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District Office
2083 College Avenue
Elmira Heights, NY 14903
Mary Beth Fiore, Superintendent

Phone: (607) 734-7114
Fax: (607) 734-7134
CSE: (607) 733-8039
Transportation: (607) 739-1358
www.heightsschools.com

July 31, 2012

Tompkins Seneca Tioga BOCES
Internal Audit Services
555 Warren Road
Ithaca, New York 14850-1898

Dear Ladies and Gentlemen:

In response to your 2010-11 Assets and Inventory Internal Audit Report presented to the Board of Education, Elmira Heights Central School District on June 11, 2012 and revised in July 2012, we submit the following corrective action plan.

Exceptions and Recommendations:

Observation 1

Confirming Purchase Orders – Internal Audit noted 2 of 15 purchases sampled used confirming purchase orders. Confirming purchase orders should only be used in “real” emergencies.

Corrective Action Plan – Every effort is being made to use purchase orders except in emergencies. It has been and continues to be communicated to staff that confirming purchase orders are not acceptable. Especially in the maintenance and transportation areas blanket purchase orders are generated at the beginning of the fiscal year prior to purchases being made. Also, when emergencies do happen staff are told to document the reason for circumventing the purchasing process.

Observation 2

Quotes – Internal audit noted 1 of 15 purchases sampled did not have required quotes. Per District Regulation 5410R.1 – Procurement Guidelines, all purchases between \$4,001 and \$10,000 are required to have 3 formal written quotes.

Corrective Action Plan – The District believes this is an isolated incidence and the 3 formal quotes were obtained for this purchase and due to a clerical error were not attached to the purchase order or accounts payable packet. Purchase orders are reviewed for proper quotations before being issued by the Purchasing Agent and the Food Service Director said they were attained. However, the District will continue to obtain the proper quotations and attach them electronically to the purchase order in WinCap.

Observation 3

Asset Inventory Tags – District owned inventory items should have a “Property of Elmira Heights Central School District” inventory tag attached to the asset. 3 of 30 assets sampled did not have inventory tags attached. 11 of 30 assets had incorrect inventory tags attached. 2 of 30 assets sampled could not be located within the District. Internal Audit also noted assets had been moved to different schools within the District, and the inventory system had not been updated to reflect the new location of the asset. Internal Audit recommends inventory tags be attached to District owned assets for proper inventory control. Internal Audit also recommends an inventory be taken in each classroom / department, inventory tag numbers noted, and the inventory system updated with the proper inventory tag numbers and asset locations. The purpose of reviewing an asset inventory tag sample is to determine if assets are properly marked with inventory tags. 2 of 30 assets sampled could not be located within the District. The assets were a fax machine and a bookcase, both listed as being in the high school main office. The net book value of the assets was \$0.

Corrective Action Plan – The District recently began using RAMI 4000 in conjunction with WinCap to account for fixed assets. The District noted that they were still in the middle of cleaning up the database after it had been imported from the last physical inventory file performed by CBIZ. When that inventory was done many of the assets were tagged with new CBIZ tags but not reconciled to the old tags. Also, of the 2 assets that could not be located from the high school main office, the fax machine was known to be in storage with computer equipment and the bookcase was believed to have been removed during the capital project main office renovation and disposed of.

Also, it is the District’s goal to provide all classrooms/departments with inventory sheets to review/update at the end of the 2012-13 school year so that assets can be transferred in the RAMI system. Also, staff will be instructed on the proper transfer/disposals of assets at the beginning of the 2012-13 school year and a form posted to the District intranet so staff can document the transfer/disposal of assets and obtain proper authorization prior to doing so.

Observation 4

Competitive Bidding - Chapter 56 of the Laws of 2010 amended section 103 of NYS General Municipal Law. The threshold for purchase contracts subject to competitive bidding is now \$20,000. This amount was \$10,000 previously. Chapter 494 of the Laws of 2009 also amended section 103 of NYS General Municipal Law. All public works contracts more than \$35,000 are now subject to competitive bidding. This amount was \$20,000 previously. Internal Audit recommends the purchasing policy be updated to include the new competitive bidding threshold dollar amounts.

Corrective Action Plan – The Board Policy has been updated to reflect the changes in NYS General Municipal Law.

The District and its employees continue to review and correct the fixed asset system and internal controls to strengthen the process and reduce the risks associated with the area.

Sincerely yours,

Debra L. Palmer
Business Manager

Cc: Mary Beth Fiore
Board of Education
Eugene Civik, GST BOCES
NYSED Office of Audit Services

Enter with high expectations – leave with confidence and pride.

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



**2011-2012
Internal Audit Risk Assessment
Update Report**

**April 2012
Revised July 2012**

Executive Summary

Internal Audit performed the 2011-2012 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 the following auditable/functional units presented an elevated risk level to the District's operations as a result of the updated risk assessment. Internal Audit recommends the detailed testing of Purchasing and Expenditures for the 2011-2012 school year.

- Revenue and Cash Management
- Purchasing and Expenditures
- Extraclassroom Activities
- 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 March 2012.

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 complies with applicable regulations promulgated by the State Commissioner of Education and the 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.

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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 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
- Extraclassroom 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 following function(s) have a *Low* residual risk rating. There are no associated recommendations for improvement to internal controls for these area(s).

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Facilities Maintenance and Construction	10-11	Low	Low	Low – 3
	11-12	Low	Low	Low – 3

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Student Services and Data	10-11	Moderate	Low	Low – 3
	11-12	Moderate	Low	Low – 3

Moderate Residual Risk

The following function(s) have *Moderate* residual risk ratings. 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.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Fixed Assets	10-11	Moderate	Moderate	Moderate – 6
	11-12	Moderate	Moderate	Moderate – 6

Please refer to the 2010-2011 Assets and Inventory Internal Audit Report dated February 2012 ~ Revised July 2012 for recommendations.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Governance	10-11	Moderate	Moderate	Moderate – 5
	11-12	Moderate	Moderate	Moderate – 5

1. Prior Year Audit Reports - The 2010-2011 Risk Assessment Internal Audit Report was presented to the Audit Committee on May 23, 2011. The audit was not accepted by the BOE as of March 2012. Internal Audit recommends the BOE accepts the report. Additionally, the corrective action plan (CAP) associated with this report was not prepared and implemented. Internal Audit recommends the CAP be prepared, accepted by the BOE, and implemented.

2. Corrective Action Plan (CAP) – Internal Audit noted a CAP was not completed for the 2008-2009 Risk Assessment Internal Audit Report. Internal Audit recommends the CAP be prepared, accepted by the BOE, and implemented.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Purchasing and Expenditures	10-11	Considerable	Moderate	Moderate - 7
	11-12	Considerable	Moderate	Moderate - 7

1. **Confirming Purchase Orders** - Internal Audit noted 1 of 7 purchases sampled used confirming purchase orders. A Special Education BOCES employee had equipment repaired for one of the District's students. The employee did not obtain a purchase order or the District's approval prior to repairs being completed. The District was therefore obligated to pay an invoice the District had not approved, and it also resulted in a confirming purchase order being issued. Confirming purchase orders result when purchase orders are prepared after the actual purchase is made. Confirming purchase orders bypass the entire purchase process, and can lead to over expenditures and/or committing the District to purchases that are not reasonable and necessary. Internal Audit recommends proper purchasing procedures be communicated to Special Education BOCES employees.

2. **Credit Cards** - The Office of the State Comptroller (OSC) recommends Districts establish reasonable credit limits for each purchase, transaction, and/or total on each credit card account. Policy 5580, Use of the District Credit Card, did not state a credit limit for credit cards. Internal Audit recommends the policy state a credit limits. Internal Audit also noted a Sam's Club credit card account with a \$5,000 credit limit. Internal Audit recommends the account be reviewed to determine appropriate and reasonable limits.

3. **Purchase Order Tolerance** – The purchase order tolerance is the amount or percentage an invoice can be paid over the approved purchase order (PO) amount without increasing the PO. The District's PO tolerance is 10% over the approved PO amount. During testing, Internal Audit noted the PO tolerance in WinCap was not set at all. This creates the potential for invoices to be paid over the approved PO amount. Internal Audit recommends the PO tolerance be set to 10% in WinCap.

District's Response – The PO tolerance has been set to 10% in WinCap.

4. **Quotes** - Internal Audit noted 1 of 7 purchases sampled did not have required quotes. Per District Regulation 5410R.1 - Procurement Guidelines, all purchases less than \$750 require at least 2 catalog price sheet comparisons obtained by the originator. The originator shall indicate on the purchase requisition form the basis for the determination that the suggested vendor be used. During testing, Internal Audit noted a \$390 purchase made without 2 catalog price sheet comparisons. Internal Audit recommends reviewing the District's purchasing requirements with all employees. Requisitions and/or purchase orders without required quotes should not be approved. Internal Audit also recommends the Board review the quote requirements to determine appropriate, necessary, and reasonable dollar amounts. The purchasing policy should be updated with any changes the Board makes.

5. **Competitive Bidding** - Chapter 56 of the Laws of 2010 amended section 103 of NYS General Municipal Law. The threshold for purchase contracts subject to competitive bidding is now \$20,000. This amount was \$10,000 previously. Chapter 494 of the Laws of 2009 also amended section 103 of NYS General Municipal Law. All public works contracts more than \$35,000 are now subject to competitive bidding. This amount was \$20,000 previously. Internal Audit recommends the purchasing policy be updated to include the new competitive bidding threshold dollar amounts.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Accounting and Reporting	10-11	Moderate	Moderate	Moderate – 6
	11-12	Moderate	Moderate	Moderate – 6

There are no associated recommendations for improvement to internal controls for Accounting and Reporting.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Revenue and Cash Management	10-11	Considerable	Moderate	Moderate – 6
	11-12	Considerable	Moderate	Moderate – 6

There are no associated recommendations for improvement to internal controls for Revenue and Cash Management.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Payroll & Personnel	10-11	Considerable	Moderate	Moderate – 5
	11-12	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 Form (I-9). Per instructions, employers must complete section 2 of the form within three business days of the date employment begins, and sign and date the certification. Internal Audit noted the "employment begins" date, and the "employer certification" date is not always filled out for 2 of 10 I-9's sampled. Therefore, Internal Audit was unable to determine if the District completed the I-9 within three business days of the employee beginning work for the District.

The I-9 instructions, section 2, state the employer is to record the title, number and expiration date, if any, of the documents submitted for verification. Some examples of documentation are a driver's license, social security card, and passport. Internal Audit also noted I-9 section 2 is not always completed and identification is photocopied rather than completing the portion indicating the required examination of documents in lists A, B, or C. The I-9 instructions state it is acceptable for photocopies to be obtained and attached, but all of section 2 must be completed by the employer. Internal Audit noted 3 of 10 I-9's sampled were not properly filled out.

Internal Audit recommends the District reviews all personnel files to ensure all I-9 forms are present and properly filled out for all employees hired after November 6, 1986. Individuals who do not have a form on file should be requested to fill one out. Forms that are found to be incomplete should be completed.

Considerable Residual Risk

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

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Extraclassroom Activities	10-11	Considerable	Considerable	Considerable – 9
	11-12	Considerable	Considerable	Considerable – 9

1. Untimely Deposit - Internal Audit noted deposits not made timely during testing in 1 of 5 deposits sampled. Funds received by the District were not deposited in the bank for 4 school days. The District should continue to communicate the importance of following proper cash receipts protocol to all faculty and staff. Internal Audit recommends all cash and checks are deposited within 3 business days of receipt.

2. Receipts – Internal Audit noted a deposit of \$180 from a T-Shirt sale. No documentation showing the student's names or amounts paid for the T-Shirts was present. Internal Audit recommends receipts showing the student's name and amount paid are issued to students. Internal Audit also recommends receipt copies be included with the deposit as supporting documentation. Internal Audit noted this issue in 1 of 5 receipts sampled.

3. Invoices – Internal Audit noted missing invoices and invoices without the vendor name, address, items purchased, and amount due. Internal Audit recommends student officers and/or faculty be prohibited from requesting disbursements with the central treasurer without proper invoices. Internal Audit noted these issues in 2 of 5 receipts sampled.

4. Student Ledgers – Internal Audit noted a disbursement not recorded in the student ledger. The District should continue to communicate to faculty and student officers the importance of maintaining student ledgers and properly recording receipts and disbursements. Internal Audit noted this issue in 1 of 5 receipts sampled.

Recommended Implementation Timeframe

Internal Audit suggests implementation of the above recommendations by October 2012.

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. Unless noted above, items previously 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, please see the Three Year Internal Audit Plan ~ Addendum on the next page.