Eastern Suffolk BOCES

Risk Assessment Update Report

January 19, 2022

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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, 2021.

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.

- 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

January 19, 2022

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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. 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.

We have organized this report into the following two 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 of this report consists of any changes from the prior year risk assessment related to key policies, procedures and/or controls of the functions we reviewed. Also included in this section are any new recommendations and the status of any prior year recommendations (note that this text is in *italics*), for areas of potential improvement in the ESBOCES' internal controls or operations. The status of prior year recommendations from the following reports were addressed in this year's risk assessment:

Report Type	*Issue Date*	*Area(s)*
Risk Assessment	January 20, 2021	ESBOCES-wide
Agreed-Upon Procedures	N/A	Due to the pandemic, there was no Agreed-Upon Procedures engagement during the 2020 year.

The changes and recommendations have been 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 ESBOCES personnel. 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.

EASTERN SUFFOLK BOCES
Risk Assessment Table
January 19, 2022

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

Business Process Area	Date of Detailed Testing *	Control Risk Prior Year	Control Risk Current Year	Proposed Detailed Testing
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	05/26/15	L	L	
Auditing		L	L	
Financial Oversight		L	L	
Fund Balance Management	09/10/12	L	M	
Revenue and Cash Management				
Real Property Tax		N/A	N/A	
State Aid		M	M	
Medicaid	03/03/14	L	M	
Out of District Tuition		L	L	
Use of Facilities		M	M	
Donations		M	M	
Collection & Posting of Receipts	08/02/16	L	L	
Cash Management	08/14/19	L	L	
Investment Management	08/14/19	L	L	
Bank Reconciliations	08/14/19	L	L	
Petty Cash		M	M	
Grants				
General Processing/Monitoring	09/10/12	L	M	
Grant Application	09/10/12	L	M	
Allowable Costs	09/10/12	L	M	
Cash Management	09/10/12	L	M	
Reporting and Monitoring	09/10/12	L	M	
Compliance	09/10/12	L	M	
Graham Leach Bliley Act - Compliance	08/14/19	L	L	
Special Education ***		M	M	✓
Career, Technical and Adult Education		M	M	
Educational Support Services		M	M	
Payroll, HR and Related Benefits				
Payments to Employees	08/25/21	L	M	
Allocation of Expenditures	08/25/21	L	M	
Employee Benefits Administration	08/08/18	L	L	
Benefits - Medicare Reimbursements	08/14/19	M	L	
General Employee Administration	05/26/15	L	L	
Employee Attendance	08/02/16	L	L	
Hiring/Separation of Employees	08/02/16	L	L	
Overtime		M	M	✓

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

**   Testing was limited to year end spending.

***   Review of financial operations of the Special Education Division including itinerant services.

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

Business Process Area	Date of Detailed Testing *	Control Risk — Prior Year		Control Risk — Current Year		Proposed Detailed Testing
Purchasing and Related Expenditures						
PO System			M		M	
Payments Outside PO System			M		M	
Purchasing Process			M		M	
Purchasing Process - Contracts	08/25/21		M		M	
Allocation of Expenditures			M		M	
Payment Processing			M		M	
Travel and Conferences			M		M	
Credit Cards			M		M	
Facilities						
Facilities Maintenance	09/03/10		M		M	
Construction Planning	09/03/10		M		M	
Construction Monitoring	09/03/10		M		M	
Construction Completion	09/03/10		M		M	
Capital Assets and Inventory						
Acquisition and Disposal	03/03/14	L			M	
Inventory	03/03/14	L			M	
School Environment						
Safety and Security	08/08/18		M		M	
Student Transportation						
Fleet Maintenance	08/25/21		M		M	
Risk Management	08/25/21		M		M	
Personnel Compliance	08/25/21		M		M	
Facilities Maintenance and Security	08/25/21		M		M	
Food Service						
Federal and State Reimbursement	09/07/11		M		M	
Sales Cycle and System	09/07/11		M		M	
Inventory and Purchases	09/07/11		M		M	
Eligibility Verification	09/07/11		M		M	
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) **	08/04/17	L		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).

KEY CHANGES FROM THE PRIOR YEAR'S RISK ASSESSMENT RELATED TO POLICIES, PROCEDURES AND/OR CONTROLS

Governance and Planning

- Based on our interviews, ESBOCES has maintained proper internal controls and oversight including the review and approvals of transactions related to financial activities since the start of the COVID-19 pandemic.

- The Board and ESBOCES have been active with their ongoing review of the Board policies, which includes revisions to existing policies and creating new policies (e.g., #2170 - Extraordinary Circumstances; #4591 - Data Security and Privacy; #4534 - Safety Plans and #5124 - Equity, Inclusivity, and Diversity in Education).

- ESBOCES revised and created new standard forms including #8004F.28 Fitness For Duty Certification Form – Coronavirus and #8004F.30 through #8004F.33 related to emergency leaves of absence.

- There were Board member changes and several staff changes at ESBOCES that include the Assistant Superintendent for Human Resources and various positions in the Payroll, Human Resources, Purchasing and Facilities Departments.

- The Diversity, Equity and Inclusivity program was set up during the 2020-21 year with a Director and there has been progress including the hiring of employees for this program plus providing services to component districts in the 2021-22 year.

- The Board and ESBOCES have completed the initiative to review the language in all of the Cooperative Services (CoSers).

Accounting and Reporting

- The Business Office has revised the accounting of the funds in compliance with the new Governmental Accounting Standards Board (GASB) Statement No. 84 related to Fiduciary Activities. The objective of the GASB 84 Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

- ESBOCES enhanced the oversight of the disbursements related to extraclassroom activities by having the Claims Auditor review and approve these transactions.

Revenue and Cash Management

- ESBOCES has strengthened the cash receipts procedures by requiring all funds to be deposited within 10 business days of being received.

Grants and Special Education

- ESBOCES has enhanced the Outreach Program by securing additional funding related to the McKinney-Vento homeless grant for several component school districts.

Payroll, Human Resources and Related Benefits

- There were several staff changes in payroll and human resources, as noted above, that includes the Payroll Supervisor (previous title was Payroll Manager), payroll clerks, Associate Administrator (previous title was Assistant to the Assistant Superintendent for Human Resources) and human resources clerks.

- The Human Resources Department has begun to utilize a web-based program, SchoolFront, to facilitate the recruitment and on-boarding processes, as noted in the recommendations.

- The ACH file created in the Payroll Department and submitted to the bank now includes Teachers Federal Credit Union (TFCU) deductions. In the past, the payroll department needed to create and submit two separate reports to the banks: 1 for TFCU deductions and 1 for ACH/Direct Deposit/PosiPay. ESBOCES worked with representatives from WinCap to streamline this process by including both of these reports in the same file.

- ESBOCES communications related to memos to the employees from the Human Resources Department and Business Office have been revised by sending the memos electronically to the employees' ESBOCES email accounts rather than hard copy documents via ESBOCES interoffice mail.

Purchasing and Related Expenditures

- The Purchasing Department has revised the procedure for submitting purchase order change forms by requiring the requisitioners to send these forms electronically instead of sending hard copies of the forms via interoffice mail.

Facilities

- The Facilities Department has developed formal protocols and detailed checklists related to the cleaning procedures in compliance with the CDC and state guidelines.

- The Facilities Department continued with the replacements of HVAC units that consisted of replacing several units during the past year and the remaining HVAC units to be replaced within the next couple of years.

- ESBOCES purchased 8 new Ford Transit vans with enhanced safety features as part of the replacement cycle related to the Facilities Department vehicles.

Capital Assets and Inventory

- ESBOCES has centralized deliveries of information technology related capital assets and inventory to receive large orders of technology purchases at the Armory Building. This has facilitated the receiving process for this type of inventory by allowing the Capital Asset Management (CAM) team to affix an ESBOCES tag on the item prior to distributing the items to the designated location.

School Environment – Safety and Security

- ESBOCES continues to ensure that the agency complies with the pandemic mandates and CDC guidelines, which includes protocols to track, manage and report any potential positive cases during the year.

- The operations of the surveillance cameras included the replacement of older or malfunctioning devices.

Student Transportation

- ESBOCES is in the process of investigating school bus routing software programs to enhance efficiencies related to the operations of the Transportation Department.

Food Services

- The Food Service program provided grab and go meals that were delivered during the 2020-21 year and this has been changed during the 2021-22 year to provide meals in the schools with grab and go meals being delivered only for remote students who are part of the eLearning curriculum.

- Starting summer 2021 the Food Service provider (Whitsons) has started providing food service operations. Previously, the summer food service program was being handled by ESBOCES with assistance from Food Harvest.

- ESBOCES continues with the Free Meals for Kids program that has been extended by the United States Department of Agriculture through June 2022.

Extraclassroom Activity Funds

- ESBOCES has revised the procedures related to the extraclassroom activity funds by having the Claims Auditor review and approve the disbursements, as noted above.

Student Related Data

- ESBOCES had a SOC (Service Organization Control) audit of the Regional Information Center (RIC) and the report provided detailed information and assurance about the agency's security, availability, processing integrity, confidentiality, and/or privacy controls related to student data and compliance with Ed Law 2d.

Information Technology

- There was an upgrade to the wireless internet protocols that included an enhancement of the encryption on the network by setting up an encrypted password that is inaccessible on the devices (i.e., laptops, iPads, Chromebooks, etc.).

- ESBOCES has enhanced the firewall protection by adding the DNS (domain name system) security module to this program.

- The Technology Integration Department selected a vendor to provide Multi-factor authentication (MFA) for additional protection with accessing ESBOCES programs remotely (e.g., VPN, email, etc.).

- ESBOCES engaged a third-party to perform a penetration test along with a vulnerability test involving outward facing ports to enhance cyber security. ESBOCES plans to perform this testing periodically going forward.

- ESBOCES is using a web-based training program, GCN (Global Compliance Network) for the required sexual harassment training and expanded the use of GCN for Digital Security & Protection and Student Data Privacy training that started in the 2021-22 year. All staff are required to complete these training courses.

- ESBOCES has designated an employee as a Data Protection Officer (DPO); which is a requirement as per the mandates under Ed Law 2d. In addition, ESBOCES has set up a new service related to data protection that is now offered to the component districts.

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 – 2017-2019

We noted that the Human Resources (HR) Department and Management Services were in the process of reviewing software solutions that automate the hiring and on-boarding procedure, support electronic file retention and generate the personnel agenda for the Board meetings. We found that the HR Department had chosen a web-based program (SchoolFront) to facilitate the hiring process through automation and ESBOCES was negotiating the final terms and conditions of the agreement. We understood that SchoolFront integrates with the WinCap financial system. We noted that the procedures related to SchoolFront were not yet operational. We understood that the use of SchoolFront would start with recruiting and hiring, followed by the on-boarding process and this would become the starting point for paperless HR records.

Risk Assessment Update – 2020

We noted that SchoolFront, the software application that supports automation of recruitment, hiring and on-boarding functions, will also be used to store digital employee records. We were informed that ESBOCES planned to implement the on-boarding module, which included a file management component, after completing the current initiative related to the recruitment module.

Risk Assessment Update – 2021

We found that ESBOCES has set up a phased approach related to the implementation of SchoolFront for recruitment and on-boarding that started with a pilot group during the summer of 2021. We understand that there were lessons learned as a result of this pilot group managing the new hire process in SchoolFront and ESBOCES set up training for staff during the fall of 2021. We were informed that the HR Department plans to move forward with rolling out the use of SchoolFront with other pilot groups during the 2021-22 year.

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 – 2017-2019

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

Risk Assessment Update – 2020

We found that the HR Department and Management Services were reviewing software solutions that automate the hiring and on-boarding processes, generate the personnel section of the Board agenda and support electronic file retention. The Background Summary Checklist was used as evidence that internal manual procedures were followed as required and the goal was to eliminate the need for this checklist with an automated system.

Risk Assessment Update – 2021

We found that ESBOCES plans to eliminate the Background Summary Checklist after the rollout of the SchoolFront program for on-boarding and recruitment, as noted above.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)

PAYROLL, HUMAN RESOURCES AND RELATED BENEFITS

Medicare Part B Reimbursements – Processing Frequency

Agreed-Upon Procedures – 2019

We recommended that ESBOCES 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 Income Related Monthly Adjustment Amount (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 had already processed the reimbursements for the 1st and 2nd quarter of 2019, we recommended processing a final 2019 payment during spring 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 suggested moving to an annual process for the 2020 year to be paid in March or April 2021.

Risk Assessment Update – 2020

We noted that ESBOCES was considering this recommendation and needed to reevaluate the proposed timeline due to the COVID-19 pandemic. We understood that the Administration is now assessing a plan to implement

this item as a phased initiative with the potential goal of transitioning to an annual payment beginning spring of 2023.

Risk Assessment Update – 2021 (This item is now closed)

We found that ESBOCES developed a plan to implement this recommendation by 2023 and communicated this plan to the retirees, so they can adequately plan for receiving their 2022 annual payment beginning the spring of 2023.

WinCap System – Spouse Information

Agreed-Upon Procedures – 2019

We recommended that ESBOCES develop consistent practices to include the spouse information in the employee fields of the WinCap financial system.

Risk Assessment Update – 2020

We found that the HR Department and Business Services were planning to implement this recommendation by the end of the 2020-21 year.

Risk Assessment Update – 2021 (This item is now closed)

We note that the ESBOCES has started inputting the spouse and dependent(s) information in WinCap for new hires beginning in July 2021. We understand that this information needs to be provided by the employee when enrolling in the health insurance plan with family coverage. In the event that the employee is a new hire, the HR Department will ask the employee for the spouse and dependent information, so this data can be entered into WinCap. We also found that the Benefits Department is adding this data into WinCap when retirees become Medicare eligible, as this information is included on the Medicare form provided by the HR Department.