



Hicksville Union Free School District

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

June 2020

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES**

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 2019 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting July 1, 2019 through June 30, 2020. 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
November 3, 2020



Hicksville Union Free School District

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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

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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 2020 and were carried out in order to determine an internal audit plan for fiscal year 2020/2021 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

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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

<u>Rating</u>	<u>Count</u>	
High	-	0.00%
Moderate	9	10.84%
Low	74	89.16%
N/A	-	0.00%
Total	83	100.00%

Changes from Prior Year

<u>Category (*)</u>	<u>Count</u>	
“High” to “Low”	-	0.00%
“High” to “Moderate”	-	0.00%
“Moderate” to “Low”	3	75.00%
“Low” to “Moderate”	1	25.00%
“Moderate” to “High”	-	0.00%
Total	4	100.00%

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

- The June 2020 risk assessment update contains five (5) recommendations.
- The June 2019 risk assessment update report contained five (5) recommendations:

<u>Status of Prior Year</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Complete</u>	<u>Total</u>
# of Recommendations	3	2	-	5

We have summarized below our work plan for the 2020/2021 fiscal year:

Cycle Review:

- Business Office

Other 2019/2020 Planned Internal Audit Services:

- Key Control/Other Testing (See “T” categories on Pages 5-6)
- External Audit Corrective Action Plan Monitoring
- Pupil Personnel Services Cycle Recommendations Follow-Up
- Quarterly Internal Audit Status Reports
- Annual Risk Assessment Update as of June 2021
- Other Internal Audit Services at the Request of the District/BOE

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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				YEAR OF SERVICE			
			Inherent	Control		Prior Years	20-21	21-22	Subsequent Years	
				18-19	19-20					
1	Governance and Planning	Governance and Control Environment	H	L	L				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	√	X		X	
3	Accounting and Reporting	Financial Accounting and Reporting	H	L	L	√	X		X	
		External/Internal/Claims Auditing	H	L	L				X	
		Fund Balance Management	H	L	L	√	X		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	L	L	★	X		X	
		Cash/Investment Management	H	L	L	★			X	
		Petty Cash	L	L	L	★			X	
		Bank Reconciliations	H	L	L	★	X		X	
Online Banking	H	L	L	★	X		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		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		X	
7	Human Resources	Employment Requisition/Hiring	H	L	L	★				
		Personnel Evaluation	H	L	L	★				
		Employee Attendance	H	L	L	★				
		Termination	H	L	L	★				
8	Benefits	Eligibility	H	L	L	★			X	
		Benefit Calculations	H	L	L	★			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		X	
		Payment Processing	H	L	L	★			X	
		Employee Reimbursements	H	L	L	★			X	
		Credit Cards	H	L	L	★			X	

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	Business Process	Business Process Categories	RISK				YEAR OF SERVICE			
			Inherent	Control		Prior Years	20-21	21-22	Subsequent Years	
				18-19	19-20					
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	★	T		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	M	M	★	T		X	
		Reporting	H	L	L	★			X	
14	Information System	Governance	H	L	L				X	
		Network Security	H	M	L				X	
		Application Security	H	M	L				X	
		Physical Security	H	M	M				X	
		Inventory	H	L	L				X	
		Disaster Recovery	H	L	L		T		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	M	★			X	
		Labor and Supervision	H	M	M	★	T		X	
		Contract Management	H	L	L	★			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	L	L	★			X	
		Information & Asset Security	H	M	L	★			X	
		Vulnerability Assessment	H	M	M				X	
		Incident Response & Recovery	H	L	L	★			X	

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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

Pupil Personnel Services

1. We noted that only one (1) student in our sample was claimed for Medicaid services. However, only thirty five (35) out of fifty five (55) services were claimed. The other students in our sample had left the District, did not have a prescription by a Medicaid provider, or did not receive services from a Medicaid-eligible provider. Six (6) of the students who could not be claimed had received Medicaid-eligible services.

We also noted that the District does not reconcile the number of sessions claimed to the number of sessions paid.

- *We recommend that the District develop a procedure to reconcile sessions claimed to sessions paid to ensure the District has received all funds it is entitled to.*

2. We noted that five (5) students receiving services during the 2018/2019 school year did not have a prescription for those services on file. We were informed by the Consultant that services for five (5) students were not claimed because their prescription was from a non-Medicaid provider. However, upon review of the prescription, we noted that all five (5) prescriptions included a Medicaid provider number.

- *We recommend that the District obtain all prescriptions from Medicaid eligible providers. We also recommend that the District review prescriptions to ensure a valid Medicaid provider number is listed to maximize allowable claims.*

3. A procedure is not in place to reconcile amounts received by the state as per the Approved Payment Listings to claims submitted by the Consultant.

- *We recommend that the District perform a periodic reconciliation to ensure that the District is aware of any denied claims and can resolve issues in a timely manner.*

4. We noted that the District does not reconcile payments to Homeless STAC claims submitted.

- *We recommend that the District develop a procedure whereby Homeless STAC claims submitted are reconciled to payments to ensure the District has received all funds.*

5. We noted that eight (8) users included in the IEP Direct user listing report are not active District employees.

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- *We recommend that the District review the user permission report on a regular basis and deactivate users who are no longer employees or consultants of the District. This will ensure only authorized users have access to confidential student information.*

Status of Prior Year Recommendations

We have performed follow-up internal audit services applicable to our previously issued risk assessment update report dated June 2019. 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 2019 risk assessment update report contains five (5) recommendations. The District has completed or taken action on the five (5) recommendations as follows:

<u>Business Process</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Complete</u>	<u>Total</u>
Benefits	-	1	-	1
Information Systems	1	-	-	1
Cyber Security	2	1	-	3
Total	3	2	-	5

Benefits

1. 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, 2020: In process. 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 2020/2021.

Information Systems

2. 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, 2020. Complete. The District utilizes identity automation to deactivate accounts when students or employees are no longer with the District. Activity is monitored by the Information

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Technology Department.

Cyber Security

3. 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.*

Status at June 30, 2020. In process. The District is in the process of drafting procedures to implement this recommendation. NS will work with the District to assist in the implementation of this recommendation in 2020/2021.

4. 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.*

Status at June 30, 2020. Complete. The District has performed a full observation of IT equipment during the summer of 2020.

5. 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*

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contract or other separation from the District. This will also provide formal documentation of changes and enhance the controls over the active directory.

Status at June 30, 2020: Complete. The District has implemented identity automation to identify inactive accounts. In addition, all staff are required to sign an acceptable use agreement. Parents may opt out of unsupervised internet use for students.

Exhibits

Exhibit I History of Internal Audit Reports Issued
Exhibit II Internal Audit Plan for 2020/2021

Hicksville Union Free School District

Nawrocki Smith - Internal Audit

2020/2021 INTERNAL AUDIT PLAN

(Based upon June 2020 Risk Assessment Update)

2020/2021 Cycle Review

Status

- **Business Office**

Planned for Dec '20

2020/2021 Key Control Monitoring

Status

- **Disaster Recovery**
- **Food Service Federal and State Reimbursement**
- **Extraclassroom Activity Fund Expenditures**
- **Transportation – 19A Certification**

Planned for Jan '21

Planned for Jan '21

Planned for April '21

Planned for April '21

Additional Internal Audit Services

Status

- **Risk Assessment Update as of June 2020**
- **Pupil Personnel Services Cycle - Follow Up**
- **Corrective Action Monitoring**
- **Issue Quarterly Status Reports**
- **Annual Risk Assessment Update as of June 2021**
- **Other Internal Audit Services at the Request of the District**

Draft Complete

Planned for May '21

**Planned for May '21
Quarterly**

Planned for May '21

As Requested

Tentative On-Site Internal Audit Schedule

To Be Determined