NawrockiSmith

Port Jefferson Union Free School District

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

March 2017

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 May 2015 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting January 1, 2016 through February 28, 2017. 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

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

May 8, 2017

Nawrocki Smith LLP, Certified Public Accountants & Business Consultants

Port Jefferson Union Free School District

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Table of Contents

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

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 time 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

Internal Audit Risk Assessment Update Summary

We have analyzed eighteen (18) Business Process areas within the District and have developed an internal audit plan based upon our assessment of each area. Each of the eighteen (18) 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.

Current Year Ratings			*Changes from Prior Year*		
Rating	**Count**		**Category (*)**		**Count**
High	-	0.00%	"High" to "Low"	-	0.00%
Moderate	5	6.33%	"High" to "Moderate"	-	0.00%
Low	74	93.67%	"Moderate" to "Low"	9	81.82%
Total	79	100.00%	"Low" to "Moderate"	2	18.18%
			"Moderate" to "High"	-	0.00%
			Total	11	100.00%

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

- The March 2017 risk assessment update contains three (3) current year recommendations.

- The May 2015 risk assessment update report identified thirteen (13) recommendations that the District has completed as follows:

Status of Prior Year	Complete	In-Process	Total
# of Recommendations	10	3	13

We have summarized below the business process categories recommended for the District's consideration in selecting an extensive cycle review for 2017:

- District Treasurer Function
- Data Retention

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.

Port Jefferson Union Free School District
Annual Risk Assessment
March 2017

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	Control		Change From PY	Prior Years	2017	2018	Subsequent Years
				14-15	15-16					
1	Governance and Planning	Governance Environment	H	L	L	—	✓			
		Control Environment/Policies & Proced.	H	L	L	—				
2	Budget Development	Budget Development	H	L	L	—				
		Budget Monitoring & Reporting	H	L	L	—	✓			
3	Accounting & Reporting	Financial Accounting and Reporting	H	L	M	▲	✓			
		External/Internal/Claims Auditing	H	L	L	—				
		Fund Balance Management	H	L	L	—				
4	Revenue and Cash Management	Real Property Tax	M	L	L	—				
		State Aid	H	L	L	—				
		Out of District Tuition/Reimbursable	M	L	L	—				
		Use of Facilities	L	L	L	—				
		Donations	M	L	L	—	✓			
		Vending Machines	H	L	L	—				
		Cash Receipts	H	L	L	—	✓			
		Cash/Investment Management	H	L	L	—				
		Petty Cash	L	L	L	—	✓			
		Bank Reconciliations	H	M	L	▼	✓			
		Online Banking	H	L	L	—				
5	Grants	General Processing/Monitoring	H	L	L	—				
		Grant Application	M	L	L	—	✓			
		Expenditures & Allowable Costs	H	L	L	—				
		Cash Management	M	L	L	—				
		Reporting and Monitoring	H	M	L	▼				
6	Payroll	Payroll Disbursements	H	L	L	—	★			
		Overtime Payments	H	L	L	—	★			
		Payroll Accounting & Reporting	H	L	M	▲	★			
		Payroll Tax Filings	H	L	L	—	★			
		Payroll Reconciliation	H	L	L	—	★			
7	Human Resources	Employment Requisition/Hiring	H	L	L	—	★			
		Personnel Evaluation	H	L	L	—	★			
		Termination	H	L	L	—	★			
		Employee Attendance	H	L	L	—	★			
8	Benefits	Eligibility	H	L	L	—	★			
		Benefit Calculations	H	L	L	—	★			
		Patient Protection and Affordable Care	H	L	L	—	★			
		Retiree Benefits	H	L	L	—	★			
9	Purchasing and Related Expenditures	PO System/Vendor Database	H	L	L	—	★			
		Purchasing Process	H	L	L	—	★			
		Payment Processing	H	M	L	▼	★			
		Employee Reimbursements	H	M	L	▼	★			
		Credit Cards	H	L	L	—	★			

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	RISK					YEAR OF SERVICE			
			Inherent	Control		Change From PY	Prior Years	2017	2018	Subsequent Years
				14-15	15-16					
10	Facilities/Capital Projects	Facilities Maintenance & Work Orders	H	M	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	M	L	▼	✓	X		
12	Food Service	Sales Cycle and System	M	L	L	—				
		Inventory and Purchasing	M	L	L	—				
		Free & Reduced Meals	M	L	L	—	✓			
		Federal and State Reimbursement	H	L	L	—				
		Financial Reporting & Monitoring	M	L	L	—				
13	Extraclassroom 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	—				
		Inventory	B	L	L	—				
		Network Security	H	M	L	▼				
		Application Security	H	M	L	▼				
		Physical Security	H	L	L	—				
		Disaster Recovery	H	M	L	▼	✓			
15	Student Data Management	Registration & Enrollment	H	N/A	L	N/A				
		Student Attendance	H	N/A	L	N/A				
		Student Performance	H	N/A	M	N/A				
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	—				
		Building Access & Security System	H	L	L	—				
		Compliance and Incident Reporting	H	L	L	—				
		Safety & Security Monitoring	H	L	L	—				

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

Accounting & Reporting

1. We conducted key control testing in the area of journal entries and noted a small number of journal entry forms did not have supporting documentation indicating the circumstances supporting the purpose of the entry or were not formally approved by the Assistant Superintendent for Business. In addition, we noted that the journal entry forms do not indicate the approval date.

   ➤ *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.*

Payroll

2. We noted that the Claims Auditor signs off on the District wide payroll certification page certifying that the employees listed on the payroll register have actually performed their services and that days and hours worked are accurate. The District wide payroll certification by the Claims Auditor is a risk in the payroll process as the Claims Auditors does not directly supervise District employees and the payroll certification may not be accurate.

   ➤ *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.*

Student Data Management

3. It was indicated that there is no formal and documented review of the grade change audit logs in PowerSchool. The lack of review of audit logs is a risk as any unusual or unauthorized activity could become undetected.

➤ *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 of Prior Year Recommendations

We have performed follow-up internal audit services applicable to our previously issued risk assessment update report dated May 2015. 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 May 2015 risk assessment update report identified thirteen (13) recommendations within six (6) distinct areas. The District has completed or taken action on these recommendations as follows:

Business Process	Complete	In-Process	Total
Revenue & Cash Management	1	-	1
Grants	1	1	2
Payroll	1	1	2
Purchasing & Related Expenditures	2	1	3
Fixed Assets	1	-	1
Information Technology	4	-	4
Total	**10**	**3**	**13**

Revenue & Cash Management

➤ Employees who execute wire transfers should not prepare or post journal entries or reconcile bank accounts. The District should consider having the Assistant Superintendent for Business Approve and release the wire transfers subsequent to his review of the wire transfer documentation. Segregating the execution of wire transfers from the recording and reconciliation functions prevents a single employee from controlling the execution, accounting, and reconciliation of wire transfer activity and thereby limits the opportunity for disguising a wire transfer error or fraud.

Status at December 2016: Complete

Grants

➤ The following documents comprise of a "Best Practice" approach in regard to grant recordkeeping procedures:

- RFP/Grant Application
- Grant Award Notice
- Approved Budget FS-10
- Approved Amendments FS-10A
- Requests for Interim Payments FS-25
- Final Expenditure Report FS-10F
- Detailed accounting records from application software, including all supporting documentation such as Excel spreadsheet for the financial transactions and any charges to the grant
- Payroll Records
- Budgeting
- Grant Payments
- Refunds

- Program income (if applicable)
- Financial Reports
- Procurement Records
- Cost Principles Certification OMB Circular A-87
- Audit Report OMB Circular A-133

Additionally, the Pupil Personnel and Curriculum Departments should maintain a checklist for the above documents and review its contents on an annual basis for completeness.

Status at December 2016: In-Process

➤ In accordance with OMB CIRCULAR A-87, employees that are paid through grants must sign payroll certifications indicating the amount of their time worked applicable to the federal program as well as time worked on non-federal programs. Employees that receive 100% of their salary through a grant must sign the payroll certification once for the year. Employees that are paid less than 100% of their salary through the grant must sign a payroll certification on a monthly basis.

Status at December 2016: Complete

Payroll

➤ The District should develop documented procedures pertaining to the processing, accounting, reporting, reconciliation and certification of payroll in Finance Manager. On an annual basis the Payroll Account Clerk should review the District's documented guidelines and applicable revisions to the process or related forms, should be forwarded, in writing, to the Assistant Superintendent for Business for further consideration of such changes. Nawrocki Smith provided narratives and flow charts that should serve as supplemental enclosures to the District's documented procedures.

Status at December 2016: In-Process

➤ The Payroll Account Clerk should maintain all employee related documents within each payroll file. We have listed the following documents recommended to be maintained within a payroll file:

- o Form I-9 Employment Eligibility Verification (Maintained in a separate file)
- o Form W4 – Employee's Withholding Allowance Certificate
- o Compensation records
- o Payroll deductions, if any
- o Salary Notices
- o Direct Deposit and Bank Information
- o Retirement Savings information (e.g. OMNI election forms)

Status at December 2016: Complete

Purchasing & Related Expenditures

➤ The District should develop documented procedures regarding the requisition, approval, processing, accounting, and reporting of accounts payable. Additionally, documented procedures should be periodically reviewed to ensure that the responsibilities are adequately performed. Nawrocki Smith

provided narratives and flowcharts that should assist the District to serve as supplemental information for the procedure manual.

Status at December 2016: In-Process

➤ All claims for maintenance services should be supported by certified payroll documentation indicating the individuals, the dates, and hours of services performed. This recommendation will assist the District in verifying the completeness and accuracy of the vendor invoices submitted for payment.

Status at December 2016: Complete

➤ When attending conferences, employees should obtain reliable evidence of attendance and report to their immediate supervisor(s) as to the merits of conference. As such, we recommend that District employees submit the following when requesting conference related expense reimbursements:

    a. Merits of Conference
    b. Purchase order/Claim Form indicating the type of expenses related to the conference
    c. Pre-approval form signed off by supervisor
    d. Copy of the registration form
    e. Proof of attendance based on location and program content
    f. Pricing and discount schedules. (e.g. advance or late registration)
    g. Additional pricing considerations including members, non-members, and students
    h. Supporting documentation in regard to travel expenses such as airfare tickets, mileage, tolls, and parking passes
    i. Supporting documentation in regard to lodging expenses such as hotel bills
    j. Supporting documentation in regard to meal expenses

Status at December 2016: Complete

Fixed Assets

➤ All fixed assets should be recorded in the District's Property Ledger at the purchase price as indicated on the applicable invoice. The District should designate an additional employee to review the accuracy of the fixed asset data entry within the inventory schedule. The review function should be conducted on a monthly basis by reconciling the information reported on the warrant reports and applicable invoices to the information reported on the inventory schedule. Any discrepancies should be investigated and communicated to the Assistant Superintendent for Business.

Each Administrator, Department Head, and employee who receives fixed assets should document the receipt date on the receiving copy of the purchase order.

All Administrators, Department Heads, and employees who sign off on the receiving copy attach inventory tags on the applicable fixed assets. This recommendation applies to all individuals who order fixed assets via the Business Office.

Status at December 2016: Complete

Information Technology

> The Information Technology Department should conduct penetration tests to circumvent security features of a system and exploit vulnerabilities to gain unauthorized access. This is an effective way for the District to identify the real-time risks to a network security environment.

Status at December 2016: Complete

> The Business Office should develop and maintain a standard "Access Rights Authorization Form" and predetermined authorization matrix that defines the least-privileged access level and authority within Finance Manager and other computerized information for an individual or role with reference to his or her job duties and responsibilities. Any access exceeding the access rights listed in the authorized matrix should be reviewed and updated accordingly. This form and matrix should be utilized for new hires, changes in employee positions, and for temporary access, when deemed necessary.

Status at December 2016: Complete

> The Business Office should disable the former District Treasurer's access to Finance Manager for all modules. The Personnel Department should notify the Information Technology Department of any employee position changes, including new hires, transfers, and terminations.

Status at December 2016: Complete

> The user permission to print and reissue checks and to perform bank reconciliations should be limited to the District Treasurer. The Business Office should remove these permissions from the Payroll Account Clerk and the Benefits Administrator. This recommendation will assist the District in minimizing the access of printing checks to the individuals authorized by the Board of Education.

The Business Office should periodically review the permissions user account report and verify the appropriateness of user accounts and permissions on an individual employee basis. This recommendation will assist the Business Office in increasing its oversight and controls over its access to the District's accounting system.

Status at December 2016: Complete

Exhibits

Exhibit I   History of Internal Audit Reports Issued

Port Jefferson UFSD
Internal Audit - Nawrocki Smith
History of Internal Audit Reports Issued
July 2006 through December 2016

Report Type	06/07	07/08	08/09	09/10	10/11	2011	2012	2013	2014/2015	2015/2016
CYCLE REVIEW										
Accounts Payable									✓	
Benefits										✓
Claims Payment Process					X					
ECAF								✓		
Human Resources								✓		
Payroll	✓									
Payroll									✓	
Pupil Personnel Services							✓			
School Lunch Operations					X					
Seniority List										✓
Transportation						✓				
OTHER INTERNAL AUDIT SERVICES										
Bank Reconciliations and Treasurer Reports	✓							✓		
Benefit Calculations								✓		
Board Policies and Procedures				X						
Budget Transfers	✓					✓	✓			
Fixed Assets									✓	
Food Service Eligibility									✓	
Disater Recovery Plan									✓	
Grant Applications									✓	
Budgeting				X						
Business Office Organizational Chart	✓									
Capital Assets					X					
Cash Management				X	X					
Cash Receipts	✓					✓	✓			
Computer Controls				X	X					
Donations								✓		
Employee Termination						✓				
Extraclassroom Accounts					X					
Extraclassroom Activity Funds					X					
Journal Entries	✓					✓	✓			
Payroll Disbursements						✓		✓		
Petty Cash						✓	✓			
Purchasing and Expenditures					X					
Wire Transfers	✓									
Initial Risk Assessment						✓				
Risk Assessment Update			Jun-09			✓	✓	✓	✓	✓
Corrective Action Plan	✓					✓	✓	✓	✓	✓

Comments:

X = Audit Work Performed by Previous Internal Auditor

✓ = Audit Work Performed by Nawrocki Smith LLP