



North Shore Central School District

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

March 2025

**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 2024 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting April 1, 2024 through March 31, 2025. 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 12, 2025



North Shore Central School District

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

March 2025

Table of Contents

Risk Assessment Overview.....	2
Internal Audit Objectives.....	2
Scope And Methodology.....	3
Internal Audit Risk Assessment Update Summary	4
Risk Rating And Internal Audit Plan	5
Risk Assessment Observations And Recommendations.....	8
Exhibits	10

North Shore Central School District
Annual Risk Assessment
March 2025

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, the 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 that analyze significant risk assessment findings.
- Recommended changes for strengthening controls, reducing identified risk, and specifying time frames for implementing 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.

North Shore Central School District
Annual Risk Assessment
March 2025

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 2025 and were carried out in order to determine an internal audit plan for the fiscal year 2025/2026 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 with the 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.

North Shore Central School District
Annual Risk Assessment
March 2025

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>2024/2025</u>	<u>Category (*)</u>	<u>Count</u>
High	- 0.00%	“High” to “Low”	- 0.00%
Moderate	7 7.61%	“High” to “Moderate”	- 0.00%
Low	85 92.39%	"Moderate" to “Low”	4 66.67%
Total	92 100.00%	“Low” to “Moderate”	2 33.33%
		“Moderate” to “High”	- 0.00%
		Total	6 100.00%

Our March 2025 risk assessment update contains five (5) recommendations, as follows:

<u>Business Process</u>	<u>Recommendation(s)</u>
Purchasing & Related Expenditures	2
Extraclassroom Activity Fund	1
Cybersecurity	1
Student Data Management	1
Total	5

The status of the prior year risk assessment report is summarized as follows:

	<u>Complete</u>	<u>In-Process</u>	<u>Not Started</u>	<u>Total</u>
Recommendations	5	-	-	5

Based on the work performed and discussion with the District, we have summarized below the internal audit plan for the fiscal year 2025/2026:

<u>2024/2025 Cycle</u>	<u>Other 2025/2026 Planned Internal Audit Services</u>
<ul style="list-style-type: none"> • Review of Implementation Status of Cybersecurity NIST Gap Analysis Recommendations 	<ul style="list-style-type: none"> • External Audit Corrective Action Plan Monitoring
	<ul style="list-style-type: none"> • Annual Risk Assessment Update as of March 2026
	<ul style="list-style-type: none"> • Prior Year Internal Audit Recommendations Follow-Up
	<ul style="list-style-type: none"> • Other Internal Audit Services at the Request of the District/BOE

North Shore Central School District
Annual Risk Assessment
March 2025

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	25-26	Subsequent
				23-24	24-25			
1	Governance and Planning	1 Governance Environment	H	L	L			X
		2 Control Environment / Policies & Proc.	H	M	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	M	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	√		
		26 Overtime Reporting	H	L	L			
		27 Payroll Accounting & Reporting	H	L	L			
		28 Payroll Tax Filings	H	L	L			
		29 Payroll Reconciliation	H	M	L			
7	Human Resources	30 Employment Requisition/Hiring	H	L	L	★		
		31 Personnel Evaluation	H	L	L	★		
		32 Termination	H	L	L	★		
		33 Employee Attendance	H	L	L	★		

North Shore Central School District
Annual Risk Assessment
March 2025

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	25-26	Subsequent
				23-24	24-25			
8	Benefits	34 Eligibility	H	L	L		X	
		35 Benefit Calculations	H	L	L		X	
		36 Patient Protection & Affordable Care	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	M	★		
		40 Purchasing Process	H	L	L	★		
		41 Payment Processing	H	L	L	★		
		42 Employee Reimbursements	H	L	M	★		
		43 Credit Cards	H	L	L	★		
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			
		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			X
		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
Annual Risk Assessment
March 2025

Risk Rating and Internal Audit Plan (Continued)

√ = Internal Audit Services Provided	X = Proposed Business Cycle Review
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	Business Process	Business Process Categories	RISK			YEAR OF SERVICE		
			Inherent	Control		Prior	25-26	Subsequent
				23-24	24-25			
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	M	L			X
16	Cybersecurity	69 General Controls	H	L	L		X	
		70 Information & Asset Security	H	L	L		X	
		71 Vulnerability Assessment	H	M	M		X	
		72 Incident Response & Recovery	H	M	M		X	
17	Student Data Management	73 Registration & Enrollment	H	L	L			X
		74 Student Attendance	H	L	L			X
		75 Student Performance	H	M	M			X
		76 Student Eligibility	H	L	L			X
18	Pupil Personnel Services	77 Budgeting and Planning	H	L	L	★		
		78 STAC Reimbursement	H	L	L	★		
		79 Medicaid Reimbursement	H	L	L	★		
		80 RFP and Contracts	H	L	L	★		
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	M	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.

North Shore Central School District
Annual Risk Assessment
March 2025

RISK ASSESSMENT OBSERVATIONS AND RECOMMENDATIONS

Current Year Observations and Recommendations

Purchasing and Related Expenditures

1. We conducted key control testing in the area of expense reimbursements and noted a small number of instances whereby a Conference/Travel authorization form was not made available for review.

- *According to Policy #6830 - Expense Reimbursement, prior authorization should be obtained by employees for travel and expenditures that can be reasonably anticipated. The Business Office should review the employees' claims for reimbursements and applicable supporting documentation for completeness.*

Subsequent to our review, the District took corrective action and implemented this recommendation.

2. We analyzed the District's vendor database and noted instances of duplicate vendor names with different addresses, missing federal tax identification numbers, and vendors without a recorded transaction date.

- *The Business Office should conduct an annual review of the vendor database to determine if duplicate vendors should be inactivated and inactivated vendors not utilized over a five (5) year period. This will help ensure only vendors with ongoing business activities with the District are active and prevent duplicate payments to vendors with multiple entries in the database.*

Subsequent to our review, the District took corrective action and implemented this recommendation.

Extraclassroom Activity Fund

3. We noted that the Central Treasurer and club advisor ledgers are not consistently reconciled.

- *The District should implement a formal process to review the financial activity recorded in Club Advisor and Central Treasurer ledgers annually. This will assist the District in increasing the oversight controls, verifying accuracy, and maintaining consistent record-keeping practices.*

Cybersecurity

4. The District has not conducted a third-party penetration test to identify a potential vulnerability within the school's network. The lack of penetration tests is a risk as the District may not be aware of the existence of security weaknesses.

- *The District should consider having a third party separate from the Information Technology Department conduct a penetration test to circumvent security features of the system and exploit vulnerabilities to gain unauthorized access. The Information Technology Department should review results, address vulnerabilities through patching or compensating controls, and document remediation efforts. These actions and results should be communicated to the Assistant Superintendent for Business.*

North Shore Central School District
Annual Risk Assessment
March 2025

Student Data Management

5. The District does not have a formal process to review the audit trail for student grade changes. Additionally, the current method for documenting requests and approvals for grade changes is manual and paper-based, which increases the risk of incomplete records and limited accountability.
- *The District should designate an individual separate from the users who enter student grades in the system to review and determine the appropriateness of student grade changes. The review process should be documented and formally communicated to the Assistant Superintendent for Instruction. Furthermore, the District should transition from a manual and paper-based grade change request and approval forms to an electronic system capable of tracking the requests and approvals of grade changes This will enhance data accountability and improve oversight.*

Status of Prior Year Recommendations

We have performed follow-up internal audit services applicable to our previously issued risk assessment report dated March 2024. 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 2024 risk assessment identified five (5) recommendations within four (4) distinct areas. The status of the prior year risk assessment report is summarized as follows:

<u>Business Process</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Started</u>	<u>Total</u>
Revenue and Cash Management	1	-	-	1
Payroll	1	-	-	1
Pupil Personnel Services	2	-	-	2
Safety and Security	1	-	-	1
Total	5	-	-	5

Revenue and Cash Management

- The Food Service Department should require the vendor to provide meter readings for each vending machine and reconcile the monthly commission sales reports to actual collections and contract terms for accuracy. This will ensure that the District receives all monies owed in a timely manner.

Status as of March 2025: Complete

Payroll

- The District should consider conducting an employee payroll audit for all buildings. A periodic verification of the legitimacy of direct deposits and payroll checks may detect unauthorized or fictitious employees. It may also detect the continuation of terminated or retired employees on the payroll. The District may accomplish this recommendation internally once a year when distributing the annual Form W2-Wage and Tax Statements or have its internal auditors conduct this audit periodically.

Status as of March 2025: Complete

North Shore Central School District
Annual Risk Assessment
March 2025

Pupil Personnel Services

- The Special Education Department should consider developing a formal departmental procedural manual pertaining to the STAC application processing, expenditure accounting, recordkeeping, state reporting, and review of year-end reimbursements. We recommend the District include the narratives attached to our internal audit report as supplemental enclosures within its manual. Such a process manual will allow for an annual internal review of processes and serve as a training document for the department.

Status as of March 2025: Complete

- The District should maintain detailed salary and benefits documentation to support the amounts reported to the New York State Education Department for reimbursement related to in-district high-cost special education services. Additionally, the Special Education Department should investigate the reasons surrounding the reported variances, obtain supporting documentation, and confirm the validity of the private high-cost student service costs reported on the 2021/2022 Automated Verification Listing. According to the NYSED guidelines, High-Cost placements are cost-based, and Districts should report and verify the actual costs for full-year students and the annualized costs for partial-year students.

Status as of March 2025: Complete

Safety and Security

- The District should reconcile the cardholder listing from the building access security software to the active employee listing from the financial application at the end of each fiscal year. If any discrepancies pertain to former employees or duplicate entries, the District should deactivate the access rights of these cardholders. This will enhance the internal control over building access and will limit access during normal school operations and sessions to active employees only.

Status as of March 2025: Complete

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	23/24	24/25	
	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	23/24	24/25
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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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	23/24	24/25
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						