

BUFFALO CITY SCHOOL DISTRICT

*Risk Assessment–Payroll and Personnel Cycle
Findings and Recommendations
For the Year Ending June 30, 2014*

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment –Payroll and Personnel Cycle
Findings and Recommendations
For the Year Ending June 30, 2014
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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 Payroll and Personnel Cycle related to the Buffalo City School District (the “District”) use of the Automated Educational Substitute Operator (“AESOP”) system. 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 inquiry and 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 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 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.

Drescher & Malecki LLP

June 10, 2014

Risk Assessment

BUFFALO CITY SCHOOL DISTRICT

Risk Assessment

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.

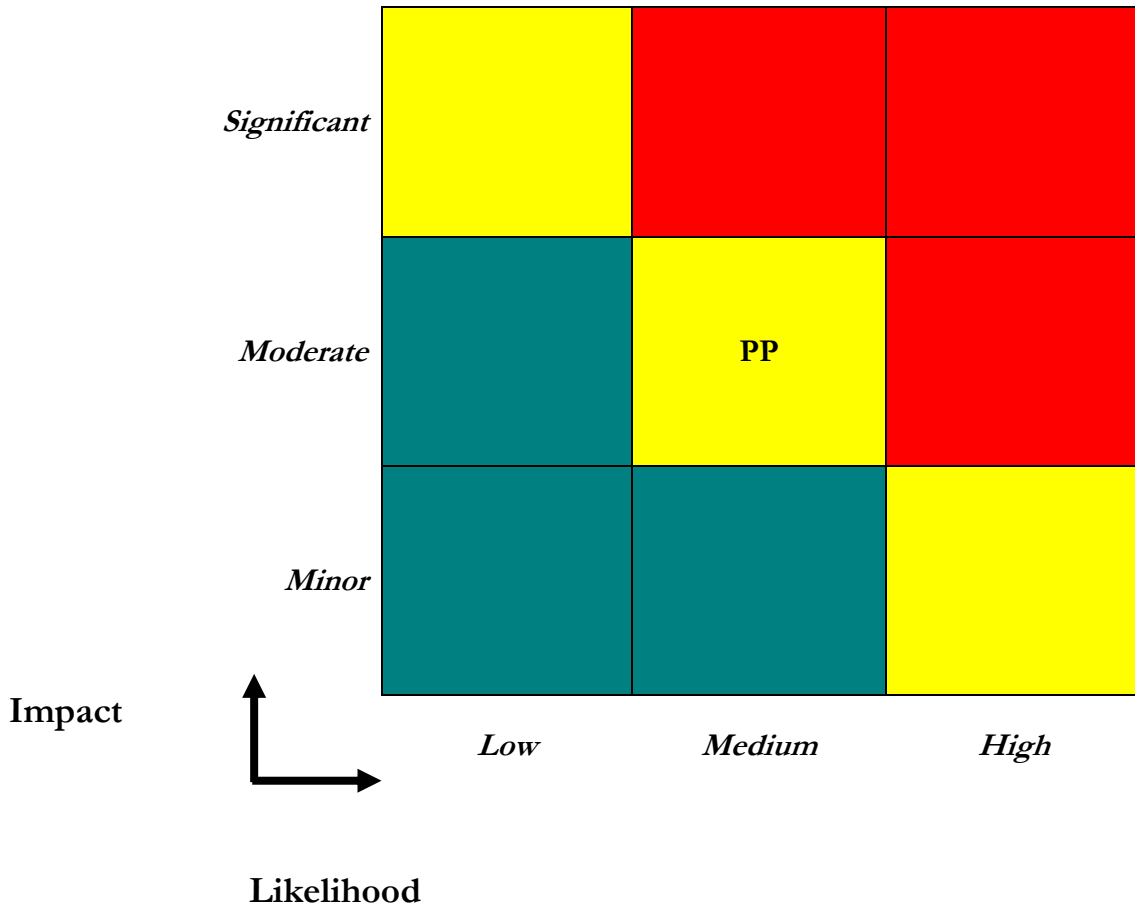
Likelihood refers to the probability that the risk may occur given the current context of the District. To assess likelihood, we have determined how likely it is that the risk will occur in the future, given what is currently done to manage said risk:

- 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.

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 Detailed Findings and Recommendations section of this report presents recommendations with more detail information regarding criticality and implementation timeliness. This report includes risk assessment procedures performed on the payroll and personnel cycle related to the District's use of the AESOP system for the year ending June 30, 2014.

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment

Risk Management Tolerance Model



BUFFALO CITY SCHOOL DISTRICT
Risk Assessment

Risk Assessment Matrix

<u>Cycle</u>	<u>Risk Assessment Based on Procedures Performed</u>	<u>Impact</u>	<u>Likelihood</u>
PP	We noted moderate overall risk in the Payroll and Personnel cycle. Risks occur due to the following: <ul style="list-style-type: none">• Lack of software maintenance• Incorrect user permissions• Inconsistent use of resources	Moderate	Medium

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Summary of Internal Control Recommendations

BUFFALO CITY SCHOOL DISTRICT
Summary of Internal Control Recommendations

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, there were four 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
Payroll & Personnel (PP)	4	-	4	-	4	-
Total Recommendations	4	-	4	-	4	-

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 may require changes to organization, systems, or procedures that may require over one year to effectuate the change.

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Detailed Findings and Recommendations

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Payroll and Personnel Cycle

Recommendation #PP1

Criticality: Important

Timeline: Short-term

Information in the Automated Educational Substitute Operator (“AESOP”) should be up-to-date to ensure that only qualified substitute teachers are filling in vacancies.

The District does not have a standard process to periodically update and maintain information in the AESOP system. As a result, certifications, skills, rosters and school information are out of date.

We recommend that the District implement a standard process that specifically establishes a recurring length of time to update and maintain certifications, skills, rosters and other pertinent school information within the AESOP system.

Response:

The District agrees with the importance of keeping the employee profiles in AESOP up to date. The Talent Management department will develop a monthly audit process to review and correct this data by the 5th day of each month going forward.

Recommendation #PP2

Criticality: Important

Timeline: Short-term

Currently, the AESOP system is not consistently being used District-wide. Instead, certain schools are using AESOP to select certain substitutes. This practice circumvents the process and controls that AESOP has in place to ensure fairness and appropriateness of substitute teacher assignments. This practice also makes payroll reconciliations more difficult and increases the chances of errors occurring.

We recommend that the District either creates a policy to enforce the proper use of AESOP or creates a procedure that addresses acceptable circumstances in which a school administrator may select a certain substitute.

Response:

The Office of the Chiefs of School Leadership will be issuing memos to both administrators and substitutes on the expected use of AESOP. Administrators will be instructed that when selecting substitutes, the selection must be entered into the AESOP system directly, with the confirmation number then being provided to the substitute. Substitutes will be instructed to only accept assignments when a confirmation number is provided. In any instance where a substitute accepts

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an assignment without a confirmation number, delays in their payroll will likely result from the investigation of the assignment.

Recommendation #PP3

Criticality: Important

Timeline: Short-term

Currently, the District does not have a policy to monitor AESOP user permissions on a regular basis. The absence of a standard policy or procedure, increases the risk that unauthorized changes are made. For example, full access to AESOP gives teachers the ability to cancel or modify their own absences.

While it appears that the user permissions for employees are up to date. We recommend that the District create a policy to update and monitor AESOP user permissions on a regular basis to mitigate the risk of unauthorized activity and abuse.

Response:

The access privileges noted in this recommendation have been corrected. Several access profiles exist for the various user types in AESOP and these profiles have been appropriately assigned to users based on their expected roles in the system. As part of the monthly Talent Management audit process, user access profiles will also be reviewed to ensure they continue to be appropriate.

Recommendation #PP4

Criticality: Important

Timeline: Short-term

The accounting codes entered within AESOP determine what specific budget codes are charged and paid from. Incorrect entering of accounting codes may lead to increased costs of reconciling payroll, as well as, difficulties in analyzing related budget costs and trends.

Based on our inquiries and observations regarding this process in AESOP, we noted the following potential risks:

- Teacher profiles are not being updated when teachers move between schools, causing the incorrect budget codes to be charged.
- Incorrect accounting codes are being entered when creating an absence in AESOP (i.e. coded to a school – General Fund vs. coded to a grant – Special Aid Fund.)
- Incorrect accounting codes are being entered in AESOP relating to professional development or events held at a specific school.

We recommend that the AESOP handbook be updated with specific guidelines to mitigate the potential risks outline above. Further, the District should provide regular AESOP training to users of the system.

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Response:

Account codes are created in two main ways: through the Professional Development Department, where codes are set up for specific events and days and allocated to specific grant codes; and through Talent Management for any other codes or changes in codes. The District will analyze how these codes are created and then inactivated once they are no longer needed, since maintenance of a current account code list must be the first step in allocating the costs to the proper account. As necessary, changes in procedure will be made to prove users only with the current account codes they should have access to. Additionally, staff selecting and approving account codes will be educated on the selection of proper account codes.

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