



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 10, 2023

To: Audit Committee
Board of Education
Kristin Swann, Superintendent

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

Re: 2022 – 2023 SCSD Internal Control Risk Assessment Corrective Action Plan

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:

We learned that a freezer at one of the elementary schools failed during this past summer which resulted in the loss of its contents. Upon further inquiry, we were informed that the freezers and coolers are equipped with alarms to alert appropriate personnel to take corrective action. However, it does not appear that the preventive controls operated effectively to prevent the loss of product.

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.

We encourage the District to ensure that the alarms are working properly and that the appropriate personnel are set up to be notified when an alarm is activated. The protocols for responding to any alarms should also be clarified to ensure a timely response.

Management Response:

We agree with the risk assessment comment. The Director of Food Services along with the Director of Facilities will review protocols for responding to alarms and ensure that staff are made aware of these protocols to prevent future loss. Corrective action has been taken to make sure all alarms are working properly. It is anticipated that these corrective steps will be implemented by February 28, 2023.

Extra-Classroom Activity Fund

Comment:

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

Facilities, Equipment, and Inventory

Comment:

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

Purchasing, Claims, Accounts Payable and Cash Disbursements

Finding:

- a. The District does not currently subscribe to Positive Pay, a fraud protection service offered by its bank. Positive Pay can prevent unauthorized or altered checks from being paid by comparing checks present for payment to an authorized list of payments supplied by the District.

Recommendation:

- a. We suggest the District consider subscribing to Positive Pay to strengthen internal controls over disbursements and enhance its protections against potential fraud.

Management Response:

We agree with the risk assessment finding. The District Treasurer has contacted the District's financial institution about subscribing to Positive Pay and is in discussion on how to implement this service for the District by February 28, 2023.

Payroll and Personnel

Comment:

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

Accounting, Reporting and Information Technology**Comment:**

During our review of the District's 2022-23 delinquent tax report, we noted that the outstanding receivable due from the Town of Gates was approximately \$2.3 million. This represents an increase of approximately \$2.1 million from the prior year. Upon further inquiry, the District learned that this increase was a result of unpaid taxes on the new Amazon warehouse located at Rochester Tech Park in the Town of Gates. This facility was scheduled to open in September, but the opening has been delayed until an unspecified date next year.

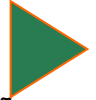
Monroe County typically issues a payment in April for the full amount of unpaid school taxes owed by property owners on the District's tax rolls. However, it has been publicly reported that Amazon received \$143 million in PILOT tax breaks from Monroe County. We are not aware of the specific terms of that agreement, or how the delayed opening of the facility may effect the scheduled payments under the agreement.

This situation raises two potential concerns. First, the unpaid taxes will create a cash flow challenge for the District since the funds that are typically received in September will likely be delayed until at least April. Also, this is a unique situation involving a substantial PILOT agreement in its initial year whose terms could be impacted by a delayed opening of the associated property. We encourage the District to consult with appropriate officials in the Town of Gates and Monroe County to clarify whether the delay alters Amazon's tax obligations under the PILOT agreement and any associated impacts to the District that may result.

Management Response:

We agree with the risk assessment comment. The Assistant Superintendent for Business has been in contact with officials from the Town of Gates and Monroe County to ensure that any delays in regard to the Amazon warehouse will have a low to no negative impact to the District. The Assistant Superintendent for Business will continue to stay in contact with officials through the end of June 2023 and into the 2023-24 school year to monitor the progress of the warehouse to ensure the PILOT billing will stay on schedule for September 2023.

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INTERNAL CONTROL RISK ASSESSMENT FOR



SPENCERPORT CENTRAL SCHOOL DISTRICT

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

December 20, 2022

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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 November 23, 2021.

In November 2022, 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, 2022
- Extraclassroom Activities financial statements and management letter for year ended June 30, 2022
- Prior Risk Assessment and other Internal Audit documents
- Policy manuals
- Board minutes
- 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 2021-22

INFORMATION GATHERING (Continued):

We also interviewed the following individuals:

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

PROCEDURES APPLIED:

In November 2022, 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 2021-22 and this year’s updated risk assessment is presented below:

RISK ASSESSMENT SUMMARY

CONTROL CYCLES	LEVEL OF RISK - 2021-22	LEVEL OF RISK - 2022-23	COMMENTS
Governance / Budgeting	Low	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	Low	District should clarify protocols for responding to alarms on freezers.
Extra-Classroom Activity Fund	Low	Low	No significant changes or concerns were noted at this time.
Facilities, Equipment and Inventory	Moderate	Low	No significant changes or concerns were noted at this time.
Purchasing, Claims, Accounts Payable, Cash Disbursements	Moderate	Moderate	District should consider subscribing to Positive Pay to enhance fraud protections.
Payroll and Personnel	Moderate	Moderate	No significant changes or concerns were noted at this time.
Accounting, Reporting, and Information Technology	Low	Moderate	District should consult with Monroe County to get clarification on delinquent taxes.

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:

We learned that a freezer at one of the elementary schools failed during this past summer which resulted in the loss of its contents. Upon further inquiry, we were informed that the freezers and coolers are equipped with alarms to alert appropriate personnel to take corrective action. However, it does not appear that the preventive controls operated effectively to prevent the loss of product. We encourage the District to ensure that the alarms are working properly and that the appropriate personnel are set up to be notified when an alarm is activated. The protocols for responding to any alarms should also be clarified to ensure a timely response.

RESULTS (Continued):

Extra-Classroom Activity Fund:

Comment:

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

Facilities, Equipment and Inventory

Comment:

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

Purchasing, Claims, Accounts Payable and Cash Disbursements:

Finding:

- a. The District does not currently subscribe to Positive Pay, a fraud protection service offered by its bank. Positive Pay can prevent unauthorized or altered checks from being paid by comparing checks presented for payment to an authorized list of payments supplied by the District.

Recommendation:

- a. We suggest the District consider subscribing to Positive Pay to strengthen internal controls over disbursements and enhance its protections against potential fraud.

Payroll and Personnel:

Comment:

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

RESULTS (Continued):

Accounting, Reporting and Information Technology:

Comment:

During our review of the District's 2022-23 delinquent tax report we noted that the outstanding receivable due from the Town of Gates was approximately \$2.3 million. This represents an increase of approximately \$2.1 million from the prior year. Upon further inquiry, the District learned that this increase was the result of unpaid taxes on the new Amazon warehouse located at Rochester Tech Park in the Town of Gates. This facility was scheduled to open in September, but the opening has been delayed until an unspecified date next year.

Monroe County typically issues a payment in April for the full amount of unpaid school taxes owed by property owners on the District's tax rolls. However, it has been publicly reported that Amazon received \$143 million in PILOT tax breaks from Monroe County. We are not aware of the specific terms of that agreement, or how the delayed opening of the facility may effect the scheduled payments under the agreement.

This situation raises two potential concerns. First, the unpaid taxes will create a cash flow challenge for the District since the funds that are typically received in September will likely be delayed until at least April. Also, this is a unique situation involving a substantial PILOT agreement in its initial year whose terms could be impacted by a delayed opening of the associated property. We encourage the District to consult with appropriate officials in the Town of Gates and Monroe County to clarify whether the delay alters Amazon's tax obligations under the PILOT agreement and any associated impacts to the District that may result.

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 2022-23

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	0	0	0	2
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	0	2
4 Food Service	2022	0	1	2	0	0	1	4
5 Extracurricular Activity Fund		0	1	1	0	0	0	2
6 Facilities, Equipment and Inventory ♦Capital Assets ♦Capital Projects ♦Indebtedness ♦Inventory Controls (School Lunch)	2020	0	2	2	0	1	0	5
Purchasing and Expenditures								
7 Purchasing, Claims Processing & AP and Cash Disbursements	2017, 2019	1	3	3	0	2	0	9
8 Payroll and Personnel	2015, 2021 (Attendance)	0	3	3	0	1	0	7
9 Accounting, Reporting & I.T.	2016	0	2	3	0	0	1	6

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	0
Concerns from staff	0
Total EFPR evaluated risk	0

Food Service

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

District should clarify protocols for responding to alarms on freezers.

Extracurricular 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	0
Concerns from staff	0
Total EFPR evaluated risk	0

Purchasing, Claims Processing & AP and Cash Disbursements

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

District should consider subscribing to Positive Pay to enhance protections against potential fraud.

Payroll and Personnel

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

Accounting, Reporting & I.T.

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

District should consult with Monroe County to clarify how delinquent taxes will be resolved.