

**CITY SCHOOL DISTRICT OF ALBANY
2018/19 RISK ASSESSMENT**

February 25, 2019

Board of Education
City School District of Albany
1 Academy Park

We have completed the financial risk assessment of the City School District of Albany for the 2018/2019 fiscal year and are enclosing the attached report. The purpose of this engagement was to assist you in implementing the regulations imposed by the 2005 School Financial Oversight and Accountability legislation. Our engagement was designed to assess risk in the District's financial reporting process, identify internal controls that address or mitigate those risks, and report to the Board and management remaining risks and recommended procedural changes.

Our procedures included reviewing responses to internal control questionnaires completed by District staff, interviewing key personnel, and reviewing certain employee's access to general ledger applications. The risk assessment addresses various components of the financial operations of the District.

We found the overall control environment to be very good. Management and staff within the business office are certainly cognizant of the importance of internal controls, are aware of and respond where possible to potential risks, and perform their jobs with competence and diligence.

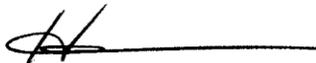
The purpose of our engagement was to assist the Board and management in achieving its responsibility to monitor financial reporting risk. It is ultimately the Board's responsibility to determine a response to potential risks. However, our report does include suggestions of ways to respond to potential risks.

Although not addressed in our report, the Board should also consider implementing fraud and abuse awareness and reporting processes for the District. Many studies on fraud show that disclosure by other employees is the most common way that fraud schemes are uncovered.

The attached report is intended solely for the information and use of the Board of Education and management of the City School District of Albany and should not be used for any other purpose.

We appreciate the opportunity to perform the risk assessment for the District and look forward to continuing to serve the District in the role of internal auditor. We should be viewed as a resource for the Board; please feel free to contact us at any time.

Sincerely,



Heather R. Lewis, CPA
Director

City School District of Albany

July 1, 2018 - June 30, 2019 Risk Assessment Report

Payroll

Payroll and related benefits are the most significant expenditures of the District. There are a number of different employee groups who are paid in different ways, and a number of State and federal laws as well as union specific requirements to be followed. These factors together make the payroll transaction cycle a high-risk area.

Control Weaknesses and Potential Risks

- Payroll office clerks have rights to make changes to their own information within nVision, including pay rates, census data, hours etc.
- Returned or undelivered W-2's are returned to the payroll department for investigation creating the risk that a fictitious employee could be paid and not be detected.
- There is no reconciliation between staff absence and use of PTO or other valid pay codes creating the risk that a teacher might not use PTO when it is required.
- During the 2018/2019 fiscal year, employees were not required to sign a roster to receive their pay checks. This should be done annually.

Compensating Controls

- Annual "audit" of payroll requiring employees to show ID to pick up their stub/check (see above did not occur 2018/2019).
- A report is run and reviewed every payroll cycle directly from nVision which shows all changes made during the two week period with the individual who made the change. This report is reviewed by the payroll office clerks who check each other's changes. The report is also reviewed/signed off on by the Director of Business Operations.

Recommended Changes to Procedure

- Ideally, access should be denied to pay rate changes to all employees except one. Additionally, the individuals who review the payroll change report should not have access to change pay rate information.
- School Based substitutes should document who they sub for and be matched with teacher's attendance sheet to ensure that teacher's use of personal, sick, and conferences days are recorded appropriately.
- Employees should be signing a roster annually in order to receive their pay checks.

Recommended Internal Audit Responses

- Review a sample of payroll changes from the report to supporting documentation.

Cash Disbursements

Disbursements are a significant part of the operation of a school district and require a significant amount of the District's resources.

Control Weaknesses and Potential Risks

- On occasion, purchases are made without a purchase order due to urgent need or unexpected incidents.

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- Claim forms for sports officials/referees and travel/mileage are not uniformly numbered or provided with an invoice number when input into nVision, therefore it is possible that a claim form could be paid twice and not identified.

Compensating Controls

- Claims auditor reviews and approves all disbursements included in each warrant.
- The Purchasing Agent follows up and monitors purchases made without a purchase order to control potential abuse.

Recommended Changes to Procedure

- The Purchasing Agent should continue to monitor purchases made without a purchase order and ensure the purchasing department is kept apprised of situations when purchase orders were not used and did not meet the criteria of an urgent or unexpected purchase.
- There should be a policy relating to how claim forms are assigned an invoice number in nVision, so they are input the same way every time. That way when the Purchasing Agent types in that assigned invoice number, nVision would notify you if this invoice has been paid already.

Recommended Internal Audit Response

- Review of claim forms for duplicate payment.

Extraclassroom Activity Funds (ECAAF)

These funds are to be maintained by students with the oversight of an advisor. The students collect money for certain purposes and then request the money they collect to be spent. Due to the nature of these funds, there is a high inherent risk of loss, misappropriation or improper use of the funds. There are also specific New York State Education Department guidelines which must be followed by these funds.

Control Weaknesses and Potential Risks

- When clubs order items for fundraisers, the packing slip is not matched to the invoices and purchase orders to ensure that the items received are the ones ordered and being paid for.
- Budgetary estimates of necessary receipts and disbursements of each club are not being made and documented.

Compensating Controls

- The Claims Auditor reviews extraclassroom activity funds disbursements.

Recommended Changes to Procedures

- For invoices related to the purchase of goods, packing slips should be reviewed and compared to goods received and signed off on. The packing slips should be maintained with the invoices and other documents retained with the copies of the checks and compared to the invoices to ensure payment is made only for items actually received.
- Each club should annually budget receipts and disbursements and a copy filed with each the chief faculty advisor, central treasurer, faculty advisor, and student.

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Recommended Internal Audit Response

- Review a sample of cash receipts for proper documentation and reconciliation to amounts collected.

General Ledger Access Levels

Appropriate segregation of duties is an important aspect of internal control; however, if the segregation is not present within the computer access levels, the segregation by policy is not effective.

Control Weaknesses and Potential Risks

- Some users have system administrator rights.

Recommended Changes to Procedures

- The District's IT professional should be the only user with administrative rights. All other users should be given rights only to those modules (and the specific functions within those modules) that are required to perform their job duties and override privileges should be restricted to only appropriate business office staff. If this recommendation would not be effective other controls should be implemented to monitor employees who have administrative rights that would negate appropriate segregation of duties that are not consistent with general ledger access.

Claims Auditor Function

The Claims Auditor position is a very effective position for the District and can alleviate segregation of duties issues as well as provide an additional level of comfort to Board members when used to its fullest extent.

Control Weaknesses and Potential Risks

- The Claims Auditor does not review Trust and Agency payroll items.

Recommended Changes to Procedure

- The Claims Auditor should include a review of the Trust and Agency payroll items by agreeing the transaction to the payroll register totals.

Recommended Internal Audit Response

- Agree a sample of transactions from Trust and Agency to the payroll registers.

Accounts Receivable Process

While some of the revenue earned by the District is deposited electronically (State aid and grant revenue), receipt of checks and especially cash are inherently high risk transactions as it can be difficult to establish the "completeness" of receipts; in other words, that all the receipts that should be recorded are recorded.

Control Weaknesses and Potential Risks

- Receipts of checks and cash are high risk transactions.

Compensating Controls

- The District began using the Accounts Receivable Module, however a significant portion has not yet been moved to the new Module.

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Recommended Changes to Procedure

- The District should consider using the Accounts Receivable Module in nVision for all receivable items instead of using an excel spreadsheet to track a significant portion of accounts receivable. With the Accounts Receivable Module, you have access to run aging reports which better tracks accounts receivable.

Scholarships and Memorial Funds

Donors donate scholarships and funds to the District with the expectations that their demands are being followed. It is essential that the District has clear policies in place to meet the expectations of the donors and be better equipped to welcome more donations to the District.

Control Weaknesses and Potential Risks

- The District does not have a standard procedure or checklist to document the designations of incoming scholarship or memorial fund donations.
- Older scholarships and memorial funds do not always have documentation on what the criteria are to allow a release of the funds.

Recommended Change to Procedure

- Create a standard form for incoming scholarships or memorial fund donations that include when funds should be released and what criteria should be met.
- For scholarship and memorial funds that do not have any support for the designations, we recommend that there is a procedure in place to set criteria on the funds that met the most likely designations set at the time of the award and keep this documentation going forward.

Information Technology and Security

See reports provided for 6/30/15 testing. When changes have been made we recommend a full vulnerability assessment and evaluation be done to determine what areas of concern have been addressed and if there are any new concerns. We recommend evaluating this area again for 6/30/20. Below are recommendations and best practices gathered from a questionnaire completed by the Technology Coordinator.

Control Weaknesses and Potential Risks

- The District does not have regular IT compliance training program for their staff.
- The District does not have a defined computer incident/data breach policy in place.
- The District's PCs are not encrypted.
- District workstations are not protected by session locks which would lock the workstation when there has been a defined period of inactivity.
- Backup test are not performed.

**City School District of Albany
Items Removed From the Prior Year Risk Assessment Report**

City School District of Albany Items Removed From the Prior Year Risk Assessment Report

Extraclassroom Activity Funds (ECAAF)

These funds are to be maintained by students with the oversight of an advisor. The students collect money for certain purposes and then request the money they collect to be spent. Due to the nature of these funds, there is a high inherent risk of loss, misappropriation or improper use of the funds. There are also specific New York State Education Department guidelines which must be followed by these funds.

Control Weaknesses and Potential Risks

- Profit and loss statements are not being prepared for all fundraisers and pre-numbered tickets are not used for all ticketed events.
- Financial reports generated by the Central Treasurer are provided only when requested by the Club and therefore the Club is not regularly matching their records against the Central Treasurer records.

Recommended Changes to Procedure

- Profit and loss statements should be required for all fundraising events and provided to the Central Treasurer. These statements should be complete and reconcile the actual cash collected to the amount deposited as well as the expenses incurred for each fundraiser. The profit and loss statements should also indicate leftover “inventory” from fundraisers that may be able to be used in future fundraisers.
- Central Treasurer should send the Clubs the Central Treasurer’s financial report for the club so the club can reconcile to their records.

Claims Auditor Function

The Claims Auditor position is a very effective position for the District and can alleviate segregation of duties issues as well as provide an additional level of comfort to Board members when used to its fullest extent.

Control Weaknesses and Potential Risks

- The Claims Auditor should report to the Board on a consistent basis each year.
- There is no documentation to support that the Claims Auditor is reviewing the procurement policy on an annual basis.

Recommended Changes to Procedure

- The Claims Auditor should be reporting to the Board monthly with any issues/exceptions or stating that there was nothing of significance to report.
- The Claims Auditor should be documenting their review of the procurement policy.