

**Board of Education  
Elmira Heights Central School District  
2083 College Ave.  
Elmira Heights, NY 14903**



# **Internal Audit Risk Assessment Update Report**

**2010 – 2011**

**May 2011**

## **Executive Summary**

Internal Audit performed the 2010-2011 risk assessment update for the Elmira Heights Central School District, on behalf of the District's Board of Education and to assist them in compliance with the NYS Five Point Plan on School District Accountability legislation and Commissioner's Regulations 170.12.

A risk assessment update includes a review of a District's operations, including but not limited to, a review of financial policies and procedures and the testing and evaluation of the district's internal controls.

Internal Audit separated the District's operations into nine auditable/functional units and assigned a risk rating of low, moderate, or considerable to each unit through various testing methods such as questionnaires and discussions with district staff, sample testing of key controls, and walk-throughs.

Internal Audit concludes that the following 7 auditable/functional units presented an elevated risk level to the District's operations as a result from the updated risk assessment and recommends the detailed testing of one of these areas to be completed for the 2010-2011 school year for the Elmira Heights Central School District.

- Revenue and Cash Management
- Purchasing and Expenditures
- Payroll and Personnel
- Extra-classroom Activities
- Governance
- Accounting and Reporting
- Assets and Inventory

## **Audit Scope, Objective and Methodology**

### *Scope*

An annual risk assessment is required by the NYS Five Point Plan on School District Accountability legislation and Commissioner's Regulations 170.12.

The risk assessment update for the Elmira Heights Central School District was conducted during April 2011.

The Elmira Heights Central School District has entered into a cooperative services agreement with the Greater Southern Tier BOCES to perform some of the District's financial operations. Therefore, a portion of the risk assessment's fieldwork was performed at the Central Business Office (CBO) located in Horseheads, NY.

Internal Audit is a department within Tompkins-Seneca-Tioga BOCES and is supervised by the Board of Education for the Elmira Heights Central School District under a cooperative services agreement. The findings and conclusions in this report are the responsibility of the Board and the Internal Audit Department.

### *Objective*

To identify factors or conditions that threatens the achievement of a district's objectives. It involves identifying significant risks to the effectiveness and efficiency of operations, to the reliability of financial reporting, and compliance with policies, procedures, applicable laws and regulations.

### Methodology

Internal Audit is governed by adherence to applicable AICPA *Generally Accepted Auditing Standards* and The Institute of Internal Auditors' *Code of Ethics*. The Institute's *International Standards for the Professional Practice of Internal Auditing* (Standards) constitutes the operating procedures for the department. The Institute of Internal Auditors' *Practice Advisories* were adhered to as applicable. In addition, the Internal Audit department complies with applicable regulations promulgated by the State Commissioner of Education and the school district's policies and procedures.

Per New York Standards Internal Audit is required to develop a risk assessment of a district's operations, including but not limited to, a review of financial policies and procedures and the testing and evaluation of the district's internal controls, and an annual review and update of such risk assessment.

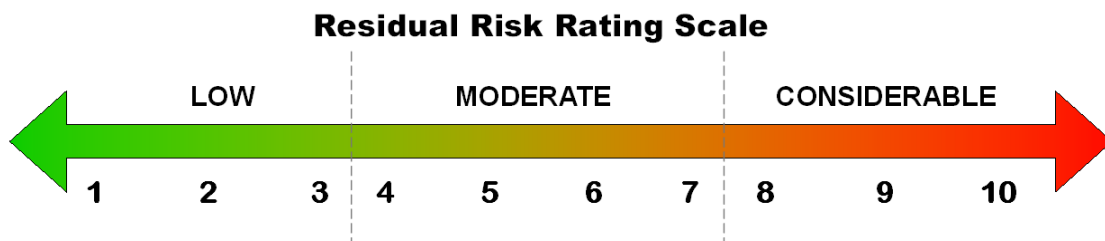
A risk assessment update shall not only include a current year residual risk determination, but also a follow-up on any previous Internal Audit exceptions, a follow-up on any Corrective Action Plans and any external audit exceptions (financial statement, SED, OSC, etc.).

There are three categories of risk:

- **Inherent Risk:** The nature of some activities or assets makes them a greater risk than others. Some characteristics that generally increase inherent risk are opportunity, new activities, complexity, changes in operating environment, changes in personnel, and rapid growth. Inherent risk is a tool in determining the susceptibility of an entity, unit, or account to fraud, waste, or abuse assuming there were no related internal controls.
- **Control Risk:** The risk that material errors or fraud are not prevented or detected by the internal control system.
- **Residual Risk:** Remaining and assigned risk level calculated after evaluating control and inherent risk.

The assigned residual risk rating, low, moderate, or considerable, is calculated after considering inherent and control risk. To establish a control risk rating, internal audit uses various testing methods such as questionnaires and discussions with district staff, sample testing of key controls, and walk throughs.

Not all risks are equal. Some are more likely than others to occur, and some will have a greater impact than others if they occur. Once risks are identified, their probability and significance must be assessed. Upon identifying and assessing risk, the District must decide on how to deal with it. Based on a cost/benefit analysis, in some cases, the decision may be to control it; in others, it may be to accept it. Residual Risk ratings are not only categorized as *Low*, *Moderate*, or *Considerable*, but also with a number rating. The number rating is based on various factors such as the severity of internal control recommendations, materiality, probability, and significance. In addition, the residual risk can be affected by recent audit reports or findings by other federal, state, or independent auditors. See the graphic below for the Residual Risk Rating Scale.



## Results and Recommendations

The NYS Education Department has outlined twenty-four different areas to be assessed and audited by internal audit. Internal Audit has merged and re-categorized all twenty-four areas into the following nine auditable/functional units:

- Revenue and Cash Management
- Purchasing and Expenditures
- Payroll and Personnel
- Extra-classroom Activities
- Governance
- Accounting and Reporting
- Assets and Inventory
- Facilities Maintenance and Construction
- Student Services and Data

Using the methodology explained above, internal audit has determined and assigned a residual risk rating to all nine auditable/functional areas for the Elmira Heights Central school district. The following three sections of the report specify those ratings in ascending order from *Low* to *Considerable*. In accordance with the NYS Five Point Plan, Internal Audit is required to recommend changes for strengthening controls and reducing identified risks where possible, and to specify time frames for implementation of such recommendations. The recommendations are provided to assist the district in managing and reducing risk. It should be noted that the enhancements recommended are not the only contributing factors to the ratings of *Moderate* or *Considerable* risk. As explained above, many areas are inherently riskier than others, regardless of the internal control structure.

### Low Residual Risk

The functional units determined and assigned low residual risk ratings for the Elmira Heights Central School District are:

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Facilities Maintenance and Construction	09-10	Low	Low	Low – 3
	10-11	Low	Low	Low – 3

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Student Services and Data	09-10	Moderate	Low	Low – 3
	10-11	Moderate	Low	Low – 3

### Moderate Residual Risk

The following function(s) have *Moderate* residual risk ratings. There are no associated recommendations for improvement to internal controls for these area(s). If there are verbal recommendations regarding controls, very minor items noted throughout the risk assessment that do not warrant a written recommendation, or unresolved findings from any previous audit reports, this may lead to a *Moderate* Residual Risk rating without any associated written recommendations below.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Fixed Assets	09-10	Moderate	Moderate	Moderate – 6
	10-11	Moderate	Moderate	Moderate – 6

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Governance	09-10	Moderate	Moderate	Moderate – 5
	10-11	Moderate	Moderate	Moderate – 5

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Purchasing and Expenditures	09-10	Considerable	Moderate	Moderate - 7
	10-11	Considerable	Moderate	Moderate - 7

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Accounting and Reporting	09-10	Moderate	Moderate	Moderate – 6
	10-11	Moderate	Moderate	Moderate – 6

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Revenue and Cash Management	09-10	Considerable	Moderate	Moderate – 6
	10-11	Considerable	Moderate	Moderate – 6

The following areas have a Residual risk rating of Moderate, and also have associated recommendations.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Payroll & Personnel	09-10	Considerable	Moderate	Moderate – 5
	10-11	Considerable	Moderate	Moderate – 5

1. Form I-9 - The Department of Homeland Security of the Office of Management and Budget (OMB No. 1615-0047), requires that all employees, citizens and non-citizens, hired after November 6, 1986 and working in the United States must complete an Employment Eligibility Verification (I-9) Form. During testing, Internal Audit noted an employee's I-9 could not be located. Internal Audit recommends the District review all personnel files to ensure that all I-9 Forms are completely filled out by both the employee and the District for all employees hired after November 6, 1986. Individuals who do not have a form on file should be requested to fill one out.

2. Salary Notices – All employees are required to have a salary notice indicating their position and rate of payment for work performed. Internal Audit noted one employee who received payment for work performed without a salary notice for the position. Internal Audit recommends the District review all personnel files to ensure all salary notices are included in the files, and the payment information is properly recorded in the computer payroll system.

Considerable Residual Risk

The following functions or processes have *Considerable* residual risk ratings.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Extra-classroom Activities	08-09	Considerable	Considerable	Considerable – 9
	09-10	Considerable	Considerable	Considerable – 8

1. Timely Deposits - Internal Audit noted deposits not made timely. The District should continue to communicate the importance of following proper cash receipts protocol to all staff and student treasurers.

**Recommended Implementation Timeframe:** By the end of the September 2011.

**Previous Audits and Corrective Action Plans**

As part of the annual risk assessment update, Internal Audit is required to follow-up on any prior year audits and corrective action plans to determine if any findings are unresolved, as well as the implementation status of any corrective action plans. All items noted were already in the process of being addressed.

### **Concluding Remarks**

In order to assist the District in mitigating the risk of fraud, waste or abuse and to comply with the NYS five point plan, Internal Audit recommends the detailed testing of one of the following areas for the 2010-2011 school year for the Elmira Heights Central School District:

- Revenue and Cash Management
- Purchasing and Expenditures
- Payroll and Personnel
- Extra-classroom Activities
- Governance
- Accounting and Reporting
- Assets and Inventory