CORTLAND ENLARGED
CITY SCHOOL DISTRICT

INTERNAL AUDIT

RISK ASSESSMENT UPDATE
AND
ANNUAL TESTWORK

December 22, 2024

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Board of Education and Audit Committee
Cortland Enlarged City School District

We have been engaged to assist Cortland Enlarged City School District in performing an update to the initial risk assessment and annual test work for the year ended June 30, 2024 as required by Chapter 263 of the Laws of New York State. The purpose of our engagement is to assist the District in determining the level of risk and adequacy of controls in the various functional processes within the school district. A complete description of the methodology used in performing the risk assessment is included in the subsequent pages of this report. We have also performed test work in areas agreed to by the audit committee as required. The results of that test work have been included in this report.

The risk assessment and testwork was performed in accordance with the standards required by the Regulations of the Commissioner of Education.

The engagement to perform the update to the risk assessment and test work is part of an ongoing internal audit function. The results of the risk assessment and test work performed have been discussed with management of Cortland Enlarged City School District and are the overall responsibility of the School District.

This report is intended solely for informational purposes in order to develop a plan to identify and manage the School District's risks. This report and all information used to compile the report is the property of Cortland Enlarged City School District.

We appreciate the opportunity to serve you as internal auditors and thank the individuals in your School District for their cooperation.

D'Arcangelo + Co., LLP

December 22, 2024

Rome, New York

METHODOLOGY

The internal audit process for Cortland Enlarged City School District has been established in accordance with Chapter 263 of the Laws of New York State to provide an independent, objective assurance and consulting activity designed to add value and improve the organization's operations. It helps the school district accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Defining Audit Universe

The first step leading to the development of the School District's Risk Register is to define the audit universe. The School District's audit universe encompasses both financial and non-financial functions and has been categorized into the following business units:

- Governance
- Information Technology
- Budget
- Financial Reporting
- Payroll/Human Resources
- Accounts Payable
- State Aid
- Attendance
- Capital Projects
- Special Aid Programs
- School Lunch
- Fixed Assets
- Transportation
- Cash Receipts/Billing
- Extraclassroom

Weighting of Business Units

The risk that each of the above business unit's pose on the School District is unique. The weighting of business units attempts to account for the relative measure of importance between business units and the impact on the overall risk level. A weighting factor was derived by evaluating each business unit based on the following categories:

- *Size of Unit* - Based on total revenue/expenditures processed by business unit band/or volume of transactions.
- *Complexity of Transactions* - Based on the nature of transactions processed.
- *Public Exposure* - Based on the potential of business unit to harm the School District's reputation within the community.
- *Time Since Last Audit* - Based on the last date that internal audit procedures have been performed.

METHODOLOGY

> *Compliance with laws and Regulations* - Based on laws and regulations that direct the business unit's activities.

Defining Business Unit Processes

Business units have been broken out into key processes that will be the basis of the risk register. The objective is to identify and prioritize processes that pose the greatest potential risk and liability to the School District.

Categories of Risk

Risk will be assessed for each business unit process in two categories:

Inherent Risk - Inherent risk measures the potential for objectives not being attained at the desired level before applying the assessment of the internal control process.

Control Risk - Control risk measures the adequacy of internal controls designed to reduce the inherent risk within the process. Each process will be assessed for control risk utilizing the concepts of the COSO model. This model was developed in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and has been adopted as the generally accepted framework for internal control and is widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control. The COSO model focuses on the following components:

> *Control Environment* - The Control Environment sets the tone of an organization, influencing the control consciousness of its employees. It is the foundation for all other components of internal control, providing discipline and structure.
> *Risk Assessment*- Risk Assessment is the identification and analysis of relevant risks to the achievement of the School District's objectives, forming a basis for determining how the risks should be managed.
> *Control Activities* - Control Activities are the policies and procedures that help ensure management directives are carried out. Control activities include a range of activities such as approvals, authorizations, verifications, reconciliations, security of assets, and segregations of duties.
> *Information and Communication* - Information must be identified, documented, and communicated in a form that enables employees to carry out their responsibilities.
> *Monitoring* - Monitoring is a process that assesses the quality of an internal control system's performance over time.

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Assessing a Risk Level

The assessment of risk will be based on four levels of severity:

Low	Low likelihood of significant impact on School District objectives.
Moderate	Moderate likelihood of significant impact on School District objectives.
High	High likelihood of significant impact on School District objectives.
Severe	Extreme likelihood of a catastrophic impact on School District objectives.

Risk Appetite

Risk Appetite broadly sets the level of risk that the Board of Education deems acceptable. The Board of Education has set a *moderate* level of risk appetite for the purpose of this initial risk assessment. Those processes that have been assessed a level of control risk greater than the risk appetite are to be included in the School District's long-range internal audit plan over a four-year period. The level of risk appetite is designated with a blue line on the School District's Risk Register on Pages 5 through 8.

Managing the Risk

The options of the School District in managing its risks can be summarized as follows:

- ➤ *Treat* - Implement accounting and operational controls.
- ➤ *Terminate* - End the activity.
- ➤ *Transfer* - Outsource activity or obtain insurance.
- ➤ *Tolerate* - Accept risk and monitor.

Audit Plan

An audit plan must be implemented by the Audit Committee based upon the identified risks, risk appetite, and how the risk is to be managed. Risks identified that are above the acceptable risk appetite of the Board of Education should be a priority in the audit plan.

RISK REGISTER AS OF December 22, 2024

Business Unit	Process	Inherent Risk				Control Risk				Testwork Performed						
		As of December 22, 2024														
		Severe	High	Mod	Low	Severe	High	Mod	Low	2019	2020	2021	2022	2023	2024	Reference
Governance	General Policy and Procedures	✓					✓									
	Monitoring	✓						✓								
	Organizational Structure	✓						✓								
	Risk Management	✓						✓								
Information Technology (IT)	Governance/Security		✓				✓					✓				
	Financial Application Security		✓					✓				✓				
	Network Security		✓					✓				✓				
	Miscellaneous Application Security		✓					✓				✓				
	Disaster Recovery		✓					✓				✓				
Budget	Development	✓						✓							✓	Pages 17-18
	Presentation/Compliance	✓						✓							✓	Pages 17-18
	Monitoring	✓						✓							✓	Pages 17-18
	Amendments			✓				✓							✓	Pages 17-18
Financial Reporting	Monthly Reporting	✓						✓								
	General Accounting		✓					✓								
	Annual Reporting		✓					✓								
	Financial Oversight		✓					✓								
	Fund Balance Management		✓					✓								

Cortland Enlarged City School District

RISK REGISTER AS OF December 22, 2024

Business Unit	Process	Inherent Risk As of December 22, 2024				Control Risk As of December 22, 2024				Testwork Performed						
		Severe	High	Mod	Low	Severe	High	Mod	Low	2019	2020	2021	2022	2023	2024	Reference
Payroll/HR	Payments to Employees	✓						✓			✓					
	Allocation of Expenditures	✓						✓								
	General Employee Administration		✓					✓			✓			✓		
	Employee Benefit Administration	✓						✓						✓		
	Employee Attendance	✓						✓								
	Hiring/Termination of Employees		✓					✓			✓					
Purchasing/AP	P.O. System		✓					✓					✓			
	Payments Outside P.O. System	✓						✓					✓			
	Procurement Process	✓						✓					✓			
	Private Purpose Trust Expenditures			✓				✓								
	Reporting Requirements		✓					✓					✓			
	Allocation of Expenditures	✓						✓					✓			
	Payment Processing	✓						✓					✓			
	Petty Cash Administration			✓				✓								
State Aid	General Processing/Monitoring		✓					✓								
	Basic Aid		✓					✓								
	Transportation Aid			✓				✓								
	Building Aid/Capital		✓					✓								
	Excess Cost Aid			✓				✓		✓						
	BOCES			✓				✓								

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RISK REGISTER AS OF December 22, 2024

Business Unit	Process	Inherent Risk As of December 22, 2024				Control Risk As of December 22, 2024				Testwork Performed						Reference
		Severe	High	Mod	Low	Severe	High	Mod	Low	2019	2020	2021	2022	2023	2024	
Attendance	Tracking Student Attendance		✓					✓								
	Student Performance Data			✓				✓								
Capital Projects	Planning		✓					✓								
	Monitoring		✓					✓								
	Completion		✓					✓								
Special Aid	Grant Application		✓					✓								
	Allowable Costs		✓					✓								
	Cash Management			✓				✓								
	Reporting and Monitoring		✓					✓								
	Compliance		✓					✓								
School Lunch	Federal & State Reimbursement		✓					✓								
	Sales Cycle and System		✓					✓								
	Inventory and Purchases		✓					✓								
	Eligibility Verification			✓				✓								
Fixed Assets	Acquisition and Disposal		✓					✓								
	Compliance			✓				✓								
	Inventory		✓					✓								

RISK REGISTER AS OF December 22, 2024

| Business Unit | Process | Inherent Risk | | | | Control Risk | | | | Testwork Performed | | | | | | |
		Severe	High	Mod	Low	Severe	High	Mod	Low	2019	2020	2021	2022	2023	2024	Reference
Transportation	Fleet Maintenance			✓				✓								
	Risk Management		✓					✓								
	Personnel Compliance			✓				✓								
	Facilities Maintenance and Security		✓					✓								
Cash Receipts/ Billing	Real Property Tax	✓						✓								
	Medicaid		✓					✓		✓						
	Out of District Tuition			✓				✓								
	Use of Facilities			✓				✓								
	Admissions and Concessions		✓					✓								
	Donations			✓				✓								
	Collection/Posting of Receipts		✓					✓								
Extraclassroom	General		✓					✓								
	Cash and Cash Receipts		✓					✓								
	Expenditures and Purchasing			✓				✓								
	Inventories			✓				✓								

PRIOR YEAR RISKS AND RECOMMENDATIONS

2017-02   *Uniform Guidance Procurement Policies*

Prior Year Observation

On December 26, 2014 the Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, more commonly referred to as the "Uniform Guidance," became effective for all Federal awards, whether the funds are provided directly from a Federal agency or passed-through another state or local agency. The District currently has effective procedural controls in place over the management of Federal awards as concluded through the testing of grant expenditures. However, key changes under the Uniform Guidance expanded the rules regarding the documentation of internal controls over Federal Awards to require that they be documented in writing in the District's policies and that management should evaluate and document the results of ongoing monitoring to identify internal control issues. The written internal controls should specifically address each of the twelve (12) compliance requirements of the Federal Award Programs.

Prior Year Risk

The District will not be in compliance with Federal Grant regulations

Prior Year Recommendation

The District should document policies and procedures in accordance with the new Uniform Guidance. The new procurement policies and procedures should be in place for the June 30, 2019 fiscal year grants.

Current Year Status:

The documentation of procurement procedures over compliance in accordance with Uniform Guidance is in process.

Current Year Recommendation

The District should also develop risk assessments and internal control structure listings regarding each of their federal grants received. These documents should include all compliance objectives per grant and show how the District will respond to specific compliance objectives; as well as the controls in place to ensure compliance with each objective. These should be reviewed and updated annually as needed.

PRIOR YEAR RISKS AND RECOMMENDATIONS

Information Technology - Governance

2020-04   State Privacy Regulation Implementation

Prior Year Status

The District established a portal to track the contract disposition of all its inscope ED-2 Vendors. Most of the software inscope for ED-2 is purchased through the BOCES in which BOCES has the contract relationship. BOCES established a portal accessible to all Districts which provides a copy of all the vendor contracts in which it manages the contract relationship. Currently, the District is in the final stages of validating the BOCES portal to ensure that it addresses all the vendors they contract through BOCES.

Based on the review of ED-2 contract that the District sends to its vendors it did not include the required clauses relating required to data breach notifications to the District.

The District has utilized the BOCES services to provide a template and a strategy to implement the NIST CSF framework. The District has been participating in BOCES organized workshops to assist in determining the District's compliance. These workshops and final District determination of NIST compliance is expected to be completed during the next year which will include establishing a list of gaps and remediation strategies.

Prior Year Status

1) The District performed the validation to ensure all their vendors they have managed Boces are reflected in their tracking database for ED-2 contract updates

2) ED-2 clause has been identified and incorporated into the updated contracts. There are 20 instructional software in use where the District has direct contract with vendors are in scope for ED-2 data. All other contracts are through BOCES who maintains the responsibility for having ED 2 compliant contracts in place with software vendors. We verified a sample number of these contract to verify that the ED-2 clause was included in the newly executed agreements.

3) NIST CSF framework developed by BOCES is in the evaluation phase to determine maturity levels for each of the control. Upon completion, it will be necessary to identify gaps and develop a remediation plan, which will include data protection and privacy related standards as required by ED-2.

PRIOR YEAR RISKS AND RECOMMENDATIONS

Prior Year Recommendation

Proceed with plans to complete NIST CSF gap analysis, develop remediation plans, and establish data protection and privacy related standards as required by ED-2.

Current Year Status

The District has completed an evaluation of its implementation status of NIST CSF subcategories (i.e., control objectives) using the BOCES provided templates which provide a basis for identifying gaps and establishing remediation plans. Based on our review of the NIST CSF implementation plan, additional work is needed to buildout the evidence to support the analysis performed. In addition, action plans for most control gaps identified need to be defined. It should be noted that the District established a comprehensive Incident Response Plan which is a key component of NIST CSF. The next step after the completion of the NIST CSF analysis is to identify areas based on NIST CSF where security & privacy standards need to be established

Current Year Recommendation

1. **Document the conclusions (i.e., evidence) for the NIST CSF subcategories in which the District implemented controls which met the target score.**
2. **Document action plans for control gaps identified**
3. **Identify the components from the NIST CSF that will be incorporated into the updated District's Security and Privacy standards and formalize these standards.**

2018-01   *Vendor Management*

Prior Year Status

The District utilizes the nVision IS application to handle financial processing (i.e., payroll, vendor check disbursements and maintaining the general ledger) and IEP Direct to handle its Special Education program, and NutriKids to handle the cafeteria services. These applications are hosted by BOCES (CNYRIC) along with providing the District's internet access and website. BOCES has complete responsibility for managing the application, network connectivity, system operations and security.

BOCES completed a SSAE 18 service SOC 2 Type 2 audit in which BOCES established a restricted process in order for School Districts to have the opportunity to review this report.

The District has approached CNYRIC to provide them access to the SOC 2 report which requires the District to go onsite to perform this review.

PRIOR YEAR RISKS AND RECOMMENDATIONS

Prior Year Recommendation

Proceed with plans to obtain access to the SOC 2 report and complete a formal review using pre-defined criteria.

Current Year Status

A partial review of prior report was performed onsite but the results were not documented. A review for 2023 is underway and completion is expected by summer.

Current Year Recommendation

The District needs to establish their criteria for reviewing the report, to include exceptions or issues, and whether they may present unacceptable risk levels, and review controls for any potential end user considerations. Using these criteria, the report should be reviewed, and the evaluation form completed to reflect the overall opinion on residual District risk.

2015-04   *Data Classification*

Prior Year Status

The Data Classification framework will be implemented as one of the tasks within the NIST CSF implementation.

Prior Year Recommendation

The District needs to establish their criteria for reviewing the report, to include exceptions or issues, and whether they may present unacceptable risk levels, and review controls for any potential end user considerations.

Current Year Status

A data classification template has been established for the business application systems serving key District business processes. This information is now pending review by the relevant business stakeholders.

Current Year Recommendation

No corrective action is necessary based on the current year status, however, the District should obtain and review the input of the relevant stakeholders and make any required adjustments based on their feedback. Measure this information against established security requirements and determine whether requirements need to be added or adjusted.

PRIOR YEAR RISKS AND RECOMMENDATIONS

2015-05 *Records Retention of Student and Business Records*

Prior Year Status

The State of New York has enacted a series of mandates for retention of student and business data (titled ED-1), detailing requirements for numerous types of scenarios and the length of time such records must be retained for both paper documents and electronic records. The ED-1 data retention requirements have been replaced with the LGS-01 standard. These retention requirements relate to specific IT activity, instructional and business activity which would be retained on systems that are managed in most cases by external vendors

An interpretation of these requirements is required from an instructional, business office and IT perspective as the next project initiative.

Prior Year Recommendation

Proceed with plans to interpret these requirements as required from an instructional, business office and IT. The next step would be to identify location of data to determine whether retention requirements are being met.

Current Year Status

In 2021, the ED-1 standard was interpreted, and a records inventory was compiled. The current Business Official has since been appointed as the District's Records Retention Officer. This information is being brought forward, along with any other new data elements that may have been created. This combined inventory of record types will be applied to the new requirements of the LGS-01 standard to establish updated District record retention requirements.

Current Year Recommendation

Update the records inventory and using the LGS-01 requirements, establish a District Records Retention schedule.

2019-01 *Security Awareness*

Prior Year Status

The IT Director is evaluating several alternatives to perform phishing simulation test exercises to evaluate security awareness training initiatives.

PRIOR YEAR RISKS AND RECOMMENDATIONS

Prior Year Recommendation

Proceed with plans to complete evaluation at which time budget decisions will be made.

Current Year Status

The District has purchased Mimecast, an industry recognized tool for this purpose. It is has been installed and configured and simulation exercises have begun.

Current Year Recommendation

The District should evaluate the results and determine whether any adjustments to awareness programs may be required.

Information Technology – Miscellaneous Application Security

2020-03 Application Logon Security - Transfinder

Prior Year Status
The District migrated to the cloud-based version of Transfinder. However, the system has a deficient logon security issue in which there is not a minimum number of characters in a password. The District should follow up with the vendor to determine whether this is a control feature they will consider establishing in the future.
The vendor has formally stated that they will not undergo a SOC review but conducts self-assessments to validate their compliance with the NIST CSF framework which is recognized as the accepted standard within 2-D.

Prior Year Recommendation

The District should consider establishing formal criteria to conduct a vendor oversight review.

Current Year Status

Rather than undergo an independent SOC 2 review, they did perform an internal self-assessment of the key controls. The District performed a review of the Transfinder self-assessment which they found to be sufficient in scope although it is not independently performed.

Current Year Recommendation

The District should formalize the review performed.

PRIOR YEAR RISKS AND RECOMMENDATIONS

Information Technology - Disaster Recovery

2015-06   *Contingency Plan*

Prior Year Status

With the migration of transportation system to the vendor's cloud-based environment, the District does not host any District business applications on premises. Backup and recovery services have been established at the Smith building. Individual Internet devices have been purchased to allow for limited Internet access throughout the District in the event of a disruption to the District's primary Internet connection. The Business Impact Analysis should still be completed for all critical District applications to ensure the service provider which hosts these systems is meeting the District's recovery objectives.

The District has not proceeded with this project initiative.

Prior Year Recommendation

Create a Business Impact Analysis for all critical District applications.

Current Year Status

The Technology Committee is meeting in August to establish survey criteria. From there, questions will be developed, and surveys will be circulated to obtain the key information to develop the BIA.

Current Year Recommendation

Once the surveys are completed and returned, compile this information and analyze it to determine recovery requirements and establish recovery priorities.

2022-02 Acceptable Use of Technology Resources

Prior Year Status

An acceptable use policy (AUP) was developed that addresses both staff and student use. The policy does contain provisions for use of email and issued laptops for personal use, but does not address cloud technology such as google docs, meeting software, etc.

The policies were last updated in 2019 and while some provisions exist for social media use, it is not a broad-based set of policies relating to cloud-based technology use. The audit team has provided a set of guidelines to more specifically address these areas.

PRIOR YEAR RISKS AND RECOMMENDATIONS

Prior Year Recommendation

Update the AUP to more broadly govern the use of cloud-based technologies.

Current Year Status

Cloud based technology provisions have been included in the most current policy version for both staff and students. Students acknowledge acceptance of the policy during session sign-on through Classlink by checking a box before gaining system access in which there is a hyperlink to the District's AUP.

Current Year Recommendation

None.

RESULTS OF ANNUAL TESTWORK

EXECUTIVE SUMMARY

D'Arcangelo & Co., LLP was requested by the *Cortland Enlarged City School District* Board of Education and the Audit Committee to conduct procedures over internal controls related to budget preparation and performance. The following summarizes the results of the procedures performed in those areas.

INTERNAL AUDIT PROCEDURES PERFORMED:

The procedures performed are summarized as follows:

1. We reviewed the budget process for the fiscal year ended June 30, 2024. We verified the public hearing was conducted within the timeframe required under Education Law.

2. For the fiscal years ended June 30, 2024, we reviewed the budget presented to the voters in the budget newsletter and verified it contained the following information:
   a. Administrative budget • Program budget
   b. Capital budget
   c. Contingent budget information
   d. Annual report card prepared by NYS Education department.

3. For the 2023/2024 fiscal year, we reviewed the tax cap prepared by the District. We verified the information contained in the calculation of the tax cap for the 2023/2024 fiscal year to documentation provided by the District, including:
   a. Total taxes levied in the prior year
   b. Tax cap reserves, if any

4. For the 2023/2024 fiscal year, we reviewed budget to actual reports and all budget transfers and amendments for reasonableness.

5. For the 2023/2024 fiscal years, we reviewed the following:
   a. Client provided budget summaries and budget hearing presentations.
   b. We compared the proposed expenditure budget to actual expenditures for the previous two fiscal years. For variances in excess of 10%, we verified the variance was consistent with the major budget objectives, changes in programs or services provided above.
   c. We compared the proposed revenue budget (excluding property taxes and state aid) to actual revenues for the previous two fiscal years. For any variances in excess of 10%, within the budgeted line item, we reviewed for reasonableness.
   d. We compared the amount budgeted for property taxes to the tax cap calculation prepared by the District and ensured the amount did not exceed the maximum amount permitted.
   e. We compared the amount budgeted for state aid to the executive budget provided by the State.

EXECUTIVE SUMMARY

    f. We compared the amount of fund balance appropriated for the fiscal year to the fund balance available upon review of the previous year's financial statements.

    g. We made inquiries of the District about the budget and budget process and reviewed budget hearing presentations by the District.

OUTCOME:

2024-01 Budget Process

Corrective Action Needed: No

Based on the procedures performed, the District's budget process is operating effectively and utilizes many of the NYS guidelines recommended in developing a proper budget. The Districts budget performance for the June 30, 2024 fiscal year appeared reasonable for both estimated revenues and expenditures (including encumbrances).

Recommendation

No corrective action deemed necessary based on results of the budget process review.