Eastern Suffolk BOCES

Risk Assessment Update Report

January 22, 2020

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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, 2019.

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.

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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 22, 2020

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

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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 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:

Report Type	Issue Date	Area(s)
Risk Assessment	November 30, 2018	ESBOCES-wide
Agreed-Upon Procedures	August 8, 2018	Benefits Administration and Security

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.

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.

(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 **	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	L	L	
Cash Management	8/14/2019	L	L	
Investment Management	8/14/2019	M	L	
Bank Reconciliations	8/14/2019	L	L	
Petty Cash		M	M	
Grants and Special Education	8/14/19***			
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	L	L	✔
Allocation of Expenditures	5/26/2015	L	L	✔
General Employee Administration	5/26/2015	L	L	✔
Employee Benefits Administration****	8/8/2018	M	M	
Employee Attendance	8/2/2016	M	M	
Hiring/Separation of Employees	8/2/2016	L	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 8/14/19

(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	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).
*** Review of Contracting Process

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 noted that 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. The goal was to begin using this program during the 2018-19 fiscal year and the plan was to start with the new hiring process related posting, advertising and recruitment of potential candidates in the Special Education Division as the pilot group.

Risk Assessment Update – 2019

ESBOCES is currently implementing SchoolFront, however the procedures are not yet operational. The use of SchoolFront will start with recruiting and hiring, not the on-boarding process and this will become the starting point for paperless HR records.

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.

Risk Assessment Update – 2018

We understood that ESBOCES plans 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 – 2019

As noted above, the implementation is in progress.

Open Recommendations from the AUP report dated August 8, 2018 related to benefits and security:

None. All issues have been addressed as documented below.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)

Recommendations from the AUP report dated August 8, 2018 related to benefits and security:

Recommendations – Benefits:

We recommended that ESBOCES consider implementing the following item to further improve internal controls and operational efficiencies related to the administration of benefits:

Complete Invoice Review Checklist

> Develop procedures to ensure that the insurance invoice checklist is completed to facilitate the monthly reconciliation process.

Risk Assessment Update – 2019 (This issue is now closed)

This was implemented immediately after our review in 2018. During this engagement we confirmed the use of the checklist which will help ensure all invoices are reviewed and approved according to the BOCES procedures.

Recommendations – Security:

We recommended that ESBOCES consider implementing the following items to further improve internal controls and operational efficiencies related to the administration of security:

Update Policies and Procedures

Continue efforts with assessing and refining the safety and security protocols, Board policies and documentation, which should include the following considerations:

a. Restricting access to areas where the programs have students working outside (e.g., career and technical classes [automotive, construction, etc.])

b. Scheduling Summit Security Inc. guards to patrol additional sites

c. Installing additional surveillance cameras at the buildings (external or internal locations)

d. Creating standard practices related to the greeters (e.g., coverage during absences or breaks; handling visitors, etc.)

Risk Assessment Update – 2019 (This issue is now closed)

During the past year there has been a concerted effort to address the operation issues of safety and security. The following recommendations provide details.

Establish Receptionist Procedures

Establish procedures to have the greeters at the buildings sign-out guests upon departure within the Raptor system and review the visitor log to ensure that all guests have signed-out of the building before the greeters leave for the day.

Risk Assessment Update – 2019 (This issue is now closed)

Both individual and group training has been provided to the receptionists and standard procedures regarding greeting visitors have been established. Our understanding is that written procedures for each location are in development.

Allowing Visitor Access

Consider protocols requiring the greeters to inquire with the visitor, using the intercom system, to ask for the name and purpose of their visit prior to allowing them access to the vestibule area.

Risk Assessment Update – 2019 (This issue is now closed)

As noted above, both individual and group training has been provided to the receptionists and standard procedures regarding greeting visitors have been established.

Utilize Raptor System

Establish formal procedures related to running the visitor's driver's license through the Raptor system and printing the visitor's pass. We also recommend that ESBOCES review the Raptor system at each location to ensure that the photo process is working as designed and also ensure that all locations follow the same protocols regarding visitors to the buildings.

Risk Assessment Update – 2019 (This issue is now closed)

Our understanding is that the operations for each location was reviewed, and procedures were developed to use the Raptor system consistently throughout ESBOCES.

Improve Badge production

Resolve the issues related to the Raptor system that includes the printing of visitors' badges, which should be clearly visible and include the proper dimensions, and the processing of common names to eliminate potential errors with sexually related charges related to someone other than the visitor and to reduce the turnaround time. We recommend investigating the parameters for the Raptor system to ensure that the process is based on the driver's license identification number, which should only search for the specific visitor.

Risk Assessment Update – 2019 (This issue is now closed)

ESBOCES has evaluated this and has installed new printers in certain locations so that badge production is more consistent throughout the agency.

Increase Card Access Control Points

Setup card access controls at additional exterior doors where there are reasons to leave the building in those areas, so these doors can be kept closed and locked during the outside activity (e.g., CTE programs at the Technical Centers).

Risk Assessment Update – 2019 (This issue is now closed)

There were few additional doors which had installed access controls. After consideration, the decision was made to continue to limit the number of access points.

Procedures for formal review of exterior

Develop procedures to periodically review the exterior of the buildings to ensure that there are no objects in place that could be used to keep the doors open (e.g., blocks of wood, stones, etc.).

Risk Assessment Update – 2019 (This issue is now closed)

ESBOCES has now staffed all schools with at least one guard each school day. As part of the guards' responsibility, there are regular reviews of the building exterior. In addition, training was provided to remind school staff of the importance of maintaining a locked and physically secure facility.

Review storage capability for security cameras

Assess the servers related to the surveillance cameras to determine if any adjustments are feasible to ensure that the recordings of each device last a minimum of the preferred 30 days.

Risk Assessment Update – 2019 (This issue is now closed)

During the year the District changed its consulting firm related to security technology and has centralized video data on consolidated servers. This will help ensure recordings are saved for the requisite time period.

Reporting of security drills

Continue efforts with reviewing the procedures for documenting compliance by the schools with the NYSED required 12 safety drills including lockouts, lockdowns, fire drills and bus drills. We recommend that ESBOCES assign responsibility to an ESBOCES-wide administrator to ensure that all of the schools have submitted the standard "Report of Mandated Drills" and to document that the drills have been completed as required for completeness within the entire agency.

Risk Assessment Update – 2019 (This issue is now closed)

BOCES has a system in place to monitor these activities and internally reviews for compliance.