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# Audit Report

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Board of Cooperative Educational Services  
Madison-Oneida Counties

For the Period

July 1, 1995 through June 30, 1996

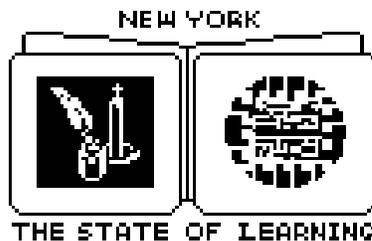
BOC-1296-6

December 29, 1997

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**The University of the State of New York  
The State Education Department  
Office of Audit Services  
Albany, New York 12234**



December 29, 1997

Dr. Edward Shafer  
District Superintendent of Schools  
Board of Cooperative Educational Services  
Madison-Oneida Counties  
4937 Spring Road  
Verona, New York 13478-0168

Dear Dr. Shafer:

The following is our final audit report (BOC-1296-6) on the Board of Cooperative Educational Services Madison and Oneida Counties 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  
Director

Enclosure

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

bcc: G. Illenberg  
J. Sneed  
S. Spear

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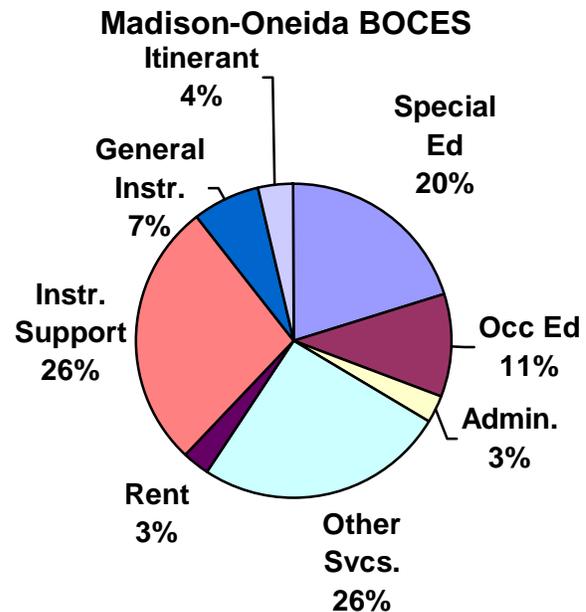
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# Executive Summary

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Madison-Oneida BOCES ranked as the 17<sup>th</sup> largest BOCES in the State, in terms of total general fund expenditures, for the 1995-96 school year. (\$27,182,254)

The pie chart illustrates general fund expenditures by program for the 1995-96 school year.



## Background and Scope of the Audit

The audit examined management practices, records and documentation related to selected areas of Madison-Oneida BOCES operations for the period July 1, 1995 through June 30, 1996. These areas included administration (CO-SER 001), operations and maintenance (CO-SER 701), Employment Preparation Education (EPE) (CO-SER 918) and the Regional Information Center (CO-SER 704). 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; verify that the budgetary process provides control over the expenditure of funds; and verify the accuracy and reliability of data reported for EPE.

## Audit Results

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

- An addition to the administration building was constructed without obtaining voter and Department approval and without adequate competitive bidding (pages 3-5).
  - Incorrect accounting for the cost of the addition produces ineligible aid (pages 6-7).
  - Expenses were understated in the administration CO-SER (page 7-8).
  - EPE expenditures were overstated by \$305,382 and contact hours were incorrectly reported (pages 9-11).
  - Improvement opportunities exist related to procedures for budgeting, tax reporting, purchasing and inventory control (pages 13-21).
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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 together to provide educational programs or services more economically than each district could offer by itself. BOCES are organized under Section 1950 of the Education Law. Chapter 474 of the Laws of 1996 and amended Section 305 of the Education Law require the Department to perform fiscal audits of BOCES 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 schools, staff development, computer services, educational communications and cooperative purchasing. There are 38 BOCES in New York State and all but 13 of the 705 operating 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 for each program and service offered to the 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 program 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.

Madison-Oneida BOCES, headquartered in Verona, New York, was established to be a means for the school districts of Madison and Oneida 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. Madison-Oneida BOCES also serves as a Regional Information Center (RIC) for 54 districts. A RIC provides technology services for educational and business purposes to local school districts.

Madison-Oneida BOCES serves nine component districts and enrolls more than 21,424 students. Madison-Oneida BOCES ranked as the 17th largest in the State, in terms of total general fund expenditures, for the 1995-96 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 the Madison-Oneida BOCES for the period July 1, 1995 through June 30, 1996. This was a financial related audit and the objectives were to:

- X determine if cost allocations and transfers between funds and among CO-SERs are accurate and reasonable;
- X determine if CO-SERs comply with Department approved specifications;
- X verify that only reasonable and necessary costs were incurred;
- X verify that the budgetary process provides control over the expenditure of funds; and
- X 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 Madison-Oneida BOCES management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the Madison-Oneida 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 Madison-Oneida BOCES Officials**

Madison-Oneida BOCES officials generally agreed with the audit findings and recommendations except where noted. A draft report covering the findings contained in this report was provided to Madison-Oneida BOCES officials for their review and comment. Their comments have been considered in this report and their response is included as Appendix B.

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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. It may also include the rental costs of facilities, payments to the Dormitory Authority for debt service and transfers to the capital fund for construction purposes.

Madison-Oneida BOCES reported \$776,092 in administration costs for the 1995-96 school year, not including capital expenditures. This represents about 2.7 percent of the total of administrative and program general fund expenditures. Statewide, BOCES administrative expenditures ranged from about 3 to 11 percent with an overall average of 6.6 percent.

The audit found Madison-Oneida BOCES did not obtain voter approval for the construction of an addition and renovations to the administration building as required by Education Law Section 1950 and Department policies. It also found that Department prior approval was not obtained for the construction, competitive bidding was not adequate, BOCES aid was claimed inappropriately for the construction, and certain costs should be included in the administration CO-SER. The construction of the addition and renovations to the administration building cost more than \$318,000 and provided BOCES with about 7,600 square feet of usable space. BOCES officials believe they acted prudently and cost effectively by constructing an addition as opposed to leasing space.

## **Administration Building Addition**

### *Department and Voter Approval Not Obtained*

Education Law Section 1950 4(t) requires voter approval for additions to buildings. *BOCES Administrative Handbook 4, Reporting Requirements for Programs and Facilities* states "Voter approval is required for acquisition or construction of real property. Therefore, if a BOCES first purchases land and later erects a building on that land, a voter referendum is required for both unless the referendum for the purchase of the land contemplates and included the cost for the erection of the building. Voter approval is not required for alteration. However, it is required for additions to an already existing building, whether or not the addition is erected on land already owned by the BOCES." BOCES proceeded to construct the addition without obtaining voter approval.

The State Education Department's publication *BOCES Administrative Handbook*

3, *General Requirements for the Administrative Budget*, Appendix A, section 1 B. states that "new buildings, additions, and renovations at the time of building acquisitions require review and approval by both the Bureau of District Organization and the Bureau of Educational Facilities Planning."

School buildings are exempt from obtaining local building permits. Instead, a building permit is issued by the Department's Bureau of Educational Facilities Planning after reviewing final plans for compliance with fire, health and safety codes. BOCES should not commence any construction without proper building permits evidencing that building plans comply with applicable fire, health and safety codes.

BOCES constructed an addition to the management services (administration) building adding 4,684 square feet for office space and a room for board meetings and renovated part of the existing building. The basement of the addition provides another 2,916 square feet of unfinished space for storage. The cost to the BOCES was over \$318,000 for the addition and renovation.

BOCES notified the Bureau of Facilities Planning in November 1995 that they were planning a construction project and submitted preliminary blueprints. The Bureau subsequently assigned a project number. However, BOCES did not follow through by submitting the appropriate forms and final blueprints for Department review and approval. Therefore, BOCES did not receive a building permit, which authorized construction to begin. Furthermore, BOCES proceeded with the project without obtaining prior approval from the Department's Bureau of District Organization.

BOCES was compliant with Department guidelines for another construction project that operated concurrently with the administration building addition. It has also executed other building projects in the past in compliance with Education Law, Section 1950 and Department guidelines.

BOCES needs to apply for a certificate of occupancy. The Bureau of Facilities Planning can provide guidance on the process. The final report still needs to be submitted. Procedures should be established to ensure future compliance with Department policies.

Although they recognize that certain processes were not followed, BOCES officials believe their actions were grounded in a prudent use of State and local taxpayer funds and a desire to reduce overall expenses and improve the fixed assets for the BOCES. Additional space was needed and the cost of leasing was deemed far greater than the cost of construction if carried out as a student-live work project. Both students and BOCES employees provided the labor for constructing the addition and performing the renovations.

Furthermore, officials noted that active and direct steps were taken to inform the boards of education of local components regarding the project. They also indicated that information was provided to school district administrators and boards of education in monthly correspondence and informational sessions. They also acted on the basis of other projects that involved student-live work that did not require voter approval.

However, BOCES officials need to ensure compliance with statute and policies regarding all construction projects, especially those that involve construction of administrative offices. Such statutes and policies define what is acceptable public policy in the administration of State aid in combination with local resources.

### *Bidding For Addition Materials*

General Municipal Law, Section 103 sets the bidding thresholds for public work contracts and purchase contracts at \$20,000 and \$10,000 respectively. Also, BOCES Board Policy 4020 states "The purchase of all items and services (supplies, materials, vehicles, equipment, renovations, etc.) will be in accordance with the bidding process outlined in General Municipal Law, Section 103." In addition, Appendix I of Regulations of the Commissioner of Education requires bids for capital construction to be kept for six years after the facility no longer exists.

Board Policy 4051.1 states "Goods and services which are not required by law to be procured by the Board of Cooperative Educational Services through competitive bidding will be procured in a manner so as to ensure the prudent and economical use of public monies. Alternative proposals or quotations will be secured by requests for proposals, written or verbal quotations or any other appropriate method of procurement."

BOCES purchased \$318,076 in building materials from vendors for the administration building project without obtaining bids when required and did not maintain records that document all bid quotes were obtained. BOCES anticipated purchasing building materials from local vendors and issued large blanket purchase orders. Two blanket purchase orders were issued to a local building supplier in the amounts of \$20,000 and \$25,000. Another purchase order was issued to this vendor for windows costing \$11,265.

Blanket purchase orders allowed BOCES to purchase materials up to the amount of the purchase order without following General Municipal Law's bidding requirements. Purchases from the building supply provider amounted to \$108,424, which is substantially above the bidding threshold established for the purchase of goods.

Purchases were also made from other vendors that should have followed the competitive bidding process. A listing of the total purchases by year is included at the end of this report (Schedule 1). The Director of Operations and Maintenance coordinated the project and controlled the purchases. The Director indicated that quotes are routinely requested to ensure that BOCES is getting the best price. However, documentation is not maintained.

BOCES officials need to provide assurance that the competitive bidding process is employed consistent with General Municipal Law section 103. The use of competitive bidding provides for the purchase of quality goods and services at the lowest possible price. This provides some reasonable assurance that public funds are spent economically. They also need to ensure compliance with record retention requirements defined in Appendix I of the Commissioner's Regulations.

#### *Costs of the Administration Building Addition Ineligible for BOCES Aid*

Approved construction projects are eligible for building aid and cannot be financed with regular BOCES services aid. The purpose of building aid is to assure that each school district and BOCES provides suitable and adequate facilities to accommodate the programs of the district, including certain mandates of the Education Department. However, the Department's Facilities Planning manager indicated administration buildings are not generally eligible for building aid since the building aid formula is based on student space which includes a factor for administration space.

BOCES officials have explained that their intent was to keep the costs of the project to a minimum. They state the projects were clearly divided such that BOCES staff worked on the renovations and the overwhelming majority of the work on the addition was performed by Occupational Education classes.

The costs of the project for school years 1995-96 and 1996-97 were charged to the Operation and Maintenance (O&M) CO-SER. BOCES officials have indicated that the project was funded by transfers to O&M from other CO-SERs and, in turn, the allocation of O&M costs to all programs. The Regional Information Center (RIC) CO-SERs were the principal sources of funding for the project. They also indicated that the renovated space was for RIC administration and other program service staff and, therefore, charging RIC CO-SERs and other CO-SERs for the costs of the project was appropriate.

School districts receive BOCES services aid based on approved service expenses and an aid ratio. Since costs of the addition and renovations are in at least some approved CO-SERs which are aidable, the districts inappropriately received

BOCES services aid on these costs for the school years involved.

BOCES officials maintain that administration buildings are eligible for BOCES aid. They offer the rationale that the cost of renting space for administrative staff is eligible for BOCES aid. BOCES could not own property until the 1960's when the Legislature authorized to BOCES secure property and receive building aid according to the school district aid formula.

However, the Education Law Section 1950 clearly states that construction expenditures are not eligible for BOCES aid. Facility construction is only funded through building aid and not BOCES services aid. The costs associated with construction should be reflected in the capital budget. BOCES' strategy for financing the new addition has resulted in districts receiving BOCES services aid for a non-aid eligible project. In essence, the construction of the building represents a project that can be characterized as approvable, but not eligible for State aid.

## **Administrative Costs Not Included in Budget**

Education Law, Section 1950(4)(b)(1) states "The administrative budget shall include, but not need be limited to, office and central administrative expenses, traveling expenses and salaries and benefits of supervisors and administrative personnel necessary to carry out the central administrative duties of the supervisory district, any and all expenditures associated with the board, office of the district superintendent, general administration, central support services, planning, and all other administrative activities."

BOCES is required to submit three budgets to the Department - program, capital, and administrative. The program budget identifies expenses associated with services offered and the capital budget encompasses construction expenses. The administrative budget is the only one that is voted on by the component districts. It is necessary for all associated costs to be shown in the administrative budget so that the component districts have a complete picture on the cost of administration.

BOCES reports the salary costs of the District Superintendent and the Deputy Superintendent in the Administrative CO-SERs. It also allocates the costs of certain staff who provide support services to the District Superintendent and Deputy Superintendent. BOCES does not directly include the costs of the business officer, business office functions and administration support functions.

BOCES needs to include all costs associated with administration consistent with section 1950. Component districts need to have complete accountability with administrative costs so they can properly assess the adequacy of such costs.

## **Recommendations**

1. Obtain Department approval and required building permits before commencing any future construction.
2. Obtain required voter approval for all construction projects.
3. Submit required data to apply for a certificate of occupancy.
4. Comply with General Municipal Law when purchasing goods and services.
5. Establish procedures to retain all public records pertaining to construction, as required by the Regulations of the Commissioner of Education, Appendix I.
6. Ensure that documentation with bid quotes is retained for review.
7. Submit amended SA-111 forms for 1995-96 and 1996-97 school years to exclude construction costs from CO-SERs eligible for BOCES aid.
8. Ensure that all applicable administrative costs are included in subsequent administrative budgets.

### **Comments of Madison-Oneida BOCES Officials**

Madison-Oneida BOCES officials agree with the above recommendations.

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# Employment Preparation Education Program

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Madison-Oneida BOCES operates an Employment Preparation Education (EPE) Program. This categorical aid program serves students over 21 years of age who have not received a high school or equivalency diploma.

Part 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 used only for EPE Program purposes.

Madison-Oneida BOCES received a total of \$1,135,305 in EPE aid for the period July 1, 1995 through June 30, 1996 based on reported contact hours. The audit found that Madison-Oneida BOCES did not have an effective system for identifying, segregating and accumulating certain EPE expenditures and, as a result, expenditures were overstated. BOCES also needs to improve procedures for calculating contact hours.

Education Law 3602 states that when total revenue received exceeds the entire cost of such program, State aid payable in the following year will be reduced by the amount of such excess. The audit report will be used by the Department to adjust future aid received by Madison-Oneida BOCES.

## **Expenditures Overstated**

### *Purchases and Charges Unrelated to EPE*

Part 168.4 of the Regulations of the Commissioner of Education states that EPE program funds may be spent only for personal services, employee benefits, supplies and materials, contractual services, travel expenses, staff development and training, and other such expenditures approved by the Commissioner. Such expenditures shall be made only for EPE Program purposes.

BOCES charged various expenditures that were unrelated to the operation of the EPE Program. BOCES became aware of the problem prior to the commencement of the audit and requested a review of the EPE Program by an independent Certified Public Accountant (CPA) firm. The firm, D'archangelo and Company, tested the expenditures charged to the program and concluded that some expenditures were not related to EPE. They did not detail which expenditures were inappropriate or determine the actual amount of these expenditures.

This audit tested EPE transactions and included the CPA's sample as well as an

additional judgmental sample of invoices. In all, 81 transactions, amounting to \$717,983, were reviewed. The audit determined that 22 separate purchases, amounting to \$305,382, were for purposes unrelated to the EPE program. These purchases included a loader/backhoe, a second loader, snow plow, office and classroom furniture, and computers for the vocational education program.

As a result, BOCES overcharged the EPE Program by \$305,382. BOCES officials have indicated that written criteria for coding EPE related expenses will be developed and used by BOCES. The Department will need to adjust future aid payments to recover these monies.

#### *Day Care Center Charges*

BOCES operated a day care service in the Utica Access Center. BOCES' officials indicated the day care service was a necessary component of the EPE Program since many students could not otherwise participate without day care. BOCES charged the EPE Program \$93,754 that represented the deficit incurred from operating the center.

The audit found that only 52 percent of the day care population were the children of EPE students. As such, the EPE Program should only be charged its proportionate share of the deficit which amounts to \$48,751. Consequently, the audit reduced eligible expenditures by \$45,002.

BOCES officials contend the day care center is a Department requirement as outlined in its Request for Proposal. Had the day care center exclusively served EPE students, the entire cost would have been eligible for EPE aid. Attempts to maximize student utilization and secure payment from other sources actually reduced the net charge to the EPE Program.

The audit maintains that the EPE Program should only be charged its proportionate share. Other programs that benefited from the service should be charged their fair share. Such allocation is consistent with how costs are distributed among the various programs that benefit from services such as day care. The Department will need to adjust future aid payments to recover the monies.

#### *EPE Equipment Not Accounted For*

The Office of the State Comptroller's publication *Financial Management Guide* (Guide), Volume 1, Subsection 3.2010 states 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 2, 11.0101 also states

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.

As part of our review, we tested the internal controls over recently acquired fixed assets. Three computer purchases for the Utica Access Center and the Rome Adult Learning Center were selected for verification. Seven of the 48 computers in our test could not be located. The cost of the missing equipment was \$15,177, representing 14.25 percent of the total expenditures tested. Six computers could not be found and BOCES stated that one computer was stolen, but no insurance claim was filed.

BOCES needs to improve internal controls for tracking and accounting for computer equipment purchased for the EPE Program. BOCES also needs to ensure proper safeguards are taken to minimize the misuse or loss of such equipment. Improvements to inventory controls are also discussed later in this report.

## **Contact Hours Inaccurately Reported**

### *Contact Hours Claimed for Students Under Age 21*

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 receiving instruction that leads to a high school or equivalency diploma.

The audit reviewed student records at the Oneida Learning Center to verify that students were at least 21 years of age. BOCES' internal report of contact hours claimed for the 1995-96 school year at the Center included 1,240 contact hours for 29 students under the age of 21. This resulted in ineligible aid payments totaling \$5,724.

The audit also tested whether contact hours were being claimed for students under the age of 21 at other primary sites where EPE services were provided. A judgmental sample of 33 students who turned 21 years old during the year was selected. The audit found that contact hours for 21 of the 33 students under the age of 21 (64% of our sample) were claimed for EPE aid. These contact hours resulted in BOCES receiving ineligible EPE aid totaling \$6,787.

### *Calculation of Contact Hours*

Part 168.2 of the Commissioner's Regulations defines a contact hour as 60 minutes of instruction given by a teacher in an approved program. To ensure that EPE aid paid to the district or BOCES are appropriate, the number of reported contact hours must be clearly documented to support the provision of instruction

and justification for claiming aid.

The Oneida Learning Center has an EPE population of 1,674 students and generated a total of 87,906 contact hours for the 1995-96 school year. An earlier review of the EPE program, requested by BOCES and conducted by the CPA firm, disclosed BOCES was over reporting EPE contact hours.

This audit examined the reporting process for the EPE Program at the Oneida Learning Center. The procedures for recording contact hours at the Center included the completion of a weekly attendance sheet. These sheets were the primary forms used to enter attendance data into a database.

The audit disclosed a flaw in the computer program that collects contact hour data. The program automatically multiplied three contact hours for each day attended. The program does not recognize fractional hours for students who attend for less than three hours.

A sample of 49 student records, totaling 1,199.4 contact hours, found that 27.7 percent (332.4 hours) were in error because of the flaw in the computer program. This equates to \$1,552 in aid claimed for ineligible contact hours. The audit did not expand the sample to test reliability and precision because of the amount of ineligible expenditures. BOCES officials have indicated that the computer program flaw was corrected.

### **Recommendations**

9. Ensure that only students over 21 years of age are claimed for EPE aid.
10. Establish procedures to ensure the correct calculation of contact hours.
11. Improve procedures to ensure that only expenditures for EPE Program purposes are claimed for aid.
12. Establish procedures to ensure that expenditures charged to the EPE Program are accurately identified, segregated and accumulated.
13. Improve inventory controls over equipment purchased with EPE aid.

### **Comments of Madison-Oneida BOCES Officials**

Madison-Oneida BOCES officials agree with the above recommendations.



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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 goals and objectives of the organization and the methods and procedures adopted by management to ensure that its goals are met. These processes include areas such 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 identified several opportunities for improvements. The audit also recognizes that Madison-Oneida BOCES has undertaken a series of improvement actions since the inception of the audit.

The areas for improvement include the budgeting process, establishing policies for telephone and vehicle use, documentation of financial transactions, and reimbursement of travel expenses.

## Budgeting

### *Budgeting Process*

Education Law 1950 (4)(d)(5) requires BOCES to submit to the Commissioner, by June 1, an operating plan and budget based upon the requests for services received from its component school districts. An operating plan is defined as the total of the approved CO-SERs to be provided by the BOCES for the school year. The budget should be based on estimated needs, historical trends and should be documented.

Audits have observed instances where other BOCES and component districts have used the following process to develop their budgets:

- Requests for services from the component districts are reviewed.
- Meetings are held with the component districts to discuss prior year trends with expenditures and enrollment.
- Estimates for services and expenditures are formulated for the budget.

BOCES bases its budget on actual requests for services from school districts as required by Section 1950. However, it does not appear that BOCES takes into account the historical actual costs and related services provided. Instead, BOCES base their budgets on the prior years' budget for expenditures instead of using actual data. As a result, actual expenditures have exceeded budgeted amounts by an average of 24 percent for the three years illustrated on the following table.

Table 1

Actual versus Budgeted Expenditures

	1993-94	1994-95	1995-96
<b>Budgeted</b>	\$17,226,733	\$21,210,476	\$23,000,527
<b>Actual</b>	\$22,060,333	\$25,189,641	\$28,797,293
<b>% Over Budget</b>	28.1%	18.8%	25.2%

An analysis of 1995-96 total expenditures disclosed that the Common Learning Objectives/Instructional Connectivity CO-SER (505) and the Business Computer Services Management CO-SER (602) accounted for more than half of the \$5,797,293 difference between the budget and actual expenditures for that year. In total, 36 (38.7 percent) of the 93 CO-SERs submitted for the 1995-96 school year exceeded their budgets by 10 percent or more. Overall, 50 CO-SER's (53.8 percent) exceeded their budgets.

BOCES officials indicated that budget plans reflect service requests by component districts. All requests for services subsequent to the May 1 contract date are submitted by schools on a contract service adjustment form. Only after a component district files a Board approved adjustment to increase its contract does BOCES adjust its budget to reflect the addition.

Officials also noted that CO-SERs 505 and 602 are primarily non-component CO-SERs through the Regional Information Center. If these two CO-SERs are considered, the difference between the budget and actual expenses ranges from 12.3 percent to 14.6 percent for the years analyzed. Officials noted that BOCES will continue to refine and improve communication with component districts concerning service and budget estimates. By October 1 of each year, each of the three BOCES whose districts are served by Regional Information Centers will be given reports on services purchased in the previous and current school years to assist them in developing more accurate estimates of purchased computer services.

*Policy on Telephone Use*

The Office of the State Comptroller's publication *Financial Management Guide* (Guide), Volume 2, Subsection 11.0101 states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. Also, all resources should be safeguarded against waste, loss and misuse. A component of an effective internal control structure is establishing polices and procedures.

BOCES does not have written policies to govern the personal use of cellular

telephones, telephone calling cards and long distance telephone calls by employees. BOCES indicated they do have guidelines in place for the issuance of cellular telephones and have been reimbursed for personal calls made on cellular phones. They also indicated they perform spot checks on the long distance telephone bills to check for calls that appear unusual.

BOCES officials agree that their policies should be in writing and have indicated that written policies and procedures to govern the use of cellular telephones and personal long distance calls have been established.

## **Purchasing**

### *Fixed Assets*

The Guide, 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. Internal controls include maintaining accurate accounting and inventory records and performing periodic comprehensive physical inventories of its assets. BOCES officials indicated they have not conducted a comprehensive physical inventory of their assets in several years. Instead, they use an Industrial Appraisal Company to maintain their inventory.

BOCES officials explained their procedures for controlling fixed assets include tagging all new equipment purchases to identify them as BOCES property. The tagging procedure results in the assignment of a number to each piece of equipment. Any new assets acquired during the year are reported to the Industrial Appraisal Company.

The audit tested the internal controls for fixed assets. Most of the equipment BOCES purchased during the audit period was not tagged or recorded on BOCES inventory records. BOCES expended \$4,309,430 on equipment for the Regional Information Center (RIC) CO-SER during the 1995-96 fiscal year and only \$374,513 of equipment was recorded on inventory records as new assets acquired during the year.

As a result, BOCES may not be adequately safeguarding assets. This could result in unauthorized use, disposition or loss of these assets. Additionally, the small percentage of new equipment being tagged, recorded and reported as assets could result in inadequate insurance coverage.

BOCES officials indicated that all RIC equipment was inventoried, but all was not tagged. They indicated that all personal property acquired as of July 1, 1997 and having a useful life of one year or more will be inventoried. Also, all personal property having a unit resale value of \$500 or more will be inventoried once annually and all other personal property will be inventoried at least once

every two years.

### *Procedures for Requesting Quotations*

General Municipal Law, Section 104-B (1) states goods and services, which are not subject to competitive bidding, must be procured in a prudent and economical manner. The governing board shall adopt internal policies and procedures governing all procurements of goods and services which are not subject to the competitive bidding requirements..."

Section 104-B (2) also states "Such policies and procedures shall contain provisions which, among other things: ... (b) provide that, alternative proposals or quotations for goods and services shall be secured by use of written request for proposals, written quotations, verbal quotations or any other method of procurement...; (d) require adequate documentation of actions taken in connection with each such method of procurement..."

BOCES' policy on Procurement of Goods and Services 4051.1(III)(F) requires all items and/or groups of items whose total value exceeds \$5,000, but is less than the limits prescribed by Section 103 of the General Municipal Law, will require at least two (2) informal quotations, either by a "request for quotation" form mailed to bidders or by telephone with written documentation.

Our examination of documents for purchases found that BOCES did not maintain adequate documentation for two procurements where quotations should have been secured. These purchases involved \$13,852 for electrical services and \$11,627 for advertising services. By retaining documentation for quotations, BOCES would be in a better position to demonstrate that purchases were awarded to the lowest responsible vendor and provide assurance that public funds are expended in an economical manner.

BOCES officials agree that documentation was not maintained on the two quotes previously mentioned. They also indicated that current procedures require that quotation forms be attached to purchase orders before the purchasing agent signs them. BOCES officials indicated they will institute procedures to ensure compliance with policies and general municipal law.

### *Confirming Purchase Orders*

The Department's publication *Purchasing, School Business Handbook Number 5* recommends a nine step purchasing procedure. It suggests that confirming purchase orders, purchase orders completed after an item has been ordered, be used only in emergency situations. Also, BOCES' policy on Procurement of Goods and Services, 4051.1 (III)(A)(3) states "In all instances, purchase orders

are to be completed before a purchase is made. The sole exception shall be in the event of an emergency."

Purchase orders provide an important internal control feature with an organization's purchasing function. When properly used, they provide reasonable assurance that the appropriate authorization is obtained before purchases are made. They also provide for the review and approval of purchase prices by the purchasing officer.

The audit tested purchase transactions and noted BOCES routinely issued purchase orders after an order had already been placed with a vendor. In some instances the order was placed and a purchase order was faxed to the vendor. In other instances the date of the purchase order was after the date of the invoice.

BOCES officials acknowledged the practice existed during the audit and have since limited the use of confirming purchase orders. They have indicated their internal policy has been modified to include control procedures for the delineation and verification of the need for emergency purchases. Annually the business manager will review this policy with program administrators and staff.

## **Authorization and Documentation of Certain Financial Transactions**

### *Documentation of Financial Transactions*

The Guide (Section 8.1020) states that a claim for payment must include sufficient detail to permit a satisfactory audit by a person who is entirely unfamiliar with the transaction. Section 8.1025 states "The cost of meals while performing the usual duties of the office or position is generally a personal expense, rather than an actual and necessary expense incurred in the performance of official duties."

The Guide further states that the cost of meals for guests may not be paid unless a lunch or dinner meeting will promote a valid local government purpose. The claim for reimbursement should state the names of any guests and the topics discussed. The Board must carefully assess the appropriateness of any given expenditure of this nature to be sure that it is essential and will promote a valid local government purpose

Credit card company slips and account statements only indicate payment for goods and services purchased. They are not the type of itemized documentation needed to substantiate that the claim for reimbursement was proper.

The audit tested BOCES financial transactions for the 1995-96 fiscal year. Our review of expenditures noted BOCES needs to maintain more complete documentation that clearly indicates the purpose of expenditures.

Listed below are some examples of the types of situations where additional substantiation is needed.

- Documentation for meals does not always include who was in attendance and the reason for the expense.
- Conferences/meetings - documentation does not always indicate the purpose of the conference/meeting, who attended, the dates or any evaluation of the conference.
- Sufficient documentation was not retained to support certain credit card bills. For example, in many cases original hotel bills and meal checks were not retained, airline ticket stubs or itineraries were not retained, and meal expenditures did not include information of who attended or the purpose of the expense.
- Several check copies did not have sufficient documentation. For example, a payment to BOCES Oneida-Herkimer-Madison had no details as to who attended the seminar, no purchase order, and no itemization of the costs paid for a consultant. A payment to the White Eagle Conference Center did not include itemized hotel or meal receipts, and a payment to Oneida Daily News did not include a copy of the advertisement being paid for.

In other instances, BOCES was able to obtain supporting documentation from other employees or, in some cases, the vendor.

BOCES officials have indicated that expense vouchers will only be approved by the purchasing agent for payment when itemized documentation is attached for hotel bills, credit card payments and itineraries for airline bills. They have also eliminated the practice of reimbursement for daytime meals while the employee is performing the usual duties of the office, except as permitted by the State Comptroller's Guide. Documentation with payments for meeting and conferences will include dates, purpose and, where available, the meeting agenda.

These actions should enhance BOCES' documentation requirement, which should further demonstrate that expenditures are made for purposes and activities that are necessary and appropriate.

#### *Travel and Conferences for Non-Employees*

Section 77-b of the General Municipal Law states that the governing board of a municipality may authorize any of its members (or any officer or employee or other person who has been elected pursuant to law to a public office) to attend a conference. The Law does not give the governing board authority to pay for non-

employee conference expenses. BOCES paid travel and conference expenses for administrators and superintendents from other school districts to attend a conference at the Otesaga Hotel in Cooperstown. BOCES paid a total of \$5,677 for these school district personnel to attend.

BOCES officials indicated that, although the Law permits the board of a municipality to authorize any of its members to attend a conference, it does not prohibit that board from paying the expenses for non-employees. Officials further stated such conference was held for the express purpose of assisting school superintendents and administrators in the performance of their duties. The conference was contained in the administrative budget, had the approval of the Board and was designated as administrative training.

The audit maintains that the Board's authority is limited to authorizing (which implies payment) BOCES employees to attend conferences. Board authorization would not be required if this conference were part of a contract or grant requirement. However, the audit recognizes that this matter requires further study.

Furthermore, the audit maintains that training for superintendents, administrators and teachers should be provided in the most economical manner. Training can be provided in BOCES or other public facilities suitable for such activities at a more reasonable cost. The conduct of training sessions at expensive resorts should be avoided.

#### *Spouse's Lodging Expense*

Article 8, Section 1 of the New York State Constitution states that "no county, city, town, village or school district shall give or loan any money...to or in aid of any individual." Furthermore, the Guide states that any additional cost incurred for lodging when an official is accompanied by a spouse is not an actual and necessary expense and the local government may not pay for it. The actual and necessary cost is the usual cost for a single occupancy room.

A BOCES credit card was charged hotel accommodations for a Board member and spouse attending a conference. A credit was made against BOCES' account because the spouse did not attend the conference. However, the process followed for authorizing attendance at conferences permits the use of BOCES credit cards, which is contrary to the intent of the statute.

BOCES officials have recognized the need to revise their conference request form process. In the future, all expenses for guests will be charged to the individual's personal credit card and no such expenses shall appear on charges to the BOCES account in any manner.

## Vehicle Use

### *Policy and Procedures for Vehicle Use*

A reliable system of internal controls includes monitoring the use of valuable assets. These controls should be designed to either prevent or detect unauthorized use or disposition of these assets.

BOCES has established procedures for signing out a vehicle, including completing a request for a vehicle and, at the end of a trip, a form noting the mileage, condition of the vehicle, and signature of the driver. Information on the request form includes: name, date, destination and dates and times of departure and return. An individual needing a vehicle completes the request form and submits the form to the BOCES receptionist. The receptionist contacts the Director of Operations and Maintenance who confirms the availability of the vehicle. If a vehicle is available the receptionist has the keys for the individual. Upon return, the individual returns the keys to the receptionist.

The primary responsibility for vehicle use is with the receptionist. The only approval required is for overnight use, which must have the Deputy District Superintendent's signature. Approval by a supervisor or program director is not required for day use.

BOCES officials have recognized the need to improve supervisory review of vehicle use. Written procedures have been developed that outline a policy of adequate supervisory oversight.

<b>Recommendations</b>	
14.	Consider recent trends with actual expenditures in the preparation of the BOCES annual budget.
15.	Establish written policies to govern the personal use of cellular telephones, telephone calling cards and long distance telephone calls by employees.
16.	Ensure that only necessary and reasonable travel expenditures are reimbursed.
17.	Ensure that the correct amount for assets is listed on financial records.
18.	Establish procedures to ensure that a comprehensive physical inventory of the assets is performed annually.
19.	Ensure that proposals or quotes are obtained and documentation maintained when required.
20.	Ensure that confirming purchase orders are used only for emergency situations.
21.	Establish measures to ensure competitive bidding requirements are followed and proper documentation is maintained for procuring goods and services.
22.	Ensure that proper documentation is retained for all purchases.
23.	Ensure that expenses for travel of spouses are not paid.
24.	Conduct training conferences at locations that promote economic use of resources.
25.	Establish written policies and procedures governing the use of vehicles.

**Comments of  
Madison-Oneida  
BOCES Officials**

Madison-Oneida BOCES officials agree with recommendations 15 through 25. Officials comment that recommendation 14 is inappropriate because they believe basing its budget on trends and historical use rather than actual requests of component districts is not prudent and would diminish proper control of expenditures.

## **Auditor's Note**

The use of historical trends, together with actual component district requests, can lend to the development of more precise budget estimates. The audit does not suggest that historical data be used in isolation of actual service requests.

Madison-Oneida BOCES  
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