

Eastern Suffolk BOCES
Risk Assessment Update Report
November 30, 2018

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 (ESBOCES) as required by Chapter 263 of the Laws of New York, 2005 and as per our agreement of July 1, 2018.

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:

- Reviewed our understanding of the critical business processes of ESBOCES. 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
- Identified the key risks based on our understanding of these business processes.
- Identified the stated controls that are currently in place to address those risks.

These procedures were accomplished through interviewing ESBOCES 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 ESBOCES, 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 ESBOCES' 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 ESBOCES, and is not intended to be and should not be used by anyone other than these specified parties.

Cullen & Danowski, LLP
November 30, 2018

EASTERN SUFFOLK BOCES

Introduction

November 30, 2018

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 ESBOCES 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 and BOCES. 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, ESBOCES 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 ESBOCES.
- 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 ESBOCES, 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 ESBOCES. 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)
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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 ESBOCES' 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 ESBOCES' internal controls or operations included in the following reports:

<i>Report Type</i>	<i>Issue Date</i>	<i>Area(s)</i>
Risk Assessment	December 8, 2017	ESBOCES-wide
Agreed-Upon Procedures	August 4, 2017	Financial Operations of the Regional Information Center

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.

ESBOCES should submit the Corrective Action Plan (CAP) along with the respective Internal Audit Report via the New York State Education Department Portal.

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Risk Assessment Table
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(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	** 5/26/2015		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	L		
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	8/8/2018		M		M	✓ ****
Employee Attendance	8/2/2016		M		M	
Hiring/Separation 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.

*** Review compliance with the Graham Leach Bliley Act.

**** Review of Medicare Reimbursements.

EASTERN SUFFOLK BOCES
Risk Assessment Table (Continued)
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(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	8/8/2018		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						
Regional Information Center (RIC)	** 8/4/2017		M		L	
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 Regional Information Center (RIC).

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CURRENT OBSERVATIONS AND RECOMMENDATIONS

None noted.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (OPEN ITEMS)

PAYROLL, HUMAN RESOURCES AND RELATED BENEFITS

New Hires – Maintain Employee Records Electronically

Agreed-Upon Procedures – 2016

We recommended that ESBOCES consider using software to maintain employee records electronically to enhance operational efficiency.

Risk Assessment Update – 2017

We noted that the Human Resources (HR) Department and Management Services were in the process of reviewing software solutions that automate the on-boarding (hiring) procedure, support electronic file retention and generate the personnel agenda for the Board meetings. We understood that the draft of the proposed budget for the fiscal 2018-19 year would include funding for the purchase of this type of software or program.

Risk Assessment Update – 2018

We note that HR Department has chosen a web-based program (SchoolFront) to facilitate the hiring process through automation and ESBOCES is currently negotiating the final terms and conditions of the agreement. We understand that SchoolFront integrates with the WinCap financial system. The goal is to begin using this program during the 2018-19 fiscal year and the plan is to start with the new hiring process related posting, advertising and recruitment of potential candidates in the Special Education Division as the pilot group.

New Hires – Background Summary Checklist

Agreed-Upon Procedures – 2016

We recommended that ESBOCES determine if the Background Summary Checklist should be included in the employee folder, since this provided details related to the background procedures performed by the clerks in the HR Department, or should be destroyed along with the *Background Check Report* due to privacy reasons.

Risk Assessment Update – 2017

We noted that the HR Department and Management Services were in the process of reviewing software solutions that automate the hiring procedure, generate the personnel agenda and support electronic file retention. The Background Summary Checklist had been used as evidence that internal procedures were followed.

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Risk Assessment Update – 2018

We understand that ESBOCES plans to address this item in conjunction with the implementation of software (SchoolFront) as noted in the previous comment. The HR Department currently uses the Background Summary Checklist as part of the hiring process and files the checklist in the respective employee's personnel folder. ESBOCES plans to make a determination about this checklist after making a decision related to a software solution.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)

PAYROLL, HUMAN RESOURCES AND RELATED BENEFITS

Staff Attendance – Require All Employees to Sign-In and Sign-Out Daily

Agreed-Upon Procedures – 2016

We recommended that ESBOCES establish procedures to require all employees to sign-in and sign-out at each location daily. This should strengthen the attendance process, create consistent practices for all staff and provide additional documentation to enhance an attendance reconciliation process. The Attendance Clerks would be able to compare the daily sign-in/out sheets to the WinCap Daily Absence Report for all employees resulting in a complete reconciliation.

Risk Assessment Update – 2017

We noted that ESBOCES had determined that this recommendation requires negotiations with bargaining units whose membership is affected. We understood that the senior management would develop proposals during the upcoming contract negotiations to address procedures for staff attendance at that time.

Risk Assessment Update – 2018 (This issue is now closed)

We have been informed that ESBOCES has presented this item to the bargaining units where the respective employees are not required to sign-in and sign-out at each location daily (e.g., administrators, clerical, custodial staff, etc.), but have determined that this requirement is not significant enough to request inclusion in these contracts. We also understand that the administrators do not believe that staff attendance for these employees is a problem, since there are procedures to monitor and supervise these activities.

New Hires – Use of Software for Board Agenda and Minutes

Agreed-Upon Procedures – 2016

We recommended that ESBOCES investigate the use of a program or software product (e.g., BoardDocs, eBOARDsolutions, BoardPaq, etc.) to facilitate the preparation, distribution and retention of Board agendas and minutes.

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Risk Assessment Update Report (Continued)
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Risk Assessment Update – 2017

We understood that ESBOCES was considering the WinCap Personnel Agenda module, which the HR Department would run parallel with the current manual process during the 2017-18 year. The goal was to begin using the WinCap Personnel Agenda module in July 2018, if the results were positive.

Risk Assessment Update – 2018 (This item is now closed)

We found that ESBOCES has implemented the WinCap Personnel Agenda module and the HR Department is using this module to generate the HR section of the agenda related to the Board meetings.

INFORMATION SYSTEM

Administrative Fee Calculations – Regional Information Center (RIC)

Agreed-Upon Procedures – 2017

We recommended that the RIC analyze the financial and district services fees to address the outliers related to the administrative fee discounts offered by the RIC, similar to technical services and acquisitions services.

Risk Assessment Update – 2018 (This item is now closed)

We note that the administrative fee structure was reviewed and changes have been implemented for the 2018-19 school year to address the anomalies in the financial and district services fees.

Overtime Procedures – RIC

Agreed-Upon Procedures – 2017

We recommended that the RIC improve the overtime process by requiring the employees to enter the reason or description into the note field when posting their hours in WinCap and having the administrator verify that the note field has been completed during the approval process. We also recommended that ESBOCES determine if the note section of WinCap could be changed to a required field before the employee can submit the overtime.

Risk Assessment Update – 2018 (This item is now closed)

We found that Business Services communicated to all of the ESBOCES administrators the need to have the notes field completed by the respective employees' to document the reason for working overtime. In addition, ESBOCES developed procedures to require the administrators and the Payroll Department staff to review for compliance.

Detailed Billing – RIC

Agreed-Upon Procedures – 2017

We recommended that the RIC improve the district billing process by including the administrative fees charged by ESBOCES as a separate line item when applicable on the invoices sent to the districts. This would provide more transparency and an appropriate breakdown of the charges when reviewing and verifying the accuracy of the invoices.

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Risk Assessment Update – 2018 (This item is now closed)

We note that this has been implemented as the administrative fees charged by ESBOCES are being clearly listed on the invoices sent to the districts.

Reconcile Proposals and Annual Agreements – RIC

Agreed-Upon Procedures – 2017

We recommended that the RIC develop procedures to review and reconcile the district commitments, vendor proposals, services and fees. Develop a process to ensure that the annualized QuickBooks Billing Request Form amounts will not exceed the contract amounts for all annual agreements with the districts. We recommended that this procedure be performed early in the fiscal year and during the fiscal year based on any contract revisions. This would provide advanced notice regarding any potential significant variances between the contract amount and the projected actual amount. If necessary, the respective RIC administrator should promptly contact the district to discuss the matter.

Risk Assessment Update – 2018 (This item is now closed)

We found that the RIC has implemented procedures to monitor billings and commitments to ensure that billings to the districts are complete and accurate compared to the commitments received from the districts.

Tracking Asset Location – RIC

Agreed-Upon Procedures – 2017

We recommended that the RIC establish procedures to ensure that the ESBOCES asset database correctly reflects the location of the RIC assets with the proper room location or the program area if the asset is transient within the program.

Risk Assessment Update – 2018 (This item is now closed)

We note that the staff have been advised to record the new location of assets as the movement takes place. The results of the annual physical inventory performed by the Capital Asset Management staff in coordination with the RIC staff has resulted in minimal errors related to the location of assets. After the upcoming relocations of many departments, ESBOCES expects that the data related to the physical inventory locations will be very accurate.

Stamp Invoice upon Receipt – RIC

Agreed-Upon Procedures – 2017

We recommended that ESBOCES establish procedures to ensure that all vendor invoices are stamped by the Accounts Payable Department upon receipt of these records.

Risk Assessment Update – 2018 (This item is now closed)

We found that ESBOCES has established procedures to have the Accounts Payable Department staff date stamp all of the vendor invoices upon receipt.

