



Freed Maxick CPAs, P.C.

Erie 1 BOCES
2016 Internal Audit of Certain Human Resource
Activities and Separation Payments

Internal Audit Report

June 15, 2016



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Audit Committee
Erie 1 BOCES
Williamsville, NY 14421

We have performed an internal audit of the internal controls over certain Human Resource activities and Separation Payments of Erie 1 BOCES (the BOCES). Our audit was performed during 2016 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 findings noted during the current year testing

This report contains recommendations for improvement in internal controls for consideration by the Board of Education, the audit committee and BOCES officials.

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 Comptrollers 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.

Sincerely,

Freed Maxick CPAs, P.C.

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I. EXECUTIVE OVERVIEW**Introduction**

We recently completed an internal audit of the BOCES' internal controls and processing procedures over certain Human Resource activities and Separation Payments with a primary objective of evaluating the significant control points for effectiveness, adequacy, efficiency of operations, consistency with contractual provisions and accuracy. This report is intended solely for the information and use of the BOCES, and should not be used for any other purpose.

Audit Scope

We completed an internal audit of the certain Human Resource activities and Separation Payments during the period of July 1, 2014 through June 30, 2016 for the BOCES in accordance with the internal audit plan and planning memo.

Our review 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
- ❖ Evaluate the adequacy of internal controls in place to mitigate the identified risks.

Overview of Issues

During the course of our work, we discussed our findings with management. Our detailed findings and recommendations for improving controls and operations are described in the detailed issue matrix of this report. A summary of key issues is provided below.

Table 1

Issue Description	Relative Risk	Resolution Level of Difficulty
1. Timely Processing of Separation Payments.	Low	Low
2. Timely Payment of Separation Payments.	Low	Low

- ❖ Relative Risk is an evaluation of the severity of the concern and the potential impact on the operations. Items rated as "High" are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as "Moderate" may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as "Low" could escalate into operational issues, but can be addressed through the normal course of conducting business.
- ❖ Resolution Level of Difficulty is an evaluation of the estimated level of difficulty and potential cost to resolve the concern based on our experience. Items rated as "High" are considered to be difficult to resolve and/or will require a significant amount of planning and management involvement/oversight in order to obtain resolution. Items rated as "Moderate" are not as difficult to resolve and/or do not require a significant amount of planning, but may be time-consuming to resolve. Items rated as "Low" are items that are not complex and/or do not require significant amounts of planning and time to resolve.

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 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.

Audit Approach

The specific areas of the human resources function that we reviewed:

- Verify that the contract amount or hourly rate entered into the Payroll Management System was accurate and in accordance with the applicable collective bargaining unit agreement.
- Separation payments were calculated properly in accordance with the applicable collective bargaining unit agreement or BOCES internal administrative guidelines.
- Separation payments were paid in a timely manner.

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 certain Human Resource activities and separation payments and accounting records that existed at the time of our internal audit. More information on the methodology used in performing this internal audit is included in Appendix A of this report.

Comments of District Officials and Corrective Action

The results of our internal audit and recommendations have been discussed with BOCES officials and their comments, which appear in this report, have been considered in preparing this report.

Management should prepare a corrective action plan that addresses the recommendations in this report. It is the Audit Committee's responsibility to review, accept and monitor the implementation of the corrective action plan. For guidance in preparing the corrective action plan, Management may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

II. DETAILED OBSERVATIONS AND RECOMMENDATIONS – SEPARATION PAYMENTS

Observation	Recommendation	Management Response
1. Timely processing of Separation Payments		
<p>In accordance with the BOCES' internal administrative guidelines, separation payments are to be processed within 30 days of the employee's separation from service (retirement, resignation, termination). During our testing of the processing of separation payments, we noted 8 instances of the 84 transactions tested where the processing memo was dated 30 days after employee separation.</p>	<p>We recommend the BOCES comply with internal administrative guidelines and process payments within 30 days of the employee's separation from service.</p>	<p>Corrective Action: Erie 1 BOCES will process separation payments within 30 days of employee's separation from the organization. Target Date: Effective immediately</p>
2. Timely payment of Separation Payments		
<p>In accordance with the BOCES' internal administrative guidelines, separation payments are to be paid within 60 days of the employee's separation from service. During our testing of the processing of separation payments, we noted 5 instances of the 84 transactions tested where the payment was issued in excess of 60 days after employee separation from service.</p>	<p>We recommend the BOCES comply with the internal administrative guidelines and pay separation payments within 60 days of the employee's separation from service.</p>	<p>Corrective Action: Erie 1 BOCES will pay out separation benefits within 15 days from the date of processing as outlined above. Target Date: Effective immediately</p>

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 software, budgeting, governance and reporting, centralized cash receipts, employee benefits and paid time off, fixed assets, fuel depot, general ledger maintenance and wire transfers, grants, medicaid, payroll, purchasing and cash disbursements, STAC process and excess cost aid, and state aid.

During the risk assessment, we interviewed appropriate BOCES officials and reviewed pertinent documents such as BOCES policies and procedures manuals and financial records and reports. Further, we reviewed the BOCES' 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. Management and the Audit Committee selected certain human resource activities and separation payments for further internal audit testing.

Within human resources, we interviewed appropriate District officials and employees to obtain an understanding of the BOCES' controls and operations associated with human resources and separation payments and related accounting. We reviewed separation payouts for terminated employees and employee signed salary statements.

Our internal audit methodology requires that we understand the BOCES' management controls and those laws, rules and regulations that are relevant to the BOCES' operations included in the scope of our internal audit. An internal audit includes performance of procedures related to transactions recorded in accounting and operating records and applying such other internal auditing procedures, as we consider necessary in the circumstances. We believe that the procedures performed provide a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX B

INTERNAL AUDIT PROCEDURES PERFORMED

We performed the procedures enumerated below, which were agreed to by the Audit Committee of the Board of Education 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:

Internal Controls

We reviewed existing procedures for calculation of annual salary increases and the processing of separation payments to ensure that appropriate internal controls exist.

1. We randomly selected 100 employees for testing of calculation of annual salary increases (approximately 10% of the population) from the 2015/2016 fiscal year. Our sample included employees from all collective bargaining units and both salary and hourly employees.
2. We verified that the contract amount or hourly rate, excluding all stipends and extra pays, noted in the payroll register for the employees selected for testing were accurately calculated based on salary increases provided in the respective collective bargaining agreement. In recalculating the 2015/2016 contract amount or hourly rate, we used the 2014/2015 contract amount or hourly rate as the base amount. We did not verify the accuracy of the 2014/2015 contract amount or hourly rate. Also, when the collective bargaining agreement gave a percentage range for the annual increase our error projection as noted in our findings was based on the upper value in the range.
3. For all employees who separated from service (retired, resigned or terminated) during the period of July 1, 2014 through the date of our internal audit, we verified that any calculation, of sick or vacation benefits paid to the employee or rolled into post-employment benefit accounts were allowable according to the employee's collective bargaining contract or Board approved contract and were correctly calculated.
4. For separation payments made to employees selected for testing above, we verified the payments were made in a timely manner based on provisions in the employee's collective bargaining contract, or BOCES' internal administrative guidelines (within 60 days).