
Audit Report

Eastern New York Regional
School Support Center

For the Periods
July 1, 2004 through June 30, 2007

BOC-0607-1

April 14, 2009

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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April 14, 2009

Mr. Robert Gibson
Board President
Rensselaer-Columbia-Greene BOCES
10 Empire State Boulevard
Castleton, NY 12033

Dear Mr. Gibson:

The following is our final audit report (BOC-0607-1) of the Eastern New York Regional School Support Center (Eastern RSSC) for the periods July 1, 2004 through June 30, 2007. The audit was conducted pursuant to Education Law Section 305 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, Eastern RSSC officials will be asked to submit a report on actions taken as a result of this audit. This required report will be in the format of a recommendation implementation plan and it must specifically address what actions have been taken on each audit recommendation.

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

Sincerely,

James A. Conway

Enclosure

c: Commissioner Mills, T. Savo, B. Porter, C. Szuberla, D. Cunningham, R. Kesper, D. Bryant, A. Timoney (DOB), B. Mason (OSC), J. Baldwin

Executive Summary

Background

The New York State Education Department (Department) solicited Request for Proposals and subsequently entered into contracts with six Boards of Cooperative Education Services (BOCES) and the United Federation of Teachers Educational Foundation, Inc. to operate Regional School Support Centers (RSSCs). RSSCs assist schools in their efforts to improve student achievement and decrease gaps that exist between current performance and the State standard. They receive funding from the Department to provide programs and services to districts and schools identified as needing improvement in English Language Arts and/or mathematics, or for low performance in special education.

Funding for RSSCs is provided by these federal programs: No Child Left Behind (NCLB) Title II A - Improving Teacher Quality, NCLB Title I Part B - Reading First, NCLB Title I Part F - Comprehensive School Reform, and the Individuals with Disabilities Education Act (IDEA) Sections 611 and 619. Funding from Title I Part F Comprehensive School Reform was not used in the 2006-07 school year. The RSSCs submit a separate budget for each of the funding sources for approval by the Department.

The Eastern New York Regional School Support Center (Eastern RSSC) was established in the Rensselaer-Columbia-Greene BOCES also known as Questar III, located in Castleton, New York. The Eastern RSSC assists various schools in seventeen counties in the northeastern part of New York State.

The Eastern RSSC program budgets for the 2004-05, 2005-06, and 2006-07 school years averaged about \$1.5 million annually. The number of schools served increased from 12 in 2004-05 to 27 and 26, respectively for the 2005-06 and 2006-07 school years.

Scope of the Audit

We examined financial management practices, records, and documentation related to the Eastern RSSC programs for the periods July 1, 2004 through June 30, 2007. This was a performance audit and our objectives were to: review the adequacy and reliability of the internal control structure; ensure that expenditures claimed were actually incurred and allowable; and determine if the Eastern RSSC and Questar III were in compliance with guidelines associated with the administration of the approved contract and budgets.

Audit Results

We determined that the Eastern RSSC had many of the necessary controls in place; however, improvement opportunities exist in certain areas. A summary of findings follows:

- Eastern RSSC was, in some instances, reimbursed for claims based on unreconciled budgeted expenditures and encumbrances and not actually incurred costs. As a result Eastern RSSC was over reimbursed by \$116,000. (page 4)
- Reimbursement for indirect costs was claimed using an incorrect rate in one quarter, which was applied against a direct cost base that included ineligible costs. As a result the Eastern RSSC was under reimbursed by \$939. (page 6)
- Adequate documentation was not maintained to support personal service time and efforts in and among the various programs. (page 9)
- In some cases consultants were not paid in accordance with their contracts. Consultant contracts should specify exactly what expenditures will be reimbursed and should be amended as needed. (page 10)
- Documentation was not always maintained to support the reason maximum lodging rates were exceeded and methods used to allocate employee-incurred travel expenditures. Travel expenditures should be recovered for amounts paid to employees when documentation does not support payment. (page 11)
- Eastern RSSC was not in compliance with all provisions of the Contract such as not: acknowledging support from New York State where appropriate, having a consultant contract clause indicating copyrightable work belongs to the Department, having subcontractors attend staff meetings, and having inventory records that are accurate. (page 13)

Comments of BOCES Officials

Questar III BOCES and Eastern RSSC officials' comments on the findings were considered in preparing this report. Their response is included as Appendix C.

Table of Contents

INTRODUCTION	1
BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	1
COMMENTS FROM BOCES OFFICIALS	2
INTERNAL CONTROLS.....	3
CONTRACT PAYMENTS.....	4
UNSUPPORTED PAYMENTS.....	4
INDIRECT COSTS	6
<i>Indirect Rates</i>	6
<i>Direct Cost Base</i>	7
RECOMMENDATIONS	8
CONTRACT EXPENDITURES	9
PERSONAL SERVICE	9
<i>Time Allocation Methodologies</i>	9
OTHER THAN PERSONAL SERVICE.....	10
<i>Consultant Contracts</i>	10
<i>Travel and Per Diem Expenditures</i>	11
<i>Allocation of Expenses</i>	11
RECOMMENDATIONS	12
CONTRACT COMPLIANCE.....	13
<i>Acknowledgement of Support</i>	13
<i>Copyrightable Property</i>	13
<i>Subcontractor Terms</i>	14
<i>Inventory</i>	14
RECOMMENDATIONS	14

Appendix A – Indirect Cost Recalculation

Appendix B – Contributors to the Report

Appendix C – Response of Questar III BOCES and Eastern RSSC Officials

Appendix D – Auditor’s Comments

Introduction

Background

The New York State Education Department (Department) solicited Request for Proposals and subsequently entered into contracts with six Boards of Cooperative Education Services (BOCES) and the United Federation of Teachers Educational Foundation, Inc. to operate Regional School Support Centers (RSSCs). RSSCs were designed to assist schools in efforts to improve student achievement and decrease the gap that exists between current performance and the State standard. They receive funding from the Department to provide programs and services to districts and schools identified as needing improvement in English Language Arts and/or mathematics, or for low performance in special education.

Funding for RSSCs is provided by these federal grant programs: No Child Left Behind (NCLB) Title II A - Improving Teacher Quality, NCLB Title I Part B - Reading First, NCLB Title I Part F - Comprehensive School Reform and Individuals with Disabilities Education Act (IDEA) Sections 611 and 619. NCLB Title I Part F - Comprehensive School Reform funds were not used in the 2006-07 school year. The RSSCs must submit a separate budget for each of the funding sources which are approved by the Department.

In 2003 the Rensselaer-Columbia-Greene BOCES (Questar III) entered into a contract (Contract) with the Department to operate the Eastern New York Regional School Support Center (Eastern RSSC). The Eastern RSSC provided programs and services to various schools in seventeen counties in the northeastern part of New York State.

The Eastern RSSC program budgets for the 2004-05, 2005-06 and 2006-07 school years averaged about \$1.5 million annually. The number of schools served increased from 12 in 2004-05 to 27 and 26, respectively for the 2005-06 and 2006-07 school years.

Objectives, Scope, and Methodology

The Department's Office of Audit Services audited financial management practices, records, and documentation related to Eastern RSSC programs for the periods July 1, 2004 through

June 30, 2007. This was a performance audit and our objectives were to:

- review the adequacy and reliability of the Eastern RSSC internal control structure;
- ensure that expenditures claimed were actually incurred and allowable; and
- determine if Eastern RSSC complied with guidelines associated with the administration of the Contract and budgets.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed Questar III, Eastern RSSC and Department management and staff; examined records and supporting documentation; and sampled transactions.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other audit procedures we considered necessary. 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 from BOCES Officials

Questar III and Eastern RSSC officials' comments on the findings were considered in preparing this report. Their response is included as Appendix C.

Internal Controls

Programs receiving taxpayer funds are required to have an adequate financial management system in place to receive and expend these funds. One element of an adequate financial management system is internal controls.

The board and management are responsible for establishing, maintaining and monitoring effective systems of internal controls. Internal controls are the policies, procedures, and practices designed and implemented to provide the board and management with reasonable assurance that resources are safeguarded against waste, loss, and misuse; operations are efficient and effective; specific management objectives are achieved; financial reports are reliable; and the entity complies with the provisions of their contract and budget.

One audit objective was to test the adequacy and reliability of internal controls as they relate to the administration of the contract funds received by Eastern RSSC. We found that Eastern RSSC, through Questar III, has many of the necessary controls in place relating to purchasing, accounts payable and cash disbursements, payroll and personnel, and travel and conference expenditures. However, as noted later in this report, internal controls can be improved in the preparation of claims for contract funds, payment of consultant expenditures, payment of expense reimbursements exceeding travel rates and per diems, and by retaining documentation for expense allocations.

Contract Payments

State finance law requires the State to enter into formal contracts with service providers whose award exceeds \$50,000. Contracts, such as vendor procurement contracts with RSSCs, follow an established procurement process. The process requires RSSCs to submit a budget for approval by the Department's program office. Each budget is considered an amendment to the Contract.

The Contract states that payments shall be made in accordance with the Payment and Reporting Schedule (Appendix C). Appendix C states, "Final payment shall be made to the Contractor upon satisfactory proof of expenditures and upon receipt of a final report in a form and having a content satisfactory to the Commissioner of Education (Commissioner). If the Contractor has not earned such amount, the Contractor will return to the State any excess payment within thirty (30) days of the termination of this agreement."

Questar III was over reimbursed by failing to reconcile advanced payments, including encumbrances outstanding and unencumbered balances in its claim, and by inaccurately calculating allowable indirect costs.

Unsupported Payments

The Contract allows Questar III to submit four standard vouchers for reimbursement of approved costs incurred by the Eastern RSSC in operating its programs. The first voucher is used to provide an advance payment of 25 percent of the total approved Eastern RSSC budget. The remaining three vouchers are available for submission to receive reimbursement of actual approved costs incurred in operating the Eastern RSSC programs.

In each of the years audited, Questar III did submit the four vouchers for payment. However, we found that Contract payments to Questar III exceeded the actual approved costs incurred in two of the years. The total amount of the overpayments for the two year period was \$116,000. We determined the overpayment by comparing actual costs incurred, as identified on the Eastern RSSC budget status report, with the amounts reimbursed through the voucher process.

There were two reasons for the overpayments. The first was that Questar III did not perform a reconciliation of amounts received through the vouchers with the costs incurred. This is an important step because of the advance payment. The advance payment is made regardless of the amount of any costs incurred at that time. At year end, the advance payment must be accounted for and reconciliation should be made comparing total costs incurred with total payments received. Questar III did not perform such reconciliation. As a result Questar III was overpaid by \$110,726 for the 2005-06 school year.

The second reason for the overpayment was Questar III claimed non-expenditure items from its budget status report to the voucher supporting documentation which was ultimately included in the standard voucher requests. Specifically, for the 2005-06 and 2006-07 school years, Questar III included outstanding encumbrances as part of the voucher amount. An encumbrance is made when there is a commitment to purchase goods or services; it is not an actual expenditure. For this two year period, \$4,282 in outstanding encumbrances were inappropriately included in the standard voucher and paid by the Department. In addition, during the 2006-07 school year, Questar III included unencumbered balances in the amount of the claim for reimbursement. An unencumbered balance is simply an amount that was budgeted for but not spent. It is not an actual incurred expense. The amount of unencumbered balance included in the claim was \$992.

Table I shows the total amount of the overpayments, identifies the funding sources that were impacted, and the school year. The \$116,000 should be returned to the Department.

Table I
Amount and Reason for Audit Disallowance
2005-06 and 2006-07 School Years

Funding Source	Amount Received	Amount Allowed By Audit	Reason for and Amount of Disallowance			
			Failure to Reconcile Advance Payment	Claim Included Encumbrances Outstanding	Claim Included Unencumbered Balances	Total Claim Disallowed
2005-06						
Comprehensive School Reform	\$14,960	\$14,795		\$165		\$165
Reading First (RF) - Technical Assistance	259,065	258,130		935		935
Improving Teacher Quality	212,906	203,742	\$8,231	933		9,164
IDEA	304,757	295,055	8,768	934		9,702
RF Professional Development	931,232	836,404	93,727	1,101		94,828
2006-07						
RF Professional Development	\$1,043,746	\$1,042,540		214	\$992	\$1,206
Grand Total	\$2,766,666	\$2,650,666	\$110,726	\$4,282	\$992	\$116,000

Source: OAS analysis of Questar III documents, various workpapers.

Indirect Costs

The Contract allows Questar III to receive reimbursement for indirect costs associated with the operation of Eastern RSSC. Indirect Costs are broadly defined as central administrative costs and certain other organization wide costs that are incurred in connection with a project, but that cannot be readily identified with the project. The total indirect costs generated for a project are calculated by applying an approved indirect cost rate to the allowable direct cost base.

Indirect Rates

Each year Eastern RSSC developed and submitted a budget to the Department for approval for the upcoming school year. Those budgets included an approved indirect cost rate. Eastern RSSC did not use the correct indirect rate for the fourth quarter of the 2005-06 school year. As shown in Table II below, the approved indirect rate was 3.3 percent; however, for the fourth

quarter of 2005-06 year the Eastern RSSC used 2.9 percent. The Eastern RSSC under-claimed a small amount of indirect costs by using an incorrect rate for the fourth quarter for 2005-06. The effect of this error is noted below in the Direct Cost Base section and Appendix A.

Table II
Comparison of Department Approved Indirect Rates with Rates Used

School Year	Rate Used	Department Approved Budget Rate
2004-05	3.4%	3.4%
2005-06 (1 st 3 Quarters)	3.3%	3.3%
2005-06 (4 th Quarter)	2.9%	3.3%
2006-07	2.7%	2.7%

Source: OAS analysis of Questar III documents, various workpapers.

Direct Cost Base

Indirect costs are calculated by applying the indirect rates in each of the annual budgets submitted and approved by the Department to the allowable direct cost base. The direct cost base is calculated by determining total Other than Personal Service (OTPS) costs and deducting equipment and BOCES purchased services in accordance with the approved budgets. According to Department officials, BOCES purchased services include services purchased from any BOCES.

The Eastern RSSC incorrectly calculated the direct cost base because they did not reduce these OTPS expenditures by all BOCES purchased services. We calculated the direct cost base by subtracting these costs. As a result of the modification to the 2005-06 fourth quarter indirect rate and the recalculated direct cost base, we determined Eastern RSSC was under reimbursed by \$939 for indirect costs, as shown in Table III. (See Appendix A for additional details).

Table III
Impact of Using Incorrect Indirect Cost Rate and Base
2004-05, 2005-06, 2006-07

	BOCES Calculation	Audit Calculation	Over-Claimed
2004-05	\$44,285	\$44,012	\$273
2005-06	49,304	50,616	(1,312)
2006-07	46,040	45,940	100
Total Indirect Costs Over/(Under)-Claimed			\$(939)

Source: OAS analysis of Questar III documents, various workpapers

Recommendations

1. Submit final vouchers that represent the difference of actual expenditures incurred against payments already received.
2. Return \$110,726 in over-paid amounts that resulted from not reconciling actual expenditures to payments already received.¹
3. Ensure that encumbrances outstanding and unencumbered balances are not claimed as part of actual expenditures.
4. Return \$5,274 in encumbrances outstanding and unencumbered balances that were claimed for the 2005-06 and 2006-07 school years.¹
5. Use the indirect cost rates that are approved in each annual budget.
6. Correctly calculate the direct cost base by reducing expenditures by all applicable BOCES purchased services.

¹ The audit identified \$939 in indirect costs (See Table III) for which the BOCES was not reimbursed. This amount should be offset against the disallowances identified in recommendations 2 and 4. The net effect is the Eastern RSSC should return \$115,061 in over payments.

Contract Expenditures

The Contract states final payment shall be made to the Eastern RSSC upon satisfactory proof of expenditures and upon the receipt of a final report in a form and content satisfactory to the Commissioner. We found that improvements could be made in the areas of documenting both personal service efforts and other than personal services expenditures.

Personal Service

Eastern RSSC funding comes from the following sources: Title II A - Improving Teacher Quality, Title I Part B - Reading First, Title I Part F - Comprehensive School Reform and IDEA Sections 611 and 619. These funds are used to pay the personal service costs of the employees carrying out the programs of the RSSC. The costs include salaries and fringe benefits. Costs may be allowable provided that they are necessary and reasonable to the success of the program.

Eastern RSSC annually develops, and the Department approves a separate budget for each of the funding streams. These separate budgets contain specific allocations of personal service costs. Similarly when Eastern RSSC submits a final expenditure report it contains specific personal service costs associated with the separate funding streams. Some employees may spend all of their time conducting program activities. In these cases, the employees may be paid 100 percent from that program. Other employees may spend only part of their time conducting RSSC activities, in which case these employees may be paid partially from these funds, according to the time actually spent on program activities.

Time Allocation Methodologies

Numerous employees carry out the activities of Eastern RSSC. Employees are paid on a Full Time Equivalent (FTE) basis. Employees who work on a less than full-time basis in any one funding stream have a fractional FTE allocated to that source of funding.

Many Eastern RSSC employee FTEs are allocated between programs. However, we found that Questar III and the Eastern RSSC lacked the documentation to support the methodology used to allocate employee FTEs between funding streams. One

way to document the methodology of employee FTEs is for employees and their supervisors to certify employee time and effort.

Other Than Personal Service

Eastern RSSC purchases thousands of dollars worth of products and services each year. Adequate controls should exist to ensure purchases are made in compliance with established laws, rules, regulations and the terms of the contract that result in securing goods and services in the right quantity, at the right time, and for the right price. The Eastern RSSC, through Questar III, has many of the necessary controls related to purchasing, accounts payable, and cash disbursements; payroll and personnel; and travel and conference expenditures. However, the Eastern RSSC could improve controls related to payment of consultant contract expenditures, payment of travel rates and per diems, and by retaining documentation for the method of allocating expenses among various programs.

Consultant Contracts

The Contract between Questar III and the Department specifies that contracts will be maintained for services rendered by consultants or other organizations or individuals who are not regular employees of Questar III. We found that consultants were not always paid according to their contracts.

Appendix B of the consultant agreement, the Consultant's Schedule of Fees and Charges, for one consultant specified that they be paid \$750 for services rendered in the scope of the work. There was no other provision for compensation or reimbursement of expenditures. However, the consultant was reimbursed for mileage, hotel, taxi, parking, two books used in a presentation, train fare, and was paid a per diem as if they were an employee. The consultant was reimbursed a total of \$946 for these types of expenditures. Consultants should be paid in accordance with their contracts.

In another example, Appendix B of the contract specified that the consultant be reimbursed for "agreed upon expenditures"; however, the agreed upon expenditures were never specified. The consultant was reimbursed \$497 for airfare, car rental, fuel, tolls, and was also paid a per diem for two days. Contracts

with consultants should specify exactly all compensation and reimbursements.

The contract for a third consultant specified payment for services for fourteen days. The purchase order was originally created for fourteen days. It was subsequently determined that the consultant would be needed for fifteen days and the purchase order was amended. However, the contract was not amended. Contracts should be amended when situations change during the course of events.

Travel and Per Diem Expenditures

Documentation must exist to support the appropriateness of travel, and conference costs. Such documentation should include approvals, justifications when hotel expenditures exceed government approved rates, and receipts to support expenditures.

The Contract between Questar III and the Department specified that expenditures for travel, lodging, and subsistence be reimbursed at the per diem rates in effect for New York State Management/Confidential employees. Our review of OTPS expenditures found that Eastern RSSC paid \$85 for a hotel for an employee when appropriate county rate in effect at the time was \$60. The reason that the per diem was exceeded was not documented.

On another occasion, the traveler claimed and was paid five per diems at \$59 each. However, the staff travel sheet used to claim mileage indicated that the traveler should only have claimed three per diems. No hotel receipt was retained as part of the travel reimbursement documentation. Documentation should be maintained to support travel per diems and when per diem rates are exceeded.

Allocation of Expenses

Eastern RSSC paid Questar III \$10,000 for a data reporting system. This expense was allocated among various federal programs. However, the methodology used for the allocation was not documented. Documentation should also be maintained to support expense allocations.

Recommendations

7. Maintain adequate documentation to support the methodology used to allocate employee FTEs between programs.
8. Pay consultants in accordance with their contracts.
9. Ensure consultant contracts specify exactly what expenditures will be reimbursed.
10. Ensure that contract terms are amended to coincide with changes in the services provided by consultants.
11. Maintain documentation to justify when established per diem rates are exceeded.
12. Ensure claims have adequate documentation to support all employee-incurred travel expenditures.
13. Maintain adequate documentation to support the methods used to allocate expenditures.

Contract Compliance

State Finance Law, Section 112, requires the State to enter into formal contracts with service providers whose total award exceeds \$50,000. These contracts dictate terms, conditions, and specifications governing the award and operation. Questar III entered into a formal contract with the Department to provide services to schools through the Eastern RSSC.

The Contract specifies that material produced and used acknowledge support from New York State, written agreements with subcontractors state that work produced remains the property of the Department, subcontractors attend staff meetings, and a complete inventory will be maintained of all equipment and non-expendable assets. We found that in some instances Eastern RSSC is not in compliance with these provisions.

Acknowledgement of Support

Appendix A-1 (B) of the Contract states, “All reports of research, studies, publications, workshops, announcements, and other activities funded as a result of this proposal will acknowledge the support provided by the State of New York.” We found not all materials produced as a result of this proposal acknowledge support from New York State. All materials used by Eastern RSSC should acknowledge support from New York State.

Copyrightable Property

The Contract also states that if the contractor decides to use consultants, a written agreement will be executed that provides that any copyrightable work produced shall be the sole and exclusive property of the New York State Education Department.

We reviewed several consultant agreements. Many of these agreements state, “...Work pursuant to this agreement shall be work for hire and shall be property of Questar III.” The Eastern RSSC agreements with their consultants should conform to the Contract between Questar III and the Department.

Subcontractor Terms

According to Appendix D of the Program Work Plan of the Contract between Questar III and the Department, subcontractors must attend staff meetings.

During our site review, we found that subcontractors did not attend staff meetings. Subcontractors should attend staff meetings in compliance with the Contract between Questar III and the Department.

Inventory

According to Appendix A-1 of the Contract, under Property, “The contractor shall maintain a complete inventory of all realty, equipment and other non-expendable assets.”

We conducted a physical inventory of all of the items at the Eastern RSSC office at 10 Empire State Boulevard. Of the 76 items tested, five were not located. Questar III officials reported that one item was known to be missing. We were told that this was not reported to the authorities. The Eastern RSSC should maintain inventory records that are accurate and report items that are missing to the proper authorities when applicable.

Recommendations

14. Ensure that all materials produced (i.e. reports of research, studies, publications, and announcements) by Eastern RSSC acknowledge support from New York State.
15. Conform to the Contract with the Department by ensuring that contracts with subcontractors and consultants contain a provision that “any copyrightable work produced shall be the sole and exclusive property of the Department.”
16. Ensure that subcontractors attend staff meetings as specified in the Contract.
17. Maintain inventory records that are accurate.
18. Report items that are found to be missing to the proper authorities in a timely manner when applicable.

Indirect Cost Recalculation
Eastern New York
Regional School Support Center

CSR	2004-05		2005-06		2006-07	
	Eastern RSSC Calculation	Audit Calculation	Eastern RSSC Calculation	Audit Calculation	Eastern RSSC Calculation	Audit Calculation
Expenditures	\$13,273	\$13,273	\$14,491	\$14,491	N/A	N/A
Encumbrances Claimed Reduction	\$0	\$0	\$0	\$165		
Direct Cost Base Reduction	\$0	\$0	\$238	\$390		
Direct Cost Base	\$13,273	\$13,273	\$14,253	\$13,936		
Indirect Rate	.034	.034	.033	.033		
Indirect Cost	\$451	\$451	\$470	\$460		
Indirect Cost Over/ (Under)-Claimed		\$0		\$10		

Title II A	2004-05		2005-06		2006-07	
	Eastern RSSC Calculation	Audit Calculation	Eastern RSSC Calculation	Audit Calculation	Eastern RSSC Calculation	Audit Calculation
Expenditures	\$192,994	\$192,994	\$198,231	\$198,231	\$208,988	\$208,988
Encumbrances Claimed Reduction	\$0	\$0	\$0	\$933	\$0	\$0
Direct Cost Base Reduction	\$0	\$351	\$2,912	\$3,894	\$2,605	\$3,501
Direct Cost Base	\$192,994	\$192,643	\$195,319	\$193,404	\$206,383	\$205,487
Indirect Rate	.034	.034	.033	.033	.027	.027
Indirect Cost	\$6,562	\$6,550	\$6,446	\$6,382	\$5,572	\$5,548
Indirect Cost Over/ (Under)-Claimed		\$12		\$64		\$24

	2004-05		2005-06		2006-07	
Reading First Technical Assistance	Eastern RSSC Calculation	Audit Calculation	Eastern RSSC Calculation	Audit Calculation	Eastern RSSC Calculation	Audit Calculation
Expenditures	\$214,839	\$214,839	\$251,397	\$251,397	\$237,514	\$237,514
Encumbrances Claimed Reduction	\$0	\$0	\$0	\$935	\$0	\$0
Direct Cost Base Reduction	\$0	\$2,289	\$3,744	\$4,510	\$3,175	\$3,554
Direct Cost Base	\$214,839	\$212,550	\$247,653	\$245,952	\$234,339	\$233,960
Indirect Rate	.034	.034	.033/ .029	.033	.027	.027
Indirect Cost	\$7,305	\$7,227	\$7,667	\$8,116	\$6,327	\$6,317
Indirect Cost Over/ (Under)-Claimed		\$78		\$(449)		\$10

	2004-05		2005-06		2006-07	
Reading First Prof. Development	Eastern RSSC Calculation	Audit Calculation	Eastern RSSC Calculation	Audit Calculation	Eastern RSSC Calculation	Audit Calculation
Expenditures	\$608,744	\$608,744	\$812,107	\$812,107	\$1,016,594	\$1,016,594
Encumbrances Claimed Reduction	\$0	\$0	\$0	\$1,101	\$0	\$1,213
Direct Cost Base Reduction	\$3,585	\$6,748	\$9,004	\$11,266	\$10,709	\$11,302
Direct Cost Base	\$605,159	\$601,996	\$803,103	\$799,740	\$1,005,885	\$1,004,079
Indirect Rate	.034	.034	.033 .029	.033	.027	.027
Indirect Cost	\$20,575	\$20,468	\$25,398	\$26,391	\$27,159	\$27,110
Indirect Cost Over/ (Under)-Claimed		\$107		\$(993)		\$49

	2004-05		2005-06		2006-07	
IDEA	Eastern RSSC Calculation	Audit Calculation	Eastern RSSC Calculation	Audit Calculation	Eastern RSSC Calculation	Audit Calculation
Expenditures	\$276,230	\$276,230	\$286,665	\$286,665	\$229,496	\$229,496
Encumbrances Claimed Reduction	\$0	\$0	\$0	\$934	\$0	\$0
Direct Cost Base Reduction	\$0	\$2,238	\$4,160	\$4,904	\$3,385	\$4,002
Direct Cost Base	\$276,230	\$273,992	\$282,505	\$280,827	\$226,111	\$225,495
Indirect Rate	.034	.034	.033	.033	.027	.027
Indirect Cost	\$9,392	\$9,316	\$9,323	\$9,267	\$6,105	\$6,088
Indirect Cost Over/ (Under)-Claimed		\$76		\$56		\$17

	2006-07	
IDEA Math	Eastern RSSC Calculation	Audit Calculation
Expenditures	\$32,469	\$32,469
Encumbrances Claimed Reduction	\$0	\$0
Direct Cost Base Reduction	\$0	\$0
Direct Cost Base	\$32,469	\$32,469
Indirect Rate	.027	.027
Indirect Cost	\$877	\$877
Indirect Cost Over/ (Under)-Claimed		\$0

Contributors to the Report
Eastern New York
Regional School Support Center

- Calvin Spring, Audit Manager
 - T. Stewart Hubbard III, Auditor-in-Charge, Associate Auditor
 - James Schelker, Senior Auditor
 - Kevin Gauthier, Auditor Trainee II
 - Edward Lenart, Auditor Trainee II
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James N. Baldwin
District Superintendent

February 25, 2009

Robert H. Gibson
President

Donald Kline
Vice President

Edmund Brooks
Joseph Garland
John Hill

James Keegan
Edna Knabbe
Erin Loffredo
Marilyn Noonan
Carol Orvis
Paul Puccio

Mr. James A. Conway, Director
Office of Audit Services, Room 524EB
New York State Education Department
Albany, New York 12234

Dear Mr. Conway:

On behalf of the Questar III BOCES we submit the following response to your audit of the Eastern New York Regional School Support Center (ENYRSSC) for the period July 1, 2004 through June 30, 2007. It should also be reflected that during the period covered by the audit the ENYRSSC was under the direction of an executive director that has since retired.

Bullet #1 Response – Excess reimbursement of \$116,000:

We disagree with this finding. The Eastern New York Regional School Support Center (ENYRSSC) contract with Questar III is a multiyear contract and these payments are identified in Appendix C of the contract as "Interim Payments". A Final Payment is due to Questar III upon completion of the contract, which has been extended to June 30, 2009. The contract also allows overpayments to be returned to the State within 30 days of the termination of the agreement, which has been extended to July 30, 2009. It should be noted that as of the date of this response, the ENYRSSC owes Questar III approximately \$725,000.

See Note 1
Appendix D

Bullet #2 Response – Excess reimbursement of indirect costs of \$12,534:

Use of incorrect Indirect Rate

We disagree with this finding. The Indirect Rate used was the rate approved by SED at the time the annual budgets were approved. There was no communication from SED requesting that this rate be revised and vouchers were approved by SED for payment with the rate as approved. Further, for funding periods that are in excess of one year in duration, SED has recommended that the indirect rate in effect at the time funding is awarded be used for the entire duration of the funding. For this contract, an Indirect Rate of 3.5% was approved when the contract was awarded by SED July 28, 2003,

See Note 2
Appendix D

which is higher than the rates used for reimbursement for the period cited, resulting in a lower claim for reimbursement.

Inclusion of ineligible costs when applying Indirect Rate

We disagree with this finding. The costs of services purchased from BOCES and rent were clearly presented in the original RFP submission as being included in the Indirect Cost calculation; the contract was approved by SED without modification. Further, a review of the guidance provided at the time the RFP was issued shows that the only expenditures not subject to Indirect Costs were equipment. To further support the proper inclusion of these costs, we reference the Question & Answer session held by SED, which included responses provided by Don Juron, indicating services provided by BOCES are included under Item #2 "Purchased Services" and are **NOT** subject to exclusion from Indirect Costs calculations. Facility rental contracts are not classified as subcontracting costs and are thereby excluded from the \$25,000 contract limitation. In addition, the space occupied by the Regional School Support Center was provided by an addendum to the lease between Questar III and the landlord, British American. The RSSC remits rent directly to British American, an independent private sector company. The auditor's opinion in citing these costs as ineligible for inclusion in the indirect cost reimbursement calculation are not only in disagreement with the approval of the contract by representatives of SED, but are also in direct conflict with the information provided at the time the RFP was issued and OMB Circular A-87 which lists rent as an allowable expenditure for federally funded programs.

See Note 3
Appendix D

Bullet #3 Response - Adequate documentation was not maintained to support personal service time and efforts in and among the various programs:

Questar III is subject to union labor agreements and any changes in the terms or conditions of employment need to be negotiated. We will consider the auditor's recommendations during future labor negotiations.

Bullet #4 Response – Compliance with Consultant Contract Terms:

Questar III BOCES has taken corrective action and added additional controls to ensure compliance with the terms of consultant contracts. Training has been provided to Questar III staff by the Business Office and the School Attorney to educate staff in interpreting contract terms. The internal claims auditor reviews consultant contracts prior to approving payment. Expenses that are not documented and/or included in the consultant contract are denied.

Bullet #5 Response – Documentation of travel expenditures:

Questar III BOCES has taken the following corrective action to improve documentation of travel expenditures exceeding maximum GSA Amounts.

1. In the event that there is no lodging available at the allowable GSA cost, employees have been informed that they must keep written documentation that this is the case. Only then can they reserve and stay at a hotel with a higher cost.
2. Employee travel expenditures will be allocated in the future based on the FTE percentages allotted to the budgets or based on programs goals, i.e. travel associated with the Math initiative will be billed to that budget. In other cases prior written approval from the SED liaison may warrant charging particular program budgets for travel. In all cases the travel must be necessary for program delivery and aligned with program goals.
3. Questar III will take the necessary actions to recover the payments made to employees that were not properly documented to support payment. The internal claims auditor is taking necessary steps to ensure that no Questar III employee will be paid any expense that is not properly documented.
4. Questar III now requires project work that is initiated by funded contracts and/or grants to be documented by work product and be consistent with the service fee for program delivery. This control will ensure that no program is billed for a service without proper documentation and a clear methodology.
5. Questar III program managers have been advised that all events sponsored by a contract must acknowledge support from the New York State Education Department in writing; i.e., a clause on printed documents is included with a statement such as "This event is funded through a contract with the New York State Education Department."

See Note 4
Appendix D

Bullet #6 Response - Compliance with RSSC contract:

The Audit finds that the RSSC was not in compliance with the Contract because Questar III's standard contract clause provides that works produced by a consultant are "works for hire" and therefore become property of Questar III. The SED Contract requires that works produced by consultants become the property of the NYSED.

We do not believe that the Questar III contract places the RSSC out of compliance. Both the Questar III contract and the SED requirements recognize the importance of maintaining public control and interest in

intellectual property produced under a contract funded by public money. The SED contract requirements reflect the fact that, unlike the Questar III contract requirements, outside of the State of New York most public entity contracts fail to consider the need to protect such works. Questar III's contracts routinely provide this protection. In this instance the NYSED Contract requires Questar III to transfer ownership of any copyrightable work produced by its contractors to the NYSED. We are not aware of, nor has the Audit revealed, any instances where Questar III has failed to do so.

See Note 5
Appendix D

We disagree with the auditor's recommendation that consultant should attend staff meetings. The contract requirement that consultants performing services for the RSSC are required to attend staff meetings raises several questions as to whether this requirement would put Questar III on a collision course with the IRS and NYS Retirement System guidelines which distinguish a consultant from an employee. Also, having consultants attend staff meeting may be unrealistic in some cases due to additional travel requirements, since some consultants may be from out of state.

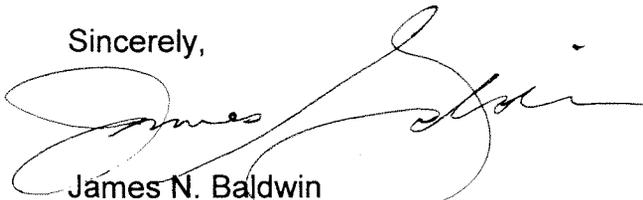
See Note 6
Appendix D

We agree with the audit finding regarding consultants providing funding departments with a description of events and materials produced for such events. We have adopted procedures for this information to be included in status reports as appropriate.

We disagree with the audit finding relating to physical inventory. Questar III has a fixed asset inventory system and has a Board approved policy requiring all assets with a purchase cost in excess of \$500 to be capitalized. The finding that five items were missing is incorrect, since these items were assigned to staff working at remote locations. All items in excess of the \$500 threshold have been located. The item that was reported as known to be missing was purchased on September 1, 2000 at a cost of \$330. It should be noted that the date of purchase was prior to the start of the ENYRSSC funds period.

See Note 7
Appendix D

Sincerely,



James N. Baldwin
District Superintendent

Auditor's Comments
Eastern New York
Regional School Support Center

1. Eastern RSSC submitted annual budgets, approved by the Department, that were estimates of expenditures expected to be incurred for each specific fiscal year. Eastern RSSC accounted for and submitted final expenditure reports for each separate fiscal year. Each year should be accounted and reconciled separately.
2. We have modified the report to reflect the fact that the indirect rates contained in each approved budget are the appropriate rates for calculating indirect costs.
3. The Request for Proposals and the Contract did not clearly present the treatment of services purchased from BOCES. However, BOCES purchased services were presented below the indirect cost line of all three of the budgets for the years under audit and were clearly not intended to be part of the indirect cost calculation. Also, the final expenditure reports submitted by Eastern RSSC showed that they reduced the direct cost base by some BOCES purchased services (Questar III and other BOCES).
4. The Contract states that acknowledgement of support should be made to New York State and not the New York State Education Department.
5. The Contract clearly states that written agreements with consultants will provide that any copyrightable work produced shall be the sole and exclusive property of the New York State Education Department and not that of Questar III.
6. The Eastern RSSC Work Plan required consultants to attend staff meetings. Our finding was based on compliance with their own Work Plan.
7. The physical inventory that we tested was provided by Eastern RSSC and we found that it was not entirely accurate.

Note: The numbers above correspond to the numbers in the margins of Appendix C.
