

FRONTIER CENTRAL SCHOOL DISTRICT



INTERNAL CONTROL RISK ASSESSMENT

FRONTIER CENTRAL SCHOOL DISTRICT



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INTRODUCTION

“A primary lesson from the financial failure and collapse of numerous Organizations is that good governance, risk management and internal controls are essential to corporate success and longevity. Because of its unique and objective prospective, in-depth organization knowledge and application of sound audit and consulting principles, a well functioning, fully resourced and independent internal audit activity is well positioned to provide valuable support and assurance to an Organization.” – Institute of Internal Auditors



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WHAT IS RISK ASSESSMENT?

Risk assessment is the process of identifying, analyzing and managing risks that affect and threaten the District in meeting its objectives.

CONTROL

Control is any action taken by management to enhance the likelihood that established objectives and goals will be achieved. Controls can include preventive controls which are developed to deter undesirable events from occurring; detective controls which are established to detect and correct undesirable events which have occurred; and directive controls that are carried out to encourage a desirable event to occur.

Control processes are established to achieve the following:

- Relevant, reliable and credible financial and operating information
- Effective and efficient use of the District's resources
- Safeguarding of the District's assets
- Compliance with laws, regulations, ethical business norms and contracts

PERFORMING INTERNAL CONTROL RISK ASSESSMENT

As part of performing our risk assessment of the District's operations, we gained an understanding of how management identifies and takes action to address risks relevant to the District's financial reporting and compliance objectives. The risk assessment evaluation provides the basis for determining the areas that we believe are more susceptible to conditions that exist in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our approach to understanding controls was to call and video conference with appropriate personnel to discuss and understand their day-to-day procedures with respect to business operations. These discussions were held with various members of: management; the business office; the cafeteria; the maintenance department; the transportation department; the IT Department; student activities; and Federal & State grant department.

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IDENTIFICATION OF RISK AREAS

The following are the risk areas that we have identified within the District:

- Policies and procedures
- Purchasing and cash disbursements
- Revenue and cash receipts
- Payroll
- Other controls
- Inventory
- Transportation department
- Cafeteria operations
- Federal and State grant programs
- Student activities
- IT
- COVID 19 Pandemic
- Future governmental accounting standards

OBJECTIVE

Internal auditing is an independent, objective assurance and consulting activity which is designed to add value and improve the District's operations. Our goal is to help the District accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. We have organized this report to include the following:

- Executive summary - highlights the risk areas of the District's overall, specific and informational technology (IT) controls.
- Specific risks – identifies specific risks and provides recommendation for addressing such risks.

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EXECUTIVE SUMMARY

Our executive summary highlights areas of potential risk within the District's overall controls, specific controls and IT controls.



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OVERALL CONTROLS/CONTROL ENVIRONMENT

POLICIES

An integral part of any internal control system is the implementing of policies mandated by management. The intent of such policies is to govern the principles of management. Specifically, the objectives should state a position taken by the District; grant authority to act; be sufficiently detailed to give adequate direction; be achievable within the real environment of the school and environment; and provide for impartial procedures.

Our review of the policies consisted primarily of those relating to financial management of the District. Below are some of the policies that have been developed and approved by the District that we cited as those that could be further enhanced or modified, along with those that the District should consider developing and approving at the Board level. These policies are more specifically addressed later in our report.

Consideration for enhancement or modification

- *Accounting for fixed assets (5621)*
- *Budget transfers (5330)*

Consideration for development and approval

- *Uniform Guidance policies*

PROCEDURES

An integral tool that supplements the policies of an organization and strengthens internal controls is an accounting and operating procedures manual. The District may wish to consider developing a comprehensive manual which would document how policies and best practices are carried out and provide a reference guide for new employees.

CONCLUSION

We commend the District for continuing to enhance and update its current policies. In today's environment it is critical for Organizations to continually review, update and monitor its policies. It is our understanding that the District has contracted with Erie 1 BOCES to develop its policies, has Human Rights Officers who annually review policies and has developed a standing governance committee which is charged with the development, review and oversight over policies of the District. As part of their duties, the governance committee may also play the role of being the initial contact for individuals reporting wrongdoing under a whistleblower policy.

An important component of the governance process is to ensure that all employees have a full understanding of all policies adopted by the Board of Education. As such, the District may wish to include a policy review with members of its staff during a professional development day annually. This would also provide the ideal setting where management could communicate to the entire staff the importance of ethical behavior.

We would be happy to assist the District in the development of any new policies outlined in our report or provide assistance in enhancing any existing policies.

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SPECIFIC CONTROLS

Our understanding of the internal control structure over specific areas including cash disbursements, cash receipts, payroll, purchasing, reporting was developed primarily from performing extensive inquiries and walk-throughs with several employees of the District. Below are some of our observations from our understanding of the specific controls of the District that we believe to pose potential risk to the District. Some of these items pose inherent risk as a result of their nature, while others create risk as result of their volume of transactions or dollar threshold.

PURCHASES AND CASH DISBURSEMENT RISKS

- Internal Claims Auditor Procedures
- Review of source documents by check signer
- Vendor listing review
- ACH and wire transfers
- Purchase requisitions documentation
- Mechanical accuracy of invoices
- 1099s and W-9 forms
- BOCES contract
- Capital project change orders

CASH RECEIPTS AND REVENUE RISKS

- Treasurers' receipts
- Decentralized billing and cash receipt function

PAYROLL RISKS

- Controls over access to blank check stock
- Process for certification of payroll
- Segregation of duties
- Fictitious payroll
- Hourly employees treated as salaried

OTHER CASH FUNCTION RISKS

- Preparation and review of bank reconciliations
- Review of collateralization of cash balances
- Self-insurance of workers' compensation and health insurance plans
- Retirees' health insurance

INVENTORY RISKS

- Department Inventory
- Inventory by third-party
- Centralized receiving

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SPECIFIC CONTROLS

TRANSPORTATION DEPARTMENT

- Monitoring of fuel usage

CAFETERIA OPERATION RISKS

- Oversight and reporting
- Federal and New York State regulations
- Review process of reports
- Segregation of duties – cash receipts

FEDERAL AND STATE GRANT PROGRAM RISKS

- Review of Title I and IDEA compliance requirements
- New uniform guidance
- Internal controls over compliance

STUDENT ACTIVITY RISKS

- Point of sale records
- Documentation of student involvement
- Inactive student activities
- Quote policy
- Reporting
- Other student activity related items

CONCLUSION

During our inquiries and observations, we noted that the District has a developed internal control structure in place, however, we noted certain areas in which the District could improve on. The areas that warrant the greatest exposure to the District appear to be payroll and benefits. Due to payroll and benefits being a majority of all District expenditures, the potential for significant errors, misstatements or fraud is heightened. As to the safeguarding of assets, as stated in the June 30, 2021 independent audit, the District's property and equipment has a net book value of approximately \$90 million. These assets, along with the District's routine supplies materials, create potential risks of being lost or misused if not properly controlled. Given that many departments currently do not maintain formal inventory systems heighten this risk. In addition, due to their nature and as a result of being heavily cash intensive, there are inherent risks in student activity funds. Lastly, school districts have been awarded significant Pandemic related grants through the Coronavirus Aid, Relief and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act and American Recovery Plan (ARP) which have Federal regulations and require detailed tracking and reporting.

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INFORMATION TECHNOLOGY CONTROLS

Our understanding of the internal control structure over the District's information technology (IT) was developed as a result of performing inquiries and walk-throughs with an employee of the District. The use of computers in business information systems has fundamental effects on the nature of business transacted, the procedures followed, the risks incurred, and the methods of mitigating those risks. Some of the areas which we consider pose IT risks to the District include the following:

SYSTEM ACCESS RISK

- Controls over Erie 1 BOCES access to financial and confidential information.

COMPUTER INVENTORY RISK

- Controls and safeguards over IT equipment and software.

INTRUSION STUDY

- Security measures that protect District from outside parties gaining access to systems.

PRIVACY ACT

- Education Law, sections 2-d's purpose is to protect personally public information by strengthening data privacy and security in New York State Educational Agencies.

CONCLUSION

Because a majority of the District's software applications are either hosted, supported and/or maintained by Erie 1 BOCES, the District is exposed to potential IT risks that require strong internal controls. To better understand the controls that are currently in place by Erie 1 BOCES, we recommend that key District personnel enhance their understanding of their internal IT controls. Any weaknesses should be immediately addressed. Once determined, we will be in a better position to evaluate certain IT controls. Additionally, the District should inquire about the availability of a SOC 1 report (Service Organization Control Report) from BOCES.

PANDEMIC

In March 2020, the World Health Organization declared the novel strain of COVID-19 (coronavirus) a global pandemic and has become increasingly widespread in the United States. The coronavirus outbreak has had a significant impact on financial markets and general economic conditions. Some of the areas that were identified as risk to the District include:

- IT controls
- Federal aid compliance
- Food service program

NEW ACCOUNTING STANDARDS

Recent Governmental Accounting Standards Board Standards that have been adopted that could impact the District's financial reporting include:

- GASB 87
- GASB 84

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SPECIFIC RISKS AND RECOMMENDATIONS



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OVERALL CONTROLS - POLICIES & PROCEDURES

The following summarizes some of our findings during our initial review of the District's policies and procedures, along with an update as to the current status:

POLICIES

➤ POLICY #5621 – ACCOUNTING FOR FIXED ASSETS

Defines the accounting for fixed assets specifically under GASB 34 pronouncement. This policy includes a clause that the School Business Official shall arrange for the annual inventory and appraisal of School District property, equipment and supplies, with any discrepancies between an inventory and the District's property records on file being traced and explained.

Observation: On May 19 and 20, 2015, the District had a third-party provider perform a full physical inventory. Through inquiry, it is our understanding that the District's previous physical inventory count of all of its equipment and supplies was performed in 2012. Based on our discussions with various personnel of the District, we understand that certain Departments maintain their own inventory counts while some do not. For those Departments that are maintaining an inventory, a reconciliation of all District inventories with the industrial appraisal company report is not being performed. The District updated the policy on July 5, 2016. The updated policy states that the District will account for assets on an annual basis including maintaining an inventory of assets. The District will have a full inventory completed on an annual basis going forward. In addition, the District is reviewing new software that will allow it to track IT inventory on an ongoing basis.

Recommendation: We recommend that the District either change its policy of requiring a physical inventory count from every year to a longer interval or begin to follow its policy. If the policy is changed to require a full physical inventory to a longer interval, procedures should be in place to continue ensuring that all fixed asset additions are provided to the appraisal company so that an updated inventory report can be provided annually. In addition, the District should consider performing spot checks during years in which a physical inventory is not performed. Having an individual perform spot checks periodically throughout the year creates an awareness within the District that there is oversight of assets owned by the District. Although, performing spot checks certainly is not as strong as a control as performing a full inventory, doing so may be a cost-effective mitigating control.

Update 2021: *The above recommendation remains in effect. The District was planning on having a new asset inventory, however, this plan has been delayed during the Pandemic.*

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POLICIES

➤ POLICY #5330 – BUDGET TRANSFERS

Requires monetary limits to be set for Board and Superintendent approval.

Observation: The District does not have specific amounts documented in the policy that require different levels of approval. In practice, the Superintendent currently has the authority to approve budget transfers

Recommendation: The District may wish to modify its current policy regarding budget transfers to be more specific regarding the thresholds at which the Board and/or the Superintendent are required to approve a budget transfer. We understand that the Interim Business Manager is currently working on such a policy with the Board and commend such efforts.

Update 2021: *The District is satisfied with the current policy which designates the Superintendent with authority to approve budget transfers and that the Board is informed of transfers at the next meeting. Because there are no monetary limits established the District is not following its policy. The District should consider modifying its policy to agree with its process.*

➤ OTHER POLICIES

After reviewing various policies currently adopted by the Board of Education, we recommend that the District consider establishing policies which address the following:

- **Uniform Guidance policies** – During 2020, the District had a desk audit conducted by New York State Education Department on its IDEA program for the 2019-20 grant. Many of the findings and recommendations revolved around establishing formal policies regarding components of the Uniform Guidance. These policies would not only be applicable to the IDEA grant but also other Federal grants.

In reviewing some of the District's financial policies we noticed many were developed and approved approximately 10 years ago.

Update 2021: *The above recommendations remains in effect.*

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PROCEDURES

As part of maintaining a strong internal control structure, an accounting and operating procedures manual provides a strong tool for documenting how various policies and best practices are carried out, which is useful in the training of employees.

Observation: The District has an accounting policy and procedural manual; however, this manual simply consists of Board policies that relate to the financial operations of the District. During our review of this document, we noticed that each of the policies were sometimes not in unison with the Board established policies as maintained on the District's website. Some of the policies within the manual predated those adopted by the Board, while others appeared to be revisions to Board policy. In addition, there were limited specific procedural guidelines related to the business office operations within the manual.

Recommendation: The District should consider removing Board policies from their accounting and operating procedures manual as it creates the opportunity for conflicting guidelines. Rather, the District should develop a comprehensive manual that outlines standard accounting and operating procedures. A written manual would be a valuable tool that would:

- Establish consistent District practices
- Outline accounting and record keeping responsibilities
- Potentially reduce the likelihood of coding errors and assist in timely preparation of monthly financial information
- Aid the review by management for the adherence to District policies
- Provide a source of information in the event of turnover or during extended leaves by personnel
- Aid in the training of new employees

We recognize that developing a comprehensive manual is a time consuming and difficult undertaking and recommend that the District consider developing a multi-year plan that outlines target dates for when procedures for each area of the business office would be drafted and reviewed.

Update 2021: *The above recommendation remains in effect. This is particularly important when there is turnover or absences within the District.*

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PROCEDURES

SCHOOL FUNDING TRANSPARENCY REPORTING

Observation: In 2018, New York State passed a law requiring New York Schools to annually report a detailed statement of total funding allocation for each school in the District. A School Funding Transparency Form was created by New York State to capture this information which is required to be submitted annually by school districts. A three-year phase in plan was developed with schools with four or more school buildings receiving more than fifty percent aid having to submit the form prior to August 31, 2018. Frontier Central School District is in this category, along with seventy-six other schools throughout New York State.

As part of a Federal mandate, school districts will be required to report per-pupil expenditure data at the school level as mandated by the Every Student Succeeds Act (ESSA). The new ESSA financial requirements include reporting money spent on staff compared with other expenses at the school and the levels of federal, state, and local funding provided to each school building.

Recommendation: Because of these new reporting models we recommend that the District continue to review any new guidance issued by New York State and seek opportunities to attend future educational seminars if they arise.

Update 2021: *The District has modified its chart of account structure for both budget preparation and reporting purposes to align with new ESSA and transparency requirements. This will allow the District to be more efficient in completing reporting requirements of the new standards.*

Overall Risk – Management Override

Because management is responsible for the design and implementation of internal controls there is, as with most Organizations, an inherent risk that Management can override those controls. Management override is often difficult to detect but is mitigated through segregation of conflicting duties. The Board of Education performs the important function of oversight of District operations. To assist the Board in this role, periodic reports are provided to its members for review. Board members must be committed to performing this review and be aware of those items that could be indications that unauthorized or inappropriate activities have taken place. Oftentimes unauthorized or inappropriate actions can be indicated by efforts to conceal their existence. Actions to conceal may include late or missing reports, unexplained budget to actual variances, excessive (large volume) or unusual (large dollar) reconciling items, budget transfers, journal entries, or simply explanations to questions that do not seem to make sense. The Board of Education's fiduciary duties include questioning those items and ensuring that appropriate justification is received for all activities conducted by the District.

Update 2021: *The Board of Education is currently receiving monthly financial reports and is encouraged to review and question unusual items. In addition, the District has many committees that meet on a regular basis and have Board involvement.*

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SPECIFIC CONTROLS

PURCHASING AND CASH DISBURSEMENTS

The purchasing and cash disbursement function is generally considered to cover the complete disbursement transaction, beginning with the initiation of a requisition and ending with the approval of a claim for payment. As mentioned above, the District has a purchasing policy that follows State guidelines. The District utilizes the Nvision accounting system and electronically tracks purchases from the initial requisition to the initiation of the purchase order. Checks are also written and accounted for within the Nvision accounting system and with the exception of student activities, disbursements are primarily centralized. Some of our observations of the purchasing and cash disbursements function are as follows:

INTERNAL CLAIMS AUDITOR PROCEDURES

An integral step in the purchasing and cash disbursements process for New York school districts is the approval of the invoice or claim for payment and other supporting documentation by the internal claim's auditor. The claims auditor is responsible for ensuring that all vendor/payee claims are proper, prior to the authorization for payment.

Observation: We are not aware that the District has formal written job responsibilities for the internal claims auditor, although during our risk assessment we were provided a document that appeared to be a job posting which included a listing of internal claims auditor duties and responsibilities.

Recommendation: We recommend that the District develop formal written job responsibilities for the internal claims auditor which would include specific procedures to be performed including required reporting to the Board or audit committee and the requirement for continued training opportunities.

Update 2021: *The above recommendation remains in effect. In addition, it was brought to our attention that the claims auditor has not presented a report to the Board of Education or Audit Committee at least annually. We recommend this step be included in their written job responsibilities.*

CHECK SIGNER DOCUMENT REVIEW

Observation: Currently all checks (vendor and payroll) are signed electronically by utilizing the District electronic signature in Nvision. This electronic signature is automatically imprinted on each check when payroll and disbursement checks are run by the payroll and accounts payable clerks. It is our understanding, however, that the Treasurer does perform a review of the disbursement listing but not the payroll register prior to checks being issued.

Recommendation: We recommend that the Treasurer receive communication from the internal claim auditor that all invoice packets were scrutinized and deemed proper. In addition, the individual responsible for certifying payroll should also communicate to the Treasurer that such certification has been performed. By having such communications would give the Treasurer comfort that his signature is only attached to those checks that have been reviewed and approved.

Update 2021: *The Director of Finance has evaluated this recommendation and believes the cost of this control exceeds its benefit. The Treasurer receives copies of all claim's auditor reports monthly via email. We recommend that the Audit Committee accept this risk if they agree the cost outweighs the benefit.*

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PURCHASING AND CASH DISBURSEMENTS

VENDOR LISTING REVIEW

Observation: Through inquiry, we learned that new vendors may be entered into the Nvision system by the same individuals that prepares cash disbursements. It is our understanding that the District has a process whereby new vendors entered the Nvision system are first approved by the District Treasurer.

Recommendation: Because we are unsure whether the Nvision system will allow a new vendor to be created without the District Treasurer's approval, we recommend that the Treasurer periodically generate a new vendor listing, which details all new vendors that have been entered within the general ledger system, and compare it to those vendors that were previously approved. This procedure will verify that all new vendors were properly approved and guard against fictitious vendors that could be setup within the system.

Update 2021: *The District has evaluated the approval process and discovered it cannot be accomplished through its accounting software. On a monthly basis, the Treasurer views a vendor listing sorted by number and reviews the W-9 and other backup for all new vendor numbers that have been added. We recommend that this review be documented.*

ACH AND WIRE TRANSFERS

Observation: Through inquires, we learned that the District does not currently have a formal policy with regard to performing wire and interbank transfers. The District has implemented dual authorization for all wire transfers as well as included wire transfers in the internal claims auditor's monthly review.

Recommendation: While we recognize that based on discussions with business office personnel, the District makes limited ACH and wire transfers during the year, we consider this to be an area that possesses a relatively high level of inherent risk. A policy dictating the procedures that must be followed, especially regarding the initiation and review of transfers, should be drafted and enforced. This procedure should be documented on a standard form and the individuals preparing and verifying the transfer should sign-off on the form documenting the date, amount, and purpose of transfer. This form would be reconciled with the bank statement during the reconciliation process. In addition, the forms could be presented to internal claims auditor for their review. We recommend the District develop a written procedure to document its process with regards to wire transfers.

Update 2021: *The above recommendation remains in effect*

MECHANICAL ACCURACY OF INVOICES

Observation: During our interviews with District personnel it is our understanding that vendor invoices are not recalculated for mathematical accuracy unless invoices are hand written.

Recommendation: We recommend that each invoice be recalculated to ensure its mathematical integrity and that the individual who performs the recalculation initial the invoice to demonstrate that this step took place.

Update 2021: *The District is evaluating the cost/benefit of implementing this recommendation.*

1099s AND W-9 FORMS

Observation: We noted that the District utilizes Nvision at the end of each calendar year to identify vendors that require 1099s to be issued. A listing of the 1099s is reviewed closely by the Treasurer prior to their mailing. W-9 forms are now required for when a new vendor is entered into the accounting software.

Recommendation: We commend the District on its scrutiny over 1099s. We noticed that in internal control testing performed for the District that there were instances when W-9 forms, Request for Taxpayer Identification Number and Certification, were not being obtained by the District. We recommend that the District periodically perform tests on a sample of vendor payments and determine whether W-9s are being solicited and maintained.

Update 2021: *The Director of Finance has evaluated this recommendation and believes the cost of this control exceeds its benefit. The Audit Committee should review this evaluation and if agree, formally accept the risk. We should mention, that in practice, we continue to see the Internal Revenue Service view this area as high risk and is often an area of review upon audit.*

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PURCHASING AND CASH DISBURSEMENTS

BOCES CONTRACT

Observation: The District contracts with Erie 1 BOCES to provide various goods and services throughout the school year. During the prior fiscal year, it is routine for the Board of Education to approve the subsequent BOCES contract, which estimates the level of BOCES services. Through conversations with certain District personnel, it is our understanding that the Superintendent is required to send a formal letter requesting the increases (or decreases) in services, such increases do not go through the District's normal purchasing policy. The District has implemented a process of reviewing BOCES adjustments, as Karen Lewandowski currently reviews all BOCES bills and significant adjustments with the District purchasing agent.

Recommendation: If not in place, the District should implement procedures for initiating and approving adjustments to the BOCES contract. The procedures should mirror purchasing guidelines as prescribed by the District's purchasing policy, with the purchasing agent approving all adjustments. Also, the District may wish to have the Board of Education approve total adjustments at various intervals throughout the year, if significant adjustments are made to the original contract approved in the preceding year.

Update 2021: *The Director of Finance has evaluated the recommendation on obtaining Board approval and believes the cost of this control exceeds its benefit. The Board of Education approves the overall BOCES budget. All service adjustments are signed by Director of Finance prior to Superintendent approval. We recommend that the Audit Committee accept this risk if they agree the cost outweighs the benefit.*

CAPITAL PROJECT CHANGE ORDERS

Observation: The District has a committee that is made up of both Board members and District personnel to review capital project change orders prior to their approval. The Superintendent is responsible for signing the change order. The District has determined that given the relative infrequency of Board meetings, the delegation of signature authority on change orders is common and appropriate to ensure that capital projects remain on schedule and on budget. The District will continue to report to and solicit feedback from the Board for all change orders via email prior to submission to NYSED. The District will formalize the delegation of signature authority to the Superintendent. All change orders on capital project contracts are reported to the Board of Education by the Director of Finance.

Recommendation: We commend the District on its process for scrutinizing change orders related to capital projects. It is our understanding that the New York State Education Department requires that the Board President sign all change orders. We recommend that the District review its procedures in this area.

Update 2021: *The District has commenced a new capital project totaling \$70 million, therefore, we recommend that the Board establish a written policy which formalizes its procedures in the area of authorization of change orders.*

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CASH RECEIPTS AND REVENUE

TREASURER'S RECEIPT

Observation: During our interviews, we understand that checks and cash received in the mail or hand delivered are received by the Business office secretary, using a prenumbered, duplicate treasurer's receipts. The white original receipts and checks/cash are given to District treasurer who assigns the revenue/budget code. The district treasurer then gives the receipts and checks/cash to accounts receivable & purchasing department who prepares the bank reconciliation and enters the cash receipts in nVision. The district treasurer then goes in and reviews credits/debits to bank accounts the next day to determine the deposits clear the bank and reviews the cash receipts entries for accuracy in nVision. There are also electronic deposits to the general fund checking account which are online payments processed by a third party RevTrak. The district treasurer goes onto the RevTrak report website and prints out daily reports to reconcile to the electronic deposits received.

Recommendation: We recommend that the District purchase Treasurer's receipts that are pre-numbered and are carbon copied. Having pre-numbered Treasurer's receipts allows the District to maintain accountability over cash receipts. In addition, the District may wish to consider having the Senior Clerk typist complete the Treasurer's receipts when checks and cash are first received. The carbon copy of the Treasurer's receipts could then be provided to the Treasurer for his review and coding of the general ledger account number and subsequently forwarded to the Senior Clerk Typist/Assistant Treasurer for general ledger entry. The original Treasurer receipts maintained within a booklet, could be then utilized by the Treasurer to verify that all receipts have been entered in both the bank account and within the general ledger system.

Update 2021: *The District has implemented pre-numbered Treasurer's Receipts within the Nvision system which is entered by the Assistant Treasurer and approved by the Treasurer within the system prior to printing.*

DECENTRALIZED BILLING AND CASH RECEIPT FUNCTION

Observation: We noted that there are certain programs that operate within the District that handle the billing and cash receipts function in a manner that is decentralized from the business office, particularly the Summer School and Community Education programs. Based on our understanding, these programs are responsible for developing their tuition rates, sending out bills to participants and collecting tuition payments. Point of sale documentation, however, is not presented to the business office to substantiate the cash that is ultimately provided to the business office for deposit.

Recommendation: We recommend that the District consider having the business office be responsible for collecting all cash received related to billings by the Summer School and Community Education departments. A listing of accounts receivable would be provided by the departments so that collection of billings could be monitored. Alternatively, if processes remain unchanged, the programs should provide point-of-sale documentation with all cash receipts that are turned over to the business office, so that they can be reviewed and reconciled.

Update 2021: *The District eliminated the Community Education Programs, contracted with a third-party to carry out the Extended Day program and has not charged for the Summer School programs since the commencement of the Pandemic. As a result, the risk of is alleviated with regards to decentralized billings and collection of cash receipts.*

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PAYROLL

CONTROLS OVER BLANK CHECK STOCK AND ELECTRONIC SIGNATURES

Observation: The District maintains its blank check stock and mechanical signature disk in a locked area within the business office. This would be a good control. However, it is our understanding that the majority of business office employees have access to the locked area. A conversion to the District's accounting software was completed in August 2018 which protects the password signature which is embedded in the financial software.

Recommendation: We recommend the District further restrict the access to the blank check stock. The blank check stock should not be accessible by the purchasing agent or the individual responsible for the bank reconciliation process. We understand that the District is considering this circumstance as it fills the vacancy in the Business Official position.

Update: *The above recommendation remains in effect.*

CERTIFICATION OF PAYROLL

Observation: Currently the Superintendent performs the function of certifying payroll. The certification of payroll calls for the individual assigned the duties to certify that the employees included in the payroll have regularly performed their duties in accordance with the terms and conditions of their employment by the Board of Education and any additions to or deductions from normal wage payments have been made pursuant to the bylaws of the District and on the basis of personnel records maintained. The Director of finance performs functions of certifying payroll.

Recommendation: Given the size of the District's payroll, we recommend that the District consider having each department supervisor certify their respective department's bi-weekly payroll. After completing the department's certification, written communication would be forwarded to the Superintendent who would review the various certifications and then scan through the payroll listing looking for unusual transactions. Once all certifications are received from the supervisors, the Superintendent could then sign the final certification of payroll. Due to the amount of time necessary to complete the specifics of the certification, the District may wish to consider having the claims auditor perform testing in this area prior to the Superintendent's certification.

Update 2021: *The Director of Finance has evaluated this recommendation and believes the cost of this control exceeds its benefit. The Audit Committee should review this evaluation and if agree, formally accept the risk. If risk is accepted, the District may wish to have the internal claims audit spot check a sample of employees' pay as compared to their contract.*

PAYROLL SEGREGATION OF DUTIES

Observation: The District currently has assigned its personnel department the responsibility for both adding new employees and changing pay rates within the payroll system. In addition, the District has separated payroll duties among two payroll clerks, one who is responsible for entering timesheet information for professional staff and one who is responsible for entering timesheet information for support staff. Once all data has been entered, the payroll clerks review each other's entries into the system.

Recommendation: Having the personnel department enter both new employees and pay rates within the payroll system is an excellent internal control. On an annual basis, the District should verify that the Nvision system precludes the payroll clerks from having the ability to entering new employees or changing pay rates. In addition, having the payroll clerks' review each other's work is a strong internal control over reporting errors. This procedure should be documented by having the reviewing employee sign off on the payroll register after each review.

Update 2021: *The Director of Finance receives a payroll change report on a bi-weekly basis and reviews all changes to employees, contributions, and wage amounts as a mitigating control. We recommend that this process continue, along with considering having the internal claims audit spot check a sample of employees' pay as compared to their contract.*

FRONTIER CENTRAL SCHOOL DISTRICT



PAYROLL

FICTITIOUS PAYROLL

Observation: After all hours are entered from timesheets and applicable salary information is entered into the accounting system, a payroll register is reviewed independently of the payroll entry.

Recommendation: Having someone independent of the payroll clerk review the payroll register is a strong internal control. This procedure should be documented by having the reviewing employee sign off on the payroll register after each review. In addition to having someone cross check the payroll register, the District should also consider having a person independent of the payroll function distribute all checks for at least one payroll on a surprise basis during the fiscal year. During this exercise, each employee would be required to sign an employee listing when receiving their paycheck or if pay is direct deposited, a pay stub.

Update 2021: *The above recommendation remains in effect.*

HOURLY EMPLOYEES

Observation: Currently the District has structured its payroll in a manner that pays all employees as if they were salaried, including those that are hourly. For hourly employees, the District calculates the expected amount the employee will earn over the school year by multiplying the number of workdays, the number of hours per day, and the contractual hourly rate. This total amount is then divided by the number of pay periods.

Recommendation: Although this has been a practice of the District for some time and is a common practice within school districts across the State, we recommend that the District investigate whether this practice agrees with the State Department of Labor and Department of Education regulations.

Update 2021: *The above recommendation remains in effect.*

FRONTIER CENTRAL SCHOOL DISTRICT



OTHER CONTROLS

BANK RECONCILIATIONS

Observation: We noted that the Senior Clerk Typist/Assistant Treasurer who prepares bank reconciliations for the District, also has check writing capabilities (although only responsible for preparing unusual checks such as refunds). Once completed, bank reconciliations are then reviewed by the Treasurer. Bank reconciliations in the Student Activities are prepared by the Central Treasurers which is a segregation of duties weakness. During our observations, we noted that the preparer does not sign nor date the bank reconciliations. In addition, when scanning a bank reconciliation that was recently prepared by the District, we noted it did not include payee names for outstanding checks or payer names for deposits in transit. All bank reconciliations are signed and dated by the preparer. All bank reconciliations are reviewed by a second party. The Accountant is the reviewer for all student activity accounts and the District Treasurer is the reviewer for all other accounts. The District feels that this is an adequate compensating control for the Central Treasurers preparing the bank reconciliations. The Assistant Treasurer no longer processes any checks. The District has added a compensating control rather than listing the payee and payer on the reconciliation. When reviewing each bank reconciliation, the District Treasurer selects a sampling of larger amounts and traces them back to the original warrant to ensure accuracy.

Recommendation: The District should enhance its bank reconciliations to include a place for the individual preparing the reconciliations to sign or initial and date after completing this task. In addition, including payee and payer information within the bank reconciliation will allow the reviewer to perform a more detailed review. We also recommend that the District consider having the unusual checks (refunds, etc.) scrutinized more closely. The District should also consider whether it is feasible to have the Accounts Payable Clerk be responsible for processing unusual checks. Lastly, someone independent of the Central Treasurers should be preparing bank reconciliations, which is more fully described in the Student Activities section of this report.

Update 2021: *The District has developed a lead sheet which demonstrates that the bank reconciliation is agreed to the District's general ledger. The lead sheet is signed by the preparer after completing the reconciliation and signed by the Treasurer after their review is performed.*

COLLATERALIZATION OF CASH

Observation: The District is responsible for ensuring that all cash held in its financial institution is adequately insured throughout the fiscal year. Our inquiries identified that a formal process to verify bank balances are insured was being performed only at year-end in preparation for the independent audit, however, on a monthly basis the Treasurer performs an informal review of the collateral levels.

Recommendation: We recommend that the District develop procedures to formally review its bank collateralization on a regular basis throughout the fiscal year, whereby a schedule is prepared that verifies accounts are secured. We recommend that this should be done on a monthly basis, rather than annually.

Update 2021: *The above recommendation remains in effect. The Treasurer periodically reviews the bank balances with collateral, although no formal process is in place.*

FRONTIER CENTRAL SCHOOL DISTRICT



OTHER CONTROLS

SELF-INSURANCE

Observation: The District is currently self-insured for both its health insurance and workers compensation plans. As a result, expenses incurred by the District consist of payments of actual medical claims and administrative costs. The District contracts with third-party administrators who are responsible for assembling claim information and presenting monthly invoices to the District for payment.

Recommendation: Because of the volume of claim activity, we recommend that the District understand its third-party administrators processes for verifying that claims paid are for District employees and their dependents and the controls in place from protecting the District from paying claims for another employer. Part of the understanding should be whether the administrators have regular audits are performed that are designed to determine whether the third-party administrators have good internal controls over claims presented for payment.

Update 2021: *The above recommendation remains in effect.*

Observation: The District is required to develop a liability within its year-end financial statements for medical costs incurred prior to year-end but not reported (IBNR) or paid. Because of the nature of claims, these liabilities are an estimate. For the workers compensation plan, such claims can span over a number of years, whereas for the health insurance plan, claims lapse over a shorter timeframe, typically over a period of months.

Recommendation: We recommend that for the health insurance plan, the District consider obtaining from its third-party administrator claim activity on a monthly basis that would allow it to develop a lag report schedule. This schedule would show the total amount of claims incurred during each month, along with when their payments are made. This schedule could be utilized in future years as a guide for developing the year-end liability. Because the workers' compensation plan spans over many years, the District may consider hiring an actuary to perform this calculation.

Update 2021: *The Director of Finance is currently receiving and reviewing monthly lag reports for the health insurance plan which are used to record year end liability. With respect to the District's Workers' Compensation Plan, the District had an actuarial valuation as of June 30, 2020 and will plan to get an updated valuation periodically. The District's reserve as of June 30, 2021 was determined by its third-party administrator.*

RETIREES' HEALTH INSURANCE

Observation: Many of the District's employees continue on the District's health care plan after retirement. Some retirees first exhaust their accumulated sick pay and retirement incentive benefits paid by the District prior to being responsible for paying for health insurance premiums. The District has developed a comprehensive schedule to track the value of sick time and retirement incentive, along with tracking health insurance premium amounts billed and paid by the retiree.

Recommendation: Given the sheer volume of transactions, along with the fact that data has to be manually input and updated within the excel schedule creates a level of risk for errors. We recommend that the District investigate whether its current accounting software or another program would be available to track this data. A software program may reduce the opportunity for input errors and also provide a database which would allow the District to generate reports by retiree that would outline the activity of each account over the life of this benefit.

Update 2021: *The above recommendation remains in effect.*

FRONTIER CENTRAL SCHOOL DISTRICT



INVENTORY

DEPARTMENT INVENTORY

Observation: As mentioned in the policy and procedures section of this document, some departments perform its own physical inventory of its equipment and supplies, which is a good internal control; however, there is no centralized coordination of inventory records currently maintained by the District that is reconciled with the inventory listing provided by the appraisal company. Other departments currently do maintain detailed inventory listings, which includes the maintenance and transportation departments, two departments that maintain significant amounts of inventory that is susceptible to misappropriation given the types of inventory. The District is reviewing the systems in place for tracking inventories of supplies and equipment. Once further evaluated, the District intends to make a future recommendation for any changes to the process and if warranted a change to policy which would be referred to the Policy Committee. In addition, the District is reviewing new software that will allow it to track IT inventory on an ongoing basis.

Recommendation: The District should require each department to continual maintain inventory records and regularly perform physical inventory counts. Additionally, the District should weigh the cost/benefit for each department implementing a perpetual inventory system that would be reconciled with the physical count on an annual basis. The physical and perpetual inventory results should be provided to the business office for review and comparison with the records provided by the appraisal company. Further, we noticed that the District's appraisal company recently performed a full physical inventory, with the previous one being prepared in 2012, even though the District's policy states that an inventory should be performed annually. We recommend that the District either change its policy to match its practice, or vice versa. If a full physical inventory is performed at longer intervals, procedures should be in place to ensure all fixed asset additions and deletions are appropriately provided to the appraisal company in a timely manner so that an updated inventory report can be provided annually. Additionally, we recommend that the District consider having its internal claims auditor periodically perform spot checks of inventory recently purchased by the District along with equipment items that are listed on the appraisal.

Update 2021: *The above recommendation remains in effect.*

INVENTORY BY THIRD-PARTY

Observation: As mentioned, the District had a full inventory of its fixed assets by a third-party recently in May 19 and 20, 2015. In periods between its current and last inventory, the District annually submits new purchases or disposals in accordance with its capitalization policy.

Recommendation: Because the District consistently has submitted additions and disposals to the third-party who conducted both the current and previous physical inventories, this would be a good opportunity to verify the completeness of its process. The District can obtain reports from the third-party that would show any assets that were inventoried that were not previously on the inventory listing. A similar report could also be obtained that shows assets that were removed from the previous listing. Utilizing these reports to compare against assets added or disposed of by the District in interim years between inventories and investigating discrepancies is an excellent internal control.

Update 2021: *The above recommendation remains in effect. The District is considering having a third party complete a full inventory on an annual basis.*

FRONTIER CENTRAL SCHOOL DISTRICT



INVENTORY

CENTRALIZED RECEIVING

Observation: We noted that the District does not have a centralized receiving department responsible for receiving goods purchased by the District. Instead, the individuals requisitioning goods are responsible for checking in the goods and verifying the packing slips match the purchase orders. This process includes the receiving of purchased equipment.

Recommendation: Decentralizing this position is acceptable as long as the receiving function is always segregation from the purchasing function. This means that employees who are authorized to receive goods should under no circumstances be able to place orders themselves. Included in the receiving function of equipment should be a process to tag incoming equipment, along with the recording of the items on a log used to update inventory listings for both use by the District and the appraisal company.

Update 2021: *The above recommendation remains in effect.*

TRANSPORTATION DEPARTMENT

MONITORING OF FUEL USAGE

Observation: The District has an elaborate fuel usage system that maintains mileage and fuel usage for each vehicle. On a monthly basis, the transportation department supervisor, reviews a report that identifies the amount of fuel used, miles driven and miles per gallon for each vehicle. From this report, any entries on the report that have either zero miles or zero miles per gallon, are logged into a "Daily GASBOY analysis" where the circumstance for the discrepancy is identified as either due to: human error; mechanical error; equipment failure; or other; and explained. There was lower amount of usage in 20-21 due to COVID-19. Drivers were not using as many miles and due to remote learning the cars were left in the yard for so many weeks.

Observation: We commend the District for its procedures in this higher risk area. The information provided in the reports are good and the follow-up analysis is a strong control. This process could be strengthened by also identifying any entries on the report that appear to be outliers (not just zeros), such as a low miles per gallon on a vehicle. This entry could also be placed on the log for further explanation. In addition, because the transportation department supervisor, who completes the analysis, also has access to the vehicles and fuel pumps, we recommend that the analysis performed be provided to the business office, for periodic review.

Update 2021: *The above recommendation remains in effect.*

FRONTIER CENTRAL SCHOOL DISTRICT



CAFETERIA OPERATIONS

OVERSIGHT AND REPORTING

Observation: As a result of having multiple cafeterias throughout the District that have a decentralized revenue function it is very important for the business office to exercise a high level of oversight over the food service operations.

Recommendation: We recommend that the business office continue to review information such as daily deposits, daily free and reduced meals served, and the number of students served for individual cafeterias. In addition, the District should perform analyses of budget versus actual data for both revenue and expenditures on a regular basis, and the number of students served free and reduced meals should be compared with the eligibility roster and prior year historical information to ensure reasonableness. Lastly, because of the lack of segregation of duties noted below, we recommend that the Business Office assign someone to periodically review transactions within the point-of-sale system, looking for unusual activity.

Update 2021: *The above recommendation remains in effect.*

SEGREGATION OF DUTIES – FREE AND REDUCED MEAL REIMBURSEMENTS

Observation: The District is annually required to select a sample of free and reduced applications and request income verification from families to determine that they are properly classified as free or reduced. This form is prepared and by submitted by one individual. On a monthly basis, the District also compiles data on students who received free and reduced lunches and breakfasts for all cafeterias and submits a claim for Federal and State reimbursement. This monthly form is also prepared and submitted by one individual.

Recommendation: We recommend that the District assign an individual who would be responsible for reviewing the accuracy of both the income verification form and monthly claims for reimbursements.

Update 2021: *The above recommendation remains in effect.*

SEGREGATION OF DUTIES – CASH RECEIPTS

Observation: During our inquiries, we noted that currently the cashiers in the cafeteria are responsible for collecting cash for meals served and cashing out their drawer at the end of each day. The cashing out of the drawer is done on a blind basis whereby the cashiers do not have access to the total deposit registered within the point of sale system. Once cash is counted, the cashiers provide their count to the head cook who recounts and prepares the deposit slip and places the cash in a locked bag for pick up by the central carrier. This recount is not performed in the presence of the cashier who initially counted the drawer. The District intends to have the cashier sign off on a count sheet. Once the Cook performs a recount, they will note any corrections in red and sign. The business office personnel will then investigate any significant or recurring discrepancies in the counts.

Recommendation: We recognize that the District has limited cafeteria personnel in certain school buildings. We recommend that if it is at all possible to have the cashier present for the recounting of their drawer by the head cook. This serves the purpose of having two individuals verify the count with the point of sale system and having agreement between both parties when discrepancies exist. Both the cashier and head cook that perform the recount should sign and date the deposit form to acknowledge this agreement. In addition, we recommend that an individual in the business office be charged with periodically reviewing the point of sale system for unusual adjustments. We further recommend that when the cook makes corrections upon recount, that this correction is provided to the cashier, who should acknowledge that the change was required. There have been cameras installed at every cash register.

Update: *The above recommendation remains in effect.*

FRONTIER CENTRAL SCHOOL DISTRICT



FEDERAL AND STATE GRANT PROGRAMS

TITLE I AND IDEA PROGRAMS

Observation: During our inquiries, we were made aware that the District maintains student files that document compliance with various components of the grants and that individual teachers are responsible for maintaining the student files. We understand that in the IDEA program a checklist outlining required documentation is being developed.

Recommendation: We recommend that the District institute a procedure where regular reviews of a sample of student files are performed by an administrator or the grant director to ensure that the District is in compliance with all grant requirements. Results of this review should be communicated to all staff members within the Title I and IDEA program. We also recommend that the District implement the student file checklist it is currently developing for both the Title I and IDEA grant programs as this checklist would serve as a good tool to ensure that compliance requirements are properly met. We should mention that building principals do monitor student progress with Federal teachers on a regular basis.

Update 2021: The above recommendation remains in effect.

UNIFORM GUIDANCE

Observation: The Federal government has issued new regulations titled the Uniform Guidance which will take effect for recipients of Federal grants for awards received after December 26, 2014. The regulations attempt to combine and codify the requirements of eight Office of Management and Budget (OMB). The new regulations do not affect grants awarded prior to that date. This new guidance will affect future reporting of Federal grants for the District and is an integral part of the District's administration of Federal grants. During 2020, the District had a desk audit conducted by New York State Education Department on its IDEA program for the 2019-20 grant. Many of the findings and recommendations revolved around establishing formal policies regarding components of the Uniform Guidance.

Recommendation: We recommend individuals involved with grant reporting at the District familiarize themselves with the Uniform Guidance. This may include continuing education, webinars and further training of District personnel related to the guidance.

Within the Uniform Guidance is a section on Subrecipient Monitoring. This section defines a pass-through entity and its responsibility when Federal awards are passed through to a subrecipient, who is responsible for carrying out the Federal program. The New York State Education Department is the pass-through entity for Federal awards that it passes to the District, such as the IDEA grants and Title grants.

New York State has recently increased its monitoring to comply with the Uniform Guidance. In January 2017, the Department sent a questionnaire to schools asking if they had certain policies and procedures with respect to certain compliance requirements in the Uniform Guidance for the IDEA programs. In addition, the Department is requiring Schools to provide documentation to support that it has complied with the maintenance of effort compliance requirement. We continue to recommend that individuals involved with the oversight of the Federal grants to familiarize itself with the Uniform Guidance. Policies and procedures should also be developed to documents its compliance with pertinent requirements.

In 2020, the New York State Association of School Business Officials released the Federal Funds Procedures Manual. This document outlines the procedures required by School Districts with regards to meeting those compliance requirements. It is our understanding that the District is working towards establishing policies identified in the Manual which formalizes many of the procedures required over federally funded programs and ensures the District is consistently meeting all of the compliance requirements over federal programs.

Update 2021: The above recommendation remains in effect.

FRONTIER CENTRAL SCHOOL DISTRICT



FEDERAL AND STATE GRANT PROGRAMS

INTERNAL CONTROLS OVER COMPLIANCE

Observation: Documenting specific internal controls performed over compliance with Federal grant requirements in accordance with Uniform Guidance continues to be a higher risk area for school districts. In certain instances, school districts have controls in place, however, the evidence of such controls is not documented, such as the review of information by someone independent of the preparer. Adequate documentation would include a signature/initials and date by the preparer and reviewer for such items including: Maintenance of Effort form; Graduation rate submission; budget versus actual comparisons, etc. For those documents that are electronically submitted, having an electronic footprint of processes would also provide evidence of the oversight.

Recommendation: We recommend the District review each control over compliance with Uniform Guidance requirements and define how documentation will be evidenced.

Update 2021: *The above recommendation remains in effect.*

STUDENT ACTIVITIES

POINT OF SALE RECORDS

Observation: Based on our experience with auditing other school districts, it is common for cash receipts to lack point of sale records in the student activity fund. Due to the lack of point of sale records, cash receipts are often not adequate to permit the application of the necessary auditing procedures to indicate whether receipts are reasonable for the activity held.

Recommendation: Although student activities generally are an insignificant portion of the funds that flow through a school district, their liquidity and availability to large number of students and staff make them a higher risk for error or fraud. As a result of this risk, we recommend that each cash receipt received by the Central Treasurers should be accompanied by supporting documentation that reconciles cash received to participation multiplied by applicable rates/fees. We recommend that point of sale records be completed by the Student Treasurer and Advisor, and submitted to the Central Treasurers for their review. In addition, we recommend that gross margins for each activity be maintained and closely scrutinized by the Central Treasurers with any deviances from that expected being immediately investigated. The gross margin analysis serves the purpose of determining whether actual profits are in line with estimated profits, along with determining whether the fundraiser was ultimately successful.

Update 2021: *The above recommendation remains in effect.*

STUDENT INVOLVEMENT

Observation: During our discussions with one of the District's Central Treasurer, we understand that there is documentation substantiating that students are involved in the cash receipts and cash disbursements function relating to student activities. This is typically evidenced by signature by the Student Treasurer on the payment order form for cash disbursements and the deposit detail form for cash receipts. It is our understanding that a few of the District's activity funds, however, currently lack student representation.

Recommendation: State Education Law defines an activity fund as "an organization within the School District whose activities are conducted by students and whose financial support is raised other than taxation or through charges of the Board of Education". Compliance with these requirements should be reviewed by someone, such as building principals or the Central Treasurers.

Update 2021: *It is our understanding that the Assistant Principal in charge of student activity accounts oversees this process and ensures compliance with requirements. We recommend that the District formalize its process for reviewing compliance with requirements.*

FRONTIER CENTRAL SCHOOL DISTRICT



STUDENT ACTIVITIES

INACTIVE ACCOUNTS

Observation: During our inquiries, we noted that the District does not have a policy for dissolving inactive student accounts.

Recommendation: On an annual basis, the members of management should review with the Central Treasurers the student organizations that had little or no activity throughout the year. A determination should be made on whether or not to close out these funds and transfer their remaining balances to another account. We recommend that the Board establish a policy which dictates when extraclassroom activity funds should be closed out and where funds should be transferred to at the time of closing.

Update 2021: *The above recommendation remains in effect.*

QUOTE POLICY

Observation: The District does not have a defined policy requiring documented quotes for purchases over a certain amount. Many of the purchases made by Student Activities are small dollar amounts and occur on an infrequent basis. Others, however, are annual purchases and amount to thousands of dollars. Currently, the District does not have guidelines requiring the receipt of quotes by the Student Activities. The District raised the floor for requiring quotes to be received for student activity purchases to \$1,000.

Recommendation: Although the New York State does not expressly specify quoting requirements, both are recommended in the Department of Education publication "The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds". We recommend that the District consider requiring activities to obtain multiple quotes for purchases exceeding a certain dollar threshold. If implemented, a process should be developed that dictates how the receiving of quotes is documented.

Update 2021: *The Director of Finance has evaluated this recommendation and believes the cost of this control exceeds its benefit. The Audit Committee should review this evaluation and if agree, formally accept the risk.*

REPORTING

Observation: Currently the District's high school and middle school Central Treasurers maintain accounting for transactions in different systems and the monthly reports provided to the business office and Board are not uniform.

Recommendation: We recommend that the high school and middle school Central Treasurers determine whether its reporting could mirror one another. Doing so, will create consistency and may enhance the understanding of such reporting for the user.

Update 2021: *The above recommendation remains in effect.*

FRONTIER CENTRAL SCHOOL DISTRICT



STUDENT ACTIVITIES

OTHER STUDENT ACTIVITY RELATED ITEMS

Observation: Outlined in the “Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds” publication are certain controls that are currently not in place at the District. These include the following:

Appointment of Officers

It is recommended that the Board of Education annually appoint the following positions for the Extraclassroom Activities: Central Treasurer; Faculty Auditor; Chief Faculty Counselors; Faculty Advisor; Student Activity Treasurer; and Independent Auditor. Currently the Board approves the Central Treasurer, Faculty Advisor and Independent Auditor.

Recommendation: We recommend that the District consider the cost/benefit of this control.

Payment Order

When bills are to be paid by the Central Treasurer, the Student Treasurer shall complete a payment order which gives the name of the payee, amount, activity to be charged and purchase order number. The payment order would be approved by the Faculty Advisor and made in duplicate, with one copy maintained by the Extraclassroom Activity and one copy forwarded to the Central Treasurer.

Recommendation: We recommend that the District consider the cost/benefit of this control.

Training

Observation: Through communications with District personnel we noted that many standard practices were not adhered to by the student activity advisors.

Recommendation: We recommend that the student activity advisors continue to attend a training annually to educate and remind them of the responsibilities that accompany serving as a student activity advisor.

Funds Raised for Certain Purposes

Observation: School districts were faced with difficult decisions during school closures resulting from the Pandemic including what to do with funds raised by students for certain purposes (i.e. student trip) that didn't take place.

Recommendation: We recommend that the District develop a policy to address this situation if it occurs in the future and consider reviewing the policy with its legal counsel.

Update 2021: *The above recommendations remains in effect.*

FRONTIER CENTRAL SCHOOL DISTRICT



INFORMATION TECHNOLOGY CONTROLS

SYSTEM ACCESS

Observation: During inquiries we noted that Erie 1 BOCES has full administrative access as well as remote access to the Nvision accounting system.

Recommendation: The District should develop standardized forms or logs that document when its personnel contact Erie 1 BOCES and grant access to programs. On a regular basis, a member of the District's IT team should generate a report detailing when programs were accessed by Erie 1 BOCES. This should be compared against the standardized forms or logs. Because Erie 1 BOCES provides computer support and maintenance, the District should inquire whether Erie 1 BOCES has a SOC 1 Report (Service Organization Controls Report), performed by a third-party professional which documents a review of the BOCES internal control systems related to its IT services.

Update 2021: *In previous years, the District has followed-up with Erie 1 BOCES and determined that it does not currently have a SOC1 or SAE16 certifications performed. The recommendations on developing standardized forms or logs is still in effect.*

INFORMATION TECHNOLOGY EQUIPMENT INVENTORY

Observation: During inquiries, we noted that technicians contracted through BOCES maintain logs of software installations. Additionally, serial number stickers are attached to all computers. A log of these serial numbers is maintained by a District employee and is updated for all purchases and disposals. An annual inventory is performed and reconciled with this log. The District has included hardware within its log and forwarded information along to its appraisal company. In addition, the District is reviewing new software that will allow it to track IT inventory on an ongoing basis.

Recommendation: We commend the District for having controls over computer hardware and software in place. We recommend that the inventory of computers should be expanded to include all electronic hardware, and should be reconciled with the District's independent appraisal report.

Update 2021: *This recommendation remains in effect.*

INTRUSION STUDY

Observation: In today's IT environment, Organizations that hold sensitive information are frequently targeted by computer hackers. It is extremely important for school districts to ensure that firewalls and other security measures are adequate to mitigate the risk of intrusion by outside parties. Pat Boyle sent a letter to BOCES requesting information on any assurances that they can provide relating to cyber security reviews.

Recommendation: We recommend the District consider engaging a third-party to conduct an intrusion study into the District's IT systems. An intrusion study will not only review the security of the organization but will also attempt to penetrate the system. In most instances the third-party will issue a report and provide suggestions on how to improve security measures.

Update 2021: *The District's administration is evaluating a proposal from a third-party and anticipates having the intrusion study performed during 2022.*

PRIVACY ACT

Education Law, sections 2-d's purpose is to protect personally public information by strengthening data privacy and security in New York State Educational Agencies.

In the Spring of 2020, the District hired a Technology and Data Privacy Officer who is responsible for overseeing compliance with the new State law. The District also consults with Erie 1 BOCES in maintaining third party agreements. The District also has added resources to its website with regards to the new law.

Recommendation: Because the law is still in new and very comprehensive, the District should continue its diligence with this Law.

FRONTIER CENTRAL SCHOOL DISTRICT



COVID 19 PANDEMIC

In March 2020, the World Health Organization declared the novel strain of COVID-19 (coronavirus) a global pandemic and has become increasingly widespread in the United States. The coronavirus outbreak has had a significant impact on financial markets and general economic conditions.

IT CONTROLS

Recommendation: During the initial phases of the Pandemic, certain processes of the District that were previously performed in-person were completed remotely. Because significant data is being transmitted electronically, the District may consider performing a penetration/security test of its IT network as discussed on the previous page. In addition, the District should continue to periodically review listing of employees with access to the internal local area network to determine if accounts should be disabled or deleted and continue to periodically review user access rights to determine that employees only have rights that are commensurate with their job responsibilities.

Update 2021: *This recommendation remains in effect. During the 2021-22 fiscal year the District has remained in-person for learning and therefore the majority of personnel are not working remotely.*

FEDERAL AID COMPLIANCE

Recommendation: The CARES, CRRSA and ARP acts were passed which provides funding and emergency assistance to school districts. We recommend the District continue to review Federal guidance, including compliance requirements, related to this funding.

Update 2021: *The District added a part-time position to track and oversee the new Federal grants.*

FOOD SERVICE PROGRAM

Recommendation: During the Pandemic school districts had the option to participate in the Seamless Summer Option or the Summer Food Service Program to continue to provide meals to children while minimizing potential exposure to COVID-19. We recommend that District continue to review guidance and reporting requirements with respect to these programs in the event that school closures occur in the future and consider which program would be more beneficial to meet the needs of the District.

Recommendation: During our internal control testing we noted two issues in the cafeteria fund that were caused by the school closures. First, during the months of March, April and May no inventory counts were completed at the end of the month. We recognize that the needs of the District caused this to be less of a priority, however, it is important that inventory be kept regularly. Secondly, the tracking of meals during the COVID shut down was a manual process which led to the compiling of those meals for the reimbursements to be manual. We recommend that someone independent of the individual compiling the data review it before submittal.

Update 2021: *The District continues to operate under the Seamless Summer Option/Summer Food Program throughout the 2021-22 fiscal year, therefore, the above recommendations remain in effect.*

FRONTIER CENTRAL SCHOOL DISTRICT



FUTURE GOVERNMENTAL ACCOUNTING STANDARDS

GASB 87 – Leases

Observation: The Government Accounting Standards Board has issued statement 87 on lease accounting effective for years ended June 30, 2022. This new accounting standard will require governments to recognize a lease liability and right to use asset on the balance sheet. Under current accounting standards, operating leases are recognized as an expense when lease payments are made.

Recommendation: We recommend the District familiarize itself with the new accounting standard and begin the process of identifying all lease agreements and how the new standard will impact the District from a financial reporting standpoint.

Update 2021: *The above recommendation remains in effect as the new standard is required to be implemented in the 2021-22 fiscal year.*

GASB 84 – Fiduciary Activities

Observation: In 2017, the Government Accounting Standards Board issued Statement 84, Fiduciary Activities, which will be effective for the fiscal year ending June 30, 2021. This new standard's objective is to improve the guidance regarding the identification and reporting of fiduciary activities and focuses on the source of the revenue and control over activity assets. One of the characteristics of a fiduciary activity as defined by the standard are that the assets are for the benefit of individuals and the district does not have administrative involvement with the assets or direct financial involvement with the assets. School districts will be required to evaluate activity currently recorded in the trust and agency fund, including extraclassroom activities. Those activities that do not meet the fiduciary definition will be required to be reported in the governmental funds, either in the general fund or special revenue fund. The change also affects how certain fiduciary activities, custodial funds, are reported by requiring additions and subtractions to be included on the Statement of Changes

Recommendation: We recommend the District familiarize itself with the new accounting standard and begin the process of identifying whether the current trust and agency and extraclassroom funds meet the new requirements as fiduciary activities and how the new standard will impact the District from a financial reporting standpoint.

Update 2021: *The District implemented the new standard within its June 30, 2021 financial statements.*

FRONTIER CENTRAL SCHOOL DISTRICT



CONCLUSION



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FRONTIER CENTRAL SCHOOL DISTRICT



CONCLUSION

This risk assessment evaluation provides the basis for determining the areas that we believe are more susceptible to conditions that exist in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

- **District policies (low-medium)** – Management of the District meets to review policies on a frequent basis and when appropriate recommends changes to the Board at regular sessions for a first and then second reading prior to approval.
- **District procedures (medium)** – Although, the District has well thought out procedures that are performed for the various transaction cycles and consider segregation of duties and other risks, the District does not have a written procedures manual, which specifically outlines these processes. Most employers have seen higher levels of turnover and more absences due to illness during the Pandemic. This increases the value of having strong written procedures.
- **Purchasing and cash disbursements (medium)** – The District's overall control structure in the area of purchasing and cash disbursements is sound, with the purchasing agent reviewing all purchases prior to ordering the good/service and the claims auditor reviewing all supporting documentation prior to payment. The sheer volume of transactions creates inherent risk in the area of purchasing and cash disbursements.
- **Cash receipts and revenue (low)** – The District's overall control structure in the area of cash receipts and revenue is good, with a proper level of segregation of duties, with the exception of the Summer School programs. The majority of the District's revenue is either wired directly from the Federal and State governments or deposited directly with the Town of Hamburg (real estate taxes) which is reconciled with the tax warrant.
- **Payroll (medium-high)** – The District's overall control structure in the area of payroll is sound, with proper level of segregation of duties and review. Due to the volume of transactions and dollar amount involved, inherent risk is heightened in the area of payroll.
- **Other controls (medium-high)** – Other controls including but not limited to controls over inventory, equipment, bank reconciliations, journal entries and wire transfers. The District's controls over bank reconciliations are fairly good, where there is someone preparing and reviewing reconciliations monthly, however, segregation of duties related to bank reconciliations should be reviewed. Certain aspects of being self-insured creates levels of risk with respect to developing the associated IBNR liabilities and the potential for paying claims not associated with the District. In addition, because the District's retirees participate in the health insurance plan, there are risks of errors on the billing and collection of premiums.
- **Inventory (medium)** – Because the District's last full physical inventory of its assets was in 2015, as a result of perpetual inventories not being maintained and due to some departments not maintaining inventory, this area has a heightened risk in school districts.

FRONTIER CENTRAL SCHOOL DISTRICT



Conclusion (continued)

- **Cafeteria operations (medium)** – In the area of cash receipts/revenue, because there are multiple school buildings and limited staff, proper segregation of duties is not always attained. Expenditures appear to follow procedures similar to the other departments of the District which are reviewed by the purchasing agent and claims auditor. Currently there is limited review of reports that are submitted to New York State for reimbursement. Lastly, the District is operating under a new Federal program during the Pandemic.
- **Federal and state grant programs (medium-high)** – The District has many grants that have strict compliance aspects to them. The District has been awarded significant Pandemic related Federal grants that will require strict compliance. Also, the District was cited for not having policies/procedures during an IDEA audit.
- **Student accounts (medium-high)** – Student activities are operated by many different advisors and students that change on a regular basis. For this reason, many of the standard policies and procedures have to be readdressed continually each and every year. Point of sale records and documentation are not routinely maintained and are not reviewed by the Central Treasurers and therefore, the area of cash receipts has a high risk of misstatement. Lastly, there is an overall lack of segregation of duties because the Central Treasurers have the ability to deposit cash and write checks and are also responsible for preparing bank reconciliations that are not reviewed.
- **Information technology (medium)** – Information technology is becoming more and more prevalent in school districts. The technology department is managed by one Director, who is responsible for overseeing the entire network of the District, along with its hardware and software. The District has contracted with Erie 1 BOCES, who provide support, including technicians and system/network administrators who are routinely at the District assisting the IT Director or on the District's network remotely.
- **COVID 19 (medium-high)** – The increased uncertainty due to COVID 19 and the effects it may have on the District lead to it being an area of concern. The District should continue to evaluate the effects the Pandemic is having on District and adjust to meet the ever-changing needs. The District has appointed part-time personnel to track and oversee the funding.
- **Future Governmental Accounting Standards (low)** – The District should continue to become familiar with future governmental accounting standards that will have an impact on the District.

The District has developed a formal tracking spreadsheet, which lists each recommendation, its status, the responsible party and its priority. This spreadsheet was then reviewed during regularly scheduled audit committee meetings during the year. We commend the District for taking these steps to improve and enhance its internal controls and encourage continued commitment to good governance and sound controls. It is our understanding that many of the suggested recommendations have been reviewed and evaluated. We are cognizant that many of these initiatives require time commitments and realize it is not feasible for the District to immediately dedicate resources to address all of these areas of concern. We also recognize that the list is very extensive. We might suggest that the District develop a calendar which might outline target dates for a few of the high priority action items. Once accomplished, other recommendations could be added to the list.

Our goal is to assist the District in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and governance process.

We look forward to serving you as your internal auditors.