

**BUFFALO CITY SCHOOL DISTRICT**

*Risk Assessment – Benefits Cycle*

*For the Fiscal Year Ending June 30, 2017*



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*Risk Assessment – Benefits Cycle*  
*For the Fiscal Year Ending June 30, 2017*  
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*Certified Public Accountants*

To the Audit Advisory Committee of the Board of Education  
of the Buffalo City School District  
Buffalo, New York:

We are pleased to report on the updated risk assessment for the Benefits Cycle of the Buffalo City School District (the "District"). The purpose of our engagement is to continue to assist you in the development of a risk assessment of District operations, and provide recommendations to strengthen controls and reduce the identified risks. This report was developed from inquiries, observations, and tests of internal controls performed during the 2016-2017 fiscal year.

The District's risks are the risks that an action or event will adversely affect the District's ability to successfully achieve its objectives. The Risk Assessment – Benefits Cycle section of the report analyzes the significant risks and findings that were identified during our engagement.

For purposes of this report, internal control is a process, affected by the Board of Education (the "Board"), department heads and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting and safeguarding of assets. We have evaluated the District's current internal controls and have provided our risk assessment and a set of recommendations for strengthening controls and reducing identified risks.

As noted, the purpose of our engagement was to assist you in improving the internal controls and reducing the risks that face your District. 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 District personnel. We have not audited, examined, or reviewed the information, and express no assurance thereon.

The accompanying findings and recommendations are intended solely for the information and use of the Audit Advisory Committee, the Board of Education, department heads, and others within the District, and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the individuals in your District for their cooperation. We have already discussed many of these comments and suggestions with various District personnel and we will be pleased to discuss them in further detail at your convenience. Through our ongoing involvement with you as a client and our knowledge of your processes, we would be pleased to perform any additional studies of these matters, or to assist you in implementing the recommendations.

*Drescher & Malecki LLP*

May 9, 2017



**Risk Assessment –  
Benefits Cycle**





**BUFFALO CITY SCHOOL DISTRICT**  
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*For the Fiscal Year Ending June 30, 2017*

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**Overview and Scope**

The District's risks are the risks that an action or event will adversely affect the District's ability to successfully achieve its objectives. During our engagement, we became aware of various sources of risk that impact the District. We evaluated these risks by using two distinct assessments of impact and likelihood. A simple rating scale has been developed for this purpose. The rating scale ranges from minor to significant impact, and low to high likelihood, using a 3-point scale.

Impact refers to the extent of the consequences or implications if the risk does occur. To assess impact, we have determined how much of an impact the risk has if it does occur:

- A minor impact suggests that the risk would not have important implications on the District.
- A moderate impact suggests that the risk could have implications on the District.
- A significant impact suggests that the risk would have important implications on the District.

Likelihood refers to the probability that the risk may occur given the current context of the District. To assess likelihood, we have determined how likely it is that the risk will occur in the future, given what is currently done to manage said risk:

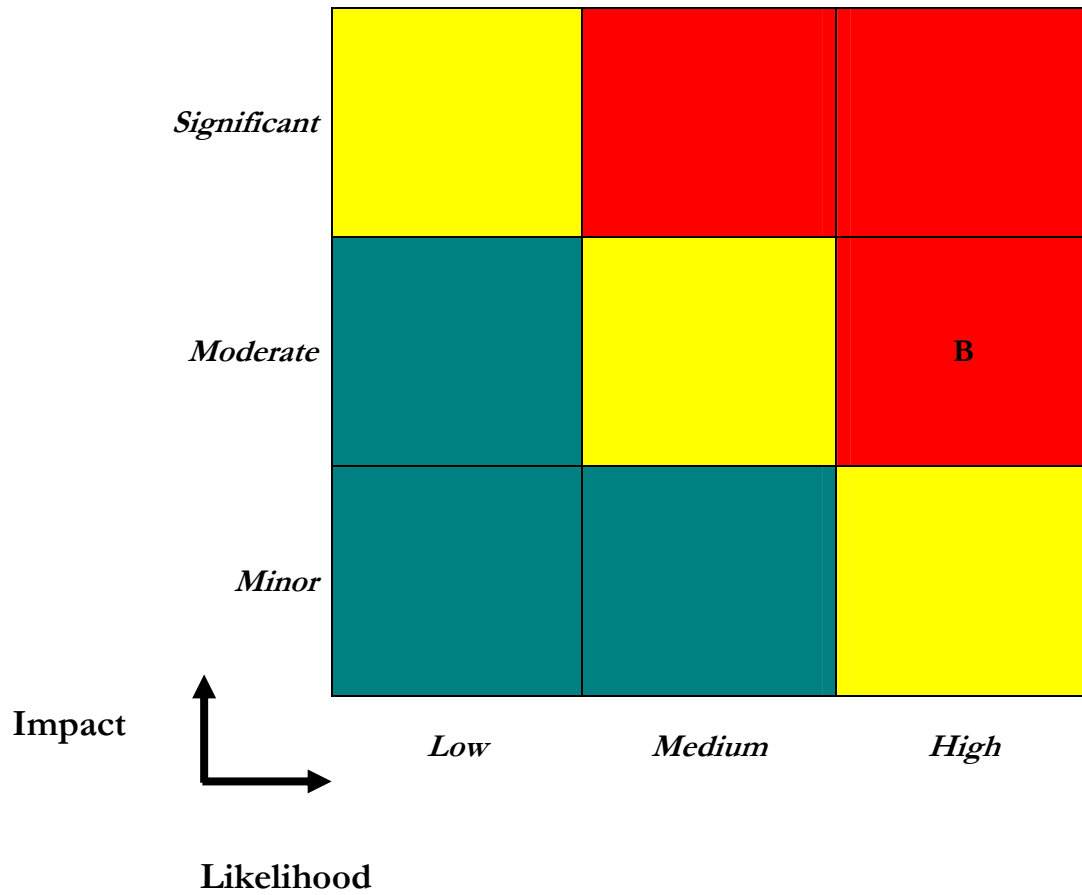
- A low likelihood suggests that the risk is unlikely to occur, given its nature and current risk management practices in place.
- A medium likelihood suggests that the risk has a moderate probability of occurrence.
- A high likelihood suggests that the risk is likely to occur, despite the current risk management practices in place.

We have developed the risk assessment around significant financial transaction cycles as a means by which the associated risks can be easily understood and managed. The Summary of Internal Control Recommendations - Benefits Cycle section of this report presents recommendations with more detailed information regarding criticality and implementation timeliness. This report includes risk assessment procedures performed on the Benefits Cycle during the fiscal year ending June 30, 2017.

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**Risk Management Tolerance Model**



# **BUFFALO CITY SCHOOL DISTRICT**

## ***Risk Assessment – Benefits Cycles For the Fiscal Year Ending June 30, 2017***

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### **Risk Assessment Matrix**

<b><u>Cycle</u></b>	<b><u>Risk Assessment Based on Procedures Performed</u></b>	<b><u>Impact</u></b>	<b><u>Likelihood</u></b>
<b>B</b>	We noted moderate overall risk in the Benefits Cycle. Risks occur due to the following: <ul style="list-style-type: none"><li>▪ Formal succession plan for future retirement of personnel</li><li>▪ Lack of timely cancellation processing</li><li>▪ Paper-driven processes</li></ul>	Moderate	High

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**Summary of Internal Control Recommendations –  
Benefits Cycle**



# BUFFALO CITY SCHOOL DISTRICT

## *Risk Assessment – Benefits Cycle For the Fiscal Year Ending June 30, 2017*

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### Overview

Internal control recommendations represent those areas that afford department heads of the District the opportunity to improve financial reporting and internal controls, to better safeguard District assets, and/or to more efficiently or accurately record, summarize, and report financial transactions and information. They also represent those areas that may improve efficiency of operations and accounting functions, potentially resulting in costs savings.

We have provided a criticality rating and an implementation timeline for each internal control recommendation and business opportunity. Criticality ratings considered were urgent, important, and routine. The implementation timelines considered were short-term and long-term, reflecting the effort and time required to implement the applicable recommendation while factoring in the criticality assigned thereto.

As a result of our procedures performed for the Benefits Cycle, there were 6 total recommendations. The criticality and timeline for the recommendations is as follows:

Internal Control Area	Number of Recommendations	Criticality			Timeline	
		Urgent	Important	Routine	Short-Term	Long-Term
Benefits	6	1	3	2	5	1

**Timeline** – Each of the detail findings include a timeline reference of either “short-term” or “long term.” Short-term refers to findings that we believe can be corrected within one year. Long-term refers to findings that may require changes to organization, systems, or procedures that may require over one year to effectuate the change.

**Criticality** – Each of the detail findings include a severity reference of either “urgent”, “important” or “routine”. Urgent refers to findings that we believe are of the highest severity. Important refers to findings that we believe are medium severity. Routine refers to findings that we believe are low severity.

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**Detail Findings and Recommendations –  
Benefits Cycle**



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## **Benefits Cycle (B)**

### **Recommendation #B1**

**Criticality: Urgent**

**Timeline: Short-Term**

The Benefits Office anticipates a complete turnover of staff within the next five years. Additionally, the Benefits Manager recently retired and the position has not yet been filled. As such, to better prepare for the turnover and transition specific job duties, the District should develop a succession plan.

We recommend that the District consider the following key issues identified by the Government Finance Officers' Association ("GFOA") as fundamental areas to include in an effective succession plan:

- ***Develop an integrated approach to succession management***—Organizations with an integrated, rather than “just-in-time,” approach to succession management experience higher retention rates, increased employee morale, and an environment that stimulates innovation and organizational change. There are some positions in an organization that are more critical than others. A successful succession plan should place a high priority on planning for a smooth change in such positions. It is a benefit to hire and train replacements prior to the separation of current employees. Key components of an integrated succession management approach include: workforce planning, succession planning, knowledge management practices, and recruitment and retention practices.
- ***Continually assess potential employee turnover***—Making career planning discussions a part of a regular and ongoing performance review process assists in assessing potential turnover. Department heads are a good resource in helping to identify employees that may be planning to leave.
- ***Provide a formal, written succession plan as a framework for succession initiatives***—Without a formal plan, workforce/succession planning tends to take place in a haphazard fashion. A formal plan identifies risks and strategies, thereby providing a guiding framework for specific succession initiatives, including how employees are eligible to participate and what being part of the succession plan means. Plans that have been thoughtfully articulated and communicated to the organization are more likely to be successful. Additionally, having a formal plan indicates organization and leadership commitment to succession management, which is critical for success and for sustaining successful planning across political and leadership transitions.
- ***Develop written policies and procedures to facilitate knowledge transfer***—Knowledge transfer is a critical component of succession management. There should be written procedures in place to formalize the knowledge transfer. A meeting should be held with departing staff to document job responsibilities.
- ***Design of better recruitment and retention practices may aid in the succession process***—Many organizations will focus more on recruiting the new employee and less on orienting the person to the position and the ongoing development of the employee. Making sure pay levels are competitive with the market place is one means of retaining employees. Providing career advancement opportunities for employees is another means of retention.

**Response:** The Buffalo Public Schools Benefits Department currently has five active employees working in various functions to deliver services to all District employees. It has been identified that all of the current employees can retire within the next five years. Due to these impending retirements and the loss of experience

and historical data, Human Resources developed a written succession plan to ensure a smooth transition of knowledge.

Human Resources is establishing strategic goals for the next five years to assist the Benefits department in the transfer of knowledge and staffing the team with top talent. These initiatives will be completed in a multi-layered approach. First, the job responsibilities will be identified based on the daily work flow and strategic direction of the department. Once the work is identified, it is imperative that the department is staffed with the appropriate number of employees to carry out the work. Human Resources will identify the appropriate benefits titles that will allow for promotional opportunities as a mechanism to retain top talent. Professional development opportunities will be offered to further enhance the staff's knowledge base and remain relevant of current benefit trends. Lastly, the department will stagger hiring staff in order to provide shadowing opportunities and cross training before retirements occur. In addition to the aforementioned initiatives, the Benefits department will also update the department manual to ensure knowledge transfer.

**Recommendation: #B2**  
**Criticality: Important**  
**Timeline: Short-Term**

The average number of employees receiving workers' compensation benefits out on leave has increased at a significant rate over the past three calendar years. The average number of employees during 2014 was 54, which elevated to an average of nearly 73 during 2016. Additionally, we noted the majority of District employees are paid their full salary as part of their workers' compensation benefits. This practice is in accordance with the current collective bargaining agreements of the applicable classes of employees. The payment of full wages rather than a percentage of the employee's average weekly wage, which is the normal practice in accordance with the regulations of the New York State Workers' Compensation Board ("WC Board"), provides less incentive for an employee to return to work in a timely manner.

We recommend that District officials evaluate the current practice of paying full wages as part of workers' compensation benefits with the respective collective bargaining unit officials, and explore opportunities for revisions to this practice. Considering the cost of full wages per employee, and the growing number of employees receiving workers' compensation benefits, the District will continue to be challenged during the budgetary process. We recommend an evaluation of the employees receiving these benefits, to identify reasons for the increasing number receiving benefits.

**Response:** Human Resources has developed an aggressive plan to reduce the number of employees receiving workers' compensation. Previously, the District did not allow employees with restrictions to return to work due to a misinterpretation of a grievance. POMCO, the third party administrator, is assisting the District in identifying employees who are able to resume their job duties in full as well as those who may return in a temporarily modified capacity. Employees identified with permanent restrictions will be reviewed under the ADA criteria. Updated medical is being evaluated by Human Resources and the respective supervisor to provide a needs assessment for a successful transition back to work. Letters are being sent to the employees welcoming them back. Going forward any employee who is released back to work with reasonable restrictions will be brought back immediately upon review with their supervisor.

Future contract negotiations will continue to work towards reducing workers' compensation costs. The most recently settled contract with the Buffalo Teachers Federation reduced the payment of full wages for non-assault incidents to one year. Previously they were eligible for two years of full wages.

**Recommendation: #B3**

**Criticality: Important**

**Timeline: Short-Term**

The District currently has various annual safety training programs and initiatives for skilled tradesmen, laborers, custodial engineers, custodians, and physical education personnel. However, there are currently no safety trainings for office safety guidelines or workplace violence programs being offered to instructional and office employees.

In light of reported injuries to teachers, teacher aides and administrators as a result of breaking up student altercations and restraining unruly students, we recommend that the District implement an annual safety training program for such employees to reduce and/or prevent these avoidable injuries.

**Response:** Safety training has been expanded with the emphasis on prevention to all employees. Dialogue has begun with managerial support and administration to resolve student conflicts/fights. The District is investigating two training options to assist with this process. New York State Office of Mental Retardation (“OPWDD”) offers training for Human Resources staff on conflict resolution using SCIP-R Training to deal with volatile and emotionally disturbed students using verbal, non-verbal and physical intervention as a last result. Second, each school will develop a Conflict Resolution Committee to minimize fights.

**Recommendation: #B4**

**Criticality: Important**

**Timeline: Short-Term**

The District requires certain employees to undergo a baseline hearing test prior to commencing employment. In the event that the examination indicates a pre-existing loss of hearing which may be due to prior employment(s), the District must provide written notice of the results of the hearing test to the prior employer(s) within ninety (90) days in accordance with New York State Workers’ Compensation Law. We noted that although such notices were being sent in the past by the Benefits Office, these procedures of notifying prior employer(s) were not followed as of the date of this risk assessment.

We recommend that the District comply with the aforementioned notice requirements for applicable new employees.

**Response:** The District will comply with the New York State Workers’ Compensation Law and provide the required written notice for all new employees that are identified of having a pre-existing loss of hearing within ninety (90) days.

**Recommendation: #B5**

**Criticality: Routine**

**Timeline: Long-Term**

The District has posted open enrollment applications online; however, most applications are sent through postal mail. This manual process creates a large fee for paper and mailing costs. Additionally, the District currently does not have a system where health insurance applications can be received through e-mail or a web-based application. As such, this creates extra hours in which the Benefits Office has to manually enter the applicant's information into the District's system.

We recommend that the District consider utilizing solely electronic forms, and also consider investing in a program where applications can be received electronically.

**Response:** On-line applications are a top priority for all Human Resources forms and applications. The District as a whole does not utilize the full functionality of our systems. Discussions with IT have indicated that the manpower available with the needed MUNIS knowledge is extremely deficient. While we are very anxious to implement the technical efficiencies, IT has identified this as a long-term goal.

**Recommendation: #B6**

**Criticality: Routine**

**Timeline: Short-Term**

The Benefits Office should be reviewing employee files and cancelling policies in a timely fashion. Cancellations may occur upon employee request or when an employee no longer qualifies for their current coverage. Upon receipt of request for, or notice of, cancellation the Benefits Office should promptly log-on to the applicable site and cancel the employee's coverage to avoid paying the added premium. Throughout testing we noted an instance where the actual effective date was one month later than the approved effective date, thus causing a nonrefundable cost for that lost premium.

We recommend that the District implement a policy to ensure that cancellations be processed within the subsequent month. While the District has a policy to catch errors, they are not always found in a timely manner to allow for a refund from the provider.

**Response:** The District currently has two auditing processes using MUNIS data to identify any cancellations missed during routine processing and review of benefits. The instance cited involved the cancellation of an employee's Local 264 dental coverage. The Benefits Office has approximately 4,000 active employees and only administers dental for 80 of those employees. Therefore, the cancellation of dental coverage is done less routinely. The late processing is infrequent. Refunds are obtainable retroactively for up to 60 days for dental coverage. In the cited case, two months premiums were recouped, but \$60.54 for one month was lost. A flaw in the auditing process was exposed. The employee still worked for the District in a different bargaining unit. The audit process will be expanded to review the union codes in addition to the active vs. inactive status.