



Freed Maxick CPAs, P.C.

Lewiston-Porter Central School District

Risk Assessment and Audit Plan

January 10, 2018

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January 10, 2018

Audit Committee
Assistant Superintendent for Business
Lewiston-Porter Central School District
Youngstown, New York

Dear Audit Committee:

This report, as expressed in the risk assessment ratings, provides you, the District's management, and the audit committee with the assessment of the need for controls and a means to prioritize risk mitigation efforts. The risk assessment is an initial step in your risk management program of assessing risk, evaluating controls, reviewing control effectiveness, and adapting measures to achieve an acceptable level of risk. The risks noted in the risk assessment should be evaluated in light of your existing policies and practices to identify potential improvements or changes in the control structure based on the level of risk presented. To assist you in establishing review programs for these activities, a potential audit plan and schedule for the entities are provided.

We appreciate the opportunity to prepare this risk assessment for Lewiston-Porter Central School District and are available to assist you in carrying out other portions of the risk management program including the work plan. We are also available to answer your questions. Please contact Kathryn Barrett at 585-344-1967.

Sincerely,

Freed Maxick CPAs, P.C.

Freed Maxick CPAs, P.C.

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EXECUTIVE SUMMARY

In December 2015, the audit committee requested that Freed Maxick CPAs, P.C. perform an initial risk assessment and prepare an internal audit plan for Lewiston-Porter Central School District (the District). It has been updated for the 2013 revisions of the COSO framework. This risk assessment and internal audit plan, will be used to develop the scope and direction of the internal audit program to be deployed by the District and Freed Maxick CPAs, P.C. during the current fiscal year. Establishment of a comprehensive internal audit program, under the guidance of the 2013 COSO framework, will enable the District to align its mission and vision with its operational structure and environment, assess risk as it relates to materiality, opportunity, and organizational objectives, control risk mitigation, improve organizational functionality through value-added communication and information resourcing, and vigilantly monitor the effectiveness of internal control to promptly counteract any shortfalls. It can also be used to determine what resources will be needed to complete the identified higher risk internal audits.

This report summarizes the risk assessment and internal audit plan for Lewiston-Porter Central School District. Intrinsic in the risk assessment of the District is the concept of materiality. Those areas of the District that deal with more significant dollars or a higher volume of transactions will most likely score as higher risk merely due to the dollars and number of transactions passing through those transaction cycles.

The objective of this report is to ensure that the District has sufficient and continuous internal audit coverage of those areas judged as having a relatively higher risk profile or that otherwise require internal audit attention for regulatory or management reasons.

Additional concentration, as per the 2013 COSO update, focuses on the effectiveness and suitability of internal control. The three areas of newly emphasized focus surround adequate and functional monitoring of the organizational activities, improved reporting both externally and internally, and a thorough understanding of the importance and interrelatedness between a well-tailored internal control framework and the concept of risk management.

The scope of the risk assessment and internal audit plan has been reviewed and approved by the Audit Committee of Lewiston-Porter Central School District, who in turn has final responsibility and authority for the satisfactory execution of the internal audit plan. The risk assessment and internal audit plan is primarily risk-based and is organized around the District's major internal control cycles. The plan was developed based on detailed interviews with employees, management personnel, Audit Committee members, the results of previous internal and external audits, and our cumulative knowledge of school district internal control risks.

Our interviews with employees and management were directed toward gaining a thorough understanding of the objectives and related risks in each internal control area, from the perspective of the individuals responsible for controlling such risks. Using this information and input, we evaluated the level of risk (low, moderate or high) present in each area; across a standard spectrum of risk categories (see Appendix for risk category definitions). A summary of this risk analysis by control cycle is included subsequently. The risk assessment process also drives the planned scope of the internal audit coverage, which is summarized by internal control area.

RESULTS OF REVIEW OF INTERNAL CONTROLS AND ON SITE VISIT

Governance

- ◆ In accordance with section 200.318 of the Uniform Guidance, the District “must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts. No Employee, officer or agent may participate in the selection, award or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest.” In addition, “the standards of conduct must provide for disciplinary actions to be applied for violations of such standards.” We recommend that the District review their existing conflict of interest policies to ensure they comply with the Uniform Guidance

Management Response: As part of our regular policy review our conflict of interest and purchasing policies were reviewed and changed to comply with the Uniform guidance. The updated policy was accepted in the March 20, 2018 meeting.

Centralized Cash Receipts

- ◆ The Treasurer collects cash and checks, completes a treasurer’s receipt, maintains a log of all receipts and records the entry into finance manager. This represents a lack of segregation of duties as the Treasurer maintains custody of the asset and performs record keeping. We recommend someone independent of the cash receipt process periodically audit the treasurer’s receipts and cash receipt log to the bank statement.

Management Response: The Treasurer takes in the cash and checks the personnel clerk writes out the deposit slips as a segregation of duties. The Treasurer then checks the receipts to reconcile with the bank statements.

Purchasing and Cash Disbursements

- ◆ Certain departments are entering purchase requisitions after the invoice is received. We recommend that all departments adhere to the District’s procurement policy and submit purchase requisitions prior to the procurement of the goods or services. Exceptions to this practices should be limited to emergency purchases or repairs that cannot be planned in advance.

Management Response: Individuals have been addressed when this occurs. A meeting was held with coaching staff to review the policy. Several employees were placed on notice that in the future they might not be reimbursed for their purchase.

- ◆ Any entity receiving federal grants or awards must establish procurement policies that comply with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The District’s procurement policy has not been updated for Uniform Guidance requirements, nor has an extension been elected for implementation of new procurement standards.

Under the Uniform Guidance, if the procurement policy has not been updated for these requirements, it must be documented within the District's procurement policy that a decision has been made to elect a grace period extension which is permissible under the Uniform Guidance. However, the grace period permissible under the Uniform Guidance expires on June 30, 2018. The procurement policy must be in full compliance with Uniform Guidance requirements beginning on July 1, 2018, and related control procedures implemented to carry out such compliance requirements. We recommend the District review their procurement policy and incorporate the Uniform Guidance requirements in CFR Part 200.318-200.326, as deemed applicable no later than July 1, 2018.

Management Response: The Board of Education will be reviewing this policy in May of 2018 and approving it in June of 2018. After adoption, the purchasing manual will be updated by September 1, 2018 to reflect changes in all purchasing policies.

Internal Claims Auditor

- ◆ The Claims Auditor does not review voucher packets for inclusion of appropriate bids or quotes in accordance with the District's internal audit checklist. We recommend that the internal claims auditor understand the purchasing policy of the District and ensure all documentation supports the purchase and the internal audit is performed in accordance with the District's internal practices.

Management Response: The Purchasing Clerk was not providing bids or quotes to the Internal Claims Auditor. Effective immediately, May 15, 2018, the Purchasing Clerk will submit this documentation with the claims and the Internal Claims Auditor will check the bids and quotes to ensure that purchasing policies are followed.

Human Resources

- ◆ The District has not fully documented various accounting procedures in an accounting procedures manual. We recommend that accounting procedure manuals be developed for every functional area of the District. In the event an employee leaves unexpectedly or is unable to perform their job function, such a manual would serve to aid in training new employees and support employee cross training.

Management Response: After July 1, 2018 each employee will be asked to complete a training/accounting manual to document the daily, weekly and monthly functions of their assignment. These manuals will be shared with the Assistant Superintendent and will be used by staff to cross train employees within the department.

- ◆ All employees are required to submit a request for time off to their supervisor for approval, however, this is not being practiced by all buildings. Further, the request is not uniform within the District. We recommend the District develop a comprehensive policy for paid time off, ensuring employees initiate a request and receive supervisor approval in advance.

Management Response: We have a comprehensive policy for requesting time off. We have forms for requesting time off. If an employee is out sick they must fill out the form immediately upon return. Teachers and teacher aides enter their time off into an on-line system as well as filling out forms. Secretarial staff at the building level also enters time off into a computer system in addition to the forms. This provides the opportunity to double check and audit time off. Units have been notified that

they must ask for pre-approval for vacation or compensatory time. All units have been reminded about the procedures for taking time off within the last year, either during negotiations or during labor management meetings.

Computer System Controls

- ◆ The District currently does not have a comprehensive cybersecurity program with a formal technology vulnerability management and penetration testing process to protect itself from cybersecurity threats. New vulnerabilities and new attacker exploits occur almost daily, thus the District could be susceptible to attack which could cause significant disruption or loss of sensitive and valuable data. In addition, it can be difficult for IT departments to keep systems current on frequent security upgrades released by hardware and software vendors. We recommend the District implement a formal cybersecurity testing program to help ensure the proper security layers and controls are in place. We recommend performing periodic cybersecurity risk assessments internal and external vulnerability and penetration testing. This should be performed at least annually or whenever a significant change is made to the IT environment, so that identified potential vulnerabilities can be monitored and the security of your network can be improved, reducing the District's risk exposures from being compromised.

Management Response: The District has reached out to Erie 1 BOCES, who manages our technology services to explore the services in which they offer to protect the district from Cyber threats. Upon receipt of the services offered the District will explore those options and make a decision during the 2018 - 2019 school year as to which route they will take in order to provide better protection for our network and devices across the district.

- ◆ The District currently does not perform risk assessments over the information technology infrastructure. Nor does the District have a written disaster recovery plan, change management plan or formal response in the event of an incident / breach. We recommend that the Board consider initiating a thorough review of current information technology internal control procedures and policies and evaluate the need for changes or improvements to enhance the effectiveness and efficiency of current operations.

Management Response: The District has reached out to Erie 1 BOCES, who manages our technology services to explore the services they offer to perform periodic risk assessments to our network and devices. We will use BOCES to review our procedures over the course of the 2018-19 school year. If needed, we will create and develop new procedures after we perform our risk assessment. In addition to this, one of the goals of the technology department for the 2018-19 school year is to work with Erie 1 BOCES to develop a disaster recovery plan.

Wire Transfers

- ◆ District wire transactions are not performed on a dedicated, stand-alone un-networked computer without e-mail and web browsing capabilities. We recommend the District assign one dedicated, stand-alone un-networked computer solely for transacting wire transfers in an effort to increase security over District banking transactions.

Management Response: We have a secured system for wire transfer which is not only password protected, but also utilizes a key fob system for additional security. Our payroll system is supported by

BOCES through a network system.

Fixed Assets

- ◆ District fixed asset records do not reconcile to the financial statements. We recommend that the District maintain accurate records of fixed asset additions and deletions on an ongoing basis. We further recommend that internal fixed asset inventory records be reconciled to the audited financial statements annually.

Management Response: We changed companies last year, this change created some inconsistencies in accounting that we were aware of and are working to correct with our external auditors, Lumsden and McCormick.

Other

The following are other risks that have been identified in previous risk assessments where the District has determined the risk to be very low or has reviewed the risk and has determined the District does not currently have the resources available to address the situation. Thus, the District has accepted the identified risks at this time:

- ◆ The Tax Collector/Accounts Payable Clerk at the District collects and processes all tax receipts. Internal controls could be improved if the District were to utilize a lock box for their tax collections.
- ◆ The District is not utilizing the accounts receivable module of Finance Manager. Receivables are tracked separately in excel.
- ◆ There is a lack of segregation of duties in the human resource and payroll processing modules of Finance Manager as both the Personnel Clerk and Payroll Clerk have the ability to add employees in Finance Manager.
- ◆ There is a lack of segregation of duties over retiree health insurance billing and receipts. The Benefits Administrator prepares the retiree health insurance bills, receives the payments, follows up with the retirees on any unpaid amounts and maintains the health insurance spreadsheet.
- ◆ Access to server closets are not adequately controlled. The IT Director, BOCES technician (on site), LAN Administrator, custodians and Principals (with building master key) all have access to the server rooms.

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RISK ASSESSMENT SUMMARY

	Inherent Risk Factors								Control Risk Factors									
Risk Factors>>> (Definitions of the Risk Categories can be found in the Appendix)	Ext Mkt Rep	Financial	Operational	Legal/Regulatory	Strategic	Tech/System	People/Culture	Fraud		Monitoring	Info/Communications	Control Activities	Risk Assessment	Control Enviro.		Current Year Risk Score	Current Year Rating	Prior Year Risk Score
Budgeting, Governance and Reporting	L	M	L	L	M	L	L	L		S	S	S	S	S		220	7	220
State Aid	L	H	L	L	L	L	L	L		S	S	S	S	S		224	5	224
STAC Processing	L	L	L	L	L	L	M	L		S	S	S	S	S		213	9	235
Medicaid Billing	L	L	L	L	L	L	L	L		S	S	S	S	S		200	12	222
Grants	L	L	L	L	L	L	L	L		S	S	S	S	S		200	13	200
Centralized Cash Receipts	L	L	M	L	L	L	L	L		S	S	S	S	S		210	10	232
School Lunch Cash Receipts	L	L	L	L	L	L	L	L		S	S	S	S	S		200	14	200
Purchasing and Cash Disbursements	L	H	L	L	L	L	L	L		S	S	M	S	S		247	2	266
Payroll Processing	L	H	L	L	L	L	L	L		S	S	M	S	S		247	3	247
Employee Benefits and Paid Time Off	L	M	M	L	L	L	L	L		S	S	S	S	S		222	6	222
General Ledger Maintenance	L	L	M	L	L	L	L	L		S	S	S	S	S		210	11	232
ACH Transfers	L	L	L	L	L	M	L	L		S	S	S	S	S		215	8	200
Fixed Assets	L	L	L	L	L	L	L	L		M	S	S	S	M		242	4	257
Fuel Depot	L	L	L	L	L	L	L	L		S	S	S	S	S		200	15	200

RISK ASSESSMENT SUMMARY (CONTINUED)

	Inherent Risk Factors									Control Risk Factors									
Risk Factors>>> (Definitions of the Risk Categories can be found in the Appendix)	Continuance of Business	Communications/Network	Business Units Served	Complexity of Env.	Staffing	Availability/Response	Computing Platform	Information Sensitivity		Monitoring	Info/Communications	Control Activities	Risk Assessment	Control Enviro.		Current Year Risk Score	Current Year Rating		Current Year Risk Score
Information Technology	L	L	L	L	L	L	L	L		S	S	M	W	M		275	1		216

INTERNAL AUDIT PRIORITIES

Based on this risk assessment the following areas have been identified as high risk relative to the current fiscal environment and internal controls that existed at the time of our risk assessment. We recommend the Audit Committee consider selecting for internal audit at least one of the areas identified below:

- ◆ Information technology – Due to vulnerabilities and new attacker exploits that subject information systems at risk of cause significant disruption or loss of sensitive and valuable data, this area has been identified as being of higher risk within the District. An internal audit will include performing a risk assessment of the District's various information systems and also internal and external vulnerability and penetration testing.
- ◆ Purchasing and Cash Disbursements - Due to the inherent risks associated with purchasing and cash disbursements for school districts in general, and weaknesses identified in the claims audit process, this area has been identified as an area of higher risk within the District. We will include selection and testing of cash disbursements from throughout the District to verify that the purchases were reasonable and necessary, were properly approved, and there were available appropriations. We will also verify that all District purchasing policies and internal controls have been followed and that the transaction was supported by appropriate bid or quote information.
- ◆ Payroll - Due to the financial and inherent risks associated with payroll for school districts in general, this area has been identified high risk within the District. We will perform tests of payroll registers for selected employees to verify that employees listed are employed by the District and are paid in accordance with their contract. We will test hourly employees to verify that the hours paid are supported by time sheets and that the time sheets have been approved by a supervisor and that they have been paid the correct rates.
- ◆ Fixed Assets - Fixed assets was identified as high priority areas for internal audit consideration due to weaknesses in internal controls over asset disposals and monitoring. Internal audit will include review of the District's policies and procedures for identifying assets to be added or removed from the inventory listing maintained by the CBIZ. Internal audit may also include a physical inventory of all assets that are at higher risk of being lost or stolen.

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BUSINESS RISK ASSESSMENT AND INTERNAL AUDIT STRATEGY

Budgeting, Governance and Reporting

Overview of Business Area

Various employees of the District provide input in the annual budget prepared by the Assistant Superintendent for Administrative Services. The budget is presented, modified, and eventually approved by management, the Board, and ultimately the voters of the District. The budget outlines the financial goals and objectives of the District for the year. Budgeting and long range planning continue to be important in maintaining the District's fiscal health without significant reductions in programs. The District has a long range plan in place for which it updates biannually and posts to the District website...

The Assistant Superintendent for Administrative Services is responsible for accumulating the budget information for all schools and departments. The appropriations budget for the current year is developed based on current and prior year actual expenditures and anticipated appropriations for the upcoming fiscal year.

The revenue budget is prepared by the Assistant Superintendent for Administrative Services based on initial state aid projections provided by the Governor's office. Initial aid projections for transportation and BOCES aid may be revised based on prior year's expenditures (BOCES aid) and current year budgeted expenditures (transportation aid) multiplied by the District's aid ratio.

Revenue sources other than state aid and property taxes are budgeted based on historical results. The Assistant Superintendent for Administrative Services is responsible for calculating the tax cap.

The budget is presented to voters in mid-May and voted on the third Tuesday in May.

Actual results are compared to the approved budget by the Assistant Superintendent for Administrative Services and the Board at least monthly.

The District has a Code of Conduct/Ethics policy. These and other policies are provided to all employees in their employee handbook and are reviewed with staff during annual staff training in the fall. The District is in the process of reviewing and updating their policy manual.

Business Objectives

The budget accurately reflects the goals and objectives of the District and is reasonable. Monitoring of District activities occurs regularly so that issues can be addressed in a timely manner including a long range financial plan. The District has developed the required financial policies which are updated on a regular basis. The Board is provided with the required financial reports and appears to understand the information provided to them.

Potential Significant Risks

There is a potential risk the budget does not accurately reflect the goals and objectives of the District and is not reasonable. If the District exceeds its budget, it would result in a compliance finding reported to SED, which would have a negative impact on fund balance and may impact future budgets and voter support.

There is a risk when the District does not have a well-developed long-term financial plan in place. This could have a negative impact on the finances of the District in the future.

There is a risk the District has not developed the required financial policies and/or they are not updated on a regular basis.

There is a potential risk the District does not provide the required financial reports to the Board and/or the Board does not understand the information provided to them.

Internal Audit Strategy

Internal audit will review the budget process and historical budget to actual data to gain comfort that the budgets developed by the District are reasonable. We will review the District's calculation of the 2% tax cap. We will review budget presentations to ensure they are in compliance with New York State regulations. We will review with the Board their practices for monitoring the financial operations of the District and verify they understand the information that is provided to them. Internal audit may be expanded to review the District's long-range financial plan. In addition, internal audit may be expanded to ensure the District is utilizing their reserves properly.

STATE AID

Overview of Business Area

State aid consists of many component areas. Those areas include the following:

- ◆ Foundation aid - calculated by the state based on information provided by the District.
- ◆ Per capita aid (library textbook, hardware and software aid) - based on pupil counts times a state derived rate.
- ◆ Building aid - based on debt service payments times an aid ratio.
- ◆ Transportation aid - based on costs associated with providing transportation services times an aid ratio.
- ◆ BOCES aid - based on previous year's BOCES expenditures times an aid ratio.

Aids are calculated by the state based on information provided by the District. Much of the information that generates state aid is reported on the ST-3 financial and supplemental schedules. The District Treasurer is responsible for completion of the ST-3 and the Assistant Superintendent for Administrative Services reviews it for accuracy and significant variances in information that will impact state aid in the following year.

The Assistant Superintendent for Administrative Services reviews the state aid calculations for reasonableness based on information provided by various resources. However, these individuals do not have access to state aid receipts as these are received through an ACH transaction. State aid is monitored by management for any unexpected changes. Output reports are monitored monthly for any significant changes and the full report is printed out quarterly. The District is a member of Questar and regularly attends state aid meetings sponsored by Questar.

Business Objectives

To ensure the District is receiving the maximum amount of aid available and the information submitted to the state that generates aid is accurate.

Potential Significant Risks

As with any school district, there is a potential risk the information submitted to the state that is used in state aid calculations may not be accurate. There is also a risk the District may not allocate all of the costs allowed, including indirect costs, to certain functions that may result in the District not receiving the maximum state aid.

Internal Audit Strategy

Internal audit will include review of student counts to verify the number of students submitted to the state is accurate. We will obtain per capita state aid amount and verify the amount of state aid received is reasonable. We will review ST-3 expenditure lines to verify the District spent the maximum amount of state aid provided. We will verify cost allocations for the transportation department to verify all eligible costs have been allocated to the department. We will review other aid calculations to determine if they are reasonable.

STAC PROCESSING

Overview of Business Area

STAC forms are submitted based on Individualized Education Programs (IEPs) developed by the Committee on Special Education (CSE) Office. Students can receive services through outside private agencies, BOCES, or can receive in-district services. The service provider will be identified on the IEP along with all of the services to be provided and the frequency of the service.

Students are identified as possible special needs students by either teachers, parents, family physician or outside agencies. The District will submit costs to SED based on the placement type (Agency, BOCES and In-District). The Director of Special Education and the Senior Typist for CSE reviews the cost calculations prepared by the special education secretary to verify it includes all services provided to the student and related costs. The Senior Typist for CSE enters the estimated cost information and student demographic information into the State Aid Website and creates the STAC form for all students whose costs exceed or are close to the District cutoff threshold. The business office receives a "Notice of Commissioner's Approval for Reimbursement" from SED as confirmation that the STAC was submitted and accepted.

The CSE Department will monitor the Gold Star Report and report of unverified students to ensure all STACs have been submitted and approved by the State Education Department.

The following year, the Senior Typist for CSE submits the AVL based on updated cost information received from the District and BOCES for all students verifying the accuracy of the initial STAC. School Aid Specialists review the STAC process at least annually.

Business Objectives

STAC forms are submitted for all eligible students and contain all of the costs associated with providing services to those students in accordance with their IEP.

Potential Significant Risks

There is a potential risk the information submitted to the state for excess cost aid calculations is not accurate, which may result in the District receiving more or less state aid than they are entitled to.

There is a potential risk the District has not allocated all of the costs allowed, including indirect costs that will result in maximum state aid.

There is a potential risk the STAC forms are not properly submitted and are rejected by SED and may ultimately result in the District not receiving the funds they are entitled to in a timely manner.

In addition, there is a potential risk the services submitted on the STAC forms do not agree with the services required according to the student's IEP or the costs submitted on the AVL are not accurate.

Internal Audit Strategy

An internal audit will include examining a sample of STAC forms and verifying the services listed on the STAC forms agree to the services listed on the student's IEP. We will review the calculation of the costs submitted on the STAC form to determine if they appear reasonable. We will verify SED has the STAC form on file.

MEDICAID

Overview of Business Area

The District uses Michael Degman, a private agency, to process Medicaid claims.

The CSE Director and Medicaid Clerk are aware of the Medicaid requirements, including the documentation requirements and timeframes for maintaining information (6-7 years). The providers must have certain credentials in order to claim their services and subsequently, if they fail to obtain or submit verification of these credentials, the claim is not eligible for Medicaid reimbursement. Providers utilized by the District have received a National Provider Identifier or license number and all relevant employees have participated in the Annual Compliance Training Program.

The Medicaid Consultant obtains a list from Front Line of eligible students every month. The Medicaid Clerk then sends out consent letters to for newly eligible students receiving services to obtain the parent's consent to submit Medicaid claims. Most parents within the district consent for the District to bill Medicaid for the services provided

If there is a referral for a service, the District must obtain a prescription, which includes a medical diagnosis and is signed by the student's doctor. Speech & Occupational Therapy providers are licensed under the direction of certified specialists. The District must document Agency contracts and countersign all claims/progress notes when a provider is "under the direction of". All documentation is maintained in Medicaid Direct. All paper claims (some providers, BOCES and Summit) are entered into Medicaid Direct by the consultant. For transportation, the costs must be obtained and detailed on a monthly basis.

Once all of the information is obtained by the District, it is given to the Medicaid consultant to review and ensure proper documentation has been obtained/completed prior to submitting claims. If information is missing, the documentation is returned to the District by the Medicaid consultant. The Medicaid consultant has access to Medicaid Direct.

The Medicaid consultant will monitor the Medicaid website to ensure the claims have been processed and paid and will follow up with the CSE Director with regards to status of outstanding claims. Additionally, the Director of Special Education performs a quarterly review the status of the claims as part of management oversight.

Business Objectives

The District is complying with all Medicaid requirements necessary to receive Medicaid aid.

Potential Significant Risks

There is a potential risk the District is not complying with all Medicaid requirements and may be subject to fines and/or penalties. There is also a potential risk the District is not maximizing their Medicaid aid.

Internal Audit Strategy

We will test the District's compliance with Medicaid documentation requirements, professional qualifications and training.

GRANTS

Overview of Business Area

Grant oversight is centralized with the CSE Director. Budgets are prepared outlining anticipated program expenditures and submitted to SED for approval. All program budgets are provided to the District Treasurer who inputs the budgets into Finance Manager once they have been approved by the State.

Program budgets are monitored by the CES Director. Draw-down requests are prepared by the Treasurer and submitted to the State on a monthly or quarterly basis. Time certifications are completed monthly or semiannually, depending on the employee status (i.e. working full time or part time in the grant program). The Payroll Clerk monitors the completion of payroll certifications.

The CSE Director appears to be competent and understand grant objectives, perform evaluations of program operations, and monitors results.

Business Objectives

Grant programs are delivered in compliance with grant provisions. Program services are provided to eligible participants and eligible participants are receiving program services. Grant program results are measured to ensure the program is achieving the desired results.

Potential Significant Risks

There is an inherent risk grant programs may not be delivered in compliance with grant provisions and program services may not be provided to eligible participants. There is also a risk costs incurred by the program may be disallowed by the granting agency and the District may be required to return the grant funds.

Internal Audit Strategy

Internal audit will include a review of various grants and the goals and objectives of these grants. We will test program expenditures to ensure the expenditures are provided for in the budget, are reasonable, and benefit the program. We will test eligibility to ensure program services are provided to eligible participants and ineligible participants are not receiving program services. We will review program reports to granting agencies to determine if program objectives are met and measurable goals are obtained .

CENTRALIZED CASH RECEIPTS

Overview of Business Area

Property tax assessments are prepared by the Towns and provided to the County. The Assistant Superintendent for Administrative Services calculates the tax rate and provides it to the County. The bills are prepared by the County and sent to the Tax Collector/Accounts Payable Clerk to mail. Collections are either paid in person, mailed to the tax collector at the school or taken directly to Key bank.

When paid at the bank, a deposit receipt is created by the bank and forwarded to the Tax Collector. Any checks received by the District are verified to the bill. Checks are also reviewed for the signature and that they are dated properly. All payments are input into the Taxpro tax collection software by the Tax Collector, restrictively endorsed and prepared for deposit. The Tax Collector maintains a manual receipt log of the daily deposits and compares the daily total to the amount entered into Taxpro. At the end of the tax collection period, the tax collector will reconcile the tax collectors report to the tax collections and the bank deposits. The reconciliation is reviewed by the Assistant Superintendent for Administrative Services. Any taxes not paid during the tax collection period (ending 1st week in November) are remitted to the County for collection along with the tax collector's report.

The most significant cash receipts are received by check or wire transfer. Actual cash collections at the District are less than \$5,000 annually and consist primarily of admissions to athletic events and student fees. Processing receipts is centralized at the Business Office.

The District bills retirees for health insurance. The retiree receives a letter from the District which states what amount is owed by the retiree each month. Checks are received from retirees by the Benefits Administrator who records the payment in Finance Manager, completes a deposit slip and forwards the deposit to the District Treasurer for deposit at the bank.

General cash receipts are collected by the District Treasurer and restrictively endorsed. The Treasurer will complete a manual Treasurer's receipt, in triplicate, and sign the receipt. The Personnel Clerk prepares the bank deposit, attaches the Treasurer's receipt and verifies that the receipts match the bank deposit. The Treasurer records the deposits into Finance Manager and ensures the amounts recorded in Finance Manager agrees to the amount deposited. The Treasurer maintains an independent cash receipt log in excel and compares the amounts reported on the log to the cash receipts entered into Finance Manager. All cash receipts are locked in a bank bag and deposited on a daily basis.

State aid payments are received as electronic fund transfers. The District Treasurer will print the remittance and enter the receipt into Finance Manager.

The Business Administrator receives bank statements unopened.

Employees processing receipts appear to be adequately trained. Cash receipt function is segregated from the cash disbursement function. Revenue is monitored on a consistent basis by management.

Business Objectives

To ensure all receipts of the District are properly safeguarded.

Potential Significant Risks

Inherent to all entities, there is a potential risk of misappropriation of cash receipts.

Internal Audit Strategy

Internal audit will include reviewing source documents, tracing source information to the bank deposit, and posting receipts to the general ledger. We will verify the selected cash receipts were properly recorded in the general ledger and verify the corresponding deposit was made on a timely basis.

School Lunch Cash Receipts

Overview of Business Area

School lunch cash receipts consist of cash, checks and on-line payments through MySchoolBucks.com. There is a higher frequency of cash collected than any other area within the District, consisting of approximately \$400 per day. The District outsources its school lunch operations to Personal Touch and uses the WinSnap point of sale (POS) system in all of the schools. The receipt process is very routine and easy to operate and is visible to all in the cafeteria.

Cash drawers are counted by the cashiers and a cash tally sheet is completed in WinSnap. The cashier at the main register in each building combines the cash receipts from the registers and completes the deposit slip in triplicate. The cashier at the main register then prints 2 copies of the "Daily Cash and Count Report" from the WinSnap system. The cashier who collected and counted the drawer signs the bottom of the report. The reports and cash collected is then forwarded to the Food Service Manager who completes a deposit slip. The daily cash receipts are placed in a locked bag with the deposit slip until picked up by the District Courier

Cash drawers are reconciled on a daily basis to cash receipt information from the Daily Cash and Count Report by the Food Service Manager. Cash over/short is generally not more than \$2. A copy of the Daily Cash and Count Report is forwarded to the Business Office.

At the end of the month, District Treasurer will receive the cash receipt ledger produced by the WinSnap System from the Food Service Manager and reconciles it to the daily bank deposits. The sales activity noted on the ledger is then entered into Finance Manager.

The Building Team Leader reviews all voided transactions on a daily basis and the Food Service Manager approves the voided transactions. Voided transactions occur infrequently. The Food Service Manager also reconciles production reports to school lunch sales on a daily basis.

Business Objectives

The cash receipts of the District are adequately safeguarded.

Potential Significant Risks

There is a potential risk of misappropriation of cash receipts.

Internal Audit Strategy

Internal audit will include observation of cash receipt procedures at randomly selected locations. We will review the cash counts, reconciliations of the WinSnap system, and daily deposits for a number of days at each location.

PURCHASING AND CASH DISBURSEMENTS

Overview of Business Area

Most of the District's purchase are off State Contracts, County (piggy back) or BOCES bids. Requisitions are submitted by employees primarily for supplies, conferences, contractual expenditures or other purchases that can be planned in advance. Supervisors, Principals and the Purchasing Agent (Assistant Superintendent for Administrative Services) review all requisitions to ensure the purchase is reasonable and necessary for the District and will verify it is accompanied by appropriate quote or bid information. If there are not available appropriations, then the supervisor must request a budget transfer in advance of processing the requisition.

Once the requisition is approved by the Purchasing Agent, it is converted to a purchase order by the Accounts Payable Clerk and printed. Two copies are retained by the Accounts Payable Clerk, one is mailed to the vendor, and two copies are forwarded to the secretary who entered the requisition.

Goods are shipped to the requisitioner. Upon receipt of the goods, the requisitioner is responsible for checking the goods shipped to the packing slip and the purchase order. The requisitioner will sign the receiving copy of the purchase order and forward it and the packing slip to the Accounts Payable Clerk.

Claim forms are used for reimbursement for small purchases that generally are not planned ahead, mileage reimbursements, payments to sport officials, etc. Conference request forms are used for conferences. Claim and conference request forms are approved by supervisors prior to submission to the Business Office for processing. Expenditures that are not reasonable and necessary for the District will not be reimbursed.

Upon receipt of the receiving copy of the purchase order and packing slip, the Accounts Payable Clerk will assemble the voucher packet with the invoice. The Accounts Payable Clerk will enter the invoice into Finance Manager with the invoice number and amount and will verify the data input to a manual tape of the invoices. Once the totals agree, the Accounts Payable Clerk will print a Checks Waiting to Print List. The list and the voucher packets are then forwarded to the Claims Auditor.

The Claims Auditor audits the vouchers to the Checks Waiting to Print List. Upon approval, the Claims Auditor will sign the vouchers and return them to the Accounts Payable Clerk. The Claims Auditor retains the Checks Waiting to Print List for verification against the final warrant.

Once the vouchers have been returned to the Accounts Payable Clerk, the Accounts Payable Clerk will print the checks. Checks are printed on the 15th and 30th of the month by the Accounts Payable Clerk. The Accounts Payable Clerk has access to the Treasurer's signature through an unencrypted flash drive. Signature access is restricted through Finance Manager. Each electronic signature can only be used in conjunction with a specific module in Finance Manager, for which the individual has access rights.

Once the checks are printed, the Accounts Payable Clerk will print the final warrant. The final warrant is forwarded to the Claims Auditor who compares the details on the final warrant against the audited Checks Waiting to Print List. Once verified, the Claims Auditor will sign the final warrant and return it to the Accounts Payable Clerk. Once the signed warrant is received, the Accounts Payable Clerk will mail the checks.

Purchasing and the subsequent cash disbursements are processed through many levels of approval prior to the issuance of checks. Cash disbursements are monitored by management on a regular basis through the budget and are subject to audit by the Claims Auditor.

Business Objectives

To ensure purchases are reasonable, necessary, benefit the District, and are provided for in the budget. The District's goal is to have procedures in place that will allow for an effective purchasing system that prohibits circumvention of the internal controls over cash disbursements.

Potential Significant Risks

There are potential risks the employees may not follow the District's purchasing policies or may circumvent the internal control policies and procedures over purchasing.

Internal Audit Strategy

Internal audit will include selection of cash disbursements and testing to verify the transaction was for purchases that were reasonable and necessary for the District, were properly approved, and there were available appropriations. We will also verify all District purchasing policies have been adhered to and the transaction was supported by appropriate bid or quote information. We will test claim forms submitted for reimbursement to verify the expenditure that is reasonable and necessary for the District and employees are not submitting claim forms for expenditures to circumvent the internal control policies and procedures over purchasing.

We will also include tests of specific types of disbursements such as travel, conferences, meals that may be at higher risk of not complying with the District's policies and specific vendors that may be more susceptible for fraud. We will review a series of warrants and verify there is no break in the check sequence.

PAYROLL

Overview of Business Area

Payroll data files are updated daily for employee additions, deletions, changes to withholdings, salary, etc. Generally, the Personnel Clerk will add all new employees and the Payroll Clerk will process payroll and make any necessary changes to the payroll records once the employee is in the system. The Personnel Clerk is not involved with processing payroll.

The processing of data files is routine and appears to be maintained by experienced employees. The most significant updates occur when new contracts are approved, salary schedules under the new contracts are entered and when payroll and tax tables are updated annually. The Payroll Clerk updates the salary and deduction tables within Finance Manager and the Assistant Superintendent for Administrative Services reviews the tables. After the annual updates are processed, salary notices are generated from Finance Manager for all employees. The salary notices are required to be signed and returned by the employee.

Building Secretaries update the attendance module of Finance Manager for employee attendance, substitutes, overtime, out of title hours, and bus monitor hours. The Payroll Clerk process the payroll on a biweekly basis and will produce various edit reports after the payroll is entered and prior to posting to ensure accuracy' and reviews the payroll for any unusual transactions. Once the data entry is complete and reviewed by the Payroll Clerk for accuracy, the Payroll clerk will print a payroll change report and payroll comparison report (comparison to the prior pay period) which is provided to the Assistant Superintendent for Administrative Services for review and approval.

Once the payroll is reviewed by the Assistant Superintendent for Administrative Services it is posted to the general ledger and the checks and direct deposit vouchers are printed. The Payroll Clerk has access to the Treasurer's signature through a flash drive which is maintained by the Payroll Clerk in a locked drawer.

Business Objectives

To ensure employees of the District are paid in accordance with their contract for the hours worked, time sheets and claims forms are properly approved, and internal controls prevent fictitious employees from being added to the payroll system.

Potential Significant Risks

There is an inherent risk employees of the District may not be paid in accordance with their contract for the hours worked, duplicate claim forms may be submitted and paid, or time sheets and claim forms may be paid without proper authorization.

Internal Audit Strategy

Internal audit will include testing payroll registers for selected employees to verify employees listed are employed by the District and are paid in accordance with their contract. Special attention will be paid to management and employees who have access to the payroll module. We will test hourly employees to verify the hours paid are supported by time sheets, the time sheets have been approved by a supervisor, and they have been paid the correct rates. We will also test claim forms to verify the claim form is for hours worked or stipends approved, the claim forms have been approved by a supervisor, and they have been paid the correct rates. We will verify the claim has not been duplicated. We will also review a series of payroll registers to ensure there has been no break in the check sequence. We will verify the check registers have been certified in a timely manner.

EMPLOYEE BENEFITS AND PAID TIME OFF

Overview of Business Area

Paid Time Off:

Collective bargaining agreements and memorandums of terms and conditions outline the vacation, personal and sick day benefits for each employment group or employee. The attendance module of Finance Manager is integrated with payroll. If an employee wishes to use their vacation or personal days they must submit a request to their supervisor for approval. Some buildings use a formal request form and some are informal. Time off is not always approved by the employee and their immediate supervisor. As per each individuals bargaining unit's contract, there are times when time off needs the approval of the Superintendent. The Superintendent's Secretary will then submit a copy of the request to the Personnel Secretary to be placed in the employee's personnel folder, and to the Payroll Clerk for her records.

Each building's secretary will enter the requested time off in the Attendance Field in Finance Manager (vacation, personal, sick and other excused absences). The Superintendent's Secretary maintains an administrative calendar that details when administrators will be out of the District and for what reason. A report of vacation, personal and sick days carried forward, accrued, used and days remaining at the end of each year is placed in each employees personnel file by the Payroll Clerk. PTO availability is also reported on pay stubs.

Health Insurance:

The District uses the Erie 1 BOCES (NY44 Heath Benefits Trust) for their health insurance. There is only 1 plan offered. Vision and prescription benefits are included in the health plan. The plan is offered for singles, employee/spouse, employee/children and family. Dental benefits are also offered to employees through either Delta Dental or the NY44 Health Benefit Trust. The employee's portion of the premium is outlined in each bargaining unit's contract. Open enrollment is May 1-31st, the Benefit Administrator/Personnel Secretary will send a letter to all employees outlining the employee's benefits and the new rates. If employees choose to change their insurance, they must notify the Benefit Administrator by May 31st.

Health insurance benefit rates are updated in Finance Manager by the Benefit Administrator and the Payroll Clerk will input the amounts for the employee appropriate coverage into Finance Manager for the payroll deduction. The Benefits Administrator maintains an Excel spreadsheet that is used to calculate the employee's and District's portion of the premiums from the total premium. She compares her spreadsheet to Finance Manager to ensure the rates are accurate. She also uses the spreadsheet to ensure the bill from the insurance company is accurate and to ensure employees are appropriately added or deleted.

Retiree Health Insurance:

Retirees have the option to continue with their coverage upon retirement but they are responsible for paying 100% of the premium. They will submit their check made payable to Lewiston-Porter CSD to the Benefits Administrator each month. When a retiree reaches the age of 65 they must have Medicare Part A and B to continue coverage through the District's carrier.

A separate spreadsheet is maintained of all retirees and their premiums. A letter is sent to the retiree if their premium is not paid along with detail on the payments made to date and the amount due.

403B:

Employees have the option of contributing to a 403b Plan, which is administered by the OMNI Group. The employee completes an application on-line including the percentage they want withdrawn every paycheck. Once OMNI receives the application, they will input the employee's information into their system and send an OMNI Changes/Approved Report or confirmation to the Payroll Clerk, listing the effective date, employee name and social security number, fund name, percentage of salary to be deducted, and the maximum amount they are allowed to contribute for the year. The Payroll Clerk will input the information to Finance Manager to begin the deductions. After every payroll, a detailed 403b Deduction Report is generated from Finance Manager indicating the amount withheld from employee's paycheck. The Payroll Clerk agrees the detailed report to the Finance Manager Payroll Deduction Report to ensure they agree. Once they agree, the detailed report is sent to OMNI through a secure website. The District Treasurer will complete an ACH withdrawal from the District's bank account for the amount shown on the report and remit the funds to OMNI. The District Treasurer will print a copy of the wire and subsequently verify the transfer against the bank statement.

Flex Spending and Health Savings Accounts:

The District offers flexible spending accounts for dependent care and health care expenses. The plan is administered by P & A Administrative Services who monitors contributions, claims, and payouts. The employees complete an application and submit it to the Benefits Administrator with the amount they want deducted from each paycheck. The Payroll Clerk will submit a list to P & A Administrators of all participants and the total amount to be withheld. She inputs the amounts to Finance Manager based on the total amount they want put in the account over a determined number of pay periods. As the amounts are withheld from the employee's pay, they are wired to P & A Administrators. The Payroll Clerk emails a detailed report to P & A Administrators with the amounts withheld from every employee. The employee can use their flex card, complete a claim form (which can be obtained on-line) or submit their claim on line to be reimbursed for their expenses. The claim form and receipts are submitted to P & A Administrators to determine if they are appropriate. P & A Administrators will review and "reimburse" the employee. These plans run from July 1 to June 30th. The employee has until 60 days after year end to submit a claim. The Treasurer receives a report from P & A Administrators of any leftover monies. Unused funds are eventually transferred to the general fund.

ERS and TRS:

Employees complete an application to participate in the Employee Retirement System (ERS) or the Teacher Retirement System (TRS) and forward to the Payroll Clerk. The Payroll Clerk sends the applications to ERS or TRS and receives a notification as to when the payroll deductions can begin. Once the information has been input to Finance Manager, monthly reports are sent to ERS/TRS of employee contributions. ERS will complete an electronic withdrawal from the District's bank account on a monthly basis for the employee's contributions and then invoices the District at the end of the fiscal year for the District's portion of contributions for the year. TRS will subtract the employee's and the District's portion of the contributions from state aid received throughout the year.

Business Objectives

Internal controls are properly designed and operating effectively to ensure employees of the District are paid in accordance with their contract for benefits earned and available.

For the 403b plans, the appropriate funds are withheld from employee's paychecks and subsequently transferred to the 403b plan sponsor/administrator and employee contributions are within allowable legal limits.

For flexible spending accounts, the correct amounts are withdrawn from the employee's pay and remitted to the plan administrator for claims.

For ERS/TRS contributions, the correct amounts are withheld from the employee and remitted to ERS/TRS.

Potential Significant Risks

There are inherent risks with the employee benefit function of any entity. These include but are not limited to:

- ◆ Employees may receive more paid time off benefits than they are entitled to under their contract or they may exceed the benefits available to them.
- ◆ Employees may not receive the level of benefits they are eligible for in their contract.
- ◆ Employees, retirees, and resigned/terminated employees are not paying the correct amount towards their insurance premium.
- ◆ An incorrect amount may be transferred to the 403b plan sponsor and employees are contributing beyond the allowable legal limits.
- ◆ Incorrect amounts may be withdrawn from employee's pay and remitted to the plan sponsor for flexible spending accounts.
- ◆ Incorrect amounts may be withheld from the employee and remitted to ERS/TRS.
- ◆ There is a potential risk that the District is not in compliance with affordable care act requirements.

Internal Audit Strategy

Internal audit will include testing of the benefits made available to employees on an annual basis and ensure the benefits used do not exceed the benefits available.

We will also ensure the correct percentage and maximum limits have been input to the system for 403b contributions.

We will ensure the correct amounts are withheld from employee's pay for flexible spending accounts and the proper amounts are withdrawn from the District's bank account by the plan administrator.

We will review amounts withheld from employee's pay for ERS/TRS contributions to ensure the correct amounts have been withdrawn and remitted to ERS/TRS.

Internal audit will include testing to evaluate the District's compliance with the affordable care act.

GENERAL LEDGER MAINTENANCE

Overview of Business Area

General ledger activity is updated frequently to ensure the accounting system, Finance Manager, contains information that is accurate and current so it may be relied upon to make financial decisions. General ledger activities (i.e., journal entries and bank reconciliations) are segregated from cash disbursement, and payroll activities.

General journal entries are entered by the Treasurer. All journal entries are printed and maintained in a binder with the related back-up information. The Assistant Superintendent for Administrative Services reviews and signs-off on all journal entries maintained in the binder on a monthly basis.

All bank statements are received by the Assistant Superintendent for Administrative Services, reviewed, then forwarded to the Treasurer for reconciliation and preparation of the Treasurer's report. The Treasurer generates reports of all cash receipts, disbursements, journal entries and trial balance reports. Using these reports the Treasurer prepares the bank reconciliation and treasurer's report. The Treasurer also agrees the bank reconciliation to the general ledger. The Treasurer also prepares a summary report for the Board, which is signed by the Board and forwarded to the Board Clerk. Accounting periods are generally closed within 10 days of the end of the month.

Budget transfers are initiated by the Supervisors. The Supervisors complete a transfer request form which is approved by the Assistant Superintendent for Administrative Services and Superintendent. The form is then forwarded to the Treasurer who completes the transfers in Finance Manager as needed. The Superintendent has been given Board approval to approve all budget transfers not in excess of \$10,000.

Business Objectives

Internal controls over general ledger maintenance are properly designed and operating effectively to ensure financial information can be relied upon. Monitoring of District activities occurs regularly so that issues can be addressed in a timely manner.

Potential Significant Risks

There is a potential risk the internal controls over general ledger maintenance are not properly designed or are not operating effectively. This may subject the District to the risk of fraud. There is a potential risk the financial information generated from the general ledger cannot be relied upon, which would hinder the District's ability to make appropriate financial decisions. There is a potential risk the monitoring of District activities may not occur on a regular basis impeding the District's ability to address issues in a timely manner.

Internal Audit Strategy

We will review general journal entries prepared by District personnel to verify they have a business rationale, are supported by appropriate documentation and are approved by management. We will review with the Board their practices for monitoring the financial operations of the District and discuss with them their understanding of the information that is provided to them.

ACH TRANSFERS

Overview of Business Area

Individuals involved in the ACH transfer process are the Treasurer and the Payroll Clerk. Transfers between District accounts at Key Bank can be issued and released by the Treasurer.

Transfers to outside entities include debt service payments, 403B withholdings, State and Federal withholding taxes, ERS and some vendors. The Treasurer or Payroll Clerk receives an invoice and initiates the transfer. Wires are released by either the Treasurer or Payroll Clerk (whoever did not initiate it). The Treasurer and Payroll Clerk are the only ones that can give approval to the Bank for wire transactions.

Business Objectives

Internal controls over wire transfers are properly designed and are operating effectively so financial information can be relied upon. Monitoring of District activities occurs regularly so issues can be addressed in a timely manner. Internal controls over ACH transfers ensures transfers are properly authorized.

Potential Significant Risks

There is a potential risk internal controls over wire transfers are not properly designed or are not operating effectively. This may subject the District to the risk of fraud. Monitoring of District activities may not occur on a regular basis impeding the District's ability to address issues in a timely manner.

Internal Audit Strategy

We will review a sample of ACH transfers to ensure they are appropriate and properly authorized.

FIXED ASSETS

Overview of Business Area

The District uses Industrial Appraisal, a vendor fixed asset inventory system that is also used to calculate depreciation on the related assets. The District has procedures in place for the addition and deletion of assets to the fixed asset inventory system. All assets with a cost value in excess of \$5,000 and high risk assets with a cost value in excess of \$500 are tagged as property of the District and added as an inventory asset in Industrial Appraisal. Assets with a cost value in excess of \$5,000 are depreciated.

Fixed asset additions and disposals are reported to Industrial Appraisal annually. Industrial Appraisal inventory reports are reviewed to ensure all assets have been properly added and deleted. Disposal information is provided by the departments in custody of the asset via an asset removal form. Industrial Appraisal performed a complete inventory in December of 2016. The District performs annual inventory on items more susceptible to misappropriation (i.e. computers, calculators, uniforms, sporting goods, etc.).

Business Objectives

To ensure all assets of the District are safeguarded from risk of loss due to theft.

Potential Significant Risks

There is an inherent risk in all entities that assets may not be adequately safeguarded and may be misappropriated. A by-product of not performing periodic physical inventories could also be that the District is reporting assets to their insurance carrier they no longer have, thereby potentially overpaying on their insurance premiums.

Internal Audit Strategy

Internal audit will include review of the District's policies and procedures for identifying assets to be added or removed from the inventory system maintained by the District. Internal audit may also include a physical inventory of all assets that are at higher risk of being lost or stolen.

FUEL DEPOT

Overview of Business Area

The District maintains two 300 gallon tanks, one unleaded and one diesel and both are above ground and are in the same location at the Intermediate School. Access to fuel is safeguarded by use of Master Lock and access is limited to grounds personnel, district courier and the Director of Facilities.

A manual log is kept in the building and grounds garage and is updated with the date, gallons pumped and initials of the person using fuel depot. Also included are fuel tank readings which are taken periodically and reconciled to the log. The log is maintained by the building and grounds clerk. Refueling generally occurs during business hours. The District takes a reading of tank volume before and after refuel.

The tank at the High School is a cost sharing tank located at the end of campus that is controlled by Ransomville Bus Lines.

The District outsources its transportation to Ransomville Bus Lines (Ransomville). Ransomville provides transportation services to Lewiston-Porter as well as another school district. Both districts are responsible for purchasing fuel for the fuel depot at Ransomville's headquarters. Ransomville maintains records of the mileage driven for both school districts. Generally each district will alternate the fueling of the depot at their headquarters. Then there is a true-up at the end of the year.

Business Objectives

To ensure access to the fuel pumps is restricted to only authorized users and ensure fuel is only used for school vehicles. To ensure that the District is not paying for more fuel than they are using.

Potential Significant Risks

There is a potential risk fuel may be inappropriately used for personal use. There is also a risk that the District is paying for more fuel than they are using.

Internal Audit Strategy

Internal audit will include a reconciliation of the fuel purchased for the Ransomville fuel depots to fuel invoices. Internal audit will also include a reconciliation of the manual fuel log maintained at the Intermediate School to tank readings and fuel delivery reports and compare it to the gallons pumped over a period of time to verify it is within acceptable parameters.

Information Technology

Overview of Business Area

The District's IT Department has recently reviewed access rights for individual users of the District's network and made the appropriate changes. Network passwords are changed annually and the system locks users out after 3 unsuccessful login attempts, at which point the user will have to contact the service desk. Users are logged out of the network after 15 minutes of inactivity.

The Finance Manager software is designed specifically for school districts and other governmental entities and appears to be a strong accounting tool. The District has been using the software for approximately 9 years and has found it to be capable of handling the District's accounting and business functions. Employees appear to be adequately trained and vendor support is available when needed. It is a networked system and all locations have access to the system. The Finance Manager server is located at Erie 1 BOCES and is equipped with data intrusion software. Erie 1 BOCES performs a nightly back up.

Access rights are assigned by the Payroll Clerk with the approval of the Assistant Superintendent for Administrative Services. Passwords to Finance Manager are changed every 90 days. Finance Manager locks users out after 3 unsuccessful login attempts, at which point the user will have to contact the Payroll Clerk. The system goes into sleep mode after 2 hours of inactivity.

The District uses Power School Student Management System. Passwords to Power School are not required to be changed periodically but the system locks users out after 5 unsuccessful login attempts, at which point the user will have to contact the Service Desk. The system goes into sleep mode after 15 minutes of inactivity.

All systems are backed up by the BOCES as part of their contract services agreement.

Business Objectives

Information systems must be able to produce accurate, timely and reliable data when needed. The District's information systems are adequately protected from cyber security threats, disasters and unauthorized access.

Potential Significant Risks

New vulnerabilities and new attacker exploits occur almost daily, thus the District could be susceptible to attack which could cause significant disruption or loss of sensitive and valuable data. In addition, it can be difficult for IT departments to keep systems current on frequent security upgrades released by hardware and software vendors. As with any entity there is a potential risk the accounting system may not produce accurate, timely, and reliable data when needed. If this were to occur, it could inhibit the District's ability to monitor the District's finances and their ability to effectively manage business operations.

Internal Audit Strategy

Internal audit of Systems and Technology could be performed to cover:

- ◆ A risk assessment of all significant information systems
- ◆ Computer server and data security controls.
- ◆ Business resumption and disaster recovery plan assessment.
- ◆ Internal and external vulnerability and penetration testing
- ◆ Computer desk-top management and physical security.
- ◆ The assessment of computer server and data security controls will establish the need for extended application control reviews in selected business units or operational audits. The disaster recovery plan assessment will assure all major operations and computer systems/products have satisfactory contingency plans in place that are well designed and periodically tested. The internal and external vulnerability and penetration testing will identify specific information systems that are at risk for breach.

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Internal Audit Plan

The Internal Audit Plan summarized below, illustrates the detailed yearly plan estimated to complete the Internal Audit Strategy outlined in the *Business Area Risk Assessment and Internal Audit Strategy* section of this report.

The shaded areas denote the internal audits that were performed during the year 2017. **No internal audits were conducted prior to 2017.**

Business Area	2017	2018	2019	2020
Lines of Business				
<i>Budgeting, Governance, and Reporting</i>				
<i>State Aid</i>				
<i>STAC Processing</i>				
<i>Medicaid</i>				
<i>Grants</i>				
<i>Centralized Cash Receipts</i>				
<i>School Lunch Cash Receipts</i>				
<i>Purchasing and Cash Disbursements</i>			X	
<i>Payroll</i>				X
<i>Health Benefits and Paid Time Off (Attendance)</i>	X			
<i>General Ledger Maintenance</i>				
<i>ACH Transfers</i>				
<i>Fixed Assets</i>				
<i>Fuel Depot</i>				
Information Technology				
<i>Information Technology</i>		X		

The above schedule represents the District's three year internal audit plan based on the risk assessment results identified in this report with only one internal audit performed each year. The District is required to perform a reassessment of risk on an annual basis. The results of the annual reassessment will be the basis for identifying internal audit priorities and determining the internal audit plan in future years.

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APPENDIX - RISK CATEGORY DEFINITIONS

INHERENT RISKS

EXTERNAL/MARKET REPUTATION

Negative Publicity – The risk of public disclosure of operations will negatively influence public perception that impacts the District's ability to pass a budget and meet its strategic objectives.

FINANCIAL

Achieving Financial Goals – The risk that the District will be unable to meet their financial goals and be pressured by the Board or management to take unwise or inappropriate actions to report results which meet market expectations.

Materiality – The risk that any financial reporting activity will misrepresent results by an amount that would reasonably change voter or other external third party assessments of the District's performance.

Volatility – The risk that financial reporting will be inaccurate, incomplete or untimely.

Use of Significant Estimates – The risk that financial reporting activity will misrepresent actual business results due to heavy reliance on estimates, accruals, adjustments or reserves that are subjective and difficult to accurately quantify and/or associate with the occurrence of business events.

OPERATIONAL

Inefficient/Ineffective Internal Controls – The risk of inadequate or poorly designed internal controls and accountability.

Employee Error – The risk of unintentional errors by employees due to a lack of competence or training or unfamiliarity with policies and procedures.

Inappropriate Data Usage – The risk of the misuse of sensitive or confidential information by employees or other outside parties.

Non-Routine/Complex Transactions – The risk that incorrect or inconsistent handling of infrequent or complex activities could cause inconsistent financial reporting.

Compliance with Policies and Procedures – The risk that staff responsible for executing business activities will fail to comply with the District's policies and procedures, whether due to lack of training, failures of communication or mindful disregard.

LEGAL/REGULATORY

Legal and Economic Impacts – The risk of direct or indirect impact on activities from changes in the regulatory environment.

Unresponsive to Legal/Regulatory/Compliance Changes – The risk that the District is unaware of or does not respond to changes in laws and regulations to ensure compliance.

Litigation Issues – Lawsuits can result in expensive settlements, litigation costs and corrective action (e.g. employee/customer litigation, contract/fiduciary liability, etc.).

STRATEGIC

Insufficient or Inadequate Strategic Planning – The risk that an inefficient and ineffective strategic planning process, including poor assumptions, results in the District's inability to meet their goals and objectives.

Lack of Appropriate Governance – The risk that senior management or Board members commit actions that are detrimental to voter's interests, including misrepresenting the District's intentions or business results.

People or Key Resources – The risk that barriers (e.g. high turnover, inexperienced staff/skill limitations, excessive reliance on a key staff member, insufficient staffing/resources, etc.) can increase business risk impact and likelihood of its occurrence.

Organization Reputation – The risk that the District's reputation could be exposed based on lack of voter satisfaction with services, or ability to provide new and innovative educational programs; negative public reaction due to identified regulatory, compliance or legal issues.

TECHNOLOGY/SYSTEMS

Lack of Information Integrity – The risks associated with the authorization, completeness, timeliness and accuracy of transactions/data as they are entered into, processed and reported by various systems.

Lack of Timely, Reliable, and Relevant Information for Decision Making – The risk that relevant internal and external information necessary for decision making is not available on a timely basis and/or is unreliable.

Inadequate Data Security and Access – The risk of not adequately restricting access to and protecting information.

Sensitivity of Data – The risk that the District will divulge, inappropriately use or fail to control student or employee data which is confidential or private.

PEOPLE/CULTURE

Lack of Clear Roles and Responsibilities – The risk that roles and responsibilities are not clearly defined, communicated, and understood by employees.

Deficient Values, Integrity, and Ethics – The risk of an employee breach of District values and Code of Conduct standards related to integrity, ethics and discrimination.

Inappropriate Performance Incentives – The risk of either insufficient performance incentives or incentives that are unrealistic or misunderstood causing employees to act in an inappropriate manner.

FRAUD

Misappropriation of Assets – The risk that the District engages in external and/or internal schemes, such as embezzlement, payroll fraud and theft.

Misconduct/Abuse – The risk that transactions or activities could be susceptible to management override (e.g. conflicts of interest, code of ethics violations, etc.). District could be directly or indirectly involved in monitoring and identifying misconduct and/or abuse.

External Crime – The risk that activities could be exposed to external theft and destruction (e.g. robbery, asset/information theft, etc.). District could be directly or indirectly involved in monitoring and identifying external crime.

External Fraud – The risk that transactions and activities could be exposed to external fraud (e.g. check frauds and kiting). District could be directly or indirectly involved monitoring and identifying external fraud.

COSO CONTROL RISKS

Monitoring – This category includes identifying a mechanism or process to assess internal controls on an ongoing basis to ensure that changes are incorporated effectively.

Information and Communication – This category includes the assessment of the technology environment and includes an assessment of the reporting internally and externally. The internal communication to manage the business on a daily basis is assessed to determine the effectiveness and reliability of the financial information that is used.

Control Activities – These controls are at the process level and include preventive and detective controls. The assessment for control activities requires a selection of key processes and a review of the transaction flow to identify and test the critical controls to determine the effectiveness.

Risk Assessment – These controls are the overall management and strategic planning methods that are in place. The process for strategic planning for the District and each department and how the plan is executed during the year is the subject of this review. Material changes in the legislation or regulations and the process that management performs to execute a transaction will be assessed.

Control Environment – The controls in this category include integrity/ethical values, code of conduct, disciplinary action, structure of organization, involvement of the Board of Education, human resources and other actions that control the tone of the organization.