

Eastern Suffolk BOCES
Risk Assessment Update Report
January 20, 2021



VINCENT D. CULLEN, CPA
(1950 - 2013)

JAMES E. DANOWSKI, CPA
PETER F. RODRIGUEZ, CPA
JILL S. SANDERS, CPA
DONALD J. HOFFMANN, CPA
CHRISTOPHER V. REINO, CPA
ALAN YU, CPA

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, 2020.

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 20, 2021

EASTERN SUFFOLK BOCES

Introduction

January 20, 2021

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 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.

EASTERN SUFFOLK BOCES

Introduction (Continued)

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The second section includes any current observations and recommendations (note that this text is in *italics*) 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 (note that this text is in *italics*) 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	January 22, 2020	ESBOCES-wide
Agreed-Upon Procedures	August 14, 2019	Administration of Cash, Medicare reimbursement activities and Gramm-Leach-Bliley Act

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.

EASTERN SUFFOLK BOCES

Risk Assessment Table

January 20, 2021

(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 **	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		L		
Revenue and Cash Management						
Real Property Tax		N/A		N/A		
State Aid			M		M	
Medicaid	03/03/14	L		L		
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		M	L		
Bank Reconciliations	08/14/19	L		L		
Petty Cash			M		M	
Grants and Special Education						
General Processing/Monitoring	09/10/12	L		L		
Grant Application	09/10/12	L		L		
Allowable Costs	09/10/12	L		L		
Cash Management	09/10/12	L		L		
Reporting and Monitoring	09/10/12	L		L		
Compliance	09/10/12	L		L		
Graham Leach Bliley Act - Compliance	08/14/19		M	L		
Payroll, HR and Related Benefits						
Payments to Employees	05/26/15	L		L		✓
Allocation of Expenditures	05/26/15	L		L		✓
General Employee Administration	05/26/15	L		L		✓
Employee Benefits Administration	08/08/18		M	L		
Benefits - Medicare Reimbursements	08/14/19		M		M	
Employee Attendance	08/02/16	L		L		
Hiring/Separation of Employees	08/02/16	L		L		

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

** Testing was limited to year end spending.

EASTERN SUFFOLK BOCES
Risk Assessment Table (Continued)
January 20, 2021

(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	09/03/10	L			M	
Construction Planning	09/03/10	L			M	
Construction Monitoring	09/03/10	L			M	
Construction Completion	09/03/10	L			M	
Capital Assets						
Acquisition and Disposal	03/03/14		M		L	
Inventory	03/03/14		M		L	
School Environment						
Safety and Security	08/08/18		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	09/07/11	L			M	
Sales Cycle and System	09/07/11	L			M	
Inventory and Purchases	09/07/11	L			M	
Eligibility Verification	09/07/11	L			M	
Extracurricular 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).

*** Review of Contracting Process

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CURRENT OBSERVATIONS AND RECOMMENDATIONS

None noted.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (OPEN 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 Human Resources (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 note that ESBOCES was considering this recommendation and needed to reevaluate the proposed timeline due to the COVID-19 pandemic. We understand 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.

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 are planning to implement this recommendation by the end of the 2020-21 year.

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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 are planning to implement this recommendation by the end of the 2020-21 year.

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 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 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

We found that ESBOCES was setting up the new web-based program (SchoolFront), however, the procedures were not yet operational. 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 note 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 have been informed that ESBOCES plans to implement the on-boarding module, which includes a file management component, after completing the current initiative related to the recruitment module.

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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 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 was in progress.

Risk Assessment Update – 2020

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

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)

REVENUE AND CASH MANAGEMENT

Revise the Treasurer's Report

Agreed-Upon Procedures – 2019

We recommended that ESBOCES revise the Treasurer's Report that is provided to the Board by creating a simplified version resulting in a format that is more clear and concise to read than the current version. This would include listing the receipts and disbursements totals to reflect only those with outside entities and to show the internal transfers in the aggregate amount. We provided a sample report based on revisions to ESBOCES Treasurer's Report from November 2018.

Risk Assessment Update – 2020 (This item is now closed)

We note that ESBOCES has revised the Treasurer's Report by creating a simplified version based on the sample provided by the internal auditor.

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Ensure Treasurer's Report Agrees to Bank Reconciliations and Cash Accounts

Agreed-Upon Procedures – 2019

We recommended that ESBOCES revise the reporting methodology to ensure that the Treasurer's Report submitted to the Board agrees to the monthly bank reconciliations and the cash accounts in the general ledger; instead of adjusting the Treasurer's Report for miscellaneous timing differences. This would provide a more consistent Treasurer's Report that correctly reflects ESBOCES financial records.

Risk Assessment Update – 2020 (This item is now closed)

We found that ESBOCES has revised the reporting methodology related to the Treasurer's Report as recommended.

Streamline the Bank Reconciliation Process

Agreed-Upon Procedures – 2019

We recommended that ESBOCES streamline the bank reconciliation process so that the bank reconciliations prepared by the Accountant are reviewed and signed by the Treasurer. This would reduce the number of Business Office employees reviewing the bank reconciliations.

Risk Assessment Update – 2020 (This item is now closed)

We note that ESBOCES has streamlined the bank reconciliation process where the bank reconciliations that are prepared by the Accountant are reviewed and signed by the Treasurer.

Rename Bank Reconciliations

Agreed-Upon Procedures – 2019

We recommended that ESBOCES rename all bank reconciliations as "Bank Reconciliations" instead of "Treasurer Reports" and ensure that there is adequate detailed support that clearly matches the amounts listed on the bank reconciliations.

Risk Assessment Update – 2020 (This item is now closed)

We found that ESBOCES has renamed all bank reconciliations and developed procedures to ensure that there is adequate detailed support that clearly matches the amounts listed on the bank reconciliations.

Assign the Review of Outstanding Checks to the Treasurer

Agreed-Upon Procedures – 2019

We recommended that ESBOCES develop procedures to assign the process of reviewing and addressing outstanding checks of 6 months or older to the Treasurer.

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Risk Assessment Update – 2020 (This item is now closed)

We note that ESBOCES has developed procedures related to outstanding checks as recommended.

GRANTS AND SPECIAL EDUCATION

Graham Leach Bliley Act – Xenegrade User Accounts

Agreed-Upon Procedures – 2019

We recommended that ESBOCES establish formal procedures and a standard form regarding changes to user accounts and permissions related to Xenegrade, the software program used for tracking activities related to the Graham Leach Bliley Act (GLBA), similar to the process for user accounts and permissions associated with WinCap, NexGen and ESBOCES network access.

Risk Assessment Update – 2020 (This item is now closed)

We found that ESBOCES has established formal procedures and a standard form regarding changes to user accounts and permissions related to Xenegrade.

Graham Leach Bliley Act – Complete the Information Security Program Risk Assessment

Agreed-Upon Procedures – 2019

We recommended that ESBOCES complete the *Information Security Program - Risk Assessment Plan, Security Risk Assessment and Risk Assessment Summary* to create formal, written procedures as required per the GLBA.

Risk Assessment Update – 2020 (This item is now closed)

*We note that ESBOCES has completed the *Information Security Program - Risk Assessment Plan, Security Risk Assessment and Risk Assessment Summary* to create formal, written procedures as required per the GLBA.*

PAYROLL, HUMAN RESOURCES AND RELATED BENEFITS

Medicare Part B Reimbursements – Increase the Number of ACH Payments

Agreed-Upon Procedures – 2019

We recommended that ESBOCES determine ways to increase the number of Medicare reimbursements paid to retirees in the form of ACH payments to reduce the volume of checks, which represented over 50% of these transactions.

Risk Assessment Update – 2020 (This item is now closed)

We found that ESBOCES sent notices to retirees that recommended setting up ACH payments as a more efficient process to receive their Medicare reimbursements and this has significantly increased these types of payments, thus reducing the number of checks that need to be printed and mailed.

