



North Shore Central School District

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

March 2023

**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 2022 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting April 1, 2022 through March 30, 2023. 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
June 22, 2023



North Shore Central School District

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of District Operations

March 2023

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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 the following:

- 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 2023 and were carried out in order to determine an internal audit plan for the fiscal year 2023/2024 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.

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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 on 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.

CURRENT YEAR RATINGS		CHANGE FROM PRIOR YEAR	
<u>Rating</u>	<u>2022/2023</u>	<u>Category (*)</u>	<u>Count</u>
High	- 0.00%	“High” to “Low”	- 0.00%
Moderate	11 11.96%	“High” to “Moderate”	- 0.00%
Low	81 88.04%	“Moderate” to “Low”	3 25.00%
Total	92 100.00%	“Low” to “Moderate”	9 75.00%
		“Moderate” to “High”	- 0.00%
		Total	12 100.00%

Our March 2023 risk assessment update contains nine (9) recommendations, as follows:

<u>Business Process</u>	<u>Recommendation(s)</u>
Human Resources	5
Extraclassroom Activity Fund	1
Information Technology	1
Cybersecurity	2
Total	9

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

<u>Recommendations</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Started</u>	<u>Total</u>
	1	1	-	2

Based on the work performed and discussion with the District, we have summarized below the internal audit plan for the fiscal year 2023/2024:

<u>2023/2024 Cycle</u>	<u>Other 2023/2024 Planned Internal Audit Services</u>
• Pupil Personnel Services	• External Audit Corrective Action Plan Monitoring
	• Annual Risk Assessment Update as of March 2024
	• Human Resources Cycle Recommendations Follow-Up
	• Other Internal Audit Services at the Request of the District/BOE

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Risk Rating and Internal Audit Plan

√ = Internal Audit Services Provided
★ = Business Cycle Review Complete

X = Proposed Business Cycle Review
T = Proposed Key Control Testing

	Business Process	Business Process Categories	RISK			YEAR OF SERVICE		
			Inherent	Control		Prior	22-23	Subsequent
				21-22	22-23			
1	Governance and Planning	1 Governance Environment	H	L	L			X
		2 Control Environment / Policies & Proc.	H	L	M			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	√		X
		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	M	★		
		31 Personnel Evaluation	H	L	L	★		
		32 Termination	H	L	M	★		
		33 Employee Attendance	H	L	M	★		

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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
				21-22	22-23			
8	Benefits	34 Eligibility	H	L	L			X
		35 Benefit Calculations	H	L	L			X
		36 Patient Protection & Afford. 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	M	★		
		60 Revenue	H	L	M	★		
		61 Expenditures	M	L	L	★		
		62 Reporting	M	M	M	★		

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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
				21-22	22-23			
15	Information System	63 Governance	H	M	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	M			X
16	Cybersecurity	69 General Controls	H	L	L			X
		70 Information & Asset Security	H	L	M			X
		71 Vulnerability Assessment	H	M	L			X
		72 Incident Response & Recovery	H	L	M			X
17	Student Data Management	73 Registration & Enrolment	H	L	L			X
		74 Student Attendance	H	L	L			X
		75 Student Performance	H	M	M			X
		76 Student Eligibility	H	M	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

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 North Shore Central 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.

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RISK ASSESSMENT OBSERVATIONS AND RECOMMENDATIONS

Current Year Observations and Recommendations

Human Resources

1. The District has developed standardized forms, follows its board-approved policies and regulations, and performs procedures documented within the narratives enclosed in the internal audit report. We noted that a departmental manual describing the human resources procedures was not in place.
 - *We recommend that the District utilize the attached narratives to prepare a departmental process manual regarding planning, hiring, personnel evaluations, attendance, and employee separation. The District's Administration should review the District's documented guidelines and applicable forms on an annual basis. This will allow for an annual internal review of processes as well as serve as a training document for the Department Heads and Building Level Administrators.*
2. We conducted key control testing in the area of employee personnel files and noted instances that the personnel files did not include employee related documentation.
 - *In addition to the existing employee related documents, the District should maintain employee references and interview evaluations within a personnel file.*
3. It is the current process that the District requires only newly hired employees to indicate in their application form whether they are related to other District employees.
 - *The District should develop an Employee Related Party Disclosure Form for all employees (new and existing) to document their name, address, phone number, and relationship with related parties and vendors that conduct business with the District. If possible, the District should consider developing an electronic online form (e.g., Google or Office 365 Forms) for existing employees and vendors to complete when their information changes and submit for review. The online forms should have validation controls for incomplete responses. In addition, the responses from the online forms should be automatically collected and integrated into a spreadsheet in a standardized format indicating the first and last name of the employee or vendor, their address, phone number, the name of the related party or organization, and their relationship (e.g., family or vendor). This will assist the District in maintaining the transparency of such relationships and capturing as much information as possible to identify a potential conflict of interest.*
4. Forms I-9 – Employment Eligibility Verification are maintained within the employee personnel files.
 - *According to the U.S. Citizenship and Immigration Services (USCIS), Forms I-9 Employment Eligibility Verification and applicable identity supporting documentation should be maintained separately from employee personnel files. The District should retain and store Forms I-9 alphabetically for three (3) years after the hire date or one (1) year after employment is terminated, whichever is later.*

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5. We conducted key control testing in the area of employee attendance and noted instances that the leave request forms were not made available for review and/or the leave request form did not document the correct number of leave days.
- *The District should explore the full capabilities of the employee attendance software and implement a process whereby all employee leave requests and approvals are documented and processed through the existing application. All employees should obtain pre-approval from their building-level supervisors for their vacation, personal business, maternity, military, jury duty, extended sick, and conference leave day requests. These controls will assist the District in detecting unapproved leave requests, ensuring the accuracy of attendance reporting, and providing effective operating planning.*

Extraclassroom Activity Fund

6. The Club Advisors do not safeguard cash or checks collected and do not maintain a safe deposit log in a consistent manner. We noted that cash collected is not deposited within one (1) week of receipt.
- *We recommend that all cash receipts be deposited within one (1) week. This helps to ensure the accuracy of the Extraclassroom club account balance and minimizes the possibility of theft or misplacement of cash. Accountability over cash receipts at the building level is enhanced when cash is recorded in a safe deposit log as soon as practicable from the date cash is received. The longer receipts go without being entered into the safe deposit log, the greater the risk an employee could misappropriate funds. The safe deposit log should be reconciled to the amount of cash on hand submitted to the Business Office. This will assist in uncovering discrepancies between actual cash collected and recorded amounts in a timely manner.*

Information Technology

7. Although the District has a documented disaster recovery plan in place and the Information Technology Department has successfully restored backups of files when requested by District employees, the Information Technology Department has not assessed the restoration of a full backup of the District's servers.

The Information Technology Department should conduct, at a minimum, an annual restoration of a full backup of the District's servers to ensure the restoration process works as intended and that the District is able to recover data if needed. All restoration tests should be performed in a way and at a time that will not disrupt regular business operations and will truly mimic actual restoration procedures.

Cybersecurity

8. The Information Technology Department has not enabled remote wipe capability for Windows laptops.
- *The Information Technology Department should implement a remote wipe and/or remote factory reset ability on all laptops. This will protect sensitive data from people who possess enterprise-owned devices without authorization to view the data.*

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9. Although the Information Technology Department has developed a cybersecurity incident response plan, it has not developed a process to test it and identify if it effectively delivers recovery services or needs to be revised.

- *The Information Technology Department should develop a process to test the District's cybersecurity incident response plan. This can be accomplished by conducting the following:*
 - *Tabletop exercises whereby the Information Technology Department discusses with key participants of the Incident Response Plan potential breach scenarios and highlight items that need to be addressed in a cyber incident.*
 - *Walkthrough exercises whereby the Information Technology Department contacts the key participants of the Incident Response Plan and assess how long it would take to respond to a cyber incident.*
 - *Cutover exercises whereby the Information Technology Department declares a cyber event and the key participants of the Incident Response Plan perform their tasks to transition from on-premise to cloud systems and restore the backup data. This will assist the Information Technology Department to assess the duration of the District's downtime and adjust the Incident Response Plan, if deemed necessary.*

Status of Prior Year Recommendations

We have performed follow-up internal audit services applicable to our previously issued risk assessment report dated March 2022. 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 2022 risk assessment identified two (2) recommendations within one (1) distinct area. The District has taken action on the two (2) recommendations as follows:

<u>Business Process</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Started</u>	<u>Total</u>
Cybersecurity	1	1	-	2
Total	1	1	-	2

Cybersecurity

- 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.

Status as of March 2023: In-Process

- We recommend 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.

Status as of March 2023: Complete

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EXHIBITS

Exhibit I History of Internal Audit Services



**North Shore Central School District
History of Internal Audit Services**

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

		YEAR OF SERVICE				
Business Process	Business Process Categories	19/20	20/21	21/22	22/23	
	Risk Assessment	Risk Assessment	◇	◇	◇	◇
1	Governance and Planning	Governance Environment				
		Control Environment / Policies & Proc.				
2	Budget Development	Budget Development			★	
		Budget Monitoring & Reporting	✓		★	
3	Accounting & Reporting	Financial Accounting and Reporting	✓		✓	
		External/Internal/Claims Auditing				
		Fund Balance Management				
4	Revenue and Cash Management	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	Grants	General Processing				
		Grant Application				
		Allowable Costs & Expenditures				
		Monitoring Reporting				
6	Payroll	Payroll Disbursements	✓			
		Overtime Reporting		✓		
		Payroll Accounting & Reporting				
		Payroll Tax Filings				
		Payroll Reconciliation				
7	Human Resources	Employment Requisition/Hiring	✓			★
		Personnel Evaluation				★
		Termination				★
		Employee Attendance				★



**North Shore Central School District
History of Internal Audit Services**

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	Business Process	Business Process Categories	YEAR OF SERVICE			
			19/20	20/21	21/22	22/23
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				



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			YEAR OF SERVICE			
Business Process	Business Process Categories	19/20	20/21	21/22	22/23	
16	Cybersecurity	General Controls				
		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				