

**Board of Education
Hornell City School District
120 Raider Road
Hornell, NY 14843**



FINAL

**2022-2023
Internal Audit Risk Assessment
Update Report**

PURCHASING AND EXPENDITURES

DECEMBER 2022

Executive Summary

Internal Audit performed the **2022-2023** risk assessment update for the Hornell City School District, on behalf of the District's Board of Education 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.

Audit Recommendation

The updated risk assessment, Internal Audit recommends the detailed testing **purchasing and expenditures** for 2022-2023.

Audit Scope, Objective and Methodology

Scope

A risk assessment audit is required NYS Five Point Plan on School District Accountability legislation and Commissioner's Regulations 170.12.

The risk assessment update for the Hornell City School District conducted during December 2022. Internal Audit is a department within Tompkins-Seneca-Tioga BOCES and supervised by the Board of Education for the Hornell City School District under a cooperative services agreement. The findings and recommendations in this report are the responsibility of the Board and the Internal Audit Department.

Objective

To identify factors or conditions that threaten the achievement of a district's objectives. It involves identifying significant risks to the effectiveness and efficiency of operations, to the reliability of financial reporting, and compliance with policies, procedures, applicable laws and regulations.

Methodology

The Internal Audit department complies with applicable regulations promulgated by the State Commissioner of Education and the school district's policies and procedures. Per New York Standards Internal Audit is required to develop a risk assessment of a district's operations, including but not limited to, a review of financial policies and procedures and the testing and evaluation of the district's internal controls, and an annual review and update of such risk assessment.

Internal Audit relied on the accuracy and reliability of the information provided by District personnel. Internal Audit has not audited or examined the information in detail, and we express no assurance on it.

A risk assessment update shall not only include a current year residual risk determination, but also a follow-up on any previous Internal Audit exceptions, a follow-up on any corrective action plans and any external audit exceptions (financial statement, SED, OSC, etc.).

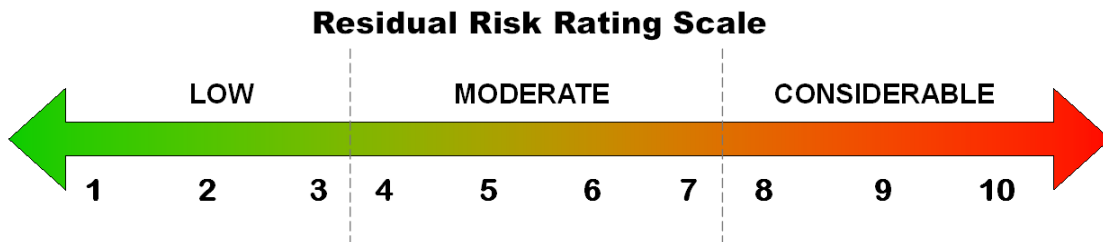
There are three categories of risk:

- **Inherent Risk:** The nature of some activities or assets makes greater. 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 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, 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 walkthroughs.

Not all risks are equal. Some are more likely to occur, and some will have a greater impact if they occur. Once risks identified, their probability and significance 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 categorized as *Low*, *Moderate*, or *Considerable*, but also with a number rating. The number rating on various factors such as the severity of internal control recommendations, materiality, probability, and significance. In addition, the residual risk 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 assess 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
- Extra classroom Activity Fund
- Governance
- Accounting and Reporting
- Assets and Inventory
- Facilities Maint. 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 Hornell City School District. The following portion of the report explains those ratings. 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 for implementation of such recommendations. The recommendations provided to assist the district in managing and reducing risk. It is 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.

1.	Governance and Control Environment	21-22	Low	Low	Low-3	

- Review the Board of education minutes including reorganization meeting.
- All BOE members have required training and certifications retained at the district.
- BOE approval for new hires, promotions, retiring staff and those that leave the district.
- District clerk notifies necessary staff for collection of items that need returning to the district.
- Reviewed legal contractual expenses for 21-22 and up to date 22-23 expenses. The items listed on the invoices proved importance to the leadership of the district and for continued governance and control. No issues found.
- Corrective action plan completed for 21-22 independent audit report.

2.	Facilities Maintenance & Const.	21-22	Low	Low	Low-3	

- A walk through of the High School and Middle School checked for proper emergency exit signs in classrooms and occupancy signs in the building.
- Fire extinguisher are certified annually by the local company of CK and Bill and district building personnel do a visual inspection on a monthly basis and mark the tag on the extinguisher proving this process is being completed. Verified by Shannon Davis
- Maintenance and Operation has a staff of 29, 6 building, covering 446,291 square feet, and 64 acres.

3.	Revenue & Cash Management	21-22	Low	Low	Low-3	

- The District continues to have proper segregation of duties surrounding the cash receipts, revenue, reconciliations, wire transfer, and billing processes.
- No late deposits of money to the bank in the samples tested. Monies deposited within three days and all checks (no cash) remotely deposited daily in the bank.
- Correct budget codes used, and the cash log was in agreement with the deposits to the bank.

4.	Assets and Inventory	21-22	Moderate	Moderate	Moderate-5	

- Insurance is by Lawley Associates and confirmed by district staff.
- Inventory and valuation updated annually and every five years with a full revaluation completed through Questar BOCES. Reconciliations kept up to date with a sub ledger "Asset works" through BOCES. These BOCES services generate BOCES aid for the district.
- Additions and deletion are being done and tagging of fixed assets. Equipment items checked to insure tagging.
- Monitored annually information remains current.

5.	Accounting and Reporting				
		21-22	Low	Low	Low-3

- The district has proper segregation of duties.
- Records balanced monthly with proper supporting documentation between District Treasurer, Business Official, and clerk from sampling done and questions asked of the process.
- All reports reported and approved by the Board of Education monthly.

6.	Student Services and Data				
		21-22	Low	Low	Low-3

- School safety meetings and teams are active. District wide committees include all areas of the school.
- Outside agencies such as State Police, Sheriff's office, Fire department are also included and do safety and building testing.
- In case of an emergency, 911 notified and they are familiar with district layout.
- Cafeteria: GST BOCES cafeteria manager, all meals covered under the CEP Program and kept up to date during the school year for students, sales tax collected at point of sales for adult purchases, Business Office completes the NYS sales tax report quarterly.
- Cafeteria has a full time staff of 20.
- Transportation of all district students completed by district transportation staff. No outside contracts.
- Transportation Supervisor responsible for all driving records including 19-A requirements.
- Transportation has a full time staff of 22.
- Current student enrollment is 1,415.

7.	Purchasing and Expenditures				
		21-22	Moderate	Moderate	Moderate-6

- Internal Audit tested a sample of completed purchases, reviewing the accounts payable documentation, receiving documentation, purchase order documentation and segregation of duties.
- Copy of an appropriation ledger for the 21-22 fiscal year.
- Review of purchases over the limit as per BOE policy and handled properly.
- Blanket purchase orders used and reviewed for future use.
- Pre numbered purchase orders created for all purchases.
- Budget preparation for items on a yearly basis done during budget preparation.
- High cost items for future needs are examined when new budget is being established.
- Vendor list discussed and no issues with duplicate vendors.

8.	Payroll and Personnel				
		21-22	Moderate	Moderate	Moderate-5

- A review of the payroll and personnel process checked for accuracy.
- The district has proper segregation of duties.
- Employee folders (17) contained the following information for the tested employees: I-9, IT-2104, W-4, BOE action, certifications, transcripts, finger print clearance, position and retirement group.
- All payrolls approved by School Business Official.
- District has a full time staff of 329.

9.	Extra classroom Activities Fund	21-22	Moderate	Moderate	Moderate-6

- District treasurer monitors and assists the student activities central treasurer in this area to help maintain good controls.
- External auditor completed a supplemental audit. Information matched records of the school district.
- District has 30 clubs: beginning balance of \$130,523 – cash receipts of \$155,911 – disbursements of \$173,924- ending balance of \$112,510. No issues found
- NYS sales tax reports filed by the district treasurer on a regular basis
- Copy of external auditors extra classroom fund provided.

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. All items completed.