Erie 1 BOCES

Risk Assessment and Internal Audit Plan

June 8, 2017

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June 8, 2017

Audit Committee
Erie 1 BOCES
355 Harlem Road
West Seneca, New York 14224

Dear Audit Committee:

This report, as expressed in the risk assessment ratings, provides you, the Erie 1 BOCES management, and the audit committee with the assessment of the need for controls and a means to prioritize risk mitigation efforts. The risk assessment is an initial step in your risk management program of assessing risk, evaluating controls, reviewing control effectiveness, and adapting measures to achieve an acceptable level of risk. The risks noted in the risk assessment should be evaluated in light of your existing policies and practices to identify potential improvements or changes in the control structure based on the level of risk presented. To assist you in establishing review programs for these activities, a potential internal audit plan and schedule for the entities are provided.

We appreciate the opportunity to prepare this risk assessment for the Erie 1 BOCES and are available to assist you in carrying out other portions of the risk management program including the work plan. We are also available to answer your questions. Please contact Kathryn Barrett at 585-344-1967.

Sincerely,

Freed Maxick CPAs, P.C.

Freed Maxick CPAs, P.C.

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EXECUTIVE SUMMARY

In December 2006, the audit committee requested that Freed Maxick CPAs, P.C. perform an initial risk assessment and prepare an internal audit plan for the Erie 1 BOCES (the BOCES). This report represents an update to the initial risk assessment that was performed for the BOCES. It has been updated for all modifications made to the internal controls since the initial risk assessment was performed, and the 2013 revisions of the COSO framework. This risk assessment and internal audit plan will then be used to develop the scope and direction of the internal audit program to be deployed by the BOCES and Freed Maxick CPAs, P.C. during the current fiscal year. Establishment of a comprehensive internal audit program, under the guidance of the 2013 COSO framework, will enable Erie 1 BOCES to align its mission and vision with its operational structure and environment, assess risk as it relates to materiality, opportunity, and organizational objectives, control risk mitigation, improve organizational functionality through value-added communication and information resourcing, and vigilantly monitor the effectiveness of internal control to promptly counteract any shortfalls It can also be used to determine what resources will be needed to complete the identified higher risk internal audits.

This report summarizes the risk assessment and internal audit plan for the BOCES. Intrinsic in the risk assessment of the BOCES is the concept of materiality. Those areas of the BOCES that deal with more significant dollars or a higher volume of transactions will most likely score as higher risk merely due to the dollars and number of transactions passing through those transaction cycles.

The objective of this report is to ensure Erie 1 BOCES has sufficient and continuous internal audit coverage of those areas judged as having a relatively higher risk profile or otherwise require internal audit attention for regulatory or management reasons.

Additional concentration, as per the 2013 COSO update, focuses on the effectiveness and suitability of internal control. The three areas of newly emphasized focus surround adequate and functional monitoring of the organizational activities, improved reporting both externally and internally, and a thorough understanding of the importance and interrelatedness between a well-tailored internal control framework and the concept of risk management.

The scope of the risk assessment and internal audit plan has been reviewed and approved by the Audit Committee of the BOCES, who in turn has final responsibility and authority for the satisfactory execution of the internal audit plan. The risk assessment and internal audit plan is primarily risk-based and is organized around the BOCES' major internal control cycles. The plan was developed based on detailed interviews with employees, management personnel, and our cumulative knowledge of Erie 1 BOCES' internal control risks.

Our interviews with employees and management were directed toward gaining a thorough understanding of the objectives and related risks in each internal control area, from the perspective of the individuals responsible for controlling such risks. Using this information and input, we evaluated the level of risk (low, moderate or high) present in each area; across a standard spectrum of risk categories (see Appendix for risk category definitions). A summary of this risk analysis by control cycle is included subsequently. The risk assessment process also drives the planned scope of the internal audit coverage, which is summarized by internal control area.

The risk analysis by control cycle that follows includes the following:

- ◆ Overview of Business Area - a brief description of the process and the internal controls over the process that currently exist.
- ◆ Business Objectives - a brief statement of why you want the internal controls over the particular control cycle to function properly.
- ◆ Potential Significant Risks - a brief statement of what the potential risks are if internal controls are not in place or are not functioning as intended. These risks are not specific to Erie 1 BOCES based on the existing control environment. These are risks that all school districts or BOCES are subjected to if internal controls are not properly designed or functioning as intended.
- ◆ Internal Audit Strategy - a brief summary of the testing that may be performed during an internal audit of the particular control cycle.

RESULTS OF REVIEW OF INTERNAL CONTROLS AND ON SITE VISIT

During our review of the internal controls of the BOCES, we noted the following:

Grants

◆ When expending federal funds in excess of $25,000 with a single vendor, entities are required to verify the vendor has not been suspended by the federal government by performing a search of the federal SAMS (System for Awards Management) website. Currently, no one at the BOCES is verifying vendors against the SAMS website. We recommend that vendor verification be performed by the Accounts Payable Clerk or the Claims Auditor. We further suggest the BOCES print their search results in order to provide support for compliance with this requirement.

   Management Response: Management will review the recommendation and determine the best approach for implementation.

◆ The BOCES is not recording an account receivable upon filing requests for reimbursement (vouchers or FS-25s) or draw-downs for grant funded programs. We recommend that the BOCES record an account receivable upon submission of the voucher or FS-25 to ensure grant revenue is reported timely and receivables are tracked and monitored appropriately.

   Management Response: Management will review the recommendation and determine the best approach for implementation.

Cash Receipts – Centralized & Decentralized

◆ Cash receipts are routinely counted by more than one individual, increasing the risk for misappropriation of assets. The BOCES recognizes the need to streamline cash receipt processing. We recommend the BOCES consider the following:
   o One individual at the point of initial receipt (Finance Office, Workforce Development Office, etc.) prepare a three-part treasurer's receipt for all cash/checks/credit card payments collected and provide one part of the treasurer's receipt to the individual remitting the cash/check/credit card payment.
   o At the end of the day, the individual receiving the cash/check/credit card would count all cash/checks/credit card payments received, prepare a two-part bank deposit slip and secure the funds collected along with one part of the bank deposit slip in a tamper resistant or locked bank bag then forward the tamper resistant or locked bank bag to either the bank or to the Finance Office for delivery to the bank.
   o The second part of the treasurer's receipt along with any supporting documentation and the second part of the bank deposit slip would then be forwarded to the Deputy Treasurer for recording in WinCap. They would also be responsible for tracking the sequential order of the treasurer's receipts.

   This would segregate custody of cash receipts from the processing of the cash receipts, eliminate the need to maintain and audit the cash receipt log and improve efficiency over the cash receipt process. Furthermore, it would limit access of the cash receipts to one individual and improve internal controls overall.

Management Response: All locations will have treasurers receipt books for the handling of cash, not just the Centers. The Senior Account Clerk will be responsible for making sure no receipts are out of order. Locked bags are being ordered for securing bank deposits. The Centers will prepare the deposit and forward the deposit, via a locked bag, to the Finance Office. Workforce prepare deposit and puts in safe in Finance Office.

All funds coming into the Finance Office are put into the safe. The Senior Account Clerk opens safe and prepares the deposit. Bank deposit receipts are compared to cash received and the Senior Account Clerk then enters the cash receipt into WinCap. The Supervising Account Clerk takes deposit to bank.

Lockboxes (3) – documentation is printed off of the bank website and given to Senior Account Clerk for cash receipt preparation. Checks that come to Finance office that should have gone to lockboxes are scanned into banking system via the Web. Deposit receipts are given to Senior Account Clerk for cash receipt preparation.

Cash Disbursements and Internal Claims

◆ The Claims Auditor does not report to the Audit Committee nor the business office on a regular basis. We recommend the Claims Auditor formally report their findings to the Audit Committee on at least a quarterly basis and meet with the business office monthly to discuss reoccurring findings, challenges, other procedural matters, etc. We further suggest the Claims Auditor meet with the Audit Committee at least annually. This will afford the Committee the opportunity to discuss the claims audit process with the Claims Auditor and any issued noted by the Claims Auditor during their review.

Management Response: We are currently working on a process and schedule to have the Manager of the Central Business Office as claims auditor report to the Board.

◆ The Purchasing Manager can add new vendors and initiate P.O.'s. Initiation of purchases, approval of purchases and approval of new vendors represents a lack of segregation of duties. We recommend the Purchasing Manager' rights to initiate a requisition or P.O be removed. The Purchasing Manager's authority should be limited to approval of requisitions and new vendors.

Management Response: The Purchasing Manager/Treasurer rights to add new vendors and for final approval of PO's have been removed. They do have access to initiate PO's and approve purchase requisitions to Level 2. The Business Administrator approves requisitions to Level 1 and issues PO's. Senior Account Clerks - Purchasing are responsible for printing and distributing PO's and adding new vendors.

◆ The system will allow an appropriation to be processed causing the budget to go negative. The BOCES may consider implementing an internal control whereby the Department Director/Supervisor and the Business Administrator will receive a warning when a requisition will result in a negative appropriation. Once the warning is received, the Department Director/Supervisor should verify to the Business Administrator that a budget amendment in is process that will rectify the situation or if a budget transfer will need to be completed.

Management Response: The current budget process for BOCES is to only to enter the Board approved budget to reflect current known revenues equaling the total district contracts, plus any miscellaneous revenues coming in throughout the year. There are several CoSers that have negative budgets at the beginning of the year. It is BOCES practice to first enter salaries and benefits, then fill in other budget areas as the revenues come in; which may not be until the third quarter of fiscal year. BOCES will monitor budgets, and where and when feasible, will require programs to transfer funds to the appropriate budget codes to ensure there are sufficient budget appropriations in the specific line to cover expenses. For those programs that are negative, we will monitor their spending and continually review revenue projections to end of year to ensure that the programs have sufficient funds to make the purchases being requested. Our primary goal is to ensure the programs continue to provide needed services to the district, while maintaining fiscal responsibility.

◆ The Internal Claims Auditor audits claims against a pre-warrant but does not compare the pre-warrant to the final warrant. We recommend the final warrant be matched against the pre-warrant for any changes to vendors, amounts, new or removed checks, etc.

Management Response: Management appreciates the recommendation and is in the process of reviewing how our accounting software can provide for us to lock down the integrity of approved documentation prior to releasing checks.

Human Resources and Payroll

◆ Formal performance evaluations of the business office staff are not performed on a regular basis. We recommend that management perform formal performance evaluations of all business office staff at least annually. This will provide management with the opportunity to evaluate staff performance but may also be used to help staff set long-term and short-term performance goals that can be evaluated in subsequent evaluations.

Management Response: Evaluation instruments for unionized employees are a mandatory subject of bargaining.   Therefore, any suggestions to change the current instruments require collective bargaining. The Director of Human Resources, at the direction of the District Superintendent, has begun working on ways to standardize the evaluation process throughout the organization and establish more meaningful evaluation instruments that enhances communication between employees and their supervisors and focus on goal setting.

◆ The Director of Human Resources certifies payroll on a biweekly basis. However, a comparison of data to the previous payroll or review of a payroll change report is not performed. Given the number of employees of the BOCES the mere review and certification of the payroll many not minimize the risk that payroll is not misstated to an acceptable level. We recommend the BOCES consider developing a payroll change report that identifies only changes in each employee's gross payroll between pay periods for review of the Director of Human Resources every pay period.

Management Response: The Director of Human Resources will work with the Business Administrator to develop payroll change reports that identifies only changes in employees' gross pay between pay periods.

◆ File cabinets containing employee data files are not locked but are kept closed. These files are accessible by any employee who has keys to the file room. We suggest that the BOCES maintain all personnel and employee data files in locked cabinets accessible by only the human resources and payroll departments.

Management Response: In 2017, the Human Resources (HR) Division contracted for locksmith services to lock all personnel and employee data file cabinets. Only designated staff members of the HR Division have keys to such file cabinets.

◆ The BOCES produces an employee handbook that sets forth rules and expectations for all BOCES employees to help ensure that information required by law to be disseminated to each employee is complete and consistent with BOCES' policies. However, the handbook has not been updated since 2009. We recommend the BOCES update its employee handbook to ensure all the rules, expectations and policies are current. Furthermore, the BOCES may consider requiring all employees to electronically certify that they have reviewed the employee handbook on an annual basis to ensure all employees have knowledge of and understand relevant employee rules. Expectations and policies.

Management Response: The Human Resources Division will work in conjunction with the Labor Relations and Policy Services Division to revise our current handbook for the 2018-19 school year.

◆ Probation periods are 26 weeks for classified employees and 4 years for tenured employees. Upon inquiry with Director of Human Resource leadership, the BOCES does not have a standardized process for evaluation of non-teaching employees during their probationary period. This process should include formal written evaluations at specific points during the probationary period documenting the employee's performance during the probationary period and recommendations for improvement. These evaluations would then be used as a basis for determining if the employee qualified for permanent placement for tenure.

Management Response: As part of the organizational review of our system of evaluation, we will look at the evaluation process for probationary employees.

◆ The BOCES maintains two separate systems through which employee paid time off is tracked. Requests are initiated via e-form. Approved requests from the e-from system are reformatted and uploaded to WinCap web on a weekly basis, often resulting in a one week lag differential in PTO balances reported in the two systems. WinCap is capable of tracking PTO activity and balances. We recommend that the BOCES evaluate utilizing WinCap to track and account for PTO activity. Utilizing one system would eliminate the time spent to reformat and upload the data from the e-form system into WinCap, employee confusion over inconsistent data reported in the two systems due to timing differences and staff time spent responding to staff inquiries.

Management Response: The Human Resources Division will form a committee to evaluate the utilization of WinCap web for purposes of reporting and tracking attendance.

◆ According to IRS Publication 969, unused FSA balances revert to the employer at the end of the plan year. The BOCES is not transferring unused FSA funds to the general fund upon expiration of the plan year. We recommend that the BOCES comply with IRS Publication 969 and transfer unused employee FSA balances from the T&A to the general fund at the close of the plan year.

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Management Response: Management has met with our benefit provider to gain an understanding of our requirements regarding the IRS publication 969 and will fulfill those requirements beginning with the fiscal year 2018-2019.

General Ledger

◆ The Treasurer, Supervising Account Clerk and Business Administrator have the ability to re-open accounting periods that have been previously closed. We recommend the ability to re-open an accounting period be limited to the Business Administrator.

Management Response: Management will change the access to General Ledger cycles to only the Business Administrator or his/her designee.

◆ Currently there is no formal review and approval of journal entries prepared by the Deputy Treasurer or Treasurer. We recommend a report of all general ledger entries posted for the month be reviewed for any irregularities or unusual entries and approved by an individual who is independent of the processing of journal entries. The review should subsequently be documented on the report and filed with all the documentation supporting the journal entries. The BOCES may also consider establishing controls within WinCap that would allow for journal entries to be reviewed and approved by appropriate individuals online and prohibit an accounting period from being closed without all journal entries first being reviewed and approved. Furthermore, we suggest the Business Manager maintain a log of all journal entries to ensure all entries are reviewed

Management Response: Management will develop a procedure for electronic journal entry and cash receipt approval effective the beginning of the next fiscal year.

Wire Transfers and Banking

◆ The BOCES has not contacted local banks, other than Board approve banks, confirming any accounts utilizing the BOCES' EIN number. There is a risk that administrators or other outside organizations may have opened accounts utilizing the BOCES' EIN number. We suggest the BOCES consider contacting local banks every 5-10 years to provide the BOCES with a listing of all accounts under the BOCES' EIN number. Any unauthorized accounts should be investigated and corrective action taken.

Management Response: Management appreciates the recommendation and will review again as needed.

◆ BOCES wire transactions are not performed on a dedicated, stand-alone computer without e-mail and web browsing capabilities. We recommend the BOCES assign one dedicated, stand-alone computer solely for transacting wire transfers in an effort to increase security over BOCES banking transactions.

Management Response: Management will determine the feasibility and cost associated with this recommendation.

Fixed Assets

◆ The BOCES uses the Asset 4000 system to track and maintain their fixed asset inventory, both the BOCES inventory and assets leased to school districts. The BOCES has been unable to reconcile their internal fixed asset inventory to the information contained in their audited financial statements. We recommend the BOCES develop a process to assist in the reconciliation of their internal fixed asset inventory records to the information used in updating the fixed asset values included in their audited financial statements. This would include periodic reconciliation of:
  o Asset purchases recorded in the WinCap system (both BOCES assets purchased out of equipment general ledger account codes and assets purchased out of the RIC CoSer for school districts) to asset addition reports produced by the Asset 4000 system; and
  o Disposals approved by the Board for BOCES assets and disposal records from technology recycling centers for school district technology assets to deletion reports produced by the Asset 4000 system.

  Management Response: Management is in the process of establishing a monthly report process..

Computer System Controls:

◆ The Executive Director of Administration and Operations has access to all modules of the WinCap Accounting System. The responsibilities of this position has changed recently and they are no longer responsible for overseeing the daily activity of the finance office. We recommend the BOCES evaluate the level of access necessary for this position limiting the ability for management override of controls.

  Management Response: Management has evaluated the level of access and removed access rights to those areas deemed unnecessary.

◆ The BOCES' WinCap Accounting system is password protected; however, the system does not log users out of the system after a period of inactivity. We recommend the BOCES implement additional system securities so that users are logged out of the system after a period of inactivity.

  Management Response: Management has implemented additional securities on the system so that it will time out after a period of inactivity.

INTERNAL AUDIT PRIORITIES

◆ Accounting software and information technology – Due to vulnerabilities and new attacker exploits that subject information systems at risk of cause significant disruption or loss of sensitive and valuable data, this area has been identified as being of higher risk within the BOCES. An internal audit will performing a risk assessment of the BOCES various information systems. An internal audit may also include internal and external vulnerability and penetration testing

◆ Fixed assets – Due to weaknesses identified in previous risk assessments, the results of the State Comptroller's audit and recent changes to internal controls and implementation of a new fixed asset inventory system, fixed assets were identified as the highest risk area for internal audit consideration. Our internal audit will include review of the BOCES' policies and procedures for identifying assets to be added or removed from the inventory systems. We will also compare asset additions to the general ledger .200 codes for internal assets and to district billings for technology assets purchased through the RIC. The internal audit may also include a physical inventory of a sample of assets, both at the districts and internally, that are at higher risk of being lost or stolen. This area was last tested in 2013 with some significant control deficiencies.

◆ General Ledger Maintenance - Because of the control risk associated with unauthorized access to the BOCES' general ledger and lack of monitoring of general journal entries this has been identified as an area of higher risk. We will review general journal entries prepared by management to verify that they have a business rationale, are supported by appropriate documentation and are approved by supervisory management.

◆ Purchasing and Cash Disbursements - Due to the inherent risks associated with purchasing and cash disbursements for BOCES in general this area has been identified as an area of higher risk within the BOCES. We will include selection and testing of cash disbursements from throughout the BOCES to verify that the purchases were reasonable and necessary, were properly approved, and there were available appropriations. We will also verify that all BOCES purchasing policies and internal controls have been followed and that the transaction was supported by appropriate bid or quote information. This area was last tested in June 2010.

◆ Payroll - Due to the financial and inherent risks associated with payroll for BOCES in general, this area has been identified high risk within the BOCES. We will test payroll registers for selected employees to verify that employees listed are employed by the BOCES and are paid in accordance with their contract.   We will test hourly employees to verify that the hours paid are supported by time sheets and that the time sheets have been approved by a supervisor and that they have been paid the correct rates. This area was last tested in February 2012.

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RISK ASSESSMENT SUMMARY

Risk Factors>>> (Definitions of the Risk Categories can be found in the Appendix)	Inherent Risk Factors									Control Risk Factors						Current Year Risk Score	Current Year Rating		Prior Year Risk Score
	Ext Mkt Rep	Financial	Operational	Legal/Regulartory	Stratgic	Tech/Systerm	People/Culture	Fraud		Monitoring	Info/Communications	Control Activities	Risk Assessment	Control Enviro.					
Budgeting, Governance and Reporting	L	M	L	L	L	L	L	L		S	S	S	S	S		212	11		212
State Aid	L	L	L	L	L	L	L	L		S	S	S	S	S		200	12		200
Grants	L	M	M	M	L	L	L	L		S	S	S	S	S		234	5		212
Centralized Billing and Cash Receipts	L	L	M	L	L	L	L	L		S	S	M	S	S		233	6		200
Cash Receipts - Workforce Development	L	L	M	L	L	L	L	L		S	S	M	S	S		233	7		200
Purchasing and Cash Disbursements	L	H	L	L	L	L	L	L		S	S	M	S	S		247	3		224
Payroll	L	H	M	L	L	L	L	L		S	S	S	S	S		234	4		234
Employee Benefits and Paid Time Off	L	M	L	L	L	L	M	L		S	S	S	S	S		225	9		212
General Ledger Maintenance	L	L	M	L	L	M	L	L		M	S	M	S	S		270	2		200
Wire Transfers	L	L	M	L	L	L	L	L		S	S	M	S	S		233	8		243
Fixed Assets	M	L	L	L	L	M	L	M		M	M	S	S	S		286	1		321

Risk Factors>>> (Definitions of the Risk Categories can be found in the Appendix)	Inherent Risk Factors									Control Risk Factors						Current Year Risk Score	Current Year Rating		Prior Year Risk Score
	Continuance of Business	Communications/Network	Business Units Served	Complexity of Env.	Staffing	Availability/Response	Computing Platform	Information Sensativity		Monitoring	Info/Communications	Control Activities	Risk Assessment	Control Enviro.					
Information Technology	L	L	L	L	L	L	L	L		M	S	s	S	S		222	10		223

BUSINESS RISK ASSESSMENT AND INTERNAL AUDIT STRATEGY

Governance, Budgeting and Reporting

Overview of Business Area

Budgets are started in September and are based on salary projections, cost increases and internal service charges (O&M). This information is used to develop program prices for the Directory of BOCES' services that is released in December for the following fiscal year. Component Unit Districts are required to submit on-line participation estimates no later than March 1st for preparation of the BOCES' Budget Book. The Districts then have until May 1st to finalize their budget for BOCES services for the following fiscal year. Once the May 1 budget is finalized, each division is responsible for establishing the detailed COSER budget in the WinCap budget development sub-system. At this point the BOCES prepares their AS-7 which is filed with the State Education Department.

Conservative budgets generally involve an over-estimation of expenditures for administering the programs and services to ensure all costs are covered. The budget is presented, modified and eventually approved by management and the BOCES Board of Education. The BOCES' administrative budget is also approved by the component school districts. The budget outlines the financial goals and objectives of the BOCES for the year.

The BOCES revenue budget is based on billings to the component and non-component school districts for the services they have requested. Budgeted revenues equal budgeted expenditures, with overhead costs billed to the Districts based on the Resident Weighted Average Daily Attendance (RWADA) provided by the State Education Department.

Districts may modify the services purchased from the BOCES upon filing change orders. Change orders must be signed by the participant District Superintendent. The Senior Account Clerk processes all budget amendments and budget transfers upon approval of the Executive Director of Finance and Information Services and the Treasurer.

The baseline budget will be adjusted throughout the year as participant districts modify their student counts and participation levels for various programs. Actual results are compared to the approved budget by management on a regular basis. The District's monitor the BOCES activities through the BOCES' billings to the Districts. On a monthly basis, the Board reviews the budget increases and decreases and reviews all budget transfers in excess of $20,000. If there are excess revenues at the end of the year, BOCES will return these amounts to the participating school districts. These refunds have been fairly consistent in previous years.

On a monthly basis, the Board receives a treasurer's report, a summary of appropriations by division and all budget amendments in excess of $20,000.

Board policies govern the operations of the BOCES. Policies are reviewed routinely and updated as deemed necessary. The Board recently completed a policy review. Key employee policies are reviewed with staff on opening day. Staff are required to sign off that they have read and understand the policies.

Business Objectives

The budget accurately reflects the goals and objectives of the BOCES and is reasonable. Monitoring of the BOCES activities occurs regularly so issues can be addressed in a timely manner.

Potential Significant Risks

The following are general, potential risks for this area that may or may not exist or be present at the BOCES:

◆ The budget may not accurately reflect the goals and objectives of the BOCES and may not be reasonable. If the BOCES does not effectively monitor program expenditures, it could affect the refund to the districts at the end of the year.

◆ Monitoring of BOCES activities may not occur on a timely basis impeding the BOCES' ability to address issues in a timely manner.

Internal Audit Strategy

Internal audit will review the budget process including how costs and billing rates are developed to gain comfort that the budgets developed by the BOCES are reasonable. We will review with the Board their practices for monitoring the financial operations of the BOCES and verify they understand the information that is provided to them.

STATE AID

Overview of Business Area

Any aid BOCES receives must be paid to each participating school district based on their level of participation within the various programs the previous fiscal year (except for rental and capital expenditures which are aided on a current basis). This is known as District Shared Services Aid. Expenditure data from the WinCap system is downloaded into the State Education Department's Data Entry Assistant (DEA) system by the Treasurer.   This information is used to generate the BOCES state aid payments that are subsequently forwarded to the districts. This information is reviewed and verified by the Treasurer and the Executive Director of Finance and Information Systems. The Treasurer monitors expenditures by district and reconciles this information to the state aid by district as reported by SED to ensure the information is accurate.

Business Objectives

To ensure the information submitted to SED which is used to generate aid is accurate. Verify the BOCES is properly allocating all state aid payments to the respective school districts based on their level of participation in Erie 1 programs.

Potential Significant Risks

There is a potential risk the information submitted to the state that is used in state aid calculations is not accurate. There is a potential risk the BOCES does not properly allocate all of the state aid payments to the school districts based on their level of participation in Erie 1 programs.

Internal Audit Strategy

Internal audit will include reviewing information submitted through DEA to ensure accuracy. We will also obtain state aid payments and verify the amount of state aid received is accurate. We will verify allocations to the school districts to ensure they are accurate and all state aid payments have been properly forwarded to the school districts.

GRANTS

Overview of Business Area

Each division is responsible for initiating their grant requests (FS-10's) through SED. Grant budgets are forwarded to department supervisors and the Finance Office for approval. Once approved by the Finance Office it is submitted to SED for approval. Budgets for long standing grants are entered into WinCap upon submission to SED, budgets for others are entered upon approval by SED.

Program Directors have access to WinCap appropriation status reports and are responsible for monitoring program. Voucher requests for the state grants and draw down requests for entitlement (federal) grants are prepared by the program directors or their designee and are reviewed by the Treasurer to ensure all expenditures have been included in the voucher request.

Employees paid with grant funding are required to complete payroll certifications. Each division director (in charge of grant) is responsible for follow-up to ensure that all time/payroll certifications are being completed as required.

Program directors/coordinators appear to be competent and understand grant objectives, perform evaluations of program operations and monitor results on a monthly basis.

Business Objectives

Grant programs are delivered in compliance with grant provisions. The goal is to ensure program services are provided to eligible participants, eligible participants are receiving program services, and the grant program results can be measured to ensure the program is achieving the desired results.

Potential Significant Risks

Grant programs may not be delivered in compliance with grant provisions. Costs of the program incurred may be disallowed by the granting agency and the BOCES would be required to return the funds. The grant program results may not be measured to ensure the program is achieving the desired results.

Internal Audit Strategy

Internal audit will include a review of various grants and the goals and objectives of these grants. We will test program expenditures to ensure the expenditures are provided for in the budget, are reasonable, and benefit the program. We will test eligibility to ensure program services are provided to eligible participants. We will review program reports to granting agencies to see if program objectives are met and measurable goals are obtained. Internal audit will also include reviewing the Due To Other Governments account for the Special Aid Fund to determine the proper disposition of these grant funds.

Billing and Cash Receipts

Overview of Business Area

Upon completion of the BOCES budget and filing the AS-7 with SED, AS-7 contracts are provided by the BOCES to each component school district. AS-7 contracts are required to be signed and returned to the BOCES no later than August 1st.   Any changes to services are required to be signed by the Superintendent of the respective school district and are processed as change orders by the Billing Senior Account Clerk for Contract Billing.

Each District is billed on either a 10 or 12 month cycle for services provided based on their contracts. Billings are dependent upon the type of service provided and are based on usage (billed throughout the contract period), per student, per district, per square footage, or other approved method. Invoices are generated from WinCap and mailed to the school Districts by the Senior Account Clerk for Contract Billing.

The most significant cash receipts are received by check (district payments) or wire transfer (state aid). Cash receipts for contracted services are received primarily at a JP Morgan Chase or M&T Bank lockbox (depending on who has better interest rates). The bank will deposit the checks and forward copies of the checks and supporting documentation, the bank deposit receipt, and a listing of all checks deposited to the BOCES on a daily basis. The Senior Account Clerk matches the receipt to the supporting documentation and enters the receipt into the WinCap system. There is a negligible amount of physical cash received by the BOCES.

All other checks and cash received at the BOCES are recorded in a daily log/Excel spreadsheet by the Finance Department's Data Processing Control Clerk in Purchasing. These include parking fees, ERS and TSA refunds, etc. The checks/cash are then forwarded to the Senior Account Clerk who recounts the cash receipt and determines the revenue account the receipt should be posted to and prepares the bank deposit slip. The cash, checks and bank deposit slip are then forwarded to the Deputy Treasurer who enters the receipts into WinCap. The cash receipts are then returned to the Senior Account Clerk who delivers the deposit to the bank.

For JP Morgan Chase & M&T deposits, the BOCES utilizes a check scanning machine to deposit checks into the bank. All other deposits are taken to the appropriate bank. The bank receipts are given to the Senior Account Clerk who matches the receipt to the supporting documentation and enters the receipt into the WinCap system. The daily deposit is compared to the total daily receipts per the cash receipt log to ensure all receipts are deposited at the bank. Written receipts are provided to payers only when requested.

Retiree health insurance payments (and COBRA payments) are mailed to a separate lockbox at Chase. The Senior Account records the payments received into WinCap against the receivable record. The Senior Personnel Clerk for Human Resources monitors the receivables and sends out late notices as deemed necessary.

The Treasurer has been given the authority to write off uncollectible receivables, although this rarely occurs and the amounts are generally a few cents.

Revenue and expenditures are monitored on a consistent basis by Management and the Board.

Business Objectives

To ensure billings are accurate and all receipts of the BOCES are properly safeguarded and recorded.

Potential Significant Risks

There is a potential risk of misappropriation of cash receipts or inaccurate billings that may negatively affect cash flow.

Internal Audit Strategy

Internal audit will include reviewing source documents, including signed contracts and contract adjustments, tracing source information to bank deposit, posting to the general ledger, and posting to the cash receipt log. We will verify the selected cash receipt was properly recorded in the general ledger and verify the corresponding deposit was made in a timely manner.

CASH RECEIPTS - WORKFORCE DEVELOPMENT

Overview of Business Area

The BOCES actively posts all current Workforce Development programs offered by the BOCES to the Erie 1 website. Although most student registration is done online, students can register for Workforce Development classes by mail or in person and pay by check, cash or credit card. The fees for books, supplies, and materials are included in the registration fees. Registration payments are collected by any one of the five secretaries in the Workforce Development office.

Registration information and cash receipts for registrations and class books are then forwarded to another secretary who enters the registration information into the Xen-Direct system and produces a receipt which is provided to the payee. A daily financial deposit report is printed from Xen-Direct.. The daily cash receipts, financial deposit report and deposit slip are then forwarded to the Data Processing Clerk in the Finance Office to enter into the cash receipts log. The BOCES then follows its centralized cash receipt process.

The Xen-Direct system also produces class lists for the instructors. Registrations and payments are not accepted by instructors.

Refunds are approved by the Supervisor for Workforce Development, entered into Xen-Direct by one of the secretaries and processed by the Accounts Payable Department for cash or check payments or by the Workforce Development Office for credit card payments.

Cash receipts in the vocational education classes for cosmetology and spa services are manually receipted by the students. The cash received and a copy of the receipt is then submitted to the instructor. The instructor then verifies the revenue received against the receipts and forwards the daily cash receipts to the main office where it is counted again. The cash receipts are then forwarded to the Data Processing Clerk in the Finance Office and follows the same cash receipt and deposit process noted above. The Deputy Treasurer reconciles the Cash Receipt Entry Sheets and the Xen-Direct reports each month to the bank statement.

All bank deposits are made by the Senior Account Clerk in the Finance Department.

Business Objectives

To ensure revenue collected in the Workforce Development and vocational education programs are adequately safeguarded and recorded.

Potential Significant Risks

The risk of misappropriation of cash receipts is a general, potential risk that may or may not exist or be present at the BOCES.

Internal Audit Strategy

The Internal audit will include reviewing student registration forms and/or class lists, tracing student registration forms to the daily financial deposit report generated from Xen-Direct, reviewing the bank deposit and the amount posted to the general ledger. We will verify the selected cash receipt was properly recorded in the general ledger and the corresponding deposit was made in a timely manner.

PURCHASING AND CASH DISBURSEMENTS

Overview of Business Area

BOCES will bid out purchases in accordance with General Municipal Law bidding requirements. The Purchasing Manager is responsible for preparing and receiving the bids. Vendors are ultimately approved by the Board and provided to all BOCES departments. The BOCES has also adopted policies for obtaining vendor quotes for purchases in excess of $500 but below bid thresholds.

Purchase requisitions are entered into WinCap by the Building/Department Clerks and approved on-line by the Department Supervisor/Director. The request must also be approved by Purchasing Manager, who ensures the purchase is reasonable and necessary and accompanied by appropriate quote and bid information. A purchase order can be processed and cause the budget to be negative due to the changing nature of the services BOCES provides. This is allowed and monitored by the Business Administrator who will make the budget transfer. Budget transfers must subsequently be approved by a Director.

Once the requisition is approved by the Purchasing Manager, a Purchasing Clerk will print the purchase order (PO). Copies of the PO are forwarded to the requisitioning secretary, the central warehouse, Accounts Payable Department and mailed to the vendor.

Once a receiving copy of the purchase order and the invoice are received by the Accounts Payable Department, the payment will be processed by a clerk in the Accounts Payable Department in the WinCap system. The Accounts Payable Clerks will print a preliminary warrant on a daily basis and forward the vouchers to the Internal Claims Auditor. The Internal Claims Auditor (now a contracted service through the CBO's Policy & Services CoSer) audits all claims of the BOCES.

The BOCES can also process payments through M&T Supplier Pay Accounts whereby vendors are paid via a electronic transfer instead of by check. Approximately 120 vendors are paid through this process. All such payments are on a separate warrant each payment cycle.

The Internal Claims Auditor audits the voucher packets against the preliminary warrant. Once the voucher package is approved by the Claims Auditor, the voucher packets are returned to the accounts payable department for processing and the checks are printed. The Internal Claims Auditor will sign the final warrant and return it to the Accounts Payable Department.

Once the Claims Auditor has reviewed and signed the final warrant the checks are mailed to the vendors.

Cash disbursements are processed by the Accounts Payable Clerk twice a month. Blank check stock is readily available and the Treasurer's signature is online. The Treasurer needs to input a password to access the signature and process the checks. The Business Administrator and Supervising Account Clerk are also authorized signors on the checks.

The Purchasing Manager and Senior Account Clerk can establish new vendors. The Purchasing Manager reviews the report of new vendors on a monthly basis.

BOCES has three credit cards which are kept in the building at all times. The cards are maintained in a secure location by the five authorized signers on the cards: Executive Director of Finance & Information Systems, Executive Director of Human Resources, Senior Supervisor for Workforce Development, Purchasing Manager and the Business Administrator. There are different card numbers but they are on the same statement. The credit cards are generally not used for travel, conferences or meals. Receipts are required for all credit card purchases listed on the statement.

Expenditures are compared to the budget by management on a regular basis.

The BOCES Finance Office is working in conjunction with the Claims Auditor to establish new criteria for enhanced reporting and inter-departmental communication.

Business Objectives

To ensure purchases are reasonable, necessary, benefit the BOCES, and are provided for in the budget. The BOCES' goal is to have procedures in place that will allow for an effective purchasing system that prohibits circumvention of the internal controls over cash disbursements.

Potential Significant Risks

Purchases may not be reasonable, necessary or may not benefit the BOCES. Purchases may not be properly approved or provided for in the budget. Employees may not be following the BOCES' purchasing policies or may have circumvented the internal control policies and procedures over purchasing.

Internal Audit Strategy

Internal audit will include selection and testing of cash disbursements from throughout the BOCES to verify the purchases were reasonable and necessary for BOCES, were properly approved, supported by the appropriate documentation, and there were available appropriations. We will also verify the employee has followed all BOCES purchasing policies and the transaction was supported by appropriate bid or quote information. Open purchase orders will be reviewed for frequency of renewal in addition to the procedures listed above. We will test claim forms submitted for reimbursement to verify the expenditure is reasonable and necessary for the BOCES and employees are not submitting the forms for expenditures to circumvent the internal control policies and procedures over purchasing.

We will also include tests of specific types of disbursements such as travel, conferences, and meals that may pose a higher risk of not complying with the BOCES' policies and specific vendors that may be more susceptible for fraud. We will review a series of warrants and verify there is no break in the check sequence. We will also review expenditures to determine if they are recorded in the proper period.

Internal Audit will be expanded to determine if the Internal Claims Auditor is meeting with the Audit Committee on a regular basis to discuss any findings. We will also review the process for adding new vendors to the system to ensure there is a formal approval process and a proper segregation of duties.

PAYROLL

Overview of Business Area

All salaries, hourly rates and additional pays are established by respective contracts which are approved by the Board. Once new employees have been set up in WinCap by the Human Resources Department, the employee is "activated" by the Payroll Department. Employee data files are updated daily for employee additions, deletions, changes to withholdings, salary, etc. by the Human Resources Department. The Payroll Department cannot update or modify employee data files other than employee withholdings. The maintenance of employee data files is routine and appear to be maintained by experienced employees. The most significant updates occur when annual contract salaries are updated. The Human Resources Department establishes all salary tables in WinCap. The Human Resources Clerk will review all salaries, by individual, to ensure the salaries for the ensuing year are accurate. The Payroll Clerk spot checks a sample of employees and adds pay frequencies. Benefit deduction tables are updated by the Treasurer, payroll deductions are updated by the Payroll Clerk, and federal and state withholding tables are updated annually in WinCap. Salary notices are generated from WinCap and sent to all employees any time their salary changes. The salary notices are reviewed and signed by the Executive Director of Human Resources. The employee is not required to sign and return the notice.

Payroll processing includes processing all contract salaried employees, hourly employees and all payroll claim forms. Every department/division prepares an attendance summary, which is signed by the department supervisor, and is forwarded it to the Payroll Clerk. The Payroll Clerk inputs the time sheets and claim forms, compares the time sheets to the attendance summary, processes the payroll, prints the checks, transmits the direct deposit, and distributes/mail checks to the appropriate departments or employees. Processing is routine but the data entry of employee hours and payroll claim forms is labor intensive. Edit reports are reviewed prior to payroll processing for any unusual data. The Executive Director of Human Resources and Professional Development reviews and certifies all payroll registers and also reviews and sign off on the Employee Record Changes Report monthly.

The blank check stock is in the custody of the Division Principal Clerk Typist who is independent of the payroll processing function.

Business Objectives

To ensure employees of the BOCES are paid in accordance with their contract for the hours worked and internal controls prevent fictitious employees from being entered into the BOCES' payroll system.

Potential Significant Risks

Employees of the BOCES may not be paid in accordance with their contract for the hours worked. The time sheets and other stipends may be paid without proper authorization and the internal controls may not prevent fictitious employees from being entered into the BOCES payroll system.

Internal Audit Strategy

Internal audit will include testing payroll registers for selected employees to verify employees listed are employed by the BOCES, are paid in accordance with their contract, and properly approved by the Board. Special attention will be paid to management and employees who have access to the payroll system. Testing will be conducted on hourly employees to verify the hours paid are supported by time sheets, the time sheets have been approved by a supervisor, and they have been paid the correct rates. We will also test extra pay items to verify the payments are for hours worked or stipends approved, the payments have been approved by a supervisor, and they have been paid the correct rates. We will also review a series of payroll registers to ensure there has been no break in the check sequence. We will verify the payroll registers have been certified in a timely manner.

EMPLOYEE BENEFITS AND PAID TIME OFF

Overview of Business Area

Paid Time Off:
Paid time off (PTO) benefits are provided for in employment contracts and are well documented, monitored, and managed. Time off requests are submitted electronically through the BOCES' intranet using the e-form system. All time off requests are reviewed and approved by a supervisor. . This information is reviewed weekly by the Human Resource Department and balanced to the attendance information maintained by the building Attendance Clerks. Once verified and balanced, the time off information is down loaded into WinCap for processing and updating. Time off information is available to all employees and supervisors at any time through the WinCap system. A final reconciliation of available time off information is performed by the Attendance Clerks in July with the individual employees. In addition, the divisions will confirm the attendance records for a sample of their staff in January of every year.

Health Insurance:
Other employee benefits consist of health, dental, vision and prescription coverage through the NY 44 Health Benefits Plan Trust with Independent Health as the insurance carrier/provider. Dental coverage is also offered but is optional. A new employee and employees requesting any changes must complete the an application, which is reviewed and approved by the Human Resources Department and forwarded electronically to The Health Benefits Plan Trust who forwards it to Independent Heath. The original application is kept on file at BOCES. The Human Resources Benefit Clerk receives a copy of the application and will input the changes into WinCap, which is then reviewed by the Payroll Clerk for accuracy.

The health insurance invoice received from the Trust is processed for payment by an Account Clerk; who maintains a spreadsheet reconciling the employee with holding and the BOCES health insurance expense to the invoice. Once reconciled, the Account Clerk approves the invoice for payment. A spreadsheet is also completed for employees who elected COBRA coverage for health insurance and are invoiced by a Third Party Administrator, NOVA for health benefits and by ProBenefits for dental coverage.

Retiree Health Insurance:
There are approximately 150-200 retirees for whom the retiree is billed by the BOCES for health insurance coverage. Retirees are billed in advance by the BOCES for the retiree's health insurance. Accumulated sick days can be applied towards health insurance credits at the time of retirement and be used to pay retiree health insurance premiums. Accumulated sick days available for health insurance are monitored by the Human Resource Coordinator. At the time of retirement, the Human Resources Coordinator calculates benefit available to the retiree and sends them a letter of the benefits available to them. The Senior Account Clerk maintains a file that details each retiree's available sick day credits available to pay the retiree's health insurance until the credits are exhausted. Only one employee- a former Superintendent, is receiving lifetime health care coverage paid 100% by BOCES. Independent Health is responsible for checking the social security master death file and will notify BOCES of any retirees who have passed away so the BOCES can cancel the retiree's health insurance coverage.

403b, Deferred Compensation Plan and 457 Plan:
Employees have the option of contributing to a 403b, a Deferred Compensation Plan or 457 Plan, depending on their contract and position. Plans are administered by the OMNI Group. The employee completes an application on-line including the percentage they want withdrawn every paycheck. Once OMNI receives the application, they will input the employee's information into their system and send an OMNI Changes/Approved Report or confirmation to the Payroll Clerk, listing the effective date, employee name and social security number, fund name, percentage of salary to be deducted, and the maximum amount they are allowed to contribute for the year. The Payroll Clerk will input the information to WinCap to begin the deductions.

After every payroll, a detailed 403b and 457 Deduction Report is generated from WinCap indicating the amount withheld from employee's paycheck. The Payroll Clerk agrees the detailed report to the WinCap Payroll Deduction Report to ensure they agree. Once they agree, the detailed report is sent to OMNI through a secure website. The Supervising Account Clerk will complete an ACH withdrawal from the BOCES bank account for the amount shown on the report and remit the funds to OMNI. The Deputy Treasurer will print a copy of the wire and subsequently verify the transfer against the bank statement.

Flex Spending:
The District offers flexible spending accounts for dependent care and health care expenses. The plan is administered by Benefit Resource who monitors contributions, claims, and payouts. Employee contributions towards their flex spending account are transferred into the BOCES' flex spending account every pay period. Once a claim is received and verified, Benefit Resource will complete an ACH withdrawal from the BOCES' Flexible Spending Account. The Supervising Account Clerk will verify the correct amounts were withdrawn by Benefit Resource.

ERS and TRS:
Employees complete an application to participate in the Employee Retirement System (ERS) or the Teacher Retirement System (TRS) and forward to the Human Resources Department. The Human Resources Department will send the applications to ERS or TRS and will receive a notification as to when the payroll deductions can begin. Once the information has been input to WinCap, monthly reports are sent to ERS/TRS of employee contributions. ERS will complete an electronic withdrawal from the BOCES bank account on a monthly basis for the employee's contributions and then invoices the BOCES at the end of the fiscal year for the BOCES' portion of contributions for the year. TRS will subtract the employee's and the BOCES' portion of the contributions from state aid received throughout the year.

Business Objectives

Internal controls are properly designed and operating effectively to ensure employees of the District are paid in accordance with their contract for benefits earned and available. The appropriate controls are in place to ensure employees, retirees, and resigned/terminated employees pay the correct amount towards their insurance premiums. For the 403b and 457 plans, we will ensure the appropriate funds are withheld from employee's paychecks and subsequently transferred to the 403b or 457 plan sponsor/administrator and employee contributions are within allowable legal limits.

For flexible spending accounts, we will ensure the correct amounts are withdrawn from the employee's pay and the correct amounts are remitted to the plan administrator for claims. For ERS/TRS contributions, we will ensure the correct amounts are withheld from the employee and remitted to ERS/TRS.

Potential Significant Risks

The following are general, potential risks for this area that may or may not exist or be present at the BOCES:

- ◆ Employees may receive more PTO benefits than they are entitled to under their contract or they may exceed the benefits available to them.
- ◆ Employees, retirees, and resigned/terminated employees are not paying the correct amount towards their insurance premium.
- ◆ An incorrect amount is transferred to the 403b and 457 plan sponsor and employees are contributing beyond the allowable legal limits.
- ◆ Incorrect amounts are withdrawn from employee's pay and remitted to the plan sponsor for flexible spending accounts.
- ◆ Incorrect amounts are withheld from the employee and remitted to ERS/TRS.

Internal Audit Strategy

Internal audit will include:
- ◆ Testing of the benefits made available to employees on an annual basis and the benefits used do not exceed the benefits available.
- ◆ We will also test individuals covered by health, dental, prescription, and vision insurance to ensure the correct premiums are withheld from their paychecks, paid directly to the BOCES by retirees and individuals electing COBRA benefits, and only eligible employees are receiving coverage.
- ◆ We will ensure the correct percentage and maximum limits have been input to the system for 403b and 457 contributions.
- ◆ We will ensure the correct amounts are withheld from employee's pay for flexible spending accounts and the proper amounts are withdrawn from the BOCES' bank account by the plan administrator.
- ◆ We will review amounts withheld from employee's pay for ERS/TRS contributions to ensure the correct amounts have been withdrawn and remitted to ERS/TRS.

GENERAL LEDGER MAINTENANCE

Overview of Business Area

General ledger reporting activities are fairly simple and routine. Only the Treasurer and Deputy Treasurer have access to the general ledger module. General ledger operations are monitored through the reporting process. General journal entries are prepared primarily by the Deputy Treasurer but also the Treasurer, as deemed necessary. Actual results are compared to the approved budget by management on a regular basis. Common journal entries would include due to/from, year-end adjustments, wire transfers, RAN payments, etc.

Bank reconciliations are prepared by the Deputy Treasurer (payroll, credit card and Trust & Agency accounts) and the Senior Account Clerk (all others). The Treasurer's Reports are reviewed by the Treasurer prior to being filed with the Board.

Accounting periods are closed within 30 days of month end.

The only approved signatures for checks are the Treasurer's and the Business Administrator, each accessible online and password protected. Checks only require one signature. The Accounts Payable Clerk and the Payroll Clerk use their passwords to get into WinCap to print checks, but the Treasurer or Business Administrator must input their password for the Clerks to be able to access the signature file. The Deputy Treasurer keeps track of the check numbers printed. Blank check stock is locked up and the Principal Clerk Typist maintains the key.

Only budget transfers in excess of $20,000 must be approved by the Board. Transfers are requested and must be approved by respective division Directors. They are then sent to the Treasurer who ensures that the transfer is within the same COSER. The Senior Account Clerk maintains a log of all transfer requests and assigns them a number. Transfers are entered into WinCap by the Senior Account Clerk. The Secretary to the Executive Director of Finance and Information Systems prepares a monthly report of all budget increases and decreases regardless of dollar amount for the Board to review, along with any budget transfer requests exceeding $20,000 that the Board must act upon.

Business Objectives

Internal controls over general ledger maintenance are properly designed and operating effectively to ensure financial information can be relied upon. Monitoring of BOCES activities occurs regularly so that issues can be addressed in a timely manner.

Potential Significant Risks

There is a potential risk the internal controls over general ledger maintenance are not properly designed or are not operating effectively. This may subject the BOCES to the risk of fraud. There is a potential risk the financial information generated from the general ledger cannot be relied upon, which would hinder the BOCES' ability to make appropriate financial decisions. There is a potential risk the monitoring of BOCES activities may not occur on a regular basis impeding the BOCES' ability to address issues in a timely manner.

Internal Audit Strategy

We will review general journal entries prepared by BOCES personnel to verify they have a business rationale, are supported by appropriate documentation and are approved by management. We will review with the Board their practices for monitoring the financial operations of the BOCES and discuss with them their understanding of the information that is provided to them.

WIRE TRANSFERS

Overview of Business Area

The Deputy Treasurer will provide the Treasurer with a report of the wire transfers that are needed. The Deputy Treasurer prepares the wire transfer form and initiates the wire transfer on-line with First Niagara Bank. The Treasurer then goes online and releases the wire. Once the transfer is complete, the Treasurer will receive confirmation from the bank that the transfer was completed. This confirmation is maintained in a log with supporting documentation of the wire.

The BOCES has a debit block on their Chase accounts restricting which entities are allowed to withdraw from their account. The only transfers outside of the BOCES accounts are OMNI payments, Benefit Resource, and Federal and State withholding. The Deputy Treasurer prepares the wire transfer form and initiates the wire transfer on-line with Chase. The Treasurer then goes online and releases the wire.

All transfers require secure passwords, and only the Deputy Treasurer, Treasurer, and the Business Administrator have passwords to initiate or release wire transfers with the banks.

Business Objectives

Internal controls over wire transfers are properly designed and operating effectively to ensure financial information can be relied upon. Monitoring of BOCES activities occurs regularly so that issues can be addressed in a timely manner.

Potential Significant Risks

There is a potential risk the internal controls over wire transfers are not properly designed or are not operating effectively. This may subject the BOCES to the risk of fraud. There is a potential risk the monitoring of BOCES activities may not occur on a regular basis impeding the BOCES' ability to address issues in a timely manner.

Internal Audit Strategy

We will review a sample of wire transfers to ensure they are appropriate and properly authorized.

FIXED ASSETS

Overview of Business Area

The BOCES Regional Information Center (RIC) purchases technology assets on behalf of its component districts and others through a CoSer service. These assets are then provided to the participating school districts, however, ownership is retained by the BOCES. For technology assets located in other districts, BOCES has started working with the districts to confirm location of the equipment and ensure that the inventory is consistent with BOCES records. The Technology Services Division has developed inventory control procedures including notification of individual districts of their responsibilities regarding proper handling, recording, and disposal of BOCES owned equipment.

The BOCES implemented the Asset 4000 Inventory Tracking System in the fall of 2010 and uses the system to maintain and track its fixed asset inventory in each of its own buildings and at the districts they serve through the RIC. BOCES instituted a five year inventory plan and 2016-17 is the 5th year of the plan. A complete physical inventory of BOCES assets was completed in May 2010 by Real Asset Management, an outside appraisal company. Internal BOCES assets are tagged with the BOCES name, serial number, and tracked in the Asset 4000 inventory system. Asset additions are made based on assets purchased through the .200 general ledger codes. A Fixed Asset Inventory Entry Form is completed for all non-technology equipment greater than $200 that is required to be tagged. The inventory system is updated annually at the end of the fiscal year. The Executive Director of Finance and Information Systems reviews asset additions annually. The BOCES is also tracking and monitoring buildings and grounds and career development equipment. This equipment is tagged, tracked, and inventoried once a year to ensure items are not misappropriated or lost.

The BOCES equipment inventory that is leased to the school districts is also tracked using Asset 4000 inventory system. All fixed assets are shipped first to the BOCES warehouse where it is entered into the Asset 4000 inventory system and tagged with an inventory tag. When the assets are shipped to the districts from the BOCES a warehouse asset tag and tracking sheet is also forwarded to the district. In some instances, BOCES cannot affix the tag themselves since the asset is in a sealed box. In such instances the district is instructed to affix the tag. Under the BOCES' inventory procedures, districts receiving these assets are sent, and required to return, an asset tracking sheet to the BOCES indicating the assets' location at the district. All BOCES owned equipment should have a BOCES tag.

Periodic physical inventories of a sample number of assets are currently being performed internally by BOCES staff. The Internal Claims Auditor will select 5-6 school districts per year, randomly select 10 assets per district, contact the district's IT department and have them verify that the assets selected are on site. BOCES has completed 60% of the inventories in the 100 districts they serve.

Business Objectives

To ensure all assets of the BOCES are safeguarded from risk of loss or misappropriation.

Potential Significant Risks

The assets may not be adequately safeguarded and may be misappropriated. A by-product of periodic physical inventories could also be the BOCES may be reporting assets to their insurance carrier they no longer have thereby potentially overpaying on their insurance premiums. This is a general, potential risks for this area that may or may not exist or be present at the BOCES.

Internal Audit Strategy

Internal audit will include review of the BOCES' policies and procedures for identifying assets to be added or removed from their inventory systems (Asset 4000). We will also compare asset additions to the general ledger .200 codes for internal assets and to district billings for district assets purchased through the RIC. Internal audit may also include a physical inventory of a sample of assets from the districts, internally, and at the career development centers that are at higher risk of being lost or stolen. Internal audit will be expanded to review the policies and procedures over monitoring equipment owned by BOCES at the school districts.

Information Technology

Overview of Business Area

The software system, WinCap, is designed specifically for school districts and BOCES and appears to be a strong accounting tool. WinCap is supported by the vendor. The BOCES also uses Real Asset Management's Asset 4000 (RAMI) system for fixed assets inventory purposes, WinCap Web for on-line paystubs and Xen-Direct for Workforce Development courses. Most employees appear to be adequately trained on the systems and vendor support is available when needed. Supervisors are required to complete network access request forms through the Erie 1 BOCES e-form system for all new employees and changes to access rights. An employee's access in WinCap is determined by their position/duties within BOCES. The Executive Director of Finance and Information Systems or the Senior Account Clerk approve all access change requests.

The Senior Account Clerk is the WinCap System Security Manager. On a monthly basis, the Deputy Treasurer will print a report of actual changes and attach the request. This report is provided to the Executive Director of Finance and Information Systems who reviews all system access changes that were performed in the WinCap system via the User Security Profile Change Report.

WinCap is a networked system within the Finance Department and all Finance Department employees having access to various modules of the system. Remote access is available, allowing staff ability to access email and shared folders and files. Only the Executive Director of Finance and Information Systems and the Coordinator of Finance Services/ Treasurer have remote access to WinCap. BOCES performs a daily backup of the WinCap system.

The BOCES network is password protected and network passwords are required to be changed every 2 months (60 days), and WinCap passwords are required to change every 6 months (180 days). The network locks the user out after three unsuccessful login attempts, and WinCap locks the user out after five unsuccessful login attempts.

All employees are required to sign an Acceptable Use Policy every year. Once per year, computers are randomly selected and checked to make sure use was within the Acceptable Use Policy guidelines.

The BOCES' Tech Support Team performs an IT risk assessment on a monthly basis through security infrastructure (Nessus) and enhanced security service, to determine any vulnerabilities to the network.

Physical access to server rooms is controlled by key card access with a back-up generator. There is a redundant server at the old OLV Hospital site maintained in cooperation with SUNY ITEC.

Business Objectives

The accounting system must be able to produce accurate, timely and reliable data when needed.

Potential Significant Risks

The accounting system may not produce accurate, timely and reliable data when needed. This could impair the BOCES' ability to monitor their finances and their ability to effectively manage business operations.   Unauthorized access to applications and data may lead to fraudulent or inaccurate transactions. Significant business disruptions could occur if back-up data is lost or inadequately controlled or if the application is unavailable for a significant length of time. Unauthorized changes to data could lead to inaccurate records.

Internal Audit Strategy
Internal audit coverage of Systems and Technology will be performed to cover:

◆ Computer server and data security controls.
◆ Business resumption and disaster recovery plan assessment.
◆ Computer desk-top management and physical security.

The assessment of computer server and data security controls will establish the need for extended application control reviews in selected business units or operational audits. The disaster recovery plan assessment will assure all major operations and computer systems/products have satisfactory contingency plans in place that are well designed and periodically tested.

INTERNAL AUDIT PLAN

The Internal Audit Plan summarized below, illustrates the detailed yearly plan estimated to complete the Internal Audit Strategy outlined in the *Business Area Risk Assessment and Internal Audit Strategy* section of this report.

The shaded areas denote the internal audits that were performed during the years 2010 through 2016. There were no internal audits performed in 2017, 2015 or 2014.

Business Area	2010	2012	2013	2016	2018	2019	2020
Lines of Business							
Governance, Budgeting and Reporting							
State Aid							
Grants							
Centralized Billing and Cash Receipts							
Cash Receipts – Workforce Development							
Purchasing and Cash Disbursements	X						
Payroll		X					
Employee Benefits and Paid Time Off							
General Ledger Maintenance							X
Human Resources and Separation Payments				X			
Wire Transfers							
Fixed Assets			X			X	
Information Technology							
Information Technology					X		

The above schedule represents the BOCES' three year internal audit plan based on the risk assessment results identified in this report with only one internal audit performed each year. The BOCES is required to perform a reassessment of risk on an annual basis. The results of the annual reassessment will be the basis for identifying internal audit priorities and determining the internal audit plan in future years.

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APPENDIX - RISK CATEGORY DEFINITIONS

INHERENT RISKS

EXTERNAL/MARKET REPUTATION

Negative Publicity – The risk of public disclosure of operations will negatively influence public perception that impacts the BOCES' ability to pass a budget and meet its strategic objectives.

FINANCIAL

Achieving Financial Goals – The risk that the BOCES will be unable to meet their financial goals and be pressured by the Board or management to take unwise or inappropriate actions to report results which meet market expectations.

Materiality – The risk that any financial reporting activity will misrepresent results by an amount that would reasonably change voter or other external third party assessments of the BOCES' performance.

Volatility – The risk that financial reporting will be inaccurate, incomplete or untimely.

Use of Significant Estimates – The risk that financial reporting activity will misrepresent actual business results due to heavy reliance on estimates, accruals, adjustments or reserves that are subjective and difficult to accurately quantify and/or associate with the occurrence of business events.

OPERATIONAL

Inefficient/Ineffective Internal Controls – The risk of inadequate or poorly designed internal controls and accountability.

Employee Error – The risk of unintentional errors by employees due to a lack of competence or training or unfamiliarity with policies and procedures.

Inappropriate Data Usage – The risk of the misuse of sensitive or confidential information by employees or other outside parties.

Non-Routine/Complex Transactions – The risk that incorrect or inconsistent handling of infrequent or complex activities could cause inconsistent financial reporting.

Compliance with Policies and Procedures – The risk that staff responsible for executing business activities will fail to comply with the BOCES' policies and procedures, whether due to lack of training, failures of communication or mindful disregard.

LEGAL/REGULATORY

Legal and Economic Impacts – The risk of direct or indirect impact on activities from changes in the regulatory environment.

Unresponsive to Legal/Regulatory/Compliance Changes – The risk that BOCES is unaware of or does not respond to changes in laws and regulations to ensure compliance.

Litigation Issues – Lawsuits can result in expensive settlements, litigation costs and corrective action (e.g. employee/customer litigation, contract/fiduciary liability, etc.).

STRATEGIC

Insufficient or Inadequate Strategic Planning – The risk that an inefficient and ineffective strategic planning process, including poor assumptions, results in the BOCES' inability to meet their goals and objectives.

Lack of Appropriate Governance – The risk that senior management or Board members commit actions that are detrimental to voter's' interests, including misrepresenting the BOCES' intentions or business results.

People or Key Resources – The risk that barriers (e.g. high turnover, inexperienced staff/skill limitations, excessive reliance on a key staff member, insufficient staffing/resources, etc.) can increase business risk impact and likelihood of its occurrence.

Organization Reputation – The risk that the BOCES' reputation could be exposed based on lack of voter satisfaction with services, or ability to provide new and innovative educational programs; negative public reaction due to identified regulatory, compliance or legal issues.

TECHNOLOGY/SYSTEMS

Lack of Information Integrity – The risks associated with the authorization, completeness, timeliness and accuracy of transactions/data as they are entered into, processed and reported by various systems.

Lack of Timely, Reliable, and Relevant Information for Decision Making – The risk that relevant internal and external information necessary for decision making is not available on a timely basis and/or is unreliable.

Inadequate Data Security and Access – The risk of not adequately restricting access to and protecting information.

Sensitivity of Data – The risk that the BOCES will divulge, inappropriately use or fail to control student or employee data which is confidential or private.

PEOPLE/CULTURE

Lack of Clear Roles and Responsibilities – The risk that roles and responsibilities are not clearly defined, communicated, and understood by employees.

Deficient Values, Integrity, and Ethics – The risk of an employee breach of BOCES values and Code of Conduct standards related to integrity, ethics and discrimination.

Inappropriate Performance Incentives – The risk of either insufficient performance incentives or incentives that are unrealistic or misunderstood causing employees to act in an inappropriate manner.

FRAUD

Misappropriation of Assets – The risk that the BOCES engages in external and/or internal schemes, such as embezzlement, payroll fraud and theft.

Misconduct/Abuse – The risk that transactions or activities could be susceptible to management override (e.g. conflicts of interest, code of ethics violations, etc.). BOCES could be directly or indirectly involved in monitoring and identifying misconduct and/or abuse.

External Crime – The risk that activities could be exposed to external theft and destruction (e.g. robbery, asset/information theft, etc.). BOCES could be directly or indirectly involved in monitoring and identifying external crime.

External Fraud – The risk that transactions and activities could be exposed to external fraud (e.g. check frauds and kiting). BOCES could be directly or indirectly involved in monitoring and identifying external fraud.

COSO CONTROL RISKS

Monitoring – This category includes identifying a mechanism or process to assess internal controls on an ongoing basis to ensure that changes are incorporated effectively.

Information and Communication – This category includes the assessment of the technology environment and includes an assessment of the reporting internally and externally. The internal communication to manage the business on a daily basis is assessed to determine the effectiveness and reliability of the financial information that is used.

Control Activities – These controls are at the process level and include preventive and detective controls. The assessment for control activities requires a selection of key processes and a review of the transaction flow to identify and test the critical controls to determine the effectiveness.

Risk Assessment – These controls are the overall management and strategic planning methods that are in place. The process for strategic planning for the BOCES and each department and how the plan is executed during the year is the subject of this review. Material changes in the legislation or regulations and the process that management performs to execute a transaction will be assessed.

Control Environment – The controls in this category include integrity/ethical values, code of conduct, disciplinary action, structure of organization, involvement of the Board of Education, human resources and other actions that control the tone of the organization.