



District Office

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Tompkins Seneca Tioga BOCES
Internal Audit Services
555 Warren Road
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Dear Ladies and Gentlemen:

In response to your 2008-2009 Internal Audit Risk Assessment Update Report as presented to the Board of Education, Elmira Heights Central School District in October 2009, we submit the following corrective action plan.

Purchasing and Expenditures

Recommendation:

Confirming Purchase Orders – There was a confirming purchase order used for postage. Confirming purchase orders override the purchasing system and should not be used.

Corrective Action Plan – As of the end of October 2008, the District has been using a blanket purchase order for postage. We also try not to ever use confirming purchase orders by using blanket purchase orders for everyday purchases in areas such as maintenance and transportation.

Paid Invoices – Invoices should be marked or stamped "paid" after payment has been processed so that an invoice cannot be paid twice.

Corrective Action Plan – The check copy is attached to each invoice after payment has been made. In addition either the yellow copy of the purchase order or the invoice (where there is no purchase order) is stamped when audited by the internal claims auditor.

Governance

Recommendation:

Request for Proposal (RFP) for Audit Services – The purchasing policy/regulation should reflect the mandatory use of the RFP process for the procurement of an annual independent auditor as required by Chapter 263, Laws of New York 2005, section 6, amended EL 2116-a 3(B).

Corrective Action Plan – The purchasing policy/regulation was changed to reflect the new law.

Investment Policy – The district's investment policy should contain provisions for the investment of extra-classroom activity funds as suggested best practices in the Safeguarding, Accounting, and Auditing of Extra-classroom Activities Finance Pamphlet 2.

Corrective Action Plan – The policy has been changed to reflect this provision.

Budget Status Report – A budget status report should be prepared for at least quarterly and funds for the 2008-09 school year were not allocated per budget code.

Corrective Action Plan– Budget Status Reports are being prepared monthly when budget transfers have taken place and quarterly otherwise. Allocations by budget code were made prior to finalization of this report. It was not done initially due to the time constraints during the transition from Munis to Wincap. Since then the budget is always initially allocated to individual budget codes.

Authorization for Investing – During the July 2008 reorganizational board meeting the Treasurer was not authorized to invest the district's monies. Policy #5220 – District Investments dictates the board shall authorize this. Also, Policy #1332 does not specify that investing will be done by the District Treasurer.

Corrective Action Plan- The annual reorganizational meetings now specifically authorize the Treasurer to invest the district's monies. Furthermore, Policy #1332 was changed to include investing the district's monies as one of their duties.

Extra-classroom Activities

Recommendation:

Elected Positions – According to Finance Pamphlet #2 elected positions should be filled within the first two weeks of school.

Corrective Action Plan – Extra-classroom advisors have been instructed to hold elections within the first two weeks of school and submit the list of their new officers to the Faculty Advisor and the Central Treasurer by September 30th each year.

Supporting Documentation – Due to lack of proper documentation it was suggested that the Board of Education appoint an individual to a Faculty Auditor position. This position will add value to the receipt and disbursement process by ensuring that appropriate forms with authorized signatures are utilized and completed prior to being submitted to the Central Treasurer.

Corrective Action Plan- The position of Faculty Auditor was created and has been appointed effective with the 2009-2010 school year.

Use of Pre-numbered Consecutive Receipts – Extra-classroom activity forms that are used for deposits and disbursements should be pre-numbered. If possible they should be pre-stamped with the name of the activity. The forms should be centrally located and issued by the Central Treasurer to the activity.

Corrective Action in Plan – Forms are now pre-numbered for both deposits and disbursements. They are kept in the District office vault and assigned to advisors and the number sequence recorded and tracked.

Timely Deposits– All cash receipts should be deposited promptly.

Corrective Action in Plan – The district continually communicates to advisors that deposits are to be submitted in a timely manner. The appointment of the Faculty Auditor will also help to communicate the necessity of timely deposits.

Sales Tax – One receipt during testing lacked the ability to determine if sales tax should have been collected.

Corrective Action in Plan – It is communicated to advisors that the taxability of fundraisers should be considered prior to the fundraising event or activity. The Central treasurer also will confirm the taxability of receipts as she receives them and note that on the face of the receipt.

Assets and Inventory

Recommendation:

Physical Inventory – Per GASB 34 School Districts are required to complete an inventory at least once every 3 years. The last completed inventory was more than 3 years ago.

Corrective Action in Plan – The district completed a physical inventory at 6/30/2010. The inventory had not been done prior to that due to the capital construction project that was being done. Also, our insurance company, NYSIR provides a complimentary full inventory every 5 years. In addition we have implemented a new fixed asset program in which we track all assets and additions and disposals.

We believe we have addressed all recommendations and developed appropriate corrective action plans for them. The District and its employees involved in the financial process continue to strive for the highest level of accuracy.

Sincerely yours,

Debra L. Palmer
Business Manager

Cc: Mary Beth Fiore
Board of Education
Eugene Civik, GST BOCES
New York State Education Department
New York State Office of the State Comptroller

Enter with high expectations – leave with confidence and pride.

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



Internal Audit Risk Assessment Update Report

2008 – 2009

October, 2009

Executive Summary

Internal Audit performed the 2008-2009 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, medium, or high 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 5 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 2008-2009 school year for the Elmira Heights Central School District.

- Payroll and Personnel
- Purchasing and Expenditures
- Extra-classroom Activities
- Governance
- Fixed Assets
- Accounting and Reporting

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 October 2009.

The Elmira Heights Central School District has entered into a cooperative services agreement with Broome-Tioga BOCES to perform some of the District's financial operation's. Therefore, a portion of the risk assessment's fieldwork was performed at the Central Business Office (CBO) located in Endicott, 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 threaten 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, medium, or high, 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.

Results and Recommendations

Internal Audit has separated the District into nine auditable/functional units. Using the methodology explained above, the residual risk ratings for the Elmira Heights Central School District have been determined and assigned to the nine units as follows.

	Residual Risk
Revenue and Cash Management	Low
Purchasing and Expenditures	Medium
Payroll and Personnel	Medium
Extra-classroom Activities	High
Governance	Medium
Accounting and Reporting	Medium
Assets and Inventory	High
Facilities Maint. and Construction	Low
Student Services and Data	Low

Per New York Standards, Internal Audit is required to recommend changes for strengthening controls and reducing identified risks, and to specify time frames for implementation of such recommendations. In addition, 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 medium or high risk. As explained above, many areas are inherently riskier than others, regardless of the internal control structure.

Purchasing and Expenditures

1. Confirming purchase orders - During testing, internal audit noted use of a confirming purchase order for the purchase of postage. Confirming purchase orders result when purchase orders are prepared after the actual purchase is made. By using confirming purchase orders, districts bypass the entire purchasing process and this can lead to over expenditures and/or committing the district to purchases that are not reasonable and necessary. Additionally, for this instance, the use of a blanket purchase order would have eliminated the use of a confirming PO. Encumbering all known contractual expenditures and other obligations improves budgetary controls and helps to arrive at an accurate estimate of uncommitted appropriations.

District Response – As of the end October 2008, the district has been using a blanket purchase order for postage.

2. Paid invoices - In sample selected for procurement testing, internal audit did not see evidence of invoices being stamped or otherwise marked "Paid" after payment was processed. Although the computer system will not allow the same invoice number to be entered twice the possibility of creating a new number for the same invoice or transposing a number still exists. Therefore, internal audit recommends that once payment is made, the original documents should be cancelled or marked paid to minimize the risk of a duplicate payment.

Governance

1. Request for Proposal (RFP) for Audit Services - The purchasing policy/regulation should reflect the mandatory use of the RFP process for the procurement of an annual independent auditor as required by Chapter 263, Laws of New York 2005, section 6, amended EL 2116-a 3(B).

2. Investment Policy - The district's investment policy should contain provisions for the investment of extra-classroom activity funds as suggested best practices in the Safeguarding, Accounting, and Auditing of Extra-classroom Activities Finance Pamphlet 2.

3. Budget Status Reports – Commissioner's Regulation §170.2 requires the treasurer to prepare a budget status report at least quarterly (monthly if budget transfers have been made) to the board of education for each fund detailing the condition of each budget revenue and appropriation category. This shall be in at least the detail prescribed by Commissioner's Regulations, Section 170.2(p). Additionally, through inquiry, internal audit learned that the funds for the current school year have not been allocated per budget code. Therefore, as purchase orders are entered, the

district is manually overriding the appropriate and necessary budget codes to allow the purchase orders to be processed. By manually overriding the system the district is losing the benefits and controls of an electronic purchasing system.

District Response – Due to time constraints evolving from the transition to WINCAP and new personnel at the CBO, the district did not initially allocate the 2008-2009 budget to appropriate budget codes. However, after the fieldwork was performed for internal audit's risk assessment and prior to the finalization of this report the district did allocate the funds accordingly.

4. Authorization for Investing - During the July 2008 reorganizational board meeting, the treasurer was authorized to invest the district's monies. Policy #5220 – District Investments - dictates that the board shall authorize the school business manager to invest such funds. Furthermore, policy #1332 – Duties of the School District Treasurer – does not specify the investing of the district's funds as a task that will be performed by the district's treasurer. Internal audit recommends that both policies be reviewed and revised to reflect the decisions and specifications determined by the board at the annual reorganizational meeting.

Extra-classroom Activities

1. Elected Positions - As of the fieldwork dates only five extra-classroom activities had elected students to the necessary positions of president, treasurer, and secretary. Per the Safeguarding, Accounting, and Auditing of Extra-Classroom Activity Funds Finance Pamphlet #2 all elected positions should be filled within the first few weeks of a new school year. For those activities that do not hold meetings until later within the school year, internal audit recommends that the district considers holding the elections for such positions during the current for the subsequent year.

2. Supporting Documentation - Four out of five receipts and one disbursement tested did not have adequate supporting documentation. Therefore, it was impossible to determine the accuracy and completeness of the amounts received and disbursed by the Central Treasurer. The Central Treasurer should not process deposits and disbursement requests without adequate supporting documentation. The faculty advisor has the responsibility to ensure that sufficient documents (i.e. statement of profit and loss, invoices, inventory reconciliations, copies of contracts, check copies, thank you letters, and duplicate copies of pre-numbered receipts issued to purchaser) for all checks and cash collected and all payments made are attached to the deposit forms and payment order slips submitted to the Central Treasurer. To help with this process, internal audit recommends that the Board of Education appoints an individual to a Faculty Auditor position. This position will add value to the receipt and disbursement process by ensuring that appropriate forms with authorized signatures are utilized and completed and that sufficient and accurate documentation is obtained for all transactions prior to being submitted to the Central Treasurer.

3. Use of Pre-numbered Consecutive Receipts - During testing, internal audit noted that the extra-classroom activity forms that are used for the receipt of money are not consecutively pre-numbered. Per the Safeguarding, Accounting, and Auditing of Extra-Classroom Activity Funds Finance Pamphlet 2 each activity should use consecutively pre-numbered forms for the receipt of money. If possible, these forms should be stamped with the name of the activity before blanks are issued out to the activity. The forms should be centrally located and issued out to each activity by the central treasurer. The central treasurer should record the sequence of numbers issued to each activity and investigate any missing numbers and/or voided receipts as money is turned back in.

4. Timely Deposits - During testing, internal audit noted that 2 out of 5 receipts tested were not deposited in a timely manner from the club to the Central Treasurer. All cash receipts should be

deposited promptly. Deposits should be given to the central treasurer daily and under no circumstances should they be made less than once a week.

5. Sales Tax - During testing, internal audit noted one receipt that lacked the ability to determine if sales tax should have been collected and if it had been collected. When fundraising events are considered, taxability should be determined. The central treasure, when receiving funds, should confirm the taxability of the receipt and note such on the face of the receipt.

Assets and Inventory

1. Physical Inventory - Per Governmental Accounting Standards Board (GASB) 34, School Districts are required to perform a complete inventory at least once every three years. The Office of the State Comptroller (OSC) recommends that all school district officials require a physical inventory count of assets to be conducted at least annually. The last complete physical inventory performed for the district was more than three years ago.

District Response – The district will complete a full physical inventory by the end of the 2009-2010 school year; at which time all construction projects should be completed.

Implementation Timeframe: By the end of the 2009-2010 school year

Previous Audits and Corrective Action Plans

In addition to the current recommendations, Internal Audit reviewed any prior year audits and corrective action plans to determine if any findings were unresolved, as well as the implementation status of any corrective action plans. The items below represent previous exceptions that are either still in progress or remain open to date. Closed findings are not addressed here.

Three different symbols indicate the status of the open findings:

- ✓ "Corrective Action in Progress" indicates that the District has begun to address the issue, and is still in the process of addressing it.
- + "Additional Recommendation" indicates that in the current year Internal Audit is recommending additional enhancements to the previous OSC/Internal Audit/Independent Audit recommendations that may better assist the District.
- × "Current Year Finding" indicates that during testing, Internal Audit noted a finding related to the previous recommendations of OSC/Internal Audit/External Audit.

2008-2009 Independent Audit Report

Current Year Findings

1. Overdrawn Bank Account

During our current year audit, we noted one bank account had a negative balance at year end.

2. Cash Disbursements

During our current year audit, we noted one disbursement for which no purchase order or invoice was available for examination. A credit statement was attached, but no invoices or receipts were available from which to determine the appropriateness of the credit card activity.

3. Check Sequencing

During our current year audit, we noted a gap in check sequences for the checking accounts. Upon inquiry, we were informed this occurred due to a change in the accounting software.

4. Improper Accruals

During our current year audit, we noted two items that were receivables at June 30, 2008 but were recorded as 2008-2009 revenue.

Current and Prior Year Findings

1. Filing of Federal Grant Claim Forms

During our current and prior year audits of the Reading First Grant, we observed claim forms for the reimbursement of expenditures had not been submitted on a timely basis. Claims are required to be filed on a monthly basis for grants over \$1000,000; however, claims were only submitted in January, February, and May for the 2007-2008 year and October and January for the 2006-2007 year.

2. Fixed Assets

During our current year audit, we noted procedures not being consistently followed for identifying additions and disposals to fixed assets. Additionally, information reported to the appraisal company was not complete and the vehicles reported by the appraisal company were incorrect. During our prior year audit, we noted that there are no existing procedures, or procedures are not being consistently followed, for identifying additions and disposals to fixed assets.

3. Sales Tax Paid

During our current year audit, we noted sales tax was improperly paid on one disbursement selected for examination. During our prior year audit, we noted sales tax was paid on a purchase that was made online.

2008-2009 Independent Auditor Report – Extra-classroom Activities

Current Year Findings

1. Receipts

During our current year audit, of the 20 receipts tested, we were unable to determine if 16 were made timely due to the lack of supporting documentation. We further noted that one of 20 was not made timely.

2. Disbursements

During our current year audit, we noted one of 20 disbursements tested had no supporting documentation.

Current and Prior Year Findings

1. Officer Lists

During our current year audit, we noted only nine of 23 officer lists were available for examination. During our prior year audit, we noted officer lists for only 13 of the 26 club accounts. We further noted that none of the lists made available had a faculty advisor listed.

2. Receipts

During our current year audit, we found 18 of 20 receipts tested were lacking supporting documentation; one of 20 examined did not have a student treasurer's signature. During our prior year audit, we noted 18 of 25 receipts examined were lacking adequate supporting documentation; two of 25 receipts examined were missing the student treasurer's signature.

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 2008-2009 school year for the Elmira Heights Central School District:

- Payroll and Personnel
- Purchasing and Expenditures
- Extra-classroom Activities
- Governance
- Fixed Assets
- Accounting and Reporting