



**Port Jefferson Union Free School District**

**Annual Risk Assessment Update  
Pertaining to the Internal Controls  
Of District Operations**

**June 2018**

## **INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED UPON PROCEDURES**

The Board of Education  
Port Jefferson Union Free School District

We have performed the procedures enumerated below, which were agreed to by the Port Jefferson Union Free School District (the "District"), solely to assist the District. This agreed upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We have updated our prior year Risk Assessment by performing certain internal audit procedures pertaining to the period ending June 30, 2018. The updated Risk Assessment and related internal audit plan concentrates on the following key internal control areas:

- Governance and Planning
- Budget Development
- Accounting and Reporting
- Revenue and Cash Management
- Grants
- Payroll
- Human Resources
- Benefits
- Purchasing and Related Expenditures
- Facilities/Capital Projects
- Fixed Assets
- Food Service
- Extraclassroom Activity Fund
- Information Systems
- Student Data Management
- Pupil Personnel Services
- Transportation
- Security and Safety
- Cyber Security

Our engagement is limited in scope and will be confined to our agreed-upon procedures. We will not be conducting an audit or review of the district's financial statements and therefore we will not express an opinion or any other form of assurance on them.

At the end of our engagement, we will present the results of applying the agreed-upon procedures in the form of our findings in a report. Our accountants' report should be used only for the intent of the original users of this report, and will include a statement indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. As such, using this report for anything other than the original intent of the agreed-upon procedures could mislead the readers. You must notify us immediately if the original users of the report change.

Very truly yours,

***Nawrocki Smith LLP***

July 25, 2018



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**Risk Assessment Overview**

This Risk Assessment report provides a presentation of our view of the school district's risk pertaining to its financial operations. It gives the District's administration the information necessary to help optimize its overall performance. The report identifies, expresses, and prioritizes the key program risks so that the District's administration can focus on those areas most critical to its success. This analysis is used to define the District's risk profile. It will provide an overview of the risks facing the District's operations.

In accordance with the laws of New York, 2005, Chapter 263, all school districts and BOCES were required to establish an internal audit function no later than July 1, 2006 and be in operation no later than December 31, 2006. This function should include, at a minimum, development of a risk assessment of district operations, including but not limited to:

- a review of financial policies, procedures and practices
- an annual review and update of such risk assessment
- annual testing and evaluation of one or more areas of the District's internal controls
- preparation of reports which analyze significant risk assessment findings
- recommended changes for strengthening controls and reducing identified risk; and specifying time frames for implementation of such recommendations

Pursuant to Section 170.12 – Regulations of the Commissioner of Education – School District Financial Accountability, each school district must prepare a corrective action plan, approved by the Board of Education in response to findings to final reports issued by the internal auditor. This plan should include expected dates of implementation and should be filed with the New York State Education Department.

**Internal Audit Objectives**

The objectives of our engagement are as follows:

- develop an understanding of the critical business processes of the District within each functional area
- identify and qualify risks based on the understanding of the business processes and stated business rules
- identify stated controls that are currently in place to address those risks and ascertain if they are operating effectively
- recommend improvements in internal controls

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**Scope and Methodology**

The Board of Education has engaged Nawrocki Smith as the District's internal auditor. In compliance with New York State Laws, we have performed an annual update to the District risk assessment with respect to policies, procedures, and internal controls pertaining to District operations. The procedures applicable to the update of the District's risk assessment were performed during the period ending December 31, 2016 and were carried out in order to determine an internal audit plan for calendar year 2017 and thereafter. This risk assessment will be updated annually to reflect any changes in the current control environment and the existing internal audit plan.

Our risk assessment consisted of the following methodology:

- Perform interviews of Administration and other appropriate personnel
- Document procedures within key Functional Areas
- Identify key controls and perform audit tests of those controls
- Assess effectiveness of the key controls
- Identification and review of organization structure
- Analysis of risks that are a threat to the achievement of objectives
- Create a risk profile and internal audit plan

In addition to the above procedures, we have also evaluated and considered the following within our overall risk assessment:

- District policies and procedures
- Recent focus of State Comptroller Audits
- Board of Education/Audit Committee Meetings
- Materiality to Financial Statements
- Changes in management or key personnel
- Financial reports provided to the Board
- External auditor management letters
- District corrective action plans
- Organizational chart and job descriptions

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**Internal Audit Risk Assessment Update Summary**

We have analyzed nineteen (19) Business Process areas within the District and have developed an internal audit plan based upon our assessment of each area. Each of the nineteen (19) Business Processes contains multiple categories for which an extensive cycle analysis will be performed during the proposed time period noted within the risk rating and internal audit plan. The plan as presented will be revised each year based upon the annual risk assessment update and events/requests that occur during the year which impact the priority of future internal audit services.

The results of our update risk assessment are summarized below and in the tables presented on pages 5 through 6. We have utilized a “Low,” “Moderate,” and “High” control risk rating assessment scale of the District.

<i>Current Year Ratings</i>		<i>Changes from Prior Year</i>	
<b><u>Rating</u></b>	<b><u>Count</u></b>	<b><u>Category (*)</u></b>	<b><u>Count</u></b>
High	- 0.00%	“High” to “Low”	- 0.00%
Moderate	9 10.59%	“High” to “Moderate”	- 0.00%
Low	76 89.41%	"Moderate" to “Low”	1 33.33%
<b>Total</b>	<b>85 100.00%</b>	“Low” to “Moderate”	2 66.67%
		“Moderate” to “High”	- 0.00%
		<b>Total</b>	<b>3 100.00%</b>

(\*) Refer to pages 5 through 6 for business process rating changes.

- The June 2018 risk assessment update contains six (6) current year recommendations.
- The prior year risk assessment update report identified three (3) recommendations that the District has taken action as follows:

<b><u>Status of Prior Year</u></b>	<b><u>Complete</u></b>	<b><u>Not-Complete</u></b>	<b><u>Total</u></b>
<b># of Recommendations</b>	<b>1</b>	<b>2</b>	<b>3</b>

We have summarized below the business process categories recommended for the District’s consideration in selecting an extensive cycle review for the fiscal year 2018/2019:

- Grants
- Fixed Assets
- Extraclassroom Activity

The plan as presented will be revised each year based upon an annual risk assessment update and events that have occurred during the year which will impact the priority of future internal audit services.

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**Risk Rating and Internal Audit Plan**

√ = Internal Audit Services Provided

X = Proposed Business Cycle Review

★ = Business Cycle Review Complete

T = Limited Testing of Business Process

	Business Process	Business Process Categories	Inherent	RISK			YEAR OF SERVICE			
				Control		Change from PY	Prior Years	18-19	19-20	Subsequent Years
				16-17	17-18					
1	<b>Governance and Planning</b>	Governance Environment	H	L	L	—	√			X
		Control Environment / Policies & Procedures	H	L	M	▲	★			
2	<b>Budget Development</b>	Budget Development	H	L	L	—				X
		Budget Monitoring & Reporting	H	L	L	—	√			X
3	<b>Accounting &amp; Reporting</b>	Financial Accounting and Reporting	H	M	L	▼	★			
		External/Internal/Claims Auditing	H	L	L	—				X
		Fund Balance Management	H	L	L	—				X
4	<b>Revenue and Cash Management</b>	Real Property Tax	M	L	L	—				X
		State Aid	H	L	L	—				X
		Out of District Tuition/Reimbursable Expenses	M	L	L	—				X
		Use of Facilities	L	L	L	—				X
		Donations	M	L	L	—	√			X
		Vending Machines	H	L	L	—				X
		Cash Receipts	H	L	L	—	★			
		Cash & Investment Management	H	L	L	—				X
		Petty Cash	L	L	L	—	√			X
		Bank Reconciliations	H	L	L	—	★			
Online Banking	H	L	L	—	★					
		Accounts Receivables	H	N/A	L	N/A				X
5	<b>Grants</b>	General Processing/Monitoring	H	L	L	—		X		
		Grant Application	M	L	L	—	√	X		
		Allowable Costs & Expenditures	H	L	L	—		X		
		Cash Management	M	L	L	—		X		
		Reporting and Monitoring	H	L	L	—		X		
6	<b>Payroll</b>	Payroll Disbursements	H	L	L	—	★			
		Overtime Payments	H	L	L	—	★			
		Payroll Accounting & Reporting	H	M	M	—	★			
		Payroll Tax Filings	H	L	L	—	★			
		Payroll Reconciliation	H	L	L	—	★			
7	<b>Human Resources</b>	Employment Requisition/Hiring	H	L	L	—	★			
		Personnel Evaluation	H	L	L	—	★			
		Termination	H	L	L	—	★			
		Employee Attendance	H	L	L	—	★			
8	<b>Benefits</b>	Eligibility	H	L	L	—	★			
		Benefit Calculations	H	L	L	—	★			
		Patient Protection and Affordable Care Act	H	L	L	—	★			
		Retiree Benefits	H	L	L	—	★			
		ERS/TRS System	H	N/A	L	N/A	★			
9	<b>Purchasing and Related Expenditures</b>	PO System & Vendor Database	H	L	L	—	★			
		Purchasing Process	H	L	L	—	★			
		Payment Processing	H	L	M	▲	★			
		Employee Reimbursements	H	L	L	—	★			
		Credit Cards	H	L	L	—	★			

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**Risk Rating and Internal Audit Plan**

√ = Internal Audit Services Provided  
★ = Business Cycle Review Complete

X = Proposed Business Cycle Review  
T = Limited Testing of Business Process

	Business Process	Business Process Categories	RISK				YEAR OF SERVICE			
			Inherent	Control		Change	Prior	18-19	19-20	Subsequent
				16-17	17-18					
10	Facilities/Capital Projects	Facilities Maintenance & Work Orders	H	L	L	—			X	
		Construction Planning & Monitoring	M	L	L	—			X	
		Capital Project Funding & Payments	M	L	L	—			X	
		Recordkeeping & Reporting	M	L	L	—			X	
11	Fixed Assets	Inventory/ Capitalization Policy	H	L	L	—		X		
		Acquisition and Disposal	H	L	L	—		X		
		Inventory Process & Recordkeeping	H	L	L	—	√	X		
12	Food Service	Sales Cycle and System	M	L	L	—			X	
		Inventory and Purchasing	M	L	L	—			X	
		Free & Reduced Meals	M	L	L	—	√		X	
		Federal and State Reimbursement	H	L	L	—			X	
		Financial Reporting & Monitoring	M	L	L	—			X	
13	Extracurricular Activity Fund	General Controls	H	L	L	—	★			
		Revenue	H	M	M	—	★			
		Expenditures	M	M	M	—	★			
		Reporting	M	L	L	—	★			
14	Information System	Governance	H	L	L	—				X
		Inventory	H	L	L	—				X
		Network Security	H	L	L	—				X
		Application Security	H	L	L	—				X
		Physical Security	H	L	L	—				X
		Disaster Recovery	H	L	L	—	√			X
15	Student Data Management	Registration & Enrollment	H	L	L	—				X
		Student Attendance	H	L	L	—				X
		Student Performance	H	M	M	—				X
16	Pupil Personnel Services	Budgeting and Planning	H	L	L	—	★			
		STAC Reimbursement	H	L	L	—	★			
		Medicaid Reimbursement	H	L	L	—	★			
		RFP and Contracts	H	L	L	—	★			
17	Transportation	Fleet Inventory and Maintenance	H	L	L	—	★			
		Bus Routing and Planning	H	L	L	—	★			
		Labor and Supervision	H	L	L	—	★			
		Contract Management	H	L	L	—	★			
		Federal and State Reimbursement	H	L	L	—	★			
18	Safety & Security	Plan Development & Strategy	H	L	L	—				X
		Building Access & Security System	H	L	L	—				X
		Compliance and Incident Reporting	H	L	L	—				X
		Safety & Security Monitoring	H	L	L	—				X
19	Cyber Security	General Controls	H	N/A	M	—		X		
		Information & Asset Security	H	N/A	M	—		X		
		Vulnerability Assessment	H	N/A	L	—		X		
		Incident Response & Recovery	H	N/A	M	—		X		

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**Inherent Risk** - Inherent risk is the risk of a material misstatement in the un-audited information assuming the absence of internal controls procedures.

**Control Risk** - Control risk is the risk that a material misstatement in the un-audited information will not be detected and corrected by the management's internal control procedures on a timely basis.

**Risk Assessment Observations and Recommendations**

*Current Year Observations and Recommendations*

Governance and Planning
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1. According to the Board approved policies (Policy 1120 – Records Management Regulation and Policy 5500 – Student Records) the District has adopted the “Records Retention and Disposition Schedule ED-1” as promulgated by the New York State Education Department (NYSED) setting forth the minimum length of time School District records must be maintained. During the course of our analysis, we noted that the retention of certain records exceeds the retention period prescribed by NYSED.

- *The District should assess whether any of the above records have ongoing value that results in maintaining the documents beyond their minimum NYSED recommended retention period. In addition, the District should consider digitizing the records that are deemed to be maintained on a permanent basis. This will enhance the District's controls over document retention and will enhance the safeguards over personal privacy information.*

*For any other records that have not been listed in the above tables we recommend the District to refer to the Records Retention and Disposition Schedule ED published by The New York State Education Department. (Accessible at [http://www.archives.nysed.gov/records/retention\\_ed-1](http://www.archives.nysed.gov/records/retention_ed-1))*

*We also recommend that any changes to record retention practices be discussed with Counsel.*

2. According to Board approved Policy 1120 – Records Management Regulation, the District shall maintain an inventory of archived documents that shall be updated in October of each year and at other times when appropriate. During the course of our analysis, we noted that the District does not maintain an inventory of archived documents in a consistent manner.

- *The District should consider creating an inventory of archived documents and designating an employee to maintain the inventory of archived documents indicating description, report date, disposal date, location, and responsible Department and Supervisor. Any disposal of documents should be authorized prior to the actual disposal of the items and their removal should be documented in the document inventory listing. Assigning responsibility to a specific employee holds that person accountable for safeguarding documents and will assist the District in the management and the verification of the existence of the documents.*

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Revenue & Cash Management

3. The Secretary to the Deputy Superintendent selects a random sample of one (1) deposit every quarter and reconciles the bank receipt tickets to the cash log and Finance Manager cash receipt journal. This small sample size creates a risk that the control risk could be assessed at a rating lower than the true operating effectiveness of the control.
- *The Secretary to the Deputy Superintendent should increase the ample to a minimum five (5) cash receipts and perform the reconciliation process between the bank receipt tickets, cash log, and Finance Manager every quarter. This will provide reasonable representation of the cash receipt internal controls carried out by the Business Office.*

Purchasing & Related Expenditures

4. Claims that are paid through wire transfers are not presented to the Claims Auditor for review prior to processing.
- *According to Section 1724 of Education Law, the District should establish a process whereby the District's Claims Auditor reviews and approves all claims against the District that are paid through wire transfers and/or ACH debit transfers to vendors' bank accounts.*
- Subsequent to our review, the Business Office is in the process of taking corrective action plan and implementing the above recommendations.*
5. The District Treasurer creates and releases the bank positive pay file for accounts payable and payroll checks which creates a segregation of duties risk.
- *The Business Office should modify existing procedures to ensure that the accounts payable and payroll positive pay files are prepared by the Accounts Payable and Payroll Clerks, respectively, and released by the District Treasurer. This will prevent a single employee, the District Treasurer, from controlling all phases of the preparation and releasing of the positive pay function.*
- Subsequent to our review, the Business Office is in the process of taking corrective action plan and implementing the above recommendations.*

Extraclassroom Activity Fund

6. We noted based on the external audit management letter that several invoices were not properly cancelled after payment and cash receipts were not deposited timely.
- *The District should consider having it internal auditors conduct a cycle audit to address the following:*
- *Review and update, where needed, the District's ECAF training, guidance and procedures handbook issued to all employees involved with extraclassroom activities.*
  - *Review the process of fundraising, deposits, disbursements, sales tax, and accounting procedures.*
  - *Assess student involvement and attendance, oversight of District approved club charters, active and inactive club activity, and job duties/functions related to employee stipends.*

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Information Technology

7. The District does not store backups of the Active Directory at a secured, off-site location.
  - *The District should consider the cost/benefits of maintaining off-site backup to allow for a restoration of data even if the original data within District premises is destroyed.*
8. The Information Technology Department has not conducted a full interruption test of its data backup and restoration procedures to ensure that the system will perform as intended and that users know how to carry out their duties in the event of a disaster.
  - *The Information Technology Department should conduct annual full interruption tests of its data backup and restoration procedures to ensure that the restoration process works as intended and that the Business Office is able to recover data, if needed. As an alternative to the above recommendation, the Information Technology Department should develop a testing schedule of restoration procedures for each critical application and perform such at various times on an annual basis to ensure that the restoration process works as intended and that the Business Office is able to recover data, if needed. District employees and Internal Auditors should participate during the restoration procedures. The testing results should be documented and communicated to the Assistant Superintendent for Business for review.*

Cybersecurity

9. The District has not developed cybersecurity security policies or formal documented procedures to address breach notification in the event there is a Personal Identifiable Information (“PII”) compromise or breach. Without established policies and formal written procedures addressing notification of a breach of PII and periodic reporting to the Board, there is an increased risk that the District may lose important financial data and suffer serious interruption in operations.
  - *The District should adopt written policies and procedures to address breach notification.. The policies and procedures should include a crisis management and communication plan that involves employees/individuals who handle PII and tested as appropriate. This should enable sufficient business continuity in event of a cyber security breach. Crisis management should include incident response and forensics, where warranted.*
10. The District has not developed training workshops on Cybersecurity or how to deal with related incidents.
  - *The District should develop and provide periodic cybersecurity awareness training for all employees including new hires, Information Technology Department, and job positions that handle PII. The training should explain the proper rules of behavior for using information technology systems, the insider type of threats from a cyber security perspective, and the implications of a cyber security breach. The training should also include guidance on use of social media, Bring Your Own Device (“BYOD”), and how to respond to a phishing or ransomware attacks.*

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*Status of Prior Year Recommendations*

We have performed follow-up internal audit services applicable to our previously issued risk assessment update report dated March 2017. We have analyzed the operational documents made available to us by the various Departments and have interviewed the key personnel involved in the applicable business process areas. The services we performed also included observing and evaluating the implementation status of the District's action plan in respect to our risk assessment recommendations.

The March 2017 risk assessment update report identified three (3) recommendations within three (3) distinct areas. The District has completed or taken action on these recommendations as follows:

<u>Business Process</u>	<u>Complete</u>	<u>Not Complete</u>	<u>Total</u>
Accounting & Reporting	1	-	1
Payroll	-	1	1
Student Data Management	-	1	2
<b>Total</b>	<b>1</b>	<b>2</b>	<b>3</b>

**Accounting & Reporting**

1. Supporting documentation indicating the circumstances surrounding the journal entry should be attached with all journal entry request forms. The Assistant Superintendent for Business should review, sign off, and date on all journal entry request forms. Additionally, all journal entries should be approved prior to entry to Nvision prior to processing.

**Status at June 2018: Complete**

**Payroll**

2. Payroll registers should be certified by the officer or employee having direct supervision over specific departments or individual employees. The certification should indicate that to the best of the Supervisor's knowledge, services were actually performed by the persons listed on the payroll and that days and hours worked are accurate and justified. It is recommended that the District develop a building level payroll certification process and forward these certifications to the Superintendent of School to review and certify the final District wide payroll certification. A review of the completed payroll register will help detect unusual or inaccurate payments requiring further verifications before checks are distributed.

**Status at June 2018: Not Complete**

**Student Data Management**

3. The District should designate an individual separate from the individuals who perform the data entry to periodically review the grade changes made by users and determine the appropriateness of the grade changes. Applications normally contain multiple audit logs that can be reviewed to ensure individuals are making only authorized changes in the application. These audit logs provide a mechanism for individual accountability and for management to reconstruct events.

**Status at June 2018: Not Complete**

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**Exhibits**

***Exhibit I***      History of Internal Audit Reports Issued

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