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# Audit Report

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Delaware-Chenango-Madison-Otsego  
Board of Cooperative Educational Services

For the Period

July 1, 1997 through June 30, 1998

BOC-0499-9

January 11, 2001

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





THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

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January 11, 2001

Mr. Timothy Thomas  
Board President  
Delaware-Chenango-Madison-Otsego BOCES  
6678 County Road 32  
Norwich, New York 13815

Dear Mr. Pole:

The following is our final audit report (BOC-0499-9) on the Delaware-Chenango-Madison-Otsego 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, J. Stevens, C. Szuberla, C. Foster (DOB), H. Hoffman (OSC), A. Pole, District Superintendent of Schools

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# Executive Summary

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Delaware-Chenango-Madison-Otsego (DCMO) BOCES ranked 30<sup>th</sup> of the 38 BOCES in the State, in terms of total general fund expenditures, for the 1997-98 school year (\$18.2 million). The pie chart illustrates general fund expenditures by program for the 1997-98 school year.

## Background and Scope of the Audit

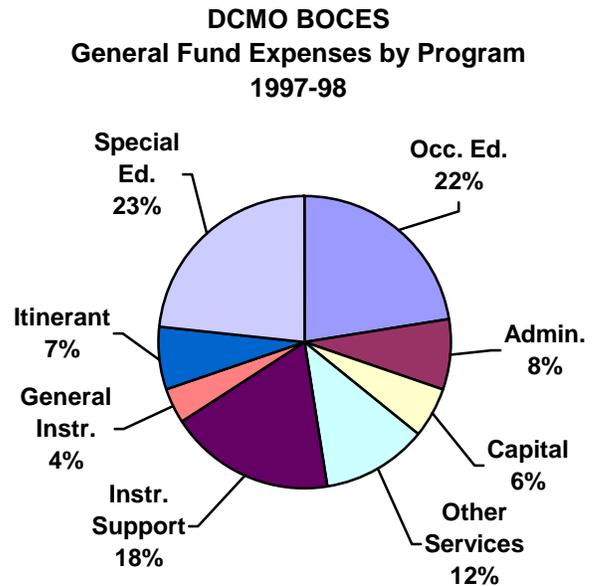
The audit examined financial management practices, records and documentation related to selected areas of DCMO BOCES operations for the period July 1, 1997 through June 30, 1998. These areas included Administration, Occupational and Continuing Education, Special Education, Alternative Education, Operations and Maintenance, and other select CO-SERs. This was a financial related audit and the objectives

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

## Audit Results

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

- DCMO BOCES did not properly account for certain special aid fund program costs (page 6).
- Improvement opportunities exist for equipment inventory, and additional policies and procedures (pages 7-9).



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# Table of Contents

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<b>INTRODUCTION .....</b>	<b>1</b>
BACKGROUND .....	1
OBJECTIVES, SCOPE AND METHODOLOGY .....	2
COMMENTS OF DCMO BOCES OFFICIALS .....	3
<b>EMPLOYMENT PREPARATION EDUCATION PROGRAM .....</b>	<b>4</b>
RECOMMENDATION .....	4
COMMENTS OF DCMO BOCES OFFICIALS .....	4
<b>OPPORTUNITIES TO IMPROVE MANAGEMENT PROCESSES .....</b>	<b>5</b>
INVENTORY OF ASSETS .....	5
ADDITIONAL POLICIES SHOULD BE DEVELOPED AND IMPLEMENTED .....	6
RECOMMENDATIONS .....	7
COMMENTS OF DCMO BOCES OFFICIALS .....	7
AUDITOR'S NOTE .....	7

Appendix A - Contributors to the Report

Appendix B – Comments of Delaware-Chenango-Madison-Otsego BOCES Officials

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# Introduction

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## Background

Boards of Cooperative Educational Services (BOCES) are voluntary, cooperative associations of school districts that have joined to provide educational programs or services more economically than each could offer by itself and are authorized by Section 1950 of the Education Law.

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

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

Districts that belong to a BOCES are called component districts and are required to collectively pay the BOCES' administrative costs. Only districts that actually use the programs offered by a BOCES, called participating districts, are required to pay for the programs' 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. The State pays aid for school districts based on eligible BOCES expenditures and the school districts' wealth.

Delaware-Chenango-Madison-Otsego (DCMO) BOCES, headquartered in Norwich, New York, serves 16 component districts. During the 1997-98 school year, DCMO BOCES was ranked 30<sup>th</sup> of the 38 BOCES in terms of general fund expenditures with over \$18.2 million in general fund expenditures.

DCMO BOCES' services include occupational and continuing education, special education, alternative education, adult education, instructional support and other services.

## Objectives, Scope and Methodology

Section 305 of the Education Law requires the Department to perform fiscal audits of BOCES at least once every three years. Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to select operations of DCMO 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 are accurate and reasonable;
- determine if services (CO-SERs) comply with Department approved specifications and provide measurable cost savings to school districts;
- verify that only reasonable and necessary costs are incurred; and
- verify that the budgetary process provides control over the expenditure of funds.

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

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

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 DCMO BOCES Officials**

DCMO BOCES officials generally agreed with the findings and recommendations contained in this report. However, they do not believe they need to establish maximum reimbursement guidelines for employees traveling on DCMO BOCES business. Their written response is included as Appendix B to this report.

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# Employment Preparation Education Program

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According to the "Uniform System of Accounts for BOCES" from the Office of the State Comptroller, BOCES are to create subsidiary revenue and expense accounts for each special aid fund project. This would include the Employment Preparation Education according to the Program (EPE) funds received from New York State.

DCMO BOCES did not separately account for the revenues and expenses of the EPE Program in separate subsidiary ledger accounts in the special aid fund. DCMO BOCES recorded EPE expenses and revenues in the educational programs that provided the services, such as the Occupational Education CO-SER.

## **Recommendation**

1. Account for the EPE Program revenues and expenses separately, as required by the Office of the State Comptroller.

## **Comments of DCMO BOCES Officials**

DCMO BOCES officials agreed with this recommendation.

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# Opportunities to Improve Management Processes

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BOCES management is responsible for establishing and maintaining effective systems of internal controls and ensuring compliance with laws, regulations, and policies. The audit reviewed areas that are significant to the audit objectives and determined that DCMO BOCES implemented many of the necessary controls and complied in all material respects with applicable laws, regulations and guidelines. However, the audit identified opportunities for certain improvements as described below.

## **Inventory of Assets**

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

Adequate internal controls include maintaining accurate accounting and inventory records and performing periodic comprehensive physical inventories of assets. DCMO BOCES needs to improve the control over assets located at DCMO BOCES locations and assets that are located in school districts.

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

A sample of 48 computers was selected from the inventory list for verification at a school district location. Ten of the computers could not be located (21 percent). The audit also noted an additional 20 computers in a location that was not included on DCMO BOCES' inventory list. Of the 58 computers found at the school district, only half were tagged as DCMO BOCES-owned equipment.

The audit also selected one DCMO BOCES location and attempted to locate 53 computers. The audit could not locate 29 of these items (55 percent).

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

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

## **Additional Policies Should be Developed and Implemented**

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

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

- Define maximum reimbursement guidelines for employees traveling on DCMO BOCES business;
- Describe the method employees should follow to document and claim reimbursement for business expenses;
- Describe the payment procedures for employees that utilize the DCMO BOCES credit card.

DCMO BOCES should review its existing policies and procedures and develop or update those for employee travel, business expenses and DCMO credit card use.

## **Recommendations**

2. Improve the system to track the location of assets.
3. Implementing the policies and procedures including maximum reimbursement for travel expenses, required documentation of travel expenses, and procedures for the use of the DCMO BOCES credit card.

## **Comments of DCMO BOCES Officials**

DCMO BOCES officials agreed with most of these recommendations. However, they do not believe they need to establish maximum reimbursement guidelines for employees traveling on official business.

## **Auditor's Note**

It is not uncommon to establish maximum travel reimbursement rates. All State and Federal employees operate under such restrictions. We understand that there may be exceptions and believe that BOCES should establish a methodology for approving such exceptions. Certainly we are not suggesting that BOCES staff incur personal expenses for the necessary and reasonable costs of travel while on official business.

Contributors to the Report  
Delaware-Chenango-Madison-Otsego BOCES

- James Conway - Audit Manager
- Daniel McCarthy - Auditor-in-Charge
- Ronald Talarico - Senior Auditor

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

**Requests for Audit Review**

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

An organization requesting an audit review must make a written application to the Associate Commissioner for Planning and Policy Development, 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.