
Audit Report

Clinton-Essex-Warren-Washington Counties
Board of Cooperative Educational Services

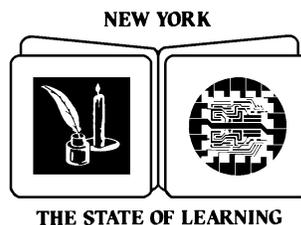
For the Period

July 1, 1995 through June 30, 1996

BOC-0797-2

August 12, 1998

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



August 12, 1998

Mr. Craig L. King
District Superintendent of Schools
Clinton-Essex-Warren-Washington Counties
Board of Cooperative Educational Services
P.O. Box 445
Plattsburgh, New York 12901

Dear Mr. King:

The following is our final audit report (BOC-0797-2) on the Clinton-Essex-Warren-Washington Counties Board of Cooperative Educational Services for the period July 1, 1995 through June 30, 1996. 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

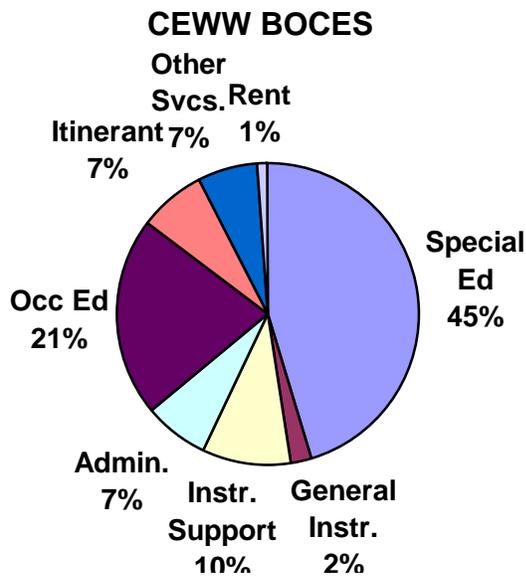
Enclosure

cc: Commissioner Mills
R. Cate
J. Kadamus
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C. Foster (DOB)
R. Lindholm (OSC)
bcc: G. Illenberg
J. Sneed
S. Spear

Executive Summary

Clinton-Essex-Warren-Washington (CEWW) BOCES ranked as the 31st largest BOCES in the State, in terms of total general fund expenditures, for the 1995-96 school year (\$12,937,929).

The pie chart illustrates general fund expenditures by program area for the 1995-96 school year.



Background and Scope of the Audit

The audit examined management practices, records and documentation related to selected areas of CEWW BOCES operations for the period July 1, 1995 through June 30, 1996. These areas included administration, employee safety and risk management, employee benefit coordination and occupational education. 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.

- Expenditures totaling \$13,719 were incorrectly claimed for BOCES aid (page 5).
- Improvements can be made ensuring only necessary and reasonable expenditures are being made (pages 7-10).
- Improvements can be made in documenting expenditures (pages 9-10).
- Opportunities exist to improve management processes relating to purchasing, credit card documentation, expense reimbursement, travel policies and long-range facilities plan (pages 11-18).

Table of Contents

INTRODUCTION	1
BACKGROUND	1
OBJECTIVES, SCOPE AND METHODOLOGY	2
COMMENTS OF CEWW BOCES OFFICIALS	3
COOPERATIVE SERVICES (CO-SERS).....	4
EMPLOYEE SAFETY AND RISK MANAGEMENT	4
EMPLOYEE BENEFIT COORDINATION.....	5
RECOMMENDATIONS	6
EXPENDITURES	7
DONATIONS, LOANS, GIFTS AND PERSONAL EXPENSES	7
VICA CLUB EXPENSES PAID THROUGH THE GENERAL FUND	8
MEAL EXPENSES	9
RECOMMENDATIONS	10
OPPORTUNITIES TO IMPROVE MANAGEMENT PROCESSES	11
PURCHASING	11
CREDIT CARD DOCUMENTATION NEEDS IMPROVEMENT	13
POLICIES FOR TRAVEL AND EXPENSE REIMBURSEMENT.....	13
PERIODIC REVIEW OF AUDITOR QUALIFICATIONS	16
LONG-RANGE PLAN FOR EDUCATIONAL FACILITIES	17
RECOMMENDATIONS	18
 Appendix A - Contributors to the Report	
Appendix B - Comments of CEWW BOCES Officials	
Appendix C - Audit Review Proceedings	

Introduction

Background

Boards of Cooperative Educational Services (BOCES) are voluntary, cooperative associations of school districts, that have joined together to provide educational programs or services more economically than each district could offer by itself. BOCES are organized under Section 1950 of the Education Law. Chapter 474 of the Laws of 1996 amended Section 305 of the Education Law to require the State Education Department (Department) to perform fiscal audits of BOCES at least once every three years.

BOCES may provide such services as special education for students with disabilities, occupational education, academic and alternative programs, summer schools, staff development, computer services, educational communications and cooperative purchasing. There are 38 BOCES in New York State and all but 13 of the 705 operating school districts in the State are members.

Each BOCES submits an annual Cooperative Services Application (CO-SER) to the Department for approval for 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 pay a share of the BOCES administrative costs. Only districts that actually use the programs offered by a BOCES, called participating districts, are required to pay for the program costs. Costs charged to the districts for administration and programs are based on budgeted costs and are adjusted at year-end to reflect actual costs. Typically, a refund is issued to the districts to reconcile differences.

Clinton-Essex-Warren-Washington (CEWW) BOCES was established to be a means for the school districts of Clinton, Essex, Warren and Washington Counties to cooperatively carry out studies, develop specialized facilities and to offer shared educational programs and services. Shared programs allow districts to offer opportunities to students and staff that might not otherwise be economically possible.

CEWW BOCES, headquartered in Plattsburgh, New York, serves 17 component districts, which enroll more than 17,000 students. CEWW BOCES ranked as the 31st largest in the State, in terms of total general fund expenditures, for the 1995-96 school year.

Objectives, Scope and Methodology

Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to selected operations of CEWW BOCES for the period July 1, 1995 through June 30, 1996. This was a financial related audit and the objectives were to:

- determine if cost allocations and transfers between funds and among CO-SERs are accurate and reasonable;
- determine if CO-SERs comply with Department approved specifications and provide measurable cost savings to school districts;
- verify that only reasonable and necessary costs were incurred; and
- verify that the budgetary process provides control over the expenditure of funds.

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

There is no process within CEWW BOCES to assess the extent to which CEWW 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 the 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 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 CEWW BOCES Officials

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

Cooperative Services (CO-SERs)

BOCES must obtain the prior approval of the Commissioner of Education before providing any service. The Cooperative Service Application is the document used to request this approval. The *BOCES Administrative Handbook # 2* (Handbook), 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.

Component school districts are eligible for BOCES aid. BOCES facilities and rent aid provide reimbursement for approved expenditures for facility construction, purchase, or lease. BOCES operating aid provides reimbursement for base year service costs and administrative expenditures, with the following limitations:

- administrative expenditures may not exceed 10 percent of total expenditures;
- service expenditures are aidable only to the extent they are approved for aid;
- an employee's salary is aided up to \$30,000;
- expenditures for education of pupils with disabilities are not eligible for BOCES aid. Public excess cost aid is provided to the district of residence for a student with disabilities; and
- expenditures for transportation are not eligible for BOCES aid. Transportation aid is provided to the district responsible for providing such service.

The audit found that CEWW BOCES incorrectly claimed some transportation expenses in a CO-SER and paid for non-employees' meals as explained in the following sections.

Employee Safety and Risk Management

Handbook #2 delineates the minimum standards for approvable service programs. A program description, which defines the nature of the service, its purpose and the target population, is generally submitted with a CO-SER. The criteria guidelines describe Safety/Risk Management as a service where BOCES

employees provide information, leadership, training and support to assist local education agencies to establish health, safety and risk management programs (e.g., Right-to-Know, OSHA/SOSHA, Disaster Preparedness, Fire and Building Code, Asbestos, etc.). The guideline notes that expenditures for contracted service to school districts are not eligible for aid. In addition, expenses eligible for transportation aid are not eligible for BOCES aid.

CEWW BOCES incurred contracted service expenses totaling \$13,436. Some of these expenses also appear to be eligible for transportation aid. These expenses do not meet the criteria for BOCES aid. However, CEWW BOCES did not identify these expenses as ineligible for aid in their State Aid submission. As a result, BOCES aid was paid on these ineligible expenses.

The \$13,436 received was claimed incorrectly and the expenditure reporting forms need to be amended to reflect the correct amounts. CEWW BOCES officials state that in the 1997-98 school year CO-SER numbers 603 and 610 were initiated for transportation related services and that these CO-SERs are not BOCES aidable, but transportation aidable. Officials further state that districts have requested that they continue coordination of fire inspections and state they will bill the services as miscellaneous revenue and not include them in aidable services expenses.

Employee Benefit Coordination

Handbook #2 also describes an employee benefit coordination service as a cooperative activity, coordinated by BOCES, designed to provide self-funded health, workers' compensation or unemployment insurance plans. The guideline states that the following expenses are eligible for aid: supervision, employee salaries and fringe benefits, employee travel, staff development, office support, and employee supplies and materials.

On October 3, 1995, three BOCES employees, two attorneys and eight school district employees traveled to the State Public Employment Relations Board in Albany for a meeting. The meeting began at 1:00 PM and concerned ten cases involving nine school districts. CEWW BOCES paid a total of \$283 for lunch and dinner for some of these individuals. Meal expenses for non-employees do not meet the criteria for BOCES aid. However, CEWW BOCES did not identify these expenses as

ineligible for aid in their State Aid submission. As a result, BOCES aid was paid on these ineligible expenses.

CEWW BOCES officials state that, effective immediately, they have stopped incurring meal expenses for non-employees in CO-SER 602. Officials also pointed out that, except for the two attorneys present, all other attendees were either BOCES employees, members of the Board of Directors of the BOCES Health Insurance Consortium or members of the Executive Committee of the BOCES Health Consortium.

Recommendations

1. Ensure that BOCES aid is claimed only for eligible expenditures.
2. Submit amended year end reports to accurately reflect expenditures.

Comments of CEWW BOCES Officials

CEWW BOCES officials agreed with these recommendations.

Expenditures

BOCES should have adequate policies in effect to ensure that only necessary and reasonable expenditures are being made. In addition, the internal control process should be reliable to prevent unnecessary, unreasonable and unallowable expenditures from being made.

The audit found that CEWW BOCES can improve procedures and processes for ensuring public funds are used only for necessary and BOCES related expenditures, and can better document expenses.

Donations, Loans, Gifts and Personal Expenses

Section 1 of Article 8 of the New York State Constitution states that “No county, city, town, village or school district shall give or loan any money or property to or in aid of any individual, or private corporation or association, or private undertaking.” A Decision of the Commissioner of Education reinforces this point. It states that “While a respondent was unaware that the charitable contribution was unlawful, Article 8 Section 1 of the New York State Constitution specifically prohibits school districts from making gifts of public monies. While the respondent’s sentiment in making the contribution is laudable, such condolences are appropriately made from personal funds of school district employees if they so desire. The use of public monies for such purposes is prohibited (People v. Fitch, 154 NY 14 {1987}).”

In addition, the Office of State Comptroller’s Financial Management Guide for Local Governments (Guide), Subsection 8.1025, pages 1 and 2, discusses the reimbursement of “actual and necessary expenses” incurred by various individuals in performance of their duties. As a general rule, a particular expense may be considered “actual and necessary” if: 1) the expenditure was actually made; 2) the item was necessarily incurred for an authorized purpose; 3) the expense was in an amount no greater than necessary.

The audit identified several examples of expenditures that appear to violate the State Constitution. In total, the audit questioned \$1,681 of these expenditures as unnecessary. Questioned expenses included a \$400 donation to a fundraiser for the local fire company and \$140 for the voluntary sponsorship of the Chamber of Commerce’s Visitor and Convention Bureau.

Payment of expenses related to spouses, even when subsequently reimbursed, constitutes a loan of public funds. On October 31, 1995, CEWW BOCES paid for airline tickets for two spouses of board members. The board members reimbursed BOCES for these tickets on December 11, 1995 and April 3, 1996.

CEWW BOCES bought engraved bells and apples (\$170) as gifts for board members and superintendents that were leaving. The audit recognizes that CEWW BOCES officials, on occasion, may wish to recognize, commend or extend their sympathies to staff, board members, colleagues and family members. However, expenditures related to these types of gifts cannot be financed with public funds as stipulated by statute.

The audit also identified the following expenses that are considered personal and therefore not necessary expenses of CEWW BOCES; spouse breakfast (\$60), entertainment tickets (\$36), lodging (\$270), T-shirts for staff members (\$380), and a Rural Schools Conference attended by a former board member (\$225).

CEWW BOCES officials stated it was their intention to purchase advertising not to donate money, and have ceased from making any expenditures that could be construed to be a donation. They have also stopped the practice of paying for expenses related to spouses that could be considered a loan, using public funds to purchase gifts, and incurring any expense that could be considered personal.

VICA Club Expenses Paid Through the General Fund

CEWW BOCES paid \$13,705 for lodging, transportation and registration expenses related to a student club, Vocational Industrial Clubs of America (VICA). These payments may violate the State Constitution because they benefit a private group of individuals (the students who are club members).

VICA is a national organization for trade, industrial, technical and health occupation students. Clubs are operated in public high schools, vocational centers, area vocational schools and two-year colleges. VICA programs include local, state and national competitions in which students demonstrate occupational and leadership skills. VICA programs also help to establish industry standards for job skill training in the classroom.

CEWW BOCES officials state that they believe VICA has a unique curricular nature that exempts it from Section 1, Article 8 of the Constitution. The audit has found that other BOCES require the club members to raise the funds needed for trips.

Meal Expenses

According to the Guide, Subsection 8.1025, “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.” The Guide also advises that a claim for payment must include sufficient detail to permit a satisfactory audit by a person who is entirely unfamiliar with the transaction.

In addition, the Guide notes that the cost of meals for any guests may not be paid for except in certain circumstances when it is determined that a lunch or dinner meeting with guests will promote a valid local government purpose. Then, the cost of the meals consumed by invitees and officials may be paid for and the claim for reimbursement should state the names of the guests and the topics discussed.

The audit found examples that indicate CEWW BOCES' procedures related to certain meal expenses need improvement. Documentation of certain meal expenses is not sufficient to permit a satisfactory audit of the claim by a person who is entirely unfamiliar with the transaction. Insufficient documentation increases the risk that inappropriate meal expenses may be incurred. In addition, CEWW BOCES does not have a policy that specifically addresses payment of meal expenses at meetings.

These examples included the following:

- CEWW BOCES paid \$104 for a luncheon attended by 25 people. The claim for reimbursement did not state the names of the guests or the topics discussed. Subsequently, CEWW BOCES officials indicated the purpose of the meeting was to review the library automation process and plan for the next steps. Individuals attending the meeting were identified as school administrators, librarians, library automation staff, instructional services and School Library System staff.

- On August 23, 1995, CEWW BOCES held a health insurance committee meeting at 10:00 AM and an advisory committee meeting at 12:30 PM. CEWW BOCES paid lunch expenses totaling \$204 related to these meetings. The claim for reimbursement did not indicate who attended or the matters discussed.
- CEWW BOCES incurred meal expenses of \$389 related to a trip to the State Public Employment Relations Board. The claim for reimbursement did not indicate who attended or the matters discussed. Subsequently, CEWW BOCES officials identified the individuals in attendance.
- CEWW BOCES paid a total of \$668 for a breakfast and luncheon at the final Chief School Officer (CSO) meeting to which retired CSOs were invited. The claim for reimbursement did not indicate who attended or the matters discussed. In addition, the audit questions the appropriateness of paying for meals of retired CSOs and whether the amount of the expense is reasonable.

In total, the audit questioned \$1,365 for meals. CEWW BOCES officials agree that the absence of a policy concerning meal expenses for meetings may increase the risk that inappropriate expenses may be incurred. Officials stated that CEWW BOCES will adopt a policy to ensure that meal expenses are appropriate and sufficiently documented.

Recommendations

3. Improve procedures to ensure that donations, loans, gifts and personal expenditures are not made using public funds.
4. Establish a policy to ensure all expenses are adequately documented and appropriate.
5. Ensure student trip expenses are paid for from club funds.

Comments of CEWW BOCES Officials

CEWW BOCES officials agreed with these recommendations.

Opportunities to Improve Management Processes

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 such areas 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 found opportunities for improvements. These areas included purchasing, credit card documentation, travel policies and expense reimbursement.

Purchasing

The management of CEWW BOCES is responsible for establishing and maintaining an effective internal control structure. One objective of an effective system of internal controls is to help ensure compliance with laws, regulations and policies. New York State laws related to procurement are designed to promote and assure the prudent and economical use of public monies in the best interest of the taxpayers.

Section 103 of the General Municipal Law sets the bidding thresholds for contracts for public works (\$20,000) and purchase contracts (\$10,000). For purchase contracts, formal bidding is required when the estimated annual cost of an item or reasonable commodity grouping exceeds the bid threshold.

General Municipal Law, Section 104-b, states that goods and services which are not required by law to be procured through competitive bidding must be procured in a manner that assures the prudent and economical use of public moneys. BOCES are required to adopt internal policies and procedures governing all procurement of goods and services that are not required to be bid. These policies and procedures should contain provisions which, among other things, “require adequate documentation of actions taken in connection with each such method of procurement.”

The management of CEWW BOCES has established policies and procedures that govern its purchasing process. The audit tested a sample of purchasing transactions for compliance with laws, regulations and board policies. Six audit findings related to

purchasing were identified. Collectively, these findings indicate that CEWW BOCES' policies and procedures need improvement to ensure compliance with laws, regulations and policies.

These areas include:

- Competitive bidding - The audit noted three instances where CEWW BOCES purchased computer equipment, totaling \$14,363, without evidence of competitive bidding.
- Purchases not required to be bid - During the audit period, CEWW BOCES did not have a policy regarding purchases not required to be bid. Subsequently, CEWW BOCES adopted a policy that requires verbal quotations for purchases between \$100 and \$1,000 and written quotations for purchases between \$1,000 and \$10,000.
- Current procedures for obtaining and documenting quotations – Verbal quotations needed more complete documentation and some quotations did not indicate if a quantity discount was available.
- Purchase not made from vendor with lowest quote - CEWW BOCES obtained three quotes for the printing and binding of 2,100 media catalogs. This service was not purchased from the vendor offering the lowest quote. CEWW BOCES paid \$3.48 per book, the highest quote, while the lowest quote was \$3.06 per book. Purchasing from the vendor with the lowest quote could have saved \$882. In addition, CEWW BOCES did not justify and document the reasons the contract was not awarded to the vendor offering the lowest quote at the time of the purchase.
- Purchasing policy - CEWW BOCES' current purchasing policy addresses most, but not all, non-bid procurement situations.
- Purchase order system – The audit believes the procedure for processing vendor invoices that exceed the purchase order amount could be improved.

CEWW BOCES agrees that opportunities exist to improve its purchasing process. They have appointed a Board committee to work with administrators in reviewing and proposing purchasing policies and guidelines. They also state that all personnel with purchasing authority will be required to adhere to CEWW

purchasing policies and guidelines and will become familiar with General Municipal Law, Sections 103 and 104-b.

Credit Card Documentation Needs Improvement

Section 77-b of the General Municipal Law allows BOCES to pay for all actual and necessary expenses of travel, meals, lodging and registration incurred in attending a conference by authorized BOCES personnel. All claims for these travel reimbursements should be sufficiently itemized and supported by original paid bills, whenever possible, to substantiate that the expenses incurred were actual and necessary expenses of authorized personnel. Credit card company slips and account statements only evidence payment for goods and services purchased. They are not the itemized documentation of the expenses needed to substantiate that the claim for reimbursement was proper. Claims processing prior to approval of payment of travel and conference expenses should include verification that travel or conference attendance was approved. The Guide also notes that sales tax paid to a hotel in NYS is not an actual and necessary expense reimbursable by a local government.

The audit tested all credit card invoices paid during the audit period and found that sufficient documentation to support certain expenses was not retained. As a result, there is less assurance that only actual and necessary expenses were incurred. The types of documentation missing included original hotel receipts, names of individuals attending meal, purpose of meal expense, and receipts for some charges.

CEWW BOCES officials state they will have employees retain documentation to support expenses charged to credit cards and file the documentation with the business office. They state that they do not pay New York State Sales Tax on purchases as a practice. Occasionally, sales tax may be paid due to human error. All employees using a credit card for payment for invoices will be issued tax-exempt certificates to be used in conjunction with the credit card.

Policies for Travel and Expense Reimbursement

The General Municipal Law governs travel and expense reimbursements. Local board policies and Internal Revenue Service (IRS) rules are also applicable. General Municipal Law, Section 77-b, generally authorizes reimbursement of actual and

necessary expenses incurred in attending a convention or conference conducted for the benefit of the municipality. Section 77-c allows municipalities the option to pay meal expenses based on a per diem meal allowance schedule under certain conditions.

The Guide notes that the local government board “should promulgate specific rules and regulations concerning the reimbursement of expenses.” The Guide also provides some examples of rules and regulations the board could adopt, such as, establishing reasonable maximum reimbursement rates to cover actual lodging and meal expenses. Also, the board should adopt a procedure for reimbursement of expenses in excess of the ceiling amounts when properly justified.

CEWW BOCES’ policy for reimbursement of expenses states it will reimburse for the actual expenses incurred. The policy states that expenses should meet the following criteria whenever possible:

- The bill should clearly indicate date(s) and the reason for the reimbursement.
- Charges for transportation should show the starting point, destination, the means of transportation and the purpose of the trip.
- Charges for meals, lodging and other related expenses should be itemized by day for each expenditure.
- A registration fee charged by an organization for attendance at a conference is an allowable expense.
- Reimbursement will not exceed cost of conventional airfare, meals, lodging and other necessary expenses related to the convention regardless of the mode of transportation.

CEWW BOCES’ expense reimbursement policy does not provide any guidelines regarding what would be considered reasonable. As a result, the likelihood that unreasonable expenses may be incurred is increased. In addition, the policy does not stipulate the documentation required for reimbursement and, therefore, expenses may be paid that are not documented as “actual and necessary.” Each office within CEWW BOCES has its own forms for reporting travel expenses. A standardized claim form for all employees and board members would improve accountability over these expenses.

The federal government establishes a regular federal per diem rate that is the highest amount it will pay to its employees for meals, lodging and incidental expenditures while they are traveling (away from home) in a particular area. The rates are for different areas across the continental United States. Employees of New York State are also limited to these rates when traveling. There are separate rates for meals and lodging.

The audit reviewed a sample of expenditures and used federal per diem rates as the basis for a reasonableness test. The review disclosed that policies need to be improved for lodging, meals and dinner meetings while traveling.

CEWW BOCES spent \$1,008 in excess of federal per diem rates for the 1996 AASA National Conference on Education in San Diego. CEWW BOCES paid \$195 per night, which is more than double the federal maximum.

The federal meal allowance for Albany is \$34 and, on average, CEWW BOCES spent \$47 for two employees attending a PERB meeting in Albany. CEWW BOCES reimbursed the employee \$43 in excess of the federal maximum.

In addition, CEWW BOCES may not be complying with the IRS rules regarding reporting non-overnight meal reimbursements. IRS rules state that reimbursements of non-deductible expenses should be treated as paid under a non-accountable plan. In other words, such reimbursements are subject to the withholding of income and employment taxes and must be reported on employees' W-2s. The costs of meals related to business travel are only deductible if the trip is overnight or requires the person to stop for "substantial sleep or rest." Section 8.0120 of the *New York Accounting System User Procedure Manual*, requires employers to report and withhold income and employment taxes from meal allowances for non-overnight travel (day trips). The meal expenses that relate to the PERB meeting appear to be non-deductible. Failure to comply with federal reporting requirements could expose CEWW BOCES to possible fines or penalties.

A representative of CEWW BOCES attended six VICA regional advisor dinner meetings. The average cost for each of these dinners was \$50. This is considered unreasonable even when compared to the highest daily federal meal allowance for the region of \$34.

The above examples demonstrate that CEWW BOCES should consider developing a more comprehensive policy on travel and expense reimbursements. An effective policy would clearly define what is considered a reasonable amount for meal and lodging expenditures. A ceiling for actual expenses could be established using the federal per diem or a certain percentage or dollar amount above or below that amount. Such a policy would enhance accountability with CEWW BOCES expenditures by providing a basis for defining reasonable meal and lodging expenditures.

CEWW BOCES officials state they have appointed a board committee to work with the administration to review and develop a more comprehensive policy on travel and expense reimbursements.

Periodic Review of Auditor Qualifications

Education Law, Section 2116-a, and the Regulations of the Commissioner of Education, Section 170.2, require each board of education to secure an annual audit by an independent auditor. The Department publishes a Reference Manual for audits of general purpose financial statements of BOCES. The Reference Manual is provided to assist BOCES and their auditors through the annual audit process. The main goal is to ensure that each BOCES receives a quality audit.

The Reference Manual states that it is “of utmost importance that BOCES employ good practices in periodically reviewing the qualifications of their auditors...” Periodic evaluation of auditor qualifications is necessary to ensure that BOCES objectives are achieved. The Reference Manual notes that such an evaluation does not necessarily involve a competitive proposal process.

The Reference Manual identifies minimum qualifications for auditors of New York school districts and BOCES. These qualifications include: registration and licensing, continuing education requirements, satisfactory completion of a tri-annual peer review, possessing the necessary experience, and completion of the audit on a timely basis. State regulations require that the audit be completed by October 1. The firm should demonstrate that it has sufficient qualified staff to complete the audit in a timely manner.

CEWW BOCES used a competitive request for proposal (RFP) process to hire its independent auditor for the audit period. The

use of a competitive RFP process can be an effective method to ensure the prudent and economical use of public monies. In addition, an RFP process provides an excellent opportunity to evaluate auditor qualifications. The audit reviewed the RFP process and noted some improvement opportunities. For example, the RFP did not require evidence of or assurance that auditors to be assigned to the engagement meet the continuing education requirements specified by GAGAS. Also, evidence of the satisfactory completion of a tri-annual peer review was not requested. By including the above factors in their RFP, CEWW BOCES would have been able to better evaluate whether auditors met the minimum qualifications identified in the Reference Manual.

In addition, the audit noted that CEWW BOCES did not advertise the RFP. Copies of the RFP were mailed to 17 local CPA firms, however only one offer was received. Advertising the RFP may have resulted in an increase in the number of respondents interested.

CEWW BOCES officials state that all future RFPs will require evidence of auditor qualifications including assurance that continuing education requirements have been met. Also, evidence of satisfactory completion of a tri-annual peer review will be required. They further state that future RFPs will be advertised in the official newspapers.

Long-Range Plan for Educational Facilities

Commissioner's Regulation 155.1 states that "each school district shall provide suitable and adequate facilities to accommodate the programs of such district." To facilitate this objective "each school district shall develop and keep on file a comprehensive long-range plan for educational facilities. Such plan shall be reevaluated and made current at least annually..."

CEWW BOCES does not have a current long-range plan for educational facilities. Maintaining a current long-range facilities plan would assist CEWW BOCES in providing suitable and adequate facilities to accommodate its programs.

CEWW BOCES officials state they have appointed a board committee to work with administration to develop a policy for facilities development. This policy will require the formation and implementation of a long-range facilities plan.

Recommendations

6. Improve purchasing procedures to ensure compliance with General Municipal Law Sections 103 and 104-b.
7. Improve procedures to ensure that adequate documentation is retained for quotes, bids and credit card purchases.
8. Revise CEWW BOCES' purchasing policy to ensure that the policy complies with statutory requirements.
9. Establish policies for travel and meal expense reimbursement that comply with applicable laws and regulations, and addresses reasonable and necessary expenditures.
10. Establish procedures to ensure that auditor qualifications are reviewed periodically.
11. Improve procedures to ensure that future RFPs for audit services include a review of auditor qualifications and explore methods for increasing the number of respondents to the RFP.
12. Establish procedures to ensure that a long-range plan for educational facilities is developed and updated in accordance with the Regulations.

Comments of CEWW BOCES Officials

CEWW BOCES officials agreed with these recommendations.

Clinton-Essex-Warren-Washington BOCES
Contributors to the Report

- Calvin Spring, Audit Manager
- William Lake, Associate Auditor (Auditor-in-Charge)
- Patricia Engel, Senior Auditor
- Louise Costello, 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.