



Patchogue-Medford Union Free School District

Risk Assessment Report

For the 2019-2020 School Year

December 2019

The Board of Education
Patchogue-Medford Union Free School District
241 South Ocean Avenue
Patchogue, NY 11772



Board of Education:

We have been retained to function as the internal auditor for the Patchogue-Medford Union Free School District (hereinafter, "the District"). Our responsibility is to assess the internal control system within the District, and to make recommendations to improve upon possible control weaknesses or deficiencies. In doing so, we hope to provide assurance to the District's Board, management, and residents that the fiscal operations of the District are being handled appropriately and effectively.

BACKGROUND

We performed a detailed risk assessment in fiscal 2015 and issued a report of our in-depth tests of controls of critical accounting cycles including purchasing/accounts payable, cash receipts, payroll, and journal entries. Based on our interviews and tests performed, we developed an audit plan of those areas that should be further tested at that time. Since that time, we noted that the District continues to dedicate a significant level of effort to ensure the District's control environment is continually improving. Many of the comments outlined in prior reports have been either addressed or are currently being reviewed by District management. The District should be commended in this area.

A good practice is to perform a full risk assessment approximately every five years to ensure the assessment accounts for any changes internally within the District, as well as any external factors that can affect the internal control environment. As there were changes that affected the District both internally and externally, we performed a new detailed risk assessment of key fiscal and operational areas, which included interviewing staff members from various departments with a primary focus on the Business Office. This provided us with valuable, candid insight into the detailed processes and procedures that take place daily within the District.

In addition to our interviews, we also reviewed the District's most recently available external auditor report, claims auditor reports, Board meeting minutes, and key Board policies. The results of our review are as follows:

Review of External Audit Management Letter

We have reviewed the management letter for the year ending June 30, 2019 from R.S. Abrams & Co., LLP, the District's external auditors, to determine if any additional key items arose during the District's external audit that were not previously considered in our risk assessment. The external auditors did not identify any areas in which the District's internal controls could be improved. The

District should be commended for its continued efforts to implement strong controls.

Review of Claims Auditor Reports:

We have reviewed the claims audit process and reports prepared by the District's internal claims auditor. Based on our review of the claims auditor's procedures and any documented findings, we have not identified any areas of risk that were not identified during our risk assessment. Should we determine that our risk assessment needs to be revised based on future reviews, we will notify the Board of any changes in our audit plan.

Review of Board Minutes:

We have been reviewing the minutes of the Board meetings on an on-going basis. Based on our review, we did not note any significant items that would create additional risk.

Review of Board Policies:

The District proactively reviews and assesses current policies to determine whether existing policies should be revised or new policies should be implemented to strengthen the internal control environment of the District. In addition, we noted that the District has been meeting and working with the District's attorney to ensure they are in compliance with all required policies. If any policies are implemented or revised during the fiscal year, we will review those items to determine the impact on our risk assessment.

Our processes allowed us to identify potential areas of risk within the District and will allow us to design pointed tests of controls to analyze the inner-workings of the District based upon input from the District's management, audit committee, and/or Board. The results of our current risk assessment will provide the foundation for future testing of the District's control environment and related operations.

RISK ASSESSMENT PROCESS:

Risk is defined as internal and external factors that hinder the District's ability to meet its mission, goals, and objectives. Risks should be assessed by considering the likelihood and impact of such risks in relation to specific objectives. For each area, we have identified the strengths and areas for improvement based on discussions with District staff, the results of our prior tests performed, and the results of our walk-through testing of specific areas. We have classified each area as either "High", "Moderate", or "Low" in order to plan testing of each area over the course of the next five years. It is important to note that this report only identifies the District's risks, and it does not make any conclusions about the operational effectiveness of internal controls. An area could be classified as a high risk for two reasons: 1) because of its materiality to the District's fiscal budget and degree of importance to the District's overall operations; and/or 2) because the area lacks sufficient controls, polices, and procedures for key processes.

In assessing risk, we consider both inherent risk, the risk associated within a system based upon the nature of transactions processed by that system (i.e. quantity, complexity, value,

etc.), and control risk, the risk that the system of internal control is not adequately designed to prevent or detect errors or irregularities. Risks can be further categorized by the likelihood or probability that a negative event will occur, and the impact that such an event will have on the business operations (see the chart below).

		Impact				
		Trivial	Minor	Moderate	Major	Extreme
Probability	Rare	Low	Low	Low	Moderate	Moderate
	Unlikely	Low	Low	Moderate	Moderate	Moderate
	Moderate	Low	Moderate	Moderate	Moderate	High
	Likely	Moderate	Moderate	Moderate	High	High
	Very Likely	Moderate	Moderate	High	High	High

As such, our assessment focused on several areas due to their significance to the District’s overall operation as well as areas the Office of the State Comptroller has been focusing on during their recent audits. These include:

- information technology environment
- special education services and federal grants
- human resources (HR)
- payroll
- employee attendance tracking
- employee benefits
- purchasing and accounts payable
- extraclassroom activity fund
- student registration and residency verification
- treasurer functions and cash receipts
- transportation
- food service operations
- use of facilities
- inventory and fixed assets

The proposed 5-year test plan is documented in the chart reflected in Appendix A. Please note that the internal audit approach is a fluid process, and our recommended testing may need to be modified based upon information uncovered during future testing or external factors.

Our evaluations for each area, along with the related risk classifications, are further detailed in the report as per the report section listed in the chart.

We will be available to meet with the Board and Audit Committee to discuss our risk assessment report and proposed audit plan.

We appreciate the cooperation and assistance provided by the District staff during our risk assessment process. We understand the fiduciary duty of the Board of Education, as well as the role of the internal auditor in ensuring that the proper control systems are in place and functioning consistently with the Board's policies and procedures.

Should you have any questions regarding anything included in our report, please do not hesitate to contact us at (631) 582-1600.

Sincerely,

A handwritten signature in cursive script that reads "Cerini & Associates LLP".

Cerini & Associates, LLP
Internal Auditors

**APPENDIX A
PROPOSED 5-YEAR TEST PLAN**

Report Section	Area of Detailed Review	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
A	HR and Payroll (Employee Salary and Overtime Pay)	X				
B.1	Information Technology (Inventory)		X			
B.2	Benefits (Eligibility and Payments)		X			
C	HR and Payroll (Employee Attendance Tracking)			X		
D	Buildings and Grounds (Use of Facilities)				X	
E	Extracurricular Activity Fund (Club Records and Cash Handling)					X
F	Prior Areas Reviewed - To Be Monitored					
	Special Education (Revenues and Expenditures)					
	HR and Payroll (Personnel Operations)					
G	Other Areas Assessed - To Be Tested as Needed					
	Treasurer Function and Cash Receipts					
	Food Service Operations					
	Student Registration and Residency Verification					
	Transportation					
	Purchasing and Accounts Payable					

A. PROPOSED TEST PLAN RECOMMENDATIONS 2019-2020

Area: HR and Payroll

Risk Classification: Moderate - High

The salaries that the District pays to employees represent the largest expenditure of the District. In addition, salaries change as employees receive step increases and complete certain pre-approved courses towards professional advancement. It is therefore essential that the District institute measures to ensure that the procedures for recording, maintaining, and tracking employee salaries are accurate and complete, and reflect compensation paid to only valid employees of the District. Furthermore, if procedures to monitor overtime costs do not exist or are not functioning properly, the District could be paying for overtime that might not be necessary or actual. We recommend testing of this area as follows:

Review of Employee Salary and Overtime Payments:

Our testing of the internal controls over HR and Payroll will include assessing whether salary payments, including overtime payments, are in compliance with the District's employee contracts and are correctly calculated. In addition, we will assess the controls over overtime to ensure that overtime is properly authorized, actually worked, and clearly documented in District records.

B.1 PROPOSED TEST PLAN RECOMMENDATIONS 2020-2021

Area: Information Technology

Risk Classification: Moderate - High

The Information Technology (IT) functions in the District are performed under the direct supervision of the District's Administrator of Technology. We previously performed a review of the District's IT Environment in fiscal 2014, and the District has since implemented the recommendations made during our review. In addition, as part of our internal audit procedures, we evaluate the IT Environment on an annual basis and noted that the District continues to be proactive in installing firewall upgrades and addressing repairs as needed to ensure security controls are up-to-date, and computer operations have minimal interruptions. School districts are required to report not only financial data, but other statistical data such as student performance, attendance, and special education placements. Such data is used as the basis for various reports that affect state aid. In addition, effective inventory control of fixed assets and consumables is key to ensuring items purchased are properly secured, fixed assets are appropriately capitalized, and items are used for their intended function. Technology assets are inventoried and tracked by the IT department, while all other assets are tracked by the Business Office. As the District relies heavily on software and devices to support many of its financial and academic endeavors, we recommend internal audit testing for this area as follows:

Review of Inventory of Information Technology Equipment:

The IT environment is rapidly changing and requires the District to upgrade or purchase new devices. Our review will assess whether the District has detailed, up-to-date inventory records for the computer hardware and software license agreements.

B.2 PROPOSED TEST PLAN RECOMMENDATIONS 2020-2021

Area: Benefits

Risk Classification: Moderate

The District offers health insurance coverage only to eligible persons. Eligibility includes current and former employees as well as their families. The District has several processes to ensure that health benefit expenses are controlled. This includes requiring employees to provide proof of eligibility when requesting family health insurance coverage (i.e. marriage and birth certificates) and performing regular reconciliations of the health insurance invoices. In addition, the District requires retirees who are entitled to a Medicare Part B reimbursement to complete a form stating that they are not receiving the benefit from another entity. We performed an in-depth review of this area in fiscal 2017, and although the District implemented all recommendations, we noted during our current assessment that one of the benefits administrators had retired. As such, we recommend testing as follows:

Review of Eligibility and Payments:

We recommend reviewing the internal controls over benefits including procedures for: reconciling the health insurance bills, modifying and tracking changes in benefit coverage, ensuring retiree payments are properly received and for the correct amount, ensuring Medicare Part B premiums are accurately reimbursed, issuing health insurance declinations payments are accurate, and ensuring COBRA payments are received and correct.

C. PROPOSED TEST PLAN RECOMMENDATIONS 2021-2022

Area: HR and Payroll

Risk Classification: Moderate - High

A good HR and Payroll system ensures that employees receive compensation and benefits to which they are entitled and includes an adequate timekeeping system that ensures employees are accurately paid for time worked. Employees are permitted to be absent from their regularly scheduled position for a variety of reasons from personal matters to school-related functions such as trainings and meetings. In some cases, the District is required to have a substitute worker fill in for staff that is absent. Therefore, it is imperative that the District has procedures to ensure timekeeping records record the date and the time worked and track the costs to cover absent employees. These measures can help ensure that employees are accurately paid for time worked. The absence of adequate controls over timekeeping may leave a payroll system susceptible to error, abuse, or even fraud. As such, we recommend internal audit testing for this area as follows:

Review of Employee Attendance Tracking:

Our review would include evaluating District policies and procedures in place related to tracking and communicating attendance; assessing compliance with applicable District employee contracts; assessing whether absences are properly recorded in the District's financial system, nVision; and assessing whether employees are properly paid based on attendance balances.

D. PROPOSED TEST PLAN RECOMMENDATIONS 2022-2023

Area: Buildings and Grounds

Risk Classification: Low-Moderate

The Facilities Administrator uses the facilities management software application Megamation to document and track open work orders, and many of the tasks are performed in-house. The District allows certain groups to use District facilities which is governed through Board policy as well as Education Law. The policy provides detailed guidance regarding the application process, the criteria for those groups eligible to use District facilities, insurance required, and the fee structure associated with usage. The District's policy includes provisions for charging for building use and/or custodial staff time. Outside organizations must complete an application to use District facilities and must meet certain criteria, including providing proof of insurance naming the District as an additional insured. The majority of the requesters are local organizations. The District assesses the cost associated with the use of the facilities, and ensures the fees are collected in order for the group to use the facilities; however, we noted that the District manually tracks usage rather than using a software application, increasing the risk that organizations may not be properly billed for certain usage. As such, we recommend testing as follows:

Review of Use of Facilities:

Our review will assess whether the Buildings and Grounds Department has sufficient controls to ensure that District facilities are being used in accordance with the District's policy and that District facilities are being used by authorized groups for authorized purposes. This entails assessing the internal controls for approving and recording applications for use. In addition, the review will assess the internal controls over charging fees for usage, as applicable, per the District's policy.

E. PROPOSED TEST PLAN RECOMMENDATIONS 2023-2024

Area: Extraclassroom Activity Fund

Risk Classification: Moderate

Extraclassroom activity funds are defined in the Regulations of the Commissioner of Education as "Funds raised other than by taxation or through charges of a Board of Education, for, by, or in the name of a school, student body or any subdivision thereof." In essence, extraclassroom activity funds are funds operated by and for the students. The District has revamped the procedures associated with recording, approving, and tracking revenues and expenditures to increase controls over club activities. The District's external auditors are required to audit the extraclassroom fund on an annual basis and perform tests of internal controls of monetary transactions performed by the clubs. While their

audit report noted that the District has addressed any issues associated with extraclassroom club funds, we are aware that the OSC has been increasing their review of this area and has noted deficiencies in the controls over the club records. As such, we recommend performing a review of this area as follows:

Review of Extraclassroom:

Our testing would include assessing the completeness and accuracy of club ledgers maintained by the students as well as the procedures for the collection, deposit, recording, and reconciliation of cash. In addition, we will assess compliance with the NYSED pamphlet entitled The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds with respect to the maintenance of student ledgers.

F. PRIOR AREAS REVIEWED – TO BE MONITORED

Area: Special Education

Risk Classification: Moderate

The Office of Pupil Personnel Services is an important part of the District from both an expenditure and revenue perspective. This department is responsible for coordinating Special Education services, including resource room and related services for students in the District as well as coordinating out-of-district placements. The District uses IEP Direct to track services provided to students and to process all Medicaid claims. Furthermore, the Department is also responsible for tracking Medicaid eligible students and providing services in compliance with Medicaid regulations to ensure that it can claim for Medicaid reimbursement for eligible students. As a result, this area contains a higher level of inherent risk. We performed an in-depth review of special education revenues and expenses in fiscal 2019, and the District has since corrected or is in the process of correcting any issues noted. Due to the significance of revenues and expenditures within this area, especially in the STAC and Medicaid processes, we will continue to assess the internal controls within this area.

Area: HR and Payroll

Risk Classification: Moderate

Personnel files are essential to an organization because they provide a record of each employee's employment history; and for this reason, employers should ensure they are accurately documenting an employee's career. Each employee should have its own personnel file that contains a completed I-9 form with appropriate support documents to substantiate that the District verified the employment eligibility for that employee as required by Federal law. In addition, personnel files should include an offer letter, job application/resume, annual salary notices, Board approval, college transcripts, licenses/certifications, and performance evaluations, if applicable. These documents can be either kept in paper form or electronically and must be kept according to various document retention schedules. Changes in an employee's status should be formally documented and communicated to other District departments (e.g., Payroll and IT) in a timely manner. We performed testing of this area in fiscal 2018, and the District has

since corrected or is in the process of correcting any issues noted. As such, we will continue to assess the internal controls within this area.

G. OTHER AREAS ASSESSED – TO BE TESTED AS NEEDED

Area: Treasurer and Cash Receipts

Risk Classification: Low-Moderate

Education Law establishes the Treasurer as the custodian of all District monies, responsible for not only depositing monies in designated banks but disbursing them only upon receipt of a signed warrant or certified payroll. The District appointed a Treasurer who is responsible for signing accounts payable and payroll checks, reviewing bank reconciliations prepared by an account clerk in the District, and preparing a monthly report of the bank balances. The Treasurer's signature must be affixed to District checks by the Treasurer or under the Treasurer's direct supervision. The Treasurer is responsible for the custody and accounting of District funds and for preparing monthly and annual financial reports. The District receives payments for invoices primarily by mail. Bank deposits of cash are done as soon as possible, with the money stored in the business office safe until deposit. Our understanding of the functions performed by the treasurer and business office staff indicates that the District has sufficient internal controls and proper segregation of responsibilities over the cash receipts function. As such, we would recommend reviewing controls over cash receipts to include cash handling at the buildings (e.g., petty cash), as well as the recording and movement of funds in the District and reviewing reconciliations on an as-needed basis.

Area: Food Service Operations

Risk Classification: Moderate

The District utilizes a Point of Sales (POS) System for students to purchase items from the cafeteria. Each student is assigned an account with a unique PIN number that is entered at the cash register. All food items purchased by the students are tracked by the POS system and the software is utilized to produce reports of meals served to claims reimbursements from the Federal government and State child nutrition systems. Students who do not have money to purchase food, or do not have a balance on their account, are provided with a meal as per the District's policy. It should be noted that students are not permitted to purchase a la carte items on credit. New York State Education Law 908 was amended by adding Section 2 of Part B of Chapter 56 of the laws of 2018, **Prohibition Against Meal Shaming**. This law, effective at the start of the 2018-2019 school year, required all public, non-public and charter school food authorities to develop a written plan to ensure that a student whose parent or guardian has unpaid meal charges is not shamed or treated differently than a pupil whose parent or guardian does not have unpaid school meal charges. The District has implemented a written plan to comply with the new law and has implemented procedures to collect any unpaid balances. In addition, we were informed that the District is considering on participating in the Community Eligibility Program (CEP), which would allow the District to serve breakfast and lunch at no cost to all

enrolled students and would thereby reduce the risk of unpaid balances. As such, we recommend testing of this area on an as-needed basis.

Area: Student Registration and Residency Verification

Risk Classification: Low-Moderate

The District proactively monitors residency by ensuring it receives and maintains necessary documents for each student. In addition, the District has procedures to ensure that students reside in the District and that student files are accurately documented. We noted that the District is in compliance with NYS regulations with respect to residency requirements. As such, we will monitor this area over the next few years and recommend further testing of this area on an as-needed basis.

Area: Transportation

Risk Classification: Low-Moderate

We performed a review of this area in fiscal 2016 and since then all recommendations have been implemented. We noted that the procedures for reviewing all invoices from other bus companies are in place, and rates are verified by the Transportation Supervisor. In addition, the claims auditor reviews all transportation invoices and verifies that rates charged agree with the contractual agreement. As a result, the District appears to have adequate managerial oversight and we recommend further testing of this area on an as-needed basis.

Area: Purchasing and Accounts Payable

Risk Classification: Low-Moderate

During this risk assessment, we noted that the District continues to have sufficient internal controls including detailed procurement policies and procedures, appropriate segregation of responsibilities and approvals, and detailed documentation to support purchases and payments. We also noted that all vendor payments are reviewed by the District's claims auditor, who is independent of the District's purchasing and payment processes and provides monthly reports to the Board detailing any instances of claims that do not adhere to the District's purchasing policy. Based on our current assessment, we recommend further testing of this area on an as-needed basis.