Newark Central School District
Decentralized Cash Receipts – Community Education

Internal Audit Report

May 24, 2013
May 24, 2013

Audit Committee
Newark Central School District
100 East Miller Street
Newark, New York 14513

We have performed an internal audit of the internal controls over decentralized cash receipts – community education of the Newark Central School District (District). Our internal audit was performed during 2013 in accordance with the terms of our engagement letter and the applicable internal audit procedures. Our report contains the following:

- **Executive Summary** - an overview of the risk factors considered, an overall internal audit rating, and a summary of the key observations.

- **Observations** – detail related to specific findings noted during the current year testing.

This report contains opportunities for improvement for consideration by the Board of Education, the audit committee and District officials.

This report is intended solely for the information and use of the District. It is not intended to be and should not be used by anyone other than these specified parties. The New York State Comptrollers Office may be provided with a copy of this report in connection with fulfilling their oversight responsibilities.

We appreciate the cooperation extended to us during our internal audit. If we can be of assistance to you or if you have any questions concerning this report, please contact Kathryn Barrett at (585) 344-1967.

Sincerely,

Freed Maxick CPAs, P.C.
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Newark Central School District

Executive Overview

Introduction

We recently completed an internal audit of the Newark Central School District (the District) internal controls and processing procedures over decentralized cash receipts – community education with a primary objective of evaluating the significant control points for effectiveness, adequacy, and efficiency of operations. This report is intended solely for the information and use of the District, and should not be used for any other purpose. The following chart, extracted from the risk assessment conducted as part of the internal audit plan development, illustrates the areas that present the higher risk for decentralized cash receipts.

<table>
<thead>
<tr>
<th>Inherent Risk</th>
<th>Ext Mkt / Rep</th>
<th>Financial</th>
<th>Ops</th>
<th>Legal / Reg</th>
<th>Strategic</th>
<th>Tech / Systems</th>
<th>People / Culture</th>
<th>Fraud</th>
<th>Risk Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COSO Controls</th>
<th>Monitor</th>
<th>Info / Comm</th>
<th>Control Activities</th>
<th>Risk Assmt</th>
<th>Control Envmnt</th>
<th>Risk Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak</td>
<td>Weak</td>
<td>Weak</td>
<td>Mod</td>
<td>Weak</td>
<td>284</td>
<td></td>
</tr>
</tbody>
</table>

Internal Audit Scope

We completed an internal audit of decentralized cash receipts – community education functions for the District in accordance with the internal audit plan and planning memo. Our internal audit was performed to:
- Gain an understanding of the functions and processes
- Identify the risks and exposures
- Assess the impact of such risks on the internal control environment
- Evaluate the adequacy of internal controls in place to mitigate the identified risks

Overview of Issues

During the course of our work, we discussed our findings with management. Our detailed findings and recommendations for improving controls and operations are described in the detailed issue matrix of this report. A summary of key issues is provided below:

Table 1

<table>
<thead>
<tr>
<th>Issue Description</th>
<th>Relative Risk</th>
<th>Resolution Level of Difficulty</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Untimely deposit of cash receipts.</td>
<td>Moderate</td>
<td>Low</td>
</tr>
<tr>
<td>2. Lack of documentation for fees collected.</td>
<td>Moderate</td>
<td>Low</td>
</tr>
<tr>
<td>3. Lack of documentation for refunds issued.</td>
<td>Moderate</td>
<td>Low</td>
</tr>
<tr>
<td>4. Profitability of community swim program.</td>
<td>Moderate</td>
<td>Low</td>
</tr>
<tr>
<td>5. Lack of class lists and documentation of when classes occur.</td>
<td>Moderate</td>
<td>Low</td>
</tr>
</tbody>
</table>
Relative Risk is an evaluation of the severity of the concern and the potential impact on the operations. Items rated as “High” are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as “Moderate” may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as “Low” could escalate into operational issues, but can be addressed through the normal course of conducting business.

Resolution Level of Difficulty is an evaluation of the estimated level of difficulty and potential cost to resolve the concern based on our experience. Items rated as “High” are considered to be difficult to resolve and/or will require a significant amount of planning and management involvement/oversight in order to obtain resolution. Items rated as “Moderate” are not as difficult to resolve and/or do not require a significant amount of planning, but may be time-consuming to resolve. Items rated as “Low” are items that are not complex and/or do not require significant amounts of planning and time to resolve.

Conclusion

A "Needs Improvement" internal audit rating, as defined below, was assigned following this internal audit based on the identification of the key findings summarized above, as well as other less significant comments that can be addressed by management in the normal course of business.

<table>
<thead>
<tr>
<th>RATINGS</th>
<th>CONDITIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>SATISFACTORY</td>
<td>No significant deficiencies exist, while improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall District.</td>
</tr>
<tr>
<td>NEEDS IMPROVEMENT</td>
<td>Some improvement needed to bring District to acceptable status but if continues without attention, could lead to further deterioration and an unsatisfactory status.</td>
</tr>
<tr>
<td>UNSATISFACTORY</td>
<td>Significant deficiencies exist which could lead to material financial loss or embarrassment to the District.</td>
</tr>
</tbody>
</table>
Internal Audit Approach

To accomplish the scope of this internal audit, we reviewed or performed:

- Interviews with accounting and program personnel
- Student registration forms and class attendance sheets
- Cash, deposit tickets, and bank statements
- General journal entries
- Refunds to students
- Controls over cash receipts

It should be recognized that controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes in judgment, carelessness, or other personal factors. Control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments required in the processing of data.

Further, the projection of any evaluation of control to future periods is subject to the risk the procedures may become inadequate because of changes in conditions, and the degree of compliance with procedures may deteriorate.

Scope and Methodology

During this internal audit, we examined internal controls over the decentralized cash receipts – community education of the District that existed at the time of our internal audit. More information on the methodology used in performing this internal audit are included in Appendix A of this report.

Comments of District Officials and Corrective Action

The results of our internal audit and recommendations have been discussed with District officials and their comments, which appear in this report, have been considered in preparing this report.

The Audit Committee has the responsibility to initiate corrective action. The Audit Committee should prepare a plan of action that addresses the recommendations in this report. For guidance in preparing the plan of action, the Audit Committee may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. 
**Newark Central School District**  
*Internal Audit Report*

### I. DETAILED OBSERVATIONS AND RECOMMENDATIONS – DECENTRALIZED CASH RECEIPTS - COMMUNITY EDUCATION

<table>
<thead>
<tr>
<th>Observation</th>
<th>Recommendation</th>
<th>Management Response</th>
</tr>
</thead>
</table>
| 1. Untimely Deposit of Cash Receipts | We recommend the District deposits cash receipts at least weekly or more often if there is a high volume of registrations. | Corrective Action: The receipts will be sent to the District Office weekly so that the deposits can be made timely.  
Responsible Individual: Adult Education Coordinator  
Target Date: September 30, 2013 |
| 2. Lack of Documentation for Fee Collected | We recommend the District maintain documentation for registration fees received to adequately match the registration to the appropriate class and class fee. | Corrective Action: The sign-up/sign-in list will be reconciled with the receipts to ensure that all participants attending the activity/class have been enrolled and paid the registration fee. If a participant pays the fee at a later date it will be noted on the deposit slip.  
Responsible Individual: Adult Education Coordinator  
Target Date: September 30, 2013 |
| 3. Lack of Documentation for Refunds Issued | When refunds are being processed, we recommend a copy of the original registration form be attached to the refund request form to support the amount to be refunded to the student. | Corrective Action: When requesting a refund for a participant, a copy of the original registration paperwork will be sent to the Treasurer to process the refund.  
Responsible Individual: Adult Education Coordinator  
Target Date: September 30, 2013 |
### Observations and Recommendations

#### 4. Profitability of Community Swim Program

We tested revenues received from the community swim program offered through the Community Education Program and compared the revenue per class to the fees paid to the lifeguards. It was noted that while other classes are operating and either a profit or are breaking even, the swimming program appears to be consistently operating at a loss.

**Recommendation:** While it is understood that the District is committed to offering a community swim program, we recommend that the District continue to assess the profit/loss generated by the program to ensure the program is not being supported by the local tax payers.

**Corrective Action:** This is a public service for the community. The continuance of this program will be discussed with the Board of Education to decide if it should continue if the loss is to great.

**Responsible Individual:** Assistant Superintendent for Business/Treasurer

**Target Date:** September 30, 2013

#### 5. Lack of Class Lists and Documentation of When Classes Occur

During our testing, it was noted that six out of twenty five cash receipts selected for testing could not be traced back to the date during which the class was offered. It was also noted that seven out of twenty five cash receipts selected for testing could not be reconciled with a class list.

**Recommendation:** We recommend that the date of the class be noted on the registration slip and that class lists be maintained and provided on the instructors. This will provide an appropriate audit trail and help ensure that only registered students are attending the classes provided.

**Corrective Action:** A class list will be provided to the instructors to reconcile with the class attendance. Any changes from the registration date for a class that is offered at a later date will be noted as to the change.

**Responsible Individual:** Adult Education Coordinator

**Target Date:** September 30, 2013
To accomplish our internal audit objective, we performed an initial assessment of the internal controls in order to
design our internal audit to focus on high risk areas. Our initial assessment included evaluations of the following
areas: accounting software, budgeting, general ledger maintenance, reporting, centralized billing and cash receipts,
decentralized cash receipts – community education, grant administration, state aid, purchasing and cash
disbursements, payroll, and fixed assets.

During the initial assessment, we interviewed appropriate District officials and reviewed pertinent documents such as
District policies and procedures manuals and financial records and reports. Further, we reviewed the District internal
controls and procedures over the computerized financial databases to ensure the information produced by such
systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed,
and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct, and indentified
for internal audit those areas most at risk. The Audit Committee selected the decentralized cash receipts –
community education for further internal audit testing.

Within decentralized cash receipts, we interviewed appropriate District officials and employees to obtain an
understanding of the District controls and operations associated with decentralized cash receipts – community
education. We reviewed the credit card receipts, deposit tickets, bank statements, general journal entries, refunds to
students, student registration forms, class attendance sheets, and Finance Manager revenue reports.

Our internal audit methodology requires we understand the District’ management controls and those laws, rules and
regulations that are relevant to the District operations included in the scope of our internal audit. An internal audit
includes performance of procedures related to transactions recorded in accounting and operating records and
applying such other internal auditing procedures, as we consider necessary in the circumstances. We believe the
procedures performed provide a reasonable basis for the findings, conclusions and recommendations contained in
this report.
APPENDIX B

INTERNAL AUDIT PROCEDURES PERFORMED

We performed the procedures enumerated below, which were agreed to by the Audit Committee of the District. 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 procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures performed are summarized as follows:

Community Education Cash Receipts

- We reviewed controls over cash received from community education registrants and verified it was properly secured. We verified there was proper segregation of duties between the individuals receiving the cash/checks, making the deposit at the bank, and preparing the bank reconciliations.

- We selected a sample of 25 registrants from July 1, 2011 through May 24, 2013. We agreed the cash receipt to the registration form verifying the registrant’s name, course, and fee required.

- We verified registrants were instructed to make their checks payable to the District.

- We traced the registration to the respective class list, if applicable.

- We traced the registration fees to the treasurer’s receipts, deposit ticket, and bank statement and verified the cash was deposited on a timely basis.

- We traced the registration fees to the general ledger and verified they were posted on a timely basis.

- We selected one refund to community education registrants from July 1, 2011 through May 24, 2013. We verified the refund request was properly approved by the Assistant Superintendent for Business, refunded for the correct amount or original fee paid by registrant, and traced the refund to the cancelled check.

- We performed a profit on loss analysis of the community education programs offered during the period of July 1, 2011 through May 24, 2013.