
Audit Report

Erie 1
Board of Cooperative Educational Services

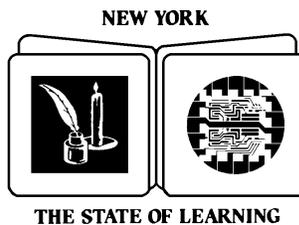
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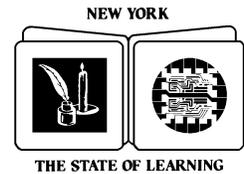
July 1, 1995 through June 30, 1996

BOC-0897-3

December 14, 1998

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





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December 14, 1998

Mr. Donald Ogilvie
District Superintendent of Schools
Board of Cooperative Educational Services
Erie 1
Clifford N. Crooks Service Center
355 Harlem Road
West Seneca, New York 14224-1892

Dear Mr. Ogilvie:

The following is our final audit report (BOC-0897-3) on the Erie 1 Board of Cooperative Educational Services for the period July 1, 1995 through June 30, 1996. The audit was conducted pursuant to Sections 305 and 1950 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

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

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

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

Sincerely,

Daniel Tworek

Enclosure

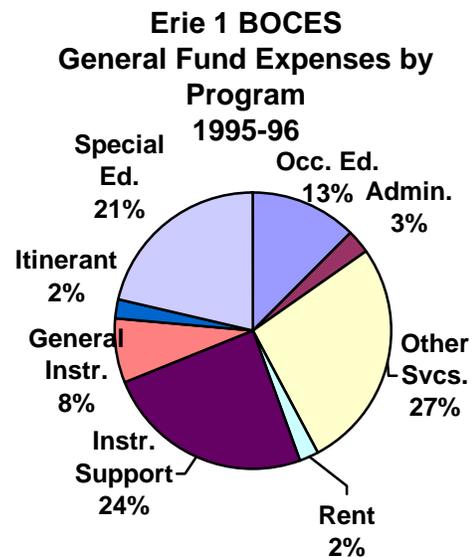
cc: Commissioner Mills
R. Cate
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Executive Summary

Erie 1 BOCES ranked 5th of the 38 BOCES in the State, in terms of total general fund expenditures, for the 1995-96 school year (\$61 million). The pie chart illustrates general fund expenditures by program for the 1995-96 school year.

Background and Scope of the Audit

The audit examined financial management practices, records and documentation related to selected areas of Erie 1 BOCES operations for the period July 1, 1995 through June 30, 1996. These areas included Administration, Occupational and Continuing Education, Special Education, Alternative Education, Operations and Maintenance, the Employment Preparation Education (EPE) Program 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; verify that the budgetary process provides control over the expenditure of funds; and verify the accuracy and reliability of data reported for EPE Program aid.



Audit Results

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

- Erie 1 BOCES accounted for and reported most of its revenue and expenses accurately. However, Erie 1 BOCES needs to ensure the required accrual basis of accounting is used; all allocations are fair, reasonable and documented; and reported revenue, expenses and tuition charges accurately reflect the costs of services (pages 4-8).
- Erie 1 BOCES needs to ensure all revenue and expenses are accurately reported to the Department and all revenue is considered in preparing its budget and calculating its administrative charge (pages 8-9).
- Existing policies and procedures need to be reviewed for completeness and accuracy, and updated as needed (page 11-12).
- Improvement opportunities exist for inventory controls, long-range planning, special education billings, travel and conferences approval and expenses, and for food and beverage expenses (pages 12-17).

- Erie 1 BOCES needs to ensure the District Superintendent's compensation for unused vacation and sick leave, as specified in his contract, is consistent with the law (pages 17-18).
- Improvement opportunities for the EPE Program exist for: accumulating, reporting and documenting contact hours; documenting student information; and ensuring compliance with the age and class size requirements (pages 21-24).

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Introduction

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 expenses and the school districts' wealth.

Erie 1 BOCES, headquartered in West Seneca, New York, serves 19 component districts with an enrollment of more than 72,000 students. During the 1995-96 school year, Erie 1 BOCES was ranked 5th of the 38 BOCES in the State with over \$61 million in general fund expenditures.

Erie 1 BOCES' services include occupational and continuing education services, special education, alternative education programs, management services, communication services, and

academic related programs. It also oversees the Western New York Regional Information Center which services over 100 school districts utilizing administrative and instructional technology 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 the Erie 1 BOCES for the period July 1, 1995 through June 30, 1996. This was a financial related audit and the objectives were to:

- determine if cost allocations and transfers 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;
- 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 EPE Program aid.

To accomplish our objectives we reviewed applicable laws, regulations, policies and procedures; interviewed Department and Erie 1 BOCES management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the Erie 1 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 Erie 1 BOCES Officials

Erie 1 BOCES officials' comments about the findings and conclusions were considered in preparing this report. Their comments to this report are included as Appendix B.

Accounting, Reporting, and Budgeting for Revenue and Expenses

Erie 1 BOCES accounted for and reported \$72 million in revenue and \$68 million in expenses (\$61 million in the general fund and \$7 million in the special aids and other funds) for the 1995-96 school year. Erie 1 BOCES, like all BOCES, is required to maintain and report its accounts in accordance with Generally Accepted Accounting Principles and the State Comptroller's Uniform System of Accounts for BOCES (Uniform System of Accounts). This requirement is intended to provide uniformity in classifying, summarizing, and reporting financial data. The uniformity simplifies the comparison of data with other BOCES and other time periods; the preparation and execution of budgets; the assessment of efforts, costs and accomplishments; and the preparation of reports for the public and others.

The Education Law states that the net cost of operating a BOCES service should be charged to participating districts. The Uniform System of Accounts facilitates this by requiring a separate accounting of revenues and expenses for each BOCES service. The Education Law also states that those districts that do not participate in a service are not required to pay any share of the expenses for such service. In order to ensure that districts pay only for services received and that financial data and State aid are accurate, BOCES must accurately classify, summarize, and report their financial data.

The audit determined Erie 1 BOCES accounted for and reported most of its revenue and expenses accurately. However, some items were not accounted for using the required method of accounting. As a result, reported revenue, expenses, and tuition charges did not accurately reflect the cost of services. The audit recommends Erie 1 BOCES improve its accounting for revenue and expenses, reporting of financial data, and preparation of its budget.

Accounting for Revenue and Expenses

BOCES are required to account for their revenue and expenses using the modified accrual basis of accounting. Using this method, revenue is recognized when it is measurable and available. For example, revenue from districts is generally

recognized when BOCES bill for services. Expenses, including compensation and related fringe benefits due employees at year-end, are recorded when incurred.

The expenses should be charged directly to the specific program receiving the benefit, whenever possible. Any expense that cannot be charged directly to a specific program should be allocated to all programs benefited by the expense using a fair and reasonable method.

The audit determined Erie 1 BOCES did not account for certain items using the required accrual basis of accounting and used certain allocations that were not fair, reasonable and documented.

Accrual Basis of Accounting

BOCES should account for all revenue and expenses using the modified accrual basis of accounting. However, Erie 1 BOCES did not account for certain year-end expenses, prepaid expenses, refund of expenses, grant revenue, and preschool program revenue using the required basis of accounting. As a result, the financial data contain some inaccuracies. Some specific examples follow:

- When a purchase order is issued, or goods or services are ordered, the BOCES should encumber the necessary funds. When the goods or services are received, the expense has been incurred and the BOCES should recognize the expense on their accounting records. The audit determined Erie 1 BOCES reported \$3.7 million in expenses in 1995-96, rather than 1996-97 when the goods and services were received and the expenses were incurred. Erie 1 BOCES' practice is to recognize expenses in the current year for any goods and services it orders in the current year and expects to receive in the subsequent year before the books are closed (about mid-August). As a result, Erie 1 BOCES' expenses and tuition rates are overstated for this year. Also, BOCES aid was claimed prematurely for these expenses.
- When the amounts on an invoice for goods and services cover more than the current period, BOCES should expense the current portion in the current period and accrue the remaining amount as a prepaid expense. However, the audit determined Erie 1 BOCES did not routinely accrue prepaid

expenses for goods and services purchased for the benefit of a future period. For example, Erie 1 BOCES paid and expensed \$25,283 for network services for the period October 6, 1995 through October 5, 1996 rather than accruing three months of the expense (July 1, 1996 through October 5, 1996) to the subsequent fiscal year. As a result, the reported expenses for 1995-96 may not be accurate.

- BOCES should credit refunds for prior period expenses to the accounts and districts that initially incurred the expenses. Erie 1 BOCES received a \$47,937 refund of expense and recorded the amount as a credit to an equipment account, rather than the specific accounts and districts that were initially charged. As a result, the specific accounts are overstated and Erie 1 BOCES did not provide documentation to show the appropriate districts were given the refund they were entitled to receive.
- Using the accrual basis of accounting, grant revenue should be recognized at the time the expense is incurred and not necessarily when the funds for the grant are received. The audit determined Erie 1 BOCES recognized revenue for certain grants on the cash basis, i.e., when the funds were received, rather than when the expenses were incurred and the funds were earned. For example, Erie 1 BOCES recognized \$145,000 in revenue for the Inter-School Collaboration Grant when the funds were received in 1995-96, even though the revenue was not earned and expenses were not incurred during that year. As a result, some of the reported financial data for the grants are not accurate.
- BOCES should bill municipalities and recognize the revenue for preschool services based on the most current tuition rate provided by the Department. The audit determined Erie 1 BOCES billed municipalities and recognized \$639,485 in preschool tuition for 1995-96 using a prior year's tuition rate. The audit determined Erie 1 BOCES would have billed and recognized about \$14,000 more in revenue if it used the current tuition rate at that time. As a result, Erie 1 BOCES did not receive or recognize all the revenue it was entitled to recognize during that period.

Allocation of Expenses

BOCES should use allocation methods that are fair and reasonable, and should also document the allocations and methodologies. The audit reviewed a number of Erie 1 BOCES' allocations and determined certain allocation amounts were disproportionate when compared to program expenses, and also were not adequately documented. As a result, the reported expenses and tuition rates do not accurately reflect the cost of providing specific services. Some specific examples follow:

- Erie 1 BOCES allocated \$1.5 million in special education program administrative expenses to various special education programs based on each program's direct expenses and other factors, such as the number of teachers and rising costs. However, our review showed the allocation amounts were disproportionate when compared to program expenses. For example, one special education program received less than 1 percent of the administrative allocation even though its program expenses comprised 26 percent of all special education programs' expenses. This resulted in the expenses for this program being understated by \$380,614 or \$2,043 per student. While the expenses and tuition charges for this CO-SER were understated, the expenses and tuition rates for other special education programs were overstated. Erie 1 BOCES agrees to allocate its program administrative costs on an equitable basis.
- Erie 1 BOCES allocated over \$1.3 million in operations and maintenance expenses to the occupational education programs at the three occupational education centers. However, our review showed Erie 1 BOCES did not allocate any operations and maintenance expenses to certain programs such as the continuing education programs also located at the three occupational education centers. As a result, expenses and tuition rates for the occupational education programs may be overstated.
- Erie 1 BOCES incurred almost \$31 million in payroll expenses in 1995-96. The expenses are directly charged or allocated to various programs based on a predetermined allocation percentage at the beginning of the year. However, documentation was not available to show how the allocation percentages were determined. During the course of the year, Erie 1 BOCES transferred payroll amounts between

programs and budget codes. However, documentation was also not available to show the reasons for the transfers. Erie 1 BOCES also did not maintain documentation to support some of its allocation methods and amounts including the allocations cited in this report. Without the necessary documentation, the audit had less assurance the reported expenses and tuition rates are accurate, fair and reasonable.

Erie 1 BOCES needs to properly account for and allocate its revenue and expenses to ensure the reported revenue, expenses and tuition rates are accurate and districts are only paying for the actual cost of services received.

Reporting of Financial Data

BOCES are required to prepare and submit to the Department financial statements and other financial information such as the SA-111, *The Annual Financial and Statistical Report of the Board of Cooperative Educational Services*. The SA-111 includes information such as assets and liabilities by fund, and revenue and expenses by program or service. The SA-111 should be complete and should agree to the audited financial statements. Also, BOCES should only use the minimum number of funds consistent with legal and operating requirements.

The audit reviewed the information reported on the SA-111 and determined reported revenue and expenses were significantly understated and did not agree with the audited financial statements. Erie 1 BOCES did not include revenue of \$1.1 million and expenses of \$1.8 million for certain continuing and adult education programs on the SA-111 (schedule 8) although they were included on the financial statements and in the SA-111 fund balance totals. Erie 1 BOCES stated the amounts were excluded from the SA-111 schedules because they were not given adequate guidance by the Department. Erie 1 BOCES accounted for these revenue and expenses in an "Other" Fund. Our review of the System of Accounts showed the "Other" Fund is not authorized by the State Comptroller and should not be used. Erie 1 BOCES agrees and has discontinued use of this fund.

The audit also noted grant revenue on the SA-111 was understated by \$843,000. Erie 1 BOCES stated the revenue was understated because the report was submitted to the Department prior to all the accounting entries being made. To ensure the SA-

111 is complete, Erie 1 BOCES has expanded its year-end reconciliation procedures to ensure that this type of oversight will not occur again.

Preparation of the Budget

BOCES are required to prepare and adopt program, capital and administrative budgets for the ensuing year. The budgets are used to establish tuition rates and charges for services, and are also used to provide for the control and orderly expenditure of BOCES funds. In preparing the budget, BOCES should take into account requests for services, anticipated sources of revenues, and prior year revenue and expenses. In establishing tuition rates and charges for services, BOCES should take into account miscellaneous revenue such as interest income and rental fees.

The audit determined Erie 1 BOCES did not include any miscellaneous revenue in preparing its budget and calculating a charge for administrative expenses. However, our review determined Erie 1 BOCES received \$289,780 in miscellaneous revenue during the year. As a result, the budget was overstated and districts were over charged for administrative expenses. Although refunds are provided to the districts in a later period, the districts have lost the use of those funds and any interest income on the funds during the year.

Recommendations

1. Account for all revenue and expenses using the modified accrual basis of accounting.
2. Recognize and record expenses on accounting records when the expenses are incurred and the goods or services are received.
3. When the charges on an invoice for goods and services cover more than the current period, charge the current portion as an expense of the period and accrue the remaining expense as a prepaid expense.
4. Credit refunds for prior period expenses to the accounts and districts that initially incurred the expenses.
5. Recognize grant revenue at the time the expense is incurred and not necessarily when the funds for the grant are received.
6. Bill municipalities and recognize the revenue for preschool program services based on the most current tuition rate provided by the Department.

7. Use allocation methods that result in a fair and reasonable share of the expenses being charged to the program, and ensure the allocations are adequately documented.
8. Include revenue and expenses for all programs in all funds on the SA-111 and ensure all funds are authorized by the State Comptroller.
9. Ensure all accounting entries are completed prior to submitting the required reports to the Department and establish a procedure to reconcile the amounts on the SA-111 to the financial statements for all funds.
10. Consider miscellaneous revenues in preparing budgets and the administrative charge for districts.

Comments of Erie 1 BOCES Officials

Erie 1 BOCES officials generally agreed with most of the recommendations. In regard to recommendation #3, when expenditures overlap fiscal years, Erie 1 BOCES will only accrue those expenditures which cover more than a twelve-month period. In regard to recommendation #6, Erie 1 BOCES does not agree to bill its preschool program using interim rates; rather Erie 1 BOCES will continue to use the latest reconciled tuition rate.

Auditor's Comments

All expenditures should be properly accrued. When expenditures overlap fiscal years and are not properly accrued, the expenditures are generally overstated in the first fiscal year and understated in the last fiscal year in which they occur.

The rate setting process for the preschool program has changed since the audit period. Reconciliation rates will no longer be provided. Erie 1 BOCES should bill this program using the established rates provided for a particular year.

Management Controls

BOCES' management is responsible for establishing effective management controls. Management controls include the plan of organization, and the methods and procedures adopted by management to ensure that its goals are met. The purpose of the controls is to help ensure resources are safeguarded against waste, loss and misuse; data and reports are accurate and reliable; operations comply with applicable laws, regulations, and policies; and operations are efficient, economical and effective.

The audit reviewed areas that are significant to the audit objectives and determined Erie 1 BOCES implemented many of the necessary management controls. However, the audit identified opportunities for improvements in controls. The opportunities for improvement relate to non-salary and salary expenses. Erie 1 BOCES generally agrees with the findings and has made improvements in these areas.

Non-Salary Expenses

Erie 1 BOCES reported \$30 million in non-salary expenses for the 1995-96 school year. Erie 1 BOCES implemented many of the necessary controls for the non-salary expenses. However, improvements could be made relating to written policies and procedures, inventory controls, long-range planning, billings for special education services, travel and conferences approval and expenses, and for food and beverage expenses.

Written Policies and Procedures

Written policies and procedures help ensure consistency in processing transactions and also let employees know what is expected of them. Written policies and procedures should be maintained for cash receipts and disbursements, investments, purchasing, payroll, budgeting, inventory, record retention, vehicle use, telephone use, and other areas. In addition, the written policies and procedures should be reviewed on a regular basis to ensure they are current.

Erie 1 BOCES has some written policies and procedures, user manuals, and forms for areas such as travel and petty cash. However, Erie 1 BOCES' policies and procedures need to be

more complete and up-to-date. For example, Erie 1 BOCES did not have policies and procedures for use of cellular telephones and long distance telephone calls. While Erie 1 BOCES has written purchasing policies and procedures, many of them have not been updated since 1990.

Erie 1 BOCES should review its existing policies and procedures and develop or update those for cash disbursements, payroll, purchasing, accounts payable, travel, vehicles use, cellular and telephone use, petty cash, and record retention. Erie 1 BOCES has agreed to review its policies and procedures and update them as needed. It has also agreed to adopt a formal written policy to review and approve all policies and procedures annually.

Inventory Controls for Assets

Inventory controls over assets are needed to safeguard property against loss, establish effective utilization, determine needs, and identify surplus items. Adequate controls include maintaining complete and accurate records, tagging assets with ownership and identification decals, and periodically conducting physical inventories. Establishing adequate controls over assets is especially important to Erie 1 BOCES since it owns over \$10 million in property.

Erie 1 BOCES' CPA reported in 1995 and 1996 that significant improvements were needed in the area of inventory controls. Erie 1 BOCES has initiated some improvements in this area such as updating its policies and procedures, and hiring a consultant to develop an inventory system. While these are steps in the right direction, additional work needs to be done.

The audit noted the reports developed by the consultant were incomplete or inaccurate.

- The audit selected a sample of 861 items and tried to locate them on the inventory reports. However, only 28.9 percent (249 of 861) of the items were found on the inventory listing. The inventory listing was an original submission by the consultant and was incomplete. A number of the items not on the inventory listing may have been included in the sections submitted subsequent to audit review.
- Many items on the report only have generic descriptions which do not include the make or any identifying model or

serial numbers. This makes it difficult to match specific items to invoices.

- The reports need to include fixed assets located at non-component districts and other BOCES, although these items are recorded in a separate RIC inventory system.
- Some of the reports' information such as acquisition dates and costs were inaccurate. For example, the inventory report listed the total price for five computers as the unit price for each of the five computers.

The audit also noted Erie 1 BOCES needs to conduct annual physical inventories, tag new purchases with ownership decals and record new acquisitions, other than computers, in its system.

As a result Erie 1 BOCES does not have adequate controls over its assets and there is a greater chance of loss and unauthorized use.

Long-Range Planning

The Education Law requires BOCES to prepare long-range program plans to meet the projected needs for services in its supervisory district for the next five years. While there is no specific requirement as to what should be the BOCES long-range program plan, we relied on Section 155.1(a) of the Regulations of the Commissioner of Education which provides guidance on comprehensive long-range plans for school districts. It specifies certain items that should be in the plan including the educational philosophy, present and projected student enrollment, facilities use and capacity, and capital projects and required maintenance.

The audit determined Erie 1 BOCES does a significant amount of planning including some long-range planning and the development of goals and objectives. However, its long-range plan did not include its educational philosophy, the administrative organization and program requirements, student enrollment, facility use and capacity, need for additional facilities, and its leasing program. Without these items, Erie 1 BOCES' plan is incomplete and may not facilitate accomplishment of its goals and objectives. Erie 1 BOCES agreed to include these items in its long-range plan.

Billings for Special Education Services

BOCES are required to report student enrollment and bill tuition for special education programs in accordance with Section 175.6 of the Regulations. According to the Regulations, a full-time student who is enrolled from September through June is deemed to be in attendance during that period and therefore considered one full-time-equivalent student (FTE). If a student is enrolled for less than the full program duration, the FTE is calculated by dividing the total weeks of enrollment by the total number of weeks the program operated. The FTE should be used to calculate and bill tuition rates for services provided.

The audit determined Erie 1 BOCES needs to adopt and use the required method to calculate and bill tuition rates for its ten-month special education programs. It bills school districts based on each student's actual attendance on a monthly basis. If a student is present for less than half of the month, the district is not billed for that month. If a student is present for half or more of the month, the district is billed for that month. Erie 1 BOCES is not in compliance with Section 175.6 of the Regulations, and its billings to districts may be inaccurate. In response to the audit, Erie 1 BOCES has purchased new software for tracking FTEs and for billing in accordance with the Regulations.

Travel and Conference Approval and Expenses

Section 77-b of the General Municipal Law permits the BOCES' Board to authorize any of its members, officers or employees to attend a conference. The law permits the Board to delegate the power to authorize attendance at conferences to any executive officer or any administrative board. The law also permits the BOCES to reimburse actual and necessary expenses incurred in attending the conference. Any expenses submitted for reimbursement related to a conference should be adequately documented and should be charged to the appropriate account.

Erie 1 BOCES' Board delegated the power to authorize employees to attend conferences to its District Superintendent and required that he report to the Board all conferences for which he has authorized attendance. Erie 1 BOCES requires employees to complete a travel conference request form to obtain approval to attend a conference. It also requires employees to complete a travel conference reimbursement form and submit receipts to obtain reimbursement for expenses.

The requirement to obtain approval to attend a conference is a basic internal control that helps ensure attendance at the conference will benefit the BOCES. Erie 1 BOCES generally required employees to obtain the necessary approvals from supervisors. However, the audit noted the District Superintendent could authorize himself to attend a conference. While the Superintendent's travel is subject to other controls, such as a review of the expenditures by the internal auditor, controls would be enhanced if the Board approved his request to attend a conference.

Furthermore, the District Superintendent needs to report to the Board on those conferences attended by employees, which is consistent with Erie 1 BOCES' own policy. Erie 1 BOCES stated that the required travel and conference information will now be reported to the Board on a regular basis.

Travel and conference expenses claimed for reimbursement must be reasonable, actual, necessary and adequately documented. The Comptroller's Guide notes that the cost of meals for guests may be reimbursed to an employee if the lunch or dinner meeting promotes a valid BOCES purpose. The claim for reimbursement should state the names of the guests, the purpose of the meeting and the topics discussed. Also, actual attendance at the conference should be documented.

The audit reviewed a number of travel and conference expenses and determined the sampled items were generally reasonable, actual, necessary and adequately documented. However, the audit did identify two cases where Erie 1 BOCES could improve its documentation.

In one case, the former District Superintendent and the Assistant District Superintendent attended a conference in California. The former District Superintendent was reimbursed for dinners on three occasions including \$320 for ten individuals, \$123 for four individuals and \$197 for an unknown number. For this same conference, the Assistant District Superintendent was reimbursed for dinners on two occasions including \$206 for six individuals and \$107 for three individuals. The claims for reimbursement did not identify the names of the guests for whom dinners were purchased, the purpose of the dinner meetings, or the topics discussed.

In the other case, Erie 1 BOCES reimbursed an employee \$1,406 for expenses to attend an out-of-state conference. Although the travel expenditures were adequately documented, the documentation did not include any information, such as a record of payment for the conference itself, to show that the employee actually attended a conference. Without this documentation, the audit cannot determine if the expenditures were reasonable and necessary, and appropriate for reimbursement.

Travel and conference expenses were generally recorded in the appropriate accounts. However, the audit noted one case where Erie 1 BOCES transferred the District Superintendent's and the Assistant District Superintendent's conference costs from a "conference" budget code where the costs were originally recorded to a "mileage" budget code. Prior to the transfer, the conference costs exceeded the budget by \$11,400. Erie 1 BOCES officials stated they consider all travel, including conferences, for the District Superintendent and the Assistant District Superintendent to be a regular part of the job. Therefore, they show it as "mileage" and not "conferences." Nevertheless, conference expenditures for the District Superintendent and the Assistant District Superintendent are understated, while mileage expenditures are overstated.

Food and Beverage Expenses for Meeting and BOCES Functions

The Comptroller's Guide states meal expense may not be reimbursed unless the individual is traveling outside of the regular work area on official business or the individual is prevented from taking time off for a meal due to a pressing need to complete business at hand. For example, meals would be an appropriate expense if a business meeting is of an immediate nature and a meeting at mealtime is essential. However, the cost of meals while performing the usual duties of the office or position in the regular work area is generally a personal expense. BOCES should have a written policy to address food and beverage costs for its employees who are not traveling outside of the regular work area.

The audit noted Erie 1 BOCES needs to develop a formal written policy to address this issue. Erie 1 BOCES often provided food and beverages at meetings occurring during mealtime. Erie 1 BOCES also provided a year-end instructional picnic for 186 individuals at a cost of \$2,000. According to Erie 1 BOCES officials, food and beverages are provided at the discretion of the

program director. However, the documentation for the expenses does not include any evidence that the appropriateness of the provision or food and beverages was properly assessed. Without a policy or adequate documentation, the audit questioned the reasonableness and necessity of the expenses.

Salary Expense

Erie 1 BOCES reported \$31 million in salary and fringe benefit expenses in the general fund for the 1995-96 school year. Erie 1 BOCES implemented many of the necessary controls and accurately reported salary and fringe benefit expenses. However, improvements could be made relating to payments for accruals, disclosure of the District Superintendent's salary, employment of school district employees, and computer access to payroll and personnel transactions.

Payment for the District Superintendent's Unused Accruals

The Education Law states that District Superintendents may be compensated for unused vacation and sick leave credits up to the rate permitted for managerial/confidential employees of the State upon separation from service. State employees are entitled to be compensated for up to 30 days of unused vacation credits and are entitled to use the value of up to 200 days of unused sick leave accruals to pay the employees' share of the cost of health insurance premiums upon separation from State service. Vacation and sick leave per diem should be calculated using the equivalent of 1/260th of annual gross salary.

The audit determined the current District Superintendent's contract provides for reimbursement of unused vacation and sick leave credits at the time of separation at an amount in excess of those permitted to State employees. The contract states he may receive payment for up to a maximum of 30 unused vacation days at the daily rate of 1/220th of his supplemental salary at the time of separation. The contract also states he is entitled to use up to 220 days of accrued sick leave to pay for health insurance during retirement.

As a result, Erie 1 BOCES' contract for its District Superintendent is not in compliance with this provision of the Education Law, and upon separation from service, the District Superintendent would be compensated in excess of the amount

allowed by law. Erie 1 BOCES has agreed to amend the contract.

Disclosure of the Former District Superintendent's Salary

The Education Law requires each BOCES to prepare a tentative administrative budget. The tentative administrative budget should include all central administrative expenses and should also specify the total compensation for the district superintendent including salary, benefits and any other form of remuneration. If the boards of education of a majority of the component districts of the BOCES approve the tentative administrative budget, the BOCES may adopt the budget without modification. Once adopted, BOCES is required to file a copy of its approved budgets with the Department.

The audit determined the administrative budget approved by the component districts did not show certain compensation for the former District Superintendent. Specifically, the following items were not disclosed in the budget:

- \$1,100 monthly mileage allowance (\$13,200 annually); and,
- comprehensive health insurance coverage (including cosmetic surgery coverage) for both the former District Superintendent and his spouse for life, commencing upon separation from Erie 1 BOCES (estimated cost \$600 per month).

Erie 1 BOCES needs to ensure disclosure of the District Superintendent's contract in the administrative budget is accurate, complete and in compliance with the Education Law and component districts are informed of the actual compensation. Erie 1 BOCES' disclosure for the current year is now in compliance with the Education Law.

Employment of School District Employees

The Department prohibits BOCES from hiring school district employees for its operations unless the necessary waivers are obtained. The audit determined Erie 1 BOCES hired and paid certain school district employees between \$600 and \$1,000 for part-time or occasional work at Erie 1 BOCES without obtaining the necessary waivers. As a result, Erie 1 BOCES did not obtain the necessary approval as required by Department guidelines.

Computer Access to Payroll and Personnel Transactions

A key principle of internal controls is to ensure that duties are adequately separated and no one person has unchecked access to an entire processing cycle. In a computer environment, this can be accomplished in part by restricting access to transactions and computer systems. For example, in the personnel/payroll cycle, access to the computer system to process payroll transactions, such as payment of overtime, should be restricted to the payroll office. In this manner, the personnel office may not initiate changes to the payroll files and also make changes to the personnel files. Such a procedure helps ensure the integrity of the payroll.

The audit determined Erie 1 BOCES's business office (payroll) has full access to the computerized personnel records and the personnel office has full access to the computerized payroll records. Without the necessary restrictions on computer access to payroll and personnel transactions, there is an increased risk that errors or irregularities may occur and not be detected. Erie 1 BOCES agreed with the finding and has limited access to its payroll and personnel transactions.

Recommendations

11. Review existing policies and procedures, and develop or update those for cash disbursements, payroll, purchasing, accounts payable, travel, vehicles use, cellular and telephone use, petty cash, and record retention. Also, review and approve all policies and procedures annually.
12. Continue to implement the necessary inventory controls for assets including conducting annual physical inventories, tagging all new purchases with ownership decals, and recording any new acquisitions on its inventory records.
13. Include all necessary items in the long-range plan including its educational philosophy, the administrative organization and program requirements, student enrollment, facility use and capacity, need for additional facilities, and its leasing program.
14. Adhere to Section 175.6 of the Commissioner's Regulations to calculate and bill tuition rates for the ten-month special education program.
15. Consider adopting a policy that requires the Board to approve the District Superintendent's request to attend a conference.

16. Adhere to Erie 1 BOCES' policy requiring that the District Superintendent report to the Board on all conferences that he has authorized attendance, including any he has attended himself.
17. Maintain adequate documentation to support travel and conference expenses, including names of guests for whom dinners were purchased, the purpose of the dinner meeting or the topics discussed, and information to support that the employee actually attended the conference.
18. Ensure travel and conference expenses are charged to the appropriate accounts.
19. Establish a written policy to address food and beverage expenses for employees attending meetings and BOCES functions.
20. Ensure the District Superintendent's contract does not provide for reimbursement of unused vacation and sick leave credits at the time of separation in excess of those permitted to State employees.
21. Disclose in the administrative budget all compensation for the District Superintendent.
22. Obtain the necessary waivers to hire school district employees.
23. Limit access to the computer system to process payroll and personnel transactions to those employees who need the access to complete their jobs.

Comments of Erie 1 BOCES Officials

Erie 1 BOCES officials generally agreed with the recommendations except for recommendation #15. Erie 1 BOCES stated internal controls and reporting mechanisms for the District Superintendents' Conference are adequate.

Auditor's Note

The audit maintains the preapproval of conferences is a necessary control that helps ensure conferences are appropriate.

Employment Preparation Education Program

Erie 1 BOCES operates an Employment Preparation Education (EPE) Program. This program targets students 21 years of age and older and provides instruction that leads to a high school or equivalency diploma.

The Department pays State aid for the EPE Program based on the number of contact hours that are provided to eligible students. The aid must be spent for EPE Program related services and allowable expenses. Erie 1 BOCES received \$210,012 in EPE Program aid for the period July 1, 1995 through June 30, 1996, based on reported contact hours.

The audit found that Erie 1 BOCES' system for accumulating, reporting and documenting its EPE Program contact hours needs improvement. This precluded the audit from verifying the accuracy of the reported contact hours. We also found certain EPE Program student files were missing or incomplete, and the requirements for age and class size were not complied with. Erie 1 BOCES agreed with the findings and has made improvements in these areas.

Accumulating, Reporting and Documenting Contact Hours

BOCES should have an effective system for accumulating, reporting and documenting contact hours reported for State aid for the EPE Program. The reported contact hours should be supported by summary records and classroom attendance rosters. Such a system helps ensure the reported hours are accurate and the State aid paid to the BOCES is appropriate.

Erie 1 BOCES' system for accumulating, reporting and documenting contact hours needs improvement. Our review determined contact hours were overstated for some classes and understated for others. The net effect of the misstatements was an understatement of contact hours. However, we did not adjust reported contact hours because Erie 1 BOCES received the maximum State aid for the EPE Program for 1995-96 and any increase in contact hours would not impact State aid. Some examples of the deficiencies follow:

- Contact hours for EPE Program occupational education students were accumulated using a computerized record of

absences rather than actual attendance records. On a sample basis, we compared contact hours claimed to the actual attendance records and noted contact hours were claimed for a snow day, for a student who withdrew from the program, and for a student who never attended the program. We also compared teacher time sheets to student attendance records for certain other EPE Program classes and found inconsistencies in the data. For example, one teacher's time sheet showed 8 hours of instructional time, but 12 contact hours per student were reported for State aid purposes.

- Erie 1 BOCES prepared a monthly sheet for the contact hours for each district. The monthly sheets were summarized to determine the total number of contact hours to report. However, Erie 1 BOCES did not prepare or maintain a summary of the monthly sheets to show how it arrived at the reported contact hours. We summarized the monthly sheets and determined the contact hours were overstated by 659 hours. We also noted an error made in transferring numbers that resulted in contact hours being overstated by another 359 hours.
- Erie 1 BOCES operated a non-traditional EPE Program called Giving Rural Adults a Study Program (GRASP), whereby students work on a packet of assignments prepared by a certified teacher. The Regulations specify the method for calculating the number of contact hours for programs such as GRASP. The audit found that Erie 1 BOCES maintained time sheets for its teachers showing the number of instructional hours spent on this program, but it did not record the instructional time spent with each student. Without this information, we have less assurance that the reported contact hours are correct. We also noted that Erie 1 BOCES erroneously reported only one-half of the GRASP contact hours. This resulted in contact hours being understated by about 4,000 hours.

Erie 1 BOCES agrees with the findings and has implemented a new computer software system to facilitate accumulating, reporting and documenting contact hours.

Student Files Documentation

BOCES are required to maintain individual student files that include information concerning registration, attendance, testing,

and individual education and employment preparation plans. At a minimum, the registration or intake information must include the student's name, class attendance, the student's date of birth or age, and the student's diploma status. To help ensure the information provided by a student is accurate and the student's contact hours are eligible for State aid, BOCES should require each student to sign the intake form and provide proof of age. In addition, the student files should be retained for six years.

The audit determined the student files excluded certain information. As part of the intake process, Erie 1 BOCES teachers complete a Student Cumulative Record Card (Cum Card) for each student. The Cum Card is designed to contain information on the student including name, address, date of birth, diploma status, test scores, hours of attendance, and other data. However, the audit noted most of the Cum Cards did not contain the required information such as the student's address, date of birth, diploma status, test scores, hours of attendance, and other data. Without this information, we could not verify student eligibility or the accuracy of the reported contact hours.

We also noted Erie 1 BOCES did not require students to sign the Cum Cards attesting to the accuracy of the information or to provide proof of age. Without the signature or proof of age, Erie 1 BOCES has less assurance the information is accurate and the students' contact hours are eligible for State aid.

The audit determined Erie 1 BOCES did not retain all student files for six years as required. Erie 1 BOCES could not locate student files for the EPE Program at two of its off-campus sites.

Erie 1 BOCES agrees with the findings and has instituted new procedures to ensure student files are complete.

Requirements for Age and Class Size

In our review of available information, we noted two cases where Erie 1 BOCES needs to address compliance with the Commissioner's Regulations concerning the requirements for age and class size.

- Only students over 21 years of age may be claimed for State aid for the EPE Program. However, Erie 1 BOCES reported contact hours for one student under 21 years of age. As a result, reported contact hours were overstated.

- The EPE Program class enrollment size should not exceed 20 students unless a waiver is approved. However, Erie 1 BOCES operated an EPE Program class that exceeded the maximum enrollment size of 20 students without obtaining a waiver from the Department. This EPE Program class had 22 students enrolled in March 1996 and 25 students enrolled in April 1996.

While these two cases may be isolated examples, the lack of information in the student files precluded the audit from assuring compliance with the Regulations. Erie 1 BOCES needs to take measures to ensure that information in students' files documents compliance with the Regulations.

Recommendations

24. Establish an effective system for accumulating, reporting and documenting contact hours reported for State aid for the EPE Program.
25. Use actual attendance records to calculate contact hours for the EPE Program occupational education students.
26. Maintain a record of instruction time for GRASP students.
27. Ensure the required information is recorded on student intake forms and is maintained. Also, consider requiring students to sign the intake form and to provide proof of age.
28. Retain student files for six years.
29. Ensure only eligible student contact hours are claimed for State aid and class size does not exceed 20 students unless the necessary waivers are obtained.

Comments of Erie 1 BOCES Officials

Erie 1 BOCES officials agreed with the recommendations and have already made improvements to the EPE Program's recordkeeping system. In particular, Erie 1 BOCES has implemented a software program automating attendance records.

Erie 1 BOCES
Contributors to the Report

- Michael Abbott, Audit Manager
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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 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.