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# Audit Report

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Franklin-Essex-Hamilton  
Board of Cooperative Educational Services

For the Period

July 1, 1997 through June 30, 1998

BOC-0599-12

June 30, 2000

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





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

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June 30, 2000

Mr. Ralph H. Russell  
Board President  
Franklin-Essex-Hamilton BOCES  
PO Box 28, West Main Street Road  
Malone, New York 12953

Dear Mr. Russell:

The following is our final audit report (BOC-0499-9) on the Franklin-Essex-Hamilton BOCES for the period July 1, 1997 through June 30, 1998. The audit was conducted pursuant to Sections 305 and 1950 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

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

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

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

Sincerely,

Daniel Tworek

Enclosure

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

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# Executive Summary

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Franklin-Essex-Hamilton (Franklin) BOCES ranked 37<sup>th</sup> of the 38 BOCES in the State, in terms of total general fund expenditures, for the 1997-98 school year (\$12.7 million). The pie chart illustrates general fund expenditures by program for the 1997-98 school year.

## Background and Scope of the Audit

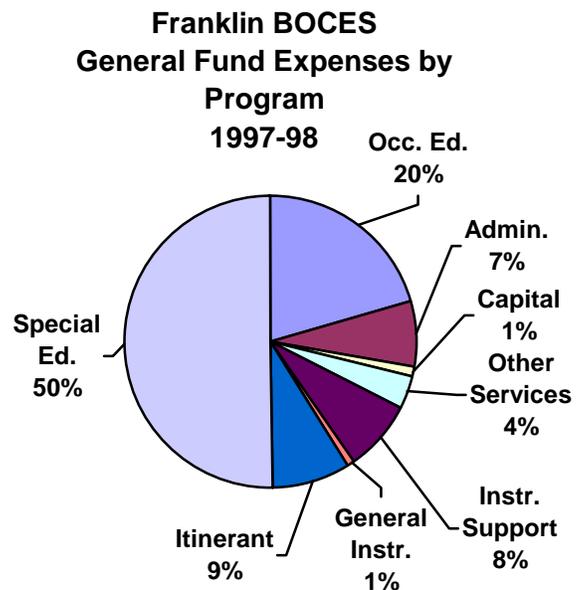
The audit examined financial management practices, records and documentation related to selected areas of Franklin BOCES operations for the period July 1, 1997 through June 30, 1998. These areas included Administration, Occupational and Continuing Education, Special Education, Alternative Education,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

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

## Audit Results

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

- The personal use of a vehicle was not properly calculated for tax purposes.
- The assignment of the internal claims auditor is contrary to Education Law requirements.
- Certain accounting guidelines were not consistently followed.
- Opportunities for improvement of management controls exist in the areas of equipment inventory tracking, and maintaining documentation of student contact hours for the Employment Preparation Education Program.



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# Introduction

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## Background

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

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

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

Districts that belong to a BOCES are called component districts and are required to collectively pay the BOCES' administrative costs. Only districts that actually use the programs offered by a BOCES, called participating districts, are required to pay for the programs' costs. Costs charged to the districts for administration and programs are based on budgeted costs and are adjusted at year-end to reflect actual costs. Typically, a refund is issued to the districts to reconcile differences. The State pays aid for school districts based on eligible BOCES expenditures and the school districts' wealth.

Franklin-Essex-Hamilton (Franklin) BOCES, headquartered in Malone, New York, serves 10 component districts. During the 1997-98 school year, Franklin BOCES was ranked 37<sup>th</sup> of the 38 BOCES, in terms of general fund expenditures, with over \$12.7 million in general fund expenditures.

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

## Objectives, Scope and Methodology

Section 305 of the Education Law requires the Department to perform fiscal audits of BOCES at least once every three years. Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to select operations of Franklin BOCES for the period July 1, 1997 through June 30, 1998. This was a financial related audit and the objectives were to:

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

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

Franklin BOCES officials generally agreed with the findings and recommendations contained in this report. Their comments are included as Appendix B.

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# Compliance with Laws, Regulations and Policies

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## Reporting of Taxable Fringe Benefit

Internal Revenue Code, Section 614, requires the value of the personal use of an employer-provided vehicle to be included in the individual's reported income. The Internal Revenue Service's (IRS) Publication 535 (Business Expenses) describes the method the employer is to use to calculate this amount.

This publication states that for government employees that earn in excess of the Federal Executive Level 5 salary (\$110,700 in 1998), the employer must use either the cents per mile method or the lease-value method in determining the value of the benefit.

Franklin BOCES provides a vehicle for the use of the District Superintendent and permits this vehicle to be used for commuting to and from home. Franklin BOCES calculated the value of this benefit using the \$3 per day commuting method and included this amount on the District Superintendent's W-2. However, since the District Superintendent earned slightly higher than the Federal Executive Level 5 salary amount (\$377 over), Franklin BOCES was not eligible to calculate the benefit using this method.

Franklin BOCES officials indicated they will make the changes necessary to conform with IRS regulations.

## Internal Audit Function

Education Law, Section 1950(4)(k), states that the BOCES Board has the power to appoint an internal claims auditor. Such appointment shall be subject to the laws relating to Union Free School Districts (Section 1709 and Section 1724).

According to Education Law, Section 1709 (20a), no person shall be eligible to be appointed as the internal claims auditor whom shall also be:

- A member of the Board;
- The Board clerk or Treasurer;
- The official responsible for business management;

- The purchasing agent; or
- A clerical person directly involved in accounting or purchasing functions.

Franklin BOCES appointed a person as internal claims auditor who also prepares and posts expenditure transfers for federal funds. Therefore, the internal audit function has been assigned to a "clerical person directly involved in the accounting functions."

Franklin BOCES officials indicated that they will reassign the internal claims auditor duties to another individual.

## **Student Club Expenses Were Paid from Public Funds**

Section 1 of Article 8 of the New York State Constitution states that "no county, city, town, village or school district shall give or loan any money or property to or in aid of any individual, or private corporation or association, or private undertaking."

Vocational Industrial Clubs of America (VICA) is a national organization for trade, industrial, technical and health occupation students. Clubs are operated in public high schools, vocational centers, area vocational schools and two-year colleges. VICA programs include local, State and national competitions in which students demonstrate occupational and leadership skills. VICA programs also help to establish industry standards for job skill training in the classroom.

Franklin BOCES paid lodging expenses (\$1,182) for students attending the VICA fall leadership conference, November 2-4, 1997. These payments should not be expenses of Franklin BOCES because they benefit a private group of individuals.

Franklin BOCES officials believe that the Board is within its authority to authorize BOCES funds to support this conference.

## **Compliance with Accounting Guidelines**

The Office of the State Comptroller's (OSC), *Uniform System of Accounts for Boards of Cooperative Educational Services* (System of Accounts) is prescribed pursuant to Section 36 of the General Municipal Law. It is designed to provide

uniformity with respect to classification and summarization of data from the books of account.

The System of Accounts assigns activity code 1240 to the District Superintendent. It reads “record here the supplementary salary of the district superintendent; clerical salaries directly assigned, travel expense, supplies, equipment, and contractual expenditures for the office operation. Activity code 1250 is for the costs of general assistant to the district superintendent who are needed to support the district superintendent in duties with dependent school districts, or responsible for general regulation, direction and control of the service program, together with clerical support.”

Franklin BOCES incurred several expenditures that were not accounted for properly. These include:

- A vehicle assigned to the District Superintendent was not charged to the District Superintendent’s activity code. Franklin BOCES allocated this cost to several other programs.
- A \$131 charge for the Business Manager to attend a conference was not charged as a Business Office cost.
- A \$75 mobile telephone charge for the District Superintendent was charged to a code for Franklin BOCES’ Board of Education.

Franklin BOCES officials agree that these charges were miscoded.

## **Recommendations**

1. Revise the method to calculate the taxable value of fringe benefits to comply with IRS regulations.
2. Reassign the duties of the current internal claims auditor to comply with Education Law.
3. Discontinue paying expenses of private individuals and members of student clubs with public funds.
4. Record expenditures consistent with OSC guidelines.

## **Comments of Franklin BOCES Officials**

Franklin BOCES officials agree with recommendations 1, 2 and 4. They disagree with recommendation 3 because they believe that student leadership is an integral part of the occupational education curricula, and VICA provides students with an opportunity to develop and demonstrate their skills.

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# Opportunities to Improve Management Processes

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

## **Inventory of Assets**

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

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

The audit selected a Franklin BOCES location and attempted to locate 41 computers. The audit could not locate 12 (29%) computers and there were no tag numbers identified on the inventory list for 20 of the 41 computers sampled. Therefore, Franklin BOCES needs to improve its method of tracking assets.

As a result of these weaknesses, there is some risk that assets could be lost, misplaced or stolen without timely discovery of the theft or notification of insurance or law enforcement.

Franklin BOCES officials indicated they would review these observations to assess what changes may be needed.

## **Improvements Needed in Internal Controls**

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

The audit identified potential weaknesses in Franklin BOCES' internal control structure that should be addressed. These include:

- One employee who is responsible for running the checks through the check-signing machine also has access to the blank checks. Additionally, this person has access to entering information on the financial records.

The meter on the check-signing machine cannot be used to monitor the use of the check-signing machine since the counter is reset after each run. The check-signing machine does have a lock on it; however, the signature plate is kept in the machine.

Since the same person has access to the check-signing machine, signature plate, blank checks and access to the financial records, this increases the possibility that unauthorized payments may be issued and recorded on the financial records, reducing the possibility of detection.

- There is no policy or procedure to ensure that "less-than-arm's-length" transactions are disclosed as required by General Municipal Law Sections 801 through 803.
- Franklin BOCES does not have a procedure to ensure that expenditure transfers between accounts are adequately documented or reviewed and approved by management. Therefore, there is little assurance that transfers are authorized.

Franklin BOCES officials are assessing how to improve internal controls in light of the relatively small business office staff.

## **Documentation of EPE Contact Hours Needs Improvement**

School districts and BOCES generate Employment Preparation Education (EPE) aid by reporting contact hours and student enrollment on Form SA-160 (EPE State Aid Claim Form). These contact hours generate an amount of aid available for BOCES to spend in support of the EPE Program. The actual aid paid will be the lesser of the aid generated or the expenditures incurred for the EPE Program.

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

The audit selected a sample of 10 students enrolled in the EPE Program and requested supporting documentation of the claimed contact hours. Franklin BOCES provided attendance records, but was not able to provide an audit trail from claimed hours to the actual source document supporting the contact hours. As a result, the audit expended a significant amount of effort to obtain assurance that the reported contact hours were accurate.

The audit revealed that, of the 3,202 claimed hours sampled, the attendance records supported 2,956 hours, or 246 less than claimed.

Since Franklin BOCES had reported EPE expenses well below the EPE reimbursement determined from the claimed contact hours, the audit will not reduce the amount of EPE aid paid to Franklin BOCES. However, Franklin BOCES needs to improve EPE recordkeeping to be able to accurately identify the source of the claimed contact hours.

Franklin BOCES officials are reviewing the EPE contact hour reporting process.

## **Recommendations**

5. Improve the system to track the location of assets.

6. Make necessary improvements to internal controls to lessen the risk of loss.
7. Improve the documentation of EPE contact hours to include an audit trail from student records to the calculation of total contact hours claimed.

### **Comments of Franklin BOCES Officials**

Franklin BOCES officials agree with these recommendations.

Contributors to the Report  
Franklin BOCES

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

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

**Requests for Audit Review**

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

An organization requesting an audit review must make a written application to the Associate Commissioner for Planning and Policy Development, New York State Education Department, Room 128 EB, Albany, New York 12234 within 30 days of receiving the final audit report. An organization may request a review of an audit whenever the final audit report directs the recovery of funds from the organization and one or more of the following conditions is met:

- Recovery of funds would cause immediate and severe financial hardship to the organization, thereby affecting the well-being of program participants;
- The organization's violation was caused by erroneous written guidance from the State Education Department;
- The State Education Department failed to provide timely guidance on the matter or condition when the organization had previously requested such guidance in writing; and/or
- The report contains errors of fact or misinterpretation of laws, statutes, policies or guidelines.

Organizations requesting an audit review must submit a written application describing how one or more of the above conditions have been met. This application must include all evidence and information the organization believes are pertinent to support its position.

An audit report which recommends improvements in internal controls of administrative or financial systems, but has no material financial impact on the organization, will not be considered for an audit review proceeding.