

June 30, 1998

Dr. Lawrence A. Kiley  
District Superintendent of Schools  
Broome-Delaware-Tioga Counties  
Board of Cooperative Educational Services  
435 Upper Glenwood Road  
Binghamton, New York 13905-1699

Dear Dr. Kiley:

The following is our final audit report (BOC-0896-2) on the Board of Cooperative Educational Services Broome-Delaware-Tioga Counties for the period July 1, 1994 through June 30, 1995. 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  
Director

Enclosure

cc: Commissioner Mills  
R. Cate  
J. Kadamus  
T. Sheldon  
C. Foster (DOB)  
R. Lindholm (OSC)

bcc: G. Illenberg  
J. Sneed  
S. Spear

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# Audit Report

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Board of Cooperative Educational Services  
Broome-Delaware-Tioga Counties

For the Period

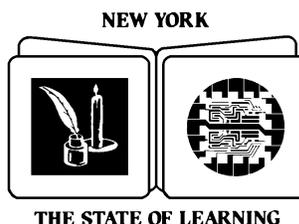
July 1, 1994 through June 30, 1995

BOC-0896-2

June 30, 1998

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



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# Table of Contents

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<b>INTRODUCTION .....</b>	<b>1</b>
BACKGROUND .....	1
OBJECTIVES, SCOPE AND METHODOLOGY .....	1
COMMENTS OF BROOME-TIOGA BOCES OFFICIALS .....	3
<b>ADMINISTRATIVE EXPENDITURES .....</b>	<b>4</b>
POSITION UNRELATED TO ADMINISTRATIVE DUTIES OF BROOME-TIOGA BOCES .....	4
Duties Unrelated to Administration .....	5
Lobbying and Political Contributions .....	7
Unrelated Undocumented Expenses.....	7
Broome-Tioga BOCES Failed to Obtain Approval to Hire a Retired Former Employee as the Executive Director.....	8
ADMINISTRATIVE STAFF SALARY ALLOCATIONS WERE UNDOCUMENTED .....	9
THE DISTRICT SUPERINTENDENT’S CONTRACT PROVIDED EXCESS SICK LEAVE.....	11
BROOME-TIOGA BOCES UNDERSTATED DISTRICT SUPERINTENDENT’S INCOME.....	11
<b>RENTAL COSTS WERE UNDERSTATED IN THE CAPITAL BUDGET.....</b>	<b>12</b>
THE ADMINISTRATIVE BUDGET WAS INCREASED .....	12
RECOMMENDATIONS .....	13
COMMENTS OF BROOME-TIOGA BOCES OFFICIALS .....	14
AUDITOR’S NOTE .....	14
<b>EMPLOYMENT PREPARATION EDUCATION .....</b>	<b>16</b>
OCCUPANCY COSTS WERE OVERSTATED .....	16
PERSONAL SERVICE COSTS.....	17
RECOMMENDATIONS .....	18
COMMENTS OF BROOME-TIOGA BOCES OFFICIALS .....	18
<b>COOPERATIVE-SERVICES (CO-SERS) .....</b>	<b>19</b>
SERVICES INCONSISTENT WITH DEPARTMENT’S APPROVAL.....	19
CO-SER 610 INCLUDED COMPUTERS PURCHASED FOR A SCHOOL DISTRICT THAT WERE NOT USED FOR THE REQUIRED PURPOSE .....	20
CO-SER 410 INCLUDED SOME UNDAIDABLE EXPENSES .....	21
CO-SER 624 SCHOOL FOOD MANAGEMENT AND CO-SER 626 COOPERATIVE BIDDING WERE UNSHARED .....	22
RECOMMENDATIONS .....	23
COMMENTS OF BROOME-TIOGA BOCES OFFICIALS .....	23
<b>OPPORTUNITIES TO IMPROVE MANAGEMENT PROCESSES .....</b>	<b>24</b>
EQUIPMENT INVENTORY CONTROLS NEED TO BE IMPROVED.....	24
CONTROLS OVER PAYROLL COULD BE STRENGTHENED .....	25
FOOD COSTS AT BUSINESS MEETINGS SHOULD BE A PERSONAL EXPENSE OF EMPLOYEES.....	26
YEAR-END ADJUSTING ENTRIES NOT ENTERED INTO THE ACCOUNTING SYSTEM .....	27
RECOMMENDATIONS .....	27
COMMENTS OF BROOME-TIOGA BOCES OFFICIALS .....	28

Appendix A – Contributors to the Report

Appendix B – Comments of Broome-Delaware-Tioga BOCES Officials

Appendix C – Audit Review Proceedings

Schedule 1 - Schedule of Adjustments - EPE Program

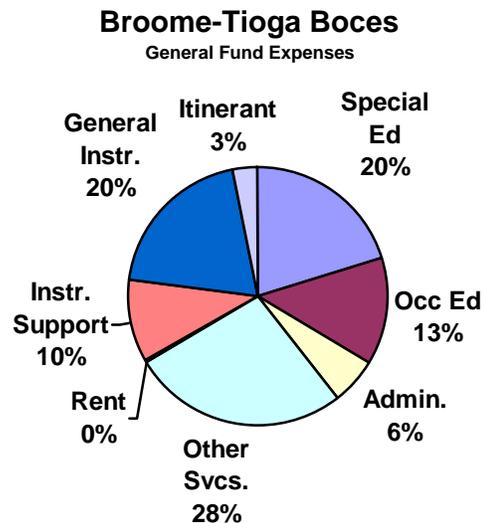
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# Executive Summary

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Broome-Tioga BOCES ranked as the 17<sup>th</sup> largest BOCES in the State, in terms of total general fund expenditures, for the 1994-95 school year (\$27,730,826).

The pie chart illustrates general fund expenditures by program for the 1994-95 school year.



## Background and Scope of the Audit

The audit examined management practices, records and documentation related to selected areas of Broome-Tioga BOCES operations for the period July 1, 1994 through June 30, 1995. These areas included Administration, Employment Preparation Education (EPE) Program, Operations and Maintenance, and other select CO-SERs. 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 and provide a costs savings to school districts; verify that only reasonable and necessary costs were incurred; verify that the budgetary process provides control over the expenditure of funds; and verify the accuracy and reliability of data reported for EPE.

## Audit Results

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

- One staff person's salary was inappropriately included in administrative expenditures; the individual incurred expenses unrelated to Broome-Tioga BOCES and engaged in lobbying activities. In addition, Broome-Tioga BOCES failed to obtain the Commissioner's approval to hire the individual after retirement. (pages 4-9)
- Salary allocations of administrative staff were undocumented. (pages 9-11)
- Rental costs included in the capital budget were understated. (page 12)
- EPE expenditures were overstated by \$426,368 by including the cost of unneeded space and \$20,016 for undocumented personal services. (pages 15-17)
- Some CO-SERs did not comply with Department approved criteria guidelines. (pages 18-22)
- Improvement opportunities exist related to procedures for inventory control, payroll and the provision of food and beverages for meetings. (pages 23-27)

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# Introduction

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## 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.

Broome-Tioga BOCES, headquartered in Binghamton, New York, serves 15 component districts, which enroll more than 39,000 students. During the 1994-95 school year, Broome-Tioga BOCES was ranked 17<sup>th</sup> of the 38 BOCES in the State, with \$27,730,826 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 Broome-Tioga BOCES for the

period July 1, 1994 through June 30, 1995. 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 services comply with Department approved specifications and provide measurable cost savings to school districts;
- verify that only reasonable and necessary costs were incurred;
- verify that the 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 aid.

To accomplish our objectives, the audit reviewed applicable laws, regulations, policies and procedures; interviewed Department and Broome-Tioga BOCES management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the CPA audited financial statements.

There is no process within Broome-Tioga BOCES to assess the extent to which Broome-Tioga BOCES services provide a savings to school districts. The audit was unable to develop a methodology to independently assess the savings. As a result, that portion of the second audit objective was not accomplished.

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 Broome-Tioga BOCES Officials**

Broome-Tioga BOCES officials generally agreed with the findings and recommendations in this report with the exception of the financial adjustment to the EPE Program. Their response to this report is included as Appendix B.

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# Administrative Expenditures

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Each component district is responsible for a proportionate share of the costs included in the administrative budget, irrespective of its participation in the elective services that it may request. The administrative budget includes expenditures related to the District Superintendent's office, general costs of administration, expenditures of the Board, needs assessment and planning, central support for operations, and other activities as approved by the Commissioner of Education. It may also include the rental costs of facilities, payments to the Dormitory Authority for debt service and transfers to the capital fund for construction purposes.

Broome-Tioga BOCES reported \$1,594,590 in administration costs for the 1994-95 school year, not including capital expenditures. This represents about 5.8 percent of the total of administrative and program general fund expenditures. Statewide, BOCES administrative expenditures ranged from 3 to 11 percent with an overall average of 6.6 percent.

The audit found that a position was included in the administrative budget that should more appropriately be included as part of a service CO-SER. In addition, the person holding the position incurred questionable expenses and was re-employed after retirement without the approval of the Commissioner of Education. The audit also found that administrative personnel costs were understated in some cases; the District Superintendent's contract provides for sick leave benefits in excess of Management/Confidential provisions; income reported to the Internal Revenue Service (IRS) for the District Superintendent was understated; and rent costs were understated.

## **Position Unrelated to Administrative Duties of Broome-Tioga BOCES**

The Broome-Tioga BOCES Administrative Co-SER includes the position of the Executive Director of the Broome-Tioga School Boards Association and the Association of Chief School Administrators. The incumbent performs administrative functions related to the overall coordination of the operation of these two associations. A review of the Executive Director's activities disclosed the following:

- The function and activities performed by the Executive Director are not related to administering the Broome-Tioga BOCES, but provide a service to school districts that participate in the local School Boards Association and/or Association of Chief School Administrators' organizations. As such, the costs should be included in a service CO-SER.
- Department approval was provided for the position to be included in the Administrative Budget as long as lobbying activities are not undertaken. The audit found that some activities of the individual are associated with lobbying, and the Executive Director was reimbursed by Broome-Tioga BOCES for the cost of political contributions.
- The Executive Director incurred expenses unrelated to the administration of Broome-Tioga BOCES and other undocumented expenses.
- The incumbent is a member of the New York State Teachers' Retirement System and Broome-Tioga BOCES has not requested or received appropriate waivers for the individual to be reemployed in public employment.

#### *Duties Unrelated to Administration*

The BOCES Administrative Handbook #3 – *General Requirements for the Administrative Budget*, defines the composition of the budget to include appropriations for expenditures necessary to maintain the activities of the office of the District Superintendent, for general costs of administration, for expenses of the Board, for expenses of meetings of trustees and voters, and for needs, assessments and planning.

The audit determined that Broome-Tioga BOCES employed a former employee on a part-time basis. During the 1994-95 school year, this individual was paid \$28,720 with the title of Executive Secretary to the Broome-Tioga School Boards Association and the Broome-Tioga Association of Chief School Administrators. The office also included a secretary who was paid \$11,688. The costs of these positions were funded through the Administrative Budget. The duties of this position are inconsistent with the criteria for inclusion in the Administrative Budget.

The job description that was submitted to the Department for review included the following 10 responsibilities:

1. Provide a minimum of four in-service training sessions for Board of Education members.
2. Conduct an orientation program for newly elected Board members.
3. Conduct an awareness program for prospective Board of Education members.
4. Serve as Secretary for the Council of Chief School Officers of the Broome-Delaware-Tioga BOCES.
5. Plan the agenda for all meetings of the Council of Chief School Officers.
6. Plan and organize annual retreat of the Council of Chief School Officers.
7. Arrange meetings with representatives from NYS Council of School Superintendents (NYSCOSS), NYS School Board Association, NYS Education Department, NYS Legislature for Chief School Officers, and for School Board members.
8. Develop position papers and present testimony representing the Broome-Delaware-Tioga BOCES.
9. Edit and publish newsletter and other publications as designated by the District Superintendent.
10. Perform all such related duties as may be assigned by the District Superintendent.

The first seven areas are clearly services being provided to the districts that participate in either the Broome-Tioga School Boards Association or the Association of Chief School Administrators, and therefore are not BOCES-related administrative costs. In addition, the newsletters that were provided during the audit are publications of the two organizations and not Broome-Tioga BOCES.

Since a preponderance of the activities performed by the Executive Secretary is unrelated to the administration of

Broome-Tioga BOCES, the cost of providing these activities to school districts should be included under a separate CO-SER and resubmitted for Department approval.

### *Lobbying and Political Contributions*

Department approval to include the position in the Administrative Budget was provided with the caveat that incumbents not act as a lobbyist for school districts. The audit determined that a portion of the associations' activities involve lobbying. It also found that the Executive Director was involved in lobbying activities.

Members of the Association of Chief School Administrators, for example, organize a Legislative Breakfast to present information to legislators, attend a State Legislative Network Conference and develop a political action plan. Similarly, the Broome-Tioga School Boards' Association has a Legislative Committee and its members also attend a State Legislative Network Conference.

The audit found that the Executive Director purchased tickets to political fund raising events and/or made contributions to political candidates and was reimbursed by Broome-Tioga BOCES. This essentially means that public funds were used for partisan political purposes. During 1994-95 six contributions were made to political organizations. The six included one to a county political party and five to "Friends of" organizations representing individual candidates for offices. The total value of the contributions was \$428.

### *Unrelated Undocumented Expenses*

General Municipal Law Section 77 (a) requires adequate documentation of travel expenses. In addition, BOCES travel policy requires that expenses directly relate to the business of BOCES and that proper documentation be submitted for reimbursement. Examples of the proper documentation can be found in the Office of the State Comptroller's *Financial Management Guide* - Part II Reimbursable Expenses.

During 1994-95, the Executive Director was reimbursed \$6,181 for expenses related to his duties. The audit found that the purpose for some of the expenses was unrelated to the administration of Broome-Tioga BOCES and, in some cases, were paid without adequate documentation.

The Executive Director scheduled meetings of the Association of Chief School Administrators that normally ended with a luncheon. Expenditures for lunch totaled \$655 for the months of February, March and June 1995. Given that the business of the Association is not related to Broome-Tioga BOCES administration, these lunches represent an inappropriate charge against BOCES aid.

Other examples of questionable expenditures involving the Executive Secretary are discussed below.

- Dinner at the Shipyard Pub (\$521) in Albany for which there was no information on purpose or attendees.
- This individual attended the NYSCOSS Mid-Winter Meeting in Albany, NY. Reimbursement for the use of a hospitality room (\$168.00) and for the purchase of supplies for the hospitality room (\$44.90).

The function of the Executive Director (Executive Secretary) of the Association is not related to the overall administration of Broome-Tioga BOCES and should be excluded from its CO-SER. Furthermore, it is also questionable whether expenses related to luncheons, dinners, etc., associated with these organizations, represent necessary and appropriate charges against BOCES aid.

*Broome-Tioga BOCES Failed to Obtain Approval to Hire a Retired Former Employee as the Executive Director*

According to Retirement and Social Security Law, Article 7, Section 211 *Re-employment in Public Service of Retired Public Employees* stipulates that:

“1. A retired person may be employed and earn compensation in a position in the public service without any effect on his status as retired and without suspension or diminution of his retirement allowance subject to one of the following:

- (a) His total compensation in such position or positions in any calendar year, including compensation earned under other provisions of this article, shall not exceed the multiple of five hundred dollars next higher than the difference between (1) the sum of his annual retirement allowance computed without

optional modification plus annual supplemental retirement payments, if any, and (2) the salary on which his retirement allowance is based or his final salary, whichever is greater; or

- (b) The position in which he is employed is not a position in the service of a former employer. Further,
2. (a) No retired person may be employed in a position in public service except upon approval of the Commissioner of Education if such person is to be employed in the unclassified service of a school district, other than the City of New York, or BOCES.”

The position of Executive Secretary of the Broome-Tioga School Boards Association and the Association of Chief School Administrators is included on BOCES’ payroll. However, the position was represented as Executive Secretary of the two associations with the NYS Teachers’ Retirement System.

A retired former employee holds the Executive Secretary position at an annual salary of \$28,720. Given that the position is on the Broome-Tioga BOCES payroll and financed with public funds, Broome-Tioga BOCES should have obtained a waiver, pursuant to Section 211, from the Commissioner of Education to employ the former employee. Broome-Tioga BOCES needs to initiate a Section 211 proceeding as it may be in violation of Retirement and Social Security Law.

### **Administrative Staff Salary Allocations Were Undocumented**

According to BOCES Administrative Handbook #3 – *General Requirements for the Administrative Budget*, the general costs of administration and central support for operations shall be included in the Administrative Budget. “It is expected that general assistants to the District Superintendent (which may be designated under various titles such as deputy superintendent, assistant superintendent, and administrative assistant) needed to support the District Superintendent in State duties with dependent school districts, or responsible for general regulation, direction and control of the service program, together with clerical support, will be included.” In regard to central support for operations, among the costs to be clearly stated in the

Administrative Budget are business office operations, personnel services and public information.

In addition, BOCES are required to submit an Allocation of Costs Worksheet (Allocation Worksheet) to the Department for approval. The Allocation Worksheet details the administrative costs, including personnel, which are allocated to other areas.

For 1994-95, the Allocation Worksheet indicated that no administrative staff was allocated. However, the audit determined that several administrative functions were partially allocated to service CO-SERs. These functions include the Assistant Superintendent's office, the personnel office and the purchasing office. The Assistant Superintendent's salary is charged entirely to service CO-SERs such as 102 – Occupational Education (20 percent), 425 – Central Academic Programs (10 percent), 701, 702, 703 – Operations and Maintenance (10 percent), 720 - Special Education – Instructional Support (30 percent), and the EPE Program (30 percent). The Assistant Superintendent's secretary was also charged to EPE (98 percent).

In addition, the Director of Personnel is charged 40 percent to CO-SER 634 – Negotiations, while a human resources assistant is charged 60 percent to the same CO-SER. A Purchasing employee is charged to CO-SER 626 – Cooperative Bidding (93 percent), even though the person performs administrative duties at Broome-Tioga BOCES two days per week (40 percent).

Other employee salaries were also allocated to both administrative and educational CO-SERs that lacked documentation. An accountant, senior typist and program assistant were charged to Administration and other service CO-SERs. The audit questions the rationale for allocating \$99,172 in personal service expenditures from Administration to other CO-SERs.

By charging costs to the service CO-SERs instead of Administration, Broome-Tioga BOCES may be understating administrative costs, which are subject to budget approval by the component districts. Broome-Tioga BOCES data show that Administration's percent of total costs has decreased from a high of 7.9 percent in 1992-93 to a low of 6.1 percent in 1995-96 (6.5 percent in 1994-95). Moving administrative costs to the service CO-SERs distributes the cost to the districts that use the service, not just the component districts. By not including the allocations

of administrative staff on the Allocation Worksheet, Broome-Tioga BOCES is bypassing the Department's approval for such allocations.

### **The District Superintendent's Contract Provided Excess Sick Leave**

Education Law Section 1950(4)(a)(2) states that in no event shall any District Superintendent be permitted to accumulate vacation or sick leave credits in excess of the vacation and sick leave credits Managerial/Confidential (M/C) employees of the State are permitted to accumulate, pursuant to regulations promulgated by the State Civil Service Commission.

M/C employees accrue 13 days of sick leave annually, except for employees appointed after January 1, 1986. Those employees accrue eight days of sick leave per year. There is no provision for buying back any sick leave or vacation accruals.

The District Superintendent's 1988-89 contract provided for 20 days of sick leave, annually accumulative to 275 days. Thirty days will be granted in the first year of employment and may be doubled to 60 days if illness so requires. Extended sick leave may be applied at the discretion of the Board. In the event of illness or death of a member of the immediate family, up to five days of emergency leave may be granted. This provision is applicable twice in any fiscal year.

The contract provisions related to sick leave were in effect during the audit period. The sick leave provisions are in excess of those available to the M/C employees of New York State. Broome-Tioga BOCES should adjust the sick leave accrual provisions accordingly. Subsequent to the audit fieldwork, Broome-Tioga BOCES reduced the District Superintendent's annual sick leave accrual to 13 days.

### **Broome-Tioga BOCES Understated District Superintendent's Income**

IRS regulations require employers to report certain fringe benefits, such as a car provided to an employee for personal use, as part of an employee's gross income.

The District Superintendent received the use of a car for business and personal use. Broome-Tioga BOCES did not report any component of the usage as personal, and therefore income,

during 1994-95. This understates the taxable income of the District Superintendent.

Broome-Tioga BOCES officials stated they will immediately begin to document the personal use of a vehicle and to report a value for the use of the car.

## **Rental Costs Were Understated in the Capital Budget**

The BOCES Administrative Handbook #3, Part I, Section G *Costs for Facilities – Rentals*, requires that the expected costs of agreements for securing facilities to house both administration and services be included in the Administrative Budget. This allows the component districts to review the total facility costs of operating the BOCES.

The audit determined that Broome-Tioga BOCES did not report total rental costs in the Administrative Budget as required by the BOCES Administrative Handbook #3. Broome-Tioga BOCES provided a schedule of owned and leased facilities in 1994-95, which were included in the Administrative Budget. The schedule identified seven leased facilities. In total, Broome-Tioga BOCES paid rent of \$704,390 and operating costs of \$525,915 for a total of \$1,230,305. Of this amount, only \$27,002 was included in the Administrative Budget.

The failure to include the total facility rental costs in the Administrative Budget understates administrative costs and denies the component districts an opportunity to review them. Broome-Tioga BOCES should transfer all rental costs to the capital accounts (CO-SER 002). It may be appropriate to allocate costs to various Federal grants or State categorical aid programs, like the EPE Program, for the shared usage of the facilities.

This matter was brought to the attention of the Business Manager, who contacted the Department. Broome-Tioga BOCES intends to phase in costs to CO-SER 002 starting with the 1998-99 school year.

## **The Administrative Budget was Increased**

Education Law, Section 1950 (4)(b)(7) requires BOCES to submit to the component school districts a copy of the tentative

Administrative Budget for the next school year for approval. Once voted upon, a copy of the resolution approving or disapproving the tentative budget must be transmitted to the BOCES no later than one business day after the adoption of such resolution. BOCES shall adopt, no later than May 15th, the final program, capital and Administrative Budget for the ensuing year. Additional revenue received by the BOCES should be used to offset the amount charged to the component districts.

Broome-Tioga BOCES increased their Administrative Budget during the 1993-94, 1994-95 and 1995-96 school years by \$38,190, \$31,558 and \$76,883, respectively.

Although the Administrative Budget was increased during the 1993-94, 1994-95 and 1995-96 school years, an analysis of the amount expended and encumbered during those years revealed that the expenditures did not exceed the original budget level.

The Business Manager contends that the Administrative Budget can be increased if additional revenues are received and component districts are not billed for more than the original approved budget. The audit believes that Section 1950 of the Education Law is clear. In addition, the BOCES Handbook #3 states that the budget may only be increased in rare instances, such as the awarding of a judgment.

## **Recommendations**

1. Remove the position of Executive Secretary of the Broome-Tioga School Boards' Association from the Administrative Budget and seek Department approval to offer the services as a CO-SER.
2. Establish a policy to prohibit direct payments to political organizations or reimbursement to individuals of payments made to political organizations.
3. Seek restitution for the political contributions made during the audit period and any previous and subsequent period.
4. Establish a policy defining the type of expenses that will be incurred by Broome-Tioga BOCES as part of the services provided by the Executive Secretary.
5. Require documentation that demonstrates the purpose of any

expenditure for food and accommodations prior to payment.

6. Seek the Commissioner's approval to retain in employment the retired former employee.
7. Initiate a Section 211 proceeding to address the employment of all current and future retired employees.
8. Submit a complete Staff Salary Allocation Worksheet to the Department, which reflects all personal service allocations.
9. Maintain documentation to support the basis for allocating personal service costs from the Administrative to other CO-SERs.
10. Amend the District Superintendent's employment agreement relating to sick leave accruals to be consistent with accruals provided to Management/Confidential employees of the State of New York.
11. Include all facility rental costs in the Administrative Budget.
12. Develop a policy to prohibit amending the Administrative Budget.

### **Comments of Broome-Tioga BOCES Officials**

Broome-Tioga BOCES officials agreed with all of the recommendations and indicate that they have implemented ten of them and will be taking action on the remaining two (#2 and #7). Broome-Tioga BOCES officials indicate that they are working on the development of a policy to comply with recommendation #2. Further, they indicated that a Section 211 waiver is being developed in response to #7 and that, based on conversations with Department officials, they believe the waiver will be approved retroactively to the date of the incumbent's employment into this position.

### **Auditor's Note**

The Department's policy regarding the granting of a waiver authorized by Section 211 of the Retirement and Social Security Law has traditionally applied to short-term, fairly dire circumstances and not the preference of the employer to hire one individual.

This represents the criterion established in Section 211, which limits the approval by the Commissioner to a period not exceeding two years. It also reflects 8 NYCRR 80.35 which requires the applicant school district to certify that there are not readily available other persons qualified to perform the duties.

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# Employment Preparation Education

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Broome-Tioga 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. Broome-Tioga BOCES received a total of \$1,910,326 in EPE aid for the period July 1, 1994 through June 30, 1995, based on 444,771 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 only for EPE Program purposes.

Education Law 3602 requires that State aid payable in the following year be reduced by the amount of any excess revenue. In total, Broome-Tioga BOCES charged \$426,368 EPE funds for the rental of unused space and \$20,016 for personal service costs not related to the program. The audit report will be used by the Department to adjust future aid received by Broome-Tioga BOCES.

## **Occupancy Costs Were Overstated**

Broome-Tioga BOCES leases a former school building, referred to as the Endicott Learning Center (ELC), for adult education. Officials stated that at the beginning of the lease the building was only 30 percent occupied, but indicated that occupancy has increased each year. In 1994-95 Broome-Tioga BOCES reported that \$707,400 in operating costs of the ELC were EPE related expenses. This amount represents 86.5 percent of the total occupancy costs of the building.

Broome-Tioga BOCES could not provide documentation that supported the percent of occupancy costs charged to EPE. A physical inspection of the building found that much of the space was being used for teacher offices and not classroom space. In fact, the audit found that only 14 of the 36 rooms were being used as classrooms. EPE occupied 16 of the 36 rooms with 10

being used as classrooms and six as offices. The EPE Program should not be used to fund unnecessary offices or to support the vacant space caused by an inefficient use of space.

A more equitable allocation of ELC occupancy costs to the EPE Program would equate to 10 classrooms and 2 offices charged to EPE. This represents one-third of the rooms in the building. The EPE charge for ELC occupancy costs should have been \$426,368 less than the amount charged to the program.

## **Personal Service Costs**

Broome-Tioga BOCES should only charge the EPE Program for staff salaries that represent effort spent on directing or supporting the EPE Program. Documentation should be maintained and available to show how the amount was determined when there is an allocation of salaries among multiple programs. Broome-Tioga BOCES charged an administrative salary to EPE and could not document the basis for the allocation. The audit determined that the amount charged was excessive.

Thirty percent of the Assistant Superintendent's salary and 98 percent of his secretary's salary were charged as EPE related expenses. The basis for the allocation of the Assistant Superintendent's salary allocation was the percentage of EPE expenditures to total expenditures incurred in operating his area of responsibility. There was no documentation to support the 98 percent allocation of the secretary's salary. The EPE allocation should be reduced to the 30 percent level to be consistent with the allocation of the Assistant Superintendent. In total, EPE salaries should be reduced by \$20,016.

Broome-Tioga BOCES officials believe that the occupancy cost charged to the EPE Program are appropriate because the building was acquired primarily to house EPE Programs. They agree the salaries should be reduced to reflect a lower percentage for the Assistant Superintendent's secretary.

The audit believes that EPE funds should only be used to fund related expenditures and that costs created by inefficient rental decisions should be paid by all of the component districts through the Capital Budget.

## **Recommendations**

13. Recalculate the area needed to operate the EPE Program. Only include classrooms and offices that are necessary. Allocate the costs to the EPE Program accordingly.
14. Develop a methodology to allocate personal service costs to the EPE Program on an objective and measurable basis. Implement the new methodology and allocate costs accordingly.

## **Comments of Broome-Tioga BOCES Officials**

Broome-Tioga BOCES officials agreed with these recommendations and have implemented them.

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## Cooperative-Services (CO-SERs)

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BOCES must obtain the prior approval of the Commissioner of Education before providing any service. The Cooperative Service Application (CO-SER) is the document used to request this approval. The BOCES Administrative Handbook #2, *Criteria - Guidelines for Approval of BOCES Services*, delineates the minimum standards for the approval of service programs. A service proposal must be submitted for any service that is new to a given BOCES. The audit found that Broome-Tioga BOCES provided services which were inconsistent with the Department's approval, included some unaidable expenses and were unshared.

### **Services Inconsistent with Department's Approval**

The program description, submitted by Broome-Tioga BOCES and approved by the Department, for the Growing Healthy Together CO-SER 586 describes a loaning service for instructional material which is required for teaching the Growing Healthy curriculum. The description also states that follow up services of providing additional health instruction material and technical assistance in the curriculum are also included. The audit found that the service being provided was not a loaning service for instructional material, but a sub-contract to a county sheriff's department to provide a Drug Abuse Resistance Education (DARE) Program. As a result, \$50,876 was ineligible for BOCES aid.

According to the Broome-Tioga BOCES Services Guide, which is provided to school districts to describe programs offered, CO-SER 586 includes Tobacco Free Teens and Drug Abuse Resistance Education (DARE). A brief program description follows.

- The Tobacco Free Teens Program provides coordination, training and assistance for this American Lung Association Program.
- The DARE Program provides a comprehensive community and school based prevention framework for drug education.

The above services do not correlate to the services approved by the Department. Furthermore, a review of the expenses for CO-

SER 586 disclosed that there were no expenses incurred for the Tobacco Free Teens Program. However, \$50,876 in expenses were incurred for the DARE Program involving seven school districts. This program was provided to the districts by the Tioga County Sheriff's Office.

This raises further question on whether BOCES aid should finance a program that is operated primarily by the Tioga County Sheriff's Office. Broome-Tioga BOCES needs to resubmit CO-SER 586 for the Department's approval.

### **CO-SER 610 Included Computers Purchased for a School District That Were Not Used for the Required Purpose**

BOCES Administrative Handbook #2 allows the cost of the purchase of computer equipment to be aidable if the equipment is needed to participate in a BOCES service. The audit found that the computers were not being used for the purpose intended and therefore should not have been eligible for aid.

In June 1995, Broome-Tioga BOCES and the Windsor School District (Windsor) entered into an agreement for the purchase of 43 computers. The purchase of the computers and the supplemental billing was charged to CO-SER 610-7710 - Administration.

According to the Broome-Tioga BOCES Services Guide, the services offered for CO-SER 610 are Administrative or Distributed Data Processing (DDP) in nature. For example, Administrative programs include financial, student data and training. DDP services include access to the mainframe databases.

As part of our review, we performed a physical inventory of the equipment purchased with purchase order #43751 (\$106,033) for Windsor. We found that the computer equipment was being used for the operation of the following:

- Computer lab;
- Writing lab; and
- Computer Aided Design class.

The cost of participating in CO-SER 610 was included on the SA-111 and BOCES aid was paid to Windsor for the purchase of \$106,033 in computers. These activities were unrelated to the purpose defined by CO-SER 610 and do not represent shared services. Windsor received BOCES aid for these expenses.

Broome-Tioga BOCES officials explained that the computers were not intended for administrative purposes, but for a Common Learning Objectives CO-SER. They explained that Windsor did not participate in the Common Learning Objectives CO-SER at the time of the purchase so they were purchased under an available CO-SER.

Approved CO-SERs are intended to define what programs and services are eligible for BOCES aid. Charging computer purchases to an unrelated CO-SER violates the purpose and intent of the CO-SER process.

### **CO-SER 410 Included Some Unaidable Expenses**

The BOCES Administrative Handbook #2 states that Exploratory Enrichment activities are eligible for aid for the use of specialized facilities, but not for admission fees. Broome-Tioga BOCES provides scheduling and coordination services, as well as needs assessment and curriculum integration, through CO-SER 410 at the Roberson Museum (Museum) and Kopernik Space Education Center (Space Center). Broome-Tioga BOCES did not deduct any portion of the expenditures reported to the Department as admission fees.

Broome-Tioga BOCES offers many enrichment activities under CO-SER 410. The educational services are provided by Museum and Space Center staff at the Museum and Space Center. Broome-Tioga BOCES reports all payments to the Museum and Space Center as aidable on the reports submitted to the Department. The audit believes that a portion of the payments made to the Museum represents an admission fee that would be paid by any visitor. Broome-Tioga BOCES needs to develop a methodology to identify the portion attributable to admission fees and eliminate it as an aidable expense.

## **CO-SER 624 School Food Management and CO-SER 626 Cooperative Bidding Were Unshared**

According to Education Law 1950(4)(bb)(2), BOCES may provide academic and other programs and services in the school year on a cooperative basis. A stipulation for Commissioner approval requires that programs and services are requested by two or more component school districts.

The Department's BOCES Administrative Handbook #1 states that, if a district receives more than 60 percent of a service and it is determined that the district or BOCES has taken actions which inhibit sharing, or if the district's share exceeds 80 percent, an adjustment to BOCES aid will occur.

Broome-Tioga BOCES provides School Food Management Services through CO-SER 624. The audit determined that the service was for the most part exclusively provided to the Binghamton City School District (Binghamton) and not shared with other districts. The 1994-95 CO-SER report indicated that Binghamton provided 97 percent of the revenues, with less than one percent being provided by each of four other districts. Each of the other districts provided \$605 in revenue. It is difficult to see how this negligible participation is providing any measurable cost savings to the districts. Given the significant participation (97 percent) of Binghamton in this CO-SER, it is questionable whether it represents a shared service.

The CO-SER funds the entire salary and fringe benefits of the Director of the Cooperative Food Service (CO-SER 624). His office is located in the Binghamton City School District where he supervises a staff of 76 employees of the Binghamton City School District. In addition, he was on Binghamton's payroll until three years prior to the audit period. In essence, Binghamton is receiving BOCES aid on 60 percent of a management position that is almost exclusively devoted to a District operation.

Similarly, Binghamton primarily utilized CO-SER 626 - Cooperative Bidding. In this case, one of the two staff devoted to cooperative bidding worked full time in Binghamton and the other worked three days per week in Binghamton and two in Broome-Tioga BOCES. The 1994-95 CO-SER report indicated that Binghamton provided 98 percent of the revenue and another district 2 percent.

The audit believes that this does not represent a sharing of service and Broome-Tioga BOCES should resubmit the CO-SER for Department review.

## **Recommendations**

15. Discontinue operating CO-SER 586 as configured until the Department approves a modified program description.
16. Develop a methodology to identify the portion of non-aidable admission fees contained in the Museum's charges and report it to the Department.
17. Develop and implement procedures to detect instances of BOCES-owned equipment being used for purposes other than intended.
18. Discontinue operating the School Food Management Service and Cooperative Bidding until such time as a significant need is identified and requested by two or more school districts.

## **Comments of Broome-Tioga BOCES Officials**

Broome-Tioga BOCES officials agreed with these recommendations and indicate that #17 and #18 have been implemented and action will be taken on #15 and #16.

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# Opportunities to Improve Management Processes

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Management is responsible for establishing effective management processes or controls. In its broadest context, management controls include the plan of the organization, methods, and procedures adopted by management to ensure that its goals are met. These processes include planning, organizing, directing and controlling program operations. They include systems for measuring, reporting and monitoring program performance. The audit reviewed several processes considered relevant to the audit objectives and found several opportunities for improvements.

## **Equipment Inventory Controls Need to Be Improved**

Proper internal controls over fixed assets should include the maintenance of detailed records of real estate, facilities and equipment. Information in the record should include a description of the item, date purchased, acquisition cost, serial number and location. The assets should be labeled or tagged upon receipt and a schedule to periodically inspect and inventory those assets should exist.

The Broome-Tioga BOCES system for accounting for fixed assets is the same one used for valuing assets for insurance purposes. In 1984, the Industrial Appraisal Company (IAC) was hired to conduct a physical inventory of fixed assets. At that time, assets were tagged with identifying labels and the information was recorded on a database at IAC headquarters. Since that time, the assets are tagged and Broome-Tioga BOCES staff have maintained records of purchases and disposals. The information is forwarded to the IAC on a yearly basis and is added and/or deleted from the inventory record. An updated inventory is returned to Broome-Tioga BOCES on a computer disk. A periodic inventory (inspection) of the fixed assets has not been conducted since 1984.

As part of our audit, we conducted a physical inventory of equipment purchased on June 1, 1995 by Broome-Tioga BOCES for the Windsor School District (Windsor). During this review, we compared the inventory records of Broome-Tioga BOCES (equipment tag number, description and serial number) with the equipment located at Windsor and found that three of the

monitors purchased by Broome-Tioga BOCES and a fax modem listed on the inventory could not be located. The total value of the equipment was \$1,631.

During our discussions with Windsor officials, we determined that two of the monitors had been returned to the Dell Corporation and replaced with new monitors and one of the monitors and the fax modem had been stolen. The return of the equipment to the Dell Corporation and the loss of the equipment were not reported to Broome-Tioga BOCES. As a result, the inventory records maintained by Broome-Tioga BOCES continue to reflect the serial numbers of the monitors that have been returned to the Dell Corporation and the monitor and fax modem that no longer exist.

Without the periodic inspection and inventory of the assets, the accuracy of the inventory records is questionable and equipment may not be safeguarded, especially prior year purchases. Broome-Tioga BOCES needs to conduct a periodic physical inventory of equipment.

### **Controls Over Payroll Could Be Strengthened**

BOCES must implement the necessary internal controls to properly safeguard assets and minimize the risk of improprieties, as long as adequate internal controls can limit unauthorized or excessive payroll payments, the loss or misuse of equipment and any unauthorized disbursements. Together with adequate supervisory controls, internal controls can lower the risk of loss.

Management does not certify the payroll register to ensure accuracy and that all employees are bonafide. Payroll duties are not properly segregated because the payroll clerks that process the payroll also distribute the paychecks. Management and the CPA do not conduct periodic floor checks or payouts to test the payroll.

The lack of adequate supervision was evidenced by the fact that an employee was found to have earned over \$90,000 by teaching during the Day, Twilight and Evening programs. This employee submitted three separate time sheets for Occupational Education and Continuing Education CO-SERs. It appears that all three timesheets are reviewed separately before they are submitted to the Payroll Office. The audit compared all three for the same time period and there appeared to be a time overlap involving the

class hours of the Twilight Program and the Evening Program. The employee reported working from 3 to 7 p.m. Monday, Tuesday and Thursday and from 3 to 6 p.m. on Wednesday. The employee also taught a class from 6 to 9 p.m. Monday through Thursday. It appears that there is a one-hour overlap from 6 to 7 p.m. on Monday, Tuesday and Thursday. This was noted for two weeks during April 1995. Broome-Tioga BOCES should ensure that separate timesheets for the same employee are reviewed together to determine if there are any overlapping times reported.

### **Food Costs at Business Meetings Should Be a Personal Expense of Employees**

The Office of the State Comptroller's *Financial Management Guide*, Subsection 8.1025, addresses the reimbursement of meal expense. It states that the cost of meals, while performing the usual duties of the office or position within the local government, is generally a personal expense, rather than an actual and necessary expense incurred in the performance of official duties. If it is determined that a lunch or dinner meeting with guests will promote a valid local government purpose, the costs of the meals consumed by invitees and officials may be paid for. The claim for reimbursement should state the names of the guests and the topics discussed.

The audit determined that various programs were charged for meals provided to Broome-Tioga BOCES employees and guests during various meetings. The food was provided by Broome-Tioga BOCES' Patron Services operation. Charges for these meals were not readily identifiable and the audit estimated the annual expense to be \$26,807, based on credits to the Patron Services account. The audit could not determine if the food provided by patron services was consumed by Broome-Tioga BOCES staff or guests attending Broome-Tioga BOCES sponsored services. In addition, there is no documentation to determine if the expenses were necessary in the performance of official duties.

Broome-Tioga BOCES may be paying for the personal expenses of employees, which overstates the costs of the CO-SERs that apply. The effect may be material. In addition, it is not clear that the provision of refreshments is necessary to promote a valid local government purpose.

## **Year-End Adjusting Entries Not Entered Into the Accounting System**

The internal accounting records of the Broome-Tioga BOCES should agree with the SA-111 and the certified financial statements. The Broome-Tioga BOCES financial records do not by themselves reconcile with the SA-111 and the CPA statements. The audit found that various reconciling entries and adjustments are prepared and used in the preparation of the SA-111 and the CPA statements, but the accounting system is not adjusted to reflect these entries.

For example, the audit found an expense of \$50,876 for the DARE Program that was not entered on the accounting records for CO-SER 586 - Comprehensive School Health/Wellness Service, but was added to the Surplus Report when Broome-Tioga BOCES calculated the refunds to the component districts. In order to perform the reconciliation, various spreadsheets (prepared by hand and maintained on a Lotus spreadsheet) must be acquired and reviewed.

Broome-Tioga BOCES needs to maintain sufficient accounting records to support the financial information submitted to the Department.

## **Recommendations**

19. Conduct a periodic physical inventory of all fixed assets.
20. Institute a payroll certification control by requiring a periodic sign-off by a management level employee independent of the payroll operation. The procedure should: ensure that all payments are to bonafide employees; reflect the proper pay rate; and check for overlapping timeframes.
21. Develop a policy that describes the circumstances in which Broome-Tioga BOCES will provide food at meetings. The policy should require documentation that a lunch or dinner meeting with guests will promote a valid local government purpose and require prior approval by Broome-Tioga BOCES management.
22. Assure Broome-Tioga BOCES' internal accounting records reconcile with the SA-111 and certified financial statements.

## **Comments of Broome-Tioga BOCES Officials**

Broome-Tioga BOCES officials agreed with these recommendations and indicate that action has been taken on three recommendations and future action will be taken on the remaining recommendations.

Contributors to the Report  
Broome-Delaware-Tioga BOCES

- James Conway, Audit Manager
- William Artini, Auditor-in-Charge
- Bonnie Hahn, Senior Auditor
- Robert Scherer, Senior Auditor



**Broome-Delaware-Tioga BOCES**  
**Schedule of Adjustments**  
**Employment Preparation Education Program**  
**For the Period July 1, 1994 through June 30, 1995**

Total EPE Revenue		\$1,910,326
Total EPE expenditures reported		\$1,911,715
Overstatement of occupancy costs	(\$426,368)	
Excessive salary allocation	(20,016)	
Total questioned expenditures		(446,384)
Audited EPE expenditures		\$1,465,331
Net Adjustment (audited EPE expenditures less EPE revenue)		(\$444,995)

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