

**Eastern Suffolk BOCES**  
**Independent Accountant's Report On**  
**Applying Agreed-Upon Procedures**  
August 14, 2019

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**INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

Board of Education and Audit Committee  
Eastern Suffolk BOCES  
Patchogue, New York

We have performed the procedures described in the following pages, which were agreed to by the Board of Cooperative Educational Services First Supervisory District of Suffolk County (ESBOCES), on the administration of cash and Medicare reimbursement activities during the period of July 1, 2018 through March 31, 2019. We also performed a review for compliance with the Gramm-Leach-Bliley Act regarding security of student data.

ESBOCES' management is responsible for administering these areas.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of ESBOCES. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion on ESBOCES' administration of cash and Medicare reimbursement activities and compliance with the Graham-Leach-Bliley Act. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from ESBOCES' administration and other employees during our engagement.

This report is intended solely for the information and use of ESBOCES and is not intended to be and should not be used by anyone other than the specified parties.

*Cullen & Danowski, LLP*  
August 14, 2019

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**Introduction:**

This report is organized as follows, categorized by function (i.e., administration of cash, Medicare reimbursement activities and Gramm-Leach-Bliley Act), and there are five sections under each function consisting of:

- Background information
- Summary of the engagement
- Procedures performed during our detailed testwork
- Findings as a result of our review
- Recommendations to further strengthen internal controls or improve operational efficiency.

Some of the recommendations may require a reassignment of personnel duties within ESBOCES and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

**Corrective Action Plan:**

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

ESBOCES should submit the CAP along with the respective Internal Audit Report via the NYSED Portal.

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**CASH ACTIVITIES**

**Background:**

Good business practice requires that ESBOCES establish proper segregation of duties and adequate controls over the bank reconciliations and cash/investments management activities. These controls should ensure the completeness and accuracy of cash related transactions, wire transfers, investments and bank reconciliations.

The treasurer position is an important role at ESBOCES with many duties related to cash activities. The board in every school district is required to appoint a district treasurer as per Education Law (EL) § 2130. There are several other General Municipal Laws (GML), ELs and Commissioner Regulations (CR) related to the district treasurer position, including GML §10, GML §11, GML §39, EL §1720, EL §2122, EL §2123 and CR §170.2. We were engaged by ESBOCES to review the cash activities and the district treasurer function as it relates to procedures, internal controls and proper safeguards. The background section includes information about key activities involving the Treasurer, as described under the topics to follow.

ESBOCES Treasurer (Treasurer) has defined responsibilities that include liaison with the financial institutions, handling the check signing process for both payroll checks and disbursement checks, depositing funds received by ESBOCES, bank collateral reconciliations, managing investments for ESBOCES and reviewing monthly Treasurer Reports. ESBOCES utilizes the WinCap financial system (WinCap) to facilitate many of these key processes performed by the Treasurer.

**Bank Accounts**

There are proper procedures requiring all bank accounts to be approved by the Board. ESBOCES maintains their bank accounts with M&T Bank (M&T), the First National Bank of Long Island (FNBLI) and NYCLASS. The Accountant receives the bank statements and prepares monthly bank reconciliations, as outlined below.

**Bank Reconciliations**

Bank reconciliations are essential for maintaining proper control over cash. Bank reconciliations are formal schedules documenting or explaining the differences between the bank's record of cash accounts and ESBOCES accounting records. Proper bank reconciliations account for transactions not yet recorded by the bank and transactions processed by the bank that might not yet be recorded on ESBOCES' books. The Accountant prepares the bank reconciliations for all bank accounts each month. Bank statements are accessed online through M&T, FNBLI or NYCLASS, or the Accountant will wait to receive the bank statement in the mail. The bank reconciliation procedure includes a comparison of dates and amounts of daily deposits on the bank statement with the cash receipts log, review of bank transfers to determine if both sides of the transaction have been properly recorded and investigation of all outstanding checks more than 6 months old. The bank reconciliations are reviewed by the Senior Accountant and employees in the Business Office who are independent of cash activities.

**Check Signing Process**

The checks are prepared weekly for the Accounts Payable Department and bi-weekly for the Payroll Department. When the Accounts Payable Clerk or the Payroll Clerk are ready to process the checks in WinCap, the Treasurer must be present to enter their password into the system. WinCap has the Treasurer's signature in the system, when her password is entered, her signature is automatically printed on all checks being run. A copy of the warrant is printed and given to the claims auditor. The claims auditor will review and sign-off, documenting approval of all of the claims. The Claims Auditor keeps inventory of all check

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numbers to verify no skip in sequence. A report is provided monthly to the Board listing any exceptions noted during the review of claims. Once approved by the Claims Auditor, the checks are mailed out by the Accounts Payable Clerks.

*Unclaimed Checks - Accounts Payable and Payroll*

There are procedures to review and investigate any unclaimed checks that have been outstanding for more than 6 months. ESBOCES attempts to contact the payee to discuss the outstanding check. If there is no response from the payee after a reasonable amount of time has passed, the check is cancelled at the bank and voided in WinCap. The Senior Accountant reviews outstanding checks each month when reviewing the bank reconciliation.

*Wire Transfers/ACH Debits*

The procedures over wire transfers and ACH debits have proper internal controls including the requirement of two employees to be involved in each transaction. The wire transfers include payroll and non-payroll related transfers such as dental, OMNI, credit unions as well as flex spending. The ACH debits include payroll and non-payroll transactions such as payroll taxes, sales taxes and ERS (employee retirement system). The clerks in the Payroll or Accounting Departments will complete the wire transfer form and submit the form to the Treasurer for review and approval (in addition to any internally required approvals).

*Investments*

ESBOCES has *Board Policy #4210 - Investments* that includes language covering the delegation of authority, prudence, internal controls, designation of depositories, collateralization of deposits and permitted investments. Currently, ESBOCES has designated accounts that relate to investments, which are money market accounts with M&T and FNBLI, as well as the NYCLASS Investment Fund. All of ESBOCES receipts are transferred into these accounts to maximize the amount of interest income earned from the available funds in these accounts. The Senior Accountant transfers funds from these accounts to the operating account to cover various payments daily. This includes expenditures related to payroll, warrants (disbursements) and debt instruments. The Treasurer participates in webinars and attends treasurer workshops related to investing opportunities. In addition, the Treasurer periodically investigates other banks and financial institutions to monitor the investment opportunities. We understand that the interest rates with M&T, FNBLI or NYCLASS are competitive, therefore ESBOCES has continued to use these accounts for investment purposes.

*Treasurer Reports*

The Accountant prepares a monthly Treasurer's Report after completing the bank reconciliations. This report is a recap of the information on the monthly bank reconciliations and is submitted to the Board monthly. The Treasurer's Report is reviewed by the Senior Accountant and an employee in the Business Office, who is independent of the cash activities. The Treasurer then reviews and signs the Treasurer's Report prior to going to the Board members as part of the Board meeting packet.

**Summary:**

We found that ESBOCES has strong internal controls, proper segregation of duties and formal procedures related to bank reconciliations and cash/investments management activities. Based on the results of our interviews, testing of transactions and reviews of documentation, we found that these activities are handled, recorded and

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approved timely, accurately and appropriately. We have noted that there are opportunities for improvements as a result of our fieldwork and these items are included in the findings section below.

**Procedures:**

Our procedures related to cash activities, as per the engagement letter dated January 28, 2019, were as follows:

- Interview appropriate personnel regarding internal controls and procedures related to all types of cash transactions. Document the various systems and identify key internal control attributes for testing.
- Select 2 months for each cash account for testing and perform the following:
  - Obtain a detailed general ledger activity report for the period and trace all entries to supporting documentation or the financial sub-system that generated the entry. For entries that are not generated from the financial system, we will identify the person processing the entry and consider the internal control ramifications.
  - Audit the bank reconciliations for each account and trace reconciling items to the subsequent monthly bank statements or general ledger as appropriate.
- Compare balances in the treasurer's report for the 2 months selected to the general ledger and obtain explanations for any variance.
- Review investment activity to determine if ESBOCES is in compliance with policy and to determine if the district is effectively investing available funds to maximize the return on investment.
- Review security access controls in the financial system relative to the cash accounts to ensure appropriate levels of access are provided.

**Findings:**

Interviews with appropriate personnel related to all types of cash transactions noted:

- There are standard procedures to prepare the monthly bank reconciliations timely and accurately. In addition, the Accountant has formal procedures related to key processes performed in this role.
- ESBOCES has Board policies related to cash/investment management activities including *Policy #1314 - Duties of the Treasurer, Policy #4210 - Investments* and *Policy #4222 - Financial Accountability*.

Review of each cash account, general ledger activity reports, bank reconciliations and the Treasurer's Reports in the 2 months selected for testing found:

- There are procedures to have other employees in the Business Office review the bank reconciliations prepared by the Accountant and sign-off on the documentation.
- ESBOCES practice related to outstanding checks is for the Senior Accountant to investigate and resolve items outstanding over 6 months.
- There is opportunity for improvement related to the Treasurer's Report, since we found that the current version contains a significant amount of detail rather than providing more of a summary in a clear and concise format that would be easier for the Board to follow and review.
- The bank reconciliations are prepared by the Accountant and then reviewed by Senior Accountant. This process could be improved by having the Treasurer review and approve the bank reconciliations instead of the Senior Accountant. The Principal Accountant and School Finance Manager review the bank reconciliations as part of their monthly and quarterly general ledger reviews.

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- The bank reconciliations were inappropriately labeled "Treasurer Reports" instead of being properly titled as "Bank Reconciliations". In addition, ES BOCES should ensure that there is adequate detailed support to clearly match the amounts listed on the bank reconciliations.

Comparison of the balances in the treasurer's report for the 2 months selected to the general ledger noted:

- The Payroll and General Fund Checking account balances reported on the Treasurer's Report do not agree to the bank reconciliations and the cash accounts in the general ledger for the month when there are adjustments for unreleased accounts payable checks and timing of payroll transactions. We note that ESBOCES' practice related to Treasurer Reporting presentations has been to add back checks that have not been released to the cash balances and to reconcile these amounts to the general ledger. We found that these revised balances on the Treasurer's Report resulted in different amounts per the bank reconciliations and the cash accounts in the financial records; however, it should be noted that these were temporary timing differences. Also, the Treasurer's Report includes transfers between accounts, but the preferred format is to include the receipts and disbursements totals to reflect only those with outside entities and to show internal transfers in the aggregate amount for simplicity purposes.

Review of investment activity to determine if ESBOCES is in compliance with the policy and to determine if ESBOCES is maximizing the amount of interest earned on cash balances found:

- ESBOCES has *Board Policy #4210 - Investments* in place as required by Education Law, General Municipal Law and Local Finance Law. In accordance with this policy:
  - There are objectives based on specific criteria as noted in the policy and the authority to deposit and invest funds in eligible investments as listed in the policy.
- The investment bank statements appear appropriate with no unusual or unsupported activities. Further review noted that the Accountant properly includes these accounts in the monthly Treasurer's Report.
- Review of the general ledger activity related to the investment accounts found that the Accountant posted the receipts and transfers to the operating accounts accurately and timely.

Review of security access controls in the WinCap financial system relative to the cash accounts, to help ensure appropriate levels of access are provided, noted:

- Review of the WinCap system administrator's user permissions found that the setup is appropriate. We noted that only the system administrators have permissions to add user accounts. The system administrators are employees in the Technology Integration Department.
- The Business Office works with the Human Resources Department (HR) to determine if any new hires need access to WinCap and if so, determines the permissions to be granted based on their job duties. There are formal procedures and standard forms related to the submission of user account changes to the system administrator in the Technology Integration Department.
- The WinCap user accounts that have access to cash accounts and cash related activities were appropriate based on the user's role at ESBOCES.

**Recommendations:**

We recommend ESBOCES consider implementing the following items to further improve internal controls and operational efficiencies related to cash activities:

1. Revise the Treasurer's Report that is provided to the Board by creating a simplified version resulting in a format that is more clear and concise to read than the current version. This would include listing the

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receipts and disbursements totals to reflect only those with outside entities and to show the internal transfers in the aggregate amount. We provided a sample report based on revisions to ESBOCES Treasurer's Report from November 2018.

2. Revise the reporting methodology to ensure that the Treasurer's Report submitted to the Board agrees to the monthly bank reconciliations and the cash accounts in the general ledger; instead of adjusting the Treasurer's Report for miscellaneous timing differences. This would provide a more consistent Treasurer's Report that correctly reflects ESBOCES financial records.
3. Streamline the bank reconciliation process so that the bank reconciliations prepared by the Accountant are reviewed and signed by the Treasurer. This would reduce the number of Business Office employees reviewing the bank reconciliations.
4. Rename all bank reconciliations as "Bank Reconciliations" instead of "Treasurer Reports" and ensure there is adequate detailed support that clearly matches the amounts listed on the bank reconciliations.
5. Develop procedures to assign the process of reviewing and addressing outstanding checks of 6 months or older to the Treasurer.

**MEDICARE REIMBURSEMENT ACTIVITIES**

**Background:**

We were engaged by ESBOCES to review the processes related to Medicare reimbursement activities. The retirees or their surviving spouses are entitled to receive reimbursements based on their costs for Medicare Part B as per their *Form SSA-1099 Social Security Benefit Statement*. There are 2 full-time employees in the Benefits Department with responsibilities related to Medicare reimbursement activities including income-related monthly adjustment amounts (IRMAA). IRMAA is an additional amount that some individuals might have to pay along with their Medicare premium if their modified adjusted gross income is higher than a certain threshold. IRMAA only applies to individuals who are enrolled in Medicare Part B. ESBOCES processes the Medicare reimbursements quarterly and the IRMAA payments are processed annually during May, which is exclusive of the retirees' standard Medicare Part B reimbursement. The Benefits Department processes the cost of living adjustments (COLA) as part of the quarterly Medicare Part B reimbursements after receiving the required social security records from the retirees. This can take place throughout the year related to the applicable calendar year amounts.

**Summary:**

We found that ESBOCES has proper segregation of duties and formal procedures related to Medicare reimbursement activities. Based on the results of our interviews, testing of transactions and reviews of documentation, we found that these activities are handled, recorded and approved timely, accurately and appropriately.

**Procedures:**

Our procedures related to Medicare reimbursements, as per the engagement letter dated January 28, 2019, were as follows:

- Review Board policies and ESBOCES procedures related to the Medicare reimbursements.
- Interview appropriate staff regarding procedures in place and identify key controls.



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- Compare amounts paid to individuals for the past 3 reimbursements and review supporting documentation for changes in individuals and amounts paid.
- Select 50 payments from the most recent reimbursement and review supporting documentation for the amounts paid.

**Findings:**

Review of Board policies and ESBOCES procedures and interviews with appropriate personnel related to Medicare reimbursements noted:

- ESBOCES has standard procedures related to the handling, filing and processing of payments for Medicare reimbursements paid to retirees or their surviving spouses.
- There are approximately 1,400 individuals who receive Medicare reimbursements each quarter and approximately 500 individuals who receive IRMAA payments annually during May that covers the previous calendar year (e.g., May 2019 payments were based on the 2018 calendar year).
- The Benefits Department prepares a detailed reconciliation during each quarterly Medicare reimbursement that includes a comparison of the WinCap Enrollment Listing Report, which is downloaded into Excel and compared to the Benefits Department's Excel file listing of all enrollees, exclusive of the IRMAA group. There is a separate IRMAA listing for those individuals. The Benefits Department sends a memo in January each year to all Medicare recipients to inform the retirees about IRMAA. The retiree needs to reply no later than April 1<sup>st</sup> with the proper supporting documentation (i.e., *Form SSA-1099 Social Security Benefit Statement*). One Benefits Clerk enters all of the updates to the starting list based on the prior ending list and the other Benefits Clerk reviews to ensure the accuracy of the WinCap Enrollee Listing. After completing this review, the Benefits Department sets up a schedule and warrant to process the Medicare reimbursements.
- The HR Department provides the yearly Medicare reimbursement rates to the Benefits Department. During the past 2 years, the rate increases have been based on COLA for certain enrollees as per their payments towards Medicare Part B. The Payroll Administrator enters the rates into WinCap and the Benefits Department enters the rates into the Excel listing of enrollees.
- The Claims Auditor has recently started a practice to randomly select 25 enrollees who are included in the warrant listing all of the Medicare reimbursements and requests the supporting documentation from the Benefits Department. This is now part of the Claims Auditor's process related to the quarterly review of the Medicare reimbursements.

Comparison of amounts paid to individuals for the past 3 reimbursements and review of the supporting documentation for changes in individuals and amounts paid found:

- There were no errors or exceptions as the amounts paid to individuals agreed to the supporting documentation.

Selection of 50 payments from the most recent reimbursement and review of the supporting documentation for the amounts paid noted:

- The Benefits Department processes Medicare Part B reimbursements quarterly and an additional IRMAA reimbursement for retirees related to each calendar year. This results in a significant amount of administrative work including maintaining more records (e.g., Social Security Administration Benefits Letters), performing 5 reconciliations annually and processing over 6,000 payments. There is an extensive amount of work to track, monitor and reconcile these activities each quarter.

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- There were over 50% of the reimbursements paid to retirees in the form of checks compared to ACH payments.
- There were instances when the spouse information was included in the employee fields of the WinCap financial system and other instances when the spouse information was not included in the employee fields.

**Recommendations:**

We recommend ESBOCES consider implementing the following items to further improve internal controls and operational efficiencies related to Medicare reimbursement activities:

1. Consider processing Medicare Part B reimbursements annually after the retirees have provided their *Form SSA-1099 Social Security Benefit Statement* showing the amount of premiums deducted from the retiree's benefits for the calendar year. This would significantly reduce the administrative work that currently exists with processing quarterly reimbursements and a separate IRMAA reimbursement. The Benefits Department should continue to monitor this list of retirees quarterly or monthly based on changes from the HR Department to facilitate the annual reimbursement by having an eligibility list at the time the annual payment would be processed in March or April. The process would be simplified by using the Medicare Part B deductions amount from the *Form SSA-1099 Social Security Benefit Statement* to support the reimbursement amount. The number of payments would be reduced from over 6,100 covering 5 warrants to approximately 1,400 on 1 warrant. Since ESBOCES has already processed the reimbursements for the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2019, we recommend processing a final 2019 payment during March or April 2020 for the remainder of the 2019 calendar year based on the *Form SSA-1099 Social Security Benefit Statement* to support the reimbursement amount. We suggest moving to an annual process for the 2020 year to be paid in March or April 2021.
2. Determine ways to increase the number of Medicare reimbursements paid to retirees in the form of ACH payments to reduce the volume of checks, which represent over 50% of these transactions.
3. Develop consistent practices to include the spouse information in the employee fields of the WinCap financial system.

**GRAMM-LEACH-BLILEY ACT**

**Background:**

We were engaged by ESBOCES to perform procedures related to the Gramm-Leach-Bliley Act (GLBA). The GLBA is a federal law enacted in the United States to control the ways that financial institutions deal with the private information of individuals and is also known as the Financial Modernization Act of 1999. The GLBA consists of three sections: (1) the Financial Privacy Rule that regulates the collection and disclosure of private financial information, (2) the Safeguards Rule that stipulates that financial institutions must implement security programs to protect such information and (3) the Pretexting provisions that prohibit the practice of pretexting (accessing private information using false pretenses). The GLBA also requires financial institutions to give customers written privacy notices that explain their information-sharing practices.

The GLBA is still under review to determine the specifics related to the compliance to GLBA's under federal grants. In preparing ESBOCES for the upcoming GLBA, we researched information pertaining to the GLBA and discussed this matter with ESBOCES personnel responsible for ensuring that ESBOCES is aware of these potential requirements.

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**Summary:**

We found that the administrators and staff in the Technology Integration Department and the Career, Technical and Adult Education Division are very engaged and understand the need to have formal procedures in place for compliance with the GLBA. The results of our procedures are outlined in the findings and recommendations sections below.

**Procedures:**

Our procedures related to the GLBA, as per the engagement letter dated January 28, 2019, were as follows:

- Review policies and procedures related to access to student data.
- Interview ESBOCES staff to determine applications which utilize student related data. Assist ESBOCES to determine the existing processes and procedures to limit the data contained in each application and control access to only authorized and appropriate staff.
- Perform testing and reconciliations of data to help determine if significant control activities are functioning as designed.

**Findings:**

Review of policies and procedures related to access to student data noted:

- ESBOCES has formal procedures and Board policies including *Administrative Computer Network Security and Disaster Recovery - #4590* to properly restrict access to student data and to safeguard this sensitive data. This includes assigning only a limited number of designated employees to have access to student data based on their job duties. Also, the student data is maintained in programs that are restricted via user accounts and permissions.
- There are protocols in place that address NYSED Education Law (EL)-2D related to the protection of Personally Identifiable Information (PII). ESBOCES requires all vendors each year to provide an attestation that any PII is appropriately protected as per EL-2D. This covers contracts with software providers including the student registration system (Xenegrade) and the student management system (NexGen) where the vendor must provide this information within the contract documentation.

Interviews with ESBOCES staff to determine applications which utilize student related data found:

- The interviews with the administrators and employees noted that Xenegrade utilizes student related data for the Adult Education programs. The Financial Aid Office within the Career, Technical and Adult Education Division uses Xenegrade to facilitate the adult education registrations. One of the criteria regarding the GLBA is that the organization is considered a financial institution that maintains student related data. Since ESBOCES has Title IV funding, particularly with the nursing programs, the organization could be deemed a financial institution subject to the GLBA.
- There are formal procedures including standard forms regarding changes to user accounts and permissions associated with the financial system (WinCap), NexGen and ESBOCES network. However, we found that there are informal procedures (emails) related to system administration user accounts and permissions related to the Xenegrade used by the Adult Education program.
- ESBOCES is in the process of developing the *Information Security Program - Risk Assessment Plan, Security Risk Assessment and Risk Assessment Summary* document that will create formal, written procedures as required per the GLBA. The goal is to complete this extensive initiative during the first quarter of the 2019-20 year.

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- ESBOCES personnel is aware of the GLBA's three sections: (1) Financial Privacy Rule, (2) Safeguards Rule and (3) Pretexting provisions and plans to ensure that the proper protocols are in place to address each of these sections when the GLBA requirements are finalized, presumably in the near future.

Performing tests and reconciliations of data noted:

- The significant control activities are functioning as designed related to student data.

**Recommendations:**

We recommend ESBOCES consider implementing the following items to further improve internal controls and operational efficiencies related to compliance with the GLBA:

1. Establish formal procedures and a standard form regarding changes to user accounts and permissions related to Xenegrade, similar to the process for user accounts and permissions associated with WinCap, NexGen and ESBOCES network access.
2. Complete the *Information Security Program - Risk Assessment Plan, Security Risk Assessment and Risk Assessment Summary* to create formal, written procedures as required per GLBA.