

---

---

# Audit Report

---

---

Onondaga-Cortland-Madison Counties  
Board of Cooperative Educational Services

For the Period

July 1, 1996 through June 30, 1997

BOC-0698-13

August 3, 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

August 3, 2000

Ms. Ann Wright  
Board President  
Onondaga-Cortland-Madison BOCES  
PO Box 4754  
6820 Thompson Road  
Syracuse, New York 13221

Dear Ms. Wright:

The following is our final audit report (BOC-0698-13) on the Onondaga-Cortland-Madison BOCES for the period July 1, 1996 through June 30, 1997. 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), L. Peters, District Superintendent of Schools

---

---

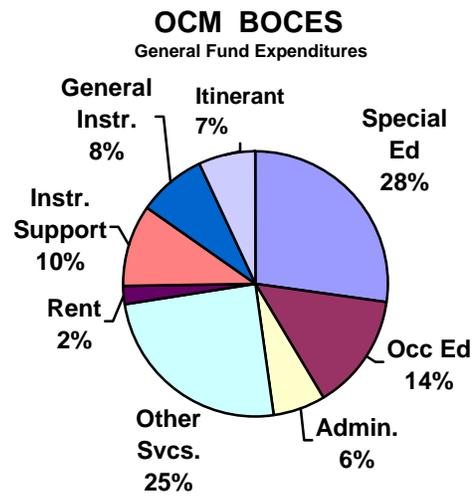
# Executive Summary

---

---

Onondaga-Cortland-Madison (OCM) BOCES is ranked as the 9th largest BOCES in the State, in terms of total general fund expenditures, for the 1996-97 school year (\$42,837,963).

The pie chart illustrates general fund expenditures by program for the 1996-97 school year.



## Background and Scope of the Audit

The audit examined financial management practices, records and documentation related to selected areas of the OCM BOCES operations for the period July 1, 1996 through June 30, 1997. These areas included Administration, Operations and Maintenance, Cooperative Services (CO-SERs) 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; 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.

- Some Cooperative Services provided were not in compliance with Department guidelines including: providing services to municipalities and not-for-profits, including some CO-SER expenses that are not allowable; and providing some CO-SER services that were not sufficiently shared.
- Documentation was unavailable to support the basis for the allocation of Operations and Maintenance, some staff salaries, and special education supervision costs.
- Some expenses unrelated to the administration of OCM BOCES were included in administration, the value of the District Superintendent's vehicle lease was undocumented, and the District Superintendent's leave credits exceed the allowable level.
- Certain opportunities to improve management processes were identified including certain business practices, equipment inventory, eliminating some unnecessary expenditures, limiting the use of confirming purchase orders, eliminating the surplus created by excess employee retirement system contributions, improving the documentation of the need for meal expenses, and identifying OCM BOCES vehicles.
- Improvement opportunities were identified in the EPE Program.

---

---

# Table of Contents

---

---

<b>INTRODUCTION .....</b>	<b>1</b>
OBJECTIVES, SCOPE AND METHODOLOGY .....	2
COMMENTS OF OCM BOCES OFFICIALS .....	3
<b>COOPERATIVE SERVICES (CO-SERS).....</b>	<b>4</b>
NATURAL GAS COORDINATION PROVIDED TO MUNICIPALITIES AND NOT-FOR-PROFITS .....	5
SHARED BUSINESS OFFICIAL CO-SER INCLUDED EXPENSES NOT ELIGIBLE FOR BOCES AID.....	6
SOME ITINERANT CO-SERS WERE NOT SHARED .....	7
APPROVAL WAS NOT OBTAINED TO PROVIDE UNSHARED SERVICES .....	7
RECOMMENDATIONS .....	8
COMMENTS OF OCM BOCES OFFICIALS .....	8
<b>ALLOCATIONS AND TRANSFERS .....</b>	<b>9</b>
OPERATIONS AND MAINTENANCE COSTS .....	9
SALARY ALLOCATIONS NOT ALWAYS DOCUMENTED .....	10
SPECIAL EDUCATION SUPERVISION COSTS WERE NOT ALLOCATED TO ALL SPECIAL EDUCATION CO-SERS .....	12
RECOMMENDATIONS .....	14
COMMENTS OF OCM BOCES OFFICIALS .....	14
AUDITOR’S NOTE .....	14
<b>ADMINISTRATIVE EXPENDITURES .....</b>	<b>15</b>
EXPENSES UNRELATED TO THE ADMINISTRATION OF OCM BOCES .....	15
DOCUMENTATION OF THE VALUE OF THE DISTRICT SUPERINTENDENT’S PERSONAL VEHICLE SHOULD BE IMPROVED .....	17
DISTRICT SUPERINTENDENT’S LEAVE ACCRUALS EXCEED ALLOWABLE LIMIT.....	18
RECOMMENDATIONS .....	19
COMMENTS OF OCM BOCES OFFICIALS .....	19
AUDITOR’S NOTE .....	20
<b>OPPORTUNITIES TO IMPROVE MANAGEMENT PROCESSES .....</b>	<b>21</b>
IMPROVING CONTROLS OF CERTAIN BUSINESS OFFICE OPERATIONS .....	21
EQUIPMENT INVENTORY PROCEDURES NEED IMPROVEMENT.....	23
NEW EQUIPMENT PURCHASES ARE NOT ENTERED ON THE INVENTORY BEFORE BEING PLACED IN OCM BOCES OR DISTRICTS .....	24
CERTAIN EXPENDITURES WERE NOT NECESSARY.....	25
CONFIRMING PURCHASE ORDERS WERE USED FOR NON-EMERGENCIES .....	26
EXCESS RETIREMENT SYSTEM CONTRIBUTIONS ACCUMULATED IN THE GENERAL FUND.....	27
SOME EMPLOYEE MEAL EXPENSES WERE NOT ADEQUATELY DOCUMENTED .....	28
VEHICLES ARE NOT IDENTIFIED AS OCM BOCES PROPERTY.....	29
RECOMMENDATIONS .....	30
COMMENTS OF OCM BOCES OFFICIALS .....	30
AUDITOR’S NOTE .....	30
<b>EMPLOYMENT PREPARATION EDUCATION PROGRAM .....</b>	<b>31</b>
REPORTED CONTACT HOURS OVERSTATED.....	31
RECOMMENDATION .....	32
COMMENTS OF OCM BOCES OFFICIALS .....	32

Appendix A - Contributors to the Report

Appendix B – Comments of Onodaga-Cortland-Madison BOCES Officials

Appendix C – Audit Review Proceedings

---

---

# Introduction

---

---

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 amended Section 305 of the Education Law to require the State Education Department (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 Department for approval for 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 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.

Onondaga-Cortland-Madison (OCM) BOCES was established to be a means for the school districts of Onondaga, Cortland, and Madison 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.

OCM BOCES, headquartered in Syracuse, New York, serves 23 component districts, which enroll more than 64,000

students. OCM BOCES ranked as the 9th largest in the State, in terms of total general fund expenditures, for the 1996-97 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 OCM BOCES for the period July 1, 1996 through June 30, 1997. 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 CO-SERs comply with Department approved specifications; and provided a measurable cost savings to school districts;
- verify that only reasonable and necessary costs were incurred; and
- verify that the budgetary process provides control over the expenditure of funds.

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

There is no State or BOCES process to assess whether CO-SERs result in a measurable cost savings to school districts. As a result, the audit was unable to complete this portion of the objective.

We conducted the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other audit procedures considered necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions and recommendations.

## **Comments of OCM BOCES Officials**

OCM BOCES officials generally agreed with the findings and recommendations contained in this report. Where there is disagreement, the reason is described following the recommendations. Their written response is included as Appendix B to this report.

---

---

## Cooperative Services (CO-SERs)

---

---

BOCES must obtain the prior approval of the Commissioner of Education before providing any service. The CO-SER Application is the document used to request this approval. The BOCES Administrative Handbook #2 (Handbook), Criteria-Guidelines for Approval of BOCES Services, delineates the minimum standards for the approval of service programs. A service proposal must be submitted for any service that is new to a given BOCES.

Component school districts are eligible for BOCES aid. BOCES facilities and rent aid provide reimbursement for approved expenditures for facility construction, purchase, or lease. BOCES operating aid provides reimbursement for base year service costs and administrative expenditures, with the following limitations:

- administrative expenditures may not exceed 10 percent of total expenditures;
- service expenditures are aidable only to the extent they are approved for aid;
- an employee's salary is aided up to \$30,000;
- expenditures for education of pupils with disabilities are not eligible for BOCES aid. Public excess cost aid is provided to the district of residence for a student with disabilities; and
- expenditures for transportation are not eligible for BOCES aid. Transportation aid is provided to the district responsible for providing such service.

The audit found that OCM BOCES provided services to municipalities and not-for-profit organizations, included some unaidable expenses in one CO-SER, incorrectly shared some itinerant CO-SERs, failed to obtain approval for "hanger" itinerant CO-SER expenses, and accounted for the adult education surplus in the special aid fund.

## Natural Gas Coordination Provided to Municipalities and Not-for-Profits

Education Law, Section 1950(4)(2), gives BOCES the authority to "...enter into contracts with the United States of America, the State of New York, any school district, community college, agricultural and technical college or other public agency in relation to the program of the board of cooperative educational services, and any such school district, community college, agricultural and technical college or other public agency is hereby authorized and empowered to do and perform any and all acts necessary or convenient in relation to the performance of any such contracts."

The Department has interpreted that criterion to mean that BOCES may contract with municipalities and not-for-profit corporations to obtain goods as needed in order to provide services to school districts or other BOCES. However, the Department has held it is not permissible to provide a CO-SER service to a municipality or not-for-profit organization. Recent opinion from the Department's Office of Counsel has further clarified the Department's position that a BOCES may not provide a service to a not-for-profit, but may provide a service to a municipality under authority found in the General Municipal Law (GML). A service that is provided under GML requires the establishment of a municipal corporation to allow municipalities to jointly participate in an activity that each is allowed to do separately.

OCM BOCES administers a cooperative purchasing program that is identified as Natural Gas Coordination (CO-SER 670). OCM BOCES contracts directly with suppliers for the purchase of natural gas in order to obtain a favorable price. OCM BOCES collects funds from the participants and remits to the supplier and retains an administrative charge. The audit found that, in addition to providing this service to school districts, OCM BOCES also provides the services to municipalities and not-for-profit organizations. During the 1996-97 school year, \$5,829,390 in natural gas was purchased through OCM BOCES. Municipalities purchased \$292,481 and not-for-profits purchased \$27,363.

BOCES aid is paid only on the administrative charges assessed to participating school districts. For 1996-97, revenues were \$104,000 and expenses for supporting staff, legal contract negotiation, and lesser administration charges were \$91,000. All billings for the actual purchase of natural gas were

processed through the OCM BOCES Trust and Agency Fund (T&A).

OCM BOCES officials are in the process of establishing a municipal corporation to continue to provide this service to municipalities.

## **Shared Business Official CO-SER Included Expenses Not Eligible for BOCES Aid**

The Handbook delineates the minimum standards for approved service programs. A program description, which defines the nature of the service, its purpose and the target population, is generally submitted with a CO-SER. The criteria guidelines for Activity Code 7016 – Business Manager describe the nature of service as follows: “BOCES provides a shared professional staff person to perform as a local business manager and to supervise local non-certified personnel in the operation of the business office.” The criteria guidelines further define expenses eligible for aid to be "supervision, salary and fringe benefits, travel and staff development." The guidelines note that expenditures for contracted services to school districts and expenses for clerical personnel are not eligible for aid.

CO-SER 308 - Shared Business Official was not operated according to the criteria guidelines. OCM BOCES reported \$14,398 in expenses that were not eligible for BOCES aid. The expenses included \$6,762 in clerical personnel expenses, \$3,236 in contracted service to school districts, and \$4,400 in equipment expenses. These expenses do not meet the criteria for BOCES aid. Clerical personal service costs and contracted services are specifically identified in the criteria guideline and equipment is not identified as being allowable. Total expenses for this CO-SER were \$120,860 and questioned expenditures represented 12 percent of the total reported expenses. OCM BOCES did not include these ineligible costs on SA-112 Unapproved Services, so districts received BOCES aid for all expenses.

OCM BOCES officials agree that this CO-SER was not operated in accordance with the criteria guidelines. OCM BOCES officials stated that the amount of contractual services was \$2,565, not \$3,236 as identified by the audit. This CO-SER is no longer operated by OCM BOCES.

## **Some Itinerant CO-SERs Were Not Shared**

The Department's BOCES Administrative Handbook #1 (Handbook #1) states that each service must be operated on a shared basis. A service rendered to a single district is not considered a shared service. Each service must be provided to two or more districts to be considered a shared service, a requirement for BOCES aid eligibility. Handbook #1 also states that, if a district receives more than 60 percent of a service and it is determined that the district or BOCES has taken actions which inhibit sharing, or if the district's share exceeds 80 percent, an adjustment to BOCES aid will occur.

In CO-SER 301, the cost of an itinerant teacher was charged 80 percent to one district. Since this exceeds 60 percent, there should have been a 20 percent aid deduction for that CO-SER. However, CO-SER 301 did not appear on the SA-112. OCM BOCES officials stated that these expenses were inadvertently omitted from the SA-112. The Department's State Aid Unit verified that the Department later deducted these unapproved expenses of \$6,790 (20 percent of \$33,950 salary).

Another instance of insufficient sharing of itinerants occurred in CO-SERs 347 - Gifted & Talented and CO-SER 348 Coordinator of Gifted & Talented. One itinerant teacher was charged 80 percent to one district (Cortland). However, this expense of \$10,022 was mistakenly reported on the SA-112 as an unapproved expense for another district (McGraw). The Department's State Aid Unit is aware of this error and is making the correction.

OCM BOCES officials attributed the occurrence to inexperienced staff. Staff are now more experienced and a new computer system should improve compliance with State guidelines.

## **Approval Was Not Obtained to Provide Unshared Services**

According to the criteria guidelines for itinerant CO-SERs, BOCES employees provide shared itinerant services to two or more school districts. Service with aid is limited to not more than .6 FTE per certification area. An unshared itinerant position ("hanger") may be approved by the Department when all possibilities to obtain sharing have been exhausted. An *Application for Approval of Aid for Unshared Itinerant Position (Hanger Approval)* must be submitted for approval by BOCES. The hanger approval application identifies three

actions which would show efforts were made to secure sharing but to no avail. The three actions are as follows:

1. A study of geographic locations of those districts sharing the service was made and the indicated district was in the least favorable location to share a position.
2. An analysis of service needs was made to determine whether, through changing service amounts, it would be possible to secure sharing of all positions. No acceptable alternative to having one unshared position was available.
3. Adjacent BOCES were contacted to identify any opportunities to establish a shared position through cross-contract. None was available.

OCM BOCES employed five unshared itinerant teachers (hangers). The five ranged from .4 to .6 FTE. Each worked in only one district. CO-SER Hanger Approvals were not obtained for two of the five itinerant teachers. The unapproved itinerants were found in CO-SER 303 and CO-SER 327 at LaFayette.

OCM BOCES noted that it is likely the hanger positions would have obtained Department approval. OCM BOCES now performs its own audit of itinerant positions to assure compliance.

## **Recommendations**

1. Discontinue providing the Natural Gas Coordination service to not-for-profit organizations. Only provide such services to municipalities under the requirements of GML.
2. Review CO-SER expenditures of aid eligibility and include as an unaidable expense.
3. Develop a process to obtain approval for unshared itinerant teachers.

## **Comments of OCM BOCES Officials**

OCM BOCES officials agreed with these recommendations.

---

---

## Allocations and Transfers

---

---

Education Law, Section 1950(4)(f), requires that the net cost of operating a BOCES service be allocated among participating districts. The Office of the State Comptroller's Uniform System of Accounts for Boards of Cooperative Educational Services facilitates such allocations by requiring a separate accounting of revenues and expenditures for each service program. Expenditures should be charged directly to the pertinent service involved and expenditures related to more than one service should be prorated accordingly. Interservice program transfers are used to record charges in other service programs.

Section 1950 (4)(d) of the Education Law states those component districts that do not participate in a cooperative service are not required to pay any share of the expenditures for such services. In order to ensure that components pay only for services received, cost allocations between funds and among CO-SERs should be accurate and reasonable.

OCM BOCES lacked documentation of the basis for the allocation of operations and maintenance (O&M), some staff salaries, and special education supervision costs.

### Operations and Maintenance Costs

The Office of the State Comptroller's Financial Management Guide for Local Governments (Guide), Volume 1, Subsection 1.1040, states that in order to provide "full cost" information, methods must be devised to allocate indirect costs to the areas that benefit from such activities. GAAP allows any method that produces an equitable cost distribution and is adequately documented. The documentation would be of a nature that a prudent person, familiar with functions of the organization, could determine that the methods and the underlying basis for the allocation are reasonable and consistent.

The audit reviewed documentation of OCM BOCES' allocation of \$2,487,467 in O&M costs. OCM BOCES officials stated that O&M costs are tracked by building and allocated based on the square-footage occupied by a particular program. However, OCM BOCES could not provide documentation to support the allocation. OCM BOCES provided O&M worksheets, but they did not match the allocation. The worksheets showed the CO-SERs charged, the square-footage amounts, the percent of total square-footage in that building,

and the dollar amount budgeted for O&M. The Business Manager could offer no explanation since the O&M Director who prepared allocations no longer works for OCM BOCES. In addition, we found that O&M costs were charged incorrectly to some CO-SERs and not charged to others. For example, OCM BOCES did not charge any O&M to Natural Gas Coordination, the Employee Assistance Program, or the EPE Program.

O&M allocations were based on budgeted amounts. OCM BOCES officials stated that the former O&M Director would charge a CO-SER that had extra funds rather than submit a budget transfer. Because O&M allocations are not accurate, the costs of operating programs do not reflect actual costs. The costs of some programs may be overstated while others may be understated. Therefore, rates charged to the districts may not be accurate.

OCM BOCES officials agree that there are numerous problems with O&M. They stated that they would recalculate the square-footage for all buildings and correct the problems that exist. OCM BOCES also plans to calculate an overall cost per square foot, instead of a cost per square foot for each building.

## **Salary Allocations Not Always Documented**

BOCES Administrative Handbook #3, General Requirements for the Administrative Budget, addresses the allocation of administration costs. It states that, in accordance with the requirements of Section 170.3(b) of the Regulations, in any instance in which there is a sharing of personnel or functions between the administrative budget and the service budget, details of the allocations used in arriving at the amount to be included in the administrative budget must be filed with the Commissioner for approval. The Department requires all BOCES to file the Allocation of Costs Worksheet to detail the administrative costs, including personnel which are allocated to other areas.

The audit selected a sample of 12 employees, 9 charged to Administration and 3 that appeared to be administrative employees but were not charged to the Administration CO-SER. In all, OCM BOCES charged an average of 51 percent (\$211,031/\$416,636) of these salaries to Administration. There was no documentation to support the basis for the allocation of these positions. OCM BOCES' Business Manager provided verbal explanations concerning these allocations. In addition, three administrators provided written explanations of their

allocations. The Personnel Director showed how his allocation percentage was calculated. However, the Assistant Superintendent for Programs and the Assistant Superintendent for Support Services only described their duties related to the other program areas.

The audit tried to determine if administrative salary allocations were properly reported to the Department. The Allocation of Costs Worksheet for 1996-97 was reviewed and OCM BOCES did not report salary allocations for six of the nine employees charged to Administration. In addition, OCM BOCES incorrectly reported the allocation percentage for all nine employees. Of the three salaries reported, the Personnel Director matched completely, the Assistant Superintendent for Programs matched only the administrative portion, and the Assistant Superintendent for Support Services did not match the administrative or service program allocations. The audit also determined that two additional employees were reported incorrectly, the Assistant Superintendent for Administration and the Director of Instructional Support Services. The differences are displayed in the following table:

OCM BOCES  
Administrative Salary Allocation  
Reporting Differences  
1996-97

Title	Reported Percent	Actual Percent
School Information Officer	0	50
Switchboard Operator - McEvoy	0	10
Information Systems Coordinator	0	54
Assistant Superintendent for Support Services	45	69
Deputy Treasurer	0	6
Accounts Payable Clerk	0	50
Secretary to Assistant Superintendent for Administration	0	98
Assistant Superintendent for Administration	75	100
Director of Instructional Support Services	80	0

This chart shows six employees not reported, while another employee should not have been reported. The other two employees show rather large differences in allocation percentages. OCM BOCES reports salary allocations for the administrative budget before the school year begins so allocation differences can be expected. However, OCM BOCES should be able to anticipate which employees should be reported, as well as estimating reasonably accurate allocations.

Lastly, it was determined that the Deputy Treasurer's salary allocation did not match her job duties. According to OCM BOCES, this employee worked 20 percent for the Health Insurance Consortium and 10 percent for the Workers' Compensation Consortium. However, her salary was charged 94 percent to the Special Aid Fund for Adult Education and EPE, while six percent was charged to Administration for her duties as Deputy Treasurer. OCM BOCES officials stated that they charged her salary to the consortiums correctly in the following year.

OCM BOCES does not maintain written documentation for the allocation of salaries. Without a documented allocation methodology, there is no assurance that administrative salaries are allocated properly. OCM BOCES should develop a methodology to allocate time and maintain supporting documentation. Examples of such methodologies include recording the time spent working on individual CO-SERs, developing time studies, or allocating based on the amount of CO-SER expenses, similar to the ratio-value method used to allocate Special Education salaries.

OCM BOCES also did not accurately report, as required by the Regulations, details of sharing personnel between administrative and service budgets. The salaries that were reported had inaccuracies. Such errors will affect the administrative and service costs that are billed to component districts.

OCM BOCES officials state that there is not one best or appropriate methodology for allocating time spent between the administrative budget and specific service programs. As such, they will continue to employ an estimate of time spent as the basis for allocation.

## **Special Education Supervision Costs Were Not Allocated to All Special Education CO-SERs**

The Special Education Supervision allocation was based on budgeted expenditure amounts. However, the allocation was not reconciled to actual expenditures. We found that OCM BOCES did not allocate any supervision costs to Special Education CO-SER 223i (Non-Categorical) or the Preschool Program (several 900 CO-SERs). This, in turn, resulted in excess allocations to the remaining Special Education CO-SERs. We determined that CO-SER 223i was underallocated by \$15,832 and the Preschool Program was underallocated by \$23,961.

OCM BOCES explained that the Preschool Program was already in a deficit situation and any allocation would only increase the deficit. OCM BOCES also explained that districts requested that CO-SER 223i have a lower tuition rate. OCM BOCES abided by their request and no allocation was made. The net effect is an overallocation of \$39,793. The following chart shows a breakdown of the effect of the inaccurate allocations on the Special Education programs.

OCM BOCES  
Cost Allocations  
Allocation of Special Education (SE) Supervision CO-SER 706  
1996-97

CO-SER #	Actual Expenses	% of Total SE	Audited Allocation	Actual Allocation	Allocation Over (Under)
Special Ed. 223s	\$584,533	5.5%	\$8,071	\$4,000	\$4,071
223i	1,146,553	10.8%	15,832	0	15,832
263	798,435	7.5%	11,025	16,225	(5,200)
280	601,038	5.6%	8,299	11,297	(2,998)
293	2,761,832	26.0%	38,136	58,748	(20,612)
295	1,697,214	16.0%	23,435	33,897	(10,462)
296	1,049,854	9.9%	14,496	19,443	(4,947)
335	136,358	1.3%	1,883	1,500	383
337	82,288	0.8%	1,136	0	1,136
360	44,816	0.4%	619	1,783	(1,164)
Subtotal	<u>\$8,902,921</u>	<u>83.8%</u>	<u>\$122,932</u>	<u>\$146,893</u>	<u>\$(23,961)</u>
Preschool 929	174,862	1.6%	2,414	0	2,414
931	167,726	1.6%	2,316	0	2,316
934	59,366	0.6%	820	0	820
966	100,920	0.9%	1,393	0	1,393
973	697,040	6.5%	9,625	0	9,625
975	364,178	3.4%	5,029	0	5,029
Other	171,192	1.6%	2,364	0	2,364
Total Preschool	<u>\$1,735,284</u>	<u>16.2%</u>	<u>\$23,961</u>	<u>0</u>	<u>\$23,961</u>
Grand Total	<u>\$10,638,205</u>	<u>100.0%</u>	<u>\$146,893</u>	<u>\$146,893</u>	<u>\$0</u>

No allocation was made to one CO-SER or the entire Preschool Program, which overstated the allocation to the remaining Special Education CO-SERs. CO-SER 293 - Severely Emotionally Disturbed (\$20,612), and CO-SER 295 - Related Service of Therapists (\$10,462) were most affected by the overallocation.

OCM BOCES officials indicated that they will try to charge based on actual costs. They note, however, that the special education funding system creates funding uncertainty, delayed funding, and provides no ability to recover a deficit.

## **Recommendations**

4. Review the methodology used to allocate O&M costs to CO-SERs for reasonableness and accuracy, and annually review the allocation to account for any changes in circumstances.
5. Document the basis for allocating salaries between the administrative and service budgets. Institute an annual review process to account for changes that may necessitate a modification to the methodology.
6. Report all allocated salaries on the Department Allocation Costs Worksheet.
7. Allocate costs to all of the components of the Special Education program.

## **Comments of OCM BOCES Officials**

OCM BOCES officials agreed with recommendations 4 and 6. In response to recommendation 5, officials state they will continue to document staff allocations as an estimate of shared time. In response to recommendation 7, officials state that they will allocate costs to all components of the special education program as long as State funding is fair, predictable, and adequately covers program costs.

## **Auditor's Note**

OCM BOCES did not accurately report, as required by the Regulations, details of sharing personnel between administrative and service budgets. The salaries that were reported had inaccuracies, and in some cases there was no documentation to support the allocations. As such, we do not believe that continuing current practices is appropriate.

In regard to recommendation 7, the accurate allocation of costs to special education programs is separate and distinct from the policy issue of financing such programs. Statute does not provide BOCES authority to allocate funds based on fairness and predictability.

---

---

# Administrative Expenditures

---

---

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.

OCM BOCES reported \$2,039,401 in administration costs for the 1996-97 school year, not including capital expenditures. This represents about six 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 that expenses unrelated to the administration of OCM BOCES were included in the Administrative CO-SER, the documentation of the value of the District Superintendent's vehicle use was insufficient, and the District Superintendent's leave credits exceed those allowed by Education Law.

## **Expenses Unrelated to the Administration of OCM BOCES**

BOCES Administrative Handbook #3 outlines the general requirements for the Administrative Budget. This describes the activities that may be included, such as the District Superintendent's Office, general costs of administration, expenses of the Board, needs assessments and planning, central support for operations, and other activities. Activities not delineated here should not be included without prior approval of the Commissioner. Generally, it is the intent that in any instance where an appropriation or a portion thereof can be directly allocated to a service districts elect to request, that expense should be included in the budget of that service.

The audit believes that legislative relations was not an appropriate administrative expense. OCM BOCES was told to move the service temporarily to CO-SER 535 under Activity Code 7210 - Planning in 1997-98. By the next year, the service should be removed from OCM BOCES services entirely.

OCM BOCES provided a secretary and office space to the Executive Director of the Central New York School Boards Association (CNYSBA). Oswego BOCES paid the salary of the Executive Director. The roles of CNYSBA are as follows:

1. Provide board development training. Training is provided in June for newly elected board members. There are also sessions for board presidents and superintendents.
2. Provide districts with information on the State budget that affects school aid. CNYSBA holds five legislative breakfasts where school board members present key issues to legislators. Legislators make their own presentations and address questions and comments. In March, Albany Lobby Day is held where 100 board members and superintendents have appointments with legislators.
3. Be involved with local School Board Associations (SBAs). A December meeting is held for board presidents and superintendents' organizations. Most SBAs have dinner meetings that the Executive Director attends in an advisory role and is available to provide information on legislative matters. Onondaga-Madison SBA organizes the dinner meetings.

The payments for OCM BOCES' districts (over \$50,000) were processed through a cross-contract and charged to the Administration CO-SER. OCM BOCES processes most of the revenues and expenses for CNYSBA.

There have been discussions with Department officials that have resulted in the following:

1. The SBAs can run through the BOCES, but it should not be aidable.
2. The Executive Director should be moved from the Oswego BOCES payroll to the OCM BOCES payroll starting July, 1997.
3. The Department and OCM BOCES' District Superintendent agreed that the service would be aidable for another year, but would eventually not be aidable. A letter was sent out explaining that the expenses would still be aidable through 1998-99. Dues would be collected by BOCES and forwarded to the Executive Director. As of July 1, 1999, districts will pay the Executive Director directly, instead of using OCM BOCES.

The audit agrees that the services provided do not belong in the Administration CO-SER because they are specific activities and district participation should be voluntary. Also, there is

clearly some lobbying activity, which should not be aidable. By including legislative relations in the Administration CO-SER, OCM BOCES overstates its administration charges. Since districts are billed for administration based on RWADA, all component districts share the cost of legislative relations services, even though not all districts received the benefit.

OCM BOCES officials generally agree with these observations and point out that the service is no longer running through OCM BOCES.

## **Documentation of the Value of the District Superintendent's Personal Vehicle Should Be Improved**

Education Law, Section 1950(4)(a)(2), gives BOCES the power and duty to limit the total salary of the District Superintendent (DS) to 98 percent of the amount earned by the Commissioner of Education during the 1992-93 State fiscal year. That calculation establishes a salary cap at \$128,625 for DSs.

The Department issued Questions and Answers on Chapter 295 of the Laws of 1993 - BOCES Reform Act (Q&A). Section F, entitled, *Compensation of District Superintendents of Schools*, addresses what should be included in the salary cap. For purposes of the salary cap, neither the Commissioner's total salary nor the DS' total salary would include the value of fringe benefits, leave accruals or expenses. However, effective for the 1997-98 school year, the Department issued an amended Q&A. Question 13 addresses the issue of reimbursing a DS for the use of a vehicle without having such payments included in total salary. According to the Department, BOCES are authorized to allow a DS to use a BOCES-owned or leased vehicle in lieu of paying mileage for travel expenses, provided that under the 1997 amendments any amount expended by the BOCES for the personal use of such automobile must be included in total salary for purposes of the salary cap, including the costs of gasoline, insurance and routine maintenance.

In order to determine the business use of employer-provided vehicles, adequate written documentation needs to be maintained to distinguish between business and personal use. IRS Publication 463, *Travel, Entertainment, Gift, and Car Expenses*, requires adequate evidence for business and personal use of vehicles. Publication 463 recommends a diary or log that is maintained at least weekly, and documents the business, personal and commuting mileage during the year. The vehicle mileage logs should include the beginning and ending

odometer readings, destination and purpose for each business trip.

OCM BOCES does not require the use of a vehicle log to document the business and personal use of the OCM BOCES-owned vehicle. Instead they require a statement from the DS estimating the personal use.

The audit also found that the value of personal vehicle use for the DS and six other administrators was not included on the 1997 W-2s. OCM BOCES officials stated that this was inadvertently done during a change of administration and noted that the affected individuals will file amended 1997 returns. OCM BOCES should apply the same income reporting requirements to these individuals as well.

OCM BOCES officials agree with the need for documenting the value of the personal use of OCM BOCES' vehicles. They believe that a statement of estimated personal mileage is sufficient.

## **District Superintendent's Leave Accruals Exceed Allowable Limit**

Education Law, Section 1950(4)(a)(2), states that in no event shall any DS be permitted to accumulate vacation or sick leave credits in excess of the vacation and sick leave credits Managerial/Confidential (M/C) employees of the State are permitted to accumulate, pursuant to regulations promulgated by the State Civil Service Commission.

M/C employees accrue 13 days of sick leave annually, except for employees appointed after January 1, 1986. Those employees accrue eight days of sick leave per year. M/C employees accrue vacation days annually for continuous service as follows:

Years of Service	Vacation Days
0 - 19	20
20 - 24	21
25 - 29	22
30 - 34	24
35+	25

There is no provision for buying back sick leave or vacation accruals.

The DS was appointed on January 15, 1979, which gives him 18 years of service during the 1996-97 school year. Therefore, he is permitted to accumulate 13 sick days and 20 vacation days annually. The DS' 1996-99 contract provided for 14 days of sick leave and 25 days of vacation, annually. This is one more sick day and five more vacation days than M/C employees receive. OCM BOCES should adjust the sick leave and vacation leave provisions of the contract accordingly.

The DS is also permitted, on an annual basis, to receive reimbursement for up to 10 days of unused vacation leave at the rate of 1/240<sup>th</sup> of his salary. According to OCM BOCES, the DS has never actually received reimbursement for any unused vacation days. However, this is a provision not provided to M/C employees. Therefore, OCM BOCES should remove this item from the DS' contract. OCM BOCES is not in compliance with Section 1950(4)(a)(2) of the Education Law due to the excessive leave credits in the DS' contract.

OCM BOCES officials pointed out that the DS has never used the accrual benefits beyond what is allowed by law.

## **Recommendations**

8. Require the use of mileage logs for all OCM BOCES vehicles assigned to specific individuals.
9. Issue W-2s for the value of the personal use of OCM BOCES' vehicles.
10. Adjust the District Superintendent's leave accruals to reflect the allowable level that should have been earned.
11. Amend the District Superintendent's contract to accrue leave at the level allowed by Management/Confidential employees of the State of New York, and to eliminate the payment for unused vacation.

## **Comments of OCM BOCES Officials**

OCM BOCES officials agree with recommendation 9. They disagree with recommendation 8 and feel that recommendations 10 and 11 are unnecessary because there is a clause in the contract that invalidates any provision or term determined to be contrary to law or regulation.

## **Auditor's Note**

Control over the use of OCM BOCES vehicles would be improved with the use of mileage logs. Amending the District Superintendent's contract and adjusting accruals will reduce the chance of misunderstanding at a later date.

---

---

# Opportunities To Improve Management Processes

---

---

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 planning, organizing, directing and controlling program operations. They include systems for measuring, reporting and monitoring program performance. The audit reviewed several processes considered relevant to the audit objectives and found several opportunities for improvements.

The opportunities are in improving controls over certain business office operations, equipment inventory, eliminating some unnecessary expenditures, limiting the use of confirming purchase orders, eliminating the surplus created by excess employee retirement system contributions, improving documentation of meal expenses, and identifying BOCES vehicles.

## **Improving Controls of Certain Business Office Operations**

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. In addition, all resources should be safeguarded against waste, loss and misuse.

An effective internal control system can be composed of several elements: safeguarding assets, segregating duties, establishing written procedures, and employing supervisory controls over operations. Safeguarding assets is important to prevent the loss or misuse of assets. Segregating duties restricts one employee from having too much control over a particular process. Too much control increases the risk of loss for that area. Supervisory controls are necessary to ensure that processes are monitored effectively. These are just some of the elements of an effective system of internal controls.

### **Safeguarding Assets:**

- The Business Office orders a check run for payroll and accounts payable (AP) through the Regional Information Center (RIC). The RIC then prints and signs all OCM BOCES payroll and AP checks. The RIC also prints and

may sign checks for component districts. Checks are signed by running the printed checks through a machine that contains the appropriate signature plates. The audit observed that blank check stock and signature plates are stored inside a computer room, which requires a code to enter. The room is accessed not only by the staff that prints and signs the checks, but also by other RIC staff. The actual blank check stock and signature plates are not locked inside the computer room, so any staff with access to the room could also access the blank check stock and signature plates. Controls would be improved by locking up the blank check stock and signature plates inside the computer room.

#### Segregation of Duties:

- Proper segregation of duties requires that someone who is independent of any cash functions perform bank reconciliations. At OCM BOCES, the Treasurer performs the monthly bank reconciliations, as well as handling bank deposits and processing cash receipts journal entries. Controls would be improved by having an employee who is independent of the cash function perform the reconciliation. A possible compensating control would be for management to periodically perform this duty as a supervisory control over this function.
- Proper segregation in the payroll process involves restricting payroll clerks from access to signed payroll checks. OCM BOCES clerks have access to signed payroll checks. This by itself may not be very material; however, the audit determined that management does not review the payroll register for accuracy. These two factors increase the risk that improper paychecks may be issued without detection. Controls would be improved if someone other than the payroll clerks received the signed paychecks for distribution, and if management reviewed the payroll register. OCM BOCES does not have written payroll procedures. OCM BOCES should also prepare written procedures that incorporate these new controls.
- Proper segregation in the AP function requires limiting AP clerks from gaining physical access to signed AP checks. Each clerk is responsible for processing payments and for mailing the checks to the vendors. OCM BOCES does segregate duties by requiring the AP clerks to mail only checks they did not process. The General Fund clerk mails out Special Aid Fund checks, and the Special Aid Fund clerk mails out General Fund checks. However, the checks

are not controlled to limit their access to other AP clerks. A clerk could still gain physical access to all signed AP checks. In addition, the AP clerk also controls the vendor file, which should be controlled by someone independent of the AP function.

These control weaknesses would not be material if there were sufficient supervisory reviews of the function. Yet, there is no management review of the Paid Warrant List, which details all cash disbursement checks that are issued. Controls could be improved if someone independent of the function mailed the checks directly instead of returning them to the AP clerks. In addition, management should always review the Paid Warrant List to ensure that payments are valid.

OCM BOCES officials indicated that they will separate the duties of accessing signed payroll checks from the actual distribution of checks, and will also have the Business Manager periodically review bank reconciliations. They further state that they believe controls are adequate over blank check stock, the accounts payable function, and payroll. As such, they accept the risk associated with the observations discussed above.

## **Equipment Inventory Procedures Need Improvement**

The Guide, Volume 1, Subsection 3.2010, states that it is important to maintain adequate fixed asset records to meet the requirements of GAAP, and as a valuable tool for controlling fixed assets and planning replacements. The Guide, Volume 2, Section 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. In addition, all resources should be safeguarded against waste, loss and misuse.

Education Law, Section 1950(18), states that "on or before January 1, 1997, each BOCES shall develop and adopt a formal policy on personal property accountability." This shall include procedures for periodic inventory of personal property. Adequate internal controls include maintaining accurate accounting and inventory records, and performing periodic comprehensive physical inventories of its assets.

The independent Certified Public Accountants (CPAs) stated in their management letter that OCM BOCES "values General Fixed Assets at an appraisal value that was determined many years ago. Generally Accepted Accounting Principles require

fixed assets to be recorded at historical cost." The financial statement values land, buildings and equipment at \$34,003,134. The CPAs had previously recommended updating the value of the fixed assets. OCM BOCES has now begun to tag, catalog and take physical inventory of all fixed assets. This includes equipment placed in the districts in conjunction with an OCM BOCES service.

We reviewed the progress of the physical inventory. We were informed that historical cost had not been determined for the items that had been tagged and recorded in the inventory. This step is to be performed at a later date. We believe the way to determine historical cost would be to reference the equipment to an original purchase order. However, we did not see a reference to the purchase order number. The inventory record contains the asset tag number, location, description, and serial number.

We also tested inventory located at one location (Rodax 8) to verify the accuracy of the inventory record. OCM BOCES assigned an asset tag number in the order that the equipment was scanned. We attempted to find all computer equipment assigned to Rodax 8; however, after checking the first 64 tag numbers, we were only able to find 32 items. We did find an additional 22 items, nine that were tagged but not assigned to Rodax 8, and 13 that were not recorded on the inventory. We discontinued the inventory when it became apparent that the inventory was not updated for new purchases and equipment that had been moved. Therefore, the 32 missing items could have been elsewhere in the building.

The inventory record lacked detail to determine where equipment was located in the building. The building contains some offices and many cubicles that made it difficult to identify the location. We were informed that purchases made after the physical inventory had begun were not recorded yet.

## **New Equipment Purchases Are Not Entered on the Inventory Before Being Placed in OCM BOCES or Districts**

OCM BOCES' equipment inventory only controls the equipment that was at a particular site on the day the physical inventory was conducted. All other equipment purchased thereafter is not recorded. As a result, they are subject to loss or misuse without detection. Also, the equipment recorded on the inventory is not updated for movements, thus the risk of loss is increased. Finally, since there is no value assigned to

the inventory, the value listed on the financial statements is not historical cost, but some estimate from previous appraisals.

OCM BOCES officials generally agreed with the observations regarding inventory. They feel it is not useful to retroactively assign historical costs; however, they have implemented a process to capture cost on all new additions.

## Certain Expenditures Were Not Necessary

The Office of the State Comptroller's *Financial Management Guide*, Subsection 8.1025, addresses the reimbursement of expenses. As a general rule, a particular expense may be considered "actual and necessary" if:

- 1) an expenditure was actually made;
- 2) the item was necessarily incurred for an authorized purpose; and
- 3) the expense was in an amount no greater than necessary.

The audit tested nonpersonal service expenses for reasonableness. We found several examples of personal expenses, expenses of another organization, and lobbying expenses that were inappropriately charged to OCM BOCES:

### Personal Expenses:

OCM BOCES provides employees with free coffee. Our sample showed two coffee vendors, Aramatic Refreshment and DeLima Coffee. We determined that \$5,139 in coffee expenses were charged to the following CO-SERs:

CO-SER	Amount	Total
Aramatic Refreshment:		
101 Occupational Education	\$573	
620 Technology Infrastructure Support	955	\$1,528
DeLima Coffee:		
001 Administration	2,214	
101 Occupational Education	136	
102 Occupational Education	120	
547 School / Curriculum Improvement Plan	307	
562 Computer Support	166	
596 Coordination, Other (Central)	168	
633 Negotiations	387	
636 Safety / Risk Management	113	\$3,611
Grand Total		\$5,139

Some coffee expenses charged to Occupational Education could be appropriate for the cafeteria, but these costs do not appear necessary for the other CO-SERs.

We also determined that the following expenses do not appear to be necessary to the operation of the OCM BOCES:

- \$510 for a work lunch at The Olive Garden (Syracuse) restaurant for CO-SER 455 - Alternative Junior High School. Lunches are normally a personal expense.
- \$2,349 for lodging and meals at the Desmond Hotel in Albany for eight students and four chaperones attending a VICA award conference. The expense was charged to CO-SER 101 Occupational Education. This expense should be paid for by VICA.
- \$1,574 for a legislative reception for legislators and school superintendents at LaSerre restaurant in Albany. This expense was charged to CO-SER 001 Administration and could be considered a lobbying expense.

The effect of these expenditures is to increase the cost of the overall operation. OCM BOCES officials feel that these are reasonable and necessary expenditures. They have developed new travel policies to guide all staff.

## **Confirming Purchase Orders Were Used for Non-Emergencies**

OCM BOCES' Purchasing Policy states that departments and programs initiate the purchase procedure with a purchase requisition. The purchase agent in the Business Office will review the requisition for approval, and a purchase order will be created and forwarded to a vendor. Confirming purchase orders shall be utilized only in emergency situations or on textbook orders where an educational program would be adversely affected. To initiate a confirming purchase order, the Business Office must be notified prior to the order and approval must be secured from the purchasing agent or designee.

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."

We selected 85 purchases and could not find 59 purchase orders. Much of the time, OCM BOCES stamped "OK to Pay" on the invoice or requisition and payment was made. None of these purchases appeared to be for emergencies. In effect, these were confirming purchase orders that had no evidence of prior approval.

Without obtaining a formal purchase order, there is no assurance that the purchase was properly approved. Simply stamping an invoice or requisition "OK to Pay" bypasses the control process that ensures that the purchase is approved before it is ordered. Such a large number of confirming purchase orders demonstrates a lack of control over OCM BOCES purchases.

OCM BOCES officials generally agree with these observations and note that a new on-line purchase system has been implemented that should reduce the number of confirming purchase orders.

## **Excess Retirement System Contributions Accumulated in the General Fund**

Education Law, Section 1950(4)(f), states that BOCES shall have the power and duty to "apportion surpluses and assessments for services on the basis of participation to those components and to those school districts outside the BOCES contracting for such programs, and to apportion surpluses and assessments for administrative expenses to all component districts. All such apportionments shall be made annually."

According to the certified financial statements, as of June 30, 1997, the OCM BOCES General Fund had a liability to the Employees' Retirement System (ERS) of \$1,081,002. This has been accumulating ever since ERS lowered the employer contributions. OCM BOCES has continued to bill for services using an ERS rate of four percent, even though the contribution rate was between zero and one percent due to ERS credits. The higher rates were collected in anticipation that ERS would increase the employer contribution in the future. This did not occur. As a result, OCM BOCES has accumulated a fund balance of \$1,081,002. The 1997-98 financial statements show the balance at \$1,348,121, an increase of \$267,119. The funds are maintained in an interest-bearing account and interest revenue is applied to the Administration CO-SER.

OCM BOCES officials disagree with the size of the surplus. They state that the surplus occurred because anticipated increases never materialized. They propose to eliminate the surplus through reductions in future ERS charges to programs.

## **Some Employee Meal Expenses Were Not Adequately Documented**

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. "Claims submitted by an officer or employee for reimbursement of expenditures should indicate the reason for the travel or expenditure and the authorization for incurring it."

The General Municipal Law, Section 77-b, generally authorizes reimbursement of actual and necessary expenditures incurred in attending "a convention, conference, or school conducted for the betterment of any municipality. . ." According to the Guide, a particular expenditure may be considered "actual and necessary" if: (1) an expenditure was actually made; (2) the item was necessarily incurred for an authorized purpose; and (3) the expenditure was in an amount no greater than necessary.

The Guide notes that the cost of meals for guests may not be paid unless "it is determined that a lunch or dinner meeting will promote a valid local government purpose...." The Guide notes that "the claim for reimbursement should state the names of the guests and the topics discussed" and "the board must carefully assess the appropriateness of any given expenditure of this nature to be sure that it is not frivolous and there should be a reasoned determination that the meeting will promote a valid local government purpose by discussion or negotiation of a matter related to the local government." In addition, there may be cases where meal reimbursements may be considered reportable income.

On a sample basis, the audit reviewed 18 travel-related expenses totaling \$29,229 and found that three charges totaling \$413 were not properly documented as follows:

Check #007137, dated April 4, 1997 in the amount of \$1,248, payable to American Express included these three items:

Date	Location	Vendor	Expense
3/7/97	Albany	The Desmond	\$81
3/3/97	Utica	Trackside Tavern	146
3/4/97	Utica	Trackside Tavern	186
Total			\$413

OCM BOCES officials subsequently identified the purpose to be for a SURR Team dinner. However, this information was not included when these expenses were originally submitted for reimbursement. According to OCM BOCES officials, more complete documentation for these types of expenditures is normally required and provided.

With a lack of documentation, OCM BOCES may be paying for expenses that may be excessive or unnecessary. Also, OCM BOCES' employees may receive meal reimbursements that may be considered taxable income.

OCM BOCES officials will continue to remind AP staff about the importance of reviewing receipts prior to payment. They also state that the expenditures identified in the report were promoting a valid government purpose.

## **Vehicles Are Not Identified As OCM BOCES Property**

The Guide, Volume 2, Subsection 2, 11.1010, 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. One way to discourage misuse of vehicles is to clearly identify the vehicle as OCM BOCES property. In addition, all vehicles, donated or purchased, should be recorded on an inventory record to safeguard the asset.

OCM BOCES does not identify its vehicles using lettering or logos. The audit also determined that vehicles donated to OCM BOCES were not identified and accounted for on inventory lists.

OCM BOCES officials feel the advantages of such identification by lettering or logos do not overcome the possibility of nuisance phone calls and added liability.

## **Recommendations**

12. Assign responsibility for the payroll functions and the bank reconciliation function to different individuals.
13. Include historical costs and equipment location on the inventory record.
14. Consider conducting a new physical inventory at Rodax 8 and begin a complete inventory of all sites.
15. Develop procedures to guide the review and approval of the expenditure of funds for meals and refreshments.
16. Eliminate the use of confirming purchase orders.
17. Eliminate the general fund surplus that was created by excess ERS contributions.
18. Require documentation to support the purpose of expenditures on meals prior to payment.
19. Consider using OCM BOCES logos to identify vehicles.

## **Comments of OCM BOCES Officials**

OCM BOCES officials agree with recommendations 14 through 18. They are considering the cost and benefit of implementing recommendation 12, and will prospectively implement recommendation 13 on all new items.

OCM BOCES officials disagree with recommendation 19 because their legal counsel advised them it is not required, and because of their concern for the safety of OCM BOCES staff prompted by recent attacks on government facilities and equipment.

## **Auditor's Note**

We believe OCM BOCES vehicles are publicly funded and logos are an appropriate control utilized by State and local governments to provide the public with accountability regarding the use of vehicles.

---

---

# Employment Preparation Education Program

---

---

OCM operates an Employment Preparation Education (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. OCM BOCES received a total of \$937,404 in EPE aid for the period July 1, 1996 through June 30, 1997, based on 219,533 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 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.

## Reported Contact Hours Overstated

Part 168 of the Regulations and Department policy govern the determination of contact hours eligible for EPE aid. Hours claimed by BOCES must be for eligible students and adequately documented. Students are eligible for EPE aid if they are 21 years of age or older and do not have a high school or high school equivalency diploma.

The audit found the following conditions related to the EPE Program:

- Reported contact hours were overstated in the sample by 179 hours, or \$764 (179 x \$4.27 EPE rate).
- Our test of 10 students found one student was ineligible for EPE aid because he had a high school diploma. OCM BOCES reported 522 contact hours for this student. This overstated EPE revenue by \$2,229 (522 x \$4.27).

EPE funding is limited to related expenses so no adjustment needs to be made. There is no further financial impact for the overstated contact hours since OCM BOCES was not paid for those hours. OCM BOCES was only reimbursed for \$937,404 in EPE expenses for 1996-97. Although a total of 224,047 contact hours was reported, in effect OCM BOCES was only paid for 219,533 hours (\$937,404/\$4.27 per hour), or 4,514 hours less. Therefore, there is no financial impact since adjustments totaled only 701 hours. OCM BOCES officials

agree with the observations and note that no additional aid was generated.

## **Recommendation**

20. Train staff and develop procedures to accurately report contact hours for the EPE Program.

## **Comments of OCM BOCES Officials**

OCM BOCES officials agree with this recommendation.

Contributors to the Report  
Onondaga-Cortland-Madison BOCES

- James Conway, Audit Manager
- William Artini, Auditor-in-Charge
- Louise Costello, Senior Auditor
- 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.