of Expenditures	12/11/2007	L	L	
General Employee Administration	12/11/2007	L	L	
Employee Benefit Administration	12/11/2007	L	L	
Employee Attendance	12/11/2007	L	L	
Hiring/Termination of Employees	12/11/2007	M	M	

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

BLIND BROOK UNION FREE SCHOOL DISTRICT
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(L=Low, M=Moderate, H=High)

Business Process Area	*Date of Detail Testing	Control Risk		Proposed Testing
		Prior Year	Current Year	
Purchasing and Related Expenditures				
PO System	10/20/2010	M	L	
Payments Outside PO System	10/20/2010	M	L	
Purchasing Process	10/20/2010	M	L	
Allocation of Expenditures	10/20/2010	M	L	
Payment Processing	10/20/2010	M	L	
Travel and Conferences	10/20/2010	M	L	
Credit Cards	10/20/2010	M	L	
Facilities				
Facilities Maintenance		M	M	
Construction Planning		M	M	
Construction Monitoring		M	M	
Construction Completion		M	M	
Fixed Assets				
Acquisition and Disposal		M	M	
Inventory		M	M	
School Environment				
Safety and Security		M	M	
Student Transportation				
Fleet Maintenance		L	L	
Risk Management		L	L	
Personnel Compliance		L	L	
Facilities Maintenance and Security		M	M	
Food Service				
Federal and State Reimbursement		M	M	
Sales Cycle and System		M	M	
Inventory and Purchases		M	M	
Eligibility Verification		M	M	
Extracurricular Activity Fund				
General	11/4/2009	M	M	
Cash and Cash Receipts	11/4/2009	M	M	
Expenditures and Purchasing	11/4/2009	L	L	
Inventories	11/4/2009	M	M	
Student Related Data				
Tracking Student Attendance		M	M	
Student Performance Data		M	M	
Information System				
Governance		M	M	
Network Security		M	M	
Financial Application Security		M	M	
Other Application Security		M	M	
Disaster Recovery		M	M	

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

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CURRENT YEAR'S OBSERVATIONS AND RECOMMENDATIONS

EXTRACLASSROOM ACTIVITY FUNDS

Bank Reconciliations

The district procedure related to disbursements from the extraclassroom accounts is that the Central Treasurer prepares a check after receipt of a disbursing order signed by the club advisor, the student treasurer and the principal, along with appropriate supporting documentation. There is no second signature on the check.

We recommend that the district transfer the responsibility for preparation of the bank reconciliations from the Central Treasurers' to the District Treasurer. Bank statements should be sent directly to the District Treasurer. This will provide a stronger internal control over extraclassroom activities and will be a compensating control over the disbursement of checks.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (OPEN ITEMS)

EXTRACLASSROOM ACTIVITY FUNDS

Sales Tax

We recommended that the Central Treasurer and faculty advisors be reminded that sales tax should be charged by suppliers. Invoices without sales tax should be returned to the supplier requesting a corrected invoice that includes the applicable sales tax.

Risk Assessment Update – April 2010

This has not been implemented. Under New York State law, the District may be responsible to pay sales and use tax on these transactions. We recommended procedures be implemented to ensure sales and use taxes are remitted to the state.

Risk Assessment Update – April 2011

Extraclassroom activity funds are not exempt from New York State tax law. The District should consider procedures to ensure that sales tax and/or use tax is remitted to New York State as required by law.

Cash Receipts

We recommended that the District consider strengthening controls over the cash receipts process at the individual club level since a loss of funds can often be traced to a negligent pre-audit of receipts and recording of money received. For this reason, every possible precaution should be taken to protect the individual concerned and the money collected. In order to facilitate the pre-audit and recording of receipts, statements should be made by those collecting money. Such a statement should, on its face, state all the essential data for a complete check and audit of the receipts. We recommended that the forms used to account for transactions be revised to provide an expanded comment or description section in which the faculty advisor can fully explain the transaction. We also suggested that training material be provided to explain the procedures to properly document a transaction. For example, a

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deposit for a fundraising event might show the total receipts and could reference the cost of the event. A simple written comment such as, "These are the final receipts from the cheesecake fundraiser. The total receipts were \$6,000 and the cost was \$3,000 (50%) leaving a surplus of \$3,000" would certainly provide an indication that the activities were understood and under control. Alternatively, the District could consider utilizing a "Profit and Loss" form for each fundraising activity. This is the process recommended in *The Safeguarding, Accounting, and Auditing of Extracurricular Activity Funds – Finance Pamphlet 2* (Pamphlet 2).

Risk Assessment Update – April 2010

This had not been implemented.

Risk Assessment Update – April 2011

The form documenting deposits allows space for a complete explanation of the transactions, however, our review of the forms for this year shows that only the bare minimum information is provided. We recommend that for the next school year that the District again train the club advisors on how to properly document a transaction and require the Central Treasurer to insist on a full explanation of the accounting for the funds deposited.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)

GOVERNANCE

Roles and Responsibilities

We recommended that the District create a procedure manual, which would include formal roles and responsibilities for each position and encourage employees to utilize checklists, calendars and other documents to manage their workloads more effectively. These documents facilitate employee training, accountability, expectations and the hiring of new personnel. The District should also establish ongoing education and training for all employees so they can keep pace and deal effectively with change. We also recommended that the Business Office cross-train its employees to the best of its ability, in a manner that keeps segregation of duties issues to a minimum.

2008 Update

There was limited activity in this area. A decision needed to be made regarding how to proceed. A significant amount of cross-training did occur in the Business Office.

Risk Assessment Update – April 2009

As noted above, the District continued to document procedures. As part of this documentation, roles and responsibilities for each Business Office position can be listed, and ultimately a set of procedures prepared for each responsibility.

Risk Assessment Update – April 2010

As the District continues to re-organize staff it is very important that written procedures be developed to help ensure proper procedures are followed and that steps are followed so that work is complete and accurate. The

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District should use this re-organization to document the most significant procedures to help minimize confusion and error.

Risk Assessment Update – April 2011 (This issue is now closed)

The Business Office has begun to document procedures used within the department. Roles and responsibilities within the department are well understood. We are closing this issue, since adequate attention has been paid to documenting the procedures and the expectation is that the process of documenting the procedures will continue on an on-going basis.

PURCHASING

(These recommendations were taken from the Agreed-Upon Procedures Report dated October 20, 2010)

Use of State Contracts or Cooperative Bids:

We recommended that in the instances in which goods or services are purchased under state contract or cooperative bid that the documentation contain a note indicating the bid number or contract number. In addition, the Purchasing Agent may require that documentation regarding the specific prices charged be included in the requisition package.

Risk Assessment Update – April 2011 (This issue is now closed)

The Purchasing Agent is aware of the issue of documenting the use of state contracts and has been diligent in reviewing the documentation.

Lack of Competitive Quotes

We recommended that the Purchasing Agent enforce the requirement for multiple quotes and obtain explanations and documentation for any variance with the regulation prior to issuing a purchase order. In addition, individual transactions in amounts greater than the amount for which multiple quotes are required should not be processed against “blanket” purchase orders. In these cases a separate purchase requisition with required quotes should be submitted.

Risk Assessment Update – April 2011 (This issue is now closed)

This has been implemented. The Purchasing Agent reviews each requisition to ensure competitive quotes are received in accordance with policy.

Segregation of Duties

We recommended that the District consider reassigning the responsibility for data entry into the accounts payable system from the Treasurer to the Accounts Payable Clerk.

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Risk Assessment Update – April 2011 (This issue is now closed)

The District considered this and determined that the current system is more efficient and that there is adequate oversight of the Treasurer's accounts payable activity by the Assistant Superintendent for Business and the Claims Auditor.

Invoices exceeding the Purchase Order

We recommended that properly authorized increases to purchase orders be administered prior to the services being provided. This requires diligent oversight by the department that is using the services so that changes to the initial purchase order can be processed timely and with the appropriate level of approval.

Risk Assessment Update – April 2011

The District has implemented a procedure that any invoices that exceed purchase orders by less than \$100 can be processed against the existing purchase order, and staff have been reminded that any overage above \$100 must be processed through an amended or additional purchase order prior to the goods or services being received.

EXTRACLASSROOM ACTIVITY FUNDS

Faculty Auditor

We recommended that the District consider how to organize the responsibilities of the "faculty auditor". As outlined in Pamphlet 2, this role is critical to provide an overall control to the activities. Without a review by an independent third party there is limited oversight to the overall financial operations of the clubs. In addition, this person would be responsible to review the activities of the clubs and would be trained to be aware of potential issues.

Risk Assessment Update – April 2010

The District Treasurer was appointed as the faculty auditor. The Treasurer will meet with the faculty advisors and the student treasurers during the school year to review the clubs' financial records and compare them to the Central Treasurer's records.

Risk Assessment Update – April 2011 (This issue is now closed)

The Faculty Auditor has been active in the past year, fulfilling duties outlined in Board Policy and Administrative Regulation 5520 and 5520(R). Meetings with advisors of the more financially active clubs will be scheduled near year end to review the year's activities.

Written Procedures

We recommended that the District document written procedures regarding the processing of extraclassroom activities for the High School and Middle School. These procedures should detail the responsibilities of the Central Treasurer, as well as, the student treasurers and faculty advisors. Each year, the student treasurers and the faculty advisors should be required to certify that they have read the procedures and understand their respective responsibilities.

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Risk Assessment Update – April 2010

This has been implemented. A new policy (5520) has been adopted by the Board. Written procedures (Regulation 5520R) are being drafted by the District. They will be presented to the Board in the coming weeks and be reviewed and approved by the Board.

Risk Assessment Update – April 2011 (This issue is now closed)

Board Policy and Administrative Regulations have been amended and distributed to staff and to student treasurers. This will help ensure that people are aware of the roles and responsibilities related to extraclassroom activities.

Separation of Deposits

We recommended that the faculty advisors and club student treasurers be instructed to keep the sources of funds discrete and separated and to make individual deposits based upon the source of funds. In other words, deposits from one revenue source should not be co-mingled with another. This allows the activities to be more easily reviewed.

Risk Assessment Update – April 2010

This was implemented. The faculty advisors and student treasurers have been instructed to make separate deposits for each source of funds.

Risk Assessment Update – April 2011 (This issue is now closed)

Club advisors and student treasurers were instructed to segregate deposits by the source of the deposit. Our review of the deposit forms indicates that this is in effect. The faculty auditor should review for compliance with this procedure when performing the year end review of accounts.

Disbursements

We recommended that all disbursements be accompanied by a Disbursement Form signed by the faculty advisor, student treasurer and the principal, along with a detailed original invoice or receipt be submitted to the Central Treasurer. If signatures are missing or if the invoice or receipt is not detailed, the Central Treasurer should return the Disbursement Form for the appropriate signature or documentation.

Risk Assessment Update – April 2011 (This issue is now closed)

This has been implemented.

