

SOUTH JEFFERSON CENTRAL SCHOOL
DISTRICT

ANNUAL RISK ASSESSMENT UPDATE

June 30, 2018

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SOUTH JEFFERSON CENTRAL SCHOOL DISTRICT

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BOWERS & COMPANY CPAS PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

February 9, 2018

South Jefferson Central School District
P.O. Box 10
Adams, NY 13605

AUDIT SCOPE AND METHODOLOGY

We have completed the annual risk assessment of South Jefferson Central School District (“the District”) during the fiscal year ending June 30, 2018, solely to assist you with respect to meeting the internal risk assessment requirement imposed on the District by NYS Five Point Plan for School District Accountability and Commissioner’s Regulations 170.12.

Risk assessment includes a review of financial policies and procedures, and testing and evaluating internal controls. The risk assessment must be reviewed and updated each year. The risk assessment considered risks related to incentives or pressures, risk relating to opportunities to commit fraud or make errors, and risk relating to misguided attitudes.

We separated the District’s operational functions into eight auditable units and assigned a risk rating of low, medium, or high to each unit. Based upon results of the risk assessment performed, we devised an internal audit plan that will cover a three-year period. All business functions of the District will be covered based on the following criteria:

Risk Level	Testing Rotation
High	Yearly
Medium	Once over the 3-year period
Low	Once over the 3-year period

The eight auditable units are:

Governance and Planning – Areas to be reviewed include policies and procedures that should be established by the Board. Budget development procedures and budget administration are also part of this unit.

Accounting and Reporting – Areas to be reviewed are assessing the financial condition of the District and ensuring that financial activity is reported and audited as required by New York State. State aid and federal and state grants are also part of this unit.

Revenue and Cash Management – Areas to be reviewed are bonding of employees that have access to cash and obtaining an understanding of the District’s procedures for receipt of revenue. Testing of cash receipts will be done to ensure that procedures are being followed.

AUDIT SCOPE AND METHODOLOGY - Continued

Purchasing and Expenditures – Areas to be reviewed and tested are the purchasing policies and procedures and the cash disbursements policies and procedures.

Payroll and Personnel – Areas to be reviewed and tested are payroll policies and procedures. Contracts will be used for testing compensation of employees.

Fixed Assets – The District’s policy and procedures will be reviewed regarding fixed assets and inventories. Testing will be done to ensure that all fixed assets are included on the inventory listing and located on school property.

Student Services – Areas to be reviewed are student transportation, the extra classroom activity fund, and the school lunch program. Policies and procedures will be reviewed and tested for the three areas.

Technology – Areas to be reviewed are the policies and procedures that have been established to ensure the safety of information on the District’s computer system. Access to the District’s computers will also be reviewed.

The following schedule was developed to provide the risk level ratings and to outline the timing of the testing of each of the business functions:

Function	Risk Level	School Year		
		2015/2016	2016/2017	2017/2018
Governance and Planning	Low			X
Accounting and Reporting	Medium			X
Revenue and Cash Management	Medium		X	
Purchasing and Expenditures	High	X	X	X
Payroll and Personnel	High	X	X	X
Fixed Assets	Medium		X	
Student Services	Medium	X – Extra Classroom Activity Fund	X – School Lunch Program	X – Transportation
Technology	Low	X		

Additional areas will be tested each year based on discussions with management and the board of education, review of the District’s external audit results, and review of various state audit results performed. The procedures we performed are based on those procedures necessary to ensure that internal controls are in place that enables the District’s goals and objectives to be accomplished; laws, regulations, and good business practices are complied with, assets are safeguarded and accurate and reliable data is maintained. These procedures were performed by using various testing techniques including inquiry and observation, walkthroughs, and detail testing.

AUDIT SCOPE AND METHODOLOGY - Continued

The procedures we used are based on a variety of different sources including the New York State Education Department, the Office of the State Comptroller, the New York State Society of CPA's, the American Institute of CPA's, and the Institute of Internal Auditors.

We have documented the findings of the testing and assessments performed, identified and prioritized the District's significant risks and made recommendations for improvement. The following are the results of our testing of the selected function areas for the year ended June 30, 2018:

I. Purchasing and Expenditures

The purchasing policies and procedures were reviewed with the accounting staff as part of our risk assessment. The procedures appear to be adequate considering the size of the District. This area is assessed as a high-risk area because of the limited segregation of duties and the number of transactions that flow through the purchasing cycle.

We tested 70 disbursements from the period July 1, 2017 through November 30, 2017 for proper approval and other documentation required. We selected 40 disbursements from the General Fund, 20 disbursements from the School Lunch Fund, and 10 disbursements from the Special Aid Fund. There were no exceptions noted.

We also performed a test of bidding, where we selected vendors that were paid over \$20,000 and traced selected invoices to the approved bids. In addition, we tested item pricing on a vendor's food bill to ensure that the District was charged according to the BOCES bid. No exceptions were noted in our bid testing.

Finally, we tested voided checks to ensure that they were properly defaced and could not be used. There were no exceptions noted. Overall the purchasing procedures are deemed adequate.

II. Payroll and Personnel

The payroll and personnel policies and procedures were reviewed with the accounting staff as part of our risk assessment. The procedures appear to be adequate considering the size of the District. This area is assessed as a high-risk area because of the number of transactions that flow through the payroll cycle.

We selected a sample of 40 employees from the October 27, 2017 payroll, and obtained the approved payroll information. Step and salary information was traced from approved salary schedules to approved employee agreements or contracts. Gross pay was recalculated and compared to the gross pay on the payroll register. We also reviewed the certifications of teachers selected. For hourly employees or any employees with extra pay, we reviewed timecards and sub sheets to verify hours worked and supervisor approval. There were no exceptions noted. We also verified that proper fingerprinting procedures are in place for applicable employees. Finally, we verified that a live payroll was conducted for the current year. The District also distributed salary notices for 2017-2018 during the live payroll. Overall, the payroll procedures are deemed adequate.

III. Accounting and Reporting

We reviewed the accounting and reporting of the District, which involved the following procedures:

1. Obtain a budget status report and ensure that the District maintains a reasonable fund balance that does not exceed 4% of the subsequent year's budget.
2. Ensure that all accounting transactions, including journal entries are supported by adequate documentation and are approved by appropriate individuals.
3. Ensure all accounting records for all funds are kept up-to-date and balanced monthly.
4. Verify that an internal claims auditor has been appointed by the Board to ensure prompt and appropriate payment of bills. If so, obtain evidence that the claims auditor performs a review of each voucher package.
5. Verify that cash flow projections are prepared periodically to assist in the determination of borrowing needs and the timing and terms of investments.
6. Verify that annual financial statements and single audits are completed by due dates and that a public notice is published in the newspaper as required by NYS Education Law.
7. Obtain an understanding of the District's written policies regarding tracking and submitting of state aid.

The results of our test disclosed the following:

- The District's unreserved, undesignated fund balance exceeds the 4% allowable by NYS Department of Education.
- The District does not have a reserve plan in place.

We have the following recommendations:

- The Board should continue to monitor fund balance and reduce it closer to the 4% limit.
- The District should develop a reserve plan before increasing reserves.

IV. Governance and Planning

We reviewed the governance and planning of the District, which involved the following procedures:

1. Obtain the District's ethics policy and ensure that it addresses conflicts of interest with board members and employees.
2. Summarize Board minutes to verify documentation that members discuss necessary fiscal reports.
3. Obtain and review the District's long-term financial plan for capital projects and operating expenses.
4. Verify that the District has complied with training program guidelines for board members.
5. Ensure that the District has an audit committee that provides fiscal oversight.
6. Obtain and review the District's written strategic plan.
7. Review the District's formal budgeting process.
8. Obtain the proposed budget for the current fiscal year.
9. Ensure that the District has procedures in place for approving budget transfers.
10. Obtain a budget expenditure report and verify that no appropriations have been over expended.
11. Verify that the District has procedures in place to compare actual revenues and expenditures to budgeted.

Overall, the governance and planning procedures are deemed adequate.

The results of our testing disclosed the following findings:

- The District does not have a formal strategic plan. Currently, the District has a 2015-2018 district priorities and goals plan.
- The District does not have a long-term financial plan for capital projects and operating expenditures in place.

IV. Governance and Planning - Continued

We have the following recommendations:

- We recommend the District adopt a strategic plan. The NYS ASBO association may be able to provide resources and guidance to develop a plan.
- We recommend the District develop a long range (three-five year) plan for capital projects and operating expenditures.

V. Student Services: Student Transportation

The student transportation area was reviewed and tested with the assistance of the transportation supervisor as part of our risk assessment. The procedures and controls in place regarding student transportation and bus driver requirements as set forth by New York State DMV and NYSED appear to be adequate and appropriately monitored by the transportation supervisor.

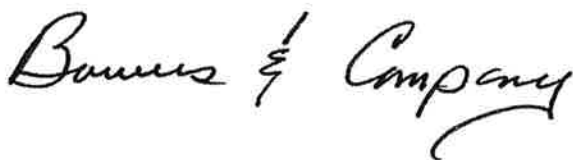
Our procedures included testing 5 bus drivers to verify they meet all job requirements set forth by both NYSED and New York State DMV Article 19-A including a current CDL license, abstract of driving record, annual review of employee's driving record, annual health physical exam, report on annual defensive driving performance, biennial behind the wheel road test, biennial written exam, pre-service training certificate, and a biennial physical performance test.

The results of our testing disclosed no findings and all bus drivers tested have met all requirements timely and the transportation supervisor is maintaining each driver's files and documentation as required by NYSED and New York State DMV Article 19-A.

We would like to thank the Audit Committee and administration for their assistance and cooperation in formulating this risk assessment and providing us with the documentation necessary for our testing.

Please do not hesitate to contact us if you have any questions concerning this report.

Very truly yours,



Watertown, New York
February 9, 2018