

**Eastern Suffolk BOCES**  
**Risk Assessment Update Report**  
December 8, 2017

## 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, 2017.

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*

December 8, 2017

## EASTERN SUFFOLK BOCES

### Introduction

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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. 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.

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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 20, 2016	ESBOCES-wide
Agreed-Upon Procedures	August 2, 2016	Cash/Check Receipts, Staff Attendance and New Hires

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.

The District should send the Corrective Action Plan (CAP) along with the respective Internal Audit Report via the New York State Department of Education Portal. The report needs to accompany the CAP to allow the Office of Audit Services (OAS) to reconcile the District's CAP to the report to ensure all items have been addressed (i.e., CAP is not missing any recommendations).

**EASTERN SUFFOLK BOCES**

**Risk Assessment Table**

December 8, 2017

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

<b>Business Process</b> Area	<b>Date of Detailed Testing *</b>	<b>Control Risk</b>				<b>Proposed Detailed Testing</b>
		<b>Prior Year</b>		<b>Current Year</b>		
<b>Governance and Planning</b>						
Governance Environment			M		M	
Control Environment			M		M	
Strategic Planning		L		L		
Budget Development			M		M	
Budget Administration	** 5/26/2015		M		M	
<b>Accounting and Reporting</b>						
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		
<b>Revenue and Cash Management</b>						
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	
<b>Grants and Special Education</b>						
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		
<b>Payroll, HR and Related Benefits</b>						
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/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.

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**Risk Assessment Table (Continued)**  
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(L=Low, M=Moderate, H=High)

<b>Business Process</b> Area	<b>Date of Detailed Testing *</b>	<b>Control Risk</b>				<b>Proposed Detailed Testing</b>
		<b>Prior Year</b>		<b>Current Year</b>		
<b>Purchasing and Related Expenditures</b>						
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	
<b>Facilities</b>						
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	
<b>Capital Assets</b>						
Acquisition and Disposal	3/3/2014		M		L	
Inventory	3/3/2014		M		L	
<b>School Environment</b>						
Safety and Security			M		M	✓
<b>Student Transportation</b>						
Fleet Maintenance			M		M	
Risk Management			M		M	
Personnel Compliance			M		M	
Facilities Maintenance and Security			M		M	
<b>Food Service</b>						
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	
<b>Extraclassroom Activity Funds</b>						
General			M		M	
Cash and Cash Receipts			M		M	
Expenditures and Purchasing			M		M	
Inventories			M		M	
<b>Student Related Data</b>						
Tracking Student Attendance			M		M	
Student Performance Data			M		M	
<b>Information System</b>						
Regional Information Center (RIC)	** 8/4/2017		M		M	
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**

There were no recommendations noted during this risk assessment engagement.

**STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (OPEN 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 would 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 note that ESBOCES has determined that this recommendation requires negotiations with bargaining units whose membership is affected. We understand that the senior management will develop proposals during the upcoming contract negotiations to address procedures for staff attendance at that time.*

**New Hires – Maintain Employee Records Electronically**

**Agreed-Upon Procedures – 2016**

We recommended that BOCES consider using software to maintain the employee records electronically to enhance operation efficiency.

**Risk Assessment Update – 2017**

*We note that the Human Resources Department and Management Services are 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 understand that the current draft of the proposed budget for the fiscal 2018-19 year will include funding for the purchase of this type of software or program.*

**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.

**Risk Assessment Update – 2017**

*We understand that ESBOCES is considering the WinCap Personnel Agenda module, which the Human Resources Department will run parallel with the current manual process during the 2017-18 year. The goal is to begin using the WinCap Personnel Agenda module in July 2018, if the results are positive.*



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**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 note that the Human Resources Department and Management Services are in the process of reviewing software solutions that automate the on-boarding (hiring) procedure, generate the personnel agenda and support electronic file retention. Currently the Background Summary Checklist is used as evidence that internal procedures were followed. ESBOCES will make a determination about this checklist after making a decision related to a software solution.*

**STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)**

**REVENUE AND CASH MANAGEMENT**

**Cash Receipts – Triplicate receipt books**

**Agreed-Upon Procedures – 2016**

We recommended that ESBOCES review procedures to help ensure compliance with Board policies and regulations with using triplicate receipt books whenever employees are involved with receiving cash, particularly the customer service programs (e.g., culinary). The person receiving the cash would provide 1 copy to the payee, submit 1 copy along with the funds to the Business Office for deposit, and maintain 1 copy within their receipt book.

**Risk Assessment Update – 2017 (This item is closed)**

*We found that Business Services provided a memo to the appropriate staff informing them that triplicate receipt books should be used when departments are receiving cash. In addition, ESBOCES prepared a PowerPoint presentation and provided training for the staff responsible for handling cash receipts.*

*We selected 3 locations to perform a follow-up review related to the Agreed-Upon Procedures engagement and to determine the status of the recommendations from that report dated August 2, 2016. During this review, we found that 1 program at a location was still not using triplicate receipts. After discussing this finding with the Cash Receipts Clerk, the school implemented procedures to require that this program use the triplicate receipt book when receiving cash. We were provided documentation subsequent to our fieldwork that verifies that this was implemented.*

**Cash Receipts – Proper Supporting Documentation**

**Agreed-Upon Procedures – 2016**

We recommended that ESBOCES strengthen controls related to receipts, particularly cash, since the collection of funds has a high level of inherent risk. We recommended that the extraclassroom activities clubs and the customer service programs properly account for transactions by providing sufficient information to support the deposit amount (i.e., listing of the pre-numbered tickets or receipts, list of student names, etc.)

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*Risk Assessment Update – 2017 (This item is closed)*

*We note that Business Services sent a memo to all employees with responsibilities related to cash receipts informing them that all deposits must have sufficient documentation to support the deposit amounts. In addition, the Senior Accountant in Business Services has been assigned the task of reviewing the deposits to ensure there is sufficient documentation and to follow-up with the respective supervisor in the event that the documentation is insufficient.*

*We found that the cash receipts clerks at all 3 locations are properly completing the Cash Transmittal Form (4220F.7) and the Money Bag Delivery Verification Form (4260F.8) as required. However, there were programs at 2 locations that were not preparing the Cash, Checks and Cash Equivalents Receipt Documentation Form (4220F.8) when submitting receipts to the cash receipts clerks. We note that the locations implemented procedures to require that these programs complete form 4220F.8 subsequent to our fieldwork.*

**Cash Receipts – Submitting Funds Timely**

Agreed-Upon Procedures – 2016

We recommended that ESBOCES review procedures to help ensure compliance with Board policies and regulations with submitting the receipts timely by the extraclassroom activities clubs and the customer service programs to the employees handling the deposits (i.e., central treasurers) or submitting the receipts to Business Services (i.e., customer service clerks). The clubs, programs and cash receipts clerks should not be keeping funds on hand due to the potential risk of the monies being lost, misplaced or stolen.

*Risk Assessment Update – 2017 (This item is closed)*

*We note that ESBOCES has included the submission of funds as part of the training provided to the employees handling the deposits and reinforced the importance of sending the receipts timely to Business Services. Our review of a sample of cash receipts from the extraclassroom activities clubs and the customer service programs found that all of these deposits were submitted in a timely manner.*

**Cash Receipts – Sealed Bank Bags and Delivery Bag Verification Forms**

Agreed-Upon Procedures – 2016

We recommended that ESBOCES review procedures to help ensure that sealed bank bags and Delivery Bag Verification Forms are used for all receipts being transported from the programs and schools to the Business Office in compliance with *Board Procedure #4260P.1 – Bank Deposit Bags*. Implementing the use of sealed bank bags would strengthen the receipts process by properly safeguarding the monies until the funds are received in the Business Office.

*Risk Assessment Update – 2017 (This item is closed)*

*We found that Business Services sent a memo to the appropriate staff that reminds them to comply with procedures related to sealed bank bags and Money Bag Delivery Verification Form (4260F.8). Our review of a sample of cash receipts from the extraclassroom activities clubs and the customer service programs found that all of these deposits were submitted in sealed bank bags and supported Money Bag Delivery Verification Forms (4260F.8).*

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**Cash Receipts – Excel Training**

Agreed-Upon Procedures – 2016

We recommended that ESBOCES provide Excel training for the cash receipts clerks and/or teachers to create and utilize an Excel file to list all of the *Hold Harmless Agreement/Invoice Forms* to properly support the amount of receipts from the program (e.g., culinary, animal science, cosmetology, etc.) This would facilitate the verification of the amount of funds received from the program and submitted to Business Services, as well as, provide adequate supporting documentation.

Risk Assessment Update – 2017 (This item is closed)

*We note that Business Services provided Excel training for the appropriate employees. In addition, ESBOCES implemented procedures to require the cash receipts clerks to include the Excel spreadsheet, which lists all of the Hold Harmless Agreement/Invoice Forms, with the cash receipts submitted to Business Services. This provides proper documentation to support the amount of the deposit.*

**Cash Receipts – Using a Safe or Lockbox**

Agreed-Upon Procedures – 2016

We recommended that ESBOCES set-up a safe or lockbox at all locations to properly safeguard the receipts until the funds are deposited in the bank or picked up by the ESBOCES courier.

Risk Assessment Update – 2017 (This item is closed)

*We found that Business Services worked with the cash receipts clerks and principals to ensure that all locations were set-up with a safe or lockbox to safeguard the cash receipts.*

**Cash Receipts – Revise Cash Transmittal Form**

Agreed-Upon Procedures – 2016

We recommended that ESBOCES revise the *Cash Transmittal Form* (4220F.7) to include a line for the printed name in addition to the line for the signature of the employees transmitting and receiving the Cash Transmittal Form and to include a section for the preparer to enter a description next to the name of the account within the revenue breakdown area. This area would include details of the source of receipts (e.g., adding culinary lunches next to Customer Service).

Risk Assessment Update – 2017 (This item is closed)

*We note that ESBOCES has updated the Cash Transmittal Form (4220F.7) to include a line for the printed name and a section for the preparer to enter a description next to the name of the account within the revenue breakdown area.*

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**PAYROLL, HUMAN RESOURCES AND RELATED BENEFITS**

**Staff Attendance – Reconcile the Daily Sign-In/Out Sheets**

**Agreed-Upon Procedures – 2016**

We recommended that ESBOCES reinforce procedures to require all attendance clerks perform a full reconciliation of the daily sign-in/out sheets to the WinCap and Aesop reports to ensure they agree and review any discrepancies, as well as, confirming that the sign-in sheet is filled out correctly and accurately daily.

**Risk Assessment Update – 2017 (This item is closed)**

*We found that ESBOCES reviewed the best practices regarding the supervision of attendance procedures that was discussed between the Administrative Council members and the building-level leaders. This included the implementation of this recommendation and the following 2 recommendations related to staff attendance.*

**Staff Attendance – Daily Sign-In/Out Sheets at BAC**

**Agreed-Upon Procedures – 2016**

We recommended that ESBOCES establish procedures at the Bellport Academic Center (BAC) building to ensure that the required employees record their attendance on the daily sign-in/out sheets appropriately each day.

**Risk Assessment Update – 2017 (This item is closed)**

*We note that ESBOCES established procedures at the BAC building to ensure that the required employees record their attendance on the daily sign-in/out sheets appropriately each day.*

**Staff Attendance – Highlight the Daily Sign-In/Out Sheets**

**Agreed-Upon Procedures – 2016**

We recommended that ESBOCES develop procedures at all locations to highlight the Daily Sign-In/Out Sheets at a designated time in the morning to identify any employees signing in late.

**Risk Assessment Update – 2017 (This item is closed)**

*We found that ESBOCES developed procedures at all locations to highlight the daily sign-in/out sheets at a designated time in the morning to identify any employees signing in after the time that the sheet was highlighted.*

