

Risk Assessment Update Report

To the Board of Education and Audit Committee
New Hyde Park-Garden City Park UFSD
New Hyde Park, New York

We have performed the annual risk assessment update of New Hyde Park-Garden City Park Union Free School District (District) as required by Chapter 263 of the Laws of New York, 2005 and as per our agreement of September 22, 2015.

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:

- We 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
- We identified the key risks based on our understanding of these business processes.
- We 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 New Hyde Park - Garden City Park 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 7, 2016

NEW HYDE PARK – GARDEN CITY PARK UFSD

Introduction

June 7, 2016

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.

NEW HYDE PARK – GARDEN CITY PARK UFSD
Introduction (Continued)
June 7, 2016

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 30, 2015	District-wide
Agreed-Upon Procedures	June 30, 2015	Special Education

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.

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.

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., CAP is not missing anything).

Submission Information – Mail & 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

Contact

Office of Audit Services
(518) 473-4516

**NEW HYDE PARK – GARDEN CITY PARK UFSD
Risk Assessment Table
June 7, 2016**

(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		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		L	L	
Financial Oversight		L	L	
Fund Balance Management		L	L	
Revenue and Cash Management				
Real Property Tax		L	L	
State Aid		M	M	
Medicaid		L	L	
Out of District Tuition		L	L	
Use of Facilities		L	L	
Donations		L	L	
Collection & Posting of Receipts		M	M	
Cash Management	1/12/2009	L	L	
Investment Management		M	M	
Petty Cash		L	L	
Bank Reconciliations	1/12/2008	L	L	
Grants and Special Education **	6/30/2015	L	L	
General Processing/Monitoring		M	L	
Grant Application		M	L	
Allowable Costs		M	L	
Cash Management		M	L	
Reporting and Monitoring		M	L	
Compliance		M	L	
Payroll, HR and Related Benefits				
Payments to Employees	2/7/2012	L	L	
Allocation of Expenditures	2/7/2012	L	L	
General Employee Administration	2/7/2012	L	L	
Employee Benefit Administration	4/5/2011	L	L	
Employee Attendance		M	M	
Hiring/Termination of Employees	2/7/2012	L	L	

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

** Review of financial activity of special education.

NEW HYDE PARK – GARDEN CITY PARK UFSD
Risk Assessment Table (Continued)
 June 7, 2016

(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	3/5/2010	L	L	
Payments Outside PO System	3/5/2010	L	L	
Purchasing Process	3/5/2010	L	L	
Allocation of Expenditures	3/5/2010	L	L	
Payment Processing	3/5/2010	L	L	
Travel and Conferences			M	
Credit Cards		L	L	
Facilities				
Facilities Maintenance	6/7/2016		M	
Construction Planning		L	L	
Construction Monitoring		L	L	
Construction Completion		L	L	
Fixed Assets				
Acquisition and Disposal	4/30/2014		M	
Inventory	4/30/2014		M	
School Environment				
Safety and Security			M	
Student Transportation				
Fleet Maintenance			M	
Risk Management			M	
Personnel Compliance			M	
Facilities Maintenance and Security			M	
Food Service				
Federal and State Reimbursement			M	✓
Sales Cycle and System			M	✓
Inventory and Purchases			M	✓
Eligibility Verification			M	✓
Extracurricular Activity Fund				
General	N/A			
Cash and Cash Receipts	N/A			
Expenditures and Purchasing	N/A			
Inventories	N/A			
Student Related Data				
Tracking Student Attendance			M	
Student Performance Data			M	
Information System				
Governance			M	
Network Security			M	
Financial Application Security			M	
Other Application Security			M	
Disaster Recovery			M	

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

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CURRENT OBSERVATIONS AND RECOMMENDATIONS

None noted.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (OPEN ITEMS)

None.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)

From the Risk Assessment Report dated June 30, 2015

Originally from the April 30, 2014 Agreed-Upon Procedures Report

Capital Assets

Physical Inventory Schedule

The District should develop a system of regular physical inventories of a portion of the District's assets so that the perpetual records can be verified. Differences between the physical inventory and the inventory records should be investigated to identify discrepancies and to determine if the processes and procedures related to inventory control have been operating as designed.

Update April 2015

The Assistant Superintendent for Business will develop a plan for implementation for this fiscal year end.

Update April 2016 (This issue is now closed)

During the course of the year and at year end the Districts selects a number of items to verify the accuracy of the inventory records.

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Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended March 31, 2016

FINANCIAL OPERATIONS OF THE FACILITIES AREA

Background:

The District's approved total general fund adjusted budget related to facilities and maintenance for the 2014-15 year was \$2,818,092 and the adjusted budget for 2015-16 year was \$2,419,638. The Facilities Department (Department) is headed by a Director of Facilities and Transportation (Director); there are 2 secretaries that share the clerical duties related to the Facilities and the Transportation Departments. There are 4 head custodians, one at each school, 15 full time custodians/cleaners, 2 maintenance employees and 2 groundsmen. The head custodians report to the principals, and the maintenance employees, and groundsmen report directly to the Director. The Director started at the District in the fall of 2014.

Our review covered three main areas of facility department operations- purchasing of goods and services, payroll related costs and work order management.

All of the Facilities Department's purchase order (PO) requisitions are entered into the financial system, Finance Manager (FM) by the Facilities Secretary based on information received from the Director. The PO requisition is electronically routed to the Director for review and approval. Upon approval, the PO requisition is electronically forwarded to the Assistant Superintendent for Business then the Purchasing Agent and then the Business Office for review and approval, and issuance of a PO. Invoices are reviewed by both the Facilities Secretary and the Director, then signed and returned to the Business Office for processing payment. The Facilities Department procedure is not to make a purchase without a PO in place; unless there is an emergency. Additionally, the use of blanket POs has been used when appropriate. A spreadsheet has been implemented to track balances on blanket POs to ensure that there are sufficient funds available.

Facility purchases are made through various purchasing types; Ed data bids, State contract, quotes, BOCES bids, County bids and a few District bids.

The District uses a time clock system to track custodial time. Additionally, timesheets are prepared for any overtime or extra pay items. The timesheets are reviewed and approved by the Director. The District plans to implement the Kronos Time Keeping System.

The District currently uses SchoolDude as a work order system, work orders are entered by District personnel, then routed to the Director, who assigns the work order to the appropriate Head Custodian, Maintainer, or Groundsmen. After, the work is completed; the work order is signed and returned to the Facilities Office. The Director confirms that the work is completed and closes out the work order in the system. We were informed that the District plans to implement a new work order system in July. The new system will be equipped with scanners that will give the District enhanced capabilities. Each item in the District will be tagged with a unique bar code. When a repair is required, the item is scanned, which will cut down on data input and help the District develop a maintenance log.

Summary:

Overall we found there were good controls over the financial operations of the Facilities Department; however, we noted a few opportunities for improvement based on the results of our engagement. See below for specific findings.

We noted that the new Director has continued with procedures to enhance the controls in the Department including tracking and tagging of all non-IT inventories, closing out work orders in a timely fashion, and utilizing a spreadsheet to better track balances of blanket POs.

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Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended March 31, 2016

Procedures:

Our procedures were as follows:

- Interview appropriate personnel regarding internal controls over staffing, time reporting, work flow, purchasing and invoice approval, budget preparation, budget monitoring, inventory control, and other areas of responsibility within the Facilities Department. Document the various systems and identify key internal control attributes for testing.
 - Examine payroll records of the Facilities Department personnel for 2 pay periods during the period January 1, 2015 through March 31, 2016, and on a test basis compare to source documentation.
 - Select an additional 10 payments made throughout the period under review and review supporting documentation.
 - Review of budget for 2015-16 and compare to the 2014-15 budget and the 2014-15 actual expenditures. Obtain explanation for unusual variances.
 - Review the year-to-date appropriation status report for 2015-16 and review any significant budget variances.
 - Review purchase orders for 3 of the 5 largest Facilities Department vendors during the year and examine invoices related to those POs to determine if policies and procedures of the District have been followed.
 - Select 25 additional disbursements from the Facilities Department accounts and review supporting documentation to determine if applicable purchasing and disbursement policies and procedures have been followed.
 - Review 2 capital projects completed during the year and review supporting documentation for bid, award, contracting, change order management, disbursements, and job completion (including state reporting).
 - Test inventory and work order systems as appropriate.

Findings:

Interview of appropriate personnel regarding internal controls over staffing, time reporting, work flow, purchasing and invoice approval, budget preparation, budget monitoring, inventory control, and other areas of responsibility within the Facilities Department, noted:

- All procedures seem appropriate. There is adequate segregation of duties and oversight of all activities.

Review of payroll records of the Facilities Department personnel for 2 pay periods and 10 additional payments made during the period January 1, 2015 through March 31, 2016, noted:

- All timesheets reviewed were properly approved and paid at the correct amount.
- All new hires, separations and changes in positions reviewed were appropriately Board approved.

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Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended March 31, 2016

Review of budget for 2015-16 compared to the 2014-15 budget and the 2014-15 actual expenditures and the review of the year-to-date appropriation status report for 2015-16, noted:

- The 2014-15 adjusted Facilities budget was \$2,818,092, 2014-15 actual spending was \$2,679,901 and the 2015-16 budget was \$2,290,890. The decrease of budget from 2014-15 to 2015-16 is primarily due to a decrease in costs for boiler repairs. The District did a major overhaul of all boilers at the schools in 2014-15. Additionally, there was a decrease in budget for fuel costs due to the anticipation of lower prices and possibly lower consumption.
- The 2015-16 adjusted budget was \$2,419,638, which increased by \$128,748 from the original budget, primarily due to an increase in costs to finish off work to overhaul all boilers, and an increase in repairs needed.

Review of 25 disbursements and 3 of the 5 largest Facilities Department vendors and review of supporting documentation to determine if applicable purchasing and disbursement policies and procedures have been followed, noted the following:

- One instance where the District was overcharged by a vendor for floor finish stripper purchased from Suffolk County Floor Care Contract. Based on our finding, the District requested and received a credit of \$112.
- Two instances where pricing for fuel oil purchased from a Nassau BOCES bid was not attached to the voucher packet to review that the appropriate pricing was charged to the District. We were informed that the District receives this pricing from the vendor; however, after confirmation the pricing is discarded. The Director was able to obtain pricing during our review and no exceptions were noted.
- There were 4 instances where the District purchased services; however, invoices received from the vendors lacked detail to agree pricing to the bid or quote. See below for specific instances:
 - The District purchased services to furnish and install a gymnasium floor from a vendor from a Nassau BOCES bid in the amount of \$8,610. A quote was provided to the District; however, the quote was not detailed to agree to the bid specifications. The bid did not have a labor rate, only a rate for flooring (\$1.98/sf).
 - The District purchased services for construction work totaling \$13,000 using 3 quotes. We noted that prevailing wage documents were not attached to the voucher packet for review. The Facilities Department was able to obtain the appropriate documents from the vendor during our review.
 - The District purchased services for playground surfacing from an Ed Data Bid. The quote for the project was for \$22,060 that included a labor rate of \$80/hour, which matched the bid price. The quote also included a total amount of \$19,500 for materials including a 30% markup, which agreed to the bid specification. A PO increase was processed for this project. The invoice reviewed totaled \$19,500; however, the invoice contained no details of the breakdown between labor and material costs. Additionally, 3rd party invoices were not attached to support material costs and the markup percentage noted on the bid.
 - The District purchased services for truck and bus repairs through a District bid. We reviewed an invoice in the amount of \$2,187, we were able to agree the labor rate charged to the District to the bid price; however, we were not able to agree other items listed on the invoice to the bid (i.e.,

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Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended March 31, 2016

PM truck service of \$140, wheel balanced \$60 and wheel remount \$60, cylinder rebuild totaling \$495).

We reviewed the security and the electric and lintels capital projects totaling \$400,000 and \$206,395 respectively. We noted the following:

- The work for these projects was purchased primarily from BOCES and Ed Data bids.
- Four invoices reviewed were not detailed to tie back to the bid. We note that these invoices relate to the security project where the work was completed prior to the new Director coming on board. We noted the following:
 - Two invoices totaling \$87,385 for one vendor for installation of security locks were purchased from a Nassau BOCES bid. The invoices did list all materials provided; however, no dollar amounts were listed. Additionally, it was noted that there were labor charges; however, no labor rate was listed on the invoice and the number of hours worked was not listed.
 - One invoice totaling \$50,988 for upgrade of public address systems was purchased from an Ed Data bid. We noted that the invoice listed all materials; however, no dollar amounts were listed. We were able to agree the labor rate charged to the District to the bid price; however, we were unable to substantiate the 30% markup for materials.
 - One invoice for \$17,400 for services to install concrete ADA ramps were purchased from an Ed Data bid was not detailed for cost of labor and material. The invoice and quote had one lump sum amount with a description of work performed, and without details of the pricing it is not possible to compare the invoice to the bid.

Review of inventory and work order systems, noted:

- We reviewed the work order system and noted that all work orders in the system were current. There were approximately 15 work orders on the date of our review. All seemed to be for current activities.
- We were informed that the District plans to move to a more robust work order system in the new fiscal year, which includes the use of scanners. Each piece of equipment will be bar coded and the new system will create a maintenance record for each item.
- The new Director has continued procedures that were put into place to track all non-IT inventory. The Director maintains a spreadsheet with all inventory records. Facilities purchases are tagged by the Director and recorded in the spreadsheet. He maintains a supply of tags that are signed out from the Business Office. The Business Office sends the Director a form (which is prepared and returned to the Business Office) and an asset tag for any non-facilities purchases. The Director either tags the item at the school or brings the tag to the building and provides it to building personnel to affix to the item or if the tag cannot be affixed to the item it is attached to a copy of the PO. The Director then enters the item into the spreadsheet. The updated spreadsheet is sent to the Business Office on a quarterly basis to update the District inventory records.

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Report on Applying Agreed-Upon Procedures (Continued)
For the Period Ended March 31, 2016

Recommendations:

We recommend the District consider implementing the following items to strengthen the internal controls over the financial operations of the Facilities Department:

1. Invoices for shipments of fuel, oil, etc. should be accompanied by the delivery ticket and the pricing should be attached to be able to confirm invoice pricing. This documentation should then be made available for the Claims Auditor's review.

2. The District should implement procedures to ensure that detailed pricing from in-house bids, State Contracts, Co-op bids, etc. be checked to the invoice to ensure that all prices charged to the District are accurate. Additionally, quotes or bids received by the District should be detailed to the price per item and the number of hours and a labor rate. The number of hours charged to the District should agree to the prevailing wage documents submitted by the vendor. We further recommend that these procedures be shared with the Claims Auditor to facilitate his review and the Claims Auditor should also report on any exceptions.

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