
Audit Report

Cayuga-Onondaga
Board of Cooperative Educational Services

For the Period

July 1, 1997 through June 30, 1998

BOC-1298-6

June 30, 2000

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





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June 30, 2000

Mrs. Charlene Murray
Board President
Cayuga-Onondaga BOCES
5980 South Street Road
Auburn, New York 13021

Dear Mrs. Murray:

The following is our final audit report (BOC-1298-6) on the Cayuga-Onondaga BOCES for the period July 1, 1997 through June 30, 1998. The audit was conducted pursuant to Sections 305 and 1950 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

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

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

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

Sincerely,

Daniel Tworek

Enclosure

cc: Commissioner Mills, R. Cate, G. Illenberg, J. Kadamus, T. Sheldon, S. Spear, B. Stambler, C. Szuberla, C. Foster (DOB), H. Hoffman (OSC), G. Gilchrist, District Superintendent of Schools

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Executive Summary

Cayuga-Onondaga BOCES is ranked as the 36th largest BOCES in the State, in terms of total general fund expenditures, for the 1997-98 school year.

The pie chart illustrates general fund expenditures by program for the 1997-98 school year.

Background and Scope of the Audit

The audit examined management practices, records and documentation related to select areas of Cayuga-Onondaga BOCES operations for the period July 1, 1997 through June 30, 1998. These areas included Administration, Operation and Maintenance, Cooperative Services, and Employment Preparation Education (EPE). 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 expenditures of funds.

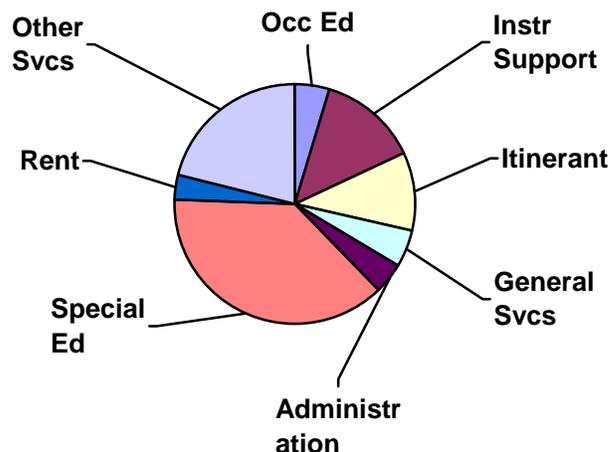
Audit Results

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

- Cayuga-Onondaga BOCES will have to refund a total of \$257,447 in EPE aid (see Attachment A for schedule of contact hour audit adjustments) (pages 4-8).
- Cayuga-Onondaga BOCES can improve EPE procedures by adequately documenting all contact hours and ensuring all required information is contained in student folders (pages 4-8).
- Opportunities exist to improve management processes relating to purchasing policies, documentation for expense reimbursement, travel expense reimbursement rates, allocations of transactions, and tracking of fixed assets (pages 12-21).

Cayuga-Onondaga BOCES officials have made improvements in their EPE procedures and documentation. They have also taken corrective action to improve management processes relating to purchasing policies, expense reimbursement, allocations of transactions, and tracking of fixed assets.

Cayuga-Onondaga BOCES



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 New York 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.

Cayuga-Onondaga BOCES, headquartered in Auburn, New York, was established to be a means for the school districts of Cayuga and Onondaga counties to cooperatively carry out studies, develop specialized facilities, and offer shared educational programs and services. Shared programs allow districts to offer opportunities to students and staff that might not otherwise be economically possible.

Cayuga-Onondaga BOCES serves nine component districts which enroll more than 15,292 students. Cayuga-Onondaga BOCES

ranked as the 36th largest in the State, in terms of total general fund expenditures, for the 1997-98 school year.

Objective, 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 Cayuga-Onondaga BOCES for the period July 1, 1997 through June 30, 1998. 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;
- verify that only reasonable and necessary costs were incurred;
- verify that the budgetary process provides control over the expenditure of funds; and
- verify the accuracy and reliability of data reported to the Department for Employment Preparation Education aid.

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

There is no State or BOCES process to assess whether CO-SERs result in measurable cost savings to school districts. As a result, the audit was not able to complete this portion of the scope.

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 Cayuga-Onondaga BOCES Officials

Cayuga-Onondaga BOCES officials' generally agreed with the findings and recommendations in this report. Their comments have been included where appropriate and their response is included as Appendix B.

Employment Preparation Education

Cayuga-Onondaga BOCES operates an Employment Preparation Education (EPE) Program. This categorical aid program serves students 21 years of age or older who have not received a high school or equivalency diploma.

Part 168.4 of the Regulations of the Commissioner of Education (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.

Cayuga-Onondaga BOCES received a total of \$354,227 in EPE aid for the period July 1, 1997 through June 30, 1998, based on reported contact hours. The audit found that Cayuga-Onondaga BOCES needs to improve its system for identifying, documenting and accumulating certain EPE contact hours.

Education Law 3602 states that when total revenue received exceeds the entire cost of such program, State aid payable in the following year will be reduced by the amount of such excess. This means that Cayuga-Onondaga BOCES must refund the larger of revenues disallowed or expenditures disallowed, but not both. The audit report will be used by the Department to reduce future aid received by Cayuga-Onondaga BOCES in the amount of \$257,447.

Contact Hour Documentation

Under Section 168.2 of the Regulations, a contact hour for EPE means 60 minutes of instruction given by a teacher in approved program component areas. The Department requires the number of reported contact hours to be clearly documented to ensure that EPE revenues paid to the districts or BOCES are appropriate. Any undocumented or overstated contact hours will be questioned upon audit and revenues will be reduced accordingly. The districts or BOCES must maintain classroom attendance rosters of all students who attend EPE Programs.

Part 168.4 of the Regulations states that BOCES are required to maintain appropriate attendance records to support contact hours reported on Forms SA-160.1 and SA-160.2.

The audit found that Cayuga-Onondaga BOCES' records did not always adequately document EPE contact hours which resulted in errors when calculating EPE contact hours. The audit found the following for EPE Program activities:

- For Traditional Adult Education instruction classes, attendance was not adequately documented. The specifics were discussed with Cayuga-Onondaga BOCES officials.
- For GED on TV (Non-traditional Adult Education) contact hours, Cayuga-Onondaga BOCES used contact log sheets that contained very little information. It never mentioned any shows watched or that the students did any work in their workbook. In some cases, there was only a date entered. This documentation problem was discussed with the Office of Workforce Preparation and Continuing Education (OWPCE). OWPCE stated that very little guidance had been given at that time on what documentation was required and they are in the process of developing an EPE manual that will provide greater guidance on documentation requirements and other EPE issues.

In agreement with OWPCE, the audit did not adjust contact hours for this program activity because, at that time, inadequate guidance had been given on documentation requirements. However, Cayuga-Onondaga BOCES needs to improve documentation for contact hours claimed for GED on TV in order to prevent any future audit adjustments.

- For the Community Work Experience Program (CWEP), Cayuga-Onondaga BOCES only received summary documentation from the county. Cayuga-Onondaga BOCES did not obtain actual attendance for the students to document and support these contact hours.
- For the Work Experience program activity, Footsteps, it is not clear whether the attendance sheets/registers are maintained exclusively by Cayuga-Onondaga BOCES or the counties. The audit found attendance sheets/registers in the binders maintained by Cayuga-Onondaga BOCES that had identical information as the attendance sheets/registers in the supporting documentation sent by the county to support CWEP hours. In one case, there was a duplication of Footsteps hours. Since the county does not break out the Footsteps hours from the CWEP hours when reporting total hours to Cayuga-Onondaga BOCES for CWEP, duplication of contact hours can and did occur.

- Summary contact hour documentation for EPE contact hours did not segregate contact hours by program activity for each student, except for Giving Rural Adults a Study Program (GRASP) and GED on TV. This made it difficult to determine how many hours were being claimed for each program activity for each student, and difficult to verify contact hours claimed for each student to supporting attendance documentation.

Cayuga-Onondaga BOCES' summary sheet of EPE contact hours did not support the reported EPE contact hours. Specifically, the hours for the first half of the year were artificially inflated. Cayuga-Onondaga BOCES admitted that the prior EPE administrator had overstated the contact hours. The current EPE administrator and his staff went through the records for the first half of the year and recalculated the hours. Consequently, the EPE contact hours for the first half of the year were overreported by 35,209. The review also showed that contact hours for the second half of the year were underreported by 1,645. Therefore, the initial audit adjustment to EPE contact hours was 33,564.

In addition to overreporting EPE contact hours, Cayuga-Onondaga BOCES received an overpayment of EPE aid of \$93,975 due to an error made by the Department. When the Department calculated the EPE aid payment for contact hours claimed for the second half of 1997-98, the Department incorrectly combined the contact hours claimed for the first and second half of 1997-98.

The audit reviewed supporting documentation for EPE contact hours for a judgmental sample of 30 students. Reported contact hours for the sample were 9,830 but the audit found that only 8,523 could be supported, resulting in an adjustment to EPE contact hours of 1,307. The audit adjustment was a result of several factors including:

- hours were claimed for students that were not EPE eligible because they were either under 21 years of age or had a high school diploma,
- hours were claimed more than once under two different program activities,
- incorrect calculation of or accumulation of contact hours,
- documentation did not support all of the contact hours claimed, and
- Work Experience program activities were not prorated as required (.75 for CWEP contact hours and .5 for all other Work Experience contact hours), and classroom instruction did not always account for 30 percent of the contact hours claimed.

The audit also made additional adjustments to total contact hours claimed as follows:

- An adjustment of 497 contact hours was made for the sample students with Work Experience contact hours because classroom instruction did not account for at least 30 percent of the total contact hours claimed.
- Because Cayuga-Onondaga BOCES did not prorate Work Experience contact hours as required, the audit prorated the contact hours for the students not in the sample for the second half of the year. This resulted in an additional adjustment to total EPE contact hours of 93.

The audit was not able to adjust the Work Experience contact hours for the first half of the year because the audit could not specifically identify which hours were for Work Experience after the initial audit adjustment was made.

Because of a cap set on EPE aid, Cayuga-Onondaga BOCES was not paid for all of the overreported contact hours. Therefore, there is no direct correlation between the contact hour adjustment and the amount of EPE aid that needs to be refunded. Instead, the audit calculated the EPE aid to be paid based on audited contact hours and deducted this from the EPE aid paid to Cayuga-Onondaga BOCES. The total EPE aid paid to Cayuga-Onondaga BOCES was \$354,227. Based on audited contact hours, Cayuga-Onondaga BOCES is only eligible to receive \$96,780 in EPE aid and will have to refund \$257,447. (This amount will be withheld from future EPE payments). See Attachment A for a schedule of EPE contact hour audit adjustments and EPE aid to be refunded.

Cayuga-Onondaga BOCES officials agree that some of the EPE contact hours were not documented adequately. They also agree that not all of the daily attendance sheets were complete. A new attendance procedure has been instituted beginning with the 1998-99 school year that will ensure that attendance documentation will be complete and adequately support all reported and claimed EPE contact hours.

Cayuga-Onondaga BOCES officials also agree that, other than for GRASP and GED on TV contact hours, they did not clearly identify the hours claimed for each student for each program activity on summary contact hour documentation. They stated that

they are purchasing Enroll 2001 software to track Adult Education students per activity.

In addition, Cayuga-Onondaga BOCES officials agree that they claimed more EPE contact hours than were provided for the first half of the year. They believe that the new attendance sheets and software will enable them to report accurate contact hours.

Cayuga-Onondaga BOCES officials also agree that they did not properly prorate contact hours for the Work Experience program activity. They have reviewed the guidelines and will have certified staff members make weekly visits to the students at the work site.

Student Folders

Section 168.3 of the Regulations requires that every student served in an EPE Program have an individual student folder that is easily accessible to the student and the teacher, and includes information concerning registration, attendance, testing and individual program needs. At a minimum, registration information must include the student's name, class attendance, date of birth or age, and the diploma status. Beginning in 1995-96, each folder is also required to contain an Individual Education and Employment Preparation Plan (IEEPP).

The audit reviewed 30 student folders and found that 20 did not contain the required IEEPPs. The documentation the auditor accepted as an IEEPP was not consistent for each of the ten students with IEEPPs in the sample.

As a result, Cayuga-Onondaga BOCES is not in total compliance with the Regulations because not all of the student folders contained the required IEEPPs. Without them, it is difficult to determine if a student is receiving necessary services, or if the services provided are in line with the student's stated goals. In addition, Cayuga-Onondaga BOCES needs to develop a form or collection of records that can clearly be identified as an IEEPP.

Cayuga-Onondaga BOCES officials agree that student folders did not always include required IEEPPs. They have requested a sample of an acceptable IEEPP from the Department.

Documentation for Work Experience Work Site Visitations

According to pages 24-25 of the 1998-99 Employment Preparation Education (EPE) State Aid Program (Continuation Only) application, “*Basic Requirements for all EPE –funded Work Experience Programs ... Work Site Visitation* ... agencies must ensure that ... individual student folders are kept documenting work experience attendance and related information such as work site visits and student progress.”

Cayuga-Onondaga BOCES does not document work site visitations for Work Experience contact hours and, therefore, is not in compliance with Department guidelines.

Cayuga-Onondaga BOCES officials agree they did not document work site visitations for Work Experience contact hours. They will have staff members document all work site visits.

Recommendations

1. Improve procedures to ensure that all EPE contact hours claimed for EPE aid are adequately documented.
2. Ensure that contact hours for each student for each activity are clearly identified.
3. Improve procedures to ensure that contact hours are properly prorated for the Work Experience program and work site visitations are documented.
4. Ensure that each student folder contains an IEEPP in an approved format.

Comments of Cayuga-Onondaga BOCES Officials

Cayuga-Onondaga BOCES officials concur with these recommendations.

Expenditures

Revenues and Expenditures for Two Service Program Codes Not Included on Audited Financial Statements

According to the Uniform System of Accounts for Boards of Cooperative Educational Services 1988 Edition, page 1, "... Financial statements must be presented in conformity with generally accepted accounting principals [GAAP]...".

According to GAAP, one of the primary qualities of accounting information is reliability. One of the three ingredients of reliability is verifiability. Verifiability is demonstrated when a high degree of consensus can be secured among independent measures using the same measurement methods. In addition, GAAP requires that entities report on their financial statements the results of operations for all of their business functions.

When the audit compared the SA-111 to the audited financial statements, the audit found that the revenue and expenses for the Special Aid Fund service program codes 821 (\$203,879) and 822 (\$14,420) were not included in the audited financial statements. These amounts are not material in relation to the financial statements as a whole (unreported revenues were only 1.23 percent of the total revenues of \$17,685,964 and unreported expenditures were only 1.29 percent of the total expenditures of \$16,971,176). However, the audit believes they are material because they are an omission of data as opposed to a misstatement of data.

Revenues and expenditures on the financial statements were understated by \$218,299 and the financial statements are not in conformity with GAAP.

Recommendation

5. Ensure that all revenues and expenses related to operations are included in the audited financial statements.

Comments of Cayuga-Onondaga BOCES Officials

Cayuga-Onondaga BOCES officials concur with this recommendation.

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 several opportunities for improvements. These areas include formulating an investment policy, inventory control, documentation of travel expenses, unnecessary and unreasonable expenses, and improving policies.

Value of Personal Use of Vehicle Provided to the Former District Superintendent Incorrectly Reported to Taxing Authorities

According to page 15 of the 1999 Internal Revenue Service (IRS) Publication 535 (the 1997 and 1998 publications were not available electronically):

“Special rules for highway motor vehicles. If an employee uses the employer’s vehicle for personal purposes, the value of that use must be determined by the employer and included in the employee’s wages. ... **Election not to withhold income tax.** You can choose not to withhold income tax on the value of an employee’s personal use of a highway motor vehicle you provided. ... You must, however, withhold the applicable social security and Medicare taxes on such benefits. ... **Amount to report on Forms 941 and W-2.** ... Include the value of the fringe benefit in box 1 of Form W-2. Also include it in boxes 3 and 5 if applicable. [In this case, it is applicable.]...”

For calendar years 1997 and 1998, Cayuga-Onondaga BOCES properly calculated the value of the personal use of the vehicle provided to the former District Superintendent. However, instead of including the value in the District Superintendent’s Form W-2, Cayuga-Onondaga BOCES reported the value as Non-Employee Compensation on IRS Form 1099-MISC. The audit did not review prior years but believes the same practice was most likely followed.

Since the District Superintendent's salary exceeded the threshold for social security taxes, Cayuga-Onondaga BOCES is not required to withhold social security taxes on the value of the fringe benefit. However, Cayuga-Onondaga BOCES should have withheld the applicable Medicare taxes.

Cayuga-Onondaga BOCES officials agree that it should have reported the value of the personal use of the vehicle provided to the former District Superintendent on IRS Form W-2 instead of on the IRS Form 1099-MISC. Cayuga-Onondaga BOCES will ensure that, in the future, the value of the personal use of the vehicle provided to the District Superintendent will be reported on IRS form W-2 instead of on the IRS form 1099-MISC.

Cayuga-Onondaga BOCES officials agree that they did not withhold the applicable payroll taxes on the value of the personal use of the vehicle provided to the former District Superintendent.

Purchase Requisitions

The Office of the State Comptroller's Financial Management Guide (Guide), Volume 2, Subsection 11.0101, states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. In addition, all resources should be safeguarded against waste, loss, and misuse.

As part of an effective internal control system, purchase requisitions and purchase orders are used. A purchase requisition is a formal request by an employee of the organization for goods or services; initiates the purchasing cycle and should include what is being purchased, when it is required, and where to deliver it; requires supervisory approval to prevent an employee from purchasing personal items and to give the supervisor responsible for the budget the opportunity to ensure that sufficient funds are available for the request; and can be incorporated with the purchase order document.

Cayuga-Onondaga BOCES' procedure #4525 cites that a purchase order requisition is required for non-standard supplies and materials, equipment or services. The audit reviewed 33 transactions. Some of these transactions did not require a purchase requisition. Purchase requisitions were not routinely used for food, contractual, telephone, and gas expenses. The audit found that five

of the 29 (17 percent) items requiring a purchase requisition did not have one.

Cayuga-Onondaga BOCES officials agree that they did not always use purchase requisitions in a manner consistent with their own written procedures. They also state that revised policies will be adopted and program administrators will be provided training concerning this policy.

Purchases Requiring Quotations

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 monies. 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.”

Part of effective internal policies and procedures is to have a reasonable minimum dollar threshold before quotes and bids are obtained. General Municipal Law has very specific details on dollar thresholds for bids but none for quotes.

In the Guide, Procurement Policies and Procedures, Subsection 8.3020, there are suggested guidelines to use when bids are not required. The Guide suggests:

- three verbal quotes for purchases from \$100-\$500 and contracts for public works from \$1,000-\$5,000,
- three written quotes for purchases from \$1,000-\$5,000 and contracts for public works from \$5,000-\$10,000, and
- more than three written quotes for purchases from \$5,000-\$9,999 and contracts for public works from \$10,000-\$19,999.

According to Cayuga-Onondaga BOCES’ purchasing procedure #4525, “...price comparison when buying is essential. The Supervisor should investigate requisitions as appropriate and, in cases where an item, or similar groups of items is \$225 or more, documentation of price comparisons should be forwarded to the Purchasing Agent with the requisition.” Cayuga-Onondaga BOCES officials stated that these verbal quotes are supposed to be noted on the back of the requisition.

The audit found that Cayuga-Onondaga BOCES' policies regarding bidding are in general compliance with General Municipal Law. However, Cayuga-Onondaga BOCES needs to expand upon their written policy for purchases over \$225 but less than bid requirements. Currently, Cayuga-Onondaga BOCES' unwritten policy is that two verbal quotes are required for these purchases, but have acknowledged that this has not been done on a routine basis. The audit suggests either adopting the suggested limits and documentation requirements of the Guide or some variation thereof.

The audit found four out of five instances (80 percent) where Cayuga-Onondaga BOCES did not obtain verbal quotes in accordance with its own purchasing policy. Quotes were not obtained for the following items: books (\$4,959), coffee (\$630), ink cartridges for printers (\$462), and labor and materials for a shower room (\$8,127). As a result, Cayuga-Onondaga BOCES' purchasing policies are not in conformance with General Municipal Law for purchases that are not required to be bid.

Cayuga-Onondaga BOCES officials partially agree that the lack of a standard policy for purchases over \$225 but less than bid requirements, and requiring only verbal quotes does not adequately protect the interests of Cayuga-Onondaga BOCES and of the taxpayer. However, they do not specify whether a verbal or written quote is required for purchases over \$225, but below the bidding threshold.

Inadequate Documentation

The Guide, Subsection 8.1020, states that a claim for payment must include sufficient detail to permit a satisfactory audit by a person who is entirely unfamiliar with the transaction. "Claims submitted by an officer or employee for reimbursement of expenses should indicate the reason for the travel or expense and the authorization for incurring it."

Documentation should show the nature and timing of an expenditure by including invoices, itemized bills, itemized receipts, etc. For local meals and meals that exceed the federal maximum rate when traveling on business, the purpose of the meeting and those in attendance should be noted.

The teachers contract with Cayuga-Onondaga BOCES requires detailed documentation for conferences, conventions, and school visitations including, but not limited to:

1. Hotel receipts.
2. Itemized expenses for each meal including time, i.e., lunch, and amount.
3. A written report of the outcomes derived from attendance at the conference or convention.

During the testing of transactions, the audit noted that 10 of the 33 (30 percent) transactions reviewed did not have adequate supporting documentation. Most of the 10 transactions pertained to travel, conferences, or restaurant purchases. For one transaction, the dollar amounts were different for the quote, purchase order, and amount paid; however, there was no evidence of approvals to increase the dollar amount when the purchase order was prepared or when the invoice was paid.

The audit noted that for \$17,081 (11 percent) of the charges reviewed, documentation was not always complete, receipts were missing, or there was insufficient detail. In many cases, there was no documentation attached to indicate which employees attended conferences or training classes. Brochures and agendas providing details of events were also missing.

Cayuga-Onondaga BOCES officials agree that all appropriate supporting documentation, such as receipts, attendance, agendas, or brochures, should be obtained and have instructed employees to obtain this documentation in the future.

Transactions Not Correctly Classified and Allocation of Expense

According to the Uniform System of Accounts for Boards of Cooperative Educational Services, page 1, "...Financial statements must be presented in conformity with generally accepted accounting principles..." According to GAAP, all transactions must be valid, properly classified, properly measured, recorded in the proper accounting period, and be presented properly in the financial statements. An appropriate internal control structure ensures that GAAP is being followed.

The proper recording of transactions also allows the Department to do meaningful comparative analyses between BOCES throughout the State. The codes .440 (Contracted Professional Services), .470 (Rental of Facilities), .480 (Payments to Dormitory Authority) and .490 (School Districts and other BOCES) are special objects and must be shown separately in all reports to the State Comptroller

and the Department. The other objects (.410, .420, and .450) should be combined and reported under .400.

Education Law requires that the net cost of operating a BOCES service be allocated among participating districts. Expenditures related to more than one service should be prorated accordingly. In order to ensure that components pay only for services received, allocations should be reasonable, accurate, and adequately supported.

During sample testing of other than personal services transactions, the audit found that four (12 percent) of 33 items were not correctly classified and, of the two transactions that were allocated, one was not properly allocated. Three of the four instances of incorrect classification involved items that would be more appropriately charged to supplies and materials but were instead charged to contractual. These include such items as compact disc library materials, coffee, and brochures.

Examples of the items found that were not properly recorded in accordance with the Uniform System of Accounts or GAAP in the accounting records were shared with Cayuga-Onondaga BOCES officials. If enough transactions are not properly recorded, this can result in the financial statements not being in conformity with GAAP. In addition, when BOCES do not properly record transactions, the Department loses its ability to do meaningful analyses between BOCES.

Expenditures related to more than one service were not properly allocated. The allocation methodology was not reasonable or accurate and resulted in some budget codes to be overcharged and other budget codes to be undercharged. If Cayuga-Onondaga BOCES continues to allocate costs in a manner that is inconsistent with the nature of the underlying transactions, program budget codes may be improperly charged in the future.

Cayuga-Onondaga BOCES officials agree that they did not properly record some transactions and consequently are not in conformance with the Uniform System of Accounts or GAAP. Cayuga-Onondaga BOCES has noted the definition of codes .400 and .440 and the differentiation between them and will properly code transactions in the future.

Confirming Purchase Orders

The Guide, Volume 2, Subsection 8.3050, defines confirming purchase orders. It states, "A verbal order, subject to subsequent confirmation by a written purchase order, may be given in cases where necessity for immediate action exists. Naturally, such a deviation from "the norm" should have a very limited use. The individual placing such an order should justify the need for this action. Lack of proper planning should not be considered a valid reason for this process."

The Department's School Business Management Handbook on Purchasing suggests the purchase order system follow specific steps from requisitioning the goods or services to approval of the claim for payment.

During the review of transactions, the audit found the following:

- 1) Confirming purchase orders (i.e., purchase orders with a date that is later than the date shown on the invoice/receipt etc.) were used 6 out of 33 times, or 18 percent. One was dated 31 days after the invoice date.
- 2) Instances where purchase requisitions were dated after the date of the invoice/receipt etc. (3 out of 30 times, or 10 percent). There was one dated 28 days after the invoice.
- 3) There was one instance where the purchase requisition date was 55 days after the purchase order date.

Without properly executed purchase requisitions and purchase orders, Cayuga-Onondaga BOCES has less assurance that expenditures are properly authorized and that funds are encumbered in a timely fashion.

Cayuga-Onondaga BOCES officials agree with the stated findings.

Cancellation of Documentation After Payment

Good business practice suggests that after payment is made on an invoice/receipt etc. there be an indication on the documentation that payment has been made to prevent any duplicate payments for the same goods or services.

The audit reviewed 33 transactions and found that none of the transactions tested had any indication on the supporting documents

that they were paid and supporting documents were not perforated or stamped at the time the check was signed.

Cayuga-Onondaga BOCES officials stated they do not use a paid stamp but, as a compensating control, payment cannot be made unless there is a purchase order with the internal auditor's initials. In spite of this, the audit still believes a risk exists and that it would take minimal time and effort to stamp the documentation as "paid" to avoid accidental resubmission of the documentation for payment.

Without evidence that supporting documentation is cancelled, payment for an expense could be made more than once. Supporting documentation could potentially be resubmitted repeatedly for payment. This could especially be an issue for open purchase orders where the same purchase order number is used.

Cayuga-Onondaga BOCES agrees that supporting documentation is not cancelled, such as stamped or perforated, when payment is made. However, they do not agree that it would be beneficial to incorporate canceling supporting documentation in their Accounts Payable procedures.

Policies and Procedures Manuals Incomplete

The Guide, Volume 2, Subsection 11.0101, states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. In addition, all resources should be safeguarded against waste, loss, and misuse. A component of an effective internal control structure is written "control procedures" which are established policies and procedures. Policies and procedures define management's position and guide employees in the performance of their duties.

Although Cayuga-Onondaga BOCES' written policies and procedures are fairly comprehensive, it does not have sufficient formal written policies and procedures for the following areas: payroll, travel, cellular phone calls, vehicles, overtime, cash disbursements, credit card usage, and postage meter usage.

Without sufficient formal written policies and procedures, there is a much greater chance that the directives of the board and management will not be followed. There is also a greater chance of misunderstandings and improprieties.

Cayuga-Onondaga BOCES may look to their independent auditors, accounting literature, and other BOCES in establishing the needed policies and procedures. An example of a payroll policy or procedure that should be added would be to document how hourly or daily pay rates are calculated for salaried positions. This is not covered in any of the employee agreements. There is a procedure followed by employees but it is not documented with a written policy and/or procedure.

Cayuga-Onondaga BOCES officials do not agree that their written policies and procedures manual does not sufficiently address the following areas: payroll, travel, cellular phone calls, vehicles, overtime, cash disbursements, credit card usage, and postage meter usage. They state that these areas are covered under various BOCES' board policies and administrative regulations. They further state that these areas and others are routinely reviewed and, if needed, the policies are modified, expanded upon or eliminated.

Long Range Plan for Educational Facilities

Section 1950 (4)(c) of the Education Law cites the following:

“... Each board of cooperative educational services shall prepare long range program plans to meet the projected need for such cooperative educational services in the supervisory district for the next five years as may be specified by the commissioner, and shall submit such plans and thereafter annually revisions of such plans to the commissioner on or before the first day of December of each year, except that special education and occupational education program plans, in a form specified by the commissioner, shall be submitted every two years, no later than the date specified by the commissioner, and revised annually.”

Cayuga-Onondaga BOCES does not have a long-range program plan. Without a comprehensive long-range program plan in effect, Cayuga-Onondaga BOCES might not have the necessary information available to develop appropriate budgets for its programs that will meet the future needs of the students. In addition, without a comprehensive long-range program plan in effect, Cayuga-Onondaga BOCES is not in compliance with Education Law.

Cayuga-Onondaga BOCES officials partially agree that they do not have a comprehensive long-range program plan. Specifically, they state there are a number of mandated and discretionary program

plans that are developed by the BOCES and compiled in the office of the District Superintendent.

Investment Policy

General Municipal Law, Section 39, cites the following:

“Investment policies for local governments. 1. Each local government, which for purposes of this section shall include ...boards of cooperative educational services ... shall by resolution adopt a comprehensive investment policy which details the local government’s operative policy and instructions to officers and staff regarding the investing, monitoring and reporting of funds of the local government. The investment policy shall be annually reviewed by the local government.”

Cayuga-Onondaga BOCES does not have a written comprehensive investment policy in place that establishes items required by Section 39 of General Municipal Law. Without such items in the policy, there is a greater chance that Cayuga-Onondaga BOCES officials may not use approved investment vehicles.

Cayuga-Onondaga BOCES officials do not agree that they do not have a written investment policy in place. They point out that Board policy 4430 is in place. The audit agrees that Cayuga-Onondaga BOCES has a written investment plan; however, it only references the applicable sections of Education Law and General Municipal Law. Cayuga-Onondaga BOCES needs to include the elements of these sections of law in its own written policies and procedures.

Tracking of Fixed Assets and Periodic Physical Inspections

The Guide, Volume 1, Subsection 3.2010, states that it is important to maintain adequate fixed asset records to meet the requirements of GAAP, and as a valuable tool for controlling fixed assets and planning replacements.

The Guide, Volume 2, Subsection 2, 11.1010, also states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. In addition, all resources should be safeguarded against waste, loss, and misuse.

Adequate internal controls include maintaining accurate accounting and inventory records, and performing periodic comprehensive physical inventories of assets. Periodic physical inventories should be performed by employees independent of the custodial function.

Section 170.3(i)(2)(iii) of the Regulations states, “Procedures for the perpetual inventory of all personal property, including the periodic inventory of valuable personal property having a unit resale value of \$500 or more on at least an annual basis, and the periodic inventory of all other personal property at least once every two years.”

The audit found that:

- 1) Cayuga-Onondaga BOCES has policies in place specifying what steps are to be taken when assets are moved. However, employees routinely disregard the policies when moving assets.
- 2) Periodic inventories are performed by division directors at fiscal year end (June). However, the division directors do not have as high a degree of independence from the custodial function as someone from the business office.

Cayuga-Onondaga BOCES officials agree in part that written policies and procedures are not being followed by employees when moving assets. It notes that many employees are conforming to these policies; however, they agree that the degree of nonconformance merits alteration. Officials state that program administrators will review Cayuga-Onondaga BOCES’ policies and procedures for moving assets with their staff.

Cayuga-Onondaga BOCES officials also agree that persons not entirely independent of the custodial function are performing periodic physical inventories. They state they will continue their current procedures for periodic physical inventories and will supplement with periodic inspections performed by the business office and operations and maintenance department.

Employee Evaluations

According to BOCES Policy #3142, Performance Evaluation – Other Administrative and Supervisory Personnel, “... Each administrative and supervisory position shall have a formal job description approved by the Board of Cooperative Educational Services and reviewed by the District Superintendent on an annual basis.”

According to BOCES Policy #5305.1, Performance Evaluation, "... At the beginning of each school year, all personnel affected [**all teachers and related service personnel**] will be inserviced in the performance evaluation process and trained in the specific procedures outlined below. ... The review procedures will include a minimum of two formal classroom observations yearly on each employee using the Classroom Performance Observation Form ... A minimum of one yearly Summative Narrative Report ... will be completed on each teacher and related service personnel."

According to BOCES Policy #5305.2, Performance Evaluation, Occupational Education Performance Review, "... The Occupational Education Performance Review process will include a minimum of two formal classroom observations annually.... Classroom teachers will, within two weeks after the classroom observation, be provided with a written report of these observations utilizing the Occupational Education Classroom Observation Form. Classroom observations should occur prior to May 15th of each school year. Other Occupational Education staff will also be reviewed twice annually utilizing the Summary Narrative Form."

According to BOCES Policy #5435, Performance Evaluation, "All secretarial and support staff personnel of the Cayuga-Onondaga Board of Cooperative Education Services shall be evaluated on at least an annual basis."

The audit reviewed personnel files for 15 employees and found that:

- Six employees did not have current performance evaluations. The last performance evaluation these employees received was before the audit year.
- One employee did not have any performance evaluations in their personnel file.

As a result, Cayuga-Onondaga BOCES is not in compliance with its own procedures. Without current, updated evaluations, employees might not know if they are performing their duties in an appropriate manner and in line with management's goals and objectives.

Cayuga-Onondaga BOCES officials agree that employee evaluations are not up to date in accordance with its own policy. They have created the position of Personnel Clerk to coordinate

and systemize the personnel function and to ensure that employee performance evaluations will be updated.

Employee Leave Accruals and Attendance

According to BOCES Policy #5240 Professional Conferences, “Permission to attend appropriate professional conferences must be requested on appropriate forms and approved by the District Superintendent at least two weeks prior to attendance at the conference....”

According to BOCES Policy #5410 Vacation – Administrative Employees, “A maximum of ten (10) unused vacation days may be carried into the succeeding fiscal year. Personnel shall not have more than thirty (30) days as a cumulative total in any year.”

According to the Teachers Contract, page 8 (Agreement between the Cayuga-Onondaga Counties Board of Cooperative Educational Services and the Teachers Association of BOCES dated July 1, 1996 through June 30, 1999):

D.2. Sick Leave

The BOCES Board established a sick leave policy that grants twelve (12) days of sick leave annually of the first two (2) years of employment and ten (10) sick days annually thereafter with accumulation of such leave to a maximum of 200 days.

The audit reviewed personnel files for 15 employees and found that:

- Requests for time off or for other paid absences, such as conferences, were not always maintained in the employees’ personnel file.
- The beginning and ending vacation balances for four of the seven administrative employees in the sample exceeded 10 days.
- The beginning and ending sick leave balances for two of the four instructors in the sample exceeded 200 days.
- There was an instance where an employee left Cayuga-Onondaga BOCES employment, was paid for 5.67 vacation days, and returned to Cayuga-Onondaga BOCES employment

three weeks later. The 5.67 days were not deducted from the employee's vacation balance at year-end.

- Manual adjustments were made to the ending leave accrual balances in the computerized system that tracks employee leave accruals. The audit could not determine what the adjustments were for and could not calculate the correct ending leave balance. That is, the audit could not take ending balances from the prior year, add accruals earned, and subtract accruals used to determine ending leave accrual balances.
- In some instances, the days requested off per the personnel files exceeded the number of days actually shown as used in the leave accrual system. There were no notations in the employee files indicating that any of the days were not actually taken.

As a result, Cayuga-Onondaga BOCES is not in compliance with its own policies and is not tracking attendance and leave properly.

Cayuga-Onondaga BOCES officials partially agree that employee leave accruals are not being accurately tracked. The Payroll Clerk position has been upgraded to Personnel Clerk to provide coordination and centralization to the areas of payroll and employee benefits. Cayuga-Onondaga BOCES officials also agree that not all requests for leave and conferences are being obtained in accordance with their own policies.

Recommendations

6. Include the value of the personal use of automobiles provided to employees on Form W-2 and not on IRS Form 1099-MISC.
7. Ensure that all revenues and expenditures are included in the financial statements.
8. Improve purchasing procedures by ensuring purchase requisitions are used and purchase orders prepared and approved before purchases are made, or indicate the reason in the documentation and require written quotations for items greater than \$225 but less than bid requirements.
9. Improve supporting documentation for travel reimbursement.
10. Improve procedures to ensure that transactions are correctly classified and expenses allocated properly.

11. Improve payment documentation by some form of cancellation to indicate payment has been made.
12. Ensure that unwritten policies are incorporated into the formal Cayuga-Onondaga BOCES Policies and Procedures Manual.
13. Improve strategic planning for expansion and contraction of programs by establishing a long-range program plan.
14. Improve the investment policy by including items required by Section 39 of General Municipal Law.
15. Improve procedures for tracking fixed assets when relocated and for periodic physical inspections.
16. Ensure employee evaluations are up to date.
17. Improve procedures to track employee leave accruals and attendance.

Comments of Cayuga-Onondaga BOCES Officials

Cayuga-Onondaga BOCES officials concur with these recommendations.

Cayuga-Onondaga BOCES
Schedule of EPE Contact Hour Audit Adjustments

Reported contact hours per SA-160.1 & SA-160.2		56,454.05
Initial audit adjustment to reported contact hours (difference between reported contact hours and BOCES worksheets with revised EPE contact hours)		(33,564.32)
<u>Adjustments to BOCES worksheets with revised EPE contact hours:</u>		
<u>Results of student sample:</u>		
Per audit	8,523.29	
Per BOCES worksheet with revised EPE contact hours	<u>9,830.03</u>	
Audit adjustment to contact hours for sample	(1,306.74)	
Additional audit adjustment to audit sample for those students where reported Work Experience hours consisted of less than 30% of classroom instruction hours.	<u>(496.54)</u>	
<u>Total adjustments to student sample</u>		(1,803.28)
Audit adjustment for Work Experience hours that were not prorated for 1/98-6/98 for students not in sample		<u>(93.00)</u>
<u>Total adjustments to BOCES worksheets with revised EPE contact hours</u>		<u>(1,896.28)</u> (35,460.60)
Audited contact hours		<u>20,993.45</u>
Total EPE aid paid		\$354,227.00
Audited EPE contact hours	20,993.45	
EPE rate	<u>\$4.61</u>	
Audited EPE aid		<u>96,779.80</u>
EPE Aid to be refunded		<u>\$257,447.20</u>
Amount due to state aid error		\$93,975.00
Amount based on audit adjustments		\$163,472.20

Cayuga-Onondaga BOCES
Contributors to the Report

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**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, New York State Education Department, Room 128 EB, Albany, New York 12234 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.