

BUFFALO CITY SCHOOL DISTRICT

*Risk Assessment – Capital Assets Cycle
Findings and Recommendations
For the Year Ended June 30, 2014*

BUFFALO CITY SCHOOL DISTRICT

Risk Assessment – Capital Assets Cycle

Findings and Recommendations

For the Year Ended June 30, 2014

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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 risk assessment for the capital assets cycle of the Buffalo City School District (the "District"). The purpose of our engagement is 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 inquiry, observations and tests of internal controls performed during the 2013-2014 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 – Capital Assets Cycle section of the report analyzes the significant risk 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 comments 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.

Tronconi Segarra & Associates LLP

June 10, 2014

Risk Assessment – Capital Assets Cycle

BUFFALO CITY SCHOOL DISTRICT

Risk Assessment – Capital Assets Cycle

For the Year Ended June 30, 2014

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 for the District's ability to succeed.
- 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 of occurrence suggests that the risk has a moderate probability of occurrence.
- A high likelihood of occurrence suggests that the risk is likely to occur, despite the current risk management practices in place.

The Risk Management Tolerance Model and the Risk Assessment Matrix that follow summarize these risks and assesses their impact and likelihood.

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 Internal Control Recommendations section of this report presents recommendations with more detail information regarding criticality and implementation timeliness. This report includes our work on the capital assets cycle.

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Capital Assets Cycle (continued)
For the Year Ended June 30, 2014

Risk Management Tolerance Model

	<i>Significant</i>			
Impact	<i>Moderate</i>	CA		
	<i>Minor</i>			
		<i>Low</i>	<i>Medium</i>	<i>High</i>
		Likelihood		

The Risk Management Tolerance Model matrix is a 3x3 grid. The vertical axis is labeled 'Impact' with categories 'Significant', 'Moderate', and 'Minor'. The horizontal axis is labeled 'Likelihood' with categories 'Low', 'Medium', and 'High'. The cells are color-coded: Yellow for (Significant, Low), (Significant, High), (Moderate, Medium), and (Minor, High); Red for (Significant, Medium), (Significant, High), and (Moderate, High); and Teal for (Moderate, Low), (Moderate, Low), (Minor, Low), and (Minor, Medium). The cell at (Moderate, Low) contains the text 'CA'.

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Capital Assets Cycle (continued)
For the Year Ended June 30, 2014

Risk Assessment Matrix

<u>Cycle</u>	<u>Risk Assessment Based on Procedures Performed</u>	<u>Impact</u>	<u>Likelihood</u>
CA	We noted moderate overall risk in the Capital Assets cycle. Risks occur due to the lack of notification to Accounting of asset transfers/disposals, and a GPS tracking system for District vehicles.	Moderate	Low

**Summary of Internal Control Recommendations –
Capital Assets Cycle**

BUFFALO CITY SCHOOL DISTRICT
Summary of Internal Control Recommendations – Capital Assets Cycle
For the Year Ended June 30, 2014

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. 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 capital assets cycle, there were two (2) total recommendations. The criticality and timeline for the recommendations is as follows:

Internal Control Area	Number of Recommendations	Criticality			Timeline	
		Routine	Important	Urgent	Short Term	Long Term
Capital Assets (CA)	2	1	1	0	2	0
Total Recommendations	2	1	1	0	2	0

Timeline – each of the detail findings includes 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 necessitate changes to organization, systems, or procedures that may require over one year to effectuate the change.

**Detail Findings and Recommendations –
Capital Assets Cycle**

BUFFALO CITY SCHOOL DISTRICT
Detail Findings and Recommendations – Capital Assets Cycle
For the Year Ended June 30, 2014

Capital Assets

Recommendation #CA1

Criticality: Important

Timeline: Short-Term

The Service Center and/or schools do not always notify Accounting or the Audit Inspector of transfers or disposals of assets. It was noted that in many cases, a disposal is not realized until a school site visit. Notification of transfers or disposals to Accounting or the Audit Inspector allows for more accurate and timely record of asset location and existence.

The District should implement a policy to notify Accounting or the Audit Inspector of transfers or disposals of assets in a timely manner. This could occur when the Service Center fulfills transfer/disposal requests. It was noted that requests are mainly handled through a paper form, that includes three copies, where the individual accepting the goods maintains one copy, and the remaining two copies are filed in the Service Center. One of these copies could be provided to the Accounting department for proper notification. Another option is the use of the barcodes on the tagged inventory. The barcode could be scanned when it is transferred or disposed, and this documentation could be provided to the Audit Inspector on a regular basis.

Board Response: The District agrees with this recommendation. Initially, the Accounting and Audit departments will work with the Service Center to make sure that all transfer and disposal forms are provided to Accounting. These records will be analyzed and changes will be made to the capital asset database as necessary. Additional short term changes will be explored, including the inclusion of the asset tag numbers on the transfer forms, which will help identify the assets in the database, and/or other information that will help filter out transfers that do not impact the capital asset database. Longer term, it may be possible to use the District's electronic work ticket system, School Dude, to report these transfers and disposals. The first step in this longer term solution will be to identify any system changes necessary to use the School Dude system, along with their associated cost. From there, the District will determine the next steps.

BUFFALO CITY SCHOOL DISTRICT
Detail Findings and Recommendations – Capital Assets Cycle (continued)
For the Year Ended June 30, 2014

Recommendation #CA2

Criticality: Routine

Timeline: Short-Term

The District does not utilize GPS tracking in District vehicles. A GPS tracking system will ensure that District vehicles are not being utilized for anything other than District business. Although the District does utilize other measures to track vehicles mileage, these methods may not provide an accurate location of each vehicle, or where each vehicle has been.

The District should implement GPS tracking in all District vehicles. GPS tracking would allow the District to track any District vehicle to ensure it was being utilized properly.

Board Response: The District agrees with this recommendation. The use of GPS technology in District vehicles will provide critical data to ensure these vehicles are being used efficiently and for District business only. In the past, funding for GPS technology was an issue. The District will analyze the costs again and determine what course to follow, including possibly piloting GPS technology on a few vehicles before expanding to the whole fleet.