



**North Shore Central School District**

**Annual Risk Assessment Update  
Pertaining to the Internal Controls  
of District Operations**

**March 2022**

**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED UPON PROCEDURES**

The Board of Education  
North Shore Central School District

We have performed the procedures enumerated below, which were agreed to by the North Shore Central School District (the "District"), solely to assist the District. This agreed upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We have updated our March 2021 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting April 1, 2021 through March 30, 2022. The updated Risk Assessment and related internal audit plan concentrates on the following key internal control areas:

- Governance and Planning
- Budget Development
- Accounting and Reporting
- Revenue and Cash Management
- Grants
- Payroll
- Human Resources
- Benefits
- Purchasing and Related Expenditures
- Facilities Maintenance
- Capital Projects
- Fixed Assets
- Food Service
- Extraclassroom Activity Fund
- Information Systems
- Cybersecurity
- Student Data Management
- Pupil Personnel Services
- Transportation
- Security and Safety
- Insurance / Risk Management

Our engagement is limited in scope and will be confined to our agreed-upon procedures. We will not be conducting an audit or review of the District's financial statements and therefore we will not express an opinion or any other form of assurance on them.

At the end of our engagement, we will present the results of applying the agreed-upon procedures in the form of our findings in a report. Our accountants' report should be used only for the intent of the original users of this report and will include a statement indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. As such, using this report for anything other than the original intent of the agreed-upon procedures could mislead the readers. You must notify us immediately if the original users of the report change.

Very truly yours,

***Nawrocki Smith LLP***  
May 31, 2022



**North Shore Central School District**

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**North Shore Central School District**  
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**RISK ASSESSMENT OVERVIEW**

This Risk Assessment report provides a presentation of our view of the school district's risk pertaining to its financial operations. It gives the District's Administration the information necessary to help optimize its overall performance. The report identifies, expresses, and prioritizes the key program risks so that the District's Administration can focus on those areas most critical to its success. This analysis is used to define the District's risk profile. It will provide an overview of the risks facing the District's operations.

In accordance with the laws of New York, 2005, Chapter 263, all school districts and BOCES were required to establish an internal audit function no later than July 1, 2006 and be in operation no later than December 31, 2006. This function should include, at a minimum, development of a risk assessment of district operations, including but not limited to:

- A review of financial policies, procedures, and practices.
- An annual review and update of such risk assessment.
- Annual testing and evaluation of one or more areas of the District's internal controls.
- Preparation of reports which analyze significant risk assessment findings.
- Recommended changes for strengthening controls and reducing identified risk; and specifying time frames for implementation of such recommendations.

Pursuant to Section 170.12 – Regulations of the Commissioner of Education – School District Financial Accountability, each school district must prepare a corrective action plan, approved by the Board of Education in response to findings to final reports issued by the internal auditor. This plan should include expected dates of implementation and should be filed with the New York State Education Department.

**INTERNAL AUDIT OBJECTIVES**

The objectives of our engagement are as follows:

- Develop an understanding of the critical business processes of the District within each functional area.
- Identify and qualify risks based on the understanding of the business processes and stated business rules.
- Identify stated controls that are currently in place to address those risks and ascertain if they are operating effectively.
- Recommend improvements in internal controls.

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**SCOPE AND METHODOLOGY**

The Board of Education has engaged Nawrocki Smith as the District's internal auditor. In compliance with New York State Laws, we have performed an annual update to the District risk assessment with respect to policies, procedures, and internal controls pertaining to District operations. The procedures applicable to the annual update of the District's risk assessment were performed as of March 2022 and were carried out in order to determine an internal audit plan for the fiscal year 2022/2023 and thereafter. This risk assessment will be updated annually to reflect any changes in the current control environment and the existing internal audit plan.

Our risk assessment consisted of the following methodology:

- Perform interviews of Administration and other appropriate personnel.
- Document procedures within key Functional Areas.
- Identify key controls and perform audit tests of those controls.
- Assess the effectiveness of the key controls.
- Identification and review of organization structure.
- Analysis of risks that are a threat to the achievement of objectives.
- Create a risk profile and internal audit plan.

In addition to the above procedures, we have also evaluated and considered the following within our overall risk assessment:

- District policies and procedures.
- Recent focus of State Comptroller Audits.
- Board of Education/Audit Committee Meetings.
- Materiality to Financial Statements.
- Changes in management or key personnel.
- Financial reports provided to the Board.
- External auditor management letters.
- District corrective action plans.
- Organizational chart and job descriptions.

**INTERNAL AUDIT COVID-19 CONSIDERATIONS**

As Districts are changing operations and procedures to manage risk during the COVID-19 pandemic, our risk assessment considered the following in assessing the internal control environment:

- Consider if management's risk tolerance has increased and tolerates a lower level of control effectiveness.
- Consider how staff changes (reorganization, furloughs, and terminations) are impacting controls, processes, performance, and the potential fraud.
- Consider how segregation of duty conflicts are managed with changes in people and processes.
- Consider how management is assessing impact to key processes and controls including technology.
- Consider if any material changes in internal control over financial reporting will require disclosure in the next audit report.

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**INTERNAL AUDIT RISK ASSESSMENT UPDATE SUMMARY**

We have analyzed twenty-one (21) Business Process areas within the District and have developed an internal audit plan based on our assessment of each area. Each of the twenty-one (21) Business Processes contains multiple categories for which an extensive cycle analysis will be performed during the proposed time period noted within the risk rating and internal audit plan. The plan as presented will be revised each year based upon the annual risk assessment update and events/requests that occur during the year which impact the priority of future internal audit services.

The results of our updated risk assessment are summarized below and, in the tables, presented on pages 5 through 7. We have utilized a “Low,” “Moderate,” and “High” control risk rating assessment scale of the organization.

<u>CURRENT YEAR RATINGS</u>		<u>CHANGE FROM PRIOR YEAR</u>	
<u>Rating</u>	<u>2021/2022</u>	<u>Category (*)</u>	<u>Count</u>
High	- 0.00%	“High” to “Low”	- 0.00%
Moderate	2 2.17%	“High” to “Moderate”	- 0.00%
Low	90 97.83%	“Moderate” to “Low”	1 50.00%
<b>Total</b>	<b>92 100.00%</b>	“Low” to “Moderate”	1 50.00%
		“Moderate” to “High”	- 0.00%
		<b>Total</b>	<b>2 100.00%</b>

Our March 2022 risk assessment update contains two (2) recommendation, as follows:

<u>Business Process</u>	<u>Recommendation(s)</u>
Cybersecurity	2

The status of the prior year risk assessment recommendations is summarized below:

	<u>Complete</u>	<u>In-Process</u>	<u>Not Started</u>	<u>Total</u>
<b>Recommendations</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>

Based on the work performed and discussion with the District, we have summarized below the internal audit plan for the fiscal year 2022/2023:

<u>Cycle Review Considerations</u>	<u>Other 2022/2023 Planned Internal Audit Services</u>
<ul style="list-style-type: none"> <li>• Cybersecurity</li> </ul>	<ul style="list-style-type: none"> <li>• External Audit Corrective Action Plan Monitoring</li> <li>• Annual Risk Assessment Update as of March 2023</li> <li>• Other Internal Audit Services at the Request of the District/BOE</li> </ul>

**North Shore Central School District**  
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**March 2022**

**Risk Rating and Internal Audit Plan**

√ = Internal Audit Services Provided	X = Proposed Business Cycle Review
★ = Business Cycle Review Complete	T = Proposed Key Control Testing

	Business Process	Business Process Categories	RISK			YEAR OF SERVICE		
			Inherent	Control		Prior	22-23	Subsequent
				20-21	21-22			
1	Governance and Planning	1 Governance Environment	H	L	L			X
		2 Control Environment / Policies & Proc.	H	L	L			X
2	Budget Development	3 Budget Development	H	L	L	★		
		4 Budget Monitoring & Reporting	H	L	L	★		
3	Accounting & Reporting	5 Financial Accounting and Reporting	H	L	L	√		
		6 External/Internal/Claims Auditing	H	L	L			X
		7 Fund Balance Management	H	L	L			X
4	Revenue and Cash Management	8 Real Property Tax	M	L	L			X
		9 State Aid	H	L	L			X
		10 Out of District Tuition/Reimb. Exp.	M	L	L			X
		11 Use of Facilities	L	L	L			X
		12 Donations	M	L	L			X
		13 Vending Machines	H	L	L			X
		14 Cash Receipts	H	L	L			X
		15 Cash & Investment Management	H	L	L			X
		16 Petty Cash	L	L	L			X
		17 Bank Reconciliations	H	L	L	√		X
		18 Online Banking	H	L	L			X
19 Accounts Receivable	H	L	L			X		
5	Grants	20 General Processing	H	L	L			X
		21 Grant Application	M	L	L			X
		22 Allowable Costs & Expenditures	H	L	L			X
		23 Monitoring	M	L	L			X
		24 Reporting	H	L	L			X
6	Payroll	25 Payroll Disbursements	H	L	L	√		X
		26 Overtime Reporting	H	L	L	√		X
		27 Payroll Accounting & Reporting	H	L	L			X
		28 Payroll Tax Filings	H	L	L			X
		29 Payroll Reconciliation	H	L	L			X
7	Human Resources	30 Employment Requisition/Hiring	H	L	L	√	X	
		31 Personnel Evaluation	H	L	L		X	
		32 Termination	H	L	L		X	
		33 Employee Attendance	H	L	L		X	

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**Risk Rating and Internal Audit Plan (Continued)**

√ = Internal Audit Services Provided	X = Proposed Business Cycle Review
★ = Business Cycle Review Complete	T = Proposed Key Control Testing

	Business Process	Business Process Categories	RISK			YEAR OF SERVICE		
			Inherent	Control		Prior	22-23	Subsequent
				20-21	21-22			
8	Benefits	34 Eligibility	H	L	L			X
		35 Benefit Calculations	H	L	L			X
		36 Patient Protection & Affordable Care Act	H	L	L			X
		37 Retiree Benefits	H	L	L			X
		38 ERS/TRS	H	L	L			X
9	Purchasing and Related Expenditures	39 PO System & Vendor Database	H	L	L			X
		40 Purchasing Process	H	L	L			X
		41 Payment Processing	H	L	L			X
		42 Employee Reimbursements	H	L	L			X
		43 Credit Cards	H	L	L			X
10	Facilities Maintenance	44 Facilities Maintenance/Work Orders	H	L	L			X
		45 Staff Supervision	M	L	L			X
		46 Preventive Maintenance	M	L	L			X
		47 Coordination with Outside Vendors	M	L	L			X
11	Capital Projects	48 Construction Planning & Monitoring	H	L	L	★		
		49 Capital Project Funding & Payments	M	L	L	★		
		50 Recordkeeping & Reporting	M	L	L	★		
12	Fixed Assets	51 Inventory/ Capitalization Policy	H	L	L			X
		52 Acquisition and Disposal	H	L	L			X
		53 Inventory Process & Recordkeeping	H	L	L			X
13	Food Service	54 Sales Cycle and System	M	L	L	★		
		55 Inventory and Purchasing	M	L	L			X
		56 Free & Reduced Meals	M	L	L			X
		57 Federal and State Reimbursement	H	L	L			X
		58 Financial Reporting & Monitoring	H	L	L			X
14	Extraclassroom Activity Fund	59 General Controls	H	L	L	★		
		60 Revenue	H	L	L	★		
		61 Expenditures	M	L	L	★		
		62 Reporting	M	M	M	★		

**North Shore Central School District**  
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**Risk Rating and Internal Audit Plan (Continued)**

√ = Internal Audit Services Provided	X = Proposed Business Cycle Review
★ = Business Cycle Review Complete	T = Proposed Key Control Testing

	Business Process	Business Process Categories	RISK			YEAR OF SERVICE		
			Inherent	Control		Prior	22-23	Subsequent
				20-21	21-22			
15	Information System	63 Governance	H	L	L			X
		64 Inventory	H	L	L			X
		65 Network Security	H	L	L			X
		66 Application Security	H	L	L	√		X
		67 Physical Security	H	L	L			X
		68 Disaster Recovery	H	L	L			X
16	Cybersecurity	69 General Controls	H	L	L		X	
		70 Information & Asset Security	H	L	L		X	
		71 Vulnerability Assessment	H	L	M		X	
		72 Incident Response & Recovery	H	L	L		X	
17	Student Data Management	73 Registration & Enrolment	H	L	L			X
		74 Student Attendance	H	L	L			X
		75 Student Performance	H	M	L			X
		76 Student Eligibility	H	L	L			X
18	Pupil Personnel Services	77 Budgeting and Planning	H	L	L			X
		78 STAC Reimbursement	H	L	L			X
		79 Medicaid Reimbursement	H	L	L			X
		80 RFP and Contracts	H	L	L			X
19	Transportation	81 Fleet Inventory and Maintenance	H	L	L			X
		82 Bus Routing and Planning	H	L	L			X
		83 Labor and Supervision	H	L	L			X
		84 Contract Management	H	L	L			X
		85 Federal and State Reimbursement	H	L	L			X
20	Safety & Security	86 Plan Development & Strategy	H	L	L			X
		87 Building Access & Security System	H	L	L			X
		88 Compliance and Incident Reporting	H	L	L			X
		89 Safety & Security Monitoring	H	L	L	√		X
21	Insurance / Risk Management	90 General	H	L	L			X
		91 Policy Management	H	L	L			X
		92 Claims Reporting	H	L	L			X

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**Inherent Risk** - Inherent risk pertains to the overall school district industry. Inherent risk is the risk of a material misstatement that may occur assuming the absence of internal controls.

**Control Risk** - Control risk pertains specifically to the School District. Control risk is the risk that a material misstatement will not be detected and corrected by Management's internal controls on a timely basis.

**RISK ASSESSMENT OBSERVATIONS AND RECOMMENDATIONS**

*Current Year Observations and Recommendations*

Cybersecurity
---------------

1. The District is in the process of securing an independent vendor to conduct a cybersecurity National Institute of Standards and Technology (NIST) gap analysis. The District is also in the process of securing a vendor to perform internal penetration tests to identify a potential vulnerability within the school's network.
  - *The District should continue its efforts in having a third-party consultant(s) conduct a cybersecurity National Institute of Standards and Technology (NIST) gap analysis during the next fiscal year. The internal penetration test should be performed prior to the NIST gap analysis. This is an effective way for the Information Technology Department to identify and prioritize the real-time risks to a network security environment.*
2. The Information Technology Department has developed a formal incident response plan contained within the District's Disaster Recovery Plan. The District is in the process of revisiting and updating the plan to ensure that it remains in compliance with all regulations pertaining to NYS Ed Law 2-d.
  - *We recommend that the District develop stand-alone written procedures to address security breach notifications. The procedures should include a crisis management and communication plan that involves employees/individuals who handle PII. This will enable sufficient business continuity in the event of a cybersecurity breach.*

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***Status of Prior Year Recommendations***

We have performed follow-up internal audit services applicable to our previously issued initial risk assessment report dated March 2021. The services we performed included observing and evaluating the implementation status of the District's action plan with respect to our prior risk assessment recommendations. The March 2021 risk assessment identified one (1) recommendation within one (1) distinct area. The District has completed the one (1) recommendation as follows:

<b><u>Business Process</u></b>	<b><u>Complete</u></b>	<b><u>In-Process</u></b>	<b><u>Not Started</u></b>	<b><u>Total</u></b>
Capital Projects	1	-	-	<b>1</b>
<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>

Capital Projects

- We recommend that the Facilities Department utilize the attached narratives to prepare a departmental process manual regarding capital project planning, funding, contract awarding, monitoring, and close-out procedures. This will allow for an internal annual review of processes as well as serve as a training document for the department.

**Status as of March 2022: Complete**

**EXHIBITS**

***Exhibit I***      History of Internal Audit Work Performed



**North Shore Central School District  
History of Internal Audit Work Performed**

◇ = Risk Assessment Complete    ★ = Business Cycle Review Complete  
 ✓ = Key Control Testing Complete    ◆ = Special Request Services Provided

	Business Process	Business Process Categories	YEAR OF SERVICE		
			19/20	20/21	21/22
	<b>Risk Assessment</b>	Risk Assessment	◇	◇	◇
1	<b>Governance and Planning</b>	Governance Environment			
		Control Environment / Policies & Proc.			
2	<b>Budget Development</b>	Budget Development			★
		Budget Monitoring & Reporting	✓		★
3	<b>Accounting &amp; Reporting</b>	Financial Accounting and Reporting	✓		✓
		External/Internal/Claims Auditing			
		Fund Balance Management			
4	<b>Revenue and Cash Management</b>	Real Property Tax			
		State Aid			
		Out of District Tuition/Reimb. Exp.			
		Use of Facilities			
		Donations			
		Vending Machines			
		Cash Receipts			
		Cash & Investment Management			
		Petty Cash			
		Bank Reconciliations	✓		
Online Banking					
Accounts Receivable					
5	<b>Grants</b>	General Processing			
		Grant Application			
		Allowable Costs & Expenditures			
		Monitoring Reporting			
6	<b>Payroll</b>	Payroll Disbursements	✓		
		Overtime Reporting		✓	
		Payroll Accounting & Reporting			
		Payroll Tax Filings			
		Payroll Reconciliation			
7	<b>Human Resources</b>	Employment Requisition/Hiring	✓		
		Personnel Evaluation			
		Termination			
		Employee Attendance			



**North Shore Central School District  
History of Internal Audit Work Performed**

◇ = Risk Assessment Complete    ★ = Business Cycle Review Complete  
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	Business Process	Business Process Categories	YEAR OF SERVICE		
			19/20	20/21	21/22
8	Benefits	Eligibility			
		Benefit Calculations			
		Patient Protection & Affordable Care Act			
		Retiree Benefits			✓
		ERS/TRS			
9	Purchasing and Related Expenditures	PO System & Vendor Database			
		Purchasing Process			
		Payment Processing			✓
		Employee Reimbursements			
		Credit Cards			
10	Facilities Maintenance	Facilities Maint. & Work Order Proc.			
		Custodial Overtime & Training			
		Preventive Maintenance			
		Coordination with Outside Vendors			
11	Capital Projects	Construction Planning & Monitoring		★	
		Capital Project Funding & Payments		★	
		Recordkeeping & Reporting		★	
12	Fixed Assets	Inventory/ Capitalization Policy			
		Acquisition and Disposal			
		Inventory Process & Recordkeeping			
13	Food Service	Sales Cycle and System	★		
		Inventory and Purchasing	★		
		Free & Reduced Meals	★		
		Federal and State Reimbursement	★		
		Financial Reporting & Monitoring	★		
14	Extraclassroom Activity Fund	General Controls		★	
		Revenue		★	
		Expenditures		★	
		Reporting	✓	★	
15	Information System	Governance			
		Inventory			
		Network Security			
		Application Security		✓	
		Physical Security			
		Disaster Recovery			
		General Controls			



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History of Internal Audit Work Performed**

◇ = Risk Assessment Complete    ★ = Business Cycle Review Complete  
 ✓ = Key Control Testing Complete    ◆ = Special Request Services Provided

	Business Process	Business Process Categories	YEAR OF SERVICE		
			19/20	20/21	21/22
16	Cybersecurity	Information & Asset Security			
		Vulnerability Assessment			
		Incident Response & Recovery			
17	Student Data Management	Registration & Enrolment			
		Student Attendance			
		Student Performance			
		Student Eligibility			
18	Pupil Personnel Services	Budgeting and Planning			
		STAC Reimbursement			
		Medicaid Reimbursement			
		RFP and Contracts			
19	Transportation	Fleet Inventory and Maintenance			
		Bus Routing and Planning			
		Labor and Supervision			
		Contract Management			
		Federal and State Reimbursement			
20	Safety & Security	Plan Development & Strategy			
		Building Access & Security System			
		Compliance and Incident Reporting			
		Safety & Security Monitoring		✓	
21	Insurance / Risk Management	Actuary & Underwriting			
		Policy Management			
		Claims Reporting			