HYDE PARK CENTRAL
SCHOOL DISTRICT

INTERNAL AUDITOR'S REPORT

RAYMOND G. PREUSSER, CPA, P.C.
Certified Public Accountants
P.O. Box 538
Claverack, New York 12513

Telephone: (518) 851-6650
Fax: (518) 851-6675
www.rgpreusser-cpa.com

March 15, 2016

Board of Education
Hyde Park Central School District
11 Boice Rd.
Hyde Park, NY 12538

Dear Board of Education Members:

We have completed the financial risk assessment of the Hyde Park Central School District for the 2015-16 fiscal year and are enclosing the attached report. The purpose of this engagement was to assist you in implementing the regulations imposed by the 2005 School Financial Oversight and Accountability legislation. Our engagement was designed to assess risk in the District's financial reporting process, identify internal controls that address or mitigate those risks, and report to the Board and Management remaining risks and recommended procedural changes.

Our procedures included reviewing responses to internal control questionnaires, interviewing key personnel and testing of transactions.

The risk assessment addressed the following components of the financial operations of the District:

- Payroll
- Purchasing
- Bank Reconciliation Process
- Journal Entry Process
- Cash Receipts Process
- Claims Auditor Function
- Information Technology Controls

The engagement to perform the risk assessment and the procedures performed, as agreed to by the Board of Education, was the first phase of the ongoing internal audit function. The results of the risk assessment process have been discussed with the management of the Hyde Park Central School District and are the overall responsibility of the District.

The next phase of the internal audit process is for the District to utilize the risk assessment to develop a plan for individual areas to be reviewed. In doing so, we were asked to review the controls in place for the Grading System of the District.

As a result of the above procedures, we have listed our findings and recommendations in the accompanying schedules.
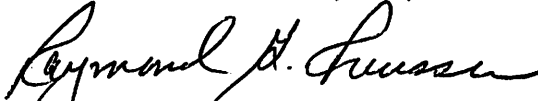
The purpose of our engagement was to assist the Board and Management in achieving its responsibility to monitor financial reporting risk. It is ultimately the Board's responsibility to determine a response to potential risks. However, our report does include suggestions of ways to respond to potential risks.

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

The attached report is intended solely for the information and use of the Board of Education and Management of the Hyde Park Central School District and should not be used for any other purposes.

We appreciate the opportunity to perform the risk assessment for the District and to serve the District in the role of internal auditors.

Sincerely,
RAYMOND G. PREUSSER, CPA, P.C.

Raymond G. Preusser

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Risk Assessment Procedures Performed

We reviewed controls and tested procedures employed by the District for cash receipts, cash disbursements, payroll, bank reconciliation and journal entry preparation and the execution of wire transfers. In addition, we reviewed Board Minutes, Board Policies and Computer Permissions Reports.

As a result of the above, the following are our findings and recommendations.

High Risk Areas

The following is a summary of our findings and recommendations that we deemed to be high risk areas because they impact processes that are critical to the operation of the District or are assets susceptible to misappropriation.

Area 1:   Issues Related to Purchasing

Purchasing procedures for a school district are defined by NYSED and are an important processes for the District to adhere to as millions of dollars are at risk. As you know, the Board designates the person to whom the purchasing function is delegated. The Purchasing Agent is the only person legally authorized to commit the District for a purchase. All purchases, with only a few exceptions, must have written prior approval by the Purchasing Agent in the form of a purchase order before the actual expenditure can occur.

Our prior year's review of purchasing transactions revealed many expenditures through the use of claim forms. The use of claim forms indicates no prior approval for the expenditure.

We are pleased to report that our current test of transactions revealed great improvement in this area. The use of claim forms has greatly diminished.

In addition, the Business Manager has instituted a "Purchase Order Exception" Report. This form is to be used by individuals submitting claim forms for reimbursement which requires the reason for submitting the claim form.

The Business Manager reviews these forms to check for excessive "offenders" and notifies them if purchase order approval is required for future purchases.

We commend the efforts of the District to control such purchases.

Review of District Controls and Procedures for the Student Records System (Grading)

We reviewed the procedures and controls employed by the District for the Student Records System pertaining to Grading. Our review included the District's grading policy, computer permissions (who has access), strength of passwords, changing of grades and review of Audit Logs.

School Districts maintain and use students' grades for a variety of educational purposes. School districts use Student Grading Systems to record information about students' grades, and provide system access to teachers, administrators, various staff members and information technology (IT) support staff. Access to systems should be limited to only those school district officials with a business need and users should have the least amount of access necessary to perform their job duties or responsibilities.

The areas reviewed and any comments and recommendations are as follows:

District Policy

While we ascertained that the District does have a "Grading Systems" Policy, we noted that a new policy should be adopted which is more detailed that explains the System, System Access, Grade changes and Audit Log and Monitoring. Without written procedures over the maintenance of user accounts, staff responsible for these functions may not understand their role, and there is an increased risk that access to the System will not be properly restricted.

We have provided your staff with an example of a current policy that is being adopted by school districts. After discussion with your staff about what changes need to be instituted, they were going to adapt the policy and present it to the Board.

Computer Permissions

We found that the permissions as assigned by the IT Department are quite good. Some Districts assign permissions by "Group". In that case many individuals would have access to change grades of others. In your case, it is done by individuals. The only person that has access to change a grade or enter a grade is the teacher of that class.

There is however, a situation that exists whereby a substitute teacher is given the password of the teacher to hopefully just enter attendance. This password also gives them access to the grading system. We would suggest looking into the possibility of separating these two functions so that only attendance could be accessed.

Finally, when an individual leaves the District, IT immediately removes the access rights of the individual.

As a control procedure, an administrator should periodically review the permissions as entered.

Passwords

The strength of passwords is "Google Tested", however, passwords are not currently changed. After discussion with management, passwords will be changed every 90 days in the near future.

Changing of Grades

Currently, only the teacher can change a grade for his or her class. This is good. However, to change a grade, a teacher should have approval to do so. The District has a form that is supposed to be filled out when a grade is changed. The problem is that this form does not have to be approved by anyone. The teacher contacts IT to re-open the Lockout Date (see next section) and then changes the grade. There are no controls over this process.

We recommend that when a teacher wants to change an entered grade that he or she fills out the change form which then goes to his or her Principal for an approval signature. The teacher would also sign the form. The Principal would keep a copy of the form and then a copy of the form would also go to the IT person as authorization to re-open the Lockout Date so that the teacher could then go in and change the grade. IT should not re-open without this form.

In discussion with your staff, they agreed that this process should be instituted. They are developing a form to be used.

Audit Log

The System in use creates an Audit Log for all entries into the grading system after the Lockout Date. The Lockout Date is a predetermined date by the District by which all grades should be entered into the system. Entries after that date are entered into a log as evidence of grade changes.

As previously stated, only the particular teacher can change the grades of his or her class.

We reviewed the Audit Log for the period 6/1/15-7/10/15 and one half of the log for the period 1/1/15-4/1/15. We found 161 grade changes and 69 grade changes, respectively. Under the current system these are unauthorized, that is without approval by the respective Principal.

We also found the logs to be excessively large. It appears that some teachers do not enter the initial grades until after the Lockout Date. We strongly recommend that teachers be instructed to enter grades before the Lockout Date. This will then restrict the Audit Log to only changes as it should be.

As a control procedure, we recommend that the Audit Logs be reviewed periodically by an administrator. The review would match authorization forms to the grades changed. It could also produce patterns that show certain teachers continuously changing grades or an individual that is consistently being changed. If the logs are reduced to "changes only", this process should be able to be done in a short period of time.

Summary

It should be noted that the State Comptroller's Office has begun auditing school districts for their grading procedures and controls.

We believe that by implementing our suggestions such as policy, grade change authorizations, and administrative reviews that your District will be in compliance with required procedures and controls.

Other Comments and Recommendations

We also noted another issue that we do not consider high risk. The issue is summarized as follows:

Board Policies

We reviewed the current Board Policies of the District. We again noted that the Fiscal Accounting and Reporting Policy did not include a reference to the adopting of new GASB pronouncements. As new pronouncements come along, districts are supposed to adopt them if they pertain to the District's operation. We suggest an addendum to the current policy which will acknowledge any new GASB pronouncements as adopted which will preclude adopting a new policy eveytime a new GASB ruling comes along. We have provided the Business Manager with an example of a policy that includes such an addendum.