
Audit Report

Nassau County
Board of Cooperative Educational Services

For the Period

July 1, 1997 through June 30, 1998

BOC-0299-7

March 14, 2000

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





Daniel Tworek, Director
Office of Audit Services
Room 524 EB
Tel. (518) 473-4516
Fax (518) 473-0259
E-mail: dtworek@mail.nysed.gov

March 14, 2000

Mr. George Farber
Board President
Nassau BOCES
Salisbury Center
718 The Plain Road - PO Box 1034
Westbury, NY 11590-0114

Dear Mr. Farber:

The following is our final audit report (BOC-0299-7) on the Nassau 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

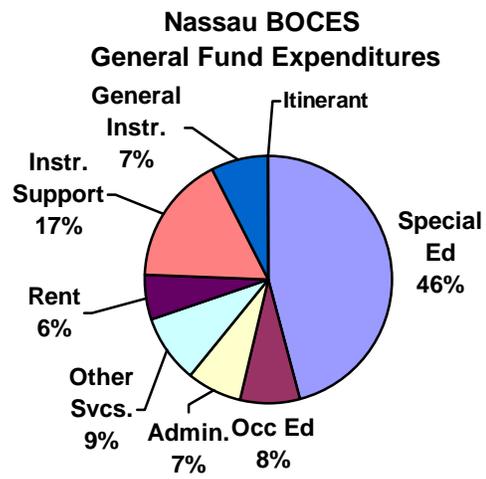
Enclosure

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

Executive Summary

Nassau BOCES is ranked as the 2nd largest BOCES in the State, in terms of total general fund expenditures, for the 1997-98 school year (\$139.6 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 the Nassau BOCES operations for the period July 1, 1997 through June 30, 1998.

These areas included Administration and Employment Preparation Education (EPE). This was a financial related audit and the objectives were to: determine if cost allocations and transfers were accurate and reasonable; and verify that only reasonable and necessary costs were incurred.

Audit Results

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

- EPE contact hours (\$12,779), and EPE expenses (\$64,988) were overstated (pages 4-5).
- Unnecessary expenses (\$2,039) were incurred (page 6).
- Preschool allowance for doubtful accounts was misclassified as an administrative expense (pages 6-7).
- Preschool allowance for doubtful accounts incorrectly reported as eligible for BOCES aid (\$600,000 in 1994-95) (pages 6-7).
- Controls over computer equipment need improvement (pages 8-9).
- A lack of separation of duties (Accounts Payable, Cash Receipts) was identified (pages 9-10).
- Business office staff were not adequately bonded (page 10).
- Outstanding encumbrances were not accounted for in accordance with Office of the State Comptroller guidelines (pages 10-11).
- Suggested policies were not implemented (page 11).
- Excessive use of confirming purchase orders (8 of 24 tested) was noted (pages 11-12).

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Introduction

Background

Boards of Cooperative Educational Services (BOCES) are voluntary, cooperative associations of school districts that have joined to provide educational programs or services more economically than each could offer by itself and are authorized by Section 1950 of the Education Law. BOCES may provide such services as special education for students with disabilities, occupational education, academic and alternative programs, summer school, staff development, computer services, educational communications and cooperative purchasing. Today there are 38 BOCES in New York State and all but 13 of the 705 school districts in the State are members.

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

Districts that belong to a BOCES are called component districts and are required to collectively pay the BOCES' administrative costs. 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 the year-end to reflect actual costs. Typically, a refund is issued to the districts to reconcile differences.

Nassau BOCES, headquartered in Westbury, New York, serves 56 component districts, which enroll more than 191,000 students. During the 1997-98 school year, Nassau BOCES was ranked 2nd largest of the 38 BOCES in the State with \$139 million in general fund expenditures.

Objectives, Scope and Methodology

Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to select operations of Nassau BOCES for the period July 1, 1997 through June 30, 1998. This was a financial related audit and our objectives were to:

- determine if cost allocations and transfers between funds and among CO-SERs are accurate and reasonable;
- determine if Nassau BOCES services comply with Department approved specifications and provide measurable cost savings to school districts;
- verify that Nassau BOCES only incurred costs that were reasonable and necessary to carry out its responsibilities;
- verify that Nassau BOCES' budgetary process provides reasonable control over the expenditure of funds; and
- verify the accuracy and reliability of data reported to the Department for Employment Preparation Education (EPE) aid.

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

There is no State or local process to assess whether CO-SERs result in measurable cost savings to school districts. As a result, the audit was not able to complete this portion of the second objective.

We conducted our 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 we 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 Nassau BOCES Officials

Nassau BOCES officials generally agreed with the findings and recommendations contained in this report. However, they do not believe they made excessive use of confirming purchase orders

or need consider adopting additional policies. Their written response is included as Appendix B to this report.

Employment Preparation Education Program

Nassau BOCES operates an EPE Program. This categorical aid program targets students 21 years of age or older and is designed to provide instruction that leads to a high school or equivalency diploma. Nassau BOCES received a total of \$1,838,829 in EPE aid for the period July 1, 1997 through June 30, 1998 based on 472,707 contact hours of instruction.

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 (Regulations) 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.

Education Law, Section 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 EPE aid payments to Nassau BOCES.

Nassau BOCES included duplicate contact hours in their claim, and overreported the expenses associated with operating the EPE Program. As a result, Nassau BOCES received \$64,988 in excess funds.

Contact Hours Were Overstated

Section 168.2 of the Regulations defines a contact hour to be 60 minutes of instruction given by a teacher in approved program component areas. Contact hours are reported to the Department and are the basis for the maximum amount in EPE funds that are payable. The audit found that Nassau BOCES could not adequately document 3,285 of the 472,707 contact hours reported. As a result, the audit reduced eligible EPE aid by \$12,779.

EPE Expenses Were Overstated

Nassau BOCES could not provide documentation to support that all expenses claimed were related to the EPE Program. Nassau

BOCES' financial records support EPE expenses totaling \$1,773,841. Since Nassau BOCES claimed \$1,838,829, the audit reduced the claim by the difference of \$64,988.

The EPE Program reimburses Nassau BOCES for the lesser of contact hours or EPE related expenses. The audit reduces the claim for EPE aid by the greater of contact hours or expenses not adequately documented. As a result, the net EPE adjustment is \$64,988.

Recommendations

1. Improve procedures to ensure that all claimed contact hours are adequately documented.
2. Improve procedures to ensure that only EPE-related expenses are reported to the Department.

Comments of Nassau BOCES Officials

Nassau BOCES officials agreed with these recommendations.

Administrative Expenses

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 of Education. 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. The audit identified certain unnecessary expenses included in the Administrative Budget as well as expenses related to a program operated in the Special Aid Fund.

Certain Administrative Expenses Were Unnecessary

General Municipal Law, Section 77b, only authorizes the payment of travel expenses that are actual and necessary. Such payment shall be for travel expenses incurred for the purpose and benefit of the BOCES. Additionally, the Office of State Comptroller's *Financial Management Guide for Local Governments* (Guide), Subsection 8.1025, pages 1 and 2, discusses the reimbursement of "actual and necessary expenses" incurred by various individuals in performance of their duties.

The audit reviewed certain administrative expenses and identified \$2,039 in expenses that were not necessary to the administration of Nassau BOCES. Specifically, they included \$1,949 for hats and t-shirts for staff, \$45 for the Superintendent to attend a retirement dinner, and \$45 for dinner for the spouse of a consultant.

Unallowable Expenses Included in Administration

Education Law, Section 1950(4)(d), states that any component district which does not elect to participate in a specific cooperative service shall not be required to pay any share of the expenditures.

According to BOCES Administrative Handbook 3 "General Requirements for the Administrative Budget," expenses for "other activities (i.e. those not listed in the handbook) require the prior

approval of the Commissioner for inclusion in the administrative budget.

Nassau BOCES operates a preschool program funded through a tuition rate set by the Department and paid by the Nassau County Health Department. As a result, the component districts are not required to pay any portion of the expenses of the program. BOCES aid is not payable for these expenses. The costs for preschool special education programs have not been approved for inclusion in the Administrative Budget.

During the 1994-95 fiscal year, Nassau BOCES recorded an expense (\$600,000) in the General Fund administration to allow for uncollectible revenues in the Special Aid Fund (Preschool). As a result, the component districts were charged for expenses for which they were not responsible and BOCES aid was improperly claimed.

Recommendations

3. Eliminate the practice of funding expenses unrelated to the administration of Nassau BOCES.
4. Review expenses recorded in the administrative accounts for eligibility prior to transmittal of the SA-111. Discontinue the practice of reporting costs of other programs in a non-associated CO-SER. The preschool deficit cannot be included as an administrative expense.

Comments of Nassau BOCES Officials

Nassau BOCES officials agreed with these recommendations.

Opportunities to Improve Management Processes

Management is responsible for establishing effective management processes or controls. Management controls include establishing the goals and objectives of the organization and the methods and procedures to ensure that the goals are met. These procedures 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 improvement.

The areas in need of improvement include fixed asset inventory controls; accounting for outstanding encumbrances; separation of duties; implementation of additional policies; use of confirming purchase orders; and preparation of the Form SA-111.

Inventory of 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. 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. Nassau BOCES needs to improve the control over assets located in school districts.

Frequently, as part of a shared service, Nassau BOCES-owned computers are located in the school districts participating in the service. Nassau BOCES maintains an inventory list of equipment in BOCES facilities and district locations. In addition, the Regional Computing Center (RCC) tracks the location of computers in district locations for their own purposes.

During the audit, Nassau BOCES was inventorying the assets at BOCES locations. Therefore, the audit selected a district

location to verify the accuracy of the equipment inventory list maintained by the Nassau BOCES administration. The audit found that of 60 computers located at this site, 90 percent were either untagged or were not recorded on the inventory list maintained by the Nassau BOCES internal auditor or the RCC.

In addition, the audit noted that not all Nassau BOCES-owned vehicles are identified by logos. It is an accepted practice for public organizations to mark their vehicles with their logo to identify them as publicly funded vehicles. Nassau BOCES needs to improve the process used to monitor the use of vehicles.

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. In addition, having them identified by a Nassau BOCES logo enhances accountability for the use of public vehicles.

Separation of Incompatible Duties

An essential component of internal controls is the concept of separation of duties, which means that no one individual should have complete control over an account or accounting process. By separating certain duties, management provides reasonable assurance that assets are safeguarded from unauthorized use.

The audit noted that there is a lack of separation of duties with the accounts payable area and the cash receipts area. Additionally, these employees may not be adequately bonded.

Accounts Payable

According to Nassau BOCES staff, the clerks in the accounts payable area are able to enter new vendors on the computer system, enter invoice amounts and create a payment to be processed. These payments (known as batches) are then reviewed by the supervisor or assistant supervisor of accounts payable (but not a formal review). The audit noted that both the supervisor and assistant also create batches. Thus, they may be reviewing their own work.

The checks are then printed in the presence of either the treasurer or the assistant treasurer. However, they do not review these checks or supporting documentation.

Once the checks are returned to accounts payable, they are matched up to the supporting documentation by the clerks that prepared the batches. Again, there is no independent review of the supporting documentation.

The internal auditor does a review of documentation on a stratified sample basis. This means that they tend to look at disbursements of a larger dollar amount, rather than the smaller checks. Therefore, there is a lack of review for the smaller check amounts.

Cash Receipts

The audit found that one individual was responsible for receiving cash, comparing this cash to the documents from the departments that forwarded the cash, preparing the deposit slips, and recording the cash on the financial records. These duties should be separated.

Bonding of Employees

Additionally, only the treasurer and assistant treasurer are bonded. Therefore, if a loss is detected, there may not be adequate insurance coverage to recover the loss.

Accounting for Outstanding Encumbrances

According to the Uniform System of Accounts for BOCES, issued by the Office of the State Comptroller:

"Encumbrances not liquidated which represent materials which have not been delivered or services which have not been performed will be closed to account A431 School Districts. At the beginning of the new fiscal year, the above entry will be reversed and the encumbrances re-established. Appropriations for the new year will be increased by the amounts of the encumbrances carried over."

Nassau BOCES recorded all year-end encumbrances as expenses in the year the order was placed. This accounting treatment is only appropriate for goods and services ordered and received during the fiscal year. For any items ordered but not received during the fiscal year, Nassau BOCES is required to record the amount as an outstanding encumbrance. As a result, Nassau BOCES received State aid for items ordered but not received one year early. The audit was not able to determine the amount of

encumbrances that should not have been expensed; thus we could not determine the amount of State aid overclaimed.

Additional BOCES Policies Should be Developed and Implemented

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. A component of an effective internal control structure is control procedures, that is established policies and procedures. Policies and procedures define management's position and guide employees in the performance of their duties.

The audit noted certain policies that were absent from Nassau BOCES policies. These include:

- Procedures for claiming mileage reimbursement for employees using their own cars for business.
- A requirement that Nassau BOCES logos be on all BOCES-owned vehicles.
- Procedures for determining the value of personal use of BOCES-owned vehicles.
- A requirement that vehicle mileage logs be maintained for all Nassau BOCES-owned vehicles.
- A process to authorize approved overtime work.
- A process (accounting manual) to issue payments to vendors.
- The retention period for documentation.

Nassau BOCES officials should review their existing policies and procedures and consider the adoption of the suggested policies.

Confirming Purchase Orders

The Guide, Volume 2, Subsection 8.3050, states that confirming purchase orders are verbal orders, subject to subsequent confirmation by a written purchase order, and may be given in cases where necessity for immediate action exists. Naturally, such a deviation from 'the norm' should have a very limited use. The individual placing such an order should justify the need for this action. Lack of proper planning should not be considered a valid reason for this process.

The audit selected a sample of invoices to determine if Nassau BOCES is complying with stated internal controls and that purchases were reasonable, necessary and related to Nassau BOCES' operations. Of the 24 sampled purchase orders, the audit found that in 8 cases (33 percent), Nassau BOCES utilized confirming purchase orders. These purchases were for goods such as services from another BOCES and meeting expenses.

State Aid Form May Be Misstated

The Department calculates BOCES aid based on data provided by BOCES on the Form SA-111 (Annual Financial and Statistical Report). This form reports the expenses incurred by the BOCES and its component school districts for aidable shared services. If this form is not accurate, excessive State aid payments could be paid.

The audit compared the Form SA-111 to the audited financial statements prepared by Nassau BOCES' Independent Certified Public Accountant and found that the financial statements recorded \$7.7 million (5.5 percent) less in expenses than Nassau BOCES claimed on the Form SA-111. As a result, excessive BOCES aid may have been paid. Nassau BOCES did not provide an explanation why these two reports did not match.

Recommendations

5. Improve the accuracy of the equipment inventory for equipment at district locations. This listing should include the description of the asset, the Nassau BOCES tag number, and the specific location (including building and room number).
6. Initiate the use of logos identifying vehicles as Nassau BOCES vehicles.
7. Separate incompatible duties.
8. Ensure that all employees with access to financial records are adequately bonded.
9. Discontinue accounting for unliquidated encumbrances at year end as expenses.
10. Consider adopting additional policies as listed above.
11. Reduce the use of confirming purchase orders to emergencies.

12. Reconcile the CPA-prepared financial statements to the Form SA-111 or restate the Form SA-111 to match the financial statements.

Comments of Nassau BOCES Officials

Nassau BOCES officials agreed with most of these recommendations. However, they do not believe confirming purchase orders were used excessively, and they do not feel they need to consider adopting additional policies as listed in the audit recommendations. They submitted several interoffice memorandums which cover the topics in question.

Auditor's Note

During on-site visits, these memorandums and forms were not in evidence in the BOCES policy manual.

Contributors to the Report
Nassau County
Board of Cooperative Educational Services

- James Conway, Audit Manager
- Daniel McCarthy, Auditor-in-Charge
- Charles Archibald, 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.

Nassau County BOCES
Schedule of Adjustments
Employment Preparation Education Program
For the Period July 1, 1997 through June 30, 1998

Total EPE Revenue	\$1,838,829
Total EPE Expenditures Reported	\$1,838,829
Audited EPE Expenditures	<u>1,773,841</u>
Net Adjustment	(\$64,988)