NawrockiSmith

Hicksville Union Free School District

Annual Risk Assessment Update
Pertaining to the Internal Controls
of District Operations

June 2018

The Board of Education
Hicksville Union Free School District

We have performed the procedures enumerated below, which were agreed to by the Hicksville Union Free School District (the "District"), solely to assist the District. This agreed upon procedures engagement was performed in accordance with auditing standards established by the American Institute of Certified Public Accountants and the applicable standards contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We have updated our June 2017 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting July 1, 2017 through June 30, 2018. The updated Risk Assessment and related internal audit plan concentrates on the following key internal control areas:

- Governance and Planning
- Budget Development
- Accounting and Reporting
- Revenue and Cash Management
- Grants
- Payroll
- Human Resources
- Benefits
- Purchasing and Related Expenditures
- Facilities/Capital Projects

- Fixed Assets
- Food Service
- Extraclassroom Activity Fund
- Information Systems
- Student Data Management
- Pupil Personnel Services
- Transportation
- Security and Safety
- Cyber Security

We are available to discuss this report with the Board of Education or others within the District at your convenience.

Our engagement is limited in scope and will be confined to our agreed-upon procedures. We will not be conducting an audit or review of the district's financial statements and therefore we will not express an opinion or any other form of assurance on them.

At the end of our engagement, we will present the results of applying the agreed-upon procedures in the form of our findings in a report. Our report should be used only for the intent of the original users of this report, and will include a statement indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. As such, using this report for anything other than the original intent of the agreed-upon procedures could mislead the readers. You must notify us immediately if the original users of the report change.

Very truly yours,

Nawrocki Smith LLP
September 5, 2018

Hicksville Union Free School District

**Annual Risk Assessment Update
Pertaining to the Internal Controls
of District Operations**

June 2018

Table of Contents

Independent Accountants' Report on Applying Agreed Upon Procedures

Nawrocki Smith LLP, Certified Public Accountants and Business Consultants

Risk Assessment Overview

This Risk Assessment report provides a presentation of our view of the school district's risk pertaining to its financial operations. It gives the District's administration the information necessary to help optimize its overall performance. The report identifies, expresses, and prioritizes the key program risks so that the District's administration can focus on those areas most critical to its success. This analysis is used to define the District's risk profile. It will provide an overview of the risks facing the District's operations.

In accordance with the laws of New York, 2005, Chapter 263, all school districts and BOCES were required to establish an internal audit function no later than July 1, 2006 and be in operation no later than December 31, 2006. This function should include, at a minimum, development of a risk assessment of district operations, including but not limited to:

- a review of financial policies, procedures and practices

- an annual review and update of such risk assessment

- annual testing and evaluation of one or more areas of the District's internal controls

- preparation of reports which analyze significant risk assessment findings

- recommended changes for strengthening controls and reducing identified risk; and specifying time frames for implementation of such recommendations

Pursuant to Section 170.12 – Regulations of the Commissioner of Education – School District Financial Accountability, each school district must prepare a corrective action plan, approved by the Board of Education in response to findings to final reports issued by the internal auditor. This plan should include expected dates of implementation and should be filed with the New York State Education Department.

Internal Audit Objectives

The objectives of our engagement are as follows:

- develop an understanding of the critical business processes of the District within each functional area

- identify and qualify risks based on the understanding of the business processes and stated business rules

- identify stated controls that are currently in place to address those risks and ascertain if they are operating effectively

- recommend improvements in internal controls

Scope and Methodology

The Board of Education has engaged Nawrocki Smith as the District's internal auditor. In compliance with New York State Laws, we have performed an annual update to the District risk assessment with respect to policies, procedures, and internal controls pertaining to District operations. The procedures applicable to the annual update of the District's risk assessment were performed during the fiscal year ending June 2018 and were carried out in order to determine an internal audit plan for fiscal year 2018/2019 and thereafter. This risk assessment will be updated annually to reflect any changes in the current control environment and the existing internal audit plan.

Our risk assessment consisted of the following methodology:

- Perform interviews of Administration and other appropriate personnel

- Document procedures within key Functional Areas

- Identify key controls and perform audit tests of those controls

- Assess effectiveness of the key controls

- Identification and review of organization structure

- Analysis of risks that are a threat to the achievement of objectives

- Create a risk profile and internal audit plan

In addition to the above procedures, we have also evaluated and considered the following within our overall risk assessment:

- District policies and procedures

- Recent focus of State Comptroller Audits

- Board of Education/Audit Committee Meetings

- Materiality to Financial Statements

- Changes in management or key personnel

- Financial reports provided to the Board

- External auditor management letters

- District corrective action plans

- Organizational chart and job descriptions

Internal Audit Risk Assessment Update Summary

We have analyzed nineteen (19) Business Process areas within the District and have developed an internal audit plan based upon our assessment of each area. Each of the nineteen (19) Business Processes contains multiple categories for which an extensive cycle analysis will be performed during the proposed time period noted within the risk rating and internal audit plan. The plan as presented will be revised each year based upon the annual risk assessment update and events/requests that occur during the year which impact the priority of future internal audit services.

The results of our update risk assessment are summarized below and, in the table, presented on pages 5 through 6. We have utilized a "Low," "Moderate," and "High" control risk rating assessment scale of the District.

Current Year Rating

Rating	Count	
High	-	*0.00%*
Moderate	13	*15.66%*
Low	70	*84.34%*
N/A	-	*0.00%*
Total	**83**	*100.00%*

Changes from Prior Year

Category (*)	Count	
"High" to "Low"	-	*0.00%*
"High" to "Moderate"	-	*0.00%*
"Moderate" to "Low"	1	*33.33%*
"Low" to "Moderate"	2	*66.67%*
"Moderate" to "High"	-	*0.00%*
Total	**3**	*100.00%*

(*) Refer to pages 5 through 6 for business process rating changes.

- The June 2018 risk assessment update contains four (4) current year recommendations.

- The June 2017 risk assessment update report contained five (5) recommendations:

Status of Prior Year	Complete	In-Process	Not Complete	Total
# of Recommendations	2	1	2	5

We have summarized below our work plan for the 2018/2019 fiscal year:

Cycle Review:
- Human Resources

Other 2018/2019 Planned Internal Audit Services:
- Key Control/Other Testing (See "T" categories on Pages 5-6)
- External Audit Corrective Action Plan Monitoring
- Accounting and Reporting Cycle Recommendations Follow-Up
- Quarterly Internal Audit Status Reports
- Annual Risk Assessment Update as of June 2019
- Other Internal Audit Services at the Request of the District/BOE

Hicksville Union Free School District
Annual Risk Assessment
June 2018

Risk Rating and Internal Audit Plan

√ = Internal Audit Services Provided	X = Proposed Business Cycle Review
★ = Business Cycle Review Complete	T = Limited Testing of Business Process

	Business Process	Business Process Categories	RISK Inherent		Control		YEAR OF SERVICE Prior Years	18-19	19-20	Subsequent Years
					16-17	17-18				
1	**Governance and Planning**	Governance and Control Environment	H		L	M				X
		Required Policies and Procedures	H		L	L	√			X
2	**Budget Development**	Budget Development	H		L	L				X
		Budget Monitoring and Reporting	H		L	L	√	T		X
3	**Accounting and Reporting**	Financial Accounting and Reporting	H		M	L	√	T		X
		External/Internal/Claims Auditing	H		L	L				X
		Fund Balance Management	H		L	L	√			X
4	**Revenue and Cash Management**	Real Property Tax	M		L	L	★			X
		State Aid	H		L	L	★			X
		Out of District Tuition/Reimbursable Expenses	M		L	L	★			X
		Use of Facilities	L		L	L	★			X
		Donations	M		L	L	★			X
		Vending Machines	H		L	L	★			X
		Cash Receipts	H		M	M	★			X
		Cash/Investment Management	H		L	L	★			X
		Petty Cash	L		L	L	★			X
		Bank Reconciliations	H		L	L	★	T		X
		Online Banking	H		L	L	★			X
5	**Grants**	General Processing	H		L	L	★			X
		Grant Application	M		L	L	★			X
		Expenditures and Allowable Costs	H		L	L	★			X
		Cash Management	M		L	L	★			X
		Reporting and Monitoring	H		L	L	★			X
6	**Payroll**	Payroll Disbursements	H		L	L	★			X
		Overtime Payments	H		L	L	★			X
		Payroll Accounting and Reporting	H		L	L	★			X
		Payroll Tax Filings	H		L	L	★			X
		Payroll Reconciliation	H		L	L	★			X
7	**Human Resources**	Employment Requisition/Hiring	H		M	M	★	X		
		Personnel Evaluation	H		L	L	★	X		
		Employee Attendance	H		L	L	★	X		
		Termination	H		L	L	★	X		
8	**Benefits**	Eligibility	H		L	L	★			X
		Benefit Calculations	H		L	L	★	T		X
		Patient Protection and Affordable Care Act	H		L	L	★			X
		Retiree Benefits	H		L	L	★			X
9	**Purchasing and Related Expenditures**	Purchase Order System/Vendor Database	H		L	L	★			X
		Purchasing Process	H		L	L	★			X
		Payment Processing	H		L	L	★			X
		Employee Reimbursements	H		L	L	★			X
		Credit Cards	H		L	L	★			X

	Business Process	Business Process Categories	RISK Inherent		Control 16-17	Control 17-18	YEAR OF SERVICE Prior Years	18-19	19-20	Subsequent Years
10	**Facilities/ Capital Projects**	Facilities Maintenance and Work Orders	H		L	L	★			X
		Capital Project Planning and Monitoring	M		L	L	★			X
		Capital Project Funding and Payments	M		L	L	★			X
		Recordkeeping and Reporting	H		L	L	★			X
11	**Fixed Assets**	Inventory/ Capitalization Policy	H		L	L				X
		Acquisition and Disposal	H		L	L				X
		Inventory Process and Recordkeeping	H		L	L	√			X
12	**Food Service**	Sales Cycle and System	H		L	L	★			X
		Inventory and Purchasing	M		L	L	★			X
		Free and Reduced Meals	M		L	L	★			X
		Federal and State Reimbursement	M		L	L	★			X
		Financial Reporting and Monitoring	M		L	L	★			X
13	**Extraclassroom Activity Fund**	General Controls	H		M	M	★			X
		Revenue	H		L	L	★			X
		Expenditures	M		L	L	★			X
		Reporting	H		L	L	★			X
14	**Information System**	Governance	H		L	L				X
		Network Security	H		M	M				X
		Application Security	H		M	M				X
		Physical Security	H		M	M				X
		Inventory	H		L	L				X
		Disaster Recovery	H		L	L				X
15	**Student Data Management**	Registration and Enrollment	H		L	L				X
		Student Attendance	H		L	L				X
		Student Performance	H		L	L				X
16	**Pupil Personnel Services**	Budgeting and Planning	M		M	M	★			X
		STAC Reimbursement	M		M	M	★			X
		Medicaid Reimbursement	M		M	M	★			X
		RFP and Contracts	H		L	L	★			X
17	**Transportation**	Fleet Inventory and Maintenance	H		L	L	★			X
		Bus Routing and Planning	H		L	L	★			X
		Labor and Supervision	H		L	L	★			X
		Contract Management	H		L	M	★			X
		State Aid	H		L	L	★			X
18	**Safety and Security**	Plan Development and Strategy	H		L	L			X	
		Building Access and Security System	H		L	L			X	
		Compliance and Incident Reporting	H		L	L			X	
		Safety and Security Monitoring	H		L	L			X	
19	**Cyber Security**	General Controls	H		N/A	L	★			X
		Information & Asset Security	H		N/A	M	★			X
		Vulnerability Assessment	H		N/A	M		X		X
		Incident Response & Recovery	H		N/A	L	★			X

Inherent Risk - Inherent risk is the risk of a material misstatement in the un-audited information assuming the absence of internal controls procedures.

Control Risk - Control risk is the risk that a material misstatement in the un-audited information will not be detected and corrected by the management's internal control procedures on a timely basis.

Risk Assessment Observations and Recommendations

Current Year Observations and Recommendations

Cyber Security

1. We noted that the District has not adopted an Information Security Breach and Notification Policy which should address identifying confidential information including student data, employees responsible for checking for breaches, how often inspection is to be performed and the employee to be notified in the event of such breach. This policy is required by State Technology Law §208.

   ➢ *We recommend that the District consider developing the above-mentioned policy to ensure that procedures in place are formally documented and to ensure that incidents are resolved consistently.*

2. It was noted that the District has not developed a formal computer controls procedure which should address segregation of duties, passwords and permissions, remote access, schedule of data backups and backup restoration testing, etc. However, it should be noted that procedures are in place that cover these areas and some of these procedures are in the process of being revised.

   ➢ *We recommend that the District consider developing a computer controls procedure to formally document the procedures currently in place. A strong procedure defines appropriate segregation of duties, password policies that are consistent for all users, schedules and documentation for backups and restoration testing, protocol for granting permissions and remote access, etc.*

3. We noted that there were three (3) assets included in the inventory listing that were marked for disposal and one (1) inventory item in use that could not be located. In addition, we noted the asset tag for two (2) items did not match the inventory listing.

   ➢ *We recommend that the Information Technology Department perform an observation to identify equipment that is in use by the District but not included in the inventory report. This will ensure that the technology inventory report is accurate.*

4. We noted that the District does not require users to sign an acceptable use agreement before access is granted to the network. An acceptable use agreement documents that the user understands and will comply with the terms related to use of District equipment.

   We also noted that the District's applications contained active accounts for employees that were no longer with the District as follows:
   - Active Directory – one hundred and twenty-nine (129) accounts
   - District email – one hundred and fifty-eight (158) accounts
   - IEP Direct – thirty (30) accounts

➢ *We recommend that the District develop a standard Acceptable Use Agreement for all users to sign before access to the network is granted. Only those users who have signed the agreement should be granted access to the system. The agreement should address staff and student responsibility, access to the system, district liability, system security, privacy, etc. This procedure may be incorporated into the hiring process. In addition, all users should sign an agreement each year to renew access. The District may consider an electronic agreement that could be automated with the log-in process.*

➢ *The District should also consider developing a standard procedure for the Human Resource Department and/or Business Office to notify the Information Technology Department of user accounts that must be deactivated as a result of termination of employment, completion of a contract or other separation from the District. This will also provide formal documentation of changes and enhance the controls over the active directory.*

Status of Prior Year Recommendations

We have performed follow-up internal audit services applicable to our previously issued risk assessment update report dated June 2017. The services we performed included observing and evaluating the implementation status of the District's action plan in respect to our risk assessment recommendations.

The June 2017 risk assessment update report contains five (5) recommendations. The District has completed or taken action on the five (5) recommendations as follows:

Business Process	Complete	In-Process	Not Complete	Total
Accounting & Reporting	1	-	-	**1**
Benefits	-	-	1	**1**
Transportation	-	1	-	**1**
Information Systems	1	-	1	**2**
Total	**2**	**1**	**2**	**5**

Accounting & Reporting

1. We noted that the Board of Education approved a resolution at the annual reorganization meeting that states "the Superintendent is authorized to make all necessary budgetary transfers between different codes at the ST-3 level to pay for salaries, Social Security, and health insurance in amounts not to exceed $100,000 in any reporting period. Other transfers at the ST-3 level may not exceed $10,000 in any reporting period." However, the Assistant Superintendent for Business is currently approving budget transfers. As a mitigating control, the Board of Education reviews all budget transfers on a monthly basis.

➢ *We recommend that the Superintendent approve all budget transfers under the threshold requiring Board of Education approval to ensure compliance with the Board's resolution regarding budget transfer approvals. Alternatively, the Board may consider authorizing the Assistant Superintendent for Business to approve budget transfers under the threshold.*

Status at June 30, 2018: Complete. The Superintendent approves all budget transfers under the threshold requiring Board of Education approval.

Benefits

2. We noted that the Accounting Department receives retiree health insurance contributions in the mail and records the payment into nVision. A copy of the check is forwarded to the Benefits Administrator to log into an Access database used for billing. Only the check number and amount are included in the Access database, and therefore, we could not trace payments as recorded in the Access database to cash receipts recorded in nVision.

   ➢ *We recommend that the Benefits Administrator include the nVision cash receipt numbers in the Access database to use during the reconciliation of the information to cash receipts entered into nVision. This will ensure that all insurance contributions remitted are accurately reflected in the accounting records.*

   Status at June 30, 2018: Not Complete. The District is in the process of reviewing procedures to implement this recommendation. NS will work with the District to assist in the implementation of this recommendation in 2018/2019.

Transportation

3. Upon discussion, we noted that when a route includes student drop off at multiple locations, the driver will check for sleeping children at the end of the route after students are dropped off at the last location, rather than at each location.

   ➢ *While this procedure is in compliance with District policies and NYSED regulations, the District should consider a check for sleeping children after drop off at each school location to minimize disruption in the event a student remains in the vehicle after their designated drop off location.*

   ➢ *We also recommend that the Director of Transportation review routes to ensure there is sufficient time for the vehicle to be checked for sleeping children.*

   Status at June 30, 2018: In Process. Due to a driver strike, the District contracted with a new company to provide busing during the 2017/2018 year. The District will review policies and procedures with the new company for the 2018/2019 year.

Information Systems

4. We noted users outside of the Human Resources Department with access to Human Resources permissions. It was represented that the employee information in nVision is updated by the Payroll Department and Business Office employees. However, it is essential to segregate changes made in the employee master file from payroll processing to prevent unauthorized entries.

   ➢ *We recommend that all changes to the employee demographic information including, but not limited to name, address, location, budget codes, pay rate, step and level, and other relevant information, be maintained by the Human Resource Department in nVision. It is essential that the Human Resource Department maintain an up-to-date employee master file to ensure only authorized, active employees are receiving payment and that the*

payment detail including rate of pay, step/level, longevity and stipends is complete and accurate.

➢ *We also recommend that training in nVision be provided to the Human Resource Department to ensure properly segregated duties are performed. We noted that training for the Human Resources Department was scheduled with BOCES subsequent to our fieldwork. NS is currently working with the District to assist with implementation of this recommendation.*

Status at June 30, 2018: Complete. NS completed a review of user permissions and the District adjusted permissions as necessary.

5. We noted nVision users who were no longer active employees of the District. This may increase the risk of unauthorized access to the financial management system.

➢ *We recommend that the District perform a review of the nVision users on at least an annual basis. This will enhance the controls over the financial management system and limit unauthorized access. The District was notified and has since inactivated the user accounts identified.*

Status at June 30, 2018. Not Complete. The District is in the process of reviewing procedures to implement this recommendation. NS will work with the District to assist in the implementation of this recommendation in 2018/2019.

Exhibits

Exhibit I   History of Internal Audit Reports Issued

Exhibit II   Internal Audit Plan for 2018/2019

Hicksville Union Free School District
Internal Audit - Nawrocki Smith
History of Internal Audit Reports Issued
July 2006 through June 2018

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18
Cycles:												
Human Resources		X										
Payroll		X							X			
Purchasing		X										
Revenue and Cash Management			X									
Food Service				X								
ECAF					X							
Grants						X						
Facilities/Capital Projects							X					
Pupil Personnel Services								X				
Benefits										X		
Transportation											X	
Cybersecurity												X
Key Control Testing:												
Bank Reconciliation	X	X		X	X	X	X	X	X	X	X	X
Budget Transfer	X	X	X	X	X	X	X	X	X	X	X	X
Cash Disbursement	X		X	X	X	X			X		X	X
Cash Receipt	X	X		X	X	X		X	X	X		X
Credit Cards								X				
Employee Attendance												
Fixed Asset			X	X								
Food Service					X							
Journal Entries	X	X	X		X	X	X	X	X	X	X	X
Payroll Disbursement				X			X					
Purchasing Process							X					
User Permissions											X	
Other Internal Audit Services:												
Corrective Action			X	X		X	X					
Prior Year Cycle Follow-Up			X	X	X	X	X	X	X	X	X	X
Risk Assessment	X	X	X	X	X	X	X	X	X	X	X	X

Hicksville Union Free School District

Nawrocki Smith - Internal Audit

2018/2019 INTERNAL AUDIT PLAN

(Based upon June 2018 Risk Assessment Update)

2018/2019 Cycle Review	Status
• **Human Resources**	**Planned for Sept '18**

2018/2019 Key Control Monitoring	Status
• **Bank Reconciliation**	**Planned for Feb '19**
• **Extraclassroom Cash Receipts**	**Planned for Mar '19**
• **Extraclassroom Cash Disbursements**	**Planned for Mar '19**
• **Journal Entries**	**Planned for April '19**
• **Budget Transfers**	**Planned for April '19**

Additional Internal Audit Services	Status
• **Risk Assessment Update as of June 2018**	**Draft Complete**
• **Transportation Cycle - Follow Up**	**Planned for Apr '19**
• **Corrective Action Monitoring**	**Planned for Apr '19**
• **Issue Quarterly Status Reports**	**Quarterly**
• **Annual Risk Assessment Update as of June 2019**	**Planned for May '19**
• **Other Internal Audit Services at the Request of the District**	**As Requested**

Tentative On-Site Internal Audit Schedule

September 27th	February 27th
October 25th	March 28th
November 27th	April 17th
December 18th	May 29th
January 28th	June 11th