

***Putnam Valley Central School District  
Risk Assessment Update FY 2018/2019  
& Recommended Audit Plan  
January 2019***

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May 24, 2019,

Ms. Jeanine Rufo  
President, Board of Education  
Putnam Valley Central School District  
146 Peekskill Hollow Road  
Putnam Valley, NY 10579

Dear Ms. Rufo:

We have recently completed our risk assessment update for the Putnam Valley Central School District (the "District") on behalf of the Board of Education and Audit Committee. Our risk assessment of District operations identified and prioritized risks in accordance with New York's Chapter 263 of the Laws of 2005.

In our risk assessment update, we re-evaluated the major functional areas of District operations to determine if there were any significant changes that would impact the risk evaluation from the previous fiscal year.

Based upon the results of this current fiscal year risk assessment, we have updated our proposed risk-based audit plan that is attached to this report for your review and consideration. Our risk assessment update and corresponding recommended audit plan identifies the following areas as candidates for audit:

- Capital Project and Construction Management

A summary for each functional area reviewed and related risk rating is in the attached risk assessment update report. We met with the Audit Committee on May 23rd to discuss the report and the recommended internal audit plan. We shall be available to meet with the Board to discuss the report at its convenience.

We appreciate the cooperation and assistance provided by District staff.

Very truly yours,



Accume Partners

## ***Accume Partners Risk Assessment Approach***

We have performed an audit risk assessment update for the Putnam Valley Central School District (“District”), on behalf of the District Audit Committee and Board of Trustees in accordance with New York’s Chapter 263 of the Laws of 2005. A risk assessment is a systematic process for identifying and controlling risk. Risk can be defined as the possibility that something could negatively affect the District. More specifically, risk can be defined as the internal and external factors that threaten the achievement of the District’s mission, goals, and objectives.

As the District’s Internal Auditor, our primary responsibility is two-fold. First, internal audit’s role is to assist the Board in ensuring that the District’s risks are identified. Second, Internal Audit provides the Board and Management with a systematic assessment of risk to ensure that appropriate internal controls are in place to mitigate those risks.

The recommended internal audit plan is derived from the risk assessment. The internal audit plan summarizes the recommended audits or “test of controls” the District should conduct to evaluate its risk management strategies. Effective and efficient internal controls, or risk management strategies, gives the Board and Management greater assurance that the District can achieve its mission, goals and objectives. The operational effectiveness of internal controls is then tested during the internal audit.

Our risk assessment includes a District-wide analysis of the major District functions, processes, and controls. We consider qualitative and quantitative factors such as materiality to the financial statements, policies and procedures, strategic planning, and organizational change. Also, the risk assessment includes a quantitative risk rating that represents an aggregate assessment of risk relative to the financial and operating environment, information technology, governance, internal controls and compliance factors.

In the initial risk assessment, our overall goal was to determine the degree of risk within the major functional areas of District operations. This resulted in our designing an annual audit plan to focus on those areas which were most at risk. In our risk assessment update, we re-evaluated the same functional areas to determine if there were any significant changes that would impact the risk evaluation.

Internal Audit does not strictly recommend auditing only the functional areas with the highest risk rating score. Other factors affecting the recommendation include Board/Management priorities, limited resources, prior audit results, the opportunity for a greater impact in adding value to the organization, and the degree of organizational change in the functional area. All of these factors are addressed when devising the recommended audit plan.

### ***Risk Rating Methodology***

In performing our risk assessment, we categorized the District into nine functional areas. We then utilized a rating methodology that takes into account sixteen quantitative and qualitative factors such as: policies and procedures; financial materiality; operational change; employee knowledge & training; internal controls; management reporting; and laws and regulations. The sixteen factors were individually weighted by relevance and importance. Then, a risk matrix was developed to comprise the sixteen factors across all nine functional areas.

The risk matrix is used to provide a systematic evaluation of risk. Each functional area's composite risk rating score is derived from the sum of the individual ratings scores of the sixteen factors. The rating system represents an aggregate assessment of risk, with the level of risk determined by the composite risk score as defined in the table below:

#### ***Composite Risk Rating Score and Level***

<b>Low &lt; 131</b>	<b>Medium 131 – 210</b>	<b>High 211 – 300</b>
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The qualitative and quantitative factors are individually weighted for relevance and significance. Thus, some factors will affect the overall risk rating more than others. In other words, the financial significance, materiality or criticality of a particular function to the organization's operations can increase the risk rating of a function. For example, in Payroll and Purchasing, the risk rating score for most Districts will be relatively higher than other areas because of the financial significance or materiality of these operations. This explains that some areas within the District may have higher inherent risks associated with them relative to other operations.

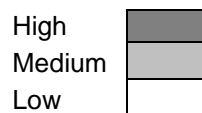
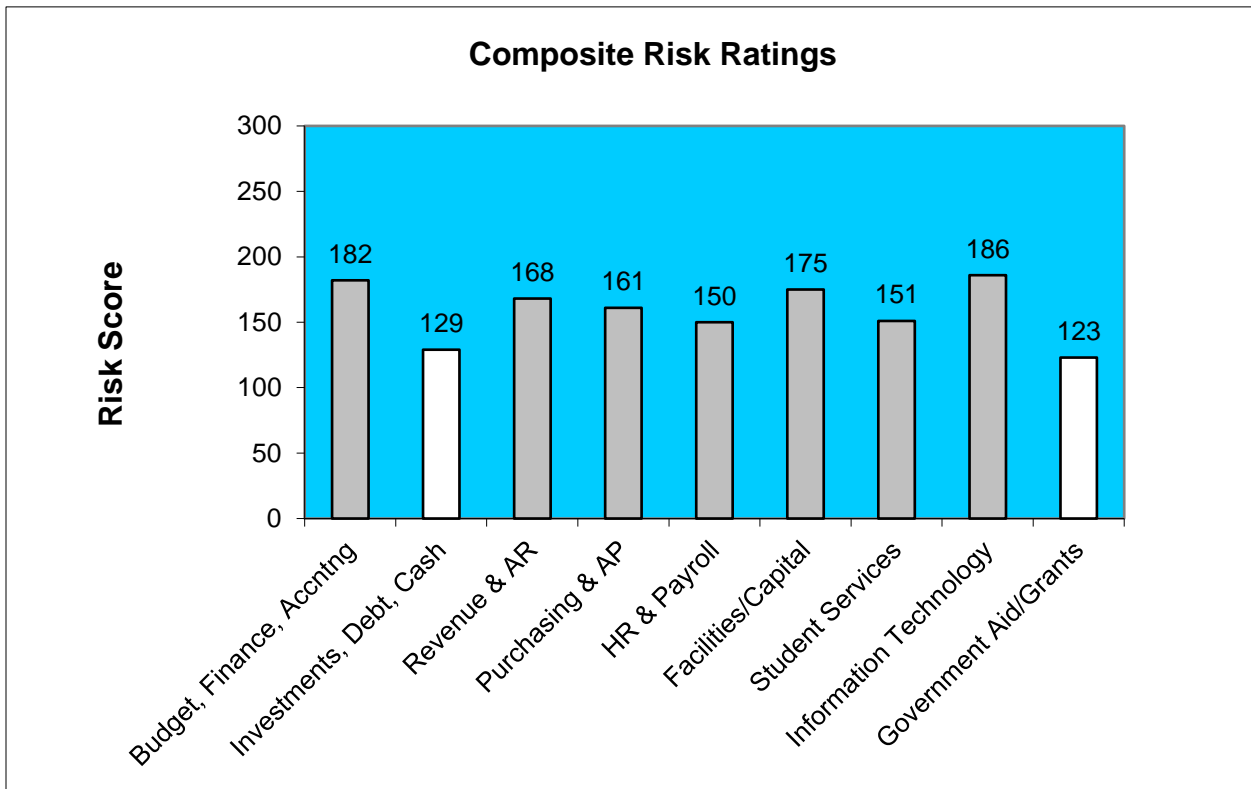
Another factor that can increase the risk rating is the design of internal controls. Although our risk assessment does not test and evaluate the operational effectiveness of internal controls, our methodology includes the identification of internal controls, as well as an evaluation of the design of internal controls. If the District was lacking in a key control over a functional area such as adequate segregation of duties or policies and procedures, that would create more risk.

In addition, we review for a system of internal controls that both prevent and detect errors. Preventative internal controls are controls that may prevent errors from occurring, whereas detective controls are controls that may detect errors once they have occurred. If the District has more controls in place that prevent errors, then the overall control environment would be stronger, and hence there would be less risk, than if the District relied solely on detective controls. The ultimate goal is to effectively manage the risks in all functional areas through the implementation of a system of internal controls that help to ensure that errors, irregularities, and fraud are less likely to occur or go undetected.

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Executive Summary

Functional Area	FY18/19		FY17/18		Internal Audit Conducted
	Risk Rating	Level	Risk Rating	Level	
Budget, Financial Accounting & Reporting	182	Medium	176	Medium	FY14/15
Debt, Investments and Cash	129	Low	129	Low	FY08/09
Revenues and Accounts Receivable	168	Medium	168	Medium	FY17/18
Purchasing and Accounts Payable	161	Medium	163	Medium	FY12/13
Human Resources and Payroll	150	Medium	150	Medium	FY15/16
Facilities and Capital Assets	175	Medium	164	Medium	FY13/14 Recommended For FY 18/19
Student Services	151	Medium	151	Medium	FY10/11 & FY11/12
Information Technology	186	Medium	185	Medium	FY16/17
Government Aid and Grants	123	Low	123	Low	



## ***Discussion and Risk Rating by Functional Areas***

### **BUDGET, FINANCIAL ACCOUNTING and REPORTING**

#### **Risk Rating 182 Medium**

This area is concerned with the budget development, implementation and monitoring process; financial accounting and reporting; and operations of the Business Office, Superintendent, and Board governance.

The external auditor, PKF O'Connor Davies LLP, has issued their audit report, which had an unqualified opinion and did not identify any deficiencies in internal control over compliance that would be considered a material weakness.

The District's total Revenues were \$48.9 million for the year ended June 30, 2018 versus \$48.5 million the previous year. Total Expenses were \$50.2 million, an increase of \$1.6 million over the previous year's \$48.6 million.

Any reduction in state aid due to budget shortfalls on the state level and any significant change in tax certiorari payments could impact the District's financial position.

The District's Board of Trustees consists of five members. Board members serve three year terms. Overall, the Board sets a good example of internal control awareness and "tone-at-the-top." Specifically, the Board exercises transparency in its decision-making and governing by posting Board Agendas, Meeting Minutes, Policies, and presentations to the Board on the District's website. Board Sub-Committees regularly report to the full Board. In addition, Board Meetings are taped and made available to the public via video on demand link posted on the District's website. Further, the District posts the internal audit reports on the web-site, following their summary presentations to the Board.

The District's Business Office personnel have stabilized over the past 5 years. The District Accountant, the Payroll & Benefits Clerk, the Office Assistant 1 and the Senior Office Assistant have all completed approximately 5 years in their new positions and are also trained on the new Finance Manager Nvision system. However, the announced retirement of the Superintendent and the replacement of the Director of Operations in 2018-2019 school year have resulted in new personnel assuming these positions. The Deputy Superintendent will be replacing the existing Superintendent in 2019-2020 school year. There will be 16 employees retiring this year throughout the District.

The risk rating level was evaluated as Medium.

## **DEBT, INVESTMENTS and CASH**

### **Risk Rating 129 Low**

Debt, Investments and Cash review looks at the processes the District has in place to oversee issuing, monitoring and recording of debt; as well as policies and procedures for managing and monitoring investments and collateral, and cash management controls.

At fiscal year ending June 30, 2018, the District held approximately \$16.5 million in unrestricted cash and investments which had decreased from the previous year's total of approximately \$18.8 million. The District's main source of revenue, property taxes, is collected at the beginning of the year and spent down as the year progresses.

The District has an investment policy and has procedures in place to determine whether cash is available for investment. Excess cash balances are transferred to interest bearing accounts to maximize revenue. A summary record of key information is maintained for all investments to properly monitor and account for investments.

The Business Office has adequate segregation of duties with respect to cash management. The Account Clerk opens mail; The Senior Office Assistant logs and posts cash received; and prepares the bank deposit. The Senior Office Assistant prepares the Treasurer's Receipts, and the District Accountant performs the bank reconciliations.

Proper cash technology controls require layers of internal controls to prevent misappropriation of district assets. The District follows best practices such as separation of duties with electronic funds transfers, use of complex passwords, daily monitoring of bank accounts, and use of dedicated computers for online banking transactions. Internal Audit notes that the District Treasurer approves all wire transfers initiated by the Senior Office Assistant. In addition, the District ensures that computers used to make online banking transactions are formally registered with its banking institutions, and that alerts are enabled to ensure proper monitoring of banking activity.

This area was rated a Low risk.

**REVENUE and ACCOUNTS RECEIVABLE**

**Risk Rating 168 Medium**

The review of this area focuses on property tax and non-tax revenue, recording and reporting revenue, billing and maintaining accounts receivable, and other Treasury functions in the Business Office.

Revenues are collected from multiple sources, including taxes, tuition payments, extraclassroom activity funds, state aid, unrestricted earnings on investments, sale of property and miscellaneous items. Total revenues were \$46.6 million for fiscal year 2018 versus \$46 million the previous year. Of that amount real property taxes were \$31.2 million for fiscal year 2018. The District has a reserve fund for tax certiorari claims of \$967,876 at June 30, 2018 versus \$1,265,746 at June 30, 2017. Maintaining an adequate level of tax certiorari reserves helps to lower the risk of any tax certiorari charges.

The District collects its own taxes. This can increase the overall risk involved in collecting and receiving property tax revenues. However, the District mitigates the risk by collecting and processing the majority of its taxes through a Lockbox operation with its primary bank. This enables District residents to mail their payments directly to the bank, or make payments at the School District Business Office. The District Accountant has a significant number of responsibilities in the District, including mailing of tax bills; collecting cash payments and posting of all tax payments; as well as reconciling the tax revenues between the Nvision financial system and the new tax software system which was implemented for the last tax bill cycle. However, in order to maintain a segregation of duties and controls, the District Accountant does not reconcile the bank account statements. After October 31st uncollected tax accounts go to the Putnam County and are relieved to the Towns of Putnam Valley and Town of Carmel.

This area continues to be rated Medium.

**PURCHASING and ACCOUNTS PAYABLE**

**Risk Rating 161 Medium**

This area is concerned with the Purchasing function and Accounts Payable, Cash Disbursements, and the Internal Claims Audit processes.

Purchasing and accounts payable systems' controls include unique accounts and passwords for each system user, thereby limiting any changes to their own codes. The vendor database is entered by the Business Office Assistant. The District Treasurer coordinates all purchasing for the District/Business Office and approves requisitions for the Business Office. The requisitions are processed electronically, and are approved at the Principals' and Assistant Superintendent's



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levels. The Business Office creates purchase orders for all approved requisitions for the District and ensures the proper flow of purchasing transactions.

The Account Clerk enters invoice batches into the District's accounting system to schedule payments; prints a check register for the Internal Claims Auditor's verification; and prints checks and mails them to vendors after verification. This individual performs a three way match of Purchase Order (P.O.) to invoice to receiving report, prior to entering the claim into the system. If a receiving report is not available, the requestor must sign the invoice as evidence of receipt of goods or that services were rendered.

The District's Internal Claims Auditor conducts her audit of claims on behalf of the Board on the school premises. This is a best practice and facilitates the review of claims and allows for direct communication with the Accounts Payable Clerk to address audit findings and questions in a timely manner. The Internal Claims Auditor provides monthly reports of detailed audit findings to Management and the Board.

The risk rating level was evaluated as Medium.

**HUMAN RESOURCES and PAYROLL**  
**Risk Rating 150 Medium**

Both Human Resources and Payroll areas are closely linked in the administration of personnel, payroll, and benefits. In addition, this area is concerned with District compliance to Board Policies, union contracts and bargaining agreements, and applicable state and federal laws and regulations. The District's largest expense is salaries, wages and fringe benefits. This functional area is a highly significant one, not only due to the magnitude of its share of the District's budget, but also due to the complexity and sensitivity of its operations and ensuring compliance.

Each final bi-weekly payroll register is reviewed by the District Treasurer before it is certified and payroll is distributed. The payroll certification process includes a review of changes to payroll. Hourly employees are paid on an annualized basis. Thus, the review of the Preliminary Payroll Report by the Accountant, as well as the Final Payroll Report which is reviewed and signed by the District Treasurer, include both full and part-time employees. Timesheets are submitted for additional hours, stipends, and overtime. Timesheets are signed by both the Employee and Supervisor. The Payroll/Benefits Clerk prepares, files, and signs the state and federal quarterly payroll tax reports. The preparation of quarterly payroll taxes is independently reviewed by the District Treasurer, who approves the tax payments.

In conjunction with the Finance Manager nVision software upgrade, Management has restructured the duties of the Payroll/Benefits Clerk, the Human Resources Clerk and the

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Account Clerk to allow for increased segregation of duties, thereby strengthening the controls over the human resources and payroll processes. Finance Manager nVision also provides increased controls through new reporting and monitoring capabilities.

The risk rating level was evaluated as Medium.

**FACILITIES and CAPITAL ASSETS**  
**Risk Rating 175 Medium**

This area includes buildings and grounds, facilities maintenance, capital improvements and new construction, fixed assets and inventory controls.

The new Director of Operations is in charge of the District's buildings, grounds, facilities maintenance and transportation. Work orders are maintained and tracked on an automated system within the Department.

Capital assets, net of accumulated depreciations as of June 30, 2018, were \$30.2 million, approximately the same as the previous year, and included equipment, machinery, land, and buildings and improvements.

A 5 year facilities plan was developed and updated for FY15/16 – FY20/21. New capital construction has to be approved by District voters. Procedures are in place to ensure that the District obtains the necessary approval and building permits for school construction projects. Also, process is in place to prevent the cost of construction from exceeding the amount authorized by voters. Bond counsel and financial advisors are used as appropriate in the facilities construction process.

On December 4, 2018, District residents approved the \$14.8 million Capital Project for the Middle School Reconstruction and District Wide Improvements. Given the numerous and complex tasks, as well as the requisite reporting requirements to the State, bond counsel and financial advisors, Internal Audit is recommending that an audit of the current policies and procedures for Capital Projects and Construction Management be conducted this fiscal year. In so doing, any recommendations arising from the audit could facilitate the District's controls over the processes.

The risk rating continues to be Medium.

## **STUDENT SERVICES**

### **Risk Rating 151 Medium**

This area includes Transportation, Food Service, Extraclassroom Activity Funds (“ECAF”), Special Purpose Fund, Afterschool Programs, Adult Continuing Education, Athletics, and Safety and Security.

The Extra Classroom Activities Funds represent funds generated from extracurricular activities for which the District serves as custodian. As of June 30, 2018, there were 36 student activity accounts (Middle School: 9, High School: 27) totaling \$107,155. Although the dollar amount of cash receipts and disbursements is not materially significant in comparison to the District’s total budget, the nature and volume of activity warrants close monitoring and supervision.

The District utilizes a combined approach in providing its pupil transportation services. The District owns 13 mini-buses and 4 full size buses which are driven by 12 bus drivers who are employees of the District. In addition, the Orange County Transit Co. provides 20 full size buses and 8 vans driven by their employees. The District maintains a regular bus replacement schedule in order to ensure safe and well maintained vehicles.

The District’s outsources its Food Service program. All schools offer breakfast, lunch and a-la cart programs. The program is self-sustaining. The Food Service Department uses an automated Point of Sale “P.O.S” system to manage student accounts, cash receipts, and meal sales. The Food Service Director prepares the budget, and prepares monthly reports of food service operations to the Business Official.

This area continues to have a Medium risk rating.

## **INFORMATION TECHNOLOGY**

### **Risk Rating 186 Medium**

This area includes IT Strategy and Planning, Outsourced Vendor Management, Business Continuity Planning, IT Infrastructure and Maintenance, Information Security, Governance, Systems Development and Maintenance, Systems Support and Critical Systems.

Since the last risk assessment update there have been some changes to the IT management team within the District. The Director of Operations, Technology and Transportation has retired and the Network Administrator has taken on the role of Director of Technology. Other notable changes in technology include the following:

- The District’s three year Instructional Technology Plan was updated and submitted in compliance with the Smart Schools Bond Act.

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- End of Life switches and access points were replaced in accordance with the District's hardware replacement cycle.
- System access rights for all applications have been reviewed to ensure that user ID's are for active employees or approved consultants and that access rights align with job responsibilities.
- The District began subscribing to the LHRIC's Data Privacy and Security Services (DPSS). DPSS supports the District's compliance with New York State's Common Core Implementation Reform Act (Parents' Bill of Rights for Data Privacy and Security) and provides resources to address the increasing threats to District data and security.
- Security awareness training was implemented for all staff utilizing the online Global Compliance Network. This training includes Computer Use and Cybersecurity Threats.

**GOVERNMENT AID and GRANTS**

**Risk Rating 123 Low**

This area includes government aid from the state and federal governments, and foundation and other not-for profit aid and donations.

The District receives a small amount of state and federal aid. There has been no material change in government aid and grants since our previous risk assessment. Economic uncertainty makes it difficult to plan for special needs program funding from the State and Federal Government. In terms of state aid, the District estimates receipt of approximately \$158,013 for Title IA and Title IIA grants for 2018 projects.

The District receives some federal aid through grants. In FY18/19, the District was awarded \$380,555 in federal grants. Overall, federal grants account for less than 1% of the District's total budget.

Most state and federal program aid require certain applications and claim forms to be submitted at a determined schedule. The District does have a process in place to submit claims for State and Federal aid. The Assistant Superintendent for Pupil Personnel Services is responsible for preparing the application and budget for Special Education and has been performing this task for numerous years.

This area has been rated Low risk.

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<b>Putnam Valley Central School District Recommended Internal Audit Plan</b>	<b>FY Audit Hours</b>	
	<b>18/19</b>	<b>Future</b>
<b>Risk Assessment Update</b>	<b>50</b>	<b>X</b>
<b>Budget, Financial Accounting &amp; Reporting</b>		
Review of internal controls related to fiscal accountability and budget control, and operations in the Business Office.		
<b>Debt, Investments and Cash</b>		<b>X</b>
Review of internal controls over debt and investment monitoring and cash management.		
<b>Revenue and Accounts Receivables</b>		<b>X</b>
Review of internal controls over revenue, billing & collections, and accounts receivables.		
<b>Purchasing and Accounts Payable</b>		<b>X</b>
Review of Purchasing, Accounts Payable and Claims Audit processes, including payment of invoices.		
<b>Human Resources and Payroll</b>		<b>X</b>
Follow-up to implementation of Corrective Action Plan in response to Internal Audit conducted in FY07/08.		
<b>Facilities and Capital Assets</b>	<b>110</b>	
Review of internal controls over facilities operations, capital project monitoring and reporting; and/or capital asset accounting and inventory control.		
<b>Student Services</b>		<b>X</b>
Review of internal controls over Food service operations, Transportation, and/or Safety & Security.		
<b>Information Technology</b>		<b>X</b>
Review of General Computer Controls		
<b>Government Aid and Grants</b>		<b>X</b>
Review internal controls over grant administration, grant finance and accounting, grant performance monitoring, and compliance.		
<b>Planning, Administration and Audit Committee Meetings</b>	<b>25</b>	
<b>Total Internal Audit Hours</b>	<b>185</b>	