



SOUTHAMPTON UNION FREE SCHOOL DISTRICT
RISK ASSESSMENT UPDATE REPORT
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

(7/01/16 - 6/30/17)

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

TABLE OF CONTENTS

Risk Assessment Letter

Executive Summary

Pages 1 – 3

High Risk Items

Pages 4

Moderate Risk Items

Pages 4 – 6

Low Risk Items

Pages 7 – 17

Corrective Action Plan

Page 18

Appendix A - Assessment of Risk and Testing Plan



Board of Education
Southampton Union Free School District
70 Leland Lane
Southampton, NY 11968

We have completed our risk assessment update of the Southampton Union Free School District (the "District") for the fiscal year ending June 30, 2017. The objectives of the engagement were to assist the Board of Education (the "Board") in ensuring that the District's risks are identified and that appropriate internal controls are in place to mitigate those risks.

In connection with the development of the risk assessment update, we have performed the following procedures:

- Gained an understanding of the internal controls for the following key business processes:
 - Governance and Planning
 - Accounting and Reporting
 - Cash Receipts
 - Cash Management
 - Revenue and Billings
 - Grants
 - Payroll
 - Human Resources
 - Benefits
 - Purchasing and Related Expenditures
 - Facilities and Capital Projects
 - Capital Assets
 - Food Service Operations
 - Extraclassroom Activity Fund
 - Information Technology
 - Student Related Data and Services
 - Transportation Services
 - Student Services

- Identified the risks that could inhibit the District in achieving its goals;
- Identified the internal controls that the District has in place that are designated to mitigate identified risks; and
- Identified key areas where the District can strengthen existing internal controls and/or create additional internal controls.

The results of our procedures are presented on the following pages.

As noted, the purpose of our engagement was to assist you in improving the process by which you monitor and manage the risks that face your District. However, it is ultimately your responsibility to assess the adequacy of your risk management system.

In performing our engagement, we relied on the accuracy and reliability of information provided by District personnel. We have not audited, examined, or reviewed the information, and express no assurance on it.

We would like to acknowledge the courtesy and assistance extended to us by personnel of the District. We are available to discuss this report with the Board or others within the District at your convenience.

This report is intended solely for the information and use of the Board, the Audit Committee and the management of the District and is not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

R. S. Abrams & Co., LLP

R.S. Abrams & Co., LLP
May 16, 2017

**Southampton Union Free School District
Risk Assessment Update Report Introduction
For the Fiscal Year Ending June 30, 2017**

Executive Summary

This report serves to address the second requirement of Chapter 263 of the laws of New York, 2005, which requires all school districts to establish an internal audit function. The internal audit function requirement includes the engagement of a qualified audit firm or individual to make an initial assessment of risk surrounding the design of the District's internal controls, annual updates of the initial risk assessment and testing of these controls on a periodic basis for operational effectiveness.

This risk assessment update is intended to provide management with information to enhance and strengthen the District's controls and to reduce the District's risk relating to its financial processing and reporting operations.

We determined the status for the current year's risk assessment update through various methods, including inquiry of appropriate District personnel involved in these processes, observation of the controls in place, results of internal control questionnaires related to the various business units and testing the controls where necessary to determine if they have been put in place and are functioning as intended.

Additionally, we have reviewed the results of reports issued by our firm during the fiscal year ending June 30, 2016, including reports on Capital Asset Procedures and Human Resources, to determine if relevant controls have been put in place based on those reports.

The risk assessment requires an internal auditor to obtain an understanding of the risks associated with the various business processes within the District. This requirement involved two categories of risk as follows:

- **Inherent Risk** - the risk associated with the nature and type of transactions processed due to complexity, materiality and quantity of the transactions.
- **Control Risk** – the risk that the internal control system is not adequately designed to prevent or detect errors or irregularities on a timely basis that could be material individually or when aggregated with misstatement in other balances or account classes.

The risk areas have been identified and appropriate risk levels have been determined. The risk levels are defined as follows:

- **High Risk** – these are areas identified as posing the greatest potential risk for the school district and which carry the highest priority. Any outstanding items will be carried over and re-evaluated in the following year's risk assessment.
- **Moderate Risk** – these are areas identified as to be of second level priority and will be addressed after the high-risk items are completed. Any outstanding items will be carried over and re-evaluated in the following year's risk assessment.
- **Low Risk** – these areas are considered lowest priority and will be addressed after the high and moderate risk items are completed.

**Southampton Union Free School District
Risk Assessment Update Report Introduction
For the Fiscal Year Ending June 30, 2017**

We have summarized our assessment of inherent risk and control risk for the current and prior year, as well as our proposed testing plan in our *Assessment of Risk and Testing Plan* (See Appendix A).

Process Review Summary and Proposed Business Processes

The following represents the business processes where we have provided internal audit services and the business processes we are proposing for the fiscal year ending June 30, 2018:

Extensive System Reviews:

Fiscal Year Ending June 30, 2017:

- Benefits
- Cash Management

Fiscal Year Ending June 30, 2016:

- Capital Asset Procedures
- Human Resources

Fiscal Year Ending June 30, 2015:

- Procurement and Claims Processing
- Budgeting and Reserves and Fiscal Health

Fiscal Year Ending June 30, 2014:

- Pupil Personnel Services
- Student Related Services

Fiscal Year Ending June 30, 2013:

- Benefits
- System to Track and Account for Children Procedures ("STAC")

Fiscal Year Ending June 30, 2012:

- Capital Projects
- Medicaid Compliance

Fiscal Year Ending June 30, 2011:

- Food Service Operations
- Grants Administration

Fiscal Year Ending June 30, 2010:

- Information Technology
- Extraclassroom Activity Fund

Fiscal Year Ending June 30, 2009:

- Capital Assets
- Cash Receipts

**Southampton Union Free School District
Risk Assessment Update Report Introduction
For the Fiscal Year Ending June 30, 2017**

Fiscal Year Ending June 30, 2008:

- Personnel and Payroll Processing
- Purchasing and Related Expenditures

The following represents the periodic duties we perform on an annual basis:

- Periodic duties, including:
 - Review of bank reconciliations and Treasurer's Reports;
 - Review of collateral;
 - Payroll reviews including testing overtime calculations, proper approvals and review of personnel files;
 - Review of attendance and personal day requests;
 - Review of new hire procedures;
 - Review of employee evaluations; and
 - Review of District's check signing log and capital asset testing.

Extensive Systems Proposed:

Fiscal Year Ending June 30, 2018:

- Extraclassroom Activity Fund
- Revenue and Billings

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

High Risk Items

Based on our review there were no prior year high risk and no current year high risk findings.

Moderate Risk Items

Status of Prior Year Findings

HUMAN RESOURCES

EMPLOYMENT REQUISITION AND HIRING

Previous Current Control Risk Level: Moderate (M)

Prior Year Finding: During our prior year internal audit report on human resources we noted the following on the District's employment requisition and hiring processes:

- We noted in two instances where letters of recommendation could not be located in the employee's personnel files. Additionally, we noted four instances where the personnel files did not contain a fingerprint clearance form.
- We noted nine instances where the required evaluations could not be located in the respective personnel files. The District provided support from the electronic system that an evaluation was conducted for five of the nine employees whose evaluation was not in the personnel file.

Current Year Status: During our current year risk assessment update, we noted the following on the District's employment requisition and hiring processes:

- We noted for two out of five new hires selected there were no documented reference checks or letters of recommendation in the employee's personnel file.
- We noted ten instances where the required evaluations could not be located in the respective personnel files. The District was able to provide copies of nine out of ten evaluations from either the electronic system used to process the evaluations, or from the department that performed the evaluation. We also noted that two out of ten evaluations were not electronically acknowledged or signed by the respective employee.

We also noted the following internal controls, while functioning effectively, do not justify a control risk lower than moderate since we considered the entire control environment in making our assessment.

- There is proper segregation of duties between the District's human resource and payroll functions surrounding the input of new employee data in the accounting information system.
- The District verifies all applicable step levels for newly hired instructional positions, which includes obtaining proof of previous experience and relevant transcripts.
- Background and reference checks are performed on all newly hired employees, including the obtainment of fingerprint clearance as required by state education laws.

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

- The Board of Education approves all new hires, which is documented in the minutes of the Board of Education meetings.
- A new hire package is provided to all newly appointed District employees that include the required documentation that is to be prepared.
- All contractual staff are provided an annual salary notice which must be signed and returned to the business office.
- For five out of five new hires selected, fingerprint clearance was maintained on file.

As such, we continue to assess the control risk at moderate.

Updated Control Risk Level: Moderate (M)

EMPLOYEE ATTENDANCE

Previous Current Control Risk Level: Moderate (M)

Prior Year Finding: During our prior year risk assessment update and our prior year internal audit report on human resources we noted the following on the District's employee attendance processes:

- After the year-end rollover of attendance data was performed, the data generated from the Accounting Information System was not reviewed by a responsible administrator to verify that the attendance balances were rolled over properly through the Accounting Information System.
- We noted the District did not have a procedure to review the *Faculty Sign In Sheets* at the elementary and intermediate schools nor to review the *Southampton High School Attendance Form* to ensure employees are present during normal working hours.
- We noted five vacation days and three personal days taken were not approved in *AESOP* for the respective employees. Additionally, we noted six days for administrators were not approved in *AESOP*.

Current Year Status: During our current year risk assessment update, we noted the following on the District's employee attendance processes:

- The year-end attendance rollover data has not been performed as of the date of our fieldwork.
- We noted the District does not have a procedure to review the *Faculty Sign In Sheets* at the elementary and intermediate schools nor to review the *Southampton High School Attendance Form* to ensure employees are present during normal working hours, and that absences have been properly recorded in *AESOP*.
- We noted two vacation days taken were not approved in *AESOP* for the respective employees.

We also noted the following internal controls, while functioning effectively, do not justify a control risk lower than moderate, since we considered the entire control environment in making our assessment.

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

- Attendance records are tracked and maintained using *AESOP* attendance software, and are recorded in the District's accounting information system.
- There are controls in place whereby custodial and maintenance employees are required to sign in and out on a daily basis at their respective building location which are reviewed by the Senior Clerk Typist in the business office and compared to *AESOP* to verify accuracy. The Senior Clerk Typist is also provided with a summary of attendance for transportation employees from the Secretary to the Director of Transportation, which is compared to *AESOP* by the Senior Clerk Typist for accuracy.
- Bi-weekly throughout the year, and weekly in June, the Senior Clerk Typist in the business office will formally post attendance data from *AESOP* to the District's accounting information system.
- After the year end rollover of attendance has been performed, each employee receives an *Attendance Notice* to verify the accuracy of balances which must be signed by the employee and returned to the business office.

As such, we continue to assess the control risk at moderate.

Updated Control Risk Level: Moderate (M)

Moderate Risk Items

Current Year Review

INFORMATION TECHNOLOGY

PERMISSIONS

Control Risk Level: Moderate (M)

Reason for Risk Level: We have assessed the control risk for the District's information technology permissions as moderate based on the following reasons:

- Our review of user permissions within the accounting information system noted permissions granted to the Network and Systems Administrator that are not consistent with his job title.
- Our review of user permissions within the accounting information system noted the Network and Systems Administrator and the Assistant to the Assistant Superintendent for Business have been granted permission to delete journal entries.

We also noted that the Network and Systems Administrator is notified by the human resources department to deactivate user accounts of terminated employees, and requires approval from the Assistant Superintendent for Business to grant or change employee permissions. This alone did not justify a control risk lower than moderate since we considered the entire control environment in making our assessment.

Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017

Low Risk Items

Status of Prior Year Findings

CAPITAL ASSETS

ACQUISITION, DISPOSAL AND CAPITALIZATION POLICY

Previous Control Risk Level: Moderate (M)

Prior Year Finding: During our prior year internal audit report on capital asset procedures we noted the following on the District's acquisition, disposal and capitalization policy:

- We noted one bus listed on the District's list of buses that was not listed on the *NYSIR Schedule of Vehicles* report. We also noted three buses on the District's list where the vehicle identification numbers did not agree to the *NYSIR Schedule of Vehicles* report.
- We noted nine capital asset additions that could not be traced to *Asset Maxx Additions Report*. New additions should be recorded timely in the *Asset Maxx* to ensure the District's capital assets are properly accounted for.
- We noted six capital assets that were not recorded as disposals in *Asset Maxx*. Disposals should be submitted to the business office and removed from the District's records in a timely manner to ensure accurate records.

Current Year Status: During our current year risk assessment update, we noted the following on the District's acquisition, disposal and capitalization policy:

- We compared the District's list of vehicles to the *NYSIR Schedule of Vehicles* report and noted no exceptions.
- We noted capital assets are being recorded as disposals in *Asset Maxx* in a timely manner.
- We also noted five out of five capital asset additions selected were recorded in the *Asset Maxx Additions Report*.

As such, we have reduced our assessment of control risk to low.

Updated Control Risk Level: Low (L)

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

FOOD SERVICE OPERATIONS

VENDING MACHINES

Previous Control Risk Level: Moderate (M)

Prior Year Finding: During our prior year risk assessment update we noted the following on the District's vending machine procedures:

- The District did not have a contract on file with Answer Vending for the fiscal year ended June 30, 2016. Subsequent to our testing, we noted that the District entered into a written agreement with Answer Vending dated February 13, 2017.
- Although Island Ice Cream provided a commission report for the vending machines, it only showed sales for the month. The report did not provide a detail of the sales and meter readings.
- Answer Vending did not provide the District with a reconciliation of meter readings to sales for the District to ensure that the commission check that was received was accurate.

Current Year Status: During our current year risk assessment update, we noted the following on the District's vending machine procedures:

- The District has a contract on file with Answer Vending for the fiscal year ended June 30, 2017.
- At request of the auditor the District obtained meter readings from Island Ice Cream for April and May of 2017. The vendor will begin to include meter readings with commission checks going forward.
- At request of the auditor, the District obtained meter readings from Answer Vending for February through May of 2017. The vendor will begin to include meter readings with commission checks going forward.

As such, we have reduced our assessment of control risk to low.

Updated Control Risk Level: Low (L)

Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017

Low Risk Items

Current Year Review

ACCOUNTING AND REPORTING

FINANCIAL ACCOUNTING, REPORTING AND OVERSIGHT

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's financial accounting, reporting and oversight processes based on the following reasons:

- Journal entries are reviewed and approved prior to being recorded within the accounting information system.
- All financial transactions have adequate supporting documentation and are posted on a timely basis.
- The District has procedures in place to review the journal entries after they have been entered into the accounting information system to ensure accuracy.
- The District utilizes *nVision* as their accounting information system which integrates the major business operations such as accounting, bidding, budget management, requisitions, receivables, payroll, human resources and negotiations.
- The District prepares treasurer reports on a monthly basis for presentation at the Board of Education meetings.
- Treasurer reports, revenue status reports, appropriation status reports and warrants are reviewed by the Assistant Superintendent for Business at a minimum, on a monthly basis and any unusual balances are investigated and resolved.

AUDITING

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's auditing processes based on the following reasons:

- As per Education Law 1721, "the Board of Education is required to publish, in at least one public newspaper, a full and detailed account of all moneys received by the board or treasurer of said district, for its account and use, and of all moneys expended, therefore, giving the items of expenditure in full." The Board did not publish the annual financial statements with a full and detailed account of all moneys received, however, the financial statements are available on the District's website.
- The District has appointed an independent external auditor, claims auditor, and internal auditor in accordance with state laws.
- Request for proposals have been performed for the retention and appointment of the independent external auditor and/or internal auditor.

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

- Management of the District is diligent in responding to audit findings within the required time frame by filing a corrective action plan.
- The Board of Education accepts, by resolution, the independent auditor's report annually, which is in compliance with laws and regulations.
- The District has adopted a formal Board of Education policy to outline the responsibilities of the external auditor, the claims auditor, and the internal controls audit function.

FUND BALANCE MANAGEMENT

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's fund balance management processes based on the following reasons:

- The District has controls in place within the accounting information system whereby overrides are not permitted to release a purchase order if appropriations are insufficient.
- The District mass encumbers all known obligations at the beginning of the fiscal year, including such items as salaries and fringe benefits, debt service obligations, utilities and other service contracts as a control to properly project the fund balance at the end of the fiscal year and to maintain budgetary control.
- During the fiscal year 2016-2017, the District reserves were evaluated on a monthly basis for appropriate funding and maintenance of balance.
- Fund balance projections are prepared during the budget development process to adequately determine the appropriate funding of reserves and assigned fund balance at year end.

RESERVES AND FISCAL HEALTH

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the control risk for the District's reserves and fiscal health as low based on the following reasons:

- We noted the District's reserves are maintained in accordance with related laws and regulations.
- NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a District can retain to no more than 4% of the District's budget for the general fund for the ensuing fiscal year. The District was within the legal limit of the unassigned fund balance for the fiscal years ending June 30, 2014, June 30, 2015 and June 30, 2016.
- We performed analytics on the District's audited financial statements for the past three fiscal years, including a review of fund balances, reserves and operating results. Based on this review, we noted the following:

- The District has consistently maintained a current ratio significantly better than 2 to 1, which is a standard indicator of fiscal health. For the fiscal year ending June

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

30, 2016 it was 5.0; for the fiscal year ending June 30, 2015, it was 4.8 and for the fiscal year ending June 30, 2014, it was 4.8. The standard indicator represents for every one dollar the District owes, it should have two dollars available in current assets. As can be seen, the District is above this standard indicator.

- For the fiscal year ended June 30, 2016, the District's employee benefit accrued liability reserve and retirement contribution reserve were funded within established guidelines.

We also noted for the past two fiscal years, the District's school lunch fund had an operating deficit, however the school lunch fund maintained a positive unassigned fund balance. This alone did not justify a control risk higher than low, since we considered the entire control environment in making our assessment.

CASH RECEIPTS

COLLECTION AND POSTING OF RECEIPTS

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's collection and posting receipts processes based on the following reasons:

- The District maintains two cash receipts logs, which are prepared for all incoming cash receipts in the business office by individuals independent from the recording and depositing functions.
- The Assistant to the Assistant Superintendent for Business compares the log of incoming cash receipts received via postal mail to the cash receipts per *nVision* and to the bank authenticated deposit tickets to verify that all receipts recorded in the log have been appropriately recorded in *nVision*. The Assistant to the Assistant Superintendent for Business notes the cash receipt number assigned by *nVision* on the cash receipt log to document the comparison.
- All business office cash receipts have adequate supporting documentation to support the receipt.
- Proper facilities for the safeguarding of cash are utilized by the District.
- A District custodian is charged with the responsibility of performing the business office bank deposits.

We also noted that the District does not have procedures in place to reconcile the log of cash receipts which have been hand delivered to the business office to *nVision* to verify that all receipts recorded in the log have been appropriately recorded in *nVision*, however this alone did not justify a control risk higher than low, since we considered the entire control environment in making our assessment.

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

CASH MANAGEMENT

BANK RECONCILIATIONS

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's bank reconciliations processes based on the following reasons:

- Monthly bank reconciliations prepared by the District Treasurer are reviewed by the Per Diem Accountant and reviewed and approved by the Assistant Superintendent for Business on a monthly basis prior to the Board receiving the treasurer reports.
- The District Treasurer provides the monthly treasurer reports to the Board.
- The District investigates and tracks outstanding checks and reconciling items monthly.
- We tested a selection of 80 bank reconciliations and noted no exceptions.
- We reviewed the District's collateral for a selection of three months, and noted the District was sufficiently collateralized.

PAYROLL

PAYROLL DISTRIBUTION

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's payroll distribution processes based on the following reasons:

- The District custodian who collects the checks from the business office must count the checks and sign to verify he received the correct number of checks.
- The Building Principal signs the check distribution sheet to certify that all employees listed are current District employees who work in the building.
- Unclaimed live payroll checks are forwarded to the payroll department to be mailed out to the employee.
- The District requires all employees receiving a live check to sign for their paychecks, bi-weekly.

PAYROLL ACCOUNTING AND REPORTING

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's payroll accounting and reporting processes based on the following reasons:

- The Board of Education has appointed the Superintendent as the official payroll certification officer.

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

- District timesheets and timecards are submitted to payroll with appropriate supervisory approval signatures before payroll is processed, including all overtime hours worked.
- The District's budget contains separate line items for overtime to analyze its use and the potential for staffing changes.
- There are controls in place within the payroll department whereby the mathematical accuracy of timesheets are checked, as well as a check for the appropriate approval signatures.
- Based on our selection of twenty payroll checks selected including contractual, non contractual, stipends and overtime, we noted no exceptions.

TAX FILING AND RECONCILIATION PROCESS

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the control risk for the District's tax filing and reconciliation processes as low based on the following reasons:

- The District reconciles the quarterly IRS 941 form to the District's expenditure ledger.
- All required tax filings are performed in a timely manner.

SEPARATION PAYMENTS

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the control risk for the District's separation payments processes as low based on the following reasons:

- The calculation of the final separation payment that is prepared by the Payroll Supervisor is reviewed and approved by the Assistant Superintendent for Business.
- The calculation of the final contractual paycheck is reviewed and approved by the Assistant Superintendent for Business prior to payment being rendered.
- Our testing revealed no instances of non-compliance with the District's procedures as outlined above.
- The controls in place regarding the District's attendance recordkeeping processes, which are a prerequisite to ensuring that separation payments for accumulated leave balances are calculated properly, include the following:
 - Attendance is tracked within *nVision* rather than tracking leave balances manually.
 - Year-end reviews of attendance data are performed prior to the year-end roll-over, which is achieved by providing an *Attendance Notice* to each employee to review for accuracy.
- The payment made to the third party administrator for retirement benefits is reviewed and approved by the claims auditor.

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

HUMAN RESOURCES

EMPLOYMENT TERMINATION

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the control risk for the District's employment termination processes as low based on the following reasons:

- As previously noted, the calculation of the final contractual paycheck is reviewed and approved by an appropriate administrator prior to payment being rendered.
- The Board of Education approves all employees who are terminating their employment with the District.
- Proper controls are in place regarding the inactivation of the employee in the payroll module of the District's accounting information system.

PURCHASING AND RELATED EXPENDITURES

PURCHASING PROCESS AND PURCHASE ORDER SYSTEM

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's purchasing processes and purchase order system based on the following reasons:

- The Assistant to the Assistant Superintendent for Business is responsible for adding new vendors in *nVision*. All vendors are set up with a tax ID number. *nVision* will notify the user if an existing vendor or employee is set up with the same tax ID number.
- The District's policy No. 6710, *Purchasing Authority*, includes the name of the individual who is responsible for purchasing as required by Chapter 402 of the Laws of New York, 2007.
- The District's purchasing agent verifies that quotations were obtained by the originator of the purchase requisition.
- The District procures goods and/or services from time to time utilizing other governmental agencies contracts and BOCES cooperative bids to help reduce the costs of bidding.

We also noted that the District does not have procedures in place to review the vendor master file for duplicates or to compare the vendor master file to the employee file for possible conflicts of interest on an annual basis. This alone did not warrant a control risk higher than low, since we considered the entire control environment in making our assessment.

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

PAYMENT PROCESSING

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's payment processing procedures based on the following reasons:

- The District requires that the business office copy of the purchase order be signed and forwarded to accounts payable with the related packing slips (if applicable) before payment is processed.
- The District utilizes "EDGE" check printing technology, which is used to convert blank check stock into negotiable checks for payment to vendors.
- The District maintains the check signature discs in a secure location which is only accessible by the authorized employees.
- The District's claims auditor reviews all checks before they are mailed to the vendors.
- The District requires that all vendors submit an IRS W-9 Form to verify the vendor's tax status prior to adding the new vendor to *nVision*.
- The District requires all invoices and/or receipts to be properly cancelled after payment.

TRAVEL AND CONFERENCES

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's travel and conferences process based on the following reasons:

- The District has adopted policy No. 6830, *Expense Reimbursement*, and policy No. 680-R.2, *Meals/ Mileage/ Refreshments for Out-of-District Conferences/ Seminars/ Meetings/ Workshops*, surrounding the procedures that are to be followed when attending conferences and requesting meal and travel reimbursements.
- Employees are required to complete a pre-travel request form through *My Learning Plan* prior to attending conferences which is to include an estimate of the related expenses that are to be incurred.
- The District generates purchase orders prior to employees attending conferences.
- The District has delegated the responsibility of conference approvals to the District Superintendent for administrators and instructional staff, and to the Assistant Superintendent for Business for non-instructional staff.
- The District does not allow travel advances for employees who attend conferences.
- Reimbursements require original itemized receipts as supporting documentation for reimbursement.

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

CAPITAL ASSETS

INVENTORY TRACKING

Control Risk Level: Low (L)

Reason for Risk Level: Based on our periodic duties, we have assessed the level of control risk for the inventory tracking as low based on the following reasons:

- Our testing of a selection of five capital asset additions revealed no exceptions.

INFORMATION TECHNOLOGY

GOVERNANCE

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's information technology governance processes based on the following reasons:

- The District has adopted Policy No. 8635, *Information Security Breach and Notification*, as required by State Technology Law §208.
- The District has adopted Policy No. 8630-R, *Computer Resources and Data Management*, related to, but not limited to, segregation of duties, data input, passwords and permissions, network and internet access, and data backup.
- The District adopted policy No. 4526, *District Computer, Network and Internet Use Policy Faculty, Staff and Students*, providing faculty, staff and students with guidelines of appropriate use of computer technology and uses that are prohibited.
- The District has adopted the *Southampton Public Schools District Technology Plan*, which is a **comprehensive** technology plan for the District.

NETWORK SECURITY

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's network security processes based on the following reasons:

- The District requires network passwords to be changed periodically to reduce the risks involved with unauthorized access.
- The District has procedures in place to lockout users after ten failed logon attempts.
- The District's network is protected with various security software suites, filters and firewalls to protect the network from viruses and unauthorized use, and is updated regularly.

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

- The District does not allow employees to access the District's network via a Virtual Private Network (VPN). Currently, the Network and Systems Administrator and the Lead Technician are the only employees who have VPN access.
- Uninterrupted power supplies are installed at the network operating center ("NOC") to protect the District's network against power disruptions, and the NOC is climate controlled.

FINANCIAL APPLICATION SECURITY

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's financial application security processes based on the following reasons:

- The Network and Systems Administrator has administrator access to the accounting information system, and requires approval from the Assistant Superintendent for Business to add or change user permissions.
- The District's accounting information system is only accessible by password, which is required to be changed every 120 days.
- The Network and Systems Administrator and Lead Technician are responsible for maintenance of the server that houses *nVision*. The server is backed up onsite and remotely on a nightly basis.
- The Assistant Superintendent for Business reviews the audit trail reports for user activity on a monthly basis to identify any activity that appears to be unusual.

DISASTER RECOVERY

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's disaster recovery processes based on the following reasons:

- The District adopted a *Southampton Public Schools District Technology Plan* which includes a disaster recovery plan that details a **comprehensive** set of procedures to follow in the event of a disaster, including strategies for restoring "mission critical" systems, such as the accounting information system.
- The District utilizes a cloud service to perform offsite backups of District data on a nightly basis.

**Southampton Union Free School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2017**

Corrective Action Plan

The District is required to prepare a corrective action plan in response to any findings contained in the internal audit reports. As per Commissioner's Regulations §170.12, a corrective action plan, which has been approved by the Board, should be submitted to the State Education Department within 90 days of the receipt of a final internal audit report.

The approved corrective action plan and a copy of the respective internal audit report should be sent to the following address:

New York State Education Department
Office of Audit Services, Room 524 EB
89 Washington Avenue
Albany, New York 12234

**Southampton Union Free School District
Assessment of Risk and Testing Plan
For the Fiscal Year Ending June 30, 2017**

Appendix A

Legend	
✓	Extensive system process review completed
■	Extensive system process review proposed
•	Processes evaluated
*	Updated control risk based on extensive system process review
P	Process subjected to periodic duties
H = High M = Moderate L = Low	

BUSINESS PROCESSES & SUBPROCESSES	Inherent Risk		Control Risk		Audit Plan		
	06/30/16	06/30/17	06/30/16	06/30/17	15-16	16-17	17-18
GOVERNANCE & PLANNING							
Governance and Control Environment	II	II	L	L	•		
Budget Development and Administration	H	H	L	L	•		
Budget Transfers	II	II	L	L	•		
ACCOUNTING & REPORTING							
Financial Accounting, Reporting and Oversight	II	II	L	L		•	
Auditing	M	M	L	L		•	
Fund Balance Management	II	II	L	L		•	
Reserves and Fiscal Health	II	II	L	L		•	
CASH RECEIPTS							
Collection & Posting of Receipts	II	II	L	L		•	
CASH MANAGEMENT							
Cash and Investment Management	II	II	L	M*	P	✓	
Wire Transfers and Banking Controls	H	H	L	L		✓	
Bank Reconciliations	II	II	L	L	P	✓	P
Banking Security	H	H	L	L		✓	
REVENUE AND BILLINGS							
Tuition and Health Services Billings	M	M	L	L	•		■
GRANTS							
General Processing and Monitoring	M	M	L	L	•		
Allowable Costs and Compliance	M	M	L	L	•		
PAYROLL							
Payroll Distribution	II	II	L	L		•	
Payroll Accounting and Reporting	II	II	L	L	P		P
Tax Filings and Reconciliation process	M	M	L	L		•	
Separation Payments	II	II	L	L		•	
HUMAN RESOURCES							
Employment Requisition and Hiring	M	M	M	M	✓	•	P
Employment Termination	M	M	L	L	✓	•	
Employee Attendance	II	II	M	M	✓	•	P
BENEFITS							
Benefits Eligibility and Calculations	II	II	L	L		✓	
Medical Benefits	M	M	L	M*		✓	
Retiree Health Insurance	II	II	L	L		✓	

**Southampton Union Free School District
Assessment of Risk and Testing Plan
For the Fiscal Year Ending June 30, 2017**

Legend	
✓	Extensive system process review completed
■	Extensive system process review proposed
•	Processes evaluated
*	Updated control risk based on extensive system process review
P	Process subjected to periodic duties
H = High M = Moderate L = Low	

BUSINESS PROCESSES & SUBPROCESSES	Inherent Risk		Control Risk		Audit Plan		
	06/30/16	06/30/17	06/30/16	06/30/17	15-16	16-17	17-18
PURCHASING & RELATED EXPENDITURES							
Purchasing Process and Purchase Order System	H	H	L	L		•	
Payment Processing	H	H	L	L		•	
Travel and Conferences	H	H	L	L		•	
FACILITIES & CAPITAL PROJECTS							
Facilities Maintenance	H	H	L	L	•		
Construction Planning and Monitoring	M	M	L	L	•		
Final Building Projects Reports	H	H	L	L	•		
CAPITAL ASSETS							
Acquisition, Disposal and Capitalization Policy	H	H	M	L	✓		
Inventory Tracking	H	H	L	L	✓	P	P
FOOD SERVICE OPERATIONS							
Federal and State Reimbursement	M	M	L	L	•		
Sales Cycle	H	H	L	L	•		
Inventory and Purchasing	M	M	L	L	•		
Eligibility Verification	M	M	L	L	•		
Vending Machines	H	H	M	L	•		
EXTRA CLASSROOM ACTIVITY FUND							
General Controls	H	H	L	L	•		■
Cash, Cash Receipts and Disbursements	H	H	L	L	•		■
INFORMATION TECHNOLOGY							
Governance	M	M	L	L		•	
Network Security	H	H	L	L		•	
Financial Application Security	H	H	L	L		•	
Disaster Recovery	H	H	L	L		•	
Permissions	H	H	L	M		•	
STUDENT RELATED DATA AND SERVICES							
Student Attendance	H	H	L	L	•		
Student Performance Data	H	H	L	L	•		
Student Security and Safety	H	H	L	L	•		
TRANSPORTATION SERVICES							
Student Transportation	M	M	L	L	•		
State Aid	M	M	L	L	•		
STUDENT SERVICES							
STAC	H	H	L	L		•	
Medicaid Compliance	H	H	L	L		•	