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



**2012-2013
Internal Audit Risk Assessment
Update Report**

March 2013

Executive Summary

Internal Audit performed the 2012-2013 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 Assets and Inventory for the 2012-2013 school year.

- Revenue and Cash Management
- Purchasing and Expenditures
- Extraclassroom Activities
- Assets and Inventory
- Payroll and Personnel

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 February 2013.

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	11-12	Low	Low	Low – 3
	12-13	Low	Low	Low – 3

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Student Services and Data	11-12	Moderate	Low	Low – 3
	12-13	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	11-12	Moderate	Moderate	Moderate – 6
	12-13	Moderate	Moderate	Moderate – 6

1. Inventory Tags - District owned assets should have inventory tags attached to the asset. 1 of 5 assets sampled did not have inventory tags attached. 1 of 5 inventory tags sampled did not match the data in the inventory system. 1 of 5 assets sampled was not listed in the inventory system. Internal Audit recommends inventory tags be attached to District owned assets for proper inventory control. Internal Audit also recommends the inventory system be updated with the proper inventory tag numbers and assets.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Governance	11-12	Moderate	Moderate	Moderate – 5
	12-13	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 and the corresponding corrective action plan (CAP) were not accepted by the BOE as of February 2013.

The 2009-2010 Purchasing Internal Audit Report was presented to the Audit Committee on June 11, 2012. The audit and the corresponding corrective action plan (CAP) were not accepted by the BOE as of February 2013.

Internal Audit recommends the BOE accepts the reports and the corresponding CAPs.

2. Corrective Action Plan (CAP) – Internal Audit noted the CAP for the 2008-2009 Risk Assessment Internal Audit Report was not accepted by the BOE as of February 2013. Internal Audit recommends the CAP be accepted by the BOE.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Purchasing and Expenditures	11-12	Considerable	Moderate	Moderate - 7
	12-13	Considerable	Moderate	Moderate - 7

No recommendations to improve internal controls were noted for Purchasing and Expenditures.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Accounting and Reporting	11-12	Moderate	Moderate	Moderate – 6
	12-13	Moderate	Moderate	Moderate – 6

1. Medicaid Prescriptions – A “Written Order of Medical Necessity” (prescription) is required in order to bill Medicaid for speech, occupational, and physical therapy services. Internal Audit noted the “Written Order of Medical Necessity” was not present in 2 of 6 student files tested. Internal Audit recommends the District obtains the proper prescriptions so the services can be billed to Medicaid.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Revenue and Cash Management	11-12	Considerable	Moderate	Moderate – 6
	12-13	Considerable	Moderate	Moderate – 6

1. Untimely Deposit - Internal Audit noted payments for sewing supplies were not turned in to the District Treasurer for deposit timely. Funds were not turned in for 17 school days. The District should continue to communicate the importance of following proper cash receipts protocol to all faculty and staff.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Payroll & Personnel	11-12	Considerable	Moderate	Moderate – 5
	12-13	Considerable	Moderate	Moderate – 6

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 / or the “employer certification” date were not always filed out for 5 of 11 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 11 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	11-12	Considerable	Considerable	Considerable – 9
	12-13	Considerable	Considerable	Considerable – 9

1. Officers - Per the State Education Department Finance Pamphlet 2 "The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds", each club shall have a president, treasurer, and secretary. Internal Audit noted one club did not elect the proper officers. Internal Audit recommends all clubs elect the proper officers.

Recommended Implementation Timeframe

Internal Audit suggests implementation of the above recommendations by October 2013.

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.

Three Year Internal Audit Plan ~ Addendum

Internal Audit performed the 2012-2013 Risk Assessment Update for 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. The adoption of an audit plan is also a requirement of this legislation.

During the current year Risk Assessment Update, Internal Audit concluded that the following auditable/functional units presented an elevated risk level (generally >5) to the District's operations.

Internal Audit recommends the detailed testing of these areas to be included in the District's **Three Year Audit Plan**.

Year 1: 2012-2013	Assets and Inventory
Year 2: 2013-2014	Extraclassroom Activities
Year 3: 2014-2015	Payroll and Personnel

**** IMPORTANT ****

The areas identified above can be modified by the Board of Education at any time, and the audit plan will be revisited at the conclusion of the Risk Assessment Updates during 2013-2014 and 2014-2015 to determine whether the Board wishes to update their audit plan.

Please indicate whether the Board agrees in the current year to the audit plan as stated above, or whether alternate selections are being made:

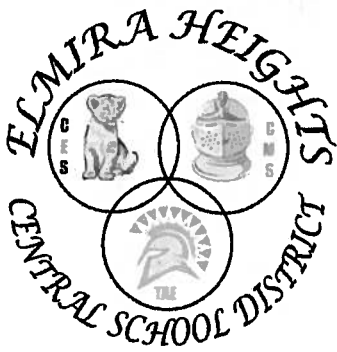
Three Year Audit Plan as stated above

- OR -

Alternate selections as stated below:

Year 1: 2012-2013	Extraclassroom Activities
Year 2: 2013-2014	Assets and Inventory
Year 3: 2014-2015	Payroll and Personnel

District Clerk – Please complete the form based on the Board's decision and accept it as an addendum to the Risk Assessment Update Report, then make a copy for Internal Audit's files. Thank you!



June 3, 2013

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Dear Ladies and Gentlemen:

In response to your 2012-13 Internal Audit Risk Assessment Update Report presented to the Board of Education, Elmira Heights Central School District on April 22, 2013, we submit the following corrective action plan.

Fixed Assets

Recommendation:

1. *Inventory Tags – District owned assets should have inventory tags attached to the asset. 1 of 5 assets sampled did not have inventory tags attached. 1 of 5 inventory tags sampled did not match the data in the inventory system. 1 of 5 assets sampled was not listed on the inventory system. Internal audit recommends inventory tags attached to the District owned assets for proper inventory control. Internal audit also recommends the inventory system be updated with the proper inventory tag numbers and assets.*

Corrective Action Plan – The District Principal Clerk and Business Manager have been working with other District personnel, external auditors and BOCES Computer services personnel for the past 11 months to properly document and reconcile the District fixed assets. After our last physical inventory in June 2010 the District purchased Fixed Asset 4000 which interfaces with our Wincap financial software. The physical inventory was downloaded and the data is being verified and reconciled to Wincap records, audit records, the fixed assets themselves and asset tags. Once this process has been completed the records will continue to be updated as assets are purchased and disposed of.

Governance

Recommendation:

1. *Prior Year Audit Reports – The 2010-11 Risk Assessment was presented to the Audit Committee on May 23, 2011. The audit and the corresponding corrective action plan (CAP) were not accepted by the Board as of February 2013.*

The 2009-2010 Purchasing Internal Audit Report was presented to the Audit Committee on June 11, 2012. The audit and the corresponding corrective action plan (CAP) were not accepted by the BOE as of February 2013.

Internal Audit recommends the BOE accepts the reports and the corresponding CAPs.

- 2. Corrective Action Plan (CAP) –Internal Audit noted the CAP for the 2008-2009 Risk Assessment Internal Audit Report was not accepted by the BOE as of February 2013. Internal Audit recommends the CAP be accepted by the BOE.*

Corrective Action Plan – All of the above Internal Audit reports and CAPs were accepted by the BOE on May 13, 2013. A checklist is being used to insure that in the future all Internal Audit reports and CAPs are accepted by the BOE in a timely manner.

Medicaid Prescriptions

Recommendation:

- 1. A “Written Order of Medical Necessity” (prescription) is required in order to bill Medicaid for speech, occupational, and physical therapy services. Internal Audit noted the “Written Order of Medical Necessity” was not present in 2 of 6 student files tested. Internal Audit recommends the District obtains the proper prescriptions so the services can be billed to Medicaid.*

Corrective Action Plan – All student files will be reviewed for a “Written Order of Medical Necessity” so that Medicaid can be billed. Also, the extreme importance of obtaining the proper documentation will continue to be communicated to all personnel providing Medicaid eligible services.

Revenue and Cash Management

Recommendation:

- 1. Untimely Deposit – Internal Audit noted payments for sewing supplies were not turned in to the District Treasurer for deposit timely. Funds were not turned in for 17 school days. The District should continue to communicate the importance of following proper cash receipts protocol to all faculty and staff.*

Corrective Action Plan – The District will continue to communicate the importance of following proper cash receipts protocol to all faculty and staff. A reminder will be sent at the beginning of the school year and at least once during the school year or on an as needed basis.

Payroll & Personnel

Recommendation:

- 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 filed out for 5 of 11 I-9s 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 11 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.

Corrective Action Plan – The findings have been reviewed with the Human Resources secretary who routinely completes the I-9s. The “employment begins” date and the “employer certification” dates will be filled in. In the past the District’s practice was to copy the documentation and attach it to the I-9. This will continue to be done but the secretary has been instructed to complete all of section 2, including title, number and expiration date. In addition a review will be performed of all I-9s to ascertain this is done. Incomplete forms will be corrected.

Extra-classroom Activities

Recommendations:

1. *Officers – Per the State Education Department Finance Pamphlet 2 “The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds”, each club shall have a president, treasurer, and secretary. Internal Audit noted one club did not elect the proper officers. Internal Audit recommends all clubs elect the proper officers.*

Corrective Action Plan– The district will continue to communicate to activity advisors the proper procedures for operating an activity and which officers should be elected for each activity.

The District, its employees and Central Business Office personnel continue to correct internal weaknesses as recommended by Internal Audit, evaluate and seek to continually improve operations.

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.