

BUFFALO CITY SCHOOL DISTRICT

*Risk Assessment – Grants Cycle
Findings and Recommendations
For the Year Ending June 30, 2015*

BUFFALO CITY SCHOOL DISTRICT
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Findings and Recommendations
For the Year Ending June 30, 2015
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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 Grants 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 inquiry and observations and tests of internal controls performed during the 2014-2015 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 – Grants 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 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

February 19, 2015

**Risk Assessment –
Grants Cycle**

BUFFALO CITY SCHOOL DISTRICT

Risk Assessment – Grants Cycle For the Year Ending June 30, 2015

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:

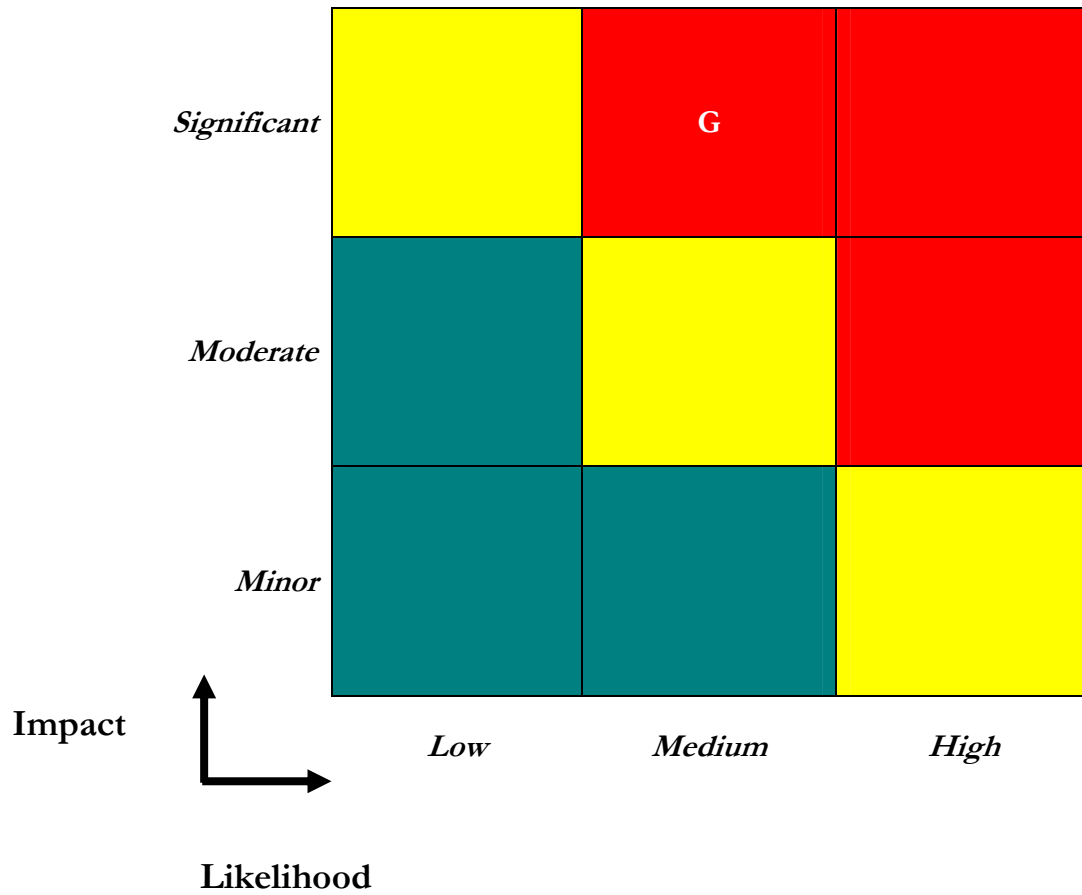
- A low likelihood suggests that the risk is unlikely to occur, given its nature and current risk management practices in place.
- A medium likelihood of suggests that the risk has a moderate probability of occurrence.
- A high likelihood of suggests that the risk is likely to occur, despite the current 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-Grants Cycle section of this report presents recommendations with more detail information regarding criticality and implementation timeliness. This report includes risk assessment procedures performed on the grants cycle during the year ending June 30, 2015.

BUFFALO CITY SCHOOL DISTRICT

*Risk Assessment - Grants Cycle
For the Year Ending June 30, 2015*

Risk Management Tolerance Model



BUFFALO CITY SCHOOL DISTRICT

Risk Assessment - Grants Cycle For the Year Ending June 30, 2015

Risk Assessment Matrix

<u>Cycle</u>	<u>Risk Assessment Based on Procedures Performed</u>	<u>Impact</u>	<u>Likelihood</u>
G	<p>We noted moderate to high overall risk in the Grants Cycle. Risks occur due to the following:</p> <ul style="list-style-type: none">• No formal process for transitioning responsibilities of former Director of Grants.• No formal process for identifying and discussing new grant opportunities.• No minutes taken during Grants Department meetings.• Lack of consistent communication of job descriptions or expectations.• Lack of knowledge about Office of Management and Budget (OMB) Circular A-21, A-133 and the new Uniform Guidance.	Significant	Medium

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

BUFFALO CITY SCHOOL DISTRICT
Summary of Internal Control Recommendations – Grants Cycle
For the Year Ending June 30, 2015

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 grants cycle, there were 5 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
Grants	5	2	2	1	5	-
Total Recommendations	5	2	2	1	5	-

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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**Detail Findings and Recommendations –
Grants Cycle**

Buffalo City School District
Detail Findings and Recommendations
For the Year Ending June 30, 2015

Grants Cycle (G)

Recommendation #G1

Criticality: Urgent

Timeline: Short-Term

The District's former Director of Grants retired in May of 2014. To date, this position has not been filled and the former Director of Grants is still listed on the District's website as the main contact for the Grants Department. Based on our inquiries and understanding, her duties and responsibilities have not been formally transitioned within the department. We noted that some of these responsibilities included searching for new grant opportunities and that no formal procedures were previously documented for this process. As a result, there is a risk that new grant opportunities are not being identified and monitored on a consistent and scheduled basis.

Furthermore, there appears to be confusion relating to specific job responsibilities and expectations within the Grants Department. Currently, formal job descriptions and expectations are not contained in one central location that is accessible to department employees.

A lack of consistent communication of job responsibilities and expectations, particularly when transitioning a key position, can cause confusion about who is accountable for particular areas and to whom certain employees are responsible. This has the potential for a negative effect where certain areas or functions are overlooked, efforts are duplicated, or functions are inefficient.

We recommend that the District review the current job descriptions and performance expectations to determine proper responsibilities are assigned and communicated to each position. As part of this review, we recommend that the District also review the duties of the former Director of Grants and temporarily assign them to the appropriate personnel. Once established, these formal job descriptions and expectations should be contained in one central location that is accessible to department employees.

We also recommend that the former Director of Grants' name be removed from the District's website and that a designated main contact for the Grants Department be assigned.

Response:

In addition to specific responses in each area, recommendations #G1, #G2 and #G5 will be addressed by the current reorganization that should be completed by mid-March. Both the Grants Department and Office of Federal and State Programs will report to a new Assistant Superintendent of Budget and Grants Management. That position is being filled by an individual very familiar with the work that needs to be done in those offices and can quickly address the areas that were impacted by the retirement of the Director of Grants. All of those departments will report up to the Deputy Chief Financial Officer who is a certified public accountant and can address the organizational and technical issues identified.

An analysis of the former Director of Grants responsibilities has been initiated. A draft of the distribution of duties and the responsible personnel is in process.

A School Dude IT ticket will be submitted to remove the former Director of Grants name from the Buffalo Schools website and a new designated contact will be assigned.

Recommendation #G2

Criticality: Important

Timeline: Short-Term

Currently, the Grants Department does not meet on a regular basis to discuss new grant opportunities.

As part of its standard processes, we recommend the Grants Department hold regular meetings to specifically discuss new grant opportunities. Minutes and/or notes should be recorded during these meetings to document action steps, responsibilities and deadlines discussed.

Response:

The Grants Department will commence weekly staff meetings. These meetings will be held every Monday, so that issues may be discussed prior to the weekly Finance meetings with Barbara Smith CFO/COO.

As recommended above, notes will be recorded to document action steps, responsibilities and deadlines discussed.

Recommendation #G3

Criticality: Routine

Timeline: Short-Term

Upon review of Forms FS10-F and FS25, we could not determine if they were mailed to the proper grantor agencies because the forms were not stamped as mailed or documented as such.

We recommend that all required forms sent out to grantor agencies be stamped as mailed and/or received with the date noted.

Response:

FS10-F and FS25 forms are copied with the signature of the CFO/COO immediately prior to mailing, at which point the copies are filed. The existence of such a copy indicates that the mailing has taken place. In addition, all FS10-Fs are sent by certified mail. Going forward, copies of certified mail receipts will be retained to evidence the timing of mailings.

Recommendation #G4

Criticality: Important

Timeline: Short-Term

Based on our inquiries and understanding of the grant Request for Proposal (“RFP”) process, we noted that RFPs over \$1,000 are required to be processed through the Grants Department. However, this process can be circumvented if a school or department responds directly to an RFP, and subsequently is given a notice of award directly by the grantor.

We recommend that the District establish adequate controls to ensure that all grant RFPs over \$1,000 are being processed through the Grants Department. All employees of the District who submit grants should be made aware of the rules and restrictions surrounding this threshold amount and potential risks of not following this policy.

Response:

The Grants Development & Management Handbook contains this policy. The Grants Department will review the current Grants Development & Management Handbook and revise as necessary for the current departmental structure and policies. This handbook is located under the Policies and Procedures section in the District Document Library. All District staff has access to this document.

The Grants Department will work with the IT Department to redesign the current website, so that the information can be easily accessed.

Departmental staff will be identified as the lead on this initiative. It is expected that this will be completed no later than February 27, 2015.

Recommendation #G5

Criticality: Urgent

Timeline: Short-Term

Based on our inquiries and understanding of the Grants Department processes, we noted a lack of knowledge regarding federal compliance requirements contained in the Office of Management and Budget (OMB) Circular A-21 and A-133.

Employees in the Grants Department should be properly trained on the federal grant requirements contained in OMB Circular A-21, A-133 and the new Uniform Guidance issued on December 26, 2014. It is important to note that all grants awarded to the Buffalo Schools before December 26, 2014 will continue to abide by the guidelines in OMB Circular A-21 and A-133. Grants awarded on or after December 26, 2014 will be required to follow the new Uniform Guidance. Therefore, the Grants Department should be educated on the guidelines contained within the aforementioned sources. Noncompliance with federal requirements could lead to loss of funding and other sanctions by the federal government.

We recommend that the Grants Department hold periodic training sessions for OMB Circular A-21, A-133 and the new Uniform Guidance. Specifically within the Uniform Guidance, training sessions should focus on the cost principle changes in Procurement standards, Subrecipient Monitoring and Reporting, Time and Effort reporting, Indirect Costs and Personal Services.

The District should also consider including an understanding of federal compliance requirements to job descriptions in the Grants Department.

Response:

OMB Circular A-21 and A-133 will be reviewed for the specific requirements for federal grants. A review OMB Circular A-21 and A-133 will be completed by February 27, 2015. The Financial Controller will execute training to the grants department regarding, locating, researching, and applying the OMB circulars as well as transitioning to the use of the new Uniform Guidance.