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# Audit Report

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Jefferson-Lewis-Hamilton-Herkimer-Oneida Counties  
Board of Cooperative Educational Services

For the Period

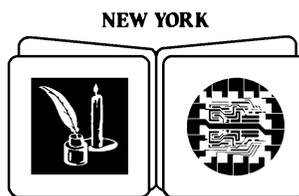
July 1, 1994 through June 30, 1995

BOC-0996-3

February 27, 1998

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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 OF LEARNING

February 27, 1998

Mr. Charles H. Bohlen, Jr.  
District Superintendent of Schools  
Jefferson-Lewis-Hamilton-Herkimer-Oneida  
Board of Cooperative Educational Services  
20104 New York State Route #3  
Watertown, New York 13601

Dear Mr. Bohlen:

The following is a final audit report (BOC-0996-3) of the Jefferson-Lewis Board of Cooperative Educational Services for the period July 1, 1994 through June 30, 1995. The audit was conducted pursuant to Education Law Sections 305 and 1950 and in accordance with generally accepted government auditing standards.

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from the issuance of a 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  
Director

Enclosure

cc: Commissioner Mills  
R. Cate  
J. Kadamus  
T. Sheldon  
C. Foster (DOB)  
R. Lindholm (OSC)

bcc: J. Sneed  
S. Spear  
J. Stevens

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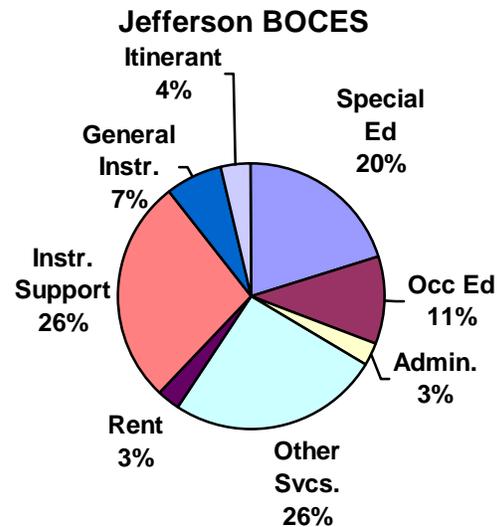
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## Executive Summary

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Jefferson-Lewis-Hamilton-Herkimer-Oneida BOCES (Jefferson BOCES) ranked as the 27<sup>th</sup> largest BOCES in the State, in terms of total general fund expenditures, for the 1994-95 school year (\$23,182,254).

The diagram shows general fund expenditures by program for the 1994-95 school year.



### Background and Scope of the Audit

The audit examined management practices, records and documentation related to selected areas of Jefferson BOCES' operations for the period July 1, 1994 through June 30, 1995. These areas included Administration, Operations and Maintenance, and Employment Preparation Education (EPE) Program. This was a financial related audit and the objectives were to: determine if cost allocations and transfers were accurate and reasonable; determine if services comply with Department approved specifications; verify that only reasonable and necessary costs were incurred; and verify that the budgetary process provides control over the expenditure of funds.

### Audit Results

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

- EPE expenditures were overstated (\$46,632) and contact hours incorrectly reported. (page 5)
- Documentation for EPE contact hours was not adequately maintained. (pages 5-6)
- Improvement opportunities exist relating to procedures for controlling fleet vehicles, telephone use, tax reporting, purchasing and inventory control. (pages 8-13)

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# Introduction

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## Background

In 1948, the New York State Legislature authorized the creation of Boards of Cooperative Educational Services (BOCES) with the establishment of intermediate school districts. The BOCES were actually formed to serve as an interim agency, but the ultimate success of the cooperative service movement for the next 24 years led to a change in the Intermediate School Act in 1972. That change institutionalized BOCES and eliminated the previous legislative references to intermediate school districts. BOCES are organized under Section 1950 of the Education Law. Chapter 474 of the Laws of 1996 amended Section 305 of the Education Law to require that periodic fiscal audits of BOCES be conducted at least once every three years.

BOCES may provide such services as special education for students with disabilities, occupational education, academic and alternative programs, summer school, staff development, computer services, educational communication and cooperative purchasing. There are 38 BOCES in New York State and all but 13 of the 705 operating school districts 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 pay a share of the BOCES' administrative costs. Only districts that actually use the programs offered by a BOCES, called participating districts, are required to pay for the costs of those programs. Costs charged to the districts are based on budgeted costs and are adjusted at year-end to reflect actual costs. Typically, a refund is issued to districts to reconcile differences.

In 1955, BOCES were authorized to rent facilities, union free school districts were allowed to join BOCES and all component districts were required to bear the administrative costs. In 1967, BOCES were permitted to acquire real property. This change also authorized the establishment of contracts to utilize Dormitory

Authority funds for construction of facilities.

Jefferson-Lewis-Hamilton-Herkimer-Oneida BOCES (Jefferson BOCES), headquartered in Watertown, New York, was established to enable the school districts of the four counties to cooperatively carry out studies, develop specialized facilities and to offer shared educational programs and services. Shared programs allow districts to offer opportunities to students and staff that might not otherwise be economically possible.

Jefferson BOCES serves 18 component districts which enroll more than 28,400 students. Jefferson BOCES ranked as the 27<sup>th</sup> largest in the State, in terms of total general fund expenditures, totaling \$23,182,254 for the 1994-95 school year.

## **Objectives, Scope and Methodology**

Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to selected operations of Jefferson BOCES for the period July 1, 1994 through June 31, 1995. This was a financial related audit and the objectives were to:

- determine if cost allocations and transfers between funds and among CO-SERs are accurate and reasonable;
- determine if services (CO-SERs) comply with Department approved specifications;
- verify that only reasonable and necessary costs were incurred;
- verify that the budgetary process provides control over the expenditure of funds; and
- verify the accuracy and reliability of data reported to the Department for Employment Preparation Education aid.

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

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, judgements and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions and recommendations.

## **Comments of Jefferson BOCES Officials**

Jefferson BOCES officials generally agreed with the findings and recommendations contained in this report. Their response is included as Appendix B to this report.

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## Administrative CO-SER Expenditures

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Each component district is responsible for a proportionate share of the costs included in the administrative budget, irrespective of its participation in the elective services that it may request. The administrative budget includes expenditures related to the District Superintendent's office, general costs of administration, expenditures of the Board, needs and assessment planning, central support for operations, and other activities as approved by the Commissioner. Appropriations may also be included for the rental of facilities, payments to the Dormitory Authority for debt service and transfers to the capital fund for construction purposes.

Jefferson BOCES spent \$1,336,479 for administration in the 1994-95 school year, not including capital expenditures. This represents about 5.68 percent of the total of administrative and program general fund expenditures. Statewide, reported BOCES administrative expenditures ranged from 3.0 to 10.6 percent, with an overall average of 6.6 percent.

The audit found that procedures related to recording the administrative costs of Jefferson BOCES were adequate.

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## Employment Preparation Education Program

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Jefferson BOCES operates an Employment Preparation Education (EPE) Program. This categorical aid program targets students 21 years of age and older who do not have a high school or equivalency diploma. Programs are designed to provide instruction that leads to a high school or equivalency diploma.

EPE aid is generated based on the number of contact hours that are provided. Section 168.4 of the Regulations of the Commissioner of Education states that EPE Program funds may be spent for personal services, employee benefits, equipment, supplies and materials, contractual services, travel expenditures, staff development and training, and other expenditures approved by the Commissioner. These expenditures are to be only for EPE Program purposes.

Jefferson BOCES received a total of \$585,466 in EPE aid for the period July 1, 1994 through June 30, 1995, based on reported contact hours. Education Law Section 3602 requires that State aid payable in the following year be reduced by the amount of any excess revenue.

The audit found that Jefferson BOCES did not have an effective system for identifying, segregating and accumulating certain EPE expenditures and, as a result, expenditures were inaccurately reported. In addition, contact hours were claimed for students under 21 years of age.

### *Expenditures for Office Equipment Inaccurately Reported*

Office equipment purchased for Alternative Education, the District Superintendent's office and the business and administrative offices was recorded as an EPE expense. The audit determined that Jefferson BOCES claimed \$46,632 of non-EPE expenditures for the 1994-95 school year. A listing of the total non-EPE expenditures is included at the end of this report (Schedule 1).

According to Education Law Section 3602 (24)(a), if total revenue exceeds total expenditures, EPE aid will be reduced the following year by the excess. The audit report will be utilized by the Department to adjust future aid received by Jefferson BOCES. The Special Aids and Services Team will coordinate the adjustments. Please consult with the team regarding any questions concerning

the impact on future aid payments.

Jefferson BOCES officials indicated that procedures will be established to ensure only EPE related expenditures are reported.

#### *Contact Hours Not Accurate Students Under Age 21 Claimed*

Part 168.4 of the Regulations of the Commissioner of Education states that contact hours should only be reported for students who are at least 21 years of age and have not received a high school or equivalency diploma.

At the Dry Hill Correctional Facility, students under 21 years of age and/or having a high school or equivalency diploma were being included in the reported contact hours. As a result, reported contact hours are overstated. However, due to the lack of complete documentation, the audit was not able to identify the exact number of contact hours claimed for students who may have been under 21 years of age.

#### *Attendance Documentation*

Since Jefferson BOCES is paid based on the number of contact hours reported, the audit reviewed documentation of the reported contact hours to determine if the hours were accurate and adequately supported. Part 168.4 of the Regulations of the Commissioner of Education states that BOCES are required to maintain appropriate attendance records to support reported contact hours.

Documentation of attendance is a fundamental process with the administration of a BOCES. Jefferson BOCES could not provide documentation to support attendance reported for the Dry Hill Correctional Facility. Contact hours reported may be overstated. Although most students at the facility were over age 21, the audit was not able to identify the exact number of overstated contact hours.

Jefferson BOCES officials indicated that procedures will be implemented to ensure that students are 21 years of age or older and do not have a high school or equivalency diploma. They also indicated that a random check of the accuracy of data submitted will be conducted before filing for EPE aid.

## **Recommendations**

1. Establish procedures to ensure that EPE expenditures are accurately identified, segregated and accumulated.
2. Improve procedures to ensure that only expenditures for EPE Program purposes are claimed for aid.
3. Ensure that documentation is retained to support the contact hours reported for the Dry Hill Correctional Facility.
4. Establish procedures to prevent including students under 21 years of age and/or having a high school or equivalency diploma in the reported contact hours.

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# Opportunities to Improve Management Processes

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Management is responsible for establishing effective management processes or controls. In its broadest context, management controls include the plan of the organization, methods, and procedures adopted by management to ensure that its goals are met. These processes include such areas as planning, organizing, directing and controlling program operations. They include systems for measuring, reporting and monitoring program performance. The audit reviewed several processes that it determined significant to the audit objectives and found several opportunities for improvements. These areas include procedures related to controlling fleet vehicles, telephone use, tax reporting, purchasing and inventory control. The audit also recognizes that Jefferson BOCES has undertaken a series of improvement actions since the inception of the audit.

## Improvement Opportunities

### *Fixed Assets*

The Office of the State Comptroller's publication, *Financial Management Guide, Volume 1*, Subsection 3.2010 (Guide), states that it is important to maintain adequate fixed asset records to meet the requirements of Generally Accepted Accounting Principals (GAAP) and as a valuable tool for controlling fixed assets and planning replacements. The Guide, Volume 2, Subsection 11.0101 also states that effective internal control systems are designed to assure 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. Internal controls include maintaining accurate accounting and inventory records, and performing periodic comprehensive physical inventories of its assets.

The audit found that fixed assets are not numbered or tagged to identify them as Jefferson BOCES property. At the time of purchase, assets are recorded in the Jefferson BOCES accounting system and remain there until the asset is disposed of. This is true even if the asset is moved from one program or location to another. Jefferson BOCES also does not conduct a periodic comprehensive physical inventory of its assets.

Jefferson BOCES utilizes an industrial appraisal company to maintain the value of its fixed assets. Inventory records are maintained by the location of the asset, serial number and purchase order number. Each year Jefferson BOCES notifies the company of asset additions and deletions. Several fixed assets have a location code of “throughout the district.” This code is not specific enough to identify the location. In addition, there is a variance between the value of the fixed assets per the industrial appraisal and the audited financial statements.

Adequate controls over fixed assets help reduce any unauthorized use, disposition or loss of these assets. Jefferson BOCES can improve its accountability over fixed assets by establishing adequate controls.

Jefferson BOCES officials indicated that they will participate in a BOCES Asset Management program offered through the Madison-Oneida Regional Information Center and will institute a tagging system beginning July 1, 1997.

#### *Time and Attendance Records*

According to the Guide, all employees should be required to maintain daily time records showing actual hours worked. However, the appointing authority may exempt employees from keeping such records. Those employees exempted should maintain a daily record of absences as well as time and leave credits earned and used. In addition, the supervisor is generally responsible for certifying the accuracy of the total time for each employee and the current period accrual activity before submitting the record to the time section of the payroll office. Also, if employees are exempted the exemption should be in writing.

Employees, including instructors, do not maintain a daily time record showing actual hours worked, nor do they maintain a daily record of absences and time and leave credits earned and used. As a result, employee absences may not be recorded and leave accruals not charged correctly.

Jefferson BOCES officials indicated that they maintain a detailed absence database on each employee and an internal form must be submitted for all leave requests. They further indicate that employees must fill out a “return of absence” form which serves as a record of absence. Officials also point out that no abuses have

been found.

The audit maintains that the lack of written procedures for individuals recording of daily time worked and leave accruals could lead to incorrect time and leave accruals.

### *Travel Reimbursement Guidelines*

General Municipal Law Section 77c states that per diem meal allowances for business related travel shall not exceed the standard meal allowance adopted or prescribed for Federal income tax purposes.

Jefferson BOCES does not have written policies to document maximum reimbursement allowances for meals and lodging. However, audit testing did reveal that Jefferson BOCES tried to minimize travel expenses whenever possible.

With a travel reimbursement policy, Jefferson BOCES employees and Board members are not likely to receive reimbursement for meals and lodging in excess of Internal Revenue Service (IRS) rates. Jefferson BOCES officials have indicated they have developed and implemented travel reimbursement guidelines.

### *IRS Accounting for Non-Overnight Meal Reimbursement*

Volume XI, Section 8.0120 of the New York Accounting System User Procedure Manual (Manual), as prescribed by the IRS, requires employers to report and withhold income and employment taxes from meal allowances for non-overnight travel. The specific IRS rule states that a taxpayer traveling on business may only deduct meal allowances if the trip requires the person to stop for "sleep or rest." Meal allowances that are not deductible as business expenses are subject to withholding of income and employment taxes and must be reported on the employees' W-2s.

The IRS rules indicate that even if the employer does report income correctly, the employee is still responsible for reporting the reimbursement as income when filing taxes. The audit determined Jefferson BOCES is not complying with the Manual and IRS rules regarding non-overnight meal expenses. Jefferson BOCES did not treat these non-overnight meal reimbursements as income. As a result, BOCES may be understating the annual compensation reported on the employees' W-2s.

Jefferson BOCES officials indicated that they have developed and implemented new procedures to ensure compliance in the future.

### *Policy on Telephone Use*

Internal controls include having written policies to govern the personal use of cellular telephones, telephone calling cards and long distance telephone calls by employees. Without written policies, employees may not understand the procedure to make reimbursement for personal use of cellular telephones, telephone calling cards and long distance telephone calls.

The audit noted that Jefferson BOCES does not have written policies to govern the personal use of these assets or a procedure to document the review of telephone bills to ensure reimbursement was made for personal use.

Jefferson BOCES officials indicated they have developed and implemented new procedures to ensure better control of cellular telephones, telephone calling cards and long distance telephone calls by employees. In addition, the duties of the internal auditor have been defined and expanded to include the review and approval of claims for payment.

### *Policy and Procedures for Vehicle Use*

Internal controls include monitoring the use of vehicles by maintaining mileage logs to record and document the miles driven. Mileage logs are useful to help schedule periodic preventive maintenance and to aid in identifying improper fuel charges. Inadequate documentation of vehicle use can result in decreased internal controls.

The audit found that Jefferson BOCES does not require the use of mileage logs. With the use of mileage logs for its vehicles, Jefferson BOCES would have greater control over the proper use and care of its vehicles.

Jefferson BOCES officials indicated they concur with the benefit of mileage logs and have implemented the use of mileage logs in all vehicles as of February 1997. They further indicated that the logbooks will be periodically inspected to ensure compliance and that gas credit card receipts are to be included in the logbooks and collected monthly.

## *Mobil Credit Cards*

Written policies to govern the use of gas credit cards to ensure that they are only used to fuel fleet vehicles are part of good internal controls. Additional controls include reconciling fuel purchases to miles driven on fleet vehicles and having the credit card receipts identify the vehicle and mileage for that vehicle at the time of fueling. The gas receipts should be attached to the monthly billing statement and spot-checked to vehicle mileage logs.

The audit found that Jefferson BOCES does not have written policies concerning the use of gas credit cards. Our review also noticed that gas credit cards do not identify the vehicle and are not attached and reconciled to the monthly billing statement. There are no procedures in place to prevent the personal use of gas credit cards.

Jefferson BOCES officials indicated they have developed new policies and procedures as of February 1997 to ensure compliance in the future.

## *Cost of District Superintendent's Vehicle*

The State Education Department's publication, BOCES Administrative Handbook #3, General Requirements for Administrative Budget, states that all expenses related to the District Superintendent should be recorded as administrative expenses. The expense of the District Superintendent's vehicle was charged to various CO-SERs. Jefferson BOCES officials stated that the vehicle is assigned to other programs after a few years, therefore, they thought the expense should be charged to various programs.

Jefferson BOCES uses a five year rotation schedule for its vehicles. The schedule shows that the vehicles are kept for a minimum of five years and are rotated throughout various programs each year. Jefferson BOCES officials claimed the recording of the expense in the Administrative Budget only would be an overstatement of administrative expenses.

However, a review of their rotation schedule shows that an administrative employee uses the vehicle for the first three years. Therefore, Jefferson BOCES should charge a larger amount of the District Superintendent's vehicle to the administrative CO-SER in order to more accurately reflect the administrative costs.

## *Reporting to Tax Authorities*

The IRS requires employers to include fringe benefits, such as a vehicle provided to an employee, in the employee's gross income. The benefit is subject to income and employee taxes. The IRS has special rules to value this benefit.

The audit found that Jefferson BOCES did not report any value for the vehicle provided to the District Superintendent. The District Superintendent was not required to maintain a mileage log to support a claim of de minimis use. Jefferson BOCES officials indicated that de minimis use has been provided for in the District Superintendent's agreement since 1982. De minimis use is considered to be immaterial use.

The audit maintains that to claim de minimis use of an employer-provided vehicle, a mileage log needs to be maintained to document business and personal use. Commuting to and from work is considered personal use. Jefferson BOCES officials have indicated that the District Superintendent will keep a mileage log and the personal mileage driven will be multiplied by the IRS mileage rate and reimbursed by the District Superintendent. It is the audit's understanding that the value of the amount of personal mileage is to be added to the District Superintendent's W-2.

## **Recommendations**

5. Improve inventory controls by conducting annual physical inventories.
6. Ensure the value of the Jefferson BOCES' inventory is correct on the financial records.
7. Ensure that employee attendance records are maintained for all employees and require supervisory review and approval.
8. Establish written policies for travel reimbursement.
9. Establish procedures to ensure non-overnight travel reimbursement is accounted for in accordance with IRS rules.
10. Establish procedures to require mileage logs for fleet vehicles.

11. Establish written policies governing the personal use of cellular telephones, telephone calling cards and long distance telephone calls.
12. Establish procedures to review telephone bills to ensure reimbursement of personal telephone calls.
13. Establish written policies governing the use of fleet vehicles.
14. Establish procedures to reconcile fuel purchases with miles driven on fleet vehicles on a sample basis.
15. Establish procedures to require that the fleet vehicle be identified on gas credit card receipts.
16. Ensure that all purchases are properly bid in accordance with General Municipal Law and BOCES Board policy.
17. Ensure that an adequate allocation of the cost of the District Superintendent's vehicle is charged to the administrative CO-SER.
18. Establish and implement procedures to ensure compliance with IRS reporting requirements for fringe benefits.

## **Comments of Jefferson-Lewis Officials**

Jefferson-Lewis BOCES officials generally agreed with these recommendations. They state that all policies, including travel, are under review. They also believe that present practice is sufficient to ensure accurate reporting of absences and leave accruals.

## **Appendix A**

### Jefferson-Lewis BOCES Contributors to the Report

- Calvin Spring, Audit Manager
- Brian Jackson, Associate Auditor (Auditor-in-Charge)
- Paul Bazaar, Associate Auditor
- Robert Scherer, Senior Auditor