
Audit Report

Board of Cooperative Educational Services
Albany-Schoharie-Schenectady-Saratoga Counties

for the Period

July 1, 1996 through June 30, 1997

BOC-0498-10

June 28, 1999

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234





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June 28, 1999

Dr. Barbara Nagler
District Superintendent of Schools
Albany-Schoharie-Schenectady-Saratoga BOCES
1031 Watervliet-Shaker Road
Albany, New York 12205

Dear Dr. Nagler:

The following is our final audit report (BOC-0498-10) on the Albany-Schoharie-Schenectady-Saratoga BOCES for the period July 1, 1996 through June 30, 1997. The audit was conducted pursuant to Sections 305 and 1950 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from the issuance of final audit report. Appendix C describes the process to be followed in the event of such disagreement.

Ninety days from the issuance of this report, BOCES officials will be asked to submit a report on actions taken as a result of this audit.

I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

Daniel Tworek

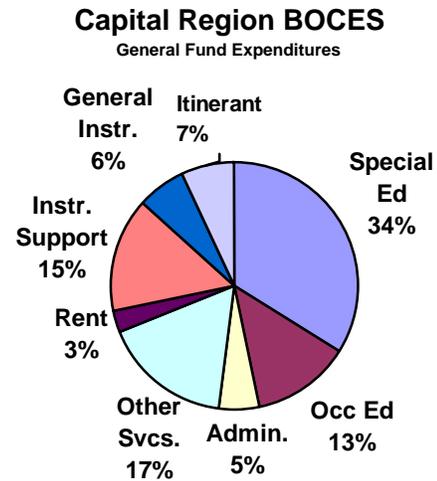
Enclosure

cc: Commissioner Mills
R. Cate
J. Kadamus
T. Sheldon
C. Foster (DOB)
M. Solomon (OSC)
H. Hoffman (OSC)
cc: G. Illenberg
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Executive Summary

Albany-Schoharie-Schenectady-Saratoga BOCES (Capital Region BOCES) is ranked as the 7th largest BOCES in the State, in terms of total general fund expenditures, for the 1996-97 school year (\$50,287,482).

The pie chart illustrates general fund expenditures by program for the 1996-97 school year.



Background and Scope of the Audit

The audit examined financial management practices, records and documentation related to selected areas of the Capital Region BOCES operations for the period July 1, 1996 through June 30, 1997. These areas included Administration, Operations and Maintenance, Employment Preparation Education (EPE), and the Regional Computing Center (RCC). This was a financial related audit and the objectives were to: determine if cost allocations and transfers were accurate and reasonable; determine if services comply with Department approved specifications; verify that only reasonable and necessary costs were incurred; and verify that the budgetary process provides control over the expenditure of funds.

Audit Results

Presented below is a summary of the significant audit findings developed in response to the audit's objectives.

- Employment Preparation Education contact hours were inaccurately reported resulting in an overpayment of \$2,881 (page 4).
 - Controls over assets need to be improved (page 5).
 - Budget appropriations should be used to control expenditures (page 6).
 - Expenditures funded by federal grant programs should be recorded at year end (page 7).
 - The basis for allocating expenditures among CO-SERs was not documented (page 7).
 - Internal controls could, in some instances, be improved by separating responsibilities among staff (page 8).
 - Additional policies should be developed (page 8).
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Introduction

Background

Boards of Cooperative Educational Services (BOCES) are voluntary, cooperative associations of school districts that have joined to provide educational programs or services more economically than each could offer by itself and are authorized by Section 1950 of the Education Law. BOCES may provide such services as special education for students with disabilities, occupational education, academic and alternative programs, summer school, staff development, computer services, educational communications and cooperative purchasing. Today there are 38 BOCES in New York State and all but 13 of the 705 school districts in the State are members.

Each BOCES submits an annual Cooperative Services Application (CO-SER) to the State Education Department (Department) for approval of each program and service offered to districts. After the BOCES obtains approval and determines budgeted program costs, it notifies the districts of available programs and the applicable rates.

Districts that belong to a BOCES are called component districts and are required to collectively pay the BOCES' administrative costs. Districts that actually use the programs offered by a BOCES, called participating districts, are required to pay for the costs of those programs. Costs charged to the districts are based on budgeted costs and are adjusted at the year-end to reflect actual costs. Typically, a refund is issued to the districts to reconcile differences.

Albany-Schoharie-Schenectady-Saratoga BOCES, also known as Capital Region BOCES, is headquartered in Albany, New York. Capital Region BOCES serves 24 component districts, which enroll more than 69,000 students. During the 1996-97 school year, Capital Region BOCES was ranked 7th largest of the 38 BOCES in the State with \$50,287,482 in general fund expenditures.

Objectives, Scope and Methodology

Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to select operations of Capital Region BOCES for the

period July 1, 1996 through June 30, 1997. This was a financial related audit and our objectives were to:

- determine if cost allocations and transfers between funds and among CO-SERs are accurate and reasonable;
- determine if Capital Region BOCES services comply with Department approved specifications and provide measurable cost savings to school districts;
- verify that Capital Region BOCES only incurred costs that were reasonable and necessary to carry out its responsibilities;
- verify that Capital Region BOCES budgetary process provides reasonable control over the expenditure of funds; and
- verify the accuracy and reliability of data reported to the Department for Employment Preparation Education (EPE) aid.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed Department and Capital Region BOCES management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the Capital Region BOCES audited financial statement.

There are no State or local standards to assess whether CO-SERs result in measurable cost savings to school districts. As a result, the audit was not able to complete this portion of the second objective.

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other audit procedures we considered necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions and recommendations.

Comments of Capital Region BOCES Officials

Capital Region BOCES officials generally agreed with the findings and recommendations in this report. Their comments have been included where appropriate. Their response is included as Appendix B to this report.

Employment Preparation Education Program

Capital Region BOCES operates an Employment Preparation Education (EPE) Program. This categorical aid program targets students 21 years of age or older and is designed to provide instruction that leads to a high school or equivalency diploma. Capital Region BOCES received a total of \$731,865 in EPE aid for the period July 1, 1996 through June 30, 1997 based on 200,706 contact hours of instruction.

EPE aid is generated based on the number of contact hours that are provided. Section 168.4 of the Regulations of the Commissioner of Education states that EPE Program funds may be spent for personal services, employee benefits, equipment, supplies and materials, contractual services, travel expenditures, staff development and training, and other expenditures approved by the Commissioner. These expenditures are to be used only for EPE Program purposes.

The audit report will be used by the Department to adjust future EPE aid payments to Capital Region BOCES.

Contact Hours Were Overstated

Section 168.2 of the Commissioner's Regulations defines a contact hour to be 60 minutes of instruction given by a teacher in approved program component areas. The audit found that Capital Region BOCES could not adequately document 789 contact hours. As a result, the audit reduced eligible EPE aid by \$2,881.

Recommendation

1. Improve procedures to ensure that all claimed contact hours are adequately documented.

Comments of Capital Region BOCES Officials

Capital Region BOCES officials agreed with this recommendation.

Opportunities to Improve Management Processes

Management is responsible for establishing effective management processes or controls. Management controls include establishing the goals and objectives of the organization and the methods and procedures to ensure that the goals are met. These procedures include areas such as planning, organizing, directing and controlling program operations. They include systems for measuring, reporting and monitoring program performance. The audit reviewed several processes that it determined significant to the audit objectives and identified several opportunities for improvement.

The areas in need of improvement include: fixed asset inventory controls; budgetary control over expenditures; recording of outstanding encumbrances; documentation of certain transactions; and allocation of operations and maintenance costs.

Inventory of Assets

The Financial Management Guide for Local Governments (Guide), issued by the Office of the State Comptroller, Volume 1, Subsection 3.2010, states that it is important to maintain adequate fixed asset records to meet the requirements of Generally Accepted Accounting Principles (GAAP) and as a valuable tool for controlling fixed assets and planning replacements. The Guide, Volume 2, Subsection 11.1010, also states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. In addition, all resources should be safeguarded against waste, loss and misuse.

Adequate internal controls include maintaining accurate accounting and inventory records and performing periodic comprehensive physical inventories of assets. Capital Region BOCES needs to improve the control over assets located at its facilities as well as Regional Computing Center (RCC) assets that are located in school districts.

Frequently, as part of a shared service, Capital Region BOCES-owned computers are located in the school districts participating in the service. Capital Region BOCES maintains an inventory list of equipment in BOCES facilities and district locations. In

addition, the RCC tracks the location of computers in district locations for their own purposes.

During the audit, BOCES was inventorying the assets at BOCES locations. Therefore, the audit selected a District location to verify the accuracy of the equipment inventory list maintained by the Capital Region BOCES administration. The audit found 19 computers that were owned by Capital Region BOCES according to either the administration list or the RCC list. Of these, three had Capital Region BOCES tags. The audit recorded the serial numbers for 18 of the 19 assets located (the serial number for one was illegible). Of these 18 assets, only 11 were located on the inventory list maintained by Capital Region BOCES' administration. Therefore, at least seven computers (37%) were not properly recorded on the inventory.

In addition, the audit noted that Capital Region BOCES-owned vehicles are not identified by logos. It is an accepted practice for public organizations to mark their vehicles with their logo to identify them as publicly funded vehicles. Capital Region BOCES needs to improve the process used to monitor the use of vehicles.

As a result of these weaknesses, there is some risk that assets could be lost, misplaced or stolen without timely discovery of the theft or notification of insurance or law enforcement. In addition, accountability for the use of public vehicles is enhanced by having them identified by a BOCES logo.

Budgetary Controls Over Expenditures

According to the Uniform System of Accounts for BOCES (System of Accounts), 1988 edition, page 5, issued by the Office of the State Comptroller, "if a proposed purchase exceeds the appropriation available, the encumbrance cannot be entered and must be returned without approval." In addition, the Guide states that "budgetary control requires that appropriations be available prior to incurring an obligation."

A system that tracks the amount appropriated, the amount encumbered, year-to-date expenditures, and the unencumbered balance is essential to guard against the creation of liabilities in excess of appropriations approved by the board. Budgets prepared on a line item basis enable an entity to track and monitor the cost of operations.

The audit noted that in many instances individual expenditure accounts exceeded budgeted appropriations. While only two CO-SERs exceeded the total budgeted appropriations, the audit noted 42 individual accounts that were over expended. By permitting individual appropriations to be exceeded, the effectiveness of budgetary controls the BOCES Board has over BOCES expenditures is reduced.

Recording of Grant Expenditures Was Not Timely

According to the System of Accounts, financial statements must be presented in conformity with GAAP. Thus, the Special Aid Fund should be reflected on the accrual basis of accounting.

The audit found that Capital Region BOCES did not record all accrued grant expenses at the end of the year. Specifically, the grants reimbursed Capital Region BOCES for a portion of administrative expenses, but BOCES did not record this reimbursement in the special revenue fund accounts at the end of the fiscal year. However, for reporting purposes, these expenditures were claimed for reimbursement on the applicable claim form. As a result, the financial records for the Special Aid Funds, as of June 30, 1997, do not equal the amounts claimed for reimbursement. Capital Region BOCES officials stated that as of the end of the fiscal year, they could not accurately calculate the amount of final reimbursement that they would receive for these grants. The audit believes that Capital Region BOCES could have closely estimated the amount at the end of the year.

Documentation of Allocations Were Not Retained

Education Law, Section 1950(4)(d), states that any component district which does not elect to participate in a cooperative service, shall not be required to pay any share of the expenditures for such service. Expenses related to BOCES services are separately accounted for in CO-SERs. By separating these accounts, the BOCES is able to charge the costs of providing services to those districts that received the services.

Internal controls include adequate documentation to support the allocation of costs to various programs and the transfer of costs among programs. The allocations and transfers should be based on a reasonable and consistent standard.

The audit selected a sample of expenditures charged between different CO-SERs and determined that Capital Region BOCES

did not maintain sufficient documentation for all charges. Specifically, the Administrative and Operations & Maintenance charges for the Support Services Division were not adequately documented by a worksheet showing the method and calculation of the expense allocations.

Separation of Incompatible Duties

An essential component of internal controls is the concept of separation of duties, which means that no one individual should have complete control over an account or accounting process. By separating certain duties, management provides reasonable assurance that assets are safeguarded from unauthorized use.

The audit noted that the treasurer is involved in functions that are incompatible and do not provide adequate internal controls. The treasurer completes bank reconciliations, is authorized to sign checks, and is responsible for the accounting function.

Additionally, the audit noted that one bank reconciliation included an improper entry. The treasurer entered a \$300 adjustment entry to cause the payroll account to reconcile to zero when there was a \$300 balance. The reconciliation should not have included this entry, but should have reflected the \$300 actual cash balance instead. By entering this adjustment, the treasurer misstated the cash balance in a report to the BOCES Board and an important internal control over cash did not function appropriately.

Additional BOCES Policies Should be Developed and Implemented

The Guide, Volume 2, Subsection 11.1010, states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. Also, all resources should be safeguarded against waste, loss and misuse. A component of an effective internal control structure is control procedures, i.e., established policies and procedures. Policies and procedures define management's position and guide employees in the performance of their duties.

The audit noted certain written policies that Capital Region BOCES should add to its official policies. These include policies which:

- Define personal use of long distance telephone calls and requires reimbursement to BOCES;
- Define employees eligible for overtime and the process to receive prior approval; and
- Define procedures for the payment of expenses.

Recommendations

2. Improve the accuracy of the equipment inventory for equipment at school district locations. This listing should include the description of the asset, the Capital Region BOCES tag number and the specific location (including building and room number).
3. Initiate the use of logos identifying vehicles as Capital Region BOCES vehicles.
4. Prohibit the expenditure of funds in amounts that exceed appropriations.
5. Record accrued special aid fund grant expenses at the end of the fiscal year.
6. Maintain documentation to support the allocation of expenditures among CO-SERs.
7. Reassign some of the Treasurer's duties related to the bank reconciliations, accounting and authorizing payments.
8. Consider adopting additional policies including personal use of long distance telephone calls, staff overtime and payment procedures.

Comments of Capital Region BOCES Officials

Capital Region BOCES officials agreed with recommendations 2, 3, 6 and 8. In regard to recommendation #4, Capital Region BOCES is reviewing internal policies related to the practices cited. Capital Region BOCES officials do not agree with recommendation #5. In regard to recommendation #7, due to limitations in staffing levels, Capital Region BOCES has instituted other controls in lieu of separating incompatible duties.

Contributors to the Report
Albany-Schoharie-Schenectady-Saratoga Counties
Board of Cooperative Educational Services

- James Conway, Audit Manager
- Daniel McCarthy, Auditor-in-Charge
- Robert Scherer, Senior Auditor

**NEW YORK STATE EDUCATION DEPARTMENT
OFFICE OF AUDIT SERVICES
AUDIT REVIEW PROCEEDINGS**

Requests for Audit Review

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from a final audit report issued by the Office of Audit Services.

An organization requesting an audit review must make a written application to the Associate Commissioner for Planning and Policy Development within 30 days of receiving the final audit report. An organization may request a review of an audit whenever the final audit report directs the recovery of funds from the organization and one or more of the following conditions is met:

- Recovery of funds would cause immediate and severe financial hardship to the organization, thereby affecting the well-being of program participants;
- The organization's violation was caused by erroneous written guidance from the State Education Department;
- The State Education Department failed to provide timely guidance on the matter or condition when the organization had previously requested such guidance in writing; and/or
- The report contains errors of fact or misinterpretation of laws, statutes, policies or guidelines.

Organizations requesting an audit review must submit a written application describing how one or more of the above conditions have been met. This application must include all evidence and information the organization believes are pertinent to support its position.

An audit report which recommends improvements in internal controls of administrative or financial systems, but has no material financial impact on the organization, will not be considered for an audit review proceeding.

Albany-Schoharie-Schenectady-Saratoga BOCES
Schedule of Audit Adjustments
Employment Preparation Education (EPE) Program

	Contact Hours	Amount
Claimed	200,706	\$731,865
Audit Adjustments Undocumented Hour	<u>(789)</u>	<u>(2,881)</u>
Audited	<u>199,917</u>	<u>\$728,984</u>