

Eastern Suffolk BOCES
Risk Assessment Update Report
December 20, 2016

Risk Assessment Update Report

To the Board of Cooperative Educational Services
First Supervisory District of Suffolk County
Patchogue, New York

We have performed the annual risk assessment update of Eastern Suffolk BOCES (BOCES) as required by Chapter 263 of the Laws of New York, 2005 and as per our agreement of July 1, 2016.

This engagement is in accordance with auditing standards generally accepted in the United States of America and the applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also considered the guidelines promulgated by the New York State Education Department in connection with such risk assessments.

Specifically, we performed the following:

- We reviewed our understanding of the critical business processes of BOCES. These critical business processes included, but were not limited to:
 - Governance and planning
 - Accounting and reporting
 - Revenue and cash management
 - Payroll and related benefits
 - Purchasing and related expenditures
 - Facilities and equipment
 - Student services
 - Student related data
 - Information technology
- We identified the key risks based on our understanding of these business processes.
- We identified the stated controls that are currently in place to address those risks.

These procedures were accomplished through interviewing BOCES management and accounting and other departmental personnel to determine the flow of accounting information and controls placed in operation. The scope of our engagement did not include testing the operating effectiveness of such controls.

Our procedures were not designed to express an opinion on the internal controls of BOCES, and we do not express such an opinion. Additionally, because of inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. Also, projections of an evaluation of the accounting system and controls to future periods are subject to the risk that procedures may become inadequate because of changed conditions.

We would like to express our appreciation for the cooperation and assistance that we received from BOCES' administration and other employees during our engagement, especially the Business Office personnel.

This report is intended solely for the use and information of the Board of Education and its Audit Committee and the management of Eastern Suffolk BOCES, and is not intended to be and should not be used by anyone other than these specified parties.

Cullen & Danowski, LLP

December 20, 2016

EASTERN SUFFOLK BOCES

Introduction

December 20, 2016

Chapter 263 of the Laws of New York, 2005 requires most districts and BOCES to create an internal audit function. The creation of this function requires BOCES to engage either a qualified audit firm or individual to make an initial risk assessment of the design of the internal controls; annually update this assessment; and, periodically test these controls for operational effectiveness and efficiency. This report addresses the second requirement, which is an annual risk assessment update.

Internal controls are the checks and balances over the various processes or functions that comprise the operations of a district. As previously mentioned, we have identified the following key processes to be considered in the risk assessment update (Note: each one of the key processes is comprised of sub-functions.)

- Governance and planning
- Accounting and reporting
- Revenue and cash management
- Payroll and related benefits
- Purchasing and related expenditures
- Facilities and equipment
- Student services
- Student related data
- Information technology

One key element in any internal control system is the concept of segregation of duties. This concept ensures that one person cannot execute a transaction without at least one other individual checking his or her work. Of course, where segregation of duties is not feasible, BOCES can employ compensating controls.

Nevertheless, there are some important concepts that should be understood when reviewing internal controls. These concepts are:

- An internal control system is designed to provide reasonable but not absolute assurance in safeguarding the assets of BOCES.
- The concept of reasonable assurance recognizes that the cost of the internal control should not exceed the benefits derived.
- There are inherent limitations that should be recognized in considering the potential effectiveness of any internal control system, e.g., errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. More importantly, it is collusion that poses the greatest threat to any internal control system. If two employees collude in order to circumvent the controls set up by BOCES, they could perpetrate a fraud.

The initial risk assessment required the internal auditor to obtain an understanding of both the inherent and control risks associated with the various functions within BOCES. The risk assessment update requires the internal auditor to identify the changes in procedures, policies, personnel, and systems that may have an impact on these risks and possibly alter the initial risk assessment's level of control risk.

Control risk measures the adequacy of internal controls designed to mitigate the inherent risk within the process. In this engagement, we have assessed the control risk based upon our interview process. The testing of the controls, which is performed during the detailed testwork, could support the lowering of the prior control risk assessment associated with individual processes and sub-functions.

EASTERN SUFFOLK BOCES
Introduction (Continued)
December 20, 2016

We have organized this report into the following four sections:

The first section is a risk assessment table. In this table, we identify the processes or functions that we have reviewed. This table includes our assessment of the control risk associated with each process. There are two control risk columns to reflect the prior year risk assessment level and the current year risk assessment level based on the results of the risk assessment update as well as the detailed testwork performed for selected processes. **Since the testing of controls has not been done for all processes, it is important to note that this table should not be viewed as the final assessment of BOCES' control environment.** The Risk Assessment Table also includes our suggestions for processes to be tested during the coming year. However, the decision of which processes to review in detail is at the discretion of the Audit Committee.

The second section includes the current observations and recommendations based on new findings identified during this risk assessment update. These are categorized based upon the areas of our audit program similar to the prior risk assessment report and these findings have been considered in the assessment of the level of control risk.

The third section contains the current status of the observations and recommendations that are still open for areas of potential improvement in BOCES' internal controls or operations included in the following reports:

<i>Report Type</i>	<i>Issue Date</i>	<i>Area(s)</i>
Risk Assessment	December 21, 2015	BOCES-wide

These results have been considered in the assessment of the level of control risk.

The fourth section contains the observations and recommendations included in the prior risk assessment and/or agreed-upon procedures reports that are now considered closed. The fact that these items have been implemented or resolved was considered in the assessment of the level of control risk.

Some of the recommendations may require a reassignment of duties and/or an addition to Business Office personnel. However, any enhancement of controls should be done after a careful cost-benefit analysis.

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan, approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department.

BOCES should send the Corrective Action Plan (CAP) along with the respective Internal Audit Report via mail or email to the addresses listed below. The report needs to accompany the CAP to allow the Office of Audit Services (OAS) to reconcile BOCES' CAP to the report to ensure all items have been addressed (i.e., CAP is not missing anything).

Submission Information – Mail & Email

New York State Education Department (NYSED)
Office of Audit Services
89 Washington Avenue
Room 524 EB
Albany, NY 12234
Fsanda133@mail.nysed.gov

Contact

Office of Audit Services
(518) 473-4516

EASTERN SUFFOLK BOCES

Risk Assessment Table

December 20, 2016

(L=Low, M=Moderate, H=High)

Business Process Area	Date of Detailed Testing *	Control Risk				Proposed Detailed Testing
		Prior Year		Current Year		
Governance and Planning						
Governance Environment			M		M	
Control Environment			M		M	
Strategic Planning		L		L		
Budget Development			M		M	
Budget Administration **	05/26/15		M		M	
Accounting and Reporting						
Assessing Financial Condition		L		L		
Financial Accounting and Reporting	5/26/2015	L		L		
Auditing		L		L		
Financial Oversight		L		L		
Fund Balance Management	9/10/2012	L		L		
Revenue and Cash Management						
Real Property Tax		N/A		N/A		
State Aid			M		M	
Medicaid	3/3/2014	L		L		
Out of District Tuition		L		L		
Use of Facilities			M		M	
Donations			M		M	
Collection & Posting of Receipts	8/2/2016		M		M	
Cash Management	9/10/2012	L		L		
Investment Management			M		M	
Bank Reconciliations	9/10/2012	L		L		
Petty Cash			M		M	
Grants and Special Education						
General Processing/Monitoring	9/10/2012	L		L		
Grant Application	9/10/2012	L		L		
Allowable Costs	9/10/2012	L		L		
Cash Management	9/10/2012	L		L		
Reporting and Monitoring	9/10/2012	L		L		
Compliance	9/10/2012	L		L		
Payroll, HR and Related Benefits						
Payments to Employees	5/26/2015		M		L	
Allocation of Expenditures	5/26/2015		M		L	
General Employee Administration	5/26/2015		M		L	
Employee Benefits Administration	9/7/2011	L			L	
Employee Attendance	8/2/2016		M		M	
Hiring/Termination of Employees	8/2/2016		M		L	

* Indicates the issuance date of an agreed-upon procedures report (AUP) for that area.

** Testing was limited to year end spending.

EASTERN SUFFOLK BOCES
Risk Assessment Table (Continued)
December 20, 2016

(L=Low, M=Moderate, H=High)

Business Process Area	Date of Detailed Testing *	Control Risk				Proposed Detailed Testing
		Prior Year		Current Year		
Purchasing and Related Expenditures						
PO System			M		M	
Payments Outside PO System			M		M	
Purchasing Process			M		M	
Allocation of Expenditures			M		M	
Payment Processing			M		M	
Travel and Conferences			M		M	
Credit Cards			M		M	
Facilities						
Facilities Maintenance	9/3/2010	L			L	
Construction Planning	9/3/2010	L			L	
Construction Monitoring	9/3/2010	L			L	
Construction Completion	9/3/2010	L			L	
Capital Assets						
Acquisition and Disposal	3/3/2014		M		L	
Inventory	3/3/2014		M		L	
School Environment						
Safety and Security			M		M	
Student Transportation						
Fleet Maintenance			M		M	
Risk Management			M		M	
Personnel Compliance			M		M	
Facilities Maintenance and Security			M		M	
Food Service						
Federal and State Reimbursement	9/7/2011	L			L	
Sales Cycle and System	9/7/2011	L			L	
Inventory and Purchases	9/7/2011	L			L	
Eligibility Verification	9/7/2011	L			L	
Extraclassroom Activity Funds						
General			M		M	
Cash and Cash Receipts			M		M	
Expenditures and Purchasing			M		M	
Inventories			M		M	
Student Related Data						
Tracking Student Attendance			M		M	
Student Performance Data			M		M	
Information System						
Governance			M		M	✓**
Network Security			M		M	
Financial Application Security			M		M	
Other Application Security			M		M	
Disaster Recovery			M		M	

* Indicates the issuance date of an agreed-upon procedures report (AUP) for that area.

** Review of financial operations at the RIC.

EASTERN SUFFOLK BOCES
Risk Assessment Update Report
December 20,2016

CURRENT OBSERVATIONS AND RECOMMENDATIONS

None noted.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (OPEN ITEMS)

There are no remaining open issues other than from the agreed-upon procedures report dated August 2, 2016, which will be followed-up on next year.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)

From the Risk Assessment report dated December 21, 2015:

Benefits Department

During our review we noted that the Benefits Department maintained individual employee files related to billings and collections of retiree shares of health benefits. The Department also maintained manual spreadsheets recording billing and payment details for retiree health care. The clerical work associated with this was substantial and may have been unnecessary.

With the transition to Wincap it was likely that these procedures were not necessary. The billing and payment details are recorded in Wincap and this information is available to the Benefits Department staff. In the infrequent case in which payments must be verified by reviewing copies of the checks, this information is available from the Business Office.

We recommended that a review of the procedures related to maintaining supporting documentation and the billing spreadsheet be performed to determine if efficiencies can be gained by eliminating some time consuming tasks.

Update December 2016 (This issue is now closed)

This has been implemented. The Benefits Department has eliminated the redundant procedures that were no longer necessary due to the use of Wincap. This has resulted in increased efficiency for the department.

From the Risk Assessment report dated November 26, 2014:

Transition Planning

There were several senior staff in administration and the Business Office who were retiring in a relatively short period of time. In order to help ensure a smooth transition it was important that work calendars, written procedures and notes be developed so that the successors had the benefit of the years of experience of retiring employees.

We recommended that BOCES analyze the retirements and develop a plan to document the roles and procedures of the staff involved.

EASTERN SUFFOLK BOCES
Risk Assessment Update Report
December 20,2016

Update November 2015

From all indications, the transition of several key roles was going very smoothly. Meetings took place on a regular basis to facilitate the transfer of knowledge from the incumbent to the replacement. However, the notes related to the transition were not formalized into written procedure documents.

We again recommended that written roles and procedures be developed during the transition period.

Update December 2016 (This issue is now closed)

Our understanding is that the transitions that have taken place and the ones currently in process have gone very well. Notes and documentation have been developed and the Director of Business Services will monitor these procedures to ensure they are reviewed and updated on a regular basis.

Significant Facilities and Equipment Activities

We recommended that BOCES develop regulations related to significant equipment acquisition and facility related activities. These regulations should be developed to help ensure that these significant decisions are authorized and documented at the appropriate level.

Update November 2015

We understood that this was under review.

Update December 2016 (This issue is now closed)

BOCES has implemented several procedures to help ensure that all significant year end spending decisions are reviewed and documented. There are quarterly reviews of all purchases over \$25,000 to ensure appropriate management personnel are aware of the activity. In addition, the Budget Transfer Form has been updated to better support the purpose of the transfer. Updated regulations are under development.

Documentation of Funding Sources for Budget Changes

We recommended that the documentation related to budget changes be improved, particularly when multiple funding sources are involved in a project or series of projects.

Update November 2015

We understood that this was under review.

Update December 2016 (This issue is now closed)

As noted above, the Budget Transfer Form has been updated to better support the purpose of the transfer and the funding sources.

