



Ontario-Seneca-Yates- Cayuga-Wayne Board of Cooperative Educational Services

Multiyear Planning and Software Management

Report of Examination

Period Covered:

July 1, 2014 – July 5, 2016

2016M-249



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2016

Dear Board of Cooperative Educational Services (BOCES) Officials:

A top priority of the Office of the State Comptroller is to help BOCES officials manage BOCES resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support BOCES operations. The Comptroller oversees the fiscal affairs of BOCES statewide, as well as BOCES' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving BOCES operations and Board of Education governance. Audits also can identify strategies to reduce BOCES costs and to strengthen controls intended to safeguard BOCES assets.

Following is a report of our audit of the Ontario-Seneca-Yates-Cayuga-Wayne BOCES, entitled Multiyear Planning and Software Management. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for BOCES officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Ontario-Seneca-Yates-Cayuga-Wayne Board of Cooperative Educational Services (BOCES)¹ is governed by a nine-member Board of Education (Board) that is elected by the boards of its 25 component school districts. The Board is responsible for the general management and control of BOCES' financial and educational affairs. The District Superintendent is BOCES' chief executive officer and is responsible, along with other administrative staff, for BOCES' day-to-day management and for regional educational planning and coordination. BOCES' 2015-16 fiscal year general fund budget totaled approximately \$102.7 million.

The Genesee Valley/Wayne Finger Lakes Educational Technology Services (EduTech) is one of 12 regional information centers in the State, and it serves 47 school districts in an eight-county region. The Director of EduTech is responsible for BOCES' information technology (IT) infrastructure. BOCES currently has approximately 3,000 computers. IT budgeted appropriations for the 2015-16 fiscal year were approximately \$15.3 million, which included services provided to districts.

Scope and Objectives

The objectives of our audit were to assess BOCES' multiyear planning and software management for the period July 1, 2014 through July 5, 2016. We extended our scope period back to July 1, 2012 to review reserve fund activity. Our audit addressed the following related questions:

- Did the Board and BOCES officials adequately use multiyear planning, including ensuring that reserves were appropriately established, maintained and supported?
- Is installed software properly licensed and updated to prevent unnecessary costs and loss of data?

Audit Results

BOCES officials did not adequately use multiyear planning, which includes ensuring that reserves are appropriately established, maintained and supported. They did not develop formal, written multiyear financial plans, including a reserve plan that indicates their intentions for funding, using and accumulating reserve funds.

BOCES officials also did not prepare a formal analysis of certain reserve funds to ensure amounts were appropriate for BOCES' needs or include reserve funding in the annual budgets. As a result,

¹ More commonly known as the Wayne-Finger Lakes BOCES

during our analysis of BOCES' seven reserve funds totaling \$13.5 million we found that, as of June 30, 2016, three of the reserves (retirement, unemployment insurance and insurance reserves) have balances totaling \$6.48 million that were potentially unreasonable based on BOCES' needs and one reserve (retiree health insurance) was unauthorized by statute.

In addition, BOCES officials did not recently update some of BOCES' capital plans or include specific funding sources for capital improvements or purchases in the plans. Specifically, BOCES deviated from its career and technical equipment (CTE) replacement plan in 2015-16 and purchased equipment planned for 2015-16 and 2016-17 in the 2015-16 fiscal year due to increased enrollment but did not update the capital plan to reflect these changes. In addition, the capital plans for its regional support center and satellite sites and the CTE do not include the long-term costs of maintenance and operations after an improvement is completed or a purchase is made.

We also found that BOCES can manage its software more effectively and efficiently. The Board's acceptable use policies were inadequate because they do not include enforcement practices, such as monitoring computer use and reviewing installed software, and specific penalties for noncompliance. The IT staff did not maintain a comprehensive inventory list of all software that BOCES owned and for which it purchased licenses.

In addition, BOCES officials and IT staff did not regularly monitor or review computers to ensure that all software installed was appropriate and legally obtained. Consequently, we found that eight of 86 computers had improper software applications that included noneducational gaming software, a coupon application and an Internet browser rewards bar. We also found that BOCES did not have sufficient documentation to provide evidence that it purchased licenses for six of 177 software programs that required licensing. The installation of nonbusiness, noneducational or unlicensed software may be exposing BOCES computers and networks to unnecessary risks, such as copyright infringement, hacking or other malicious events.

Comments of BOCES Officials

The results of our audit and recommendations have been discussed with BOCES officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, BOCES officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in BOCES' response letter.

Introduction

Background

The Ontario-Seneca-Yates-Cayuga-Wayne Board of Cooperative Educational Services (BOCES)² is a public entity serving 25 component school districts. BOCES is governed by a nine-member Board of Education (Board) elected by the boards of the component districts. The Board is responsible for the general management and control of BOCES' financial and educational affairs. The District Superintendent is BOCES' chief executive officer and serves dual roles. The District Superintendent is responsible, along with other administrative staff, for BOCES' day-to-day management and for regional educational planning and coordination. The District Superintendent also serves the State as a representative for the New York State Commissioner of Education.

The Assistant Superintendent for Administration reports to the Superintendent and carries out various BOCES' financial transactions, including assisting in preparing the annual budget for presentation to the Board. BOCES houses its administrative offices and many of its instructional support programs at its Regional Support Center in the Village of Newark in Wayne County and has other campus locations in Wayne, Yates and Ontario counties.

Combined, the component districts educate approximately 35,000 students in Wayne, Ontario, Seneca, Cayuga and Yates counties. BOCES delivers more than 67 educational and administrative services to its school districts and employs approximately 980 staff members. These services are intended to enhance the districts' educational programs and allow them to provide programs that they themselves could not otherwise afford. BOCES has no taxing authority and derives all of its financial support for operations from providing services to its component and participating school districts and from State and Federal aid. BOCES' 2015-16 fiscal year general fund budgeted appropriations totaled approximately \$102.7 million.

The Genesee Valley/Wayne Finger Lakes Educational Technology Services (EduTech) is one of 12 regional information centers in the State, and it serves 47 school districts in an eight-county region. The Director of EduTech (Director) is responsible for BOCES' information technology (IT) infrastructure. To assist the Director, BOCES also employs several IT Managers³ who are responsible for overseeing

² More commonly known as the Wayne-Finger Lakes BOCES

³ Including a Wide Area Network (WAN) Manager, Manager of Microcomputer Technical Support, Manager of Student Systems, Manager of Administrative Services and Manager of Warehouse Operations

BOCES' daily IT operations and functions, including supervising IT department staff. IT budgeted appropriations for the 2015-16 fiscal year were approximately \$15.3 million, which included services provided to districts.

Objectives

The objectives of our audit were to assess BOCES' multiyear planning, including reserve funds, and software management. Our audit addressed the following related questions:

- Did the Board and BOCES officials adequately use multiyear planning, including ensuring that reserves were appropriately established, maintained and supported?
- Is installed software properly licensed and updated to prevent unnecessary costs and loss of data?

Scope and Methodology

We examined BOCES' use of multiyear planning and software management for the period July 1, 2014 through July 5, 2016. We extended our scope period back to July 1, 2012 to review reserve fund activity.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of BOCES Officials and Corrective Action

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law (GML) and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP should begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in BOCES' Administration Office.

Multiyear Planning

It is important for BOCES officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. A multiyear financial plan projects revenues and expenditures for several years into the future. The plan illustrates BOCES's ability to pay for and provide services within a set of policy and economic assumptions. These projections help BOCES officials assess expenditure commitments, revenue trends, financial risks, the affordability of new services, the accumulation of money in reserve funds and capital investments.

A multiyear capital plan should provide accurate, reasonable estimates that include the impact that each project would have on budgets, including the impact that debt service costs, capital reserve funds and fund balance and future operating expenditures would have on budgets. The capital plan estimates should be incorporated into the multiyear financial plan. BOCES officials should monitor and update long-term plans on an ongoing basis to ensure that decisions are guided by the most accurate information available. These plans work in conjunction with BOCES policies and procedures to provide necessary guidance to employees and component districts regarding financial priorities and goals set by BOCES officials.

BOCES officials did not adequately use multiyear planning, which includes ensuring that reserves are appropriately established, maintained and supported. They did not develop formal, written multiyear financial plans, including a reserve plan that indicates their intentions for funding, using and accumulating reserve funds. BOCES officials also did not prepare a formal analysis of certain reserve funds to ensure amounts were appropriate for BOCES' needs or include reserve funding in the annual budgets.

BOCES officials have developed formal, long-term capital plans for BOCES' regional support center and satellite sites and a career and technical equipment (CTE) replacement plan. However, some of these capital plans have not been updated recently or do not include specific funding sources for capital improvements or purchases. Specifically, BOCES officials deviated from the CTE replacement plan in 2015-16 and purchased equipment planned for 2015-16 and 2016-17 in the 2015-16 fiscal year due to increased enrollment but did not update the capital plan to reflect these changes. In addition, the plans do not include the long-term costs of maintenance and operations after an improvement is completed or a purchase is made.

Because BOCES officials have not developed multiyear plans that adequately describe their intentions for accumulating, maintaining and using reserve funds as a financing source for future needs, we performed an analysis of BOCES' reserves. As of June 30, 2016,⁴ BOCES' seven reserve funds totaled \$13.5 million, or approximately 13 percent of the total budgeted appropriations for the 2015-16 fiscal year. The unemployment insurance and retirement reserves were overfunded, the insurance reserve was not properly established and its balance was unsupported and the retiree health insurance reserve was not authorized by statute.

Unemployment Insurance Reserve – As of June 30, 2016, this reserve had a balance of \$1.91 million. Although our previous audit,⁵ which was released in July 2009, indicated that the reserve's balance was excessive, BOCES has almost tripled the balance since then and used only \$250,000 during the last three completed fiscal years. Average annual expenditures made from this reserve for the 2012-13, 2013-14 and 2014-15 fiscal years were approximately \$83,000. Based on these average expenditures, the balance in this reserve could fund 23 years of average annual related expenditures, or 173 employees at the maximum benefit amount.⁶

BOCES officials told us that they have retained this amount in this reserve due to their pandemic flu plan. They said that in the event of a pandemic flu, all non-essential personnel would be laid off for a period of six weeks. However, total flu cases reported in Wayne County⁷ for 2014 and 2015 were 774, which is less than the total number of BOCES employees. In addition, BOCES officials did not provide evidence to support the likelihood and risk that a pandemic event will occur. This reserve should be used to smooth spikes in related expenditures or to subsidize the budget as needed. Therefore, even enough to pay one year's average costs would be a substantial balance for this reserve.

Retirement Reserve – As of June 30, 2016, this reserve had a balance of \$3.8 million. Although BOCES officials increased the reserve by \$975,000 in 2012-13, they did not use it to pay related New York State Local and Retirement System (NYSLRS) expenditures during our audit period. Based on average annual expenditures of \$2.38 million paid during the 2012-13 through 2014-15 fiscal years, the reserve balance could support approximately 1.6 years' worth of

⁴ Based on preliminary unaudited figures

⁵ *Ontario-Seneca-Yates-Cayuga-Wayne Board of Cooperative Educational Services – Reserve Funds and Internal Controls Over the Computerized Financial System* (2008M-266, released July 2009)

⁶ As of October 5, 2015, the maximum benefit rate was \$425/week for 26 weeks.

⁷ The county in which a majority of BOCES employees reside

NYSLRS costs. This reserve should be used to smooth unplanned spikes in contributions or to subsidize the budget as needed.

Insurance Reserve – BOCES officials did not properly establish this reserve because they did not specify the statute under which they established it. As of June 30, 2016, this reserve had a balance of \$758,612. While staff recorded approximately \$4,000 in interest in the reserve during our audit period, BOCES officials did not fund its balance further during this time. We found that payments totaling \$6,700 made from this reserve during our audit period were generally appropriate. However, some claims appear to be more appropriate for the purpose of a liability reserve. Because BOCES officials did not specify the statute under which they established this reserve, they did not have specific guidance for determining the payments that could be made from this reserve.

BOCES did not have any formal plans or verified pending claims that could have a significant impact on the reserve.⁸ BOCES also maintains adequate insurance coverage, which limits the need for a significant balance in this reserve. BOCES officials should review the amount in this reserve to determine the instances where it could be used and the probability of these instances occurring.

Retiree Health Insurance Reserve – This reserve was established without proper statutory authority because GML and New York State Education Law (Education Law) do not authorize the establishment of a reserve for retiree health insurance costs, which are considered “other post-employment benefits.” As of June 30, 2016, this reserve had a balance of \$221,019. It was minimally funded and used during our audit period.

Although our previous audit⁹ indicated that this was an improper reserve, BOCES officials did not take corrective action to return the funds to the component and participating districts. BOCES officials told us that they planned to maintain this balance as a liability, but that they did not have any plans to fund this reserve after it was depleted.

Without adequate multiyear plans, BOCES officials are limited in their ability to set long-term priorities and work toward goals and instead must make choices based only on current needs. Additionally, by not developing effective and comprehensive long-term plans, BOCES officials may not see the effect of their decisions over time. Finally, without comprehensive plans, BOCES officials are not providing

⁸ BOCES officials have not determined the financial impact that, and likelihood of, pending or potential claims will have on this reserve’s balance.

⁹ See note 5.

sufficient transparency to component and participating districts and residents regarding their use of funds entrusted to BOCES.

Recommendations

The Board and BOCES officials should:

1. Develop and adopt a formal, documented multiyear financial plan for a three- to five-year period.
2. Ensure that long-term capital plans provide the source of funding for projects and capital improvement maintenance and that all plans take into consideration any economic or environmental factors which could affect the plans.
3. Continually update long-term plans based on any changes that have occurred since the time they were first developed.
4. Include reserve funding in annual budgets.
5. Adopt a reserve plan that addresses the accumulation, use and maintenance of reserve funds.
6. Analyze existing reserve levels and ensure that reserves are appropriately authorized, maintained and supported and, if necessary, make statutorily allowed transfers between reserve funds to best align funds with long-term needs.
7. Discontinue the retiree health insurance reserve, as this is not a statutorily authorized reserve.
8. Return excess reserve balances to the component school districts.

Software Management

The management of software and licenses is essential to safeguarding BOCES assets and data. Therefore, BOCES must have an understanding of the software it owns, how it is used and how best to track user rights to ensure licensing compliance. The effective management of software also includes ensuring that only appropriate business or academic software is installed to reduce the risk of unwanted consequences and unnecessary costs that could result from unauthorized software. This can be done, in part, by regularly reviewing computers to identify installed software and taking action to remove any unauthorized software. BOCES should document its review process and results to provide transparency to component and participating districts and residents.

We found that BOCES can manage its software more effectively and efficiently. The Board's acceptable use policies were inadequate because they do not include enforcement practices and specific penalties for noncompliance. The IT staff did not maintain a comprehensive inventory list of all software that BOCES owned and for which it purchased licenses. In addition, BOCES officials and IT staff did not regularly monitor or review computers to ensure that all software installed was appropriate and legally obtained. As a result, we found that eight of 86 computers had improper software applications that included noneducational gaming software, a coupon application and an Internet browser rewards bar. We also found that BOCES did not have sufficient documentation to provide evidence that it purchased licenses for six of 177 software programs that required licensing.

Software Inventory

Software management is of particular importance to larger entities, such as BOCES, that have many different users who perform a variety of functions. Typically, these organizations will have several software applications and multiple licenses for each. The implementation of a complete and comprehensive software inventory list is crucial to safeguard IT assets from potential unauthorized and unlicensed software being installed on computers. As a best practice, the list should include all BOCES-owned software installed on computers and the number of copies currently in use. Furthermore, the list should be used in conjunction with a comprehensive hardware inventory list that details computer locations and users while regularly reviewing all computers owned by BOCES to ensure that all software installed is properly approved and licensed.

The purpose of a software license is to grant an end user permission to use one or more copies of a software program in accordance

with copyright law. When a software package is sold, it is generally accompanied by a license from the manufacturer that authorizes the purchaser to use a certain number of copies of the software. Organizations must obtain licenses commensurate with the number of copies in use.

We found that BOCES officials and IT staff did not maintain a comprehensive software inventory of BOCES-owned software programs and their applicable licenses. Although BOCES officials can generate a report of software purchased, it does not summarize or clearly define the total number of licenses purchased for each software application. BOCES officials also did not maintain a report that listed all installed applications and the specific computers on which these applications are installed.

In addition, IT staff told us they did not have any formal procedures for regularly reviewing computers to determine software installed. They also said that EduTech’s practice of restricting administrative rights, license keys and software access reduces the risk that inappropriate software will be installed on BOCES computers.

Because BOCES does not maintain a comprehensive software inventory list and IT staff does not perform regular, formal reviews of BOCES computers, BOCES employees and students were able to install inappropriate software on computers without detection,¹⁰ which put BOCES’ network at a high risk of intrusion and corruption.

Software Monitoring

BOCES’ acceptable computer use policies provide users with guidelines for IT asset use and security. Specifically, BOCES encourages users to support professional and personal development in the educational community and expects all users to use electronic communications in a responsible manner. BOCES requires users to adhere to the laws, policies and rules governing computers, including copyright laws, rights of software publishers and license agreements, and reserves the right to restrict or limit access or use based on violations of laws or agreements. Users are also prohibited from using IT resources to harass or harm individuals.

BOCES’ acceptable use policies¹¹ do not have specific guidance related to software installation and usage. The policies also do not describe enforcement practices, such as monitoring computer use and reviewing installed software, or include penalties for noncompliance.

¹⁰ Refer to the Software Monitoring section for further information.

¹¹ The Board has adopted the following acceptable use policies: “Acceptable Use of Internet and Learning Access” and “Individual User Acceptable Use of Internet and Learning.”

BOCES currently has approximately 3,000 computers. We reviewed 86¹² to determine whether installed software was authorized, appropriate, licensed if required and updated regularly. We found that approximately 2,400 software programs installed¹³ on the computers were generally appropriate and up-to-date. However, eight computers¹⁴ had 13 inappropriate software installations¹⁵ that were not business or academic related, including noneducational gaming programs, a coupon application and an Internet browser bar rewards application.

Of the 2,400 program installations, we identified 177 that required licensing. However, because BOCES did not maintain a comprehensive software inventory, BOCES officials cannot be assured that licenses were purchased for all that required licensing. We reviewed purchase orders¹⁶ for the 177 programs and found that BOCES had an adequate number of licenses for all but six software programs.

Although BOCES' acceptable use policies do not expressly prohibit computer use for nonbusiness or noneducational purposes, allowing employees and students to install these types of programs may interfere with their work and academic responsibilities and may expose BOCES computers and networks to unnecessary risks, such as viruses, malware, hacking or other malicious events. Without proper documentation, BOCES cannot ensure that its software programs are properly licensed and could have an increased risk that it may incur fines or penalties for installing software applications that are not properly licensed.

Recommendations

The Board should:

9. Update the acceptable use policies to include specific guidance related to software downloads and installations and enforcement. Policies should be regularly reviewed and updated.

¹² Refer to Appendix B for further information on our sample selection.

¹³ A portion of which included upgrades and components of larger software programs

¹⁴ Seven computers were used by employees in the IT department and Business, Central Business and Special Education Offices and one computer was used by students in a computer programming classroom.

¹⁵ Some machines had multiple inappropriate programs installed.

¹⁶ An effective and efficient method for purchasing and accounting for software licenses is through a purchase order system. A purchase order serves as the source document for vendor payment claims for various licenses obtained by BOCES and provides a record of licenses on hand to avoid duplicate purchases.

BOCES officials should work with IT staff to:

10. Maintain a complete, comprehensive software inventory list of all software that BOCES owns and the total number of licenses purchased for each software application.
11. Formalize procedures to perform reviews of software installed on BOCES computers and compare results to BOCES' software inventory list.
12. Monitor users to ensure compliance with the acceptable use policies and ensure all software installed on BOCES computers serves an appropriate business or educational purpose.

APPENDIX A
RESPONSE FROM BOCES OFFICIALS

The BOCES officials' response to this audit can be found on the following pages.

November 7, 2016

Office of the NYS Comptroller
Division of Local Government & School Accountability
PSU-CAP Submission
110 State St., 12th Floor
Albany, NY 12236

Dear Comptrollers:

Wayne-Finger Lakes BOCES has received your draft Report of Examination for the period covered July 1, 2014-July 5, 2016. We appreciate the feedback received from this report and accept the findings. We disagree with your opinion on the balances in the Unemployment Reserve, the Liability Reserve, and the ERS Reserve. The following is our response and Corrective Action Plan.

Recommendations:

The Board and BOCES officials should:

1. *Develop and adopt a formal, documented multiyear financial plan for a three- to five- year period.*

Response:

The Administrative budget includes a three-year financial projection. This includes the funding intended for our long-range capital improvement plan.

See
Note 1
Page 19

2. *Ensure that long-term capital plans provide the source of funding for projects and capital improvement maintenance and that all plans take into consideration any economic or environmental factors, which could affect the plans.*

Response:

The previous five-year capital improvement plan ends with the 2016-2017 school year. We recently received the revised Building Condition Survey from our architect. It is this document which becomes the basis for the subsequent five-year capital improvement plan update. The Buildings & Grounds Committee of the Board will review the revised capital improvement plan at their next available meeting. The source of funding is now listed in our capital improvement plan. This update will be completed by June 30, 2017.

3. *Continually update long-term plans based on any changes that have occurred since the time they were first developed.*

Response:

The BOCES has updated long-term plans based on any changes that have occurred since the time they were first developed and will continue to do so prospectively at the annual meeting each July.

4. *Include reserve funding in annual budgets.*

Response:

The BOCES has included reserve funding in our annual budgets.

See
Note 1
Page 19

5. *Adopt a reserve plan that addresses the accumulation, use and maintenance of reserve funds.*

Response:

The BOCES Board has adopted a reserve plan that addresses the accumulation, use and maintenance of reserve funds.

6. *Analyze existing reserve levels and ensure that reserves are appropriately authorized, maintained and supported and, if necessary, make statutorily allowed transfers between reserve funds to best align funds with long-term needs.*

Response:

We have analyzed our reserve levels and incorporated this information in our long-range reserve plan. The Retiree Health Insurance Reserve has been closed and the funds were transferred to the EBLAR Reserve.

You stated in your comments that you believe there is not a likelihood of a pandemic occurring. However, the NYS Health Commissioner does not seem to agree:

ALBANY, N.Y. (November 25, 2015) - The New York State Department of Health and the New York State Task Force on Life and the Law released updated guidelines for allocating ventilators during an influenza pandemic in New York State.

"Pandemic influenza is a foreseeable threat, and New York has a responsibility to plan now," said Commissioner of Health Dr. Howard Zucker. "These guidelines provide an ethical, clinical, and legal framework to help health care providers and the general public make difficult decisions in the event of an influenza pandemic."

See
Note 2
Page 19

Funding was added by the BOCES Board to the Unemployment reserve to specifically support the Pandemic Plan in June, 2008.

The ERS Reserve has been used to smooth budgets for the past 5-6 years, avoiding unnecessary charges to our component school districts in the midst of the financial downturn. This amounted to approximately \$1,000,000 per year starting with the 2012-2013 school year. We were able to maintain a 12% budgeted amount *even though the rate ultimately exceeded 21%*. The State's remedy for smoothing budgets was allowing school districts to bond the excess, resulting in needless interest costs and impacts on future budgets down the road as they had to pay those bonded dollars back, as well as lost interest revenue by not maintaining our own reserve. The ERS rate still well exceeds our budgeted 12% so we continue to need this reserve to smooth out our budgets into the foreseeable future.

See
Note 3
Page 19

The Board has specified the statute under which the insurance reserve is established. Wayne-Finger Lakes BOCES is a Regional Information Center responsible for collecting, managing, and safeguarding confidential student records for 47 school districts. A data breach is a credible threat. Although we carry cyber insurance, out deductible on each single incident is \$100,000. The balance in the Liability Reserve is needed to cover incidents such as just described and for instances where Administration failed to promptly report losses to the insurance company resulting in a loss of coverage. Students have until age 18 to bring their own action against a school district or BOCES which can be many years after an event occurs.

See
Note 4
Page 19

7. *Discontinue the retiree health insurance (OPEB) reserve, as this is not a statutorily authorized reserve.*

Response:

The BOCES has discontinued the retiree health insurance (OPEB) reserve.

8. *Return excess reserve balances to the component school districts.*

Response:

The BOCES Board has transferred the balance of the retiree health insurance reserve to fund the shortfall in the EBLAR reserve.

Recommendations:

The Board should:

9. *Update the acceptable use policies to include specific guidance related to software downloads and installations and enforcement. Policies should be regularly reviewed and updated.*

Response:

The BOCES Board has updated the acceptable use policies to include specific guidance related to software downloads, installations and enforcement. All policies will be regularly reviewed, updated and distributed to users.

Recommendations:

BOCES officials should work with IT staff to:

10. *Maintain a complete, comprehensive software inventory list of all software that BOCES owns and the total number of licenses purchased for each software application.*

Response:

BOCES officials have been inputting software license information in our new inventory program since June, 2016. Because of the volume of software programs we expect this will be completed by December 31, 2017. This effort will be overseen by the Director of EduTech.

11. Formalize procedures to perform reviews of software installed on BOCES computers and compare results to BOCES' software inventory list.

Response:

BOCES officials will work with IT staff to formalize procedures to perform reviews of software installed on all BOCES computers and compare results to BOCES' software inventory list. We expect this to be completed by December 31, 2017. This effort will be overseen by the Director of EduTech.

12. Monitor users to ensure compliance with the acceptable use policies and ensure all software installed on BOCES computers serves an appropriate business or educational purpose.

Response:

BOCES officials will work with IT staff to monitor users which will ensure compliance with the acceptable use policies and ensure all software installed on all BOCES computers serves an appropriate business or educational purpose. We expect this to be implemented by June 30, 2017. This effort will be overseen by the Director of EduTech.

Sincerely,

Scott Bischooping
District Superintendent

cc: Audit Committee

APPENDIX B

OSC COMMENTS ON BOCES' RESPONSE

Note 1

Since the completion of our fieldwork, BOCES developed a three-year financial projection for administrative revenues and expenditures and is in the process of developing a capital plan for the next five years. The financial projection would be improved if the amount of reserves and fund balance available and intended for use were incorporated. We encourage BOCES officials to continue with their efforts to improve BOCES' long-term financial planning.

Note 2

According to the U.S. Centers for Disease Control and Prevention, the likelihood of a pandemic flu occurring is rare as it has occurred four times in the last 100 years. In addition, the severity of the 2009 H1N1 pandemic was limited due to vaccines that were quickly developed and disseminated. Also, seasonal occurrences of the flu were lower than normal for 2015 and current flu activity is low. Further, the most recent November 2015 New York State Department of Health guidelines, which BOCES referenced in its response, state that a severe outbreak would last only six weeks. Therefore, BOCES' plan to continue to increase the funding of this already maximized reserve to cover 12 weeks of costs (approximately \$320,000 annually) is unnecessary and an unproductive use of taxpayer moneys.

Note 3

This reserve was not used to pay related NYSLRS expenditures during the last five to six years and has instead increased by almost \$1 million. Further, the adopted and next three years' projected budgets do not include moneys from this reserve as a funding source. Therefore, the balance of the reserve remains excessive.

Note 4

On November 7, 2016, the Board took corrective action and formerly established this as a liability reserve under Education Law. However, the \$758,612 balance in the reserve is still questionable because the likelihood of six data breach occurrences with \$100,000 deductibles is unlikely.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

- We interviewed BOCES officials and employees to gain an understanding of financial and IT operations.
- We reviewed BOCES' relevant policies and procedures, including those related to reserves and IT, for adequacy and to gain an understanding of BOCES operations.
- We reviewed BOCES' reserve funds for fiscal years 2012-13 through 2014-15, including related expenditures, to determine whether reserves were properly and legally established and being funded or used and whether reserve balances were reasonable and necessary.
- We discussed long-term planning with BOCES officials and reviewed BOCES' multiyear capital plans for adequacy.
- We obtained a user access rights report from IT staff and sorted this list by user type (IT staff with administrative rights, BOCES administrators, special education staff and students) and location. From the sorted list, we selected a sample of 66 users (5 percent of the total population of staff users) based on risk – which was based on users' level of access rights, the information users' had access to and the increased potential of sensitive information stored on users' computer – and the total number of users in each sorted category and reviewed their computer usage. The 66 users included 19 IT, 19 teacher and staff special education, nine Business Office, six teacher and staff, five Central Business Office and two technical assistant and administrator special education employees. We chose two random student machines from each of three categories (special education, regional support center and technical career education centers) for a total of six machines. We also selected to review 20 random computers from the master inventory list. We used specialized audit software to obtain a list of all software installed on each machine. We reviewed the installations for licensing requirements and to determine whether the software served a legitimate business purpose and whether updates were performed regularly.
- We reviewed the provided purchase orders to determine whether BOCES authorized all software purchases and whether it maintained licenses for the software installed on each of the computers reviewed.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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