

NEWFANE CENTRAL SCHOOL DISTRICT

INTERNAL CONTROL ANALYSIS

**FOR THE YEAR ENDED
DECEMBER 31, 2017**

**NEWFANE CENTRAL SCHOOL DISTRICT
INTERNAL CONTROL ANALYSIS**

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RISK ASSESSMENT REPORT

Board of Education
Newfane Central School District
6048 Godfrey Road
Burt, New York 14028

Dear Board Members:

We have performed an audit of the internal controls of the Newfane Central School District in accordance with New York State Education Law. This engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures employed either for the purpose of this report or for any other purpose.

Specifically, we performed the following:

- ❖ Developed an understanding of the critical business processes of the District and identified the key risks based on these processes. These critical business processes included but were not limited to:
 - Governance and planning
 - Accounting and reporting
 - Revenue and cash management
 - Payroll
 - Human resources
 - Benefits
 - Purchasing and related expenditures
 - Grants and special education
 - Facilities and capital projects
 - Capital assets
 - School lunch
 - Extraclassroom activity fund
 - Information technology
 - Student related data and services

These procedures were accomplished through interviewing District management and accounting and other departmental personnel to determine the flow of accounting information and controls placed in operation. The scope of our engagement did not include testing the operating effectiveness of such controls.

Our procedures were not designed to express an opinion on the financial statements of the District, and we do not express such an opinion. Additionally, because of inherent limitations of any internal control, errors or fraud may occur and may not be prevented or detected by internal control. Also, projections of an evaluation of the accounting system and controls to future periods are subject to the risk that procedures may become inadequate because of changed conditions.

This report is intended solely for the use and information of the Board of Education, the District's Audit Committee, and the management of Newfane Central School District, and is not intended to be and should not be used by anyone other than these specified parties.

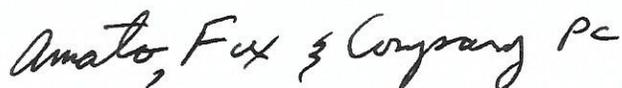
This letter is written to assist the School District in evaluating and strengthening areas of internal accounting control that will enable the School District to be more effective in its primary goal of providing services to the residents and children of the Newfane Central School District. As such, we do not address the many positive aspects for which the School District can be justifiably proud. We wish to commend School District Officials and employees for their efforts in maintaining a system of internal controls.

This report is prepared based on information we had knowledge of as of June 1, 2018 which is the date that we completed the fieldwork portion of our audit for the District's internal controls. We have not performed any audit procedures from June 1, 2018 to the date of this letter to determine if there are any additional matters involving the internal control structure and its operation that should be brought to your attention.

We wish to take this opportunity to thank the District officials and employees for their cooperation during our audit of internal controls.

Should you have any questions concerning this letter, please let us know and we will meet with you at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Amato, Fox & Company PC".

Amato, Fox & Company, PC
Certified Public Accountants
June 20, 2018

NEWFANE CENTRAL SCHOOL DISTRICT

Internal Control Analysis For the Year Ended December 31, 2017

BACKGROUND

The Newfane Central School District is located in the Town of Newfane, Niagara County, New York. The District is governed by the Board of Education, which consists of seven elected board members. The Board is responsible for the general management and control of the District's financial and educational operations. The Superintendent of Schools, Michael Baumann, is the chief executive officer of the District and is responsible, along with the administrative staff, for the daily management of the District under the direction of the Board. The Superintendent is appointed by the Board. The School Business Administrator is responsible for the District's finances, accounting records and financial reports.

The District employs 250 full-time staff and has approximately 1,449 students. The budgeted expenditures for the fiscal year ending June 30, 2017 are \$35,425,018, funded primarily by state aid and real property taxes.

Chapter 263 of the Laws of New York, 2005 requires all districts to create an internal audit function. The creation of this function requires districts to engage a qualified audit firm to make an initial risk assessment of the design of the district's internal controls; annually update this assessment; and, periodically test these controls for operational effectiveness and efficiency.

Internal controls are the checks and balances over the various processes or functions that comprise the operations of a district. One key element in any internal control system is the concept of segregation of duties. This concept ensures that one person cannot execute a transaction without at least one other individual checking his or her work.

There are some important concepts that should be understood when reviewing internal controls. These concepts are:

- ❖ An internal control system is designed to provide reasonable but not absolute assurance in safeguarding the assets of the district.
- ❖ The concept of reasonable assurance recognizes that the cost of the internal control should not exceed the benefits derived
- ❖ There are inherent limitations that should be recognized when considering the potential effectiveness of any internal control system. For example, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. More importantly, it is collusion that poses the greatest threat to any internal control system. If two or more employees collude in order to circumvent established District controls, there leaves a possibility for asset misappropriation or fraudulent financial reporting.

The initial risk assessment requires the internal auditor to obtain an understanding of both the inherent and control risks associated with the various functions within the District. The risk assessment update requires the internal auditor to identify the changes in procedures, policies, personnel, and systems that may have an impact on these risks and possibly alter the initial risk assessment's level of control risk.

NEWFANE CENTRAL SCHOOL DISTRICT

Internal Control Analysis For the Year Ended December 31, 2017

BACKGROUND (Continued)

Control risk measures the adequacy of internal controls designed to mitigate the inherent risk within the process. In this engagement, we have assessed the control risk based upon our interview process. The testing of the controls, which is performed during the detailed test work, could support the lowering of the initial control risk assessment associated with individual processes and sub-functions.

In the risk assessment table on pages 7 and 8, we identified the processes of functions that we have reviewed during the course of our audit of internal controls. This table includes our assessment of the control risk associated with each process.

OBJECTIVE

The objective of our audit was to assess the adequacy of the internal controls put in place by the school board and administrative officials to safeguard District assets. To accomplish our goal, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Based upon the initial assessment, several areas were selected for testing. These areas were then tested to determine if adequate controls were in place and operating effectively.

SCOPE

We conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) which are the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to determine the adequacy of the internal controls put in place by District officials to safeguard District assets.

We analyzed the policies, procedures, and internal controls that the District has in place to prevent errors, detect fraud, safeguard District assets and ensure that financial reporting is accurate. In conducting the financial risk assessment, we interviewed key staff members to obtain an understanding of the financial processes. In addition, we evaluated the District's compliance with certain laws and regulations governing the significant areas, which were deemed to be critical to the financial operation of the District.

NEWFANE CENTRAL SCHOOL DISTRICT

**Internal Control Analysis
For the Year Ended December 31, 2017**

METHODOLOGY

The objective of our audit was to assess the adequacy of the District’s system of internal controls. To accomplish this, we performed our audit in two steps:

RISK ASSESSMENT

We performed an initial assessment of internal controls in order to design our audit to focus on those areas most at risk. Our initial assessment included an evaluation of the following areas:

- Governance and planning
- Accounting and reporting
- Revenue and cash management
- Payroll
- Human resources
- Benefits
- Purchasing and related expenditures
- Grants and special education
- Facilities and capital projects
- Capital assets
- School lunch
- Extraclassroom activity fund
- Information technology
- Student related data and services

During the initial assessment, we interviewed the following District Personnel:

<u>Name</u>	<u>Title</u>	<u>Duties</u>
Bart Schuler	Business Manager	Financial Reporting
Derek Vallese	Treasurer	Accounting
Margaret Gmerek	Payroll Clerk	Payroll
JoAnne Huntington	Director of Food Service	Nutrition

NEWFANE CENTRAL SCHOOL DISTRICT

Internal Control Analysis For the Year Ended December 31, 2017

RISK ASSESSMENT (Cont.)

Interviews were conducted for the purpose of determining the employees' understanding of the District's policies and procedures as they relate to internal control and to determine the relative audit risk involved with this understanding.

These interviews were also used to gauge administrative control risk, by evaluating the District's attitudes and corporate culture regarding internal controls.

We reviewed the District's adopted Policy Manual, Job Descriptions, and Procedures Manual for appropriateness and to ensure the administrative staff's understanding of such policies matches the intent of the District.

We also reviewed the District's financial reports, supporting records and other pertinent documents including minutes of meetings held by the Board and other groups that were relevant to our test work.

Upon analyzing the information gathered in our risk assessment, we determined if weaknesses existed and evaluated and designed our test of controls. Based upon that evaluation, we determined that controls appeared to be adequate and a low level of risk existed for the areas which were selected.

Since the level of risk was determined to be low for most business cycles, no specific business cycle was selected for testing. However, the following areas and activities were selected for testing based on other criteria:

- 1) Payroll
- 2) Capital Projects
- 3) Food Services

The payroll function was selected to be analyzed because a new payroll clerk was hired during the year. Capital projects were selected for testing because the District is in the process of completing a large capital project spanning across several different District campuses. Food services were selected for internal control analysis because the District purchased new and upgraded food service management software.

The following section is a summary of the business process areas that were selected for testing in the current year and those that were tested in previous years. Each area that could have been or was selected for testing shows our analysis of control risk for the current year and the date of the last time we performed test work on the specific process.

**Newfane Central School District
Control Risk**

(L=Low, M=Moderate, H=High)

Business Process Area	Control Risk	Detailed Testing
	Current Year	
Governance and Planning		
Governance & Control Environment	L	2011
Budget Development, Administration, and Fund Balance Management	L	2007
Accounting and Reporting		
Financial Accounting and Reporting	L	
Auditing	L	
Revenue and Cash Management		
Revenue Management		
Billings, Collections and Posting of Receipts	L	2009
Cash and Investments Management	L	2009
Bank Reconciliations	L	2009
Payroll		
Payroll Accounting and Reporting	M	2017
Tax Filings and Reconciliations	M	2017
Payroll Distribution	M	2017
Human Resources		
Employment Recruitment and Hiring	L	2015
Employee Administration and Termination	L	2015
Employee Attendance	L	2015
Benefits		
Administration	L	2013
Payments and Cost Sharing	L	2013
Purchasing and Related Expenditures		
Purchasing System and Process	L	2011
Payment Process	L	2011
Credit Cards	L	2011
Grants and Special Education		
General Processing/Monitoring	L	
Special Education	L	
Facilities and Capital Projects		
Facilities Maintenance & Operations	L	2010
Capital Projects	M	2017

**Newfane Central School District
Control Risk**

(L=Low, M=Moderate, H=High)

Business Process		
Area	Control Risk	Detailed Testing
	Current Year	
Capital Assets		
Acquisition and Disposal	L	2007
Maintenance and Inventories	L	2007
School Lunch		
Sales Cycle and System	M	2017
Purchasing and Inventory	M	2017
Federal and State Reimbursements	M	2017
Free and Reduced Lunch	M	2017
Extraclassroom Activity Fund		
General Controls and Administration	L	2013
Cash Reciepts	L	2013
Cash Disbursements	L	2013
Information Technology		
Governance	L	2015
Network Security	L	2015
Financial Application Security	L	2015
Disaster Recovery	L	2015
Student Related Data and Services		
Student Records	L	2013
Student Performance Data	N/A	
Student Transportaion	L	2013
Student Safety and Security	L	2013

TEST OF CONTROLS, RESULTS AND RECOMMENDATIONS

The results of our test work in the areas chosen are as follows:

PAYROLL

Payroll Accounting and Reporting

Control Risk Level:

Moderate

Changes in Policies, Procedures and/or Controls Considered to determine the Level of Control Risk:

A new payroll clerk was hired to perform duties for the District during the year. No other changes in policy or procedure were noted.

Tests of Controls

Since there was a change in personnel, we compared the prior year's procedures to the current year's procedures to determine what, if any, changes resulted from the hiring of new personnel. Based on internal control test work performed in the past, we have determined that the controls were sufficient as they relate to the District's payroll function. However, the District may find the need to adjust policies or procedures whenever a new employee is hired.

Results

After speaking with appropriate District personnel, we determined that there were no changes in procedures that significantly affected the quality of internal control as it relates to the payroll cycle. The internal controls, which we determined to be sufficient based on previous control examinations, have remained consistent with previous years. The employee tasked with the payroll function is aware of internal controls over her assigned responsibility. Controls are in place to ensure that District employees are paid on a timely basis at their appropriate rates and that payroll is recorded and properly reported on a timely and accurate manner.

Recommendation

No recommendation is necessary.

TEST OF CONTROLS, RESULTS AND RECOMMENDATIONS

The results of our test work in the areas chosen are as follows:

CAPITAL PROJECTS

Capital Projects

Control Risk Level

Moderate

Changes in Policies, Procedures and/or Controls Considered to Determine the Level of control Risk

No changes in policy were noted relating to capital projects.

Tests of Controls

The Newfane Central School District is currently working on a major capital project for repairs to multiple campus buildings and property. The project includes exterior concrete and pavement work, roofing improvements, electrical improvements, plumbing upgrades, and a gymnasium floor replacement, all occurring at various District properties. The School Business Administrator is responsible for the project and ensuring that all costs are allocated and accounted for properly.

In conducting our test work, we reviewed the individual contracts and 26 expenditures totaling \$2,271,663 to determine the reasonableness of expenses and that these expenses had proper approval when necessary. We also analyzed supporting documentation including bids, building permits, change orders, New York State Building Aid, NYSED applications for exam and approval of final plans, New York State Letters of Intent, and Board of Education meeting minutes.

Results

Based on the reports and documentation examined, the construction is underway and appears to be nearing completion. We found that the internal controls were strong relating to capital projects and that the activities and policies were in compliance with New York State Education Law. Various phases of the capital project were bid out to outside contractors and the most appropriate bid was selected. Additionally, from what we examined, any changes that were made to original work orders were properly documented and approved. The Board of Education was kept updated and any status changes or project adjustments were properly communicated at District board meetings.

Our review of the contracts leads us to believe that the contracts are accurate and sufficient in nature and that expenses associated with them can be considered reasonable.

Recommendation

No recommendation is necessary.

TEST OF CONTROLS, RESULTS AND RECOMMENDATIONS

The results of our test work in the areas chosen are as follows:

SCHOOL LUNCH

Sales Cycle and System

Control Risk Level:

Moderate

Changes in Policies, Procedures and/or Controls Considered to Determine the Level of Control Risk:

During 2017, the District purchased and implemented a new food service software system. No changes were noted in policy.

Test of Controls

We spoke with District personnel about the implementation and operation of the food service software known as “Nutrikids”. We examined the controls that are in place by reviewing relevant policies, procedures, and various checks and balances as they relate to the financial reporting and services provided by the updated software. We spoke directly to the District employee that works with and operates the system on a regular basis.

Results

As a result of our review of internal controls, we noted that the new system appears to be functioning as intended. Each student has been entered into the system and they have been assigned an individual four digit pin number. In order to purchase a school meal, the student must enter the pin number and pay with account credit or cash. Parents have access to their child’s account so that money may be credited to the account and the parent can view any activity.

Cash receipts are counted by cashiers and deposits are made by either of two different employees. The cash receipts in the system are reconciled to physical cash counts and deposits. This process is completed on a weekly basis. If any discrepancies arise, with regards to a sale, the system flags the transaction for review by a superior. The software itself is backed up on a routine basis to prevent against any possible loss or corruption of sensitive District financial data.

Recommendation

While the controls over the school lunch reporting system appear to be optimal, we recommend that the District update their Policies and Procedures Manual to better reflect the new and improved operational controls that the system has upgraded.

TEST OF CONTROLS, RESULTS AND RECOMMENDATIONS

The results of our test work in the areas chosen are as follows:

SCHOOL LUNCH

Purchasing and Inventory

Control Risk Level:

Moderate

Changes in Policies, Procedures and/or Controls Considered to Determine the Level of Control Risk:

No changes in policy or procedures noted other than the implementation of the new food service software system.

Test Controls

Upon speaking with District personnel, we gained an understanding of the purchasing controls and procedures, as well as the policies related to inventory control for school meals. The “Nutrikids” inventory module was reviewed and assessed as it related to the internal controls of the system as a whole.

Results

Controls appear to be sufficient as they pertain to purchasing and inventory and the District is maintaining an accurate control of costs and inventory balances. Inventory is tracked on an ongoing basis. As an extra layer of control, inventory is manually counted on a monthly basis to ensure accuracy and resolve any discrepancies that might arise.

Recommendation

No recommendation is necessary.

TEST OF CONTROLS, RESULTS AND RECOMMENDATIONS

SCHOOL LUNCH

Federal and State Reimbursements

Control Risk Level:

Moderate

Changes in Policies, Procedures and/or Controls Considered to determine the Level of Control Risk:

No changes in policy or procedures noted.

Tests of Controls

Using guidelines dictated by the Federal and State Government, we examined the Districts controls as they related to the filings to receive reimbursements for school breakfast and lunches.

Results

It appears the District has adequate controls in place to ensure timely filing for reimbursements under the guidelines dictated by the State and Federal Government. The new food service software should allow for better tracking of breakfast and lunch sales.

Recommendation

No recommendation is necessary.

NEWFANE CENTRAL SCHOOL DISTRICT

Internal Audit Report Conclusions For the Year Ended December 31, 2017

CONCLUSION

As part of our procedures for the current year, we examined certain internal controls related to payroll, capital projects, and school lunches. Our only recommendation for the year was that the policies for internal control be updated to better reflect the new and improved school lunch reporting system. Proper documentation will ensure compliance with New York State requirements and increase the possibility that specified internal controls will be effective. Additionally, we followed up on any recommendations that were made in our reports over areas previously examined and ensured that appropriate actions were taken when necessary. As a result of our test work, we can conclude that Newfane Central School District has established a strong internal control system over financial reporting and maintains strong internal controls to safeguard District assets. These controls compare favorably to Districts of similar size.