

BALLSTON SPA CENTRAL SCHOOL DISTRICT

**Independent Internal Audit Report
Annual Risk Assessment
February 2022**

February 18, 2022

Audit Committee Members
Ballston Spa Central School District
Ballston Spa, NY

Dear Audit Committee Members:

The following is a report of our annual update of the risk assessment for the Ballston Spa Central School District. Bonadio & Co., LLP was engaged by the District Board of Education to fulfill the requirements of the 2005 School Financial Oversight and Accountability Act by performing an annual update to the initial risk assessment. Our engagement was performed to evaluate the risks identified in the previously issued report and to provide a report on the School District's progress on mitigating the identified risks.

The purpose of the risk assessment is to provide the Audit Committee with a review of internal controls that the School District has in place to prevent and detect fraud, ensure financial reporting is accurate and that School District assets are safeguarded.

The content of this report is intended to provide the Audit Committee with the baseline information necessary to develop, approve and implement an Internal Audit Work Plan for the fiscal year 2022.

In performing our engagement, we relied on the accuracy and reliability of information provided by School District personnel. We have not audited, examined or reviewed the information, and express no assurance on it. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This consulting engagement report is intended solely for the information and use of Administration, the Audit Committee, the Board of Education, and other applicable employees within the School District and is not intended to be and should not be used by anyone other than those specified parties.

We appreciate the opportunity to prepare this Independent Risk Assessment for the Ballston Spa Central Schools and are available to assist you in carrying out other portions of the Independent Internal Audit Plan. We are also available to answer your questions anytime.

Very truly yours,
BONADIO & CO., LLP



Joseph F. Heroux, CPA
Principal

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EXECUTIVE SUMMARY

In 2005 the NYS Legislature issued school district accountability laws, pursuant to Chapter 263 of the Laws of 2005 (the Act), regarding increased oversight over public schools, charter schools and BOCES. As part of the new laws, school districts are required to implement an Internal Audit function. The Internal Audit function requires the formation of an Audit Committee and the appointment of an internal auditor.

In 2012 the Ballston Spa Central Schools appointed Bonadio & Co, LLP as the School District's internal audit consultants to perform an annual risk assessment, develop a proposed audit work plan based on the high risk areas identified and then to assist in the development of the scope and timing of the internal audit areas based on the approval of the district audit committee.

The initial report focused on the initial risk assessment of internal controls of the Ballston Spa Central Schools' operations, financial reporting policies, procedures and functional activities. This report provides for an update to the initial risk assessment performed on the School District's progress on applying mitigating controls to reduce the initial risks identified.

Our interviews with School District Administration were directed toward gaining an understanding of any changes and related risks in each internal control area during the last 12 months, from the perspective of managements responsible for controlling such risks. Using this information, we reassessed the risk (low, moderate or high) present in each area. A summary of this risk assessment by control cycle is included subsequently. The risk assessment process also drives the planned scope of the internal audit procedures, which is summarized in the internal audit work plan.

RISK ASSESSMENT AND INTERNAL AUDIT STRATEGY

Objective

The objective of the annual risk assessment is to meet the requirements of the 2005 Schools Accountability legislation by conducting an update to the Risk Assessment. We relied on interviews with School District Administration for significant changes that have been made, external audit reports, review of board minutes, status of prior audit findings and recommendations and School District policy amendments.

Risk Assessment Performed

During February 2022, we updated our risk assessment of key areas and transactions in order to assess risk for each of the significant transaction cycles and functional responsibilities. This information was shared with the Administration and used to identify high-risk areas that may need further review.

We utilized an interview approach in performing the School District's risk assessment. We identified key risk areas or circumstances that could significantly prevent the School District from effectively achieving its goals. Each risk was evaluated as to whether its potential effect would be **low, moderate, or high**. We obtained an understanding of Administration's and the Board's attitude, awareness and actions concerning internal control. We made an assessment of the "tone at the top" regarding internal control and developed our risk assessment accordingly.

COVID-19 Risks and Uncertainties

As of the date of this report, the United States continues to be affected by a national health emergency related to a virus, commonly known as novel coronavirus (COVID-19). During 2020, the NYS Governor put the economy "on pause" in an effort to combat the spread of COVID. As a result, many businesses were closed, or their operations were severely curtailed. The School District acted proactively as well in an effort to protect its employees as well as the School District population. At times, COVID 19 has led to significant changes in day-to-day activities of the School District and those responsible for the execution and approval of key internal control activities. We took this into consideration in our review of the various transaction cycles.

Transaction Cycles and Functions Subject to Risk Assessment

We determined the control objectives, risk, and control activities associated with each of the following transaction cycles or functions identified in order to determine the nature, timing and extent of internal auditing procedures necessary for conducting the internal audit work.

The following transaction cycles and functional responsibilities were reviewed:

- General ledger and financial reporting
- Revenues, billings and receivables
- Centralized cash receipts and banking
- Capital assets
- School lunch fund
- Grants – Federal and State
- Payroll and human resources
- Purchasing and cash disbursements
- State Aid
- Financial software
- Extraclassroom
- Transportation
- Facilities and maintenance

In addition, we assessed the adequacy of accounting policies and Board governance through audit inquiries, observations and discussions with Administration and other School District personnel.

Intrinsic in the assessment of the School District is the concept of materiality. Those areas of the School District that deal with more significant dollars or a higher volume of transactions will most likely score as higher risk. The scope is primarily risk-based and is organized around the School District's major internal control cycles.

RISK ASSESSMENT

RISK ASSESSMENT SUMMARY

The table below summarizes our evaluation of the transaction cycles and functional responsibilities we considered. The attached appendix provides background and definitions to the below risk categories used.

| <u>Audit Area</u> | <u>Risk Assessment</u> | | | | <u>Reason for Risk Assessment</u> |
|--|-------------------------------|----------------|--------------------|----------------|---|
| | <i>Inherent</i> | <i>Control</i> | <i>Materiality</i> | <i>Overall</i> | |
| General ledger and financial reporting | Moderate | Low | High | Moderate | Proper financial reporting is an important responsibility of the School District. Financial data is reviewed by multiple employees in the School District and by the Board of Education. The financial statements are audited annually with no significant findings. |
| Revenues, billings and receivables | Low | Moderate | High | Moderate | The majority of the School District's revenue is received from property taxes and state aid. These amounts are monitored closely. The School District also receives reimbursement from Medicaid for providing Medicaid related services to eligible students. This area was reviewed as part of the internal audit function in June 2018 with no issues identified. |
| Centralized cash receipts and banking | Moderate | Low | Low | Low | Cash receipts, other than property tax receipts, are logged in by one employee, and are deposited in the bank and recorded in the general ledger by others. A separate computer is used for online transfers and all transfers can only be done between School District accounts. |
| Capital assets | Low | Moderate | High | Moderate | During our analysis of capital assets, it appears that proper controls are in place over additions. A physical inventory of capital assets was conducted for the 2018-2019 fiscal year. |
| School lunch fund | Moderate | Low | Low | Low | During our analysis of the school lunch fund, it was noted that proper segregations of duties exist over processing of receipts and disbursements. The fund is generally self-sufficient with revenues exceeding expenditures. However, as a result of the COVID-19 pandemic, for the fiscal year ended June 30, 2021, the school lunch fund operated at a deficit with expenditures exceeding revenue by approximately \$25,000. This area was reviewed as part of the internal audit function in June 2017 with no issues identified. |

RISK ASSESSMENT

| <u>Audit Area</u> | <u>Risk Assessment</u> | | | | <u>Reason for Risk Assessment</u> |
|-----------------------------------|-------------------------------|----------------|--------------------|----------------|---|
| | <i>Inherent</i> | <i>Control</i> | <i>Materiality</i> | <i>Overall</i> | |
| Grants - Federal and State | Moderate | Low | Moderate | Moderate | The School District expended approximately \$2.9 million in federal and state grants during 2020-2021. Based on our review of the 2020-2021 external audit findings and examination of the School District's procedures, we believe this area is functioning properly. |
| Payroll and human resources | Moderate | Moderate | High | Moderate | Payroll is by far the largest expenditure of the School District. Based on our procedures, there is an adequate segregation of duties as well a documented review and approval process. New hire testing was conducted by the internal audit function in July 2019. |
| Purchasing and cash disbursements | Moderate | Low | High | Moderate | During our analysis of the cash disbursement cycle, it appears that proper controls are in place to prevent, detect, and deter a misstatement due to intentional or unintentional errors by School District personnel. |
| State Aid | Low | Low | High | Low | The State provides reports to inform school districts of how much aid they will receive, and any adjustments made to that aid. The School District closely monitors issues affecting state aid and updates their expectations accordingly. Proper controls appear to be in place to ensure the revenue is properly recorded and safeguarded. |
| Information Technology | High | High | Moderate | High | This is an inherently high-risk area as demonstrated by the increasing number of data breaches, malware and ransomware attacks that are disclosed seemingly daily. Based on our inquiries, it appears as though the School District continuously monitors their IT related risk and conducts periodic testing of the controls in place. Limited testing of this area was conducted as part of the internal audit function in June 2021. |
| Extraclassroom | High | Moderate | Low | Moderate | Based on our inquiry and walkthrough of controls over extraclassroom receipts and disbursements, generally, the School District has good controls over the disbursement and receipt processes. However, we did note several issues that are discussed in the Findings and Recommendations section of this report. |

RISK ASSESSMENT

| <u>Audit Area</u> | <u>Risk Assessment</u> | | | | <u>Reason for Risk Assessment</u> |
|----------------------------|-------------------------------|----------------|--------------------|----------------|--|
| | <i>Inherent</i> | <i>Control</i> | <i>Materiality</i> | <i>Overall</i> | |
| Transportation | Low | Moderate | Low | Low | Inquires in this area did not reveal any risks associated with this area. |
| Facilities and maintenance | Low | Moderate | Moderate | Moderate | During our analysis, nothing came to our attention that would cause us to believe there was a risk in this area. |

Internal Audit Work Plan

The four-year internal audit work plan summarized below, illustrates the detailed annual plan for 2019 through 2022. The School District is required to perform a reassessment of risk on an annual basis. The results of the annual reassessment will be the basis for identifying audit priorities and determining the internal audit plan in future years. These priorities will be reviewed with the School District's Audit Committee Members and readjusted accordingly if necessary. Included in the summary are the annual risk assessment, the eleven high-risk areas, and other areas.

| <u>Business Cycle Area</u> | <u>2018-19</u> <i>(Completed)</i> | <u>2019-20</u> <i>(Completed)</i> | <u>2020-21</u> <i>(Completed)</i> | <u>2021-22</u> |
|---|---|---|---|-----------------------|
| Annual Risk Assessment (Required) | X | X | X | X |
| Expenditures, Purchasing, Bidding, Quotations and Related Areas | | X | | |
| Payroll, Benefits, Taxes and Related Areas | X | | | |
| Fixed Assets | | | | |
| Information Technology | | | X | |
| Federal Awards | | | | |
| Medicaid Billing & State Aid | | | | |
| School Lunch Operations | | | | X |
| Extraclassroom Activity Funds | | | | |
| Capital Projects Administration | | | | |
| Transportation | | | | |
| Risk Management | | | | |
| Other Area(s), As Determined by the Audit Committee | | | | |

Recommendation

We recommend the Audit Committee, in consideration of our professional advice and input from your external auditor; target the aforementioned areas for testing in the fiscal year 2022. Additional areas may include department or program specific areas to test in the aforementioned categories.

FINDINGS AND RECOMMENDATIONS

During the risk assessment update, we identified the following findings and recommendations. These recommendations represent our observations in connection with the risk assessment services performed.

Extraclassroom Activity Funds

Extraclassroom activity funds, as is the case with many school districts throughout New York State, is an area of high risk due to the cash nature of transactions occurring outside of the business office, the involvement of students and faculty advisors (as mandated by New York State) and the decentralized accounting for these transactions.

During our annual risk assessment update, we performed a walkthrough of five (5) cash receipt and transactions and noted the following:

Cash Receipts

Club Ledgers

- For four of the five receipts selected for testing, the receipts were not recorded in the club ledgers until after the deposit slip was returned to the club from the central treasurer after the funds were deposited into the bank.

Maintaining club ledgers independent of the central treasurer is an important internal control function that provides a system of checks and balances between the clubs and the central treasurer. Not recording the receipt until after the funds are deposited by the central treasurer eliminates this important step. We recommend that each club record the receipt in their ledger and then, compare that receipt to what is recorded by the central treasurer during the monthly reconciliation process.

National Junior Honor Society

- Fundraiser – one of the receipts we selected for testing was for the collection of funds for the “National Wear Pink Day for Cancer Awareness”. The total amount deposited from this fundraiser was \$567. Although a Profit and Loss Statement was provided, there was no detail listing provided to corroborate the total amount collected. In addition, the Profit and Loss Statement provided was an outdated form and did not include a place for the signature of the Assistant Principal who is required to review and approve all fundraisers.

While a Profit and Loss Statement was provided, the lack of the Assistant Principal’s signature as evidence of his review and approval of the funds collected is a missed step in the internal control process. In the future, even if an outdated form is used, the Assistant Principal should sign the form on the face of the document as evidence of his review and approval. In addition, prenumbered receipts should be issued to document funds collected. This will enable the reconciliation amount deposited to the receipts issued. If it is not practical for prenumbered receipts to be issued, then a listing detailing who the funds were collected from and how much they donated should be prepared.

As a result of the risk associated with extraclassroom activity funds, and the issues noted above, the school district should consider this area for further testing. Testing will consist of us meeting with selected faculty advisors and the extraclassroom treasurers to discuss the processes in place over the processing of transactions. Reasonableness tests will be performed on larger fundraisers as well as tests of cash receipts and cash disbursement transactions. A report will be issued regarding suggested improvements

Cash Receipts

During our annual risk assessment update, we performed a walkthrough of five (5) cash receipt and transactions and noted the following for one of the receipts selected for testing.

- A cash receipt that received through the Athletic Department on July 20, 2021 was not forwarded to the Business Office for deposit until August 9, 2021 when it was promptly deposited.

While it is difficult for the Business Office to control what the various departments and schools do upon receipt of a check, the School District should reiterate the need to promptly forward all amounts received to the Business Office as soon as a payment is received. This will mitigate the risk of a payment being misplaced or misappropriated. Generally, all amounts received should be deposited within five days of being received.

Information Technology

Information Technology (IT) assets and computerized data are valuable resources that School District relies on to support certain business operations, such as providing communication, maintaining student records, performing online banking transactions and maintaining financial records, including personal, private and sensitive information (PPSI), and reporting to State and federal agencies. The potential consequences of an IT system failure range from inconvenient to severe.

While limited testing of this area was conducted as part of the internal audit function in June 2021, and our discussions did not disclose any issues as a result of a failure in the IT controls, given the ever-changing risks relating to the IT environment, the School District may want to consider using our IT related services to perform a General Controls Assessment review surrounding financial and general information systems, data, administrative controls, and physical security. This review consists of an inquiry and observational assessment of the information technology/infrastructure surrounding electronic information security, processes, and controls in place at the School District. The work would be conducted through on-site/off-site efforts, main site walk-through, and inquiry-based reviews of controls, documents, and reports.

APPENDIX

Definition of Internal Control

Internal control is a management process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

This definition reflects certain fundamental concepts:

- Internal control is an ongoing process.
- Internal control is performed and maintained by the actions of the School District personnel. It is not merely policy manuals and forms, but people functioning at every level of the School District.
- Internal control is geared to achieve objectives in several overlapping categories- Operations, Finance, and Compliance.
- Internal control can be expected to provide only reasonable assurance to the School District's Administration and Board regarding achievement of operational, financial reporting, and compliance objectives.

Effective administration of a strong internal control environment involves proper planning, execution, and ongoing monitoring of activities. Internal control is a tool used to protect School District assets from intentional or unintentional loss.

Risk Assessment

Risk assessment is defined as the identification and analysis of relevant risks in the achievement of the objectives, forming the basis for determining how the risks should be managed. Risk assessment is one of the five elements of internal control, which are described in the appendix of this report. The other components include control environment, control activities, information and communication, and monitoring. Objective setting is necessary for assessment.

Control activities are closely related to the risks in the School District. Examples of control activities are policies, authorization, financial information reconciliations, asset verifications, and appropriate segregation and delegation of duties within the business operations of the School District. Control activities are either **preventive** or **detective** in nature and need to be evaluated as to benefits to the School District and/or associated costs to the School District.

Risk arises out of uncertainty, from either internal or external sources. As a result of pursuing or not pursuing a particular course of action, there is the possibility of economic/financial loss or gain, physical damage, injury or delay. Risk is defined as the chance of something happening that will have an adverse impact upon the achievement of objectives. There will always be some risk involved in anything an individual chooses. The choice is between the actions we dare to take, given the level of risk we will accept and the level of remediation we will attempt to treat.

Risk has two key elements: the **likelihood** of something happening and the **consequences** if it happens. The level of risk is the relationship between the likelihood of something happening and the consequences if it does. Action taken to address the level of risk must address the likelihood of the event occurring, or the consequences if it does occur, or both.

Internal Audit Process

Although every audit and each school district is unique, the internal audit development process is similar for most engagements and normally consists of five stages:

- 1) Planning
- 2) Survey
- 3) Fieldwork
- 4) Reporting
- 5) Ongoing monitoring, follow-up and corrective action

These stages are described in more detail further in Section III. The active involvement of School District personnel is critical at each stage of the process, and involves a collaborative effort from departmental personnel. We realize a certain amount of time is diverted from regular routines as a result of Internal Audit activities. Therefore, one of our key objectives is to minimize the disruption of operations by performing the internal audit in a timely and efficient manner.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the School District's operations, policies, procedures and internal controls. Internal auditing is a critical element of assisting in accomplishing the School District's objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

An internal audit is generated within the School District, including all departments, at the direction of the Audit Committee for the purpose of appraising, examining, or evaluating:

- 1) Financial transactions for accuracy and compliance with Board of Education policies
- 2) Financial and operational procedures for adequate internal controls
- 3) Timeliness, reliability and appropriateness of School District records and reports
- 4) The level of compliance with required internal policies and procedures, state and federal laws and government regulations

Management or program reviews designed to improve departmental operations and procedures

Five Elements of Internal Control

This report focuses on the internal audit function and risk assessment of the School District. For purposes of reporting on internal controls, we must understand the following elements:

- 1) Control environment
- 2) Risk assessment
- 3) Control activities
- 4) Information and communication
- 5) Monitoring

A) Control Environment

The control environment sets the cultural tone of compliance for the School District, influencing the control consciousness of its personnel. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the School District's personnel; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its personnel; and the attention and direction provided by the Board of Education.

B) Risk Assessment

Every district faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

C) Control Activities

Control activities are the policies and procedures that help ensure that the administrative directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the School District's objectives for compliant activities. Control activities occur throughout the School District, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

D) Information and Communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enable the personnel to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the programs of the School District. They deal not only with internally generated data, but also information about external events, activities and conditions necessary for informed program decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up to the School District levels. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information to the oversight body. There also needs to be effective communication with external parties, such as the general public, vendors and suppliers, regulators and others.

E) Monitoring

Internal control systems need to be monitored, a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Known internal control deficiencies should be reported, with serious matters reported to the Administration and the Board of Education.

There is both synergy and linkage among these five components, forming an integrated system that reacts dynamically to changing conditions. The internal control system is intertwined with the School District's operating activities and exists for fundamental educational reasons. Internal control is most effective when controls are built into the infrastructure and are a part of the essence of the School District. "Built in" controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions.

E) Monitoring (Continued)

There is a direct relationship between the objectives, which are what a School District strives to achieve, and components, which represent what is needed to achieve the objectives of its educational programs. All components are relevant to each objectives category. When looking at any one category, the effectiveness and efficiency of operations, for instance, all five components must be present and functioning effectively to conclude that internal control over operations is effective.

The internal control definition, with its underlying fundamental concepts of a process, affected by people, providing reasonable assurance, together with the categorization of objectives and the components and criteria for effectiveness, and the associated discussions, constitute this internal control framework.

Management Responsibility

All levels of management are responsible for accomplishing and adhering to the School District's Mission Statement by achieving the School District's goals and objectives through effective and efficient use of resources and compliance with applicable laws, regulations and policies.

Specific areas of responsibility include:

- Maintaining a high ethical tone throughout the School District.
- Assessing and managing the School District's business operation risks.
- Developing cost effective internal controls over all operations.

The internal audit process and function can assist management in discharging these responsibilities by providing an independent and objective evaluation of existing internal controls over the business operations. The internal audit can also help management develop improved controls and processes over operations. However, management always retains control over their own operations and ultimate responsibility for their performance.

Employee Responsibility

Internal controls are the responsibility of all School District employees. Individual employees of the School District have the responsibility for maintaining work performance in a productive and conscientious manner. In the normal course of work, employees should be aware and alert for activities or situations, which pose actual or potential risks of loss, harm or misuse of assets, or obstruction to the attainment of School District goals.

Individuals and department heads should commit to the principles of internal controls and support programs and activities, which strengthen systems and practices and implement any corrective action determined necessary. Individuals and department heads are responsible for development, maintenance, documentation, and supervision of internal controls.

Role of the Internal Auditor

The key role of internal audit is to provide the Board of Education, Audit Committee, and Administration with an independent and objective evaluation of internal controls over key business activities. This means we put a priority on reviewing the validity of financial and other management information, compliance with applicable laws, regulations and policies, and how School District operations can be more effective and efficient.

The internal audit function can provide a variety of management assistance services to both School District Administration and the Board. It is important to understand the services and roles of the internal auditor. Assistance services include:

- **Financial Reviews** (normally done in conjunction with external auditors) - These are "traditional" audits of financial records, such as accounts receivable or payable. The objective is to determine the accuracy of financial records and adherence to appropriate internal control procedures. Results will be communicated to School District Administration and Board and usually incorporated in the external auditor's report on the financial statements.
- **Operational or Compliance Reviews** - These are projects directed by the Board of Education, School District Administration and the internal auditors, based on perceived business and operational risks. The focus is on assessing specific processes and identifying cost effective ways to improve internal controls, efficiency, and effectiveness. Examples would be reviewing a capital project for compliance with contract terms bidding process or evaluating the internal controls over a purchasing process. Written audit reports are prepared, discussed with the School District Administration and staff, presented to the Audit Committee, and then submitted to the Board of Education for approval.
- **Management Assistance** - For projects with School District-wide impact or of high importance to the School District, consulting assistance may be provided to help design plans and achieve effective implementation. Assistance might take the form of facilitating problem solving techniques, flow charting processes, or performing program based costing analyses and financial budgetary and actual comparisons. Status reports, in various formats, depending on the project, would be provided to the management and the Board of Education. "Best practices" may be discussed and implemented.
- **Technical Research** - Internal auditors can assist with questions dealing with Board of Education policies, New York State laws, regulations and policies, accounting and internal controls, and general school district practices.
- **Investigations** - At the direction of the Board of Education or the request of management, the internal auditor will investigate suspected cases of unethical behavior, including fraud, theft, and abuse of position. Depending on the facts uncovered, such cases may be referred to management, the Audit Committee, the Board, or legal authorities for further action.

Our focus is on the processes and how to make them best work to achieve the Board's and the School District's strategic goals and objectives. If there are issues, we identify the business risks and their roots causes and work with the School District Administration, Audit Committee and Board to develop and implement cost effective solutions.

April 30, 2022

The Audit Committee of
Ballston Spa Central School District
Ballston Spa, New York

We have performed the following testing related to the school district's school lunch operations for the period September 1, 2021 through March 31, 2022:

- School lunch claims submitted for reimbursement to the New York State Education Department (NYSED).
- Payments made to the school district's third-party vendor (Aramark) to ensure the school district is being charged the correct amount based on the contract in place for the 2021-2022 school year.

The following outlines our procedures and observations and recommendations, if any, which may assist you in the development and continued growth of the School District's internal controls.

Procedures Performed

- We conducted interviews with relevant staff and documented the procedures the School District has in place to accurately process and claim meals served as well as the amounts paid to Aramark based on the contract in place for the 2021-2022 fiscal year.
- We haphazardly selected a sample of three months (October 2021, January 2022 and February 2022) for testing and obtained the following:
 - Monthly spreadsheets, by school building, and verified daily meal counts on the spreadsheet to the meal counts from the school district's point of sale system (Mosaic).
 - Agreed total monthly meals from the spreadsheet to the monthly NYSED reimbursement form for the months tested.
 - Aramark invoices for the months selected for testing and recalculated the amount due to Aramark based on the meals served and the ala carte allocation from the monthly sales report from Mosaic.

Observations and Recommendations

- None

This report is intended solely for the information and use of the School District Administration, the Audit Committee, the Board of Education, and other applicable employees within the District, and is not intended to be and should not be used by anyone other than those specified parties.

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The Audit Committee of
Ballston Spa Central School District
April 30, 2022
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We would like to acknowledge the cooperation extended to us during our examination by the employees of the School District.

If you have any questions concerning this report, please feel free to contact us at any time.

Very truly yours,
BONADIO & CO., LLP

A handwritten signature in blue ink, appearing to read "Joseph Heroux".

Joseph Heroux, CPA
Principal

Fiscal Year 2022 Internal Audit- Corrective Action Plan

RISK ASSESSMENT

Finding #1: Extraclassroom Activity Funds

Club Ledgers

For four of the five receipts selected for testing, the receipts were not recorded in the club ledgers until after the deposit slip was returned to the club from the central treasurer after the funds were deposited into the bank.

Maintaining club ledgers independent of the central treasurer is an important internal control function that provides a system of checks and balances between the clubs and the central treasurer. Not recording the receipt until after the funds are deposited by the central treasurer eliminates this important step. We recommend that each club record the receipt in their ledger and then, compare that receipt to what is recorded by the central treasurer during the monthly reconciliation process.

District Response and Actions Taken:

In response to this finding,

- 1) On September 28, 2022, the Assistant Superintendent for Business instructed each building principals to review with all club advisors the need for following the policies and procedures in the advisor handbook. In addition, the necessity that advisors ensure student treasurers are maintaining appropriate and accurate records independent of the Central Treasurer's records was also emphasized.
- 2) The Faculty Advisors will also periodically compare the club's balance to the Central Treasurer's balance and promptly investigate any discrepancies.
- 3) During the Faculty Auditor's periodic review of club balances, the student treasurer ledgers will also be assessed as to whether the entries are made independently of the Central Treasurer's records.

Finding #2: Extraclassroom Activity Funds

National Junior Honor Society

Fundraiser – one of the receipts we selected for testing was for the collection of funds for the “National Wear Pink Day for Cancer Awareness”. The total amount deposited from this fundraiser was \$567. Although a Profit and Loss Statement was provided, there was no detail listing provided to corroborate the total amount collected. In addition, the Profit and Loss Statement provided was an outdated form and did not include a place for the signature of the Assistant Principal who is required to review and approve all fundraisers.

While a Profit and Loss Statement was provided, the lack of the Assistant Principal’s signature as evidence of his review and approval of the funds collected is a missed step in the internal control process. In the future, even if an outdated form is used, the Assistant Principal should sign the form on the face of the document as evidence of his review and approval. In addition, prenumbered receipts should be issued to document funds collected. This will enable the reconciliation amount deposited to the receipts issued. If it is not practical for prenumbered receipts to be issued, then a listing detailing who the funds were collected from and how much they donated should be prepared.

District Response and Actions Taken:

In response to this finding,

- 1) The issue/finding was communicated on September 28, 2022 to the Assistant Principal overseeing clubs and activities and the National Junior Honor Society Club Advisors at which time the proper procedure to document receipts was reviewed.
- 2) The Assistant Principal who oversees Extraclassroom activities at the Middle School was furnished the updated version of the Profit & Loss Statement Form and reminded that his signature is required on the statement.
- 3) During the periodic review of selected club files, the Faculty Auditor will include a review of all club records to ensure the records comply with District policies.

Finding #3: Cash Receipts

Athletic Department

During our annual risk assessment update, we performed a walkthrough of five (5) cash receipt and transactions and noted the following for one of the receipts selected for testing. A cash receipt that received through the Athletic Department on July 20, 2021 was not forwarded to the Business Office for deposit until August 9, 2021 when it was promptly deposited.

While it is difficult for the Business Office to control what the various departments and schools do upon receipt of a check, the School District should reiterate the need to promptly forward all amounts received to the Business Office as soon as a payment is received. This will mitigate the risk of a payment being misplaced or misappropriated. Generally, all amounts received should be deposited within five days of being received.

District Response and Actions Taken:

In response to this finding,

- 1) The Assistant Superintendent for Business contacted the Athletic Director in September, 2022 and reiterated the need for a process that ensures that receipts are promptly deposited. A process to review mail while staff are on vacation is now implemented.