

 **DRAFT**

**PLATTSBURGH CITY  
SCHOOL DISTRICT  
REPORT OF INTERNAL AUDITOR  
JULY 1, 2016-JUNE 30, 2017**

**PLATTSBURGH CITY SCHOOL DISTRICT  
REPORT OF INTERNAL AUDITOR  
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## I. INTRODUCTION

To the Audit Committee of the Board of Education  
Plattsburgh City School District  
Plattsburgh, New York

We were engaged to assist the Plattsburgh City School District in performing an initial risk assessment as required by Chapter 263 of the Laws of New York State. This was accomplished in the year ended June 30, 2009. The purpose of our engagement was to assist the District in determining the level of risk and adequacy of controls utilized over various functional processes. In the fiscal year ending June 30, 2017 we have conducted certain in-depth observations and customized testing to address the risks of highest priority as determined at June 30, 2009 and as revisited with each passing year.

The engagement to perform a risk assessment was the initial phase of an ongoing internal audit function. The results of that risk assessment were discussed with the management of the District and are the overall responsibility of the District.

As a result of the risk assessment, with the assistance of the District, tests have been designed to evaluate and assess the effectiveness of existing internal controls and their implementation. We have performed this evaluation and report on the results of said testing herein. We have also included a schedule of our observations and recommendations for your consideration. Also, as part of the ongoing internal audit function, we will continue to assess management's response and monitor the implementation of any corrective actions deemed necessary.

This report is intended solely for informational purposes in order to continue development of a plan to identify and manage the School District's risks and to evaluate and modify the District's responses to the risks identified. This report and all information used to compile the report is the property of the Plattsburgh City School District.

We appreciate the opportunity to serve you as internal auditors and thank the District's management and staff for their outstanding cooperation.

Respectfully yours,

*Pinto Mucenski Hooper Van House & Co.*

Certified Public Accountants, P.C.  
Ogdensburg, New York  
June 30, 2017

## **METHODOLOGY**

## II. METHODOLOGY

### *Defining Audit Universe*

The first step leading to the development of the District's Risk Register was to define the audit universe. The District's audit universe encompasses both financial and non-financial functions, which have been categorized into the following 10 business units:

1. General Control Environment
2. Cash
3. Revenue, Receivables and Receipts
4. Expenditures and Accounts Payable
5. Payroll and Related Liabilities
6. School Lunch and Inventories
7. Fixed Assets Accounting
8. Grants - Special Aid Programs
9. Computer Controls
10. Budget

### *Weighting of Business Units*

The level of risk each of the above business units pose on the District is variable. The weighting of business units attempts to account for the relative measure of importance between business units and the impact on the overall risk level. A weighting factor was derived by evaluating each business unit based on five categories:

1. *Size of Unit* - based on total revenue/expenditures processed by a business unit band/or volume of transactions.
2. *Complexity of Transactions* - based on the nature of transactions processed.
3. *Public Exposure* - based on the potential of the business unit to harm the District's reputation within the community.
4. *Time since Last Audit* - based on the last date that internal audit procedures were performed.
5. *Compliance with Laws and Regulations* - based on laws and regulations that direct the business unit's activities.

### ***Defining Business Unit Processes***

Business units have been broken out into key processes that are the basis of the initial risk register. The objective is to identify and prioritize processes that pose the greatest potential risk and liability to the District. The processes identified for each unit are identified on the initial risk register.

### ***Categories of Risk***

Risk was assessed for each business unit process in two categories:

***Inherent Risk*** - Inherent risk is the risk a unit has due to the nature of the activity performed, the type of assets safeguarded and processing activities. Inherent risk measures the potential for objectives not being attained at the desired level before applying the assessment of the internal control process.

***Control Risk*** - Control risk measures the adequacy of internal controls designed to reduce the inherent risk within the process. Each process will be assessed for control risk utilizing the concepts of the COSO model. This model has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control. The COSO model focuses on the following 5 components:

1. ***Control Environment*** - The Control Environment sets the tone of an organization, influencing the control consciousness of its employees. It is the foundation for all other components of internal control, as it provides discipline and structure.
2. ***Risk Assessment*** - Risk Assessment is the identification and analysis of relevant risks to the achievement of the School District's objectives, forming a basis for determining how these risks should be managed.
3. ***Control Activities*** Control activities are the policies and procedures that help ensure management directives are carried out. Control activities include a range of activities as such as approvals, authorizations, verifications, reconciliations, security of assets, and segregations of duties.
4. ***Information and Communication*** - Information must be identified, documented, and communicated in a form that enables employees to carry out their responsibilities.
5. ***Monitoring*** - Monitoring is a process that assesses the quality of an internal control system's performance over time.

### ***Assessing a Risk Level***

The assessment of risk has been based on three levels of severity:

<b><i>Low</i></b>	Low likelihood of significant impact on District objectives
<b><i>Moderate</i></b>	Moderate likelihood of significant impact on District objectives
<b><i>High</i></b>	High likelihood of significant impact on District objectives

### ***Risk Appetite***

Risk Appetite broadly sets the level of risk that the Board of Education deems acceptable. The Board of Education had set a *moderate* level of risk appetite for the purpose of the initial risk assessment. Those processes that have been assessed a level of control risk greater than the risk appetite have been included in the School District's long range internal audit plan over a four year period.

### ***Managing the Risk***

The options of the School District in managing its risks are summarized as follows:

1. ***Treat*** - implement accounting and operational controls
2. ***Terminate*** - end the activity
3. ***Transfer*** - obtain insurance or outsource with assurance
4. ***Tolerate*** - accept risk and monitor

### ***Approach***

As a result of the initial risk assessment and considering the District's desired approach to managing the identified risk, in-depth tests of the risks of highest priority have been designed and conducted to properly evaluate the status of the management of such risks and further develop management techniques. Following the year ended June 30, 2012, the Board of Education has modified the approach, decreasing the amount of testing in view of prior successes and with an eye to budgetary constraints.

## **RISKS OF HIGHEST PRIORITY**



### III. RISKS OF HIGHEST PRIORITY

In our report dated June 30, 2009 we identified those areas that, in our opinion, represented the District's risks of highest priority. As a result of that process we have designed and conducted tests of the internal control system and processes designed to, in some manner of reasonable assurance, mitigate the risks identified.

The testing employed in this period focused on the following areas, which represent a continuation of the normally used risk assessment register, employed to recognize that effective controls are in place and working as intended.

- School Lunch-Inventory and related security
- Fixed Assets-Acquisition and disposal process, inventory (fixed asset register)
- Grants, Special Aid-application process, cash management, compliance, reporting and monitoring

Tests were designed after extensive interviews and observations of the areas identified. A description of management's representations of the controls employed in the areas identified is included in the following section of this report along with the results of the testing conducted. Recommendations regarding the results of testing follow in Section V of this report. As noted earlier, testing was decreased during this period at the request of the Board of Education due to budgetary constraints.

## **REVIEW OF PRIOR YEAR RECOMMENDATIONS**

#### IV. REVIEW OF PRIOR YEARS' RECOMMENDATIONS

As a follow-up to the prior year's internal auditors' report the District Business Manager addressed a corrective action plan. We reviewed the items in the plan. Those items and their status for the year ending June 30, 2017 are as follows:

Action Plan	2016-17 Results
* Establish a method for individuals to anonymously report fraud, waste and abuse and establish a system and procedures to review and address complaints.	Not yet addressed
* Development of a formal disaster recovery plan.	A redundant backup plan is in place. It could be more formally documented. The plan appears to fit the District's needs.
* Strengthening of fixed asset controls should be attained as detailed.	In process, not complete. Tagging continues. Presently restricted to technology equipment.
*Formalize the Internal Claims Auditor reporting process through a Board presentation at least twice per year	Our review of the Board of Education meeting minutes indicated that this was not accomplished.
*Computer controls - Password policies should be strengthened, the network security policy is mostly undocumented.	Still under consideration, not yet accomplished.
*Elimination of "Supplies Funds" at Elementary Schools	Accomplished.
*ACH security - It was recommended that the use of the Treasurer's personal cell phone to carry out ACH transactions be replaced by a District-owned cell phone for such purposes. Alternatively, a stand-alone computer for such purposes is recommended by State Ed.	Not addressed.

**TESTING, CURRENT OBSERVATIONS AND  
RECOMMENDATIONS**

## V. TESTING, CURRENT OBSERVATIONS AND RECOMMENDATIONS

In the period ended June 30, 2017, further change in application of programs coincided with the continuation of the steps planned in the risk assessment register. The planned testing was changed slightly to account for steps necessary when considering the program changes.

### *School Lunch Inventory and Related Security*

#### **Findings, Current Observations:**

During the 2015-16 school year the District changed to a policy of providing free breakfast and lunch to all students. Therefore, the Free and Reduced lunch program became obsolete in this instance and all related testing for eligibility has been suspended.

The Cafeteria Manager discovered a Federal Program named Community Eligibility Program, (CEP), under which, if at least 40% of students meet hardship guidelines, the program provides for reimbursement for breakfasts and lunches provided to students. The percentage of impoverished dictates the reimbursement amount, per meal provided. The commitment to the District is up to four (4) years. Operating losses of the Cafeteria were \$60K+ for the two years prior to the new program. Under CEP, the Cafeteria is close to break-even.

In addressing the school lunch inventory and security, our walk-through included the following:

Main Cafeteria - Storeroom for food and supplies is locked except when serving  
Walk-in cooler used for storage of perishables for short term use was locked  
Walk-in freezer used for storage of perishables, longer term was locked

Downstairs - Outside walk-in freezer used for storage of perishables, longer term was locked  
- Storeroom for food (less perishable) and supplies, intermediate term, was locked

In discussions with the Cafeteria supervisor, and the Director of Management for the District, we were informed that the other teaching buildings of the District have similar storerooms and walk-in cooler and freezer configurations. All cooking, however, is performed at PHS and the prepared food is transported to the other buildings by van.

#### **Recommendation:**

In our opinion, based on testing and observation, the system is thoughtfully designed and is working as intended. Food and supplies are secure in the Plattsburgh City School District and every effort is made to preserve the freshness of the food to be served to the students. We have no particular recommendations to offer in this area.

## *Fixed Assets – acquisition and disposal process, inventory*

### **Findings, Current Observations:**

In observing the acquisition process, we noted that that fixed assets are pulled from the warrants during the year and entered into the fixed asset register in June.

In the disposal process, we noted that there is no standard disposal form. Disposals are entered in the fixed asset register by reviewing the Board of Education meeting minutes. The clerk noted that larger items such as vehicles are easily identified. Smaller items with greater numbers are harder to trace for disposal and removal from the fixed asset register. Asset tags are attached to all computer equipment upon acquisition and tag numbers are noted on the fixed asset register. Disposal is more difficult on older equipment without tags. Tags are attached only to computer equipment. Tagging is not done on other equipment, (desks, chairs, etc.). To do so would be a time consuming exercise and the cost/benefit analysis does not seem to bear it out.

We performed a “walk-through” of leases in search of possible capital leases that should be included in fixed assets. We found no capital leases in use during this period.

### **Recommendation:**

The Board of Education *may* want to consider a District-wide tagging of all fixed assets owned by the District. Many assets today are portable and can easily go missing. The tagging of fixed assets is now a common practice and does effectively act as a deterrent to misappropriation. However, as stated above, the cost/benefit analysis may not suggest that this is an appropriate use of scarce funds.

## *Grants-Special Aid*

### **Findings, Current Observations:**

Regarding Federal source grants coming through the State Education Department, we reviewed the application process, allowable costs, cash management, compliance and reporting and monitoring. For each grant program an grant writer is assigned by the Superintendent. The Treasurer reviews each grant document before submission and the Superintendent subsequently signs and files the request.

The Treasurer and Superintendent process any amendments as may be required. At year end the Treasurer closes out all grants for the year and books a receivable for an amount up to the total amount spent for the year, less any earlier receipts. The Treasurer oversees all submissions and verifies that unallowable costs have not been charged to the grants. The Superintendent and the Treasurer oversee compliance issues associated with the various grants to ensure that non-compliant transactions do not take place. The Treasurer does all significant reporting associated with such grant programs and the Superintendent provides oversight.

With regard to the various forms of State Aid, the calculations are made by the New York State Education Department and funds are disbursed to the District via wire transfer to a designated District bank account. The Treasurer uses an ACH wire transfer report form New York State to record each receipt of State Aid payments and reduces the receivables on receipt. In addition, the Treasurer uses the State Aid report to reconcile the recorded General Ledger revenue accounts.

Recommendation:

Sound practices are employed in this area and they appear to be working effectively. We refrain from making any recommendations here.

## **UPDATED RISK ASSESSMENT REGISTER**



**PLATTSBURGH CITY SCHOOL DISTRICT  
RISK ASSESSMENT REGISTER  
06/30/17, As Updated**

Operating Unit	Process	Inherent Risk			Control Risk			Combined Risk			Proposed Timeline			
		High	Mod	Low	High	Mod	Low	High	Mod	Low	Year 1	Year 2	Year 3	Year 4
General Control Environment	General	X					X			X	2018			
	Monitoring	X					X			X	2018			
	Risk Management	X					X			X	2018			
Cash	Risk Management	X					X			X		2015		
	Control Activities	X					X			X		2015		
	Monitoring	X					X			X		2015		
	ACH Cash Transfers	X				X				X			2016	
Revenue, Receivables, Receipts	Real Property Tax			X			X			X		2015		
	Collection/Posting Receipts	X					X			X		2015		
	Facilities/Admissions, etc.	X					X			X		2015		
	General Processing	X					X			X		2015		
Expenditures, Accounts Payable	Procurement process	X					X			X		2015		
	P.O. System	X					X			X		2015		
	Payments Outside P.O. System	X					X			X		2015		
	Allocation of Expenditures	X					X			X		2015		
	Payment Processing	X					X			X		2015		
Payroll and Related Liabilities	Payments to Employees	X				X				X			2016	
	Allocation of Expenditures	X					X			X			2016	
	Employment Administration	X					X			X			2016	
	Employment Benefit Administration	X					X			X			2016	

**PLATTSBURGH CITY SCHOOL DISTRICT  
RISK ASSESSMENT REGISTER  
06/30/17, As Updated**

Operating Unit	Process	Inherent Risk				Control Risk				Combined Risk				Proposed Timeline			
		High	Mod	Low		High	Mod	Low		High	Mod	Low		Year 1	Year 2	Year 3	Year 4
School Lunch, Inventories	Federal and State Reimbursement		X					X				X					2017
	Eligibility Verification	X						X			X						2017
	Inventories		X					X			X						2017
	Sales Cycle and System	X						X			X						2017
Fixed Assets Accounting	Acquisition and Disposal	X						X			X						2017
	Inventory	X						X			X						2017
	Compliance	X						X			X						2017
Grants-Special Aid	Application	X								X							2017
	Allowable Costs	X								X							2017
	Cash Management	X								X							2017
	Compliance	X								X							2017
	Reporting, Monitoring	X								X							2017
	Basic State Aid	X								X							2017
	Building Aid	X								X							2017
	Excess Cost Aid			X						X							2017
	BOCES			X						X							2017
Computer Controls	Governance	X								X					2018		
	Network Security	X								X					2018		
	Financial Applications Security	X								X					2018		
	Other Applications Security	X								X					2018		
	Disaster Recovery	X								X					2018		

