
Audit Report

Capital Region
Board of Cooperative Educational Services

for the Period

July 1, 2001 through September 30, 2003

BOC-1102-1

January 23, 2006

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





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January 23, 2006

Mr. John Yagielski
Board President
Capital Region BOCES
1031 Watervliet-Shaker Road
Albany, New York 12205

Dear Mr. Yagielski:

The following is our final audit report (BOC-1102-1) of the Capital Region BOCES for the period July 1, 2001 through September 30, 2003. 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."

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,

Michael Abbott, CPA

Enclosure

cc: Commissioner Mills, T. Savo, B. Porter, J. Kadamus, G. Smith, C. Szuberla, C. Foster (DOB), W. Campbell (OSC), Barbara Nagler, District Superintendent

Executive Summary

Background and Scope of the Audit

Capital Region Board of Cooperative Educational Services (BOCES) is headquartered in Albany, New York and serves 24 component districts and the Albany City School District. Together these schools serve more than 79,000 students. Capital Region BOCES had general fund expenditures of \$66 million and was ranked as the seventh largest BOCES in the State, in terms of total general fund expenditures, for the 2001-02 school year.

The objective of the audit was to assess the adequacy of Capital Region BOCES' internal controls which are designed to help ensure its goals and objectives are accomplished; laws, regulations, and good business practices are complied with; assets are safeguarded; and accurate and reliable data are maintained. The audit focused on internal controls and reviewed practices, records, and documentation for the period July 1, 2001 through September 30, 2003. This audit also followed up on findings and recommendations from the previous New York State Education Department (Department) audit.

Summary of Audit Results

The audit determined that Capital Region BOCES had many of the necessary controls in place; however, improvement opportunities exist in certain areas. A summary of our recommendations and findings follows:

- Improve controls in the governance area by submitting budget status reports to the Board; obtaining the Board's prior approval for the District Superintendent to attend conferences; appointing appropriate individuals such as the internal claims auditor; adhering to competitive bidding requirements; and establishing the required policies and procedures. (pages 4-9)
- Implement an integrated accounting system and improve documentation and accountability in the Employment Preparation Education (EPE) program. (pages 10-14)
- Improve controls over cash collections by using pre-numbered, multi-copy receipt forms and restrictively endorsing checks upon receipt. (pages 15 and 16)
- Improve controls over inventory records and physical inspection of the items. (pages 17-19)
- Improve management processes pertaining to refunds, EPE waivers and documentation, grant accounting and reporting, technology plans, payroll, and internal controls. (pages 20-30)
- Re-evaluate the need to implement the recommendations in our previous audit report. (pages 31-34)

Comments of Capital Region BOCES Officials

Capital Region BOCES officials' comments about the findings were considered in preparing this report and are included as Appendix B. Capital Region BOCES officials generally agree with the recommendations and plan on implementing them as necessary.

Table of Contents

INTRODUCTION.....	1
BACKGROUND.....	1
OBJECTIVES, SCOPE, AND METHODOLOGY	2
SUMMARY OF AUDIT RESULTS.....	2
COMMENTS OF CAPITAL REGION BOCES OFFICIALS	3
GOVERNANCE AND PLANNING.....	4
BUDGET STATUS REPORTS.....	4
APPROVAL OF THE DISTRICT SUPERINTENDENT’S ATTENDANCE AT CONFERENCES	5
APPOINTMENT OF CERTAIN INDIVIDUALS	5
<i>Internal Claims Auditor</i>	6
<i>Deputy Treasurer</i>	6
<i>Purchasing Agent</i>	6
BOARD MEETING MINUTES – COMPETITIVE BIDDING	7
AUDITOR’S NOTE	7
POLICIES AND PROCEDURES.....	8
COMMENTS OF CAPITAL REGION BOCES OFFICIALS	9
ACCOUNTING AND REPORTING.....	10
LACK OF INTEGRATED ACCOUNTING SYSTEM	10
<i>Encumbering</i>	10
<i>Accuracy of Financial Reports</i>	11
EPE DOCUMENTATION	12
AUDITOR’S NOTE.....	14
COMMENTS OF CAPITAL REGION BOCES OFFICIALS	14
REVENUE AND CASH MANAGEMENT	15
CASH COLLECTIONS.....	15
<i>Treasurer’s Receipt Books</i>	15
<i>Restrictive Endorsement of Checks Upon Receipt</i>	16
COMMENTS OF CAPITAL REGION BOCES OFFICIALS	16
FACILITIES AND EQUIPMENT	17
ACCURATE AND COMPLETE INVENTORY RECORDS.....	17
VERIFICATION OF INVENTORY	18
COMMENTS OF CAPITAL REGION BOCES OFFICIALS	19
OPPORTUNITIES FOR MANAGEMENT IMPROVEMENT IN OTHER AREAS	20
WITHHOLDING MONIES FROM THE REFUNDS DUE TO SCHOOL DISTRICTS	20
CAPITOL REGION BOCES OFFICIALS COMMENTS	21
AUDITOR’S NOTE.....	22
EPE - REQUEST WAIVERS AND DOCUMENTATION ISSUES	22
GRANT ACCOUNTING AND REPORTING	25

AUDITOR’S NOTE.....	26
PAYROLL PAYOUTS/PAYCHECKS	26
INTERNAL CONTROL	27
<i>Segregation of Duties</i>	28
<i>Dual Signatures on Checks</i>	28
<i>Verification of Endorsements</i>	29
<i>Access to Signature Plate (Diskette)</i>	29
COMMENTS OF CAPITAL REGION BOCES OFFICIALS	30
FOLLOW UP - RECOMMENDATION IMPLEMENTATION PLAN	31

Appendix A - Contributors to the Report

Appendix B - Comments of Capital Region BOCES Officials

Schedule 1 - EPE Contact Hour Audit Adjustment Summary and Actual EPE Aid Adjustment Due to Expenditures

Introduction

Background

“The mission of the Capital Region Board of Cooperative Educational Services (BOCES) is to provide educational leadership, services, and support to meet the needs of our students and school districts.” Capital Region BOCES is headquartered in Albany, New York and serves 24 component districts plus the Albany City School District. Together these schools serve more than 79,000 students. Capital Region BOCES had general fund expenditures of \$66 million and was ranked the seventh largest BOCES in the State, in terms of total general fund expenditures, for the 2001-02 school year.

BOCES are organized under Section 1950 of the Education Law to provide shared educational programs and services to districts. These programs and services may include career and technical education for students and adults, alternative education, adult basic education, special education, professional development, technology services, and school library services. Section 305 of the Education Law requires the New York State Education Department (Department) to perform fiscal audits of BOCES at least once every three years, resources permitting.

BOCES are required to collect and report various fiscal and performance data. The data are used to prepare the New York State BOCES Report Card (Report Card) and the Financial and Statistical Outcomes of the Boards of Cooperative Educational Services Report (Chapter 602 Report). The Report Card summarizes program accomplishments and services provided for children and adults. The Chapter 602 Report details certain financial and statistical data such as tuition costs for selected programs, per student cost information, and aggregate expenditure data for BOCES administrative, capital, and service functions.

The Report Card and Chapter 602 Report can be obtained from the following online sources.

- The Report Card is available at <http://www.emsc.nysed.gov/repcrdfall2003/boces/home.html>
- The Chapter 602 Report is available at

Objectives, Scope, and Methodology

The Office of Audit Services reviewed selected management practices, records, and documentation for the period July 1, 2001 through September 30, 2003. The audit focused on five key areas: governance and planning, accounting and reporting, revenue and cash management, facilities and equipment, and opportunities for management improvement.

The objective of the audit was to assess the adequacy of Capital Region BOCES' internal controls which are designed to help ensure its:

- goals and objectives are accomplished;
- laws, regulations, and good business practices are complied with;
- assets are safeguarded; and
- accurate and reliable data are maintained.

To accomplish this objective, we reviewed applicable laws, regulations, policies and procedures; interviewed Capital Region BOCES management and staff; examined records and supporting documentation; sampled a limited number of transactions on a non-statistical basis; and reviewed Capital Region BOCES' audited financial statements.

Our audit included examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other procedures considered necessary in the circumstances. The audit also assessed the estimates, judgments, and decisions made by management and determined the status of the implementation plan submitted for our prior audit report BOC-0498-10. We believe that the audit provides a reasonable basis for our findings, conclusions, and recommendations.

Summary of Audit Results

A BOCES' board and management are responsible for establishing, implementing, and monitoring internal control systems. Internal controls are the policies, procedures, and practices designed and implemented to provide management with reasonable assurance that resources are safeguarded

against waste, loss, and misuse; that operations are efficient and effective; that specific management objectives are achieved; that financial reports are reliable; and that the entity complies with applicable laws and regulations. The internal control systems must be built into the business processes to ensure core activities are accomplished effectively, efficiently, and economically.

The audit determined that Capital Region BOCES had many of the necessary controls in place; however, some improvement opportunities were identified and are addressed in detail in the body of this report. Capital Region BOCES should give careful consideration to the recommendations to further improve its operations and management.

Comments of Capital Region BOCES Officials

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

Governance and Planning

A BOCES' board is responsible for the provision of cost-effective programs and services and must provide for the governance and oversight of the BOCES' affairs, personnel, and properties. The audit determined that the Capital Region BOCES' Board of Education (Board) addressed many of its governance and planning responsibilities related to the control environment, compliance with legal requirements, fiscal oversight, staffing, and strategic planning. However, the Board could make improvements related to the approval of budget status reports, the District Superintendent's attendance at conferences, appointment of certain individuals, competitive bidding, and policies and procedures.

Budget Status Reports

A BOCES board needs accurate and timely budget status reports to monitor the financial condition and to ensure timely corrections to the budget plan. The budget status report provides an accounting of budget estimates compared to actual activity and can help ensure that the BOCES does not overspend its budget.

Recommendation 1: Ensure that a budget status report is provided to the Board at least quarterly (monthly if budget transfers were made).

Education Law Section 1950(4)(j) and Section 170.2(p) of the Regulations of the Commissioner of Education (Regulations) require the treasurer to prepare a budget status report at least quarterly (monthly if budget transfers have been made) for all funds. The required information for the report is provided for in the Regulations and the Department has a sample report format at the following web site:

www.emsc.nysed.gov/mgtserv/budget_status_report%20PAGE.htm

The format shows both revenue and expenditures.

The audit determined the Capital Region BOCES did not submit budget status reports to the Board. Without a complete and accurate budget status report, the Board may not be able to

effectively monitor the financial condition of Capital Region BOCES.

Approval of the District Superintendent's Attendance at Conferences

Section 77-b of the General Municipal Law and the Claims Section of the Office of the State Comptroller's (OSC) Financial Management Guide (Guide) specify the requirements and guidelines for the expenses of officials and staff attending conferences. Capital Region BOCES has policies for travel reimbursement; however, it could make improvements related to requiring pre-approval for the District Superintendent's attendance at conferences.

Recommendation 2: Establish procedures for prior approval of attendance at conventions, conferences, or schools.

General Municipal Law permits the board to authorize any of its members, officers, or employees to attend a conference. The law also permits the board to delegate the power to authorize attendance at a conference to any executive officer or administrative board. The Opinion of the Comptroller, 85-11, requires prior approval for attendance.

The Board minutes did not show any resolutions approving the District Superintendent's attendance at conventions, conferences, or schools, nor was there any mention of delegation of this authority. Without such prior approval, the Board has less assurance that the resources it dedicates for these purposes are being used efficiently and for the benefit of Capital Region BOCES.

Appointment of Certain Individuals

Board meetings are held to conduct official BOCES business including electing board officers, discussing and voting on educational and fiscal policies, and appointing officials. The organizational meeting is the first regular meeting of the board held in the new fiscal year and its agenda should contain items requiring attention either because they are required by law or regulation or because this is the logical time to address them. This includes various appointments such as: attorney, central treasurer of the extraclassroom activity fund, purchasing agent, and independent auditor. Capital Region BOCES needs to appoint an internal claims auditor that does not have any

conflict of duties and a deputy treasurer and a purchasing agent.

Internal Claims Auditor

Education Law Section 1709(20)(a) gives a board the power to adopt a resolution establishing the office of auditor and appointing a person to that position. This auditor then takes on the powers and duties of the board with respect to auditing and allowing or rejecting all accounts, charges, claims, or demands against the BOCES. In addition, the law prohibits any clerical person directly involved in accounting and purchasing functions from being appointed to the auditor position.

Recommendation 3: Appoint an internal claims auditor in accordance with Education Law.

The audit found that Capital Region BOCES appointed the accounts receivable clerk as the internal claims auditor. This is not only in violation of the law, but it also creates a conflict of interest in that the individual approves claims and processes accounts receivable.

Deputy Treasurer

Education Law Section 1720(2) allows a board to pass a resolution appointing a deputy treasurer who shall serve at the discretion of the board. The deputy treasurer can then sign checks in lieu of either the treasurer or other officer, whose signature is required, in the event of their absence or inability. The deputy treasurer needs to execute and file an official undertaking (bond) in the same amount and manner as the treasurer.

Recommendation 4: Appoint a deputy treasurer and execute and file the necessary paperwork.

Capital Region BOCES had a functioning deputy treasurer who was not appointed by the Board and had not filed an official undertaking.

Purchasing Agent

Education Law Section 1950(4)(k) instructs BOCES to follow the requirement in Section 170.2 of the Regulations to appoint a purchasing agent to perform the purchasing functions for the

organization. The purchasing agent is responsible for approving all purchase requisitions as the BOCES' "officer giving rise to claim."

Recommendation 5: Appoint a purchasing agent at the beginning of each school year.

Capital Region BOCES did not appoint a purchasing agent during the audit period.

Board Meeting Minutes – Competitive Bidding

General Municipal Law Section 103(1) requires that all purchase contracts in excess of \$10,000 and all public works contracts in excess of \$20,000 be awarded to the lowest responsible bidder. BOCES must adhere to this requirement and should maintain complete and accurate documentation to support competitive bidding.

Recommendation 6: Maintain documentation to show competitive bidding, or if exempted, the reason for such exemption and all relevant information.

The October 11, 2001 Board minutes reflected that Capital Region BOCES contracted with the Holiday Inn Turf in the amount of \$23,294 to provide facilities and food to those participating in the English Language Assessment (ELA) Grade 4 regional scoring sessions. The January 17, 2002 Board minutes reflected that Capital Region BOCES contracted with the Desmond Hotel in the amount of \$34,261 to provide facilities and food to those participating in the ELA Grade 8 regional scoring sessions. There were no indications in the minutes or other Capital Region BOCES documentation that these purchase contracts were competitively bid.

Auditor's note

Capital Region BOCES Officials comments indicate that they require at least three written quotes for any purchase over \$7,000. Any such policy would have to consider the requirements of General Municipal Law (GML) Section 103 which mandates that certain purchases over \$10,000 be competitively bid. GML 104-b (2)(a) requires documentation of the basis for any determination that competitive bidding is not required by law.

Policies and Procedures

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is one of the five elements of good internal controls. A common term about control environment is “tone at the top.” This is displayed by the policies management adopts, the organizational structure they impose, the assignment of authority and responsibility, hiring practices, the extent of involvement they maintain in operations, and the ethical behavior exhibited.

Written policies and procedures help ensure employees understand their responsibilities, help hold staff accountable, and also aid with any staff transitions. For the most part, Capital Region BOCES had the necessary policies and procedures in place but could improve existing procedures or develop new procedures for certain areas.

Recommendation 7: Establish or update, as appropriate, all written policies and procedures required by law, regulations, and good business practices.

A review of the Capital Region BOCES policy manual found the BOCES need to establish or improve its policies and procedures in the following areas:

- Cash flow projections.
- Accounting and supervision of the scholarship and trust funds.
- Monitoring, controlling, depositing, and retaining investments and collateral including segregation of investment functions (approving, recording, custody, etc.).
- Inventory policy including the annual physical inventory of all tangible personal property valued over \$500 and other items at least every other year.
- Personal property accountability policy including employees’ responsibilities for assigned property and the precautions they must take to secure that property.
- Responsibilities and duties for establishing and maintaining accounting records.
- Issuance of periodic financial reports (budget status, cash reconciliation, annual financial report, fund balance projection, and extraclassroom activity funds).
- Petty cash funds.
- Use of a purchasing calendar.

- Confirming orders limited to emergencies approved by the purchasing agent.
- Maintenance of specification files and lists of responsible bidders and suppliers.
- Processing of approved requisitions.
- Establishment of open purchase orders with local vendors to allow authorized employees to purchase needed items on short notice.
- Receiving, storing, inventorying, and distributing supplies, materials, and equipment.

Comments of Capital Region BOCES Officials

Capital Region BOCES officials concur with these recommendations.

Accounting and Reporting

BOCES must have adequate accounting and reporting systems in place to ensure that accurate, timely, and complete financial records are maintained and disclosed in periodic reports to the board, the public, and the State. Capital Region BOCES has many of the necessary controls related to financial condition, financial accounting and reporting, auditing, State aid, and grants. However, Capital Region BOCES can make some improvements related to an integrated accounting system and the documentation of Employment Preparation Education (EPE) expenditures and contact hours submitted to the Department.

Lack of Integrated Accounting System

Capital Region BOCES' independent auditor made several recommendations concerning the implementation of an integrated general ledger system. The lack of an integrated system has exacerbated problems with encumbrances and the accuracy of the financial reporting process.

An integrated accounting system not only records and stores information for the preparation of the financial statements, it provides detailed information in subsidiary ledgers which include payroll, accounts payable, general ledger, revenues, receivables, billing, and financial and governmental reporting. The integration of these modules allows for timely financial information for decision-making purposes.

Encumbering

In governmental accounting, one of the primary considerations for the General and Special Aid Funds is to record revenues and expenditures for control and compliance with their budgets. As such, it is necessary that the accounting system provide online real time data. However, the current accounting system did not provide for timely reporting of encumbrances. In addition, the accounting system required manually prepared worksheets and did not facilitate preparation of financial reports

Recommendation 8: Ensure that appropriations are available before expenditures or encumbrances are made.

Education Law Section 1950(4)(k) and Section 170.2(k) of the Regulations require that appropriations are available before expenditures or encumbrances are made. Capitol Region BOCES' accounting system did not establish or record an encumbrance of funds at the time of issuance of the purchase order. During the audit period, Capitol Region BOCES managers did not have timely access to their account balances in order to determine available balances. They were notified of any negative accounts via a memo from the business office every Monday.

The process of liquidating encumbrances or modifying encumbrances requires several manual steps. In most accounting systems, the system automatically updates the accounting records when encumbrances are changed or liquidated.

The audit concurs with the independent auditor's recommendation for an integrated general ledger system.

Accuracy of Financial Reports

The independent auditors noted the use of a series of manually prepared spreadsheets along with the accounting software system's books of original entry for the general ledger. This is another example supporting the need to implement an integrated general ledger system.

The independent auditors noted that closing grants at year-end requires a lot of time and effort. This process results in a number of over-expended accounts and reclassification entries to properly account for the grants. The independent auditors believe that a fully integrated general ledger system would help resolve these issues. In addition to the problems with the encumbering process noted above, the audit found numerous examples of accounts incorrectly recorded on the *Annual Financial and Statistical Report of the Board of Cooperative Educational Services* (SA-111) that can be attributed to the current accounting system.

BOCES are required to prepare and submit financial statements and other financial information, such as the SA-111 to the Department. The SA-111 includes information such as assets and liabilities by fund, and revenue and expenses by program or service. The SA-111 should be complete and should agree to the audited financial statements.

Recommendation 9: Ensure that the information reported on the SA-111 agrees with the audited financial statements and the accounting system.

When the audit compared the information reported on the SA-111 to the financial statements, many discrepancies were noted. In addition, information recorded in the accounting system was not always in agreement with the SA-111. Many of these discrepancies resulted from the lack of an integrated accounting system. The audit made Capital Region BOCES officials aware of these discrepancies. Some examples are listed below.

- Rent expense of \$1,563,553 was reported under Object Code .400 instead of .470.
- There were discrepancies between the accounting records and the SA-111 for many activity codes.
- Administrative revenues were reported under an incorrect revenue code.
- Revenues and expenditures for CO-SER 529 were combined with the revenues and expenditures for CO-SER 329 on the SA-111. These CO-SERs were properly accounted for on the accounting records, but were summarized for the SA-111.

EPE Documentation

BOCES are eligible to receive aid for EPE programs that provide instruction that leads to a high school or equivalency diploma for students 21 years of age or older, or for students over the age of 21 with a high school diploma that score below a certain grade level in math or reading. The Department provides EPE aid based on the number of contact hours provided to eligible students. The aid must be spent on allowable expenses for EPE-related services. The total amount of EPE aid awarded cannot exceed total EPE expenditures; therefore, documentation for both contact hours and expenditures is important.

Capital Region BOCES received \$750,836 in EPE aid for the 2001-02 school year. Capital Region BOCES generally had adequate systems and processes to claim, track, document, and report expenditures and contact hours properly. However, the audit found several improvement opportunities related to the inclusion of carryover encumbrances in expenditures and

documentation to support reported contact hours. The audit also identifies improvement opportunities for requesting EPE program waivers and other documentation issues that are discussed in a subsequent section of the report.

Section 168.4 of the Regulations states that EPE program funds may be spent for personal services, employee benefits, equipment, supplies and materials, contractual services, travel expenditures, staff development and training, and other expenditures approved by the Commissioner. These expenditures are to be used only for EPE program purposes.

Recommendation 10: Include only those expenditures that benefit the program and are expended in the school year for which the expenditures are claimed.

Capital Region BOCES originally claimed \$645,628 in EPE expenditures for the 2001-02 school year. Of this total, the audit found \$63,474 included in encumbrances that were for goods and services received in the following school year. Though the audit does not believe the expenditures related to these encumbrances were included on the following year's claim, they are not allowable expenditures for the 2001-02 school year. The final submission by Capital Region BOCES was \$582,154 and reflected the \$63,474 adjustment.

On the 2001-02 EPE claim form, revenues exceeded expenditures by \$168,682 and the Department withheld this amount. The auditor's note at the end of this section explains the net audit adjustment on the final EPE aid for 2001-02. This adjustment compares revenues and expenditures, as adjusted, to determine the net refund due to the State.

BOCES generate EPE aid by reporting contact hours (defined as 60 minutes) and student enrollment to the Department. The Department requires the number of reported contact hours to be clearly documented to ensure that EPE revenues paid are appropriate. The audit found a few instances where the claimed contact hours did not agree with supporting attendance documentation.

Recommendation 11: Ensure that claimed contact hours are adequately supported by detailed documentation and the database used to report EPE hours is accurate.

Based on the discrepancies found between claimed contact hours and supporting attendance documentation, Capital Region BOCES received \$36,078 more in EPE aid than it was entitled to. It should be noted that this audit adjustment will not impact EPE aid since the adjustment for expenditures exceeded the adjustment to EPE contact hours. The detail of the disallowed contact hours is shown in Schedule 1.

Auditor's Note

Education Law governing EPE does not allow agencies to receive more EPE aid in a fiscal year than expended. The Department is required to reduce the following year's EPE aid by the amount the revenues from all sources exceed the expenditures in a given year. Schedule 1 shows audit adjustments would have to be greater than the initial EPE refund recovered.

Comments of Capital Region BOCES Officials

Capital Region BOCES officials concur with recommendations eight through eleven.

Revenue and Cash Management

BOCES collect and invest millions of dollars in revenue each year. They must have adequate controls in place to ensure the funds are collected, deposited, accounted for accurately, and safeguarded. The audit determined Capital Region BOCES generally complied with revenue and cash management requirements related to processing cash receipts and investments. However, Capital Region BOCES could make improvements related to cash collections.

Cash Collections

BOCES must establish strong internal controls over cash collections to prevent mishandling and to safeguard against loss. Good business practices and sound internal controls require the establishment of adequate separation of duties for cash collections; authorization of individuals to collect cash; the use of pre-numbered, multiple copy receipt forms; a restrictive endorsement for all checks; and establishment of a record of all funds received. In addition, the checks should be promptly turned over to the business office for deposit and someone independent of the record keeping function should verify the funds were in fact deposited into the bank.

Capital Region BOCES established many of the necessary controls over cash collections, but it could make improvements related to receipt books and restrictive endorsement on checks received.

Treasurer's Receipt Books

Section 170.2 of the Regulations requires the BOCES' treasurer to acknowledge receipt of all monies by issuing a pre-numbered receipt form as follows: original to the payer and the copy is retained by the treasurer. Good business practices require that all receipt numbers be accounted for. The Regulations also require persons other than the treasurer, authorized by the board to receive money, to use a pre-numbered triplicate receipt form. Copies are distributed as follows: the original to the payer, a copy to the treasurer with the money or bank deposit receipt, and a copy is retained by the individual authorized to receive money. Department guidelines and the School Business Management Evaluation

Checklist require the treasurer to control and account for all receipts in the three-part receipt books.

Recommendation 12: Account for all pre-numbered receipts issued.

Capital Region BOCES is using the required pre-numbered receipts; however, it does not account for all of the numbers. Such a practice increases the risk that funds may be misappropriated and not properly accounted for.

Restrictive Endorsement of Checks Upon Receipt

Restrictively endorsing checks upon receipt helps minimize the chance of misappropriation. Many BOCES use a rubber stamp to endorse checks “for deposit only” in the name of the BOCES.

Recommendation 13: Establish procedures to restrictively endorse all checks upon receipt.

The audit found that Capital Region BOCES restrictively endorses checks before they are deposited; however, controls would be improved if the checks were restrictively endorsed upon receipt. This would lessen the risk of the checks being misappropriated.

Comments of Capital Region BOCES Officials

Capital Region BOCES officials concur with these two recommendations.

Facilities and Equipment

BOCES must provide adequate facilities and equipment for educating its students. BOCES must adhere to all requirements related to facilities maintenance and must implement the necessary inventory controls to safeguard their assets. In addition, BOCES are required to comply with Section 170.3(i) of the Regulations dealing with personal property accountability.

Capital Region BOCES has many of the controls related to facilities maintenance and inventory controls for its assets. However, improvements can be made in inventory records and physical inspections.

Accurate and Complete Inventory Records

Section 170.3(i) of the Regulations requires each BOCES to develop and adopt a formal policy on personal property accountability including procedures governing the acquisition, sale, and disposal of personal property. BOCES must implement inventory controls to safeguard assets against loss, maintain up-to-date records, establish effective utilization, identify amounts for insurance coverage, determine needs, and identify surplus items. Capital Region BOCES could make improvements to ensure its inventory records are accurate and complete, and conform to the Regulations.

Section 170.3(i) of the Regulations defines valuable personal property as having a value over \$500 and includes those items whose aggregate value is over \$500. Property meeting this threshold and having a useful life of more than one year must be recorded on the inventory. However, the audit found some items were not included in the inventory.

Recommendation 14: Include in the perpetual inventory all tangible personal property with an aggregate value over \$500 and a useful life of more than one year.

There were 13 items that were not included in the perpetual inventory, but should have been. Eleven items had a unit resale value or initial cost of at least \$500 and the remaining two items should be included in the perpetual inventory based on their aggregate values. There were 57 memory chips at \$100 each, which represents a \$5,700 aggregate investment.

The cost of these memory chips could have been incorporated into the cost of the computers they were installed in (this should be clearly documented). There were two external hard drives at \$379 each, which represents a \$758 aggregate investment.

Recommendation 15: Ensure items are accurately recorded in the perpetual inventory.

The audit reviewed 334 items from general fund transactions and found 99 of the items in the perpetual inventory had different information than the supporting documentation. The differences included the cost for 65 items, purchase order numbers for 15 items, tag numbers for 3 items, and serial numbers for 27 items.

The audit reviewed 42 items from the special aid fund transactions and found 5 of the items in the perpetual inventory had different information than the supporting documentation. The differences included the cost for four of the items, purchase order numbers for three of the items, and a tag number for one of the items.

Capital Region BOCES records the purchase order number and date for each asset in the perpetual inventory, but does not record the invoice number and date. The purchase order date is used as the date of acquisition instead of the invoice date. The purchase order date represents the date the item was ordered rather than the invoice date.

Verification of Inventory

The computerized asset inventory database shows that over \$34 million in assets were purchased and recorded through June 30, 2002. The audit selected a judgmental sample of 15 pieces of equipment from the sampled transactions and 10 pieces of equipment from the computerized asset inventory database that were purchased in prior years.

For the 25 pieces of equipment selected, the audit attempted to verify their physical existence using information from the computerized asset inventory database. In addition, the audit attempted to verify that the information on equipment located matched the information on the supporting documentation for equipment purchases and in the computerized asset inventory database.

Recommendation 16: Ensure the perpetual inventory is kept up-to-date.

The audit found the following:

- The serial and tag numbers noted in the supporting documentation and fixed asset database did not always agree with each other or with the number on the equipment. In some cases, the equipment did not have a tag number.
- The description, model number, room number, or location (i.e., building) noted in the fixed asset database either did not match or could not be verified upon physical inspection of the equipment.
- The audit was not able to physically verify information on three pieces of equipment because Capital Region BOCES was unable to locate them.
- A snow blower on the inventory had been dismantled and disposed of. A memo was sent from maintenance to the business office notifying them that the asset was dismantled and disposed of; however, this was only done after the audit requested to see the item.

In addition to the above, the audit observed that some of the laptop computers assigned to Capital Region BOCES employees are kept off Capital Region BOCES property. There are no written policies or procedures regarding the personal use of equipment, including provisions for securing the equipment and prohibiting illegal copying of copyrighted or confidential material.

Comments of Capital Region BOCES Officials

Capital Region BOCES officials concur with these recommendations.

Opportunities for Management Improvement in Other Areas

The audit identified opportunities for improvements related to refunds, EPE, grants, technology services, payroll and other internal controls.

Withholding Monies From the Refunds Due to School Districts

BOCES provide cooperative services (administrative, capital, or educational) to component and non-component districts for which they receive payment. At the end of the school year, over-payments and deficits are compared, and any surplus is returned to the districts. Surpluses are the monies that are not expended or encumbered at year-end. If there is a deficit, the districts are assessed a charge to cover the deficit. Capital Region BOCES generally complied with the requirement to return surpluses to the districts. However, it withheld funds from refunds due the components for the Accrued Benefit Liability Reserve, without notifying the components.

Recommendation 17: Inform and obtain prior approval from component districts to withhold any monies from refunds due.

Education Law Section 1950(4)(f) states that BOCES must receive reimbursements from districts for cooperative educational services performed under its jurisdiction. It must also allocate the costs of cooperative educational activities and shared services including administrative and clerical costs to the component districts. In addition, the BOCES must apportion surpluses and assessments for services, on the basis of participation, to those components and districts outside the BOCES contracting for such programs. BOCES also have to apportion surpluses and assessments for administrative expenses to all component districts. All apportionments are to be made annually.

The BOCES Administrative Handbook 3, Section IV, Apportionment of Surpluses and Assessments for Services, provides additional guidance, e.g., surpluses must be allocated in the same way as the cost allocation in effect for the year involved and there must be an annual reconciliation and refund or charge.

Table 1 shows the surplus to be refunded to component districts, according to Capital Region BOCES' 2000-01 audited financial statements.

Table 1 Surplus to be Refunded to Component Districts	
Excess revenues over expenditures	\$5,014,712
Encumbrances - beginning of year	(785,807)
Encumbrances - end of year	420,253
Surplus to refund	<u>\$4,649,158</u>

Capital Region BOCES withheld \$124,689, or 2.7 percent, of the 2000-01 surplus without informing the component districts of the amount or reason. This resulted in funding \$124, 689 for the Employee Benefit Accrued Liability Reserve as of June 30, 2002, which is included in the Reserve for Retirement Benefits. Capital Region officials initially indicated the amount was for post employment benefits, but subsequently stated in its response to the Draft Report that it was for the Accrued Benefit Liability Reserve fund. The amount withheld is included in the financial statements under Reserve for Retirement Benefits which totals \$2,510,313 as of June 30, 2002. The audit also noted the Capital Region BOCES did not obtain the approval of the Board to establish or fund the reserve nor did it have written policies or procedures for withholding surpluses or funding the reserve.

Capitol Region BOCES Officials Comments

Capital Region BOCES Officials indicate that it is not a legal requirement to notify component school districts of set-a-sides to this type of reserve. Education Law 1950(4)(f) and handbook 3(IV) refer to the methodology for apportioning surpluses and deficits and the return of surplus. The BOCES has always returned undesignated surplus back to its component districts.

They further point out that GML (6)(p) asserts that funding of an Accrued Benefit Liability Reserve does not require voter authorization (or authorization from component schools) and may be funded by appropriation or transfers from another reserve.

They also offer that it is not a legal requirement to have a policy or written procedure for withholding or funding of a

Reserve under GML (6)(p). The BOCES concurs however, that it is good business practice and that it has established a more uniform method of funding the Accrued Benefit Liability Reserve. Effective in 2006-07, the BOCES will fund the reserve by budgetary appropriation.

Auditor's Note

The intent of the Education Law and Department Guidelines is to inform participating districts of the true costs of BOCES services purchased and to preserve the transparency of the BOCES operations. Any contribution by a district, including the reduction of a surplus or an assessment, constitutes an adjustment to the level of participation in a BOCES service and would require the full disclosure of the adjustment or assessment. If the charges represent new services for which the components have not participated before, approval is necessary.

The decision to establish reserve funds, other than “mandatory” reserves, is left up to the governing board and requires a Board resolution. The requirements for the Employee Accrued Benefit Liability Reserve are found in GML Section (6)(p).

Written policies and procedures should be maintained to ensure compliance with the law, to clearly define responsibilities, and to ensure these reserves are only used for their intended purpose. At the time of the audit, Capital Region BOCES did not have written policies and procedures for withholding monies from the surplus to fund the other post-employment benefits reserve and for the maintenance of the reserve.

EPE - Request Waivers and Documentation Issues

The Department's EPE Manual (Manual) has been developed as a resource for EPE program administrators. It includes guidelines, questions, and answers regarding the administration of the program.

The audit found that Capital Region BOCES could make improvements in the areas of requesting waivers and maintaining the proper documentation to ensure accuracy and compliance.

Recommendation 18: Request waivers from the Department for classes where it is possible that attendance will exceed 20 students or instruction is less than 6 hours per week.

The Manual (Section 408.03) states that the burden of proof is on the provider to support its claim for EPE aid. This includes annual written approval from the Office of Workforce Preparation and Continuing Education of any interpretations, waivers, or informal understandings about how Capitol Region BOCES can generate or use EPE aid.

Under Section 168 of the Regulations, no class register should have more than 20 students (total students on the class register including both EPE-eligible and non-eligible students) unless a waiver is approved. In addition, classes should operate at least 6, but not more than 20 hours per week, unless approved by the Commissioner. These waiver requests must be submitted for approval annually.

The audit sampled attendance rosters and found they exceeded 20 students at least one month a year for four classes, but no waivers were obtained. Also, there was no waiver for a class held for less than 6 hours per week.

The Manual (Section 408.02) states that the EPE program provides reimbursement to agencies based on their own report of reimbursable services rendered to adult students. For this reason, there must be a clear audit trail from the contact hours reported on the SA160.1 and SA160.2 forms to student attendance records.

Recommendation 19: Include the scheduled and actual length and time of the class, class codes, and the school year on supporting documentation.

The scheduled and actual length and time of the class, the class code, and the school year were not always included on attendance documentation. This made the audit trail difficult to follow from the documentation.

Recommendation 20: Adopt a standard symbol to be used by instructors to designate when a student is present or absent. When signatures support the attendance documentation, there should be only one place to sign.

According to the EPE Manual (Section 408.04), attendance record keeping for the EPE program should be consistent with the requirements for K-12 students enrolled in a public school, as defined in Section 104.1 of the Regulations. Section 408.02 of the EPE Manual states that all agencies receiving EPE aid must have a written attendance policy. It should address rounding, absenteeism, and enrollment. The format in which attendance records will be kept must also be described (e.g., paper rosters, computerized format). This policy should be consistent across Capital Region BOCES' entire EPE program.

The audit found that Capital Region BOCES does not have a standardized symbol to record attendance. Using standardized symbols to denote attendance status and a standard practice for signing into class (when this is the documentation) for attendance would reduce the chance of error in recording contact hours.

Recommendation 21: Ensure there is a centralized, secure office and storage area for confidential student files and attendance records.

The Manual (Sections 408.01 and 414.04) lists the requirements for the content and maintenance of student folders and guidance on student Individual Education and Employment Preparation Plans (IEEPP). As part of the requirements, the IEEPP should contain all testing information, student goals that are established consistent with the National Reporting System for adult education, an individually prescribed instructional program designed to meet the established goals, and a record of goal attainment.

Capital Region BOCES needs to establish written procedures that specify what information should be included in a student's folder, including some guidance on how the folder should be organized.

Recommendation 22: Adopt policies and procedures to ensure student folders have the proper information and are stored securely in an accessible location.

The audit requested 30 student folders for review; however, Capital Region BOCES was only able to provide 28. For the 28 folders reviewed, 12 had no evidence of testing; none had IEEPPs; 2 lacked sufficient evidence to determine high school diploma status; and 1 lacked sufficient evidence to determine the student's age.

The organization and structure of student files is very important. For example, all intake and update forms should be together in either chronological or reverse chronological order. The audit recommends establishing a checklist for folders when new students enroll. At the end of each year, the student's folder should be reviewed to ensure that required documentation is included.

In addition, the audit found no centralized, secure office and storage area for confidential student files and attendance records. Capital Region BOCES had difficulty locating some records because the boxes are routinely moved.

Recommendation 23: Ensure that contact hours are recorded and claimed in compliance with the methodology specified by the Department for Distance Learning Programs – Learn to Read/Another Page and Math Basics.

These Distance Learning programs generate contact hours based on the Instruction Sheet in Appendix A to the Manual. For the Distance Learning Programs – Learn to Read/Another Page and Math Basics, Capital Region BOCES is using the criteria and guidelines for packet-based programs where active enrollment is based on a two-week period. Capital Region BOCES should be using the criteria and guidelines for contact hours that are generated based on a phone contact.

Grant Accounting and Reporting

Each year eligible agencies are notified of grant application procedures by the responsible Department program office. Upon notification, eligible local agencies generally submit a completed federal or State project form (Form FS-10) and a proposed budget to the Department's program office responsible for the program. The program office reviews the grant application and notifies the applicant agency of approval or disapproval. Copies of the budget are sent to the Department's Grants Finance Office for review. A copy of the approved budget is then returned to the agency so that any changes can be noted and project accounting records can be established. Any subsequent budgetary changes requiring Department approval should be requested using the Proposed Amendment for a federal or State project form (Form FS-10-A).

Upon completion of the project, the agency submits an original and one copy of the Final Expenditure Report for a federal or State project (Form FS-10-F) to the Grants Finance Office where a desk audit of the FS-10-F is conducted and a final approved total of project expenditures is determined.

The audit sampled two grants in order to determine if a prior audit recommendation on accruing grant expense at fiscal year end was implemented. During this process, the audit noted a misclassification of an expense item and an overall accounting classification concern.

Recommendation 24: Correctly classify expenses on the FS-10 in order for the Department to monitor the expenses of the grant.

There was one IDEA grant transaction for \$6,906 included in the documentation submitted with the FS-10-F that was recorded as a Capital Outlay (i.e., equipment) in the transaction file, but was reported as Supplies and Materials on the FS-10-F. Since the equipment purchase was over \$1,000, it should have been reported as Equipment. Had the transaction been properly reported, the total amount may have been disallowed because Equipment was already at the maximum amount allowed. The final expenditure report, however, was approved.

Recommendation 25: Develop procedures that would allow all expenses that pertain to a grant to be accumulated in order to determine the true cost of the grant.

Auditor's Note

The audit has removed the draft report's recommendations 26 and 27 concerning cost effectiveness for technology templates and Chapter 793 Plans from the final report based on management's comments.

Payroll Payouts/Paychecks

Funds can be misappropriated by putting an individual on the payroll who does not actually work for the organization. The individual could be a recently separated employee, a made-up person, or a friend or relative of the employee who can cash a paycheck by forging the endorsement or by having an accomplice deposit the proceeds into his or her bank account.

Capital Region BOCES could improve its payroll operations by verifying employees to payroll records.

Recommendation 28: Capital Region BOCES should verify the existence of each person on the payroll periodically.

Good business practices provide for confirmation that all persons on the payroll are bona fide employees doing their assigned work. Periodically, each person receiving a paycheck from Capital Region BOCES should be handed their paycheck or stub and verified, as being the person to whom the check is made out in order to be certain that all are bona fide employees.

Currently, Capital Region BOCES is relying on the payroll clerks to verify the existence of the employees. The audit recommends an independent source, such as each division level supervisor, verify that the person on the payroll is working in the cost center and location indicated.

Internal Control

The Committee of Sponsoring Organizations (COSO) developed a report that defines and identifies five key elements of internal control. The COSO report defines internal control as “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.” The five elements are: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Control activities are the policies and procedures that help ensure management directives are carried out and that necessary actions are taken to address significant risks to the achievement of the entity’s objectives. COSO identifies a range of control activities including authorizations, verifications, reconciliations, and reviews of operating performance, securing assets, and segregation of duties.

Capital Region BOCES could improve internal controls by improving the control activities associated with segregation of duties, authorization, verification, and safeguarding assets.

Segregation of Duties

Segregation of duties is primarily designed to prevent fraudulent activity from occurring or remaining undetected. Management can achieve this control objective by dividing work between two or more people. Under proper segregation of duties, no one person should control all key aspects of a transaction or event, and the functions performed by one person may be checked by the functions performed by another. In general, the transaction approval, accounting, reconciliation, and asset custody functions should be separated among employees whenever possible. When these functions are not or cannot be separated, a detailed supervisory review of related activities should be undertaken by managers or officials as a compensatory control.

Recommendation 29: Ensure payroll and personnel clerks duties are segregated and they do not approve reports they prepare unless compensatory supervisory controls are in place.

Personnel information, such as pay rates, should only be added or changed by personnel employees. Capital Region BOCES' payroll employees can add and change personnel information. This lack of separation of duties facilitates the ability of a payroll employee to misappropriate funds.

At Capital Region BOCES, the payroll clerks are able to make changes to the payroll data. In addition, the audit found that the payroll and personnel clerks approve reports they prepare without any compensatory supervisory review of the work.

Dual Signatures on Checks

Authorization is the power that management grants to employees to carry out certain duties. Authorization is also a control activity designed to ensure events or transactions are initiated and executed by those approved by management. Management should ensure that the conditions and terms of authorizations are clearly stated and communicated, and that significant events and transactions are approved and executed only by persons acting within the scope of their authority. For example, a manager may be authorized by his/her superiors to approve purchase requests, but only to a specified dollar amount. The requirement for a second signature for large expenditures over a specified amount provides an additional safeguard.

Recommendation 30: Capital Region BOCES should require a second authorized signature for all checks over a specified amount.

Currently, only one signature is required for checks of any amount from the general fund.

Verification of Endorsements

Verification is the determination of the completeness, accuracy, authenticity, and/or validity of transactions, events, or information. It is a control activity that enables management to help ensure activities are being conducted in accordance with directives. Management determines what needs to be verified based on the risk to the organization if there was no verification. Management should clearly communicate these decisions to those responsible for conducting the verifications.

Recommendation 31: The individual who reconciles bank statements should look for errors in check endorsements.

During bank reconciliations, the individual doing the reconciliation does not look at the check endorsement. Reviewing the endorsements could help minimize the risk of fraudulent endorsements. The clerk would look for obvious errors such as deposits to personal accounts, endorsements to cash, or the endorser is not the payee.

Access to Signature Plate (Diskette)

To safeguard assets, access to resources and information must be restricted to help reduce the risk of unauthorized use or loss. Management should adequately protect the organization's assets, files, documents, and other resources that could be wrongfully used, damaged, or stolen. Management can protect these resources by limiting access to authorized individuals. Access can be limited by various means such as locks, passwords, and guards. Management should decide which resources should be subject to safeguarding and to what extent, based on the vulnerability of the items being secured and the perceived risk of loss. This decision should be reassessed periodically. For example, signature plates (diskettes) are a high-risk item and should be secured.

Recommendation 32: Restrict access to the signature plate (diskette) to the person(s) authorized to use the plate.

Several employees who are not authorized to use the signature plate (diskette) have access to the safe where the signature plate (diskette) is stored.

Comments of Capital Region BOCES Officials

Capital Region BOCES officials concur with these recommendations.

FOLLOW UP - RECOMMENDATION IMPLEMENTATION PLAN

On June 28, 1999, the Office of Audit Services issued a final report (BOC-0498-10) on management practices, records, and documentation related to select areas of Capital Region BOCES. The report contained eight recommendations to improve operations. Capital Region BOCES submitted a Recommendation Implementation Plan for each recommendation on September 28, 1999.

Of the eight recommendations, Capital Region BOCES successfully implemented or otherwise satisfied one, partially implemented or otherwise satisfied six, and did not implement or otherwise satisfy one. The seven recommendations not fully implemented are discussed below.

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

Implementation Action(s):

The BOCES has assigned the responsibility for the Employment Preparation Education Program to another individual within the Occupational Education Division. In addition, the division has purchased a new software system to maintain required records and several people are being trained in its use.

Audit note: Procedures appear to have been improved; however, no written procedures have been established.

Implemented Partially Implemented Not Implemented

Recommendation 2: Improve the accuracy of the inventory for equipment at school district locations. This listing should include the description of the asset, the Capital Region BOCES tag number and the specific location (including building and room number).

Implementation Action(s):

The District Superintendent and Deputy Superintendent have reviewed the audit finding with the Division Directors and emphasized the need to adhere to the existing procedures.

Audit note: Though Capital Region BOCES has adopted a property accountability policy, in accordance with the Regulations, and contracted with an independent asset management company to update their fixed asset database, the audit noted exceptions as discussed in this report. The audit found implementation at Capital Region BOCES' headquarters, but problems exist in remote sites. The audit commends Capital Region BOCES in its efforts to continually make improvements in this regard.

Implemented Partially Implemented Not Implemented

Recommendation 3: Initiate the use of logos identifying vehicles as Capital Region BOCES vehicles.

Implementation Action(s):

Capital Region BOCES has purchased magnetic logo signs which have been assigned to vehicles not used in the transportation of computer equipment. In addition, Capital Region BOCES has logo decals on the rear of all vehicles regardless of their use.

Audit note: The audit found that 3 of 18 vehicles located at the RIC Center and Vo-Tec Center were not identified by use of a Capital Region BOCES logo.

Implemented Partially Implemented Not Implemented

Recommendation 4: Prohibit the expenditure of funds in amounts that exceed appropriations.

Implementation Action(s):

Capital Region BOCES indicated that budget codes within the Special Aid Fund are not allowed to exceed budget except for established SED guidelines. However, accounts within the General Fund will be allowed to exceed the appropriation at the time the encumbrance is recorded. By not allowing an encumbrance to be made because of an inadequate appropriation will result in a delay in providing requested services to our clients.

Capital Region BOCES has instituted a procedure whereby it will issue memoranda to each Division Director indicating negative account balances on a weekly basis rather than monthly. Budget adjustment forms will be required to be submitted in a timely fashion. However, if a budget adjustment form is not submitted, the related accounts will be frozen until the required documents are provided. While this procedure will not prohibit an account from being over-expended, it will expedite the budget adjustment process.

Audit note: Capital Region BOCES has attempted to address this problem but, was not successful because of the lack of an integrated accounting system. According to Capital Region BOCES officials, the implementation of a finance manager on July 1, 2004 will significantly address this issue as it does not allow encumbrances without appropriations and adjustments can be made much more easily than with the current system. Transfers have to be made for the encumbrance to proceed.

Capital Region BOCES officials stated that Department guidelines allow them to exceed certain budgets in the Special Aid Fund. This only applies to federal and State aided grants, whereas the previous audit finding referred to several expenditure accounts, not just grant funded accounts. Despite the fact that Capital Region BOCES is allowed to exceed the budget line items on the

federal and State aided grants, Capital Region BOCES should still ensure that sufficient appropriations are available in these programs before expenditures are made.

Implemented Partially Implemented Not Implemented

Recommendation 5: Maintain documentation to support the allocation of expenditures among CO-SERs.

Implementation Action(s):

Division Directors are required to submit to Central Administration, Treasurer's Office, a copy of all documentation related to Administrative and Operation and Maintenance expense allocations.

Audit note: The audit requested the documentation that supports the allocation of expenditures among CO-SERs, but has not received sufficient documentation to verify these allocations.

Implemented Partially Implemented Not Implemented

Recommendation 6: Reassign some of the treasurer's duties related to the bank reconciliations, accounting, and authorizing payments.

Implementation Action(s):

Over the past several months, since the preliminary audit findings were presented and the treasurer's announced retirement, the administration reviewed several options pertaining to this finding. At the regular meeting of the BOCES Board held on September 16, 1999, it was agreed that the position of deputy treasurer would be established on or about January 1, 2000. A position description was prepared that reflects the auditor's concern. The nearly completed implementation of the new computerized financial management system has provided the BOCES with the opportunity to realign some duties and responsibilities with the current structure.

Audit note: Since Capital Region BOCES submitted this plan, Capital Region BOCES found that the prior treasurer had embezzled over \$3 million. Since the detection of the embezzlement, Capital Region BOCES has created the position of deputy treasurer to assume some of the responsibilities and duties of the treasurer. However, the description of the deputy treasurer shows that that this employee has the following duties, which present a lack of segregation of duties:

- prepares monthly bank reconciliation on all Capital Region BOCES accounts and follows up on reconciling items,
- prints checks utilizing the facsimile signature, and
- periodically matches the check log with deposits.

Implemented Partially Implemented Not Implemented

Recommendation 7: Consider adopting additional policies including personal use of long distance telephone calls, staff overtime and payment procedures.

Implementation Action(s):

In accordance with the recommendation, the BOCES established a formal written procedure pertaining to personal long distance telephone calls. The procedure and use of the telephone log was implemented on November 1, 1998.

In accordance with the recommendation of the audit team review, the BOCES prepared a generic purchasing/payment procedure and flowchart, which will be incorporated into the Business Office Policies and Procedures Manual. It should be noted that each division has its own internal review and payment authorization procedures. Individuals who are charged with the responsibility of reviewing and authorizing vendor payments are thoroughly familiar with divisional and organization requirements.

The BOCES considered and rejected an attempt to define overtime eligibility other than through the collective bargaining process. In addition, each division has their own procedures for approving overtime and such procedures appear to have achieved their intent.

Audit note: There are written procedures for personal long distance telephone calls and overtime; however, Capital Region BOCES has not established a written policy for overtime. Capital Region BOCES' generic purchasing/payment procedure and flowchart does not appear to be used universally at all divisions of Capital Region BOCES and was not part of Capital Region BOCES' Business Procedures Manual. In addition, the current purchasing procedures allow payment of an invoice that exceeds the purchase order amount by up to ten percent. The decision to pay an invoice that exceeds the purchase order should be based on materiality. As such, the Capital Region BOCES should consider establishing a dollar threshold as there is a big difference between 10 percent of \$1,000 and 10 percent or \$100,000.

Implemented Partially Implemented Not Implemented

Contributors to the Report
Capital Region BOCES

- Calvin Spring, Audit Manager
- John Cushin, CPA, Auditor-in-Charge
- Ronald Talarico, Associate Auditor
- Michael Summa, Senior Auditor

October 17, 2005

Mr. Michael Abbott, CPA
Director of Audit Services
New York State Education Department
89 Washington Avenue
Room 524 EB
Albany, New York 12234

Dear Mr. Abbott:

Please find enclosed our completed comments regarding the State Education Department Audit of the Albany-Schoharie-Schenectady-Saratoga BOCES for the period of July 1, 2001 through September 30, 2003.

Should you have any questions, please feel free to reach me at 862-4920.

Sincerely,

Board of Cooperative Educational Services

Mark Jones
Assistant District Superintendent for Business
Services

Enclosures

MJ/sk

(Draft report's recommendations were inserted to original BOCES documentation)

Recommendation 1: *Ensure that a budget status report is provided to the Board at least quarterly (monthly if budget transfers were made).*

Recommendation #1

Budget and revenue status reports will be provided to the Board of Education in accordance with Education Law Section 1950(4)(j) and Commissioners Regulation 170.2 (p). The lack of a fully functioning integrated accounting system at the BOCES has hampered our previous ability to produce such reports on a timely manner. Administration will be working through a process with the Board to develop a more comprehensive financial reporting model.

Recommendation 2: *Establish procedures for prior approval of attendance at conventions, conferences, or schools.*

Recommendation #2

The nature of the duties of the District Superintendent of a BOCES are one which explicitly requires attendance at various meetings as a regular part of the job. Prior approval for the District Superintendent to attend meetings that are part of the regular "day-to-day" duties of a District Superintendent, would seriously limit the effectiveness of the position.

In response to the recommendation that the BOCES develop a policy for the prior approval of the District Superintendent to attend conferences, the Capital Region BOCES will develop a policy and procedure that is in compliance with GML 77-b and Comptrollers Opinion 85-11.

Recommendation 3: *Appoint an internal claims auditor in accordance with Education Law.*

Recommendation #3

The BOCES will appoint an internal claims auditor that is independent of the business office function pursuant to current law.

Anticipated implementation date: January 2006

Recommendation 4: *Appoint a deputy treasurer and execute and file the necessary paperwork.*

Recommendation #4

The Board of Education has appointed the Deputy Treasurer in accordance with Education Law 1720(2) and has also bonded this individual in a "official undertaking" in the amount of \$5,100,000

The appointment as a Board Officer in this capacity occurs annually at the BOCES Reorganizational meeting in July.

Recommendation 5: *Appoint a purchasing agent at the beginning of each school year.*

Recommendation #5

The Board of Education has appointed the Purchasing Agent as a part of its Reorganizational Meeting, supported in the meeting minutes that are attached.

Recommendation 6: Maintain documentation to show competitive bidding, or if exempted, the reason for such exemption and all relevant information.

Recommendation #6

The Capital Region BOCES has instituted a procedure for the procurement of purchase controls relating to the use of space for purposes of conducting regional staff development activities.

The procedure is as follows:

Estimated Amount of Purchase Order	Procurement Procedure	Responsibility	Contract/Approval Requirements
Less than \$2,000	<ul style="list-style-type: none"> • Purchase Requisition/Purchase Order including at least <u>two verbal quotes</u> (documented by SSS in writing) which can include “not available” or “unable to accommodate specific needs” • Quote documentation must include the contact person at the conference facility. • Purchase Requisition must be approved by Dr. Nagler – use approval form. • Once the Requisition is signed by Dr. Nagler, it should be returned to the Program of Origin and the Purchase Order completed 	Requesting Programs	<ul style="list-style-type: none"> • If a contract of less than \$2,000 per day is necessary, it must also be signed by Dr. Nagler
\$2,001 - \$6,999	<ul style="list-style-type: none"> • Purchase Requisition/Purchase Order including at least <u>three verbal quotes</u> (documented by SSS in writing) which can include “not available” or “unable to accommodate specific needs” • Quote documentation must include the contact person at the conference facility. • Purchase Requisition must be approved by Dr. Nagler – use approval form. • Once the Requisition is signed by Dr. Nagler, it should be returned to the Program of Origin and the Purchase Order completed 	Requesting Program	<ul style="list-style-type: none"> • All contracts over \$2,000 per day, per event* must be <u>approved by the Board</u> • If a signed contract is not required by the facility, then the PO should include in detail all the charges and services and the requisition must be approved by Dr. Nagler • For contracts going to Sharon for inclusion on the Board agenda, the PO/requisition with supporting quotation documentation should be sent concurrently to the Purchasing Office and should be so noted “For approval on --/--/02 Board Meeting.” The PO will be signed and released immediately after the approval of the Board. <p>*the determination of per day, per event cost shall include the acquisition of meeting space, guest rooms, meal and refreshment services and equipment rentals.</p>
\$7,000 and over	<ul style="list-style-type: none"> • Purchase Requisition/Purchase Order including at least <u>three written quotes</u> (provided by the hotel or facility in writing) which can include “not available” or “unable to accommodate specific needs” • Quote documentation must include the contact person at the conference facility. • Purchase Requisition must be approved by Dr. Nagler – use approval form. • Once the Requisition is signed by Dr. Nagler, it should be returned to the Program of Origin and the Purchase Order completed 	Requesting Program	<ul style="list-style-type: none"> • All contracts over \$2,000 per day, per event* must be <u>approved by the Board</u> • If a signed contract is not required by the facility, then the PO should include in detail all the charges and services and the requisition must be approved by Dr. Nagler • For contracts going to Sharon for inclusion on the Board agenda, the PO/requisition with supporting quotation documentation should be sent concurrently to the Purchasing Office and should be so noted “For approval on --/--/02 Board Meeting.” The PO will be signed and released immediately after the approval of the Board. <p>*the determination of per day, per event cost shall include the acquisition of meeting space, guest rooms, meal and refreshment services and equipment rentals.</p>

Recommendation 7: Establish or update, as appropriate, all written policies and procedures required by law, regulations, and good business practices.

Recommendation #7

In April 2001, the Capital Region BOCES revised its Policy Manual and Business Office Procedures Manual to reflect changes in law, regulation and procedure. Many of the specific recommendations have since been addressed.

Notwithstanding these updates, the BOCES Board and Administration recognize the ongoing importance of maintaining up-to-date policies, regulations and procedures that reflect good business management practices. As a result the BOCES is investigating a process by which policies and procedures can stay current with applicable laws and regulations.

The policy services offered by the New York State School Boards Association and Erie I BOCES are being investigated.

Recommendation 8: Ensure that appropriations are available before expenditures or encumbrances are made.

Recommendation #8

The Capital Region BOCES agrees that the accounting system in place at the time of the audit, did not encumber funds at the time of issuance of purchase orders and as also managers did not have timely access to their account balances.

In February 2004 the BOCES began the process of implementing an integrated software accounting system in order to rectify many “business” process issues. Compliance with Education Law 1950(4)(k) and Commissioners Regulation Section 170.2(k) has now become Standard Operating Protocol.

Systems are set up to approve purchases on a hierarchical authorization platform culminating in final approval by the Board appointed Purchasing Agent. Further controls are built into the system that will not allow a purchase order to be approved if there is not an adequate appropriation in place.

Recommendation 9: Ensure that the information reported on the SA-111 agrees with the audited financial statements and the accounting system.

Recommendation #9

As stated in Recommendation #8, the BOCES has begun to implement an integrated accounting software package that will download Co-Ser expenditures and revenues into the SA-111 document using the uniform system of accounts prescribed for a Board of Cooperative Educational Services.

The absence of a fully integrated accounting software package created a situation where the manually kept records didn't always match what was on the COMPASS software and what was subsequently reported on the SA-111.

Recommendation 10: Include only those expenditures that benefit the program and are expended in the school year for which the expenditures are claimed.

Recommendation #10

Year end outstanding encumbrances are no longer included in the final expenditure report for EPE Reimbursement.

Recommendation 11: Ensure that claimed contact hours are adequately supported by detailed documentation and the database used to report EPE hours is accurate.

Recommendation #11

Since the Education Department has pointed out several deficiencies in our reporting structure, the Capital Region BOCES has tightened its EPE recording process by utilizing the State Education Departments new software called “ALIES”. In addition, additional training has been given to appropriate staff.

Recommendation 12: Account for all pre-numbered receipts issued.

Recommendation #12

The BOCES Treasurer will account for all pre-numbered receipts.

Recommendation 13: Establish procedures to restrictively endorse all checks upon receipt.

Recommendation #13

The BOCES now has a process in place to date stamp checks when they come in. The secretary to the Buildings and Grounds Supervisory is now responsible for opening the mail, listing the checks received and date stamped. They are then processed for deposit. The Assistant Superintendent for Business periodically checks the cash receipts against the check log.

Recommendation 14: Include in the perpetual inventory all tangible personal property with an aggregate value over \$500 and a useful life of more than one year.

Recommendation #14

The BOCES agrees with the quoted wording from section 170.3 (i) of the Commissioners Regulations, in which you define “valuable personal property” as including those items whose aggregate value is greater than \$500. As such the BOCES Purchasing Agent has developed a form entitled “Inventory Upgrade” for purposes of recording the additional value resulting from purchases that add value to existing fixed assets.

Recommendation 15: Ensure items are accurately recorded in the perpetual inventory.

Recommendation 16: Ensure the perpetual inventory is kept up-to-date.

Recommendation 15 & 16

BOCES has made great strides in developing the process for recording fixed assets. However, we do acknowledge and agree with the recommendations for improvement in this area, some of the issues resulting in the findings are due to inconsistencies caused by staff turnover.

The BOCES has now begun to reconcile capital purchases in Finance Manager to those recorded in the fixed asset software program. This reconciliation occurs on a monthly basis and follows the standard monthly accounting calendar.

Recommendation 17: Inform and obtain prior approval from component districts to withhold any monies from refunds due.

Recommendation #17

This recommendation cites the BOCES in the following areas:

17.a. Transferring funds in excess of current year expenses to the Accrued Employee Benefit Reserve without informing component school districts that these funds were being withheld.

17.b. The BOCES is also cited for not having a written policy or procedure for withholding monies from the surplus.

17.a. Response:

It is not a legal requirement to notify component school districts of set-a-sides to this type of reserve.

Education Law 1950(4)(f) and handbook 3(IV) refer to the methodology for apportioning surpluses and deficits and the return of surplus. The BOCES has always returned undesignated surplus back to its component districts.

In addition, GML6p asserts that funding of an Accrued Liability Benefit Reserve does not require voter authorization (or authorization from component schools) and may be funded by appropriation or transfers from another reserve.

17.b. Response:

It is not a legal requirement to have a policy or written procedure for withholding or funding of a Reserve under GML6p.

The BOCES concurs however, that it is good business practice and that it has established a more uniform method of funding the Accrued Benefit Liability Reserve. Effective in 2006-07, the BOCES will fund the reserve by budgetary appropriation.

Recommendation 18: Request waivers from the Department for classes where it is possible that attendance will exceed 20 students or instruction is less than 6 hours per week.

Recommendation #18

The BOCES Adult and Continuing Education Department will request waivers for classes where it is possible that attendance will exceed 20 students or where instruction is less than 6 hours a week.

Recommendation 19: Include the scheduled and actual length and time of the class, class codes, and the school year on supporting documentation.

Recommendation #19

The BOCES will include the scheduled and actual length of time class codes and school year on the appropriate supporting documentation.

Recommendation 20: Adopt a standard symbol to be used by instructors to designate when a student is present or absent. When signatures support the attendance documentation, there should be only one place to sign.

Recommendation #20

The BOCES will adopt a standard symbol to be used to designate when a student is present or absent.

Recommendation 21: Ensure there is a centralized, secure office and storage area for confidential student files and attendance records.

Recommendation #21

Confidential student files and attendance records will be stored in a secure centralized area.

Recommendation 22: Adopt policies and procedures to ensure student folders have the proper information and are stored securely in an accessible location.

Recommendation #22

The BOCES will ensure that student folders have all the required information in them.

Recommendation 23: Ensure that contact hours are recorded and claimed in compliance with the methodology specified by the Department for Distance Learning Programs – Learn to Read/Another Page and Math Basics.

Recommendation #23

The BOCES believes that we are compliant with SED methodology for recording EPE contact hours for EPE related Distance Learning programs.

Recommendation 24: Correctly classify expenses on the FS-10 in order for the Department to monitor the expenses of the grant.

Recommendation #24

The BOCES attempts to correctly classify **ALL** expenses according to GAAP and grant guidelines. Transactions for equipment purchases recorded in Finance Manager are now reconciled to the asset tracking software and subsequently balanced to the final expenditure report (FS10F) to ensure that all three records match.

Recommendation 25: Develop procedures that would allow all expenses that pertain to a grant to be accumulated in order to determine the true cost of the grant.

Recommendation #25

The division that is writing the grant application determines what items to include in the program budget. During the audit period there were six (6) grants where overhead expenses were written into the grant. The BOCES concurs that overhead expenses should be written into the grant where allowed. It should be noted that not all grants allow for these types of indirect charges.

Recommendation 26: Ensure that the information on the Cost Effectiveness Technology Templates is accurate and adequately supported.

Recommendation #26

1. The BOCES disagrees with the finding that the “Cost Effectiveness” Technology templates as sampled, are not accurate.

The finding states that quotes were taken directly from vendor websites and that vendors were not contacted directly, thus there was a misrepresentation of the data. The BOCES contends that it did contact vendors for actual written quotes and has presented documentation to support its position. In addition, the BOCES has enhanced their report, by categorizing quotes by vendor, BOCES or state contract.

2. The audit faults the BOCES (NERIC Division) for not basing its annual change in pricing on estimated increases using prior year expenses as a base. Your assertion is that the decision for changes in the annual charges are based on the amount the Division Director wants them to increase.

The BOCES disagrees with this assertion. Pricing is determined by economic constraints and is the decision of the District Superintendents of the Joint Management Team.

Recommendation 27: Ensure that there is sufficient documentation to support the criteria used to select individuals and the rationale for the selection of equipment.

Recommendation #27

The recommendation cites the BOCES in three areas where improvements could be made relative the Northeastern Regional Information Centers' 793 Technology Plan:

They are:

1. Selection and Documentation of 793 Plan Participants.
2. The BOCES did not provide a rationale for the selection of the manufacturer models for standardization.
3. The BOCES did not provide a rational for which software systems would be most most appropriate for each component school.

Response:

1. It is our understanding that the District Superintendent's of the Joint Management Team all agreed to assign their Assistant Superintendents for Instruction to the development committee. In the future, the BOCES will document the criteria and process for selection on the 793 plan committee.

2. The BOCES does not agree that the rational for standardization for hardware was not explained. The reasons for "standardization" are clearly defined in the Board Resolution, which was submitted to the SED Audit Staff.

3. The BOCES does not agree with this statement. All software applications must be compatible with operating systems and hardware. Further, the BOCES has documentation of studies which led to the selection of various software applications.

Recommendation 28: Capital Region BOCES should verify the existence of each person on the payroll periodically.

Recommendation #28

The audit recommends a process for verification of the existence of an actual individual for each payroll check issued, on at least one occasion during the year. This is also known as a "live labor test".

The BOCES agrees that it could enhance this internal control and will look into ways to perform the live labor test without causing excessive interruptions in day-to-day activities. This would be an ideal activity for an internal auditor.

Recommendation 29: Ensure payroll and personnel clerks duties are segregated and they do not approve reports they prepare unless compensatory supervisory controls are in place.

Recommendation #29

The Capital Region BOCES understands the importance of internal controls and the associated difficulties in implementing them. BOCES payroll clerks are authorized to set up and change salary information according to authorizations by the Board of Education. The Board of Education Agenda acts as the control point and authorization for payroll and personnel related actions. For there to be a misappropriation through payroll, there would have to be collusion amongst the payroll clerks and another individual.

Recommendation 30: Capital Region BOCES should require a second authorized signature for all checks over a specified amount.

Recommendation # 30

Capital Region BOCES now requires a dual (second) signature on all hand drawn checks. Dual signatures are not required on checks issued through the Finance Manager system because of the controls within the software and also because of other controls that are in place. For example, purchase orders have a hierarchical approval structure and the internal claims auditor reviews all warrants/invoices for appropriateness.

Recommendation 31: The individual who reconciles bank statements should look for errors in check endorsements.

Recommendation #31

The BOCES agrees that the Deputy Treasurer currently does not look for irregularities in endorsements which could help minimize the risk associated with fraudulent endorsements. The BOCES will try to enhance this internal control by having the Deputy Treasurer selectively review endorsements.

Recommendation 32: Restrict access to the signature plate to the person(s) authorized to use the plate.

Recommendation #32

The signature plate (diskette) is kept in the safe in the Business Supervisors Office. There are a number of people who could have access to the diskette if the Business Office Supervisor were not present. However, the signature diskette is useless unless there is access to the password to use it.

EPE Contact Hour Audit Adjustment Summary
and Actual EPE Aid Adjustment Due to Expenditures
EPE Aid Year 2001-02

	Contact Hours	EPE Aid
Audit Adjustments:		
Additional hours in database not claimed	997	4,547
Additional assessment hours due	1,173	5,349
Student Sample:		
Traditional	(3,021)	(13,776)
Non-Traditional	(3,806)	(17,355)
Additional Career and Family Life Skills	(612)	(2,791)
Ineligible due to GED	(255)	(1,163)
Non-traditional October hours claimed in October and November	(1,248)	(5,691)
Maximum allowable time for non-traditional exceeded	(1,140)	(5,198)
Total adjustment for hours	(7,912)	(\$36,078)
Total adjustment for expenditures- Disallowed encumbrances:		(63,474)
Total Audit Adjustment		(\$99,552)

Actual EPE Aid Adjustment:

EPE aid paid in 2001-2002	\$750,836
Final EPE expenditures submitted	(582,154)
EPE refund due and recovered	*\$168,682

*Initial refund recovered by the Department is based on the amount of aid paid minus the expenditures submitted to cover that aid. Because the total audit adjustment is less than the amount already recovered by the Department, the total audit adjustment would not result in additional EPE aid being recovered. See Auditor's Note on page 13.