



Freed Maxick CPAs, P.C.

Erie 1 BOCES
Review of Internal Controls over General Ledger

Internal Audit Report

January 21, 2022

PRELIMINARY DRAFT
For Review and Discussion
--Subject to Change--
Not to be Reproduced

January 18, 2022

Audit Committee
Erie 1 BOCES
355 Harlem Road
West Seneca, New York 14224

We have performed an internal audit of the internal controls over the General Ledger of Erie 1 BOCES (the BOCES). Our internal audit was performed during December 2021 and January 2022 in accordance with the terms of our engagement letter and the applicable internal audit procedures. Our report contains the following:

- **Executive Summary** - An overview of the risk factors considered, an overall internal audit rating, and a summary of the key observations.
- **Observations** - Detail related to specific observations noted during the testing performed.

This report is intended solely for the information and use of the BOCES. It is not intended to be and should not be used by anyone other than these specified parties. The New York State Comptroller's Office may be provided with a copy of this report in connection with fulfilling their oversight responsibilities.

We appreciate the cooperation extended to us during this review. If we can be of assistance to you or if you have any questions concerning this report, please contact Kathryn Barrett at (585) 344-1967 or Richard Malizia at (585) 503-4458.

Sincerely,

Freed Maxick, CPAs, PC

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Executive Overview

Introduction

We recently completed an internal audit of the District’s internal controls and processing procedures over the general ledger with a primary objective of evaluating the significant control points for effectiveness, adequacy, and efficiency of operations. This report is intended solely for the information and use of the District and should not be used for any other purpose. The following chart, extracted from the risk assessment conducted as part of the internal audit plan development, illustrates the areas that present the higher risks:

Risk Factors	Inherent Risk Factors								Control Risk Factors					Current Year Risk Score	Prior Year Risk Score	Current Year Rating	Prior Year Rating
	Ext Mkt Rep	Financial	Operational	Legal/Regulatory	Strategic	Tech/System	People/Culture	Fraud	Monitoring	Info/Communications	Control Activities	Risk Assessment	Control Enviro.				
General Ledger Maintenance	L	L	L	L	L	L	L	L	S	S	S	S	S	200	223	11	7

Internal Audit Scope

We completed an internal audit of the District’s general ledger in accordance with the internal audit plan and planning memo. Our internal audit was performed to:

- Gain an understanding of the functions and processes,
- Identify the risks and exposures,
- Assess the impact of such risks on the internal control environment, and
- Evaluate the adequacy of internal controls in place to mitigate the identified risks.

Overview of Issues

We discussed the process of the audit with management during fieldwork. There were no reportable findings for this audit. However, there were a couple of observations that warrant disclosure in this report.

Audit Area	Description
Journal Entry Testing	The journal entry report provided to us was not capable of excluding certain types of transactions, specifically entries to record transfers between cash accounts and the clearing of due to/from accounts. Therefore, we were unable to review the number and total value of the entries to determine if they were reasonable.
Review of General Ledger	The BOCES maintains a Workers’ Compensation Reserve fund. Although, it is reported as a reserve in their financial statements it is actually used as an accrued liability account. Similar to TRS, the BOCES collects the

	<p>premiums in the prior year to fund the current year. Once paid there should be little or no balance, unless there are changes in rates. The BOCES discussed the issue with the Comptroller’s Office, the State Education Department, and their financial auditors when they defined it and they recognized that the BOCES was not running it like a reserve. It is technically setup for not only paying premiums but also for keeping money set aside for accrued but not recorded liabilities.</p>
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Conclusion

A “Satisfactory” internal audit rating, as defined below, was assigned following this internal audit based on the identification of the key findings summarized above, as well as other less significant comments that can be addressed by management in the normal course of business.

RATINGS	CONDITIONS
SATISFACTORY	No significant deficiencies exist, while improvement continues to be appropriate; controls are considered adequate, and findings are not significant to the overall BOCES.
NEEDS IMPROVEMENT	Some improvement needed to bring the BOCES to acceptable status but if continues without attention, could lead to further deterioration and an unsatisfactory status.
UNSATISFACTORY	Significant deficiencies exist which could lead to material financial loss or embarrassment to the BOCES.

Internal Audit Approach

To accomplish the scope of this internal audit, we reviewed or performed:

- Trial balance, Revenues Status Reports, and Appropriation Status Reports
- Journal Entries and Supporting Documentation
- Bank Reconciliations and Treasurer Reports
- Due to/ from Account Transactions
- Month-End/ Year-End Closing

It should be recognized that controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes in judgment, carelessness, or other personal factors. Control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments required in the processing of data.

Further, the projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

Scope and Methodology

During this internal audit, we examined internal controls over general ledger maintenance of the BOCES that existed at the time of our internal audit. More information on such standards and the methodology used in performing this internal audit is included in Appendix A of this report.

APPENDIX A

INTERNAL AUDIT METHODOLOGY

To accomplish our internal audit objective, we performed a risk assessment of the internal controls in order to design our internal audit to focus on areas of higher risk. Our risk assessment included evaluations of the following areas: accounting systems, centralized and decentralized cash receipts, grant administration, state aid, purchasing and cash disbursements, payroll, employee benefits and paid time off, fuel depot, and fixed assets.

During the risk assessment, we interviewed appropriate District officials and reviewed pertinent documents such as District policies and procedures manuals and financial records and reports. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our risk assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct, and identified for internal audit those areas most at risk. The Audit Committee selected the general ledger for further audit testing.

Within the general ledger, we interviewed appropriate District officials and employees to obtain an understanding of the District's controls and operations associated with the general ledger. We reviewed the general ledger process, trial balances, revenue status reports, appropriation status reports, journal entries, bank reconciliations, treasurer reports, due to/ from account transactions, month-end, and year-end closing procedures.

APPENDIX B

INTERNAL AUDIT PROCEDURES PERFORMED

We performed the procedures enumerated below, which were agreed to by the Audit Committee of the BOCES. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures performed are summarized as follows:

General Ledger

- We examined one trial balance, revenue status report and appropriation status report and verified all accounts are properly classified following the Uniform Chart of Accounts

Journal Entries Testing

- We obtained a report of all journal entries for the period of July 1, 2020 through June 30, 2021, in which we were unable to exclude entries to record transfers between cash accounts and the clearing of the due to/ from accounts. We were unable to review the number and total value of the entries to determine if they were reasonable.
- We randomly selected a total of 50 journal entries for testing from the period July 1, 2020 through December 14, 2021.

For each journal entry selected for testing, we:

- PDW Lynne Bogdan, Treasurer, the system is not able to exclude transfers between cash accounts and the clearing of due to/from accounts from the population of journal entries. This makes this procedure unable to be tested as the majority of the transactions reported were all those 2 types of transactions.

Bank Reconciliations and Treasurer Reports

- We randomly selected a sample of 5 months during the period July 1, 2020 to December 31, 2021: July 2020, January 2021, April 2021, June 2021, and October 2021. We obtained the bank reconciliations and treasurer reports for the months selected.

For each month selected for testing, we:

- Examined the month's treasurer report and verified it was submitted timely to the Board of Education.
- Verified the reconcile balance per the treasurer report agrees to the cash reported in the general ledger of all funds.
- Examined the month's bank reconciliation for old outstanding reconciling items.
- Verified all bank transfers between accounts net to zero.

Due to/ from Account Transactions

- We examined the general ledger detail for all due to/ from accounts and verified the accounts are periodically cleared.
- We randomly selected a sample of 5 months during the period July 1, 2020 to December 31, 2021: January 2021, April 2021, June 2021, July 2021 and October 2021. We examined the month's reconciliation and verified the due to/ from accounts were balanced.

Month End Closing

- We reviewed GL Cycle closing screen prints for the testing periods between the years of 2020 and 2021. We evaluated the timing of the closings to determine if they were reasonable and in compliance with District policy.
- We examined all re-openings of the closed account period for the period July 2019 to December 2021 and verified the review of the accounting period reopening for proper authorization.

Year End Closing

- We examined, for the fiscal years ended June 30, 2021 and 2020, a summary by CoSer and verified any program deficits had proper explanation.
- We examined the related revenue and expenditure reports by CoSer and verified the information agrees to the summary reports.