



SPENCERPORT CENTRAL SCHOOL DISTRICT

Assistant Superintendent for Business

71 Lyell Avenue - Spencerport, NY 14559

RICK WOOD

Assistant Superintendent for Business

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To: Board of Education
Kristin Swann, Superintendent

From: Nicole Poh, District Treasurer *Nicole Poh*
Rick Wood, Assistant Superintendent for Business *R. Wood*

Date: January 18, 2022

Re: Risk Assessment and Management's Corrective Action Plan for Year Ended June 30, 2022
Control Cycle Audit of School Lunch Claims for Year Ended June 30, 2022

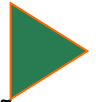
On an annual basis, school districts in New York State are required by law to have an independent audit firm examine the district's internal control policies and procedures. Our internal auditor, EFPR Group, CPA's, PLLC, has completed the 2021-2022 Risk Assessment, which is enclosed in the board packet for your review. The Audit Committee reviewed and acknowledged the receipt of this report, as well as management's corrective action plan at their meeting on January 11, 2022.

The Risk Assessment is used to develop the scope and direction of the 2022 (2021-2022 fiscal year) internal, or control cycle, audit(s). Based on the report and current economic climate, the audit committee decided to focus this year's control cycle audit on the district's school lunch claims and process. The objective of this report is to provide the district with the assessment of the need for controls and a means to prioritize risk mitigation efforts.

Recommendation

The Board of Education acknowledges receipt of the Risk Assessment Report for the year ended June 30, 2022, approve the District's Corrective Action Plan and next internal audit area focused on school lunch claims and process.

Our Mission is to educate and inspire each student to love learning, pursue excellence and use knowledge, skills and attitudes to contribute respectfully and confidently to an ever-changing global community.



INTERNAL CONTROL RISK ASSESSMENT FOR



SPENCERPORT CENTRAL SCHOOL DISTRICT

**Spencerport Central School District
71 Lyell Avenue
Spencerport, NY 14559**

November 23, 2021

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DRAFT

BACKGROUND/OBJECTIVE:

In 2005, the Office of the New York State Comptroller (OSC) along with the New York State Education Department (SED) produced the “Five-Point School Financial Accountability Plan.” The Plan promotes stronger internal controls, improves school district audits and strengthens the roles of boards of education in conducting appropriate oversight. One component of the Five-Point Plan requires all districts to establish an internal audit function, which must include the development, annual updating, and reporting on a risk assessment of district operations.

The Spencerport Central School District (“Spencerport” or sometimes referred to as “The District”) outsourced its internal audit function and engaged EFPR Group, CPA’s, PLLC to serve as its internal auditor beginning in the 2018-19 school year. The risk assessment was last updated in our report dated December 29, 2020.

In October 2020, we reviewed relevant reports and documents and met with a variety of administrative staff to update our understanding of the processes and existing controls over District operations. This report is the product of our assessment of the District’s risk profile and is intended to satisfy the annual update as required by the “Five-Point Plan”.

Our approach to understanding controls was to meet with appropriate personnel for each respective area and to discuss and understand processes and procedures. In addition, where necessary, we performed walk-throughs of transaction cycles and/or performed tests of transactions. After compiling this information, the audit areas were prioritized into three categories: high risk, moderate risk, and low risk.

The risk assessment identifies the areas that we believe are most susceptible to material misstatements going undetected, given existing procedures and internal controls in those areas. Strengthening control procedures helps increase the likelihood that any such misstatement would be detected and corrected by staff and management during the normal course of their duties.

INFORMATION GATHERING:

In updating our risk assessment, we reviewed the following district records:

- Financial statements and management letter for year ended June 30, 2021
- Extraclassroom Activities financial statements and management letter for year ended June 30, 2021
- Prior Risk Assessment and other Internal Audit documents
- Policy manuals
- Board minutes
- Internal Claims Auditor reporting
- Accounts Receivable aging report
- Current year appropriation status report
- Cash receipts journal
- Current year payroll registers
- Current year accounts payable warrants
- Bank reconciliations
- Overtime reporting for 2019-20

INFORMATION GATHERING (Continued):

We also interviewed the following individuals:

- Cory Allen, Chief Information Officer/Technology Director
- Vicki Amaroso, Internal Claims Auditor
- Julie Churnetski, Transportation Director
- Nelson Drake, Facilities Director
- Linda Kramb, Purchasing
- Jamie Lissow, Assistant Superintendent for Human Resources
- Gary Miner, Food Service Director
- Andy Pacitto, Extraclassroom Activities Central Treasurer
- Kathy Parisi, Accounts Payable Clerk
- Nicole Poh, District Treasurer
- Darin Price, Facilities Director
- Lynn Robinson, Payroll Supervisor
- Paul Vanhorn, Network Administrator
- Dale Warner, Payroll Clerk
- Rick Wood, Assistant Superintendent for Business

PROCEDURES APPLIED:

In October 2021, EFPR met with the staff noted above to document our understanding of current personnel, processes, and procedures. We employed guidelines established by the New York State Education Department (SED) and the Office of the State Comptroller (OSC) as a basis for determining the adequacy of existing controls and processes over District operations. Significant changes in personnel and procedures (if applicable) were identified through discussions with management and staff. The changes were evaluated to determine their impact on the control environment and have been documented and incorporated in the risk assessment.

RESULTS:

A summary table of the control cycles and their associated level of risk from 2020-21 and this year’s updated risk assessment is presented below:

RISK ASSESSMENT SUMMARY

CONTROL CYCLES	LEVEL OF RISK - 2020-21	LEVEL OF RISK - 2021-22	COMMENTS
Governance / Budgeting	Moderate	Low	No significant changes or concerns were noted at this time.
Cash Receipts and Revenues	Low	Low	No significant changes or concerns were noted at this time.
Transportation	Low	Low	No significant changes or concerns were noted at this time.
Food Service	Moderate	Moderate	District should continue to monitor the financial performance of the program closely in an effort to generate a surplus from operations this year.
Extra-Classroom Activity Fund	Low	Low	No significant changes or concerns were noted at this time.
Facilities, Equipment and Inventory	Low	Moderate	District should reinforce the proper procurement process with the new Facilities Director in an effort to reduce the use of confirming purchase orders.
Purchasing, Claims, Accounts Payable, Cash Disbursements	Moderate	Moderate	No significant changes or concerns were noted at this time.
Payroll and Personnel	Moderate	Moderate	Retroactive salary adjustments related to newly settled bargaining agreements are anticipated this year.
Accounting, Reporting, and Information Technology	Low	Low	District is working to address issues identified during its security and vulnerability assessment.

Note – In formulating the level of risk, as displayed on the attached matrix, consideration is given to both inherent risk (categories such as budget size, and financial exposure/potential loss) and control risk (categories such as major changes in operations, programs, systems and personnel). Due to the high level of inherent risk in some control cycles (Cash Disbursements and Payroll), the risk may be elevated beyond the control of the District.

RESULTS (Continued):

Each general area of the District and the specific control cycle is listed below with relevant observations and/or comments for each. Our recommendations and suggested enhancements are summarized for your review.

Governance / Budgeting:

Comment:

This area appears to be operating effectively with no significant concerns noted.

Cash Receipts and Revenues:

Comment:

This area appears to be operating effectively with no significant concerns noted.

Transportation:

Comment:

This area appears to be operating effectively with no significant concerns noted.

Food Service:

Comment:

The Food Service program's financial performance improved in 2020-21, incurring an operating loss of only \$57,000 compared to a loss of \$253,000 during the prior year. This is an encouraging result when considering that only half the students were in the secondary schools on any given day under the hybrid learning model in place during the year. During the 2021-22 school year all meals will continue to be free to students throughout the year, providing a higher reimbursement to the District for the meals served. This, combined with the fact that all students are back to attending school five days a week, should help improve the program's ability to generate additional revenue. However, one challenge that will likely offset the expected increase in revenue is the significant price increases for food and other supplies. We encourage the District to continue to monitor the financial performance of the program closely in an effort to generate a surplus from operations in the current year.

RESULTS (Continued):

Extra-Classroom Activity Fund:

Comment:

This area appears to be operating effectively with no significant concerns noted.

Facilities, Equipment and Inventory

Comment:

During our review of the internal claims auditor reporting we noted that the Facilities Department continues to be cited frequently for its use of confirming purchase orders. This occurs when the vendor invoice is dated prior to the purchase order date, indicating that the Facilities Department placed the order or had the service performed before securing a valid purchase order through the District's normal procurement process. We also noted the Facilities Department has recently experienced a change in leadership. We encourage the District to take this opportunity to reinforce the proper procurement process with the new Facilities Director in an effort to substantially reduce the frequency of confirming purchase orders related to its activities.

Purchasing, Claims, Accounts Payable and Cash Disbursements:

Comment:

This area appears to be operating effectively with no significant concerns noted.

Payroll and Personnel:

Comment:

We were informed that several of the District's collective bargaining agreements are currently in negotiations and are expected to be settled during the current school year. Payroll staff indicated that they anticipate retroactive salary adjustments will be necessary once the agreements have been finalized. Retroactive salary adjustments typically involve manual calculations involving a significant number of employees that are covered under each agreement. This introduces the potential for errors to occur when calculating and processing these payments. We encourage the District to ensure there is a sound process that includes verifying the accuracy of the calculations and approval of these payments.

RESULTS (Continued):

Accounting, Reporting and Information Technology:

Comment:

The District contracted with a third-party vendor in 2021 to perform an assessment of its Information Technology infrastructure to identify potential security risks and vulnerabilities to its networks. A report was issued detailing a number of findings that require remediation. The District is in the process of addressing these issues to improve and strengthen its technology networks and support systems. We encourage the District to resolve these items as soon as possible to minimize potential risks to its technology infrastructure.

SUMMARY:

As described and noted above, each area has been assigned a level of risk. The attached Exhibit A represents a summarization of all the categories we considered in formulating our risk assessment.

This document can be used as a tool to assist the Spencerport Central School District’s Audit Committee in selecting specific control cycles which to examine in further detail, as required by the “Five-Point Plan.”

CLOSING COMMENTS:

We would like to thank the central administration staff of the Spencerport Central School District for their assistance and cooperation in formulating this risk assessment of the District.

Spencerport Central School District Risk Assessment 2021-22

Appendix A

Note: For each control cycle rate the perceived risk from 0-3. 0= No risk 1=low 2=Medium 3=High

Note: For the total column, risk was calculated: 0-5 = low, 6-10 = Medium, 11+ = High

In formulating the level of risk, consideration is given to both inherent risk (categories such as budget size, and financial exposure/potential loss) and control risk (categories such as major changes in operations, programs, systems and personnel). Due to the high level of inherent risk in some control cycles (Cash Disbursements and Payroll), risk may be elevated beyond the control of the District.

<u>Control Cycle</u>	<u>Date or Results of last Audit/Examination</u>	<u>Management letter Comments</u>	<u>Budget Size</u>	<u>Financial Exposure / Potential loss and Risk</u>	<u>Major Changes in Operations, Programs, Systems and Controls</u>	<u>Personnel Changes</u>	<u>EFPR Evaluation (From Below)</u>	<u>Total Risk Score</u>
Governance and Planning								
1 Budgeting		0	1	1	2	0	0	4
Revenue and Cash Management								
2 Cash Receipts & Revenues ♦Cash Management & Investments ♦State Aid ♦Real Property Taxes ♦User Charges		0	3	1	0	0	0	4
Student Services								
3 Transportation		0	1	1	0	0	1	3
4 Food Service		1	1	2	2	0	1	7
5 Extraclassroom Activity Fund		1	1	1	0	0	0	3
6 Facilities, Equipment and Inventory ♦Capital Assets ♦Capital Projects ♦Indebtedness ♦Inventory Controls (School Lunch)		0	2	2	0	2	1	7
Purchasing and Expenditures								
7 Purchasing, Claims Processing & AP and Cash Disbursements	2017, 2019	0	3	3	0	0	0	6
8 Payroll and Personnel	2015, 2021 (Attendance)	0	3	3	0	0	0	6
9 Accounting, Reporting & I.T.	2016	0	1	3	0	0	0	4

EFPR EVALUATION

Note: EFPR evaluated risk was determined by checklists, inquiry of staff and auditor observations

<u>Control cycle</u>	<u>EFPR Evaluated Risk</u>
Budgeting	
Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Cash Receipts & Revenues

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Transportation

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	2
Concerns from staff	0
Total EFPR evaluated risk	1

Food Service

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	1
Concerns from staff	1
Total EFPR evaluated risk	1

District should continue to monitor financial performance of the program in an effort to generate a surplus this year.

Extraclassroom Activity Fund

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Facilities, Equipment and Inventory

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	2
Concerns from staff	0
Total EFPR evaluated risk	1

District should reinforce proper procurement process with new Director to reduce frequency of confirming purchase orders.

Purchasing, Claims Processing & AP and Cash Disbursements

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

Payroll and Personnel

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	1
Total EFPR evaluated risk	0

Retroactive salary adjustments are expected this year related to renegotiated bargaining agreements.

Accounting, Reporting & I.T.

Procedures are adequate and being followed	0
Proper segregation of duties	0
Adequate staffing	0
Concerns from staff	0
Total EFPR evaluated risk	0

District is working to address issues identified during the recent security and network vulnerability assessment.



SPENCERPORT CENTRAL SCHOOL DISTRICT

Assistant Superintendent for Business

71 Lyell Avenue - Spencerport, NY 14559

RICK WOOD

Assistant Superintendent for Business

Phone: (585) 349-5111

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Date: January 7, 2022

To: Audit Committee
Board of Education
Kristin Swann, Superintendent

From: Rick Wood, Asst. Supt. For Business *R. Wood*
Nicole Poh, Treasurer *Nicole Poh*

Re: 2021 – 2022 SCSD Internal Control Risk Assessment Findings Management Response

Governance / Budgeting:

Comment:

This area appears to be operating effectively with no significant concerns noted.

Cash Receipts and Revenues:

Comment:

This area appears to be operating effectively with no significant concerns noted.

Transportation:

Comment:

This area appears to be operating effectively with no significant concerns noted.

Food Service:

Comment:

The Food Service program's financial performance improved in 2020-21, incurring an operating loss of only \$57,000 compared to a loss of \$253,000 during the prior year. This is an encouraging result when considering that only half the students were in the secondary schools on any given days under the hybrid learning model in place during the year. During the 2021-22 school year all meals will continue to be free to students throughout the year, providing a higher reimbursement to the

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district for the meals served. This, combined with the fact that all students are back to attending school five days a week, should help improve the program's ability to generate additional revenue. However, one challenge that will likely offset the expected increase in revenue is the significant price increases for food and other supplies. We encourage the district to continue to monitor the financial performance of the program closely to generate a surplus from operations in the current year.

Management Response:

We agree with the audit comment. Administration continues to monitor the School Lunch operations and reports to the board of education each month as part of the financial report. Administration continues to review the changing operational environment created by the COVID-19 pandemic to ensure the program is meeting expectations and working to minimize losses.

Extra-Classroom Activity Fund:

Comment:

This area appears to be operating effectively with no significant concerns noted.

Facilities, Equipment, and Inventory:

Comment:

During our review of the internal claims' auditor reporting, we noted that the Facilities Department continues to be cited frequently for its use of confirming purchase orders. This occurs when the vendor invoice is dated prior to the purchase order date, indicating that the Facilities Department placed the order or had the service performed before securing a valid purchase order through the district's normal procurement process. We also noted the Facilities Department has recently experienced a change in leadership. We encourage the district to take this opportunity to reinforce the proper procurement process with the new Facilities Director to substantially reduce the frequency of confirming purchase orders related to its activities.

Management Response:

We agree with the audit comment. This has been a reoccurring theme throughout this department over the past years. With the new leadership and a change in office personnel in place, the Administration will use this opportunity to reinforce and emphasize the proper procurement procedures within the Facilities department. Administration will monitor the results to ensure improvement in reducing the frequency of confirming purchase orders by the end of the 2021-22 fiscal year.

Purchasing, Claims, Accounts Payable and Cash Disbursements:

Comment:

This area appears to be operating effectively with no significant concerns noted.

Payroll and Personnel:

Comment:

We were informed that several of the district's collective bargaining agreements are currently in negotiations and are expected to be settled during the current school year. Payroll staff indicated that they anticipate retroactive salary adjustments will be necessary once the agreements have been finalized. Retroactive salary adjustments typically involve manual calculations involving a significant number of employees that are covered under each agreement. This introduces the potential for errors to occur when calculating and processing these payments. We encourage the district to ensure there is a sound process that includes verifying the accuracy of the calculations and approval of these payments.

Management Response:

The District's Human Resource and Payroll departments have a solid process in place to ensure the accuracy of the retroactive salary payments that are being made when collective bargaining agreements are settled. In addition to the district's financial software that completes the calculation of the retroactive payment, the payroll department audits a sample of the employees to ensure the total hours and rates are accurate when compared to a timecard report. Lastly, before payments are made, payroll is reviewed and certified.

In an ongoing effort to ensure accuracy and to reduce calculation errors, Administration will review the internal controls surrounding retroactive salary adjustments as each of the district's collective bargaining agreements are settled.

Accounting, Reporting and Information Technology:

Comment:

The district contracted with a third-party vendor in 2021 to perform an assessment of its Information Technology infrastructure to identify potential security risks and vulnerabilities to its networks. A report was issued detailing several findings that require remediation. The district is in the process of addressing these issues to improve and strengthen its technology networks and support systems. We encourage the district to resolve these items as soon as possible to minimize potential risks to its technology infrastructure.

Management Response:

We agree with the audit comment. The Chief Information Officer, Network Administrator and the District's Computer Services Department continue to address the findings of the IT risk assessment. The team has prioritized the work, and through a phased approach, will resolve the most pressing concerns by June 30, 2022.