



***Risk Assessment FY 2018/2019
& Recommended Audit Plan
May 2019***

June 25, 2019

Ms. Marjorie Schiff
President of the Board of Education
Katonah-Lewisboro Union Free School District
P.O. Box 387
Katonah, NY 10536

Dear Ms. Schiff:

We have recently completed our risk assessment update for the Katonah-Lewisboro Union Free 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 identified the following area as a candidate for audit:

- Revenue and Accounts Receivables

A summary for each functional area reviewed and related risk rating is in the attached risk assessment update report. The Audit Committee met to discuss and accept the report and the recommended internal audit plan on June 17. Subsequent to that meeting, we are available to meet with the Board 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 Katonah-Lewisboro Union Free 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

Low < 131	Medium 131 – 210	High 211 – 300
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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.

Executive Summary

Functional Area	FY18/19		FY17/18		Internal Audits Conducted
	Risk Rating	Level	Risk Rating	Level	
Budget, Financial Accounting & Reporting	154	Medium	163	Medium	FY12/13
Debt, Investments & Cash	125	Low	125	Low	
Revenues & Accounts Receivable	142	Medium	129	Low	Recommended
Purchasing & Accounts Payable	146	Medium	141	Medium	FY13/14
Human Resources & Payroll	174	Medium	169	Medium	FY15/16
Facilities & Capital Assets	142	Medium	142	Medium	FY16/17
Student Services	169	Medium	162	Medium	FY14/15
Information Technology	187	Medium	193	Medium	FY17/18
Government Aid & Grants	127	Low	127	Medium	

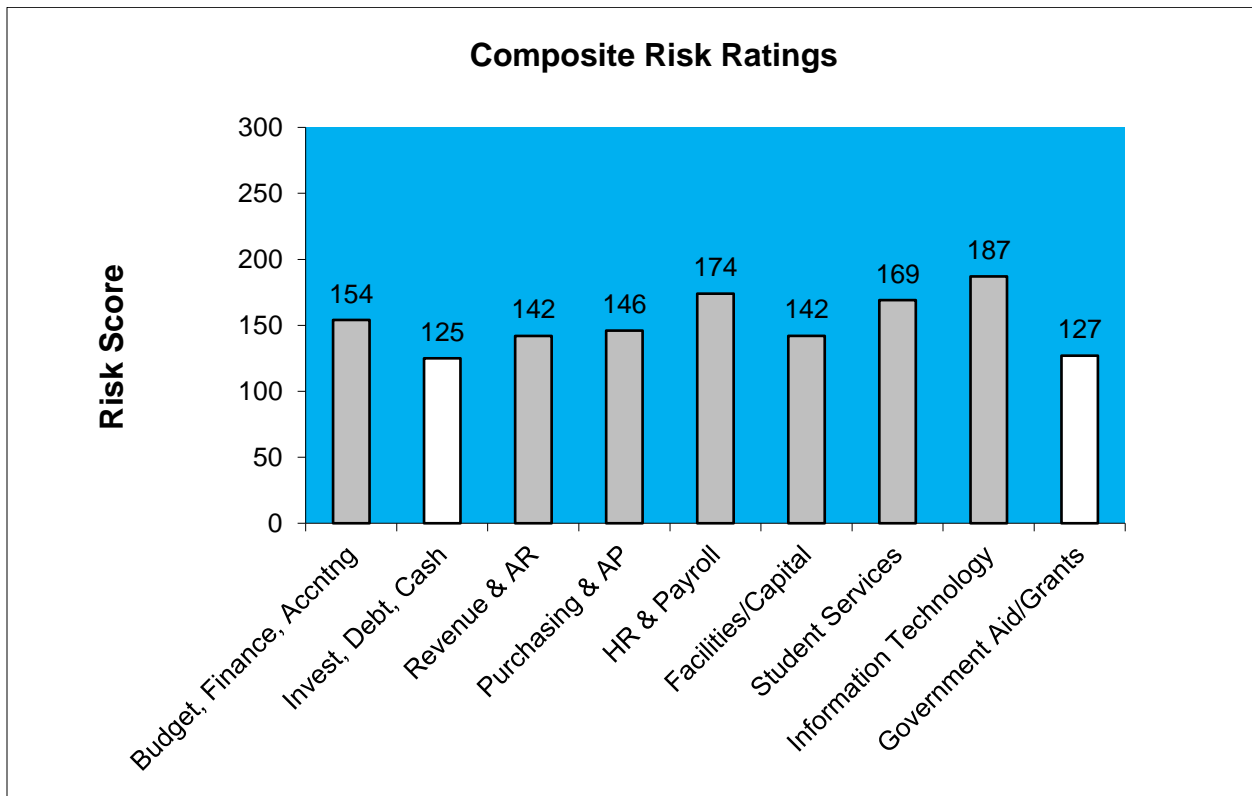


Chart Legend

High 211-300	
Medium 131-210	
Low <131	

Discussion and Risk Rating by Functional Areas

BUDGET, FINANCIAL ACCOUNTING & REPORTING Risk Rating 154 Medium

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

The District's adopted budget for FY18/19 is \$108,692,382 compared to the FY17/18 budget of \$106,809,945. The FY18/19 appropriations amount represents a budget increase of approximately 1.76 % from the previous year. The District adopted a budget that is within the limits of the tax cap law which restricts the growth in the property tax levy to two percent a year or the rate of inflation, whichever is lower. A majority vote of at least sixty percent of voters can override the tax cap, and some provisions are made to exclude items such as voter approved capital expenditures and certain pension costs that exceed two percentage points per year.

As part of the District's strategic planning and budget development process, the Assistant Superintendent for Business with the assistance of the Finance Committee produced a forecast of potential budget scenarios based on a variety of different variables. This forecast provides the Board of Education, the administration and the community with the potential impact that increases in health insurance costs, retirement system costs and other substantial budget factors may have on upcoming budget development. The forecasting tool used is consistent with the spreadsheet provided by the NYS Comptroller. Examination of recent budgets demonstrates that the administration and the Board of Education only ask the community to approve budgets which address the needs of the district without surpassing (and in most of the recent years are trailing) the tax cap. Also, the District's budget development considerations include the decrease in student enrollment. The Budget document prepared by the administration is consistent in format and content from one year to the next making it very easy for the general public to compare one year's budget to the next year's budget.

Since the previous risk assessment, the District's Administration personnel have mostly stabilized following several changes. The only major changes this year will be the departure of the Assistant Superintendent for Business and the Interim Director of Special Services. On June 13, 2019, the Board appointed a very experienced Interim Assistant Superintendent for Business. The Assistant Director of Special Services will be replacing the Interim Director and that should provide continuity within the Department. Similarly, an Assistant Director in Transportation retired during the 2018-19 fiscal year. This Assistant Director was replaced with an internal Civil Service candidate who is very familiar with the District's transportation services.

The District continues to have adequate segregation of duties over financial and accounting responsibilities: The Bookkeeper posts all journal entries and cash receipts. The District Treasurer independently reviews and signs off on the journal entries. In addition, the District Treasurer

prepares bank reconciliations and monthly budget status reports and the Treasurer's Reports for the Board. Also, the Assistant Superintendent for Business reviews the general fund account reconciliation as well as the Treasurer's report prior to submission to the Board.

There have been no major procedural/control changes since our last risk assessment update.

In terms of Board governance, the District has experienced Board Members and generally enjoys stable leadership that provide a good equilibrium for the District. In 2018-2019 six out of the seven Board members returned for an additional term. Overall, the Board's operational disclosure practices exhibit an appropriate level of transparency and accountability. The District's practices are in compliance with the Open Meetings Law, Chapter 603 of the Laws of 2011, which came into effect February 2012. Specifically, Board Policies, Board Meeting Agenda and Minutes, Board presentations and reports to the Board are available to all stakeholders on the District's website via Board Docs. In addition, the District posts its annual budget, internal audits and risk assessments, audits from the NYS Comptroller, updated demographic projections and audited financial statements on its website.

This area was rated a Medium Risk.

DEBT, INVESTMENTS and CASH **Risk Rating 125 Low**

The review of Debt, Investments and Cash 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.

The District Treasurer is responsible for managing cash and monitoring debt and investments. The Treasurer maintains cash-flow statements, a debt service schedule, and makes periodic debt service payments.

The District has an investment policy and maintains cash available for investment in money market accounts. At fiscal year ending June 30, 2018, the District held approximately \$13,564,704 in unrestricted cash and cash equivalents for all funds including capital. Also, from a control perspective, the Business Office has a secure and dedicated computer with its use restricted solely for banking transactions made by the District Treasurer.

There have been no major procedural/control changes since our last risk assessment update.

This area was rated a Low risk.

REVENUE and ACCOUNTS RECEIVABLE

Risk Rating 142 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.

The District's budgeted source of revenues is property tax collections, charges for services, state aid, miscellaneous and other non-tax revenues, and appropriated fund balance. For FY17/18, the District's property tax revenues, including NYS School Tax Assessment Relief (STAR) funds, of \$94,354,164 accounted for approximately 90% of total General Fund revenues. The District reported total General Fund revenues of \$105,281,279 for the fiscal year ending June 30, 2018 compared to \$103,531,512 for the previous fiscal year. The increase is mainly due to increases in real property taxes (excluding STAR) of \$1,855,527.

The District continues to maintain its billing and Accounts Receivable ledger and aging reports on nVision. In general, the District bills for rent, tuition, Arts & Education Programs, fuel usage, facilities use, health services, print shop services and other miscellaneous expenses. The combination of an automated system for billings and accounts receivables, administered with experienced staff, helps to maximize controls and reduce risks. Also, the District does not collect its own taxes. The towns of Lewisboro, North Salem, Bedford, and Pound Ridge are responsible for billing and collection of the taxes and guarantee the full payment of the District's property tax warrant. This lowers the overall risk in collecting and receiving property tax revenues.

The District Treasurer provides monthly revenue status reports to the Board. The reports are reviewed by the Assistant Superintendent for Business. The District Treasurer regularly monitors cash on hand and maintains fund balance reserves in interest bearing accounts. The District has various reserve funds for purposes such as retirement system contributions, tax certiorari, and debt service. Reserves help districts save up for future expenses, and can help decrease the need to rely exclusively on indebtedness to finance capital projects. In addition, maintaining an adequate level of reserves helps to lower the risk of any unanticipated events having a significant negative impact on the operating budget and/or the educational program. The District is authorized to maintain up to 4% of the total budget in unassigned fund balance. At the end of FY17/18, the unassigned fund balance of the General Fund was \$3,961,601 and this amount represents 3.64% of the FY18/19 expenditure budget.

There have been no major procedural/control changes since our last risk assessment update. It was reported to us that there appeared to be a less timely receipt of tax collections from the towns than outlined under Westchester County Law; and this might be something for the internal auditor to review next year. Timely collection of taxes by the Towns and remission of those taxes in a timely manner to the school district helps increase interest revenue and thereby reduce school taxes.

This area was rated a Medium risk.

PURCHASING and ACCOUNTS PAYABLE

Risk Rating 141 Medium

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

The Purchasing Agent's duties and responsibilities include approval of new vendors and purchase orders, ensuring the District seeks competitive procurement methods by conducting bids and requests for proposals ("RFPs"); obtaining quotes from vendors; and ensuring compliance with the District's Purchasing Policy and New York State General Municipal Law ("GML"). Also, the Purchasing Agent manually tracks expenditures by vendor and legal thresholds, to ensure the District does not exceed the limit set by GML, before it is required to go out to bid. The School Business Administrator assists with the purchasing function and reviews and approves purchase orders prior to the final approval by the Purchasing Agent.

The District continues to follow best practices by including detailed information on the face of purchase orders to facilitate vendor compliance with contractual terms and prevailing wage rates, where applicable, as well as state contract numbers and bid numbers. Bid awardees are required to disclose any conflict of interests as well. In addition, at the beginning of the school year, the Purchasing Agent provides building staff responsible for processing purchase requisitions with a copy of the District's Purchasing Procedures Handbook and a list of New York State, County, and BOCES Contracts in which the District participates.

The Accounts Payable Department consists of an Accounts Payable ("AP") Clerk who directly reports to the Assistant Superintendent for Business. The Clerk in this position transitioned into this new role from a different position in the Business Office more than a year ago. The Accounts Payable Clerk prepares claims for payment and processes cash disbursements on a weekly basis. Also, the Accounts Payable Clerk generates the Claims Warrants and prints the checks. All warrants and checks are audited by the Internal Claims Auditor. The Purchasing Agent provides the Internal Claims Auditor with a binder which contains copies of vendor contracts and bid awards, as a reference tool to facilitate the efficient audit of claims and reconciliation of invoice pricing to contractual and bid terms.

There have been no major procedural/control changes since our last risk assessment update.

The risk rating for this area is Medium.

HUMAN RESOURCES and PAYROLL

Risk Rating 169 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 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.

The District transitioned to nVision's accounting system in October, 2017. It is fully integrated with the Aesop absence management system. In addition, all District staff has been given email to facilitate District wide communications and use of this absence management system. The Department uses My Learning Plan, to automate the planning, management, and reporting of professional development. The system is accessible to staff who can go online to register and request course approvals for professional development offerings. Also, in order to support instructional staff with meeting the mandated requirements of Response to Intervention and Annual Professional Performance Review ("APPR") Plans, as well as the implementation of Professional Learning Communities ("PLCs") at the building level, an appropriate level of support has been maintained in these areas for FY18/19. During the 2018-2019 school year a Personnel Clerk in the Office of Human Resources retired. In addition, the Interim Assistant Superintendent for Human Resources was replaced with a permanent Assistant Superintendent. The new Assistant Superintendent has been immersed in training relative to the responsibilities associated with this position. One of the Clerk positions in Human Resources remains unfilled at this time.

This area was rated a Medium risk.

FACILITIES and CAPITAL ASSETS

Risk Rating 142 Medium

This area includes buildings and grounds, facilities maintenance, custodial operations, building use, capital projects, school building improvements and new construction, capital assets and inventory controls.

The Department of Operations & Maintenance ("O&M") is headed by the Director and consists of a staff of approximately fifty custodians, maintenance and grounds workers, and clerical support. The O&M budget is comprised of operational expenses to maintain the District's grounds and physical plant, as well as utility and fuel costs, supplies, equipment, and salaries of Department staff. In addition, maintenance costs include preventative care and maintenance on critical electrical, heating and cooling systems throughout the District's buildings. O&M costs were budgeted at \$6,307,018 for FY18/19, a decrease of \$27,034 from the prior fiscal year.

The O&M Department maintains an automated work order and preventative maintenance system, School Dude. Facilities use scheduling is also managed on School Dude and the Facilities Use policy has been updated to permit better screening and verification of not-for-profit applicants and review of the proper liability insurance coverage documentation. Starting last year, the New York State Insurance Reciprocal began reviewing the coverage documentation for all use of facilities

requests and/or contractors to ensure proper coverage and compliance. In addition to O&M in-house operations, the Department staff oversees ongoing capital projects and contracted service repairs.

As part of the District's long-range planning efforts, the District completed its Building Condition Survey ("BCS"). The BCS is a comprehensive review of the condition of all facilities and building systems, required by law every five years. The District continues to fund its inter-fund transfer from the general fund to the capital fund to address items identified in its long-range plan. The Director of Operations and Maintenance maintains a prioritized list of projects (a subset of the BCS) which he ensures are addressed as funding is provided.

Internal Audit conducted an audit of this area in 2017. The overall rating was "Satisfactory" and improvement recommendations have been implemented.

This section has been rated a Medium risk.

STUDENT SERVICES

Risk Rating 162 Medium

This area includes Transportation, Food Service, Extraclassroom and Co-curricular Activities, Interscholastic Athletics, and Safety and Security. Although these areas represent a small percentage of the District's budget, they directly impact the District's mission and objectives. In addition, these areas tend to be more operationally decentralized, and have a potentially greater impact on reputational risk to the District.

The District provides District-owned pupil transportation services for regular school, out of District special education and private/parochial placements, athletic events, and field trips. For FY18/19, transportation costs are budgeted at \$4,551,364 compared to \$ 4,672,433 the previous fiscal year. The District utilizes the Transfinder scheduling system to develop its routes. The drivers are well experienced since the District enjoys a very low turnover rate with its drivers.

The District provides a food service program to students, administered by an outside contractor. The District's Food Service Management Company ("FSMC") operates five cafeterias in all the school buildings. The food service program functions as a self-sustaining operation. The District follows best practice with an active Wellness Committee that meets and reviews menu items for wellness, building and equipment issues, changes in program, and contract compliance issues.

The District has approximately 38 student clubs that comprise its Extraclassroom Activity Funds ("ECAAF"). Most student clubs are in the High School. The only financially active student club in the Middle School is the Student Council. According to the District's FY17/18 External Audit, student clubs had total cash receipts of \$149,798 and total cash disbursements of \$147,291. These figures represent a very small amount of financial activity in comparison to the District's budget. However, due to the nature of the activity, the District should ensure it has

adequate oversight over operations. Also, Central Treasurers now have on-line access (read only) to their respective ECAF checking accounts to permit a timelier access to the bank records. The Business Office staff did (once again) provide their annual training for extraclassroom activity advisors and student treasurers this year; however as noted in the annual external audit extraclassroom has received a “Qualified” opinion by our external auditor due to the inability to track funds from the point of inception (bake sales, car washes, donations, etc.) to the point that they are deposited with the district.

The Director of Athletics, Physical Education (“PE”), Health and Wellness oversees the District’s Athletic program, as well as the curriculum for PE and Health. The Interscholastic Activities (Athletics) budget for FY18/19 is \$987,630, compared to \$931,596 the previous year.

This area was given a Medium risk rating.

INFORMATION TECHNOLOGY

Risk Rating 187 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 the District has hired a Director of Information Technology; improved Internet filtering via a locally managed Fortinet Firewall; increased Internet Bandwidth; and upgraded the entire wireless environment. Also, the District’s Technology Profile document which summarizes the current state of the District’s network was reviewed and updated by the Lower Hudson Regional Information Center (LHRIC).

In addition, Accume recently performed an Information Technology Audit which resulted in the following recommendations:

1. The District’s Disaster Recovery Plan should be formalized, documented and include all critical applications and functions.
2. In order to detect security vulnerabilities and the patches needed to fix them, we recommend regular vulnerability assessments.
3. The District should disable/delete former employee user accounts and perform a periodic user entitlement review of system access for the network and all applications.
4. The District should provide formal cybersecurity training to all system users on an annual basis.

In response to the audit recommendations, the District has documented a corrective action plan and is in the process of addressing all audit observations. Most recently the District has contracted with Accume to conduct penetration testing of its network.

From an overall perspective the District has IT controls in place that are operating effectively. This is supported by the fact that there were no “Significant” issues identified in our internal audit. Of the four areas with observations and recommendations, three were rated as “Satisfactory”, which indicates modest weaknesses that require management's attention, with one “Needs Improvement” area which required management's prompt resolution.

GOVERNMENT AID and GRANTS
Risk Rating 127 Low

This area includes grants and aid from the state and federal governments, and other not-for-profit aid and donations. This area also includes Special Education, since a large proportion of federal aid goes toward funding these services.

In general, the District receives both state and federal aid. In terms of state aid, the District budgeted receipt of \$7,925,995 in state aid in FY18/19 compared to \$7,860,960 in FY17/18. Overall, state aid represents approximately 7.4% of the General Fund budget. The District receives most of its federal aid through federal grants. A majority of the federal grant monies are dedicated to funding services for students with special needs. Specifically, as of 12/19/18, a total of \$865,705 was awarded (and/or carried over from the prior year) in FY18/19. \$672,285 or 78% percent of the aforementioned funds are IDEA Part B Sections 611 and 619 grants directed towards educating students with disabilities. The remaining monies are Title I and II and III grants.

The District's budget for special education in FY18/19 is \$12,630,055, compared to \$12,342,074 the previous year. The NYSED's Fiscal Accountability Summary for 2016-2017 shows the District's school age students with disabilities classification” rate is 12.9%. The classification rate listed for NY State is 14.9% while the rate for the similar district group is 12.4%.

This area was evaluated a Low risk.

Recommended Internal Audit Plan

Katonah-Lewisboro Union Free School District	FY Audit Hours	
	18/19	Future
Risk Assessment Update	60	X
Budget, Financial Accounting & Reporting		X
Review of internal controls related to fiscal accountability and budget control, and operations in the Business Office.		
Debt, Investments and Cash		X
Review of internal controls over debt and investment monitoring and cash management.		
Revenue and Accounts Receivables	125	X
Review of internal controls over revenue, billing & collections, and accounts receivables.		
Purchasing and Accounts Payable		X
Review of the internal controls over purchasing, accounts payable, and the internal claims audit process.		
Human Resources and Payroll		X
Review of internal controls over human resources and payroll operations.		
Facilities and Capital Assets		X
Review of internal controls over Capital Project and Construction Management functions.		
Student Services		X
Review internal controls over Extraclassroom Activity Funds, Food Service Program, Safety & Security, Pupil Transportation, etc.		
Information Technology		X
Review of general computer controls		
Government Aid and Grants		X
Review of internal controls over government aid and grants functions		
Board/Audit Committee Presentations, Planning and Meetings	25	
Total Internal Audit Hours	210	