



***Rye City School District
Risk Assessment Update FY 2009/2010
& Recommended Audit Plan
August 2010***



INTERNAL AUDITORS AND ADVISORS
80 Broad Street 34th Floor New York, NY 10004
p: 646.375.9500 f: 646.328.0011 accumepartners.com

September 22, 2010

Mr. Joshua C. Nathan,
President, Board of Education
Rye City School District
411 Theodore Fremd Avenue, South Lobby
Rye, NY 10580

Dear Mr. Nathan:

We have recently completed our risk assessment update for the Rye City School District (the "District") on behalf of the Board of Education and Audit Committee. Our risk assessment of District operations identified and prioritized risks in accordance with New York's Chapter 263 of the Laws of 2005.

In our risk assessment update, we re-evaluated the major functional areas of District operations to determine if there were any significant changes that would impact the risk evaluation from the previous fiscal year.

Based upon the results of this current fiscal year risk assessment, we have updated our proposed risk-based audit plan that is attached to this report for your review and consideration. Our risk assessment update and corresponding recommended audit plan identifies the following area as a candidate for audit:

- Government Aid and Grants- Special Education

A summary for each functional area reviewed and related risk rating is in the attached risk assessment update report. We met with the Audit Committee on September 21st, 2010 to discuss the report and recommended internal audit plan. We are available to meet with the Board at its convenience.

We appreciate the cooperation and assistance provided by District staff.

Very truly yours,

A handwritten signature in cursive script that reads "Accume Partners". The signature is written in dark ink and is positioned to the right of a vertical line.

Accume Partners

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Accume Partners Risk Assessment Approach

We have performed an audit risk assessment update for the Rye City School District (“District”), on behalf of the District Audit Committee and Board of Trustees in accordance with New York’s Chapter 263 of the Laws of 2005. A risk assessment is a systematic process for identifying and controlling risk. Risk can be defined as the possibility that something could negatively affect the District. More specifically, risk can be defined as the internal and external factors that threaten the achievement of the District’s mission, goals, and objectives.

As the District’s Internal Auditor, our primary responsibility is two-fold. First, internal audit’s role is to assist the Board in ensuring that the District’s risks are identified. Second, Internal Audit provides the Board and Management with a systematic assessment of risk to ensure that appropriate internal controls are in place to mitigate those risks.

The recommended internal audit plan is derived from the risk assessment. The internal audit plan summarizes the recommended audits or “test of controls” the District should conduct to evaluate its risk management strategies. Effective and efficient internal controls, or risk management strategies, gives the Board and Management greater assurance that the District can achieve its mission, goals and objectives. The operational effectiveness of internal controls is then tested during the internal audit.

Our risk assessment includes a District-wide analysis of the major District functions, processes, and controls. We consider qualitative and quantitative factors such as materiality to the financial statements, policies and procedures, strategic planning, and organizational change. Also, the risk assessment includes a quantitative risk rating that represents an aggregate assessment of risk relative to the financial and operating environment, information technology, governance, internal controls and compliance factors.

In the initial risk assessment, our overall goal was to determine the degree of risk within the major functional areas of District operations. This resulted in our designing an annual audit plan to focus on those areas which were most at risk. In our risk assessment update, we re-evaluated the same functional areas to determine if there were any significant changes that would impact the risk evaluation.

Internal Audit does not strictly recommend auditing only the functional areas with the highest risk rating score. Other factors affecting the recommendation include Board/Management priorities, limited resources, prior audit results, the opportunity for a greater impact in adding value to the organization, and the degree of organizational change in the functional area. All of these factors are addressed when devising the recommended audit plan.

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Risk Rating Methodology

In performing our risk assessment we categorized the District into 9 functional areas. We then utilized a rating methodology that takes into account 15 quantitative and qualitative factors such as: policies and procedures; financial materiality; operational change; employee knowledge & training; internal controls; management reporting; and laws and regulations. The 15 factors were individually weighted by relevance and importance. Then, a risk matrix was developed to comprise the 15 factors across all 9 functional areas.

The risk matrix is used to provide a systematic evaluation of risk. Each functional area's composite risk rating score is derived from the sum of the individual ratings scores of the 15 factors. The rating system represents an aggregate assessment of risk, with the level of risk determined by the composite risk score as defined in the table below:

Composite Risk Rating Score and Level

Low < 131	Medium 131 – 210	High 211 – 300
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The qualitative and quantitative factors are individually weighted for relevance and significance. Thus, some factors will affect the overall risk rating more than others. In other words, the financial significance, materiality or criticality of a particular function to the organization's operations can increase the risk rating of a function. For example, in Payroll and Purchasing, the risk rating score for most Districts will be relatively higher than other areas because of the financial significance or materiality of these operations. This explains that some areas within the District may have higher inherent risks associated with them relative to other operations.

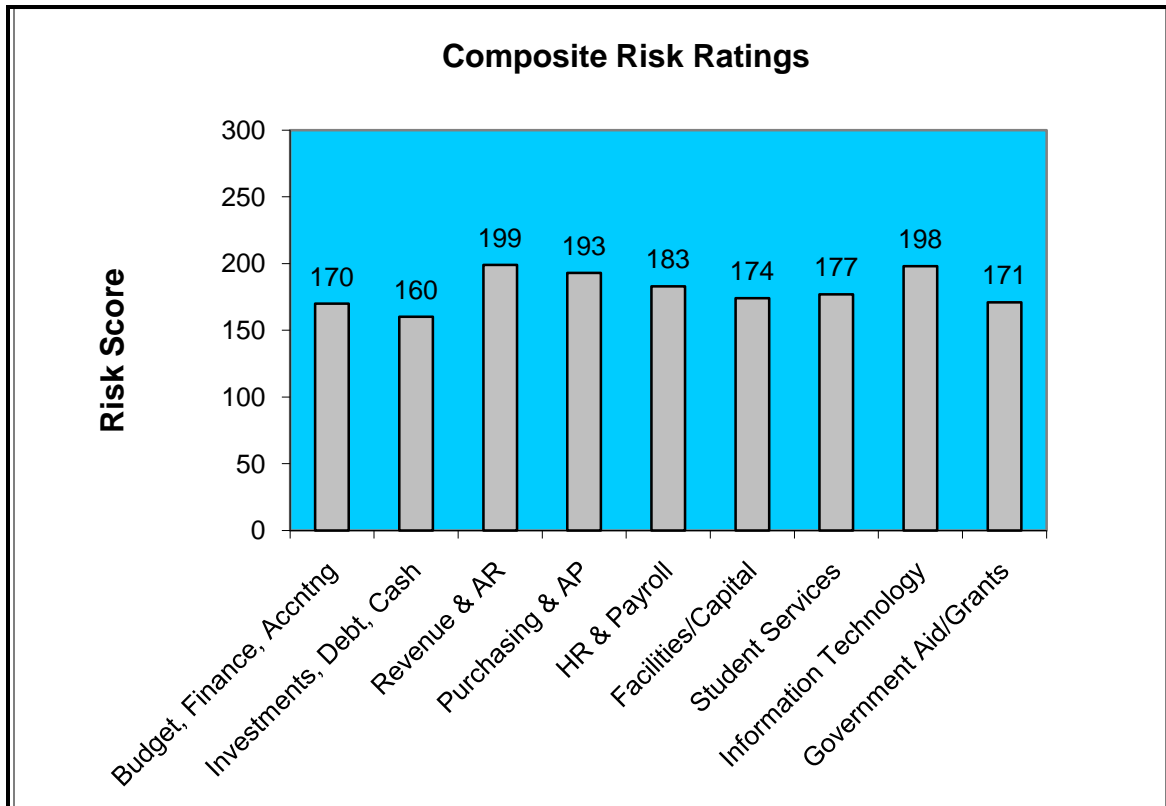
Another factor that can increase the risk rating is the design of internal controls. Although our risk assessment does not test and evaluate the operational effectiveness of internal controls, our methodology includes the identification of internal controls, as well as an evaluation of the design of internal controls. If the District was lacking in a key control over a functional area such as adequate segregation of duties or policies and procedures, that would create more risk.

In addition, we review for a system of internal controls that both prevent and detect errors. Preventative internal controls are controls that may prevent errors from occurring, whereas detective controls are controls that may detect errors once they have occurred. If the District has more controls in place that prevent errors, then the overall control environment would be stronger, and hence there would be less risk, than if the District relied solely on detective controls. The ultimate goal is to effectively manage the risks in all functional areas through the implementation of a system of internal controls that help to ensure that errors, irregularities, and fraud are less likely to occur or go undetected.

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Executive Summary

Functional Area	FY09/10		FY08/09		Internal Audit Conducted
	Risk Rating	Level	Risk Rating	Level	
Budget, Financial Accounting & Reporting	170	Medium	177	Medium	
Debt, Investments and Cash*	160	Medium	172	Medium	
Revenues and Accounts Receivable	199	Medium	208	Medium	FY 08/09
Purchasing and Accounts Payable	193	Medium	207	Medium	
Human Resources and Payroll	183	Medium	190	Medium	FY 07/08
Facilities and Capital Assets	174	Medium	189	Medium	
Student Services	177	Medium	183	Medium	FY09/10
Information Technology	198	Medium	198	Medium	FY 06/07
Government Aid and Grants	171	Medium	165	Medium	



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Discussion and Risk Rating by Functional Areas

BUDGET, FINANCIAL ACCOUNTING and REPORTING
Risk Rating 170 Medium

This area is concerned with the budget development, implementation and monitoring process; financial accounting and reporting; and operations of the Business Office, Superintendent, and Board governance.

The District's Board of Trustees consists of seven members. Two members were elected into office in May 2010, one beginning her second three year term, the other starting her first term with the District.

The District's adopted budget for FY10/11 is \$69,719,000, compared to the FY09/10 Budget of \$68,823,000. The FY10/11 appropriations amount represents a budget increase of 1.3% and a tax levy increase of 1.66% from the prior fiscal year.

As was the case during FY09/10, a fiscal crisis continues in New York State ("NYS"), and the District faces prospective additional cuts to state funding for the FY10/11 budget year. The NYS Governor's budget proposes a "\$1.1 billion or five percent year-to-year reduction in School Aid, targeted progressively based on local school district wealth and student need." Specifically, for the District, the FY10/11 Executive Budget Proposal includes a "Gap Elimination Adjustment" of \$356,848, and proposes a \$321,105 or 12.7% reduction from the prior year. Overall, the District estimates revenues from state sources declining from \$3,062,220 in FY09/10 to \$2,816,850 for FY10/11. Funds from state aid represent less than 5% of the District's estimated revenue for FY10/11.

In general, the District continues to face an economic climate of declining revenues and increasing expenditures. On the expenditure side, the Employer Contribution Rate ("ECR") for both the Teachers Retirement System ("TRS") and NY State and Local Retirement System ("ERS") rose substantially for FY10/11. For example, the FY10/11 budget for ERS expenditures increased 27% from the previous fiscal year. In general, the economic realities create an environment of higher risk for budget solvency, and therefore a greater need for strong internal controls at all phases of the budget development and implementation process. In that regard, the FY10/11 budget makes budgetary assumptions, and aligns budgeted expenditures with the decline in estimated revenues. In addition, the successful resolution of the contract agreement with the Rye Teachers Association, and its resulting cost savings compared with the previous contract, provides the District with a greater ability to control a significant part of its expenditure budget going forward.

The District has in place budget monitoring controls to periodically review budget and revenue status, cash positions and fund balance projections. Specifically, the District Treasurer prepares the monthly Treasurer's Reports and provides them to the Board. Budget Transfers (i.e. changes to initial appropriations) are reviewed and approved by both the Business Official and the Superintendent. Budget Transfers above \$5,000 are

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submitted to the Board for approval. In addition, budget and revenue status reports are provided to the Board on a monthly basis. Also, the Business Official prepares periodic fund balance projections for the Board's review.

In the area of financial accounting, the inadequate segregation of duties noted in the previous risk assessment was ameliorated. Specifically, journal entries are posted by the Junior Accountant, and reviewed and approved by the District Treasurer. Also, the Business Official reviews all posted journal entries at each month end.

Overall, this area was rated a Medium risk.

DEBT, INVESTMENTS and CASH
Risk Rating 160 Medium

Debt, Investments and Cash review looks at the processes the District has in place to oversee issuing, monitoring and recording of debt; as well as policies and procedures for managing and monitoring investments and collateral, and cash management controls.

The long term debt outstanding for the District totaled \$40,037,182 for the fiscal year ended June 30, 2009, compared to \$38,222,547 in the previous year. The increase in long term debt was due to \$4,344,188 in Other Post Employment Benefits ("OPEB") per implementation of accounting requirement GASB 45. The total OPEB Unfunded Actuarial Accrued Liability ("UAAL") for FY08/09 was \$70,636,000, with an Annual Required Contribution ("ARC") of \$6,059,200. The District contributed \$1,715,012 of the ARC. Thus, the District recognized a \$4,344,188 increase in net OPEB obligation. The District should consider methods to increase funding its ARC. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover annual and amortized costs over the next thirty years.

In FY10/11, the District budgeted \$3,970,530 in debt service expenditures compared to \$4,135,040 in FY09/10. This represents a decrease of \$164,510 from the previous fiscal year. Overall debt service accounts for approximately 5.7% of the total expenditure budget. Debt service as a percentage of expenditures has declined over the last several fiscal years, a positive indicator of the District's management of long term obligations.

In June 2010, the Facilities Committee presented a proposal to the Board for facilities improvements to address concerns over adequacy of classroom space due to growth in student enrollment, and to address deteriorating or low-functioning existing instructional space and usage constraints. The proposal is estimated to impact debt service expenditures by \$1.4 million per year over the next fifteen years. The District's declining debt service expenditure rate, and its overall debt position, allows the District greater flexibility to meet this proposed long range plan.

In general, the District Treasurer is responsible for investing District funds and managing cash on hand. The Business Official periodically prepares fund balance projections to appropriately manage working capital. At fiscal year ending June 30, 2009, the District

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held approximately \$16,313,134 in cash and investments. Cash and investments as a percentage of current liabilities on June 30, 2009 was approximately 334%. This is a positive indicator of liquidity at the end of the fiscal year. The District's main source of revenue, property taxes, is collected at the beginning of the year and spent down as the year progresses. Thus, the District's year-end cash on hand indicated a good liquidity condition as it headed into the summer months when revenue was anticipated to be low.

The Business Office recently changed its cash receipt process due to the elimination of the receptionist position in the Business Office. The Accounts Receivable Clerk now receives all non-property tax checks and cash deposits, logs checks, writes out the cash receipts, and prepares the deposit slip. Deposits are made either remotely using Digital Express, or the Assistant Tax Collector makes deposits at the bank. The Junior Accountant posts cash receipts. Finally, the District Treasurer completes the bank reconciliations and prepares the Treasurer's Reports.

In light of recent cybercrimes against several school districts in New York, the District should ensure it has adequate segregation of duties in its electronic transactions. Proper cash technology controls require separation between the initiation, authorization, and execution of electronic or wire transfers. The District should establish a procedure that requires at a minimum two people to set up a wire transfer template and two people to process a wire transfer.

Overall, this area was rated a Medium risk.

REVENUE and ACCOUNTS RECEIVABLE
Risk Rating 199 Medium

The review of this area focuses on property tax and non-tax revenue, recording and reporting revenue, billing and maintaining accounts receivable, and other Treasury functions in the Business Office.

The District collects its own taxes, and uses the Consulting Tax Software to track property tax accounts, assessments, and payments. The District's Assistant Tax Collector prepares the bills, collects the monies, prepares and makes the deposits, as well as posts the payments to the subsidiary tax records. The District also collects many tax payments that are made directly through an outsourced Lock Box process whereby tax remittances are mailed directly to a Lock Box, directly deposited in the District's bank, and remittance and deposit information is electronically transferred to the Assistant Tax Collector for updating the tax records. In addition, the District bills and collects miscellaneous non-property tax revenues. Specifically, the District bills and collects for miscellaneous items such as health service benefits, facilities use, instrument fees, and tuition.

In FY08/09, an internal audit over Revenue and Accounts Receivable was performed. The internal audit reported no significant issues based on the audit findings. However, audit recommendations were made to improve existing procedures to enhance internal

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controls over the area. Management developed and implemented a Corrective Action Plan (“CAP”), in response to the audit. At this time, two of the three corrective actions were fully implemented. The last corrective action, pertaining to automating the accounts receivable process into its existing Business Management System, is targeted for implementation during FY10/11.

The District has various reserve funds for purposes such as capital projects, tax certiorari, and debt service. As of June 30, 2009, the District held \$8,054,249 in restricted assets held in reserve. Establishing and maintaining reserves is a best practice in effective long-term planning for school districts. Reserves help districts save up for future infrastructure, equipment, and other requirements’ expenses. Reserves help decrease the need to rely exclusively on indebtedness to finance capital projects. In addition, maintaining an adequate level of reserves helps to lower the risk of any unanticipated events having a significant negative impact on estimated revenues and the budget.

The District has an established reserve fund for tax certiorari claims. As of June 30th, 2008, the District held \$5,638,048 in its Tax Certiorari Reserve. The Board reviewed tax certiorari claims and adequacy of reserves during the fiscal year, and accepted the recommendation to increase the reserve to approximately \$7,500,000. Maintaining an adequate level of tax certiorari reserves helps to lower the risk of any tax certiorari claims having a significant negative impact on estimated revenues and the operating budget.

The risk rating level for this area was evaluated as Medium.

PURCHASING and ACCOUNTS PAYABLE
Risk Rating 193 Medium

This area is concerned with the Purchasing function and Accounts Payable, Cash Disbursements, and the Internal Claims Audit processes.

Internal Audit notes that the claims audit process is not conducted on school premises. In general, performing the claims audit process at the Business Office, during office hours, facilitates the review of claims and allows for direct communication with the Purchasing Agent or Accounts Payable Clerk to address audit findings and questions in a timely manner.

The Claims Audit process involves a checklist of items that forms the basis or criteria for auditing claims at the District. Details of the audit findings against this checklist are provided on a monthly basis to Management and the Board. By providing reports to both Management and the Board, the Claims Auditor communicates valuable information to the District, thereby assisting Management in monitoring compliance with purchasing policies and regulations. In addition, communicating detailed audit findings gives Management the opportunity to analyze procedures and find ways to improve the process and limit audit deficiencies going forward. However, Internal Audit notes that the criteria for auditing claims does not include reviewing the claim to ensure that it meets General Municipal Law’s legal competitive bidding requirements and the District’s

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Purchasing Policy. The District should consider adding this criteria to its claims audit process, as recommended in the New York State Office of the Comptroller Brochure *“Improving the Effectiveness of Your Claims Auditing Process.”*

A key factor in addressing compliance with purchasing policies is effectively training and communicating to District staff. In that regard, the Business Office has provided numerous purchasing policies and procedures memorandums to District Staff. For example, the District implemented the use of *Reason for Return* and *Purchase Order Increase Request* forms with memorandums to explain their application.

The Business Official is also the District’s Purchasing Agent. The Assistant to the Business Official assists the Purchasing Agent with conducting bids, obtaining vendor contracts, and establishing a bid calendar.

The risk rating level for this area was evaluated as Medium.

HUMAN RESOURCES and PAYROLL
Risk Rating 183 Medium

Both Human Resources (“Personnel”) and Payroll areas are closely linked in the administration of personnel, payroll, and benefits. In addition, this area is concerned with District compliance to Board Policies, union contracts and bargaining agreements, and applicable state and federal laws and regulations. The District’s largest expense is salaries, wages and fringe benefits. This functional area is a highly significant one, not only due to the magnitude of its share of the District’s budget, but also due to the complexity and sensitivity of its operations and ensuring compliance.

The District has both Personnel and Payroll Departments. The Director of Personnel oversees the Personnel Department. The Business Official oversees Payroll. The Personnel Department comprises two personnel clerks who directly report to the Director. A Personnel Clerk position was changed from a substitute part-time position to a full-time permanent position in FY09/10. The Payroll Department consists of a payroll clerk who directly reports to the Business Official.

The District fully implemented its Corrective Action Plan (“CAP”) in response to the internal audit of the area conducted during FY07/08. The District has adequate segregation of duties between Human Resources and Payroll. All personnel changes, i.e. additions, deletions, and changes to employment status and pay are processed in Personnel. Payroll is copied on all Personnel Agenda items and acts as a double check to ensure that data was correctly entered into the system and the system records reflects correct information. Also, each Department has formally documented a procedures manual. In addition, a professional development system was fully implemented in FY09/10. The system automates the planning, approval, and tracking of professional development, and absence reporting for certified Teachers in the District. The technology enhancement should strengthen internal controls over the process of requesting and approving courses for credit towards professional certifications, as well as

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monitoring completion of the 175 Continued Professional Education (“CPE’s”) credits, as required by Education Law.

Internal Audit also notes that the Assistant Tax Collector is also the Benefits Clerk. The Benefits Clerk processes all additions, deletes, and changes to enrollments with benefit providers. The Payroll Clerk inputs additions and changes to benefits and the respective payroll deductions into the business management system. In general, periodic independent review of this process should be established. Specifically, periodic review of the Payroll Deductions Report should be performed to give Management greater assurance over the integrity of the process.

The risk rating level for this area was evaluated as Medium.

FACILITIES and CAPITAL ASSETS
Risk Rating 174 Medium

This area includes buildings and grounds, facilities maintenance, capital improvements and new construction, fixed assets and inventory controls.

The Facilities Department is overseen by the Director of Facilities, an outsourced employee. Department operations include buildings and grounds, facilities maintenance and operations for the District. Grounds and maintenance work is outsourced, thus the Director supervises a small staff of solely custodians. Cleaning, light maintenance, snow removal, and minor plumbing are done in-house. Other work such as grounds, major maintenance, electrical, carpentry, plumbing, and HVAC are contracted to outside vendors. The Director regularly communicates to the Business Official on department operations via a Monthly Joint Report. The report summarizes work performed, custodial overtime, light maintenance projects, community relations and work order information. In addition, the Director meets with the Business Official every week, monthly with the Building Principals and the Athletic Director, and conducts monthly meetings with building Head Custodians. Also, the Director is a member of the Health & Safety Committee.

As mentioned previously, the District’s Facilities Committee recommended to the Board a capital improvement plan totaling approximately \$10.4 Million to meet facilities space needs. As an interim solution, the District plans to install portable classrooms before the new school year begins on September 2010. The District will need to consider a bond referendum, or find alternative means to ensure that it meets its long term infrastructure needs and adequately plans for budget adjustments and constraints in the process. Without adequate planning for long-term capital and infrastructure needs, the District runs the risk of having to meet immediate or catastrophic infrastructure problems with drastic cuts to its budget.

The Facilities Department utilizes an automated work order system to track building work order requests. The work order system includes information on corrective work requests, routine work orders, scheduled preventative maintenance, summer projects, and

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self-identified work requests that come from inspections. In general, a comprehensive work order system that includes both in-housed and contracted work, and a preventative maintenance plan for all major building systems, helps to ensure each building is maintained in a state of good repair. An automated work order system enables the District to better monitor work order efficiency, the effectiveness of facilities department operations, labor productivity, and overall costs.

The District hired a consultant to conduct a physical inventory audit of its capital assets during the summer of 2010. This is a positive development, since an inventory had not been conducted in over three fiscal years. However, the physical inventory audit results and report status are still pending at the time of this report. In general, a physical inventory audit helps the District ensure that capital assets exist, are properly recorded, and are appropriately safeguarded. In addition, the capital asset inventory should be maintained and updated on a periodic basis, to ensure all assets are physically located, and recorded and valued appropriately on the District's general ledger.

Overall, this area was rated a Medium risk.

STUDENT SERVICES
Risk Rating 177 Medium

This area includes Food Service, Extraclassroom and Co-curricular Activities, Transportation, Interscholastic Athletics, and Safety and Security. Although these areas represent a small percentage of the District's budget, they directly impact the District's mission and objectives. In addition, these areas tend to be more operationally decentralized, and have a potentially greater impact on reputational risk to the District.

The District provides a food service program to students at all the school buildings. The District's food service program is an in-house and self-sustaining operation. All food service employees are District employees, and revenues from meal sales sustain the cost of providing the food service. In general, results of food service operations improved in fiscal year 2008/2009. The District reported an increase in food sales from the previous fiscal year. Specifically, the District reported \$1,588,113 in food sales in FY08/09, compared to \$1,471,435 in the prior fiscal year. Also, the District reported an improved school lunch fund balance position of \$511,472 compared to \$430,361 in the prior fiscal year. Although the school lunch fund represents a small percentage of the overall District budget, the Food Service Director oversees a critical operation that directly affects the student and staff population on a daily basis. Overall, the Food Service Director is charged with menu planning, nutrition and food safety, supervising kitchen operations, cash management and sales revenue, inventory and equipment control, as well as compliance with applicable state and federal laws and regulations.

The previous fiscal year's Risk Assessment Update identified the Extraclassroom Activity Funds ("ECAAF) area as a candidate for internal audit. The area was recommended to the Board/Audit Committee for review as part of the annual audit plan. The Board adopted the audit plan, and Internal Audit subsequently performed an audit of

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this functional area during the current fiscal year. Based on the internal audit findings, we made audit recommendations, and Management established a Corrective Action Plan to address the findings and recommendations. Details can be found in the Audit Report issued in June 2010.

The District's pupil transportation budget for FY10/11 is approximately \$980,864. This represents an increase of 5.4% from the previous fiscal year. The increase is mostly due to additional transportation requirements for students with special education needs. In general, the District limits its transportation services for special education, athletics, and field trips. The District actively promotes and encourages students and faculty to walk to school. In addition, the District coordinates with the City of Rye to address pedestrian safety and traffic concerns.

The District's Athletic budget for the upcoming FY10/11 fiscal year is \$455,670 which represents an increase of approximately 11.2% from the previous fiscal year. The increase is attributed mostly to the home game schedule of the Rye vs. Harrison football game. The District maintains an active student body and a high participation rate in its sports and teams. In addition, the District's numerous athletic programs are supported by athletic booster clubs. The District should ensure that it adequately monitors and approves the appropriateness of activities and fundraising events done in the name of and on behalf of District athletic programs.

INFORMATION TECHNOLOGY

Risk Rating 198 Medium

This area includes IT Strategy and Planning, Outsourced Vendor Management, Business Continuity Planning, IT Infrastructure and Maintenance, Information Security, Governance, Systems Development and Maintenance, Systems Support and Critical Systems.

The District developed a three year Technology Plan, and recently updated its Acceptable Use Policy. The District established processes for Backup, Information Security, IT Problem Management and Systems Support. A formal process is in place for security administration to limit access to critical financial systems, and require approved network and application logon ID's. The Technology Department assigns Network ID's based on user class (student, faculty or administrator), and passwords are set to expire for critical application systems.

The District developed a Technology Disaster Recovery Plan addressing application services and availability requirements. The Plan details procedures the District follows during a failure of critical applications. Technology staff tests the Plan on a periodic basis. In addition, the District developed and documented a Finance Manager Business Operations Continuity and Disaster Preparedness Plan with the off-site recovery location at the Lower Hudson Regional Information Center (LHRIC). The District tests the recovery of Finance Manager annually with the LHRIC, and the last test was performed successfully in May 2010.

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The District made several changes to its technology environment since the last risk assessment update. The District entered into an agreement with Lightpath a new voice and Internet Service Provider (ISP). With the move to Lightpath as the District's ISP, several services that were previously managed by the LHRIC are now accomplished in-house using a newly installed Unified Threat Management (UTM) security appliance by InstaGate. The UTM security appliance provides a firewall, anti-virus filtering, SPAM filtering and Internet content filtering that conforms to the Children's Internet Protection Act (CIPA). In addition, the District centralized the backup process and installed an EqualLogic backup unit that provides full disk to disk to tape backups which are stored off-site in a fireproof safe. Seven years worth of tapes are stored at all times.

This area remains at a Medium risk rating.

GOVERNMENT AID and GRANTS
Risk Rating 171 Medium

This area includes government aid from the state and federal governments, and foundation and other not-for profit aid and donations. This area also includes Special Education, since a large proportion of state and federal aid goes toward funding these services.

The District receives both state and federal aid. In terms of state aid, the District estimates receipt of approximately \$2,816,850 in state aid for FY10/11. This amount represents approximately 4.5% of estimated revenues.

The District receives a majority of its federal aid through federal grants. A majority of the federal grant monies are dedicated to funding services for students with special needs. In FY09/10, the District was awarded approximately \$1,687,565 in federal grants. From this amount, the District was awarded \$630,145 IDEA Part B Sections 611 and 619 federal grants to help fund special education services. In addition, the American Reinvestment and Recovery Act of 2009 allocated an additional \$454,533 in IDEA federal grant monies to the District. These grants are administered by the Director of Special Education and Pupil Personnel.

The Department of Special Education and Pupil Personnel oversees special education needs for the District. Although the District's percentage of classified students is low compared to the state average, the number of students that are newly classified continues to grow as well as the requirements to address their respective Individualized Education Programs ("IEPs"). Thus, the budget for Special Education has continued to increase each fiscal year. The budget for special education increased by 24% in FY09/10, and has increased an additional 19% from \$2,645,290 in FY09/10 to \$3,455,290 for FY10/11.

This area has a Medium risk rating.

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Recommended Internal Audit Plan

Rye City School District	FY Audit Hours	
Recommended Internal Audit Plan	10/11	Future
Risk Assessment Update	50	X
Budget, Financial Accounting & Reporting		X
Review of internal controls related to fiscal accountability and budget control, and operations in the Business Office.		
Debt, Investments and Cash		X
Review of internal controls over debt and investment monitoring and cash management.		
Revenue and Accounts Receivables		X
Follow-up to implementation of Corrective Action Plan in response to Internal Audit conducted in FY08/09.		
Purchasing and Accounts Payable		X
Review internal controls over cash disbursements, accounts payable processing, claims auditor, and vendor management.		
Human Resources and Payroll		X
Follow-up to implementation of Corrective Action Plan in response to Internal Audit conducted in FY07/08.		
Facilities and Capital Assets		X
Review of internal controls within the Facilities Department to include custodial and maintenance operations, and buildings and grounds work.		
Student Services		
Review of internal controls over Food service operations.		
Follow-up to implementation of Corrective Action Plan in response to ECAF Internal Audit conducted in FY09/10.		X
Information Technology		X
Review of general computer controls.		
Government Aid and Grants	130	
Review internal controls over Special Education services and special education grant administration, accounting, program monitoring, and compliance.		
Audit Issues Tracking Matrix Update	20	
Total Internal Audit Hours	200	

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***APPENDIX:
INFORMATION TECHNOLOGY
RISK ASSESSMENT***

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Information Technology in education environments has basic inherent risk due to the concentration of critical information being in an electronic format and the need to provide for the proper security over this information. The following risk assessment was conducted in cooperation with IT management for each of the following IT audit areas:

IT Strategy & Planning

The Information Technology functions at the School District are performed under the direct supervision of the Director of Technology who reports to the Superintendent. Reporting to the Director of Technology are two Calculator Computer Center (CCC) Network Engineers, five Building Level Computer Aides who also report to a building principal, a Web Administrator and five Building Web Advisors. There is also a .5 Coordinator of Technology for Curriculum and Instruction (C&I) who reports to the Assistant Superintendent of C&I, and a Coordinator of Technology for Management Systems from CCC who reports to the Assistant Superintendent of Business. The Director of Technology interfaces with both Coordinators on a regular basis. Areas of responsibility for each IT position are outlined within the Technology Organization Chart.

Information Technology goals and objectives have been developed, documented and incorporated into the three year Technology Plan for 2010-2013. This document provides a detailed description of the School District's technology goals and objectives, strategies and implementation plans. This Plan is updated and presented to the Board of Education on an annual basis.

The School District has formed a District Technology Committee that meets monthly to discuss technology related matters such as productivity, operations and broad hardware/software issues. The Committee also evaluates how technology goals and objectives are met and participates in updating the three year technology plan.

Outsourced Vendor Management

An assessment of the vendor management controls determines whether vendors are appropriately selected, effectively managed and monitored as a normal course of business. Specific attributes, which demonstrate the effective use of vendors include:

- A formalized vendor selection process which includes appropriate due diligence procedures such as background checks, capability, cost, financial stability, quality of IT personnel etc.
- Formalized vendor contract review which includes the development of specific service level metrics
- A structured process for monitoring activities performed by vendors

The Technology Department reviews vendor contracts on an as-needed basis and must follow a structured vendor selection process, as defined by applicable New York State law, in order to be eligible for discounts provided by the Schools and Libraries Program of the Universal Service Fund (commonly referred to as "E-Rate"). The E-Rate Program

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funds some of the School District's telecommunications and internet connections and the applications that use them. Services that are outsourced by the School District include:

Outsourced Services	Provider
Internet/Voice Service Provider	Lightpath
<ul style="list-style-type: none">• Finance Manager Remote Backup• PowerSchool Server Host	Lower Hudson Regional Information Center (LHRIC)
SchoolFusion – Web Based Student/Teacher Communication System	Centrifuge Solutions, LLC
Emergency Notification System	School Messenger
Technical Network Expertise, LAN Support and Hardware Maintenance	Calculator Computer Center (CCC)
HealthOffice	Healthmaster
Horizon Library System	Orange-Ulster BOCES

As a result of these outsourcing arrangements, the majority of IT operational risk for these functions has been transferred to outsourced providers. This transfer of risk, however, requires the District to establish strong monitoring controls to ensure service providers maintain a controlled operational environment.

Business Continuity Planning

The School District has developed, documented and implemented a Technology Disaster Recovery Plan which addresses application services, availability requirements and details the procedures that the District will follow during a failure of critical applications. This Plan is tested on a periodic basis. In addition, a Finance Manager Business Operations Continuity and Disaster Preparedness Plan has been developed and documented with the off-site recovery location at the LHRIC. The District tests the recovery of Finance Manager annually with the LHRIC, and the last test was performed successfully in May 2010.

IT Infrastructure and Maintenance

The School District's network infrastructure connects the classrooms, schools and buildings to each other via fiber optic cables, Netware servers and various switches and routers that control traffic throughout the Central Administration Building, High School/Middle School and three Elementary Schools. In addition, a high speed fiber connection to the Internet is provided by Lightpath. Network diagrams have been developed which document the current infrastructure.

An inventory of the existing computer hardware in all schools and the Central Administration Building is completed by the Technology Department each year. The inventory is organized by location and includes district purchased technology hardware identified by model number and serial number. In addition, compliance with all hardware and software licenses is tracked using an asset management system.

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The only major applications housed servers in the District are the Financial and Human Resources management system, Finance Manager, and the FASTRAK POS Food Inventory system.

The District contracts with CCC for two full time on-site Network Specialists to support the installation and maintenance of the district-wide network. CCC delivers, sets-up and configures all workstations following a targeted four to five year replacement schedule, and performs on-site repairs to the file servers, printers and other peripherals.

Information Security

Systems security administration is a process which entails: performing risk analysis, administering the security policy, identifying security breaches, reporting incidents to management, maintaining and reviewing audit and security logs, and coordinating with both users and management regarding security.

Formal policies and procedures over information security have not been documented; however, all School District employees are required to read the Internet Acceptable Use Policy (AUP) prior to gaining network access. The AUP is provided to every employee, every year and is considered a Regulation as opposed to a policy. In addition, students and their parents/guardians are required to read and sign a similar AUP for student users. Both AUP's were recently updated and formally approved by the Board of Education.

Access to the School District's Network is controlled through network user ID's and passwords, which are encouraged to be changed on an annual basis. Specific network login rights and access are determined by the type of account provided to the user, such as teacher, student, district employee, etc. An additional user ID and password is required to access critical application systems. Application security is maintained by a designated individual within the department that uses the system.

Network security administration procedures are formalized and are performed by the Network Engineer who has Administrator rights to modify the security settings. If user access entitlements need to be changed or deleted, an authorization e-mail is sent to the Network Engineer to perform the change. In addition, the Director of Technology is notified via the Board of Education's meeting agenda and minutes when an employee is terminated or hired.

GroupWise e-mail is provided for all administrators, teachers and specific support staff. E-mail security is provided by InstaGate. This security appliance provides a spam filter and scans for viruses, security threats and unwanted e-mail. A daily log of what has been filtered is also provided. In addition, all e-mail accounts are "swept" on a monthly basis to ensure compliance with the District's AUP.

Access to the server room in the High School/Middle School is controlled by a key lock and contains a climate control system, fire/smoke detection systems and a UPS system. The server room in the Central Administration Building located on Theodore Fremd Ave. is also physically secure with a key lock and contains an air conditioner and UPS system.

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With the move to Lightpath as the District's Internet Service Provider, several services that were previously managed by the LHRIC are now being accomplished in-house using a newly installed Unified Threat Management (UTM) security appliance by InstaGate. The UTM security appliance provides a firewall, anti-virus filtering, SPAM filtering and Internet content filtering that conforms to the Children's Internet Protection Act (CIPA).

Governance

IT management within the School District is responsible for the development of policies and operating procedures that assure effective management, the security of information technology resources and compliance with applicable regulatory guidelines. Aside from the Board of Education approved AUP's, most IT operating policies and procedures are informal.

Systems Development and Maintenance

The School District does not perform any systems development and does not make changes to the academic or business office application systems. Finance Manager owns the source code for the business office applications and if a product update or software change is needed, management coordinates with the vendor to remotely install the update via a secure port.

As the School District does not perform its own programming functions in support of its critical systems, performing system development and maintenance functions is not critical to the continued success of the organization. The management of these functions provided by service providers, however, is critical as noted in the Vendor Management section of the Risk Assessment.

Systems Support

Systems Support includes those components of information technology that support systems processing and consist of help desk procedures, desktop support, production support and change management control.

A Help Desk, developed by the District, has been established to assist users with system or user problems. Users report problems by e-mail or by visiting the appropriate building Computer Aide who will then troubleshoot the problem. If the problem is hardware related, the Computer Aide will logon to the Help Desk system and complete a standardized Service Request Form which documents the user problem or computer repair request. The form is then electronically submitted to the appropriate Network Engineer who processes the request. A Help Desk log is generated for each call including a resolution report when the problem is resolved.

Symantec backup software is used to perform tape backups using an EqualLogic backup appliance. The Computer Aide in each building will change the nightly backup tape and a ten day rotation of backup tapes is maintained and stored in a fireproof safe. The

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Network Engineer checks each morning to ensure that the backup was performed the previous night, and rotates the tapes off-site to a different school building. The District also uses an additional remote backup service through BOCES to automatically backup Finance Manager and Power School data.

Critical Applications

Critical applications have a material impact on the School District's operations and management of non-public information. These applications must be reviewed and tested on an annual basis to ensure the integrity of processing and the security of information. Critical applications include the following:

Service Provider/Vendor	Application	Type of Data	Tests of Controls
Finance Manager	Financial and Human Resources Management System	Employee non-public	Internal Audit
Power School	Web Based Student Management System	Employee/Student non-public	Internal Audit
School Messenger	Emergency Notification System	Student non-public	Internal Audit
IEP Direct	Web Based Special Education Student Management System	Employee/Student non-public	Internal Audit
FASTRAK/PCS Revenue Control System	POS and Food Inventory System	Employee/Student non-public	Internal Audit