

HOMER CENTRAL SCHOOL DISTRICT

FINANCIAL RISK ASSESSMENT

For Year Ended June 30, 2013

Raymond F. Wager, CPA, P.C.
Certified Public Accountants

Shareholders:

Raymond F. Wager, CPA
Thomas J. Lauffer, CPA
Thomas C. Zuber, CPA

Members of
American Institute of
Certified Public Accountants
and
New York State Society of
Certified Public Accountants

April 19, 2013

To the Members of the Audit Committee
Homer Central School District, New York

We have performed the procedures enumerated below, solely to assist the Homer Central School District Board of Education with evaluating the District's internal control structure and completion of a financial risk assessment in accordance with the Five Point Plan Legislation.

The objective of the financial risk assessment was to review the internal control structure that the District has in place to prevent errors, detect fraud and ensure that financial reporting is accurate and not misleading. In conducting the financial risk assessment we considered significant classes of assets and transactions. We interviewed key staff to obtain an understanding of the financial processes.

The procedures performed were as follows:

1. Through the use of flowcharts, narratives and questionnaires we have documented our understanding of the District's key financial internal controls over the following business office cycles:
 - a. Policies and procedures adopted by the Board
 - b. Procurement, bidding and cash disbursements, including the role of the claims auditor
 - c. Personnel and payroll processing
 - d. General ledger maintenance
 - e. Centralized and decentralized cash receipt procedures
 - f. Fixed asset accounting
 - g. Extraclassroom accounting

2. We reviewed the following District records:
 - a. Financial statements for the years ended June 30, 2011 and June 30, 2012.
 - b. Management letters for the years ended June 30, 2011 and June 30, 2012.
 - c. Current and prior year's budget
 - d. Policy manuals
 - e. Employee directory and organizational chart
 - f. Board minutes.

3. We interviewed the following individuals:

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| a. Superintendent | i. Transportation Supervisor |
| b. Jr. High School Principal | j. School Lunch Manager |
| c. Director of Business and Finance | k. Athletic Director |
| d. District Treasurer | l. Information Technology Director |
| e. Superintendent of Building and Grounds | m. Payroll Clerk / Claims Auditor |
| f. Grants Coordinator, Title Grants | n. Accounts Payable Clerk |
| g. High School Extraclassroom Central Treasurer | o. Tax Collector |
| h. Jr. High Extraclassroom Central Treasurer | |

4. We have prepared our risk assessment document (Attachment A) identifying internal control weaknesses, the associated assessment of risk together with recommendations for improvements. The risk assessment rating (low, medium, high) was based on the following criteria:

- a. Materiality of Potential Misstatement of Financial Statements
- b. Opportunity for Personal Gain
- c. Public Sensitivity/Trust

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.

We suggest the next step in the process would be to develop an internal audit plan utilizing the risk assessment document. The Plan should include selection of at least one high risk area for detailed testing and development of a corrective action plan addressing each of the findings listed in the risk assessment document.

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 therefore, express no assurance on it. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Homer Central School District Board of Education and is not intended to be and should not be used by anyone other than those specified parties.

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We would like to express our appreciation to the District's staff for all the courtesies extended to us during the course of our engagement. If you have any questions regarding the above items, please do not hesitate to call.

Raymond F. Wager, CPA P.C.

April 19, 2013

**HOMER CENTRAL SCHOOL DISTRICT
RISK ASSESSMENT FOR THE YEAR ENDED JUNE 30, 2013
SUMMARY OF PRIOR YEAR RISK ASSESSMENT FINDINGS - CORRECTIVE ACTION TAKEN**

<u>Internal Control Process Area</u>	<u>CORRECTIVE ACTION TAKEN</u>
<u>Payroll:</u>	
Segregation of Duties	The payroll clerk is no longer the District's Claims Auditor. Also, the Director of Business and Finance is reviewing payroll change reports as well as the payroll register.
Time Reporting	Time sheets are now being used by all non-exempt employees in all departments.
Overtime	The District has implemented new time keeping procedures to more accurately track the hours worked by non-exempt employees working outside of their normal work schedule. Policies have been adjusted to address how over-time hours are earned and paid.
<u>Oversight:</u>	
Policies	At its April 22, 2013 meeting the Board of Education adopted an updated purchasing policy which incorporated the changes to bidding thresholds per General Municipal Law. In addition, the District's policies are now available to be viewed on its web site.
Integrity and Ethical Values	The District's fraud policy was communicated to all employees at the beginning of the 2012-13 school year. The policy is also available for anyone to review on the District web site.
<u>School Lunch:</u>	
Charges	The District policy prohibiting adults from charging meals is being enforced.
<u>Extraclassroom Activities:</u>	
Profit and Loss Statements	A meeting was held with faculty advisors at the beginning of the school year regarding proper procedures. We were able to observe completed profit and loss statements for fund-raising events held at the Senior High School during the year.
<u>Procurement and Payables:</u>	
Claims Auditor	The Claims Auditor is comparing check registers to warrants to ensure accuracy. The Claims Auditor is examining check registers to verify that only authorized vouchers have been processed. In addition, she is tracking vouchers that have been initially denied verifying that corrective action has been taken. She includes information regarding denied vouchers on reports to the Board.
School Lunch Purchases	The School Lunch department is now using purchase orders in order to maintain control over purchasing.
<u>Fixed Assets:</u>	
Physical Inventory	The District completed a physical inventory of its fixed assets during the Spring of 2012. Our observation of assets on the District's insurance detailed report revealed no exceptions or non-District owned equipment.
<u>Miscellaneous Receipts:</u>	
Scrap Sales	Our examination of the District's surplus inventory and equipment sold during 2012-13 revealed that the documentation supporting the sale specifically identified the type, quantity and dollar value of material sold.
<u>Cash and Treasury:</u>	
Wire Transfers	Internal controls over wire transfers have been designed and implemented in accordance with District policy.

**HOMER CENTRAL SCHOOL DISTRICT
RISK ASSESSMENT FOR THE YEAR ENDED JUNE 30, 2013
SUMMARY OF PRIOR YEAR RISK ASSESSMENT FINDINGS - PENDING CORRECTIVE ACTION**

<u>Internal Control Process Area</u>	<u>PRIOR YEAR FINDINGS PENDING CORRECTIVE ACTION</u>	<u>Risk</u>	<u>Recommendations</u>
<i>Payroll:</i>			
Segregation of Duties	<p>We reviewed the job duties of the Payroll Clerk, as well as her levels of access in the accounting system and noted the following:</p> <ul style="list-style-type: none"> * W-2 Forms returned to the District are investigated by the Payroll Clerk. * Payroll checks are returned to the Payroll Clerk for distribution after they are printed by BOCES. 	Low	<p>At the time of our procedures, the District was implementing a change to the payroll check distribution process and returned W-2's process to exclude the Payroll Clerk. We recommend management continue with its plan to segregate these procedures.</p>
Advance Payment	<p>Based upon the scheduled pay dates, ten-month employees receive payment in advance of actual hours worked for the first payroll during September. According to Section 3015.3 of the Education Law, the District is not authorized to pay employees' salaries in advance of rendering service.</p>	Low	<p>The District should review its policies and procedures for processing payroll and adopt a pay schedule which does not result in advance payment, or adjust the amounts paid to reflect actual time worked.</p>
Long-Term Budget Projection	<p>We commend the District for developing a multi-year budget projection. As part of our review, we noted that the projection includes appropriating fund balance and reserves to cover deficits. Appropriated fund balance is expected to be \$1.4 million per year. This represents approximately 48% of the total assigned and undesignated General Fund balance as of June 30, 2012. Appropriations of the Debt and ERS reserves are expected to be \$2 million and \$225,000, respectively, per year. At that rate, the reserves will be effectively depleted after the 2016-17 year and unable to provide similar levels of support going forward.</p>	Low	<p>The District will need to maintain very conservative budgeting practices in order to avoid a year with low fund balance which would require a sharp increase in the Tax Levy. The Administration should continue to investigate whether other sustainable sources of revenue might be available or identify additional cost reductions rather than relying so heavily on appropriated reserves and fund balance.</p>

**HOMER CENTRAL SCHOOL DISTRICT
RISK ASSESSMENT FOR THE YEAR ENDED JUNE 30, 2013
SUMMARY OF PRIOR YEAR RISK ASSESSMENT FINDINGS - PENDING CORRECTIVE ACTION**

<u>Internal Control Process Area</u>	<u>PRIOR YEAR FINDINGS PENDING CORRECTIVE ACTION</u>	<u>Risk</u>	<u>Recommendations</u>
<i><u>Oversight (Continued):</u></i>			
Written Administrative Procedures	The District does not have written Business Office procedures for all financial cycles.	Low	The Business Office should review this item to determine the necessary action required to adopt written procedures for these areas.
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<i><u>School Lunch:</u></i>			
Inventory	Based upon our discussions with school lunch management, we noted that inventory is maintained on a periodic basis due to the nature of items in inventory, which makes a perpetual inventory impractical. However, we noted the following: * While physical inventory counts are performed monthly, there is no formal documentation to support adjustments to inventory records based upon the results of the counts. * Although our discussions with the School Lunch Manager indicate that it is possible to compare changes in inventory to estimates based upon meals served during a particular month, there is no formal documentation that this analysis is being performed to detect expected variances.	Low	We recommend that adjustments to inventory records based upon the results of physical counts be reviewed and authorized by management, and that documentation be maintained to support the adjustments. In addition, a process should be developed to perform a monthly analysis of meals served to inventory used, and that this analysis be reviewed by an individual other than the preparer.
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<i><u>Fixed Assets:</u></i>			
Physical Inventory	Our examination of the process for tracking and safeguarding fixed assets revealed the following: * There are no procedures currently in place to update fixed asset records for movement of equipment between locations (excluding IT equipment). * There is no process to perform periodic physical inspections of assets to confirm existence, location, condition, and whether the asset is properly tagged.	Low	We recommend the Administration consider developing procedures for updating fixed asset records for the movement of assets between locations. In addition, the Administration should consider implementing a process for the periodic inspection of assets, along with the tagging of all District owned assets.
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**HOMER CENTRAL SCHOOL DISTRICT
RISK ASSESSMENT FOR THE YEAR ENDED JUNE 30, 2013
SUMMARY OF CURRENT YEAR RISK ASSESSMENT FINDINGS**

<u>Internal Control Process Area</u>	<u>CURRENT YEAR FINDINGS</u>	<u>Risk Level</u>	<u>Recommendations</u>
<i><u>Fixed Assets:</u></i>			
IT equipment	The District's IT department maintains a separate listing of computer and related equipment. However, the listing is not always updated in a timely manner. During our observation of IT equipment, we identified three items that were no longer in the location indicated on the listing, and there was one item that could not be located.	Low	We recommend the IT equipment listing be updated on a more frequent basis in order to properly track transfers and reassignments of related equipment.
<i><u>Extraclassroom Activities:</u></i>			
Profit and Loss Statements	Through inquiry with the Junior High Central Treasurer we determined that profit and loss statements are not always prepared for fund-raising events.	Medium	We recommend profit and loss statements be prepared at the close of each fund-raising event. In addition, the statements should be given to the Central Treasurer to be maintained on file.
<i><u>Procurement and Payables:</u></i>			
Claims Auditor	<p>We confirmed through our discussions with the Claims Auditor that:</p> <ul style="list-style-type: none"> * The Claims Auditor has been provided with some guidance as to what procedures should be performed, however, there is no formal written audit plan that has been reviewed by the Audit Committee. * The Claims Auditor does not consistently review vouchers for evidence of proper bidding or quote procedures in accordance with the District's purchasing policy. * While the Claims Auditor does provide a monthly written report to the Board of Education, she does not physically meet with the Board of Education or its Audit Committee at any time during the year. 	Medium	A formal audit plan should be drafted and be reviewed by the Audit Committee to ensure the sufficiency of the procedures in effectively monitoring the purchasing activities of the District. In addition, the Claims Auditor should meet with the Board of Education or its Audit Committee at least once each year to present the Claims Audit report and answer any questions members may have.