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St. Lawrence-Lewis BOCES:

FY 2023/24 Financial Risk Assessment - Draft

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December 15, 2023

Board of Education
St. Lawrence-Lewis BOCES
40 W Main St.
Canton, NY 13617

We have completed the initial financial risk assessment for St. Lawrence-Lewis BOCES. One of the requirements of the 2005 School Financial Oversight and Accountability legislation is to update the risk assessment annually. Our engagement was designed to assess risk in the BOCES' financial reporting process and to identify internal controls that mitigate those risks.

The purpose of the financial risk assessment was to review the internal controls that the BOCES has in place to prevent errors, detect fraud and ensure that financial reporting is accurate and that the BOCES' assets are safeguarded. In conducting the financial risk assessment, we considered significant classes of assets and transactions. We interviewed key staff to obtain an understanding of the financial processes.

We noted some areas where the BOCES could improve the internal control structure. Our recommendations follow in the attached report.

Should you need assistance in implementing our recommendations, or other requirements of the 2005 legislation, we will be glad to help.

RELIABILITY OF INFORMATION

As noted, the purpose of our engagement was to assist you in improving the process by which you monitor and manage the risks that face the BOCES. However, it is ultimately your responsibility to assess the adequacy of your risk management system.

In performing our engagement, we relied on the accuracy and reliability of information provided by BOCES personnel. We have not audited, examined, or reviewed the information, and express no assurance on it.

DISTRIBUTION OF THE REPORT

This report is intended solely for the information and use of the Board of Education and management of the St. Lawrence-Lewis BOCES and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the individuals in your organization for their cooperation. Over time, it will be necessary to reassess your risks to ensure that they have not changed and to ensure that your risk management system is functioning properly. Through our ongoing involvement with you as a client and our knowledge of your BOCES and its processes, we are in a unique position to assist you with that process. Please contact us at any time should you desire such services.

Sincerely,

Mark Beaudette
Internal Audit Manager
Questar III

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Inherent Risk Areas

Below are inherent risks that should be addressed as part of conducting the annual independent audit and the ongoing internal audit function:

RISK AREA	DESCRIPTION	RECOMMENDATION
<p>Changing Environment</p>	<p>The BOCES operates in an environment of complex or frequently changing compliance requirements. The risk to the BOCES is that as compliance regulations change complexities place task burdens on the BOCES employees. The complexity of the tasks increases the risk that the BOCES could feel adverse consequences if it were to lose a key person in the Business Office.</p>	<p>To mitigate this risk, the BOCES should require Business Office personnel to document all critical financial processes, such as payroll, purchasing, accounts payable and IT. These documents should be reviewed, tested and updated as processes change.</p> <p>In addition, employees should be cross trained to cover all critical processes during vacations, absences or vacancies in financial positions.</p>
<p>Complex Transactions</p>	<p>The entity has a mix of program types funded by third parties that could motivate management to shift costs or manipulate accounting transactions.</p>	<p>The BOCES's internal audit function should monitor practices to ensure that funding regulations are understood and complied with.</p> <p>In addition, a properly functioning claims audit procedure will review the appropriateness of charges to the various programs.</p>
<p>Segregation of Duties</p>	<p>There are segregation-of-duties issues present in the organization due to the size of the Business Office.</p>	<p>Segregation of duties issues can be addressed in several ways:</p> <ul style="list-style-type: none"> • The BOCES could reassign work so that checks and balances are put in place and no one person has a span of control that is too extensive; • Additional review procedures could be developed and implemented either at the beginning or end of the process; or • The involvement of the claims auditor or internal audit function could be increased.

Assessment of Risk

Below is an assessment of the BOCES’s internal controls for each functional area which are classified as low; moderate; or high risk. The assessment is based on the likelihood and impact that an unfavorable event would have on the BOCES. The functions that we deemed to be high risk areas are critical to the operation of the BOCES or are assets susceptible to misappropriation. In addition, this information may be used by the Board of Education for developing an audit plan for the upcoming year.

Functional Area	Risk Classification	Comments
Cash – Business Office	Moderate	No check receipt log.
Cash – Lunch Program	N/A	
Cash – Extraclassroom Activities	N/A	
Cash – Petty Cash	N/A	
Accounts Receivable – General	Low/Moderate	
BOCES Medicaid	Low/Moderate	
State Aid	Low/Moderate	
Banking	Moderate	No positive pay on bank accounts.
Accounts Payable	Low/Moderate	
Payroll	Low/Moderate	
Human Resources	Low/Moderate	
Purchasing	Moderate	No right-to-audit clause.
Fixed Assets Accountability	Low/Moderate	Recent physical inventory.
Transportation Expense	N/A	
Inventory – Transportation Parts & Supplies	N/A	
Inventory – Lunch Program	N/A	
Inventory – Operations & Maintenance	Moderate	Lack of inventory control: custodial and fuel.
Inventory - Extraclassroom	N/A	
Facilities Usage	N/A	
Employee Benefits	Low	
Employee Expense Reimbursements	Low	
Information Systems	Low/Moderate	
Capital Projects	N/A	
Budgeting	Low	
Claims Auditing	Low/Moderate	No Claims Auditor formal training.
Workers' Compensation	Low	

Issues Identified in the Current Year

We noted the issues below within functional areas that could use improvement to their internal controls. The comments and recommendations provide a tool for management to assist in developing or maintaining a risk management system that mitigates risk to an acceptable level as determined by the Board of Education. The issues were identified from the **FY 2023/24** Risk Assessment and are summarized in the table below along with our recommendations.

AREA IMPACTED	DESCRIPTION	RECOMMENDATION
Purchasing	The BOCES does not include a right-to-audit clause in formal contract agreements.	The BOCES should consider including a right-to-audit clause in at least contract agreements relating to capital projects and service agreements. This could provide the BOCES with the legal right to audit a vendor's accounting records if billing information is suspect to improper charges. The BOCES should consult their attorney concerning this matter.
Claims Auditing	The Claims Auditor has not received any formal training in recent years.	The BOCES should consider a training workshop that covers the basic knowledge, skills, techniques, and strategies required of the Claims Auditor: training in applicable NYS Law, Board of Education policies, internal control components, implementation strategies, and reporting.
Cash-Business Office	The BOCES does not currently use a check receipt log when checks are received.	The BOCES should consider using a check receipt log when opening mail. This receipt log should be reconciled with deposited checks to ensure all received checks have been deposited.
Operations & Maintenance	The BOCES does not have an inventory tracking system in place for custodial supplies and grounds inventory.	The BOCES should evaluate whether it would benefit from inventory tracking system (perpetual or otherwise). A full perpetual system would consist of updating inventory on a daily basis in a database designed for such tracking.
	The BOCES does not have an inventory tracking system or usage reporting for fuel inventory.	The BOCES should evaluate whether it would benefit from a system of tracking fuel usage and reporting monthly usage to Department Supervisors.

AREA IMPACTED	DESCRIPTION	RECOMMENDATION
<p>Data Privacy</p>	<p>At the date of the risk assessment, the BOCES listing of software applications and supplemental information on the website as required by New York State Education Law Section 2-D was incomplete and missing some information.</p>	<p>The BOCES should post on its website in order to comply with the provision of EdLaw 2-D which reads in part, “The bill of rights shall also include supplemental information for each contract the educational agency enters into with a third-party contractor where the third-party contractor receives student data or teacher or principal data. The supplemental information must be developed by the educational agency and include the following information: (1) the exclusive purposes for which the student data or teacher or principal data will be used by the third-party contractor, as defined in the contract; (2) how the third-party contractor will ensure that the subcontractors, or other authorized persons or entities to whom the third-party contractor will disclose the student data or teacher or principal data, if any, will abide by all applicable data protection and security requirements, including but not limited to those outlined in applicable state and federal laws and regulations (e.g., FERPA; Education Law §2-d); (3) the duration of the contract, including the contract’s expiration date and a description of what will happen to the student data or teacher or principal data upon expiration of the contract or other written agreement (e.g., whether, when and in what format it will be returned to the educational agency, and/or whether, when and how the data will be destroyed).”</p>

AREA IMPACTED	DESCRIPTION	RECOMMENDATION
<p>Banking</p>	<p>The BOCES is not utilizing a positive pay process on the BOCES' bank accounts.</p>	<p>The BOCES should implement controls over cash that will limit threats from outside the organization by establishing a positive pay system with the bank. This would require that the organization instruct the bank regarding the checks that it has issued and has authorized the bank to pay. To accomplish this, the organization would create an electronic file of checks issued that would include the amount, and check number. The bank would be required to refer to this list before they could clear a check from the organization's account. This control would limit the BOCES' exposure to check raising and fraudulent checks being paid from the organization's funds.</p>

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