

BUFFALO CITY SCHOOL DISTRICT

*Risk Assessment – Board Level Policies and Procedures
Findings and Recommendations
For the Year Ended June 30, 2015*

BUFFALO CITY SCHOOL DISTRICT
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Table of Contents

	<u>Page</u>
Transmittal Letter	
Risk Assessment	
Overview and Scope.....	1
Risk Management Tolerance Model.....	2
Risk Assessment Matrix	3
Summary of Internal Control Recommendations	
Overview	4
Detail Findings and Recommendations	
Board Level Policies and Procedures	5 – 9

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 Board Level Policies and Procedures 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 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 – Board Level Policies and Procedures 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

December 1, 2016

Risk Assessment

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Board Level Policies and Procedures
For the Year Ended 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. Our analysis of Board Level Policies and Procedures was limited to an assessment of the process for updating Board Policies and Procedures, the design and operation of the code of ethics and conflict of interest policies, the design and operation of the whistleblower policy, and the Audit Committee's Charter. 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 Board Level Policies and Procedures Cycle.

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Board Level Policies and Procedures (continued)
For the Year Ended June 30, 2015

Risk Management Tolerance Model

	<i>Significant</i>			
Impact	<i>Moderate</i>		PP	
	<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, Medium), (Minor, Low), and (Minor, Medium). The 'Moderate, Medium' cell contains the text 'PP'.

BUFFALO CITY SCHOOL DISTRICT
Risk Assessment – Board Level Policies and Procedures (continued)
For the Year Ended June 30, 2015

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 Board Level Policies and Procedures Cycle as the risks noted do not appear to impede on the District's ability to succeed. However, there are various procedures and practices that could be modified to support the mission and goals of the District.	Moderate	Medium

Summary of Internal Control Recommendations

BUFFALO CITY SCHOOL DISTRICT
Summary of Internal Control Recommendations – Board Level Policies and Procedures
For the Year Ended 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. 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 Board Level Policies and Procedures Cycle, there were twelve (5) total recommendations. The criticality and timeline for the recommendations is as follows:

<u>Internal Control Area</u>	<u>Number of Recommendations</u>	<u>Criticality</u>			<u>Timeline</u>	
		<u>Routine</u>	<u>Important</u>	<u>Urgent</u>	<u>Short-Term</u>	<u>Long-Term</u>
Policy Adoption and Revision	2	0	2	0	2	0
Code of Ethics / Conflict of Interest Policy	3	0	2	1	3	0
Total Recommendations	5	0	4	1	5	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

BUFFALO CITY SCHOOL DISTRICT
Detail Findings and Recommendations – Board Level Policies and Procedures
For the Year Ended June 30, 2015

Policy Adoption and Revision

Recommendation #PP1

Criticality: Important

Timeline: Short-Term

Finding: It does not appear that policies are reviewed on a recurring basis, such as annually, to ensure policies are reflective of the current practices of the District.

Background: The current process allows for updates to District policy typically when:

1. The District is notified by the New York State School Board Association;
2. Complaints are made to administrative members of the District; or
3. When the individual responsible for the policy indicates a need for a change.

As there is no formal review of policies that have not been identified for change, there is potential that the current practices of the District are not reflected in the documented policies and/or those policies are required to implement various state or other laws and regulations.

Rationale:

Impact: *Minor* – In the absence of updated written policies, operations of the District may be impacted. Written policies should provide sufficient direction for personnel of the District, and such policies should be updated regularly.

Likelihood: *High* – Upon conversations with personnel of the District, there does not appear to be a procedure implemented to ensure policies are reviewed regularly besides in the instances noted above.

Recommendation: The District should consider implementing a policy that requires a periodic review of written policies by appropriate individuals or the Board of Education. Further, the process of updating policies should be documented to ensure District personnel are aware of when the process to update District policies is to take place.

Board Response:

The District will issue a Request for Proposal to retain an outside organization to periodically review written policies and make recommendations to the Board of Education.

BUFFALO CITY SCHOOL DISTRICT

Detail Findings and Recommendations – Board Level Policies and Procedures (continued) For the Year Ended June 30, 2015

Recommendation #PP2

Criticality: Important

Timeline: Short-Term

Finding: It does not appear that policies and administrative regulations are updated concurrently, nor is there a process to ensure policies that are instated by the Board coincide with administrative regulations or result in the addition of new administrative regulations, when applicable.

Background: The approval of the adoption, amendment, or repeal of the by-laws and policies are required to be recorded in the official District minutes of the Board of Education (“BOE” or “Board”). Once this occurs, the Office of Operations Services is required to update the policy and the website to reflect the most up to date policies. A revision or an amendment to a policy is indicated at the bottom of each policy. It does not appear that there is a definitive communication with appropriate members of the District’s Administration to advise of the change that may warrant updates or additions to policies and/or administrative regulation.

It should be noted that there is currently a request for proposal for a third party to review and provide the following deliverables:

- a. a draft of the updated Board Policy manual;
- b. a draft of administrative regulation manual that conforms to the new policy;
- c. options on other related guideline manuals to support district operations; and
- d. options on periodic updates of policy, administrative regulations, and related guidelines

As of the date of this report, bidders have submitted their proposals but the engagement has not yet been awarded.

Rationale:

Impact: *Minor* – The current practices may allow for conflicting documentation of policy and administrative regulation which may impact the operations of the District. Uniformity, when applicable, is preferable to ensure actions of the Board of Education, enforced through policy, agree with actions of the administration through documented policy and administrative regulations.

Likelihood: *High* – Upon conversations with personnel of the District, there does not appear to be a procedure implemented to ensure policies that are instated by the Board coincide with administrative regulations, when applicable.

BUFFALO CITY SCHOOL DISTRICT

Detail Findings and Recommendations – Board Level Policies and Procedures (continued) For the Year Ended June 30, 2015

Recommendation: It is recommended that administrative regulations are reviewed to ensure they conform with District policy, where applicable, and if additional administrative regulations are required. This should be completed on a recurring basis, documented through written policies and procedures, and the responsible parties should be made aware of their required actions.

Board Response:

In conjunction with the review by the outside entity referenced in Board Response 1, above, the Board of Education shall have the regulations reviewed on an annual basis to ensure conformity with the Board Policies.

Code of Ethics/ Conflict of Interest Policy

Recommendation #PP3

Criticality: Urgent

Timeline: Short-Term

Finding: The Commission on Ethics (the “Commission”) is not actively overseeing the filing of financial disclosure statements and review of such statements as required in accordance Policy 6110, Code of Ethics for Board Members and Employees of the Buffalo City School District (“Policy 6110”).

Background: Policy 6110 requires board members and employees to disclose, as soon as possible, in writing, known or suspected conflicts of interest or other violations of the policy and applicable regulations. The required disclosures are contained within the Policy 6110; they are to be filed by October 15th of each year.

Rationale:

Impact: *Moderate* – In the event of a violation that was not detected or mitigated by the Commission, the District will likely see a moderate impact as public confidence and trust may be diminished, partially affecting the reputation of the District.

Likelihood: *High* – Upon discussion with District personnel, the formal collection and review of financial disclosures did not appear to occur in the prior year.

Recommendation: The duties of the Commission contained in Regulation 6110R, Code of Ethics for School Board Members, Officers, and Employees (“Regulation 6110R”), which corresponds to Policy 6110 should be reiterated to the current members of the Commission to ensure the requirements surrounding financial disclosures and other responsibilities of the Commission are met. Recurring meetings should be considered to ensure the Committee complies with 6110R and 6110.

BUFFALO CITY SCHOOL DISTRICT

Detail Findings and Recommendations – Board Level Policies and Procedures (continued) *For the Year Ended June 30, 2015*

Board Response:

The Office of General Counsel will issue a memorandum to all current members of the Commission to ensure the requirements surrounding financial disclosures and other responsibilities of the Commission are met.

Recommendation #PP4

Criticality: Important

Timeline: Short-Term

Finding: The Commission does not appear to be easily accessible to members of the District, which may impact the ability for members of the District to file transactional disclosure statements and report written complaints.

Background: The establishment of the Commission and their related roles and responsibilities are contained within Regulation 6110R. Regulation 6110R stipulates any person may file a written complaint questioning the compliance by a board member or employee. Further, the Commission is to provide transactional disclosure forms for those who require them. However, there does not appear to be information on the District's website or elsewhere that documents the contact information of the Commission. Without such information, the objectives and function of the Commission may not operate as designed.

Rationale:

Impact: *Moderate* – In the event of a violation that was not detected or mitigated by the Commission, the District will likely see a moderate impact as public confidence and trust may be diminished, potentially affecting the reputation of the District.

Likelihood: *Medium* – It does not appear as though information pertaining to the Committee is easily accessible, which may decrease the effectiveness of the Committee.

Recommendation: Due to the significant role that the Committee serves to the District in regards to conflict of interest policy, the contact information for the members of the Commission should be readily available to the constituents of the District.

BUFFALO CITY SCHOOL DISTRICT

Detail Findings and Recommendations – Board Level Policies and Procedures (continued) For the Year Ended June 30, 2015

Board Response:

The District will post the contact information for the members of the Commission on the Board of Education website.

Recommendation #PP5

Criticality: Important

Timeline: Short-Term

Finding: The current version of Policy 6110 does not contain a clause that would preclude Board of Education Members (“Board Members”) from contacting employees of the District on behalf of a vendor or vendors, directly or indirectly, with respect to goods or services that are the subject of a bid, request for qualification or proposal or for which procurement is otherwise being considered.

Background: This requirement was included in the District’s Policy 6110, dated 2008, which has since been updated excluding such terms. The New York State Department of Educational Management Services includes ethical guidance that states, “To give all responsible bidders equal consideration and the assurance of unbiased judgment in determining whether their product meets specifications and the educational needs of the district.” It is considered good practice to re-include such language in Policy 6110.

Rationale:

Impact: *Moderate* – If there are instances in which contracts are awarded as a result of influence by a Board Member, the impact is assessed at moderate as there may be both financial and reputational impacts to the District.

Likelihood: *Medium* – As there is currently a lack of this language in the policy, the likelihood of this occurrence is assessed at medium.

Recommendation: Policy 6110 should be updated to include language that discourages the influence of Board Members on District employees regarding the solicitation and hiring of vendors.

Board Response:

The Board will consider updating Policy 6110 to include language that prohibits the influence of Board Members on District employees regarding the solicitation and hiring of vendors.