
Audit Report

Board of Cooperative Educational Services
Orange-Ulster Counties

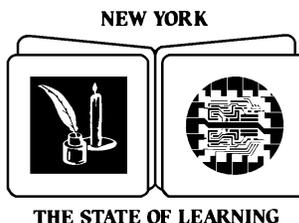
For the Period

July 1, 1995 through June 30, 1996

BOC-1296-7

March 3, 1998

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



March 3, 1998

Dr. William J. Bassett
District Superintendent of Schools
Board of Cooperative Educational Services
Orange-Ulster Counties
R.D. 2, Gibson Road
Goshen, New York 10924

Dear Dr. Bassett:

The following is a final audit report (BOC-1296-7) of the Orange-Ulster Board of Cooperative Educational Services (BOCES) for the period July 1, 1995 through June 30, 1996. The audit was conducted pursuant to Education Law Sections 305 and 1950 and in accordance with generally accepted government auditing standards.

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

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

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

Sincerely,

Daniel Tworek
Director

Enclosure

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

bcc: J. Sneed
S. Spear
J. Stevens

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Executive Summary

Orange-Ulster BOCES ranked as the 12th largest BOCES in the State, in terms of total general fund expenditures, for the 1995-96 school year (\$32,182,254).

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

Background and Scope of the Audit

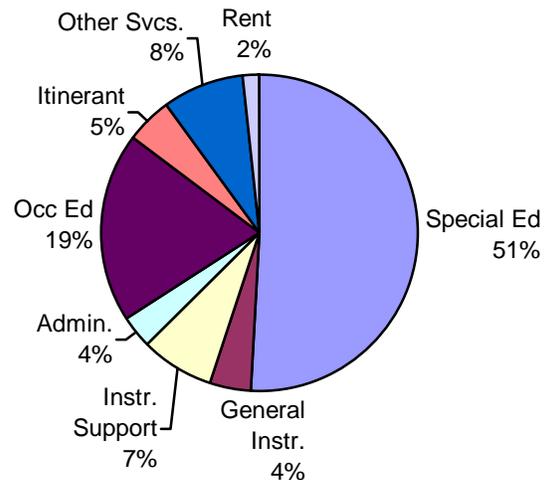
The audit examined management practices, records and documentation related to selected areas of Orange-Ulster BOCES operations for the period July 1, 1995 through June 30, 1996. These areas included administration, Operation and Maintenance, and Employment Preparation Education (EPE) Program. This was a financial related audit and the objectives were to: determine if cost allocations and transfers were accurate and reasonable; determine if services comply with Department approved specifications; verify that only reasonable and necessary costs were incurred; and verify that the budgetary process provides control over the expenditure of funds.

Audit Results

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

- EPE expenditures were not always accurately allocated (page 5).
- Improvement opportunities exist related to procedures for time and attendance records, travel reimbursement guidelines and tax reporting (pages 6-7).
- The cost of the District Superintendent's vehicle was incorrectly allocated (page 7).
- Documentation for the allocation of personal service costs to various CO-SERs was not maintained adequately (page 8).

Orange-Ulster BOCES



Introduction

Background

In 1948 the New York State Legislature authorized the creation of Boards of Cooperative Educational Services (BOCES) with the establishment of intermediate school districts. The BOCES were actually formed to serve as an interim agency, but the ultimate success of the cooperative service movement for the next 24 years led to a change in the Intermediate School Act in 1972. That change institutionalized BOCES and eliminated the previous legislative references to intermediate school districts.

BOCES are organized under Section 1950 of the Education Law. Chapter 474 of the Laws of 1996 amended Section 305 of the Education Law to require that periodic fiscal audits of BOCES be conducted at least once every three years. BOCES may provide such services as special education for students with disabilities, occupational education, academic and alternative programs, summer schools, staff development, computer services, educational communications and cooperative purchasing. There are 38 BOCES in New York State and all but 13 of the 705 operating school districts in the State are members.

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

Districts that belong to a BOCES are called component districts and are required to pay a share of the BOCES' administrative costs. Only districts that actually use the programs offered by a BOCES, called participating districts, are required to pay for the costs of those programs. Costs charged to the districts 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 districts to reconcile differences.

In 1955, BOCES were authorized to rent facilities, union free districts were allowed to join BOCES and all component districts

were required to bear the administrative costs.

In 1967, BOCES were permitted to acquire real property. This change also authorized the establishment of contracts to utilize Dormitory Authority funds for construction of facilities.

Orange-Ulster BOCES, headquartered in Goshen, New York, was established to be a means for the school districts of the 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.

Orange-Ulster BOCES serves 18 component districts that enroll more than 48,000 students. Orange-Ulster BOCES ranked as the 12th largest in the State, in terms of total general fund expenditures, for the 1995-96 school year.

Objectives, Scope and Methodology

Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to selected operations of the Orange-Ulster BOCES for the period July 1, 1995 through June 30, 1996. This was a financial related audit and the objectives were to:

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

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed Department and Orange-Ulster BOCES management and staff; examined records

and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the Orange-Ulster BOCES audited financial statements.

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

Comments of Orange-Ulster BOCES Officials

Orange-Ulster BOCES officials generally agreed with the findings and recommendations in this report. Their comments have been included where appropriate. Their response to this report is included as Appendix B.

Administrative CO-SER 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 expenditures for rentals of facilities, for payments to the Dormitory Authority and for transfers to the capital fund for construction purposes.

Orange-Ulster BOCES spent \$1,336,479 for administration in the 1995-96 school year, not including capital expenditures. This represents 5.68 percent of the total of administrative and program general fund expenditures. Statewide, reported BOCES administrative expenditures ranged from 3.0 to 10.6 percent with an overall average of 6.6 percent.

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

Employment Preparation Education Program

Orange-Ulster BOCES 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.

Section 168.4 of the Regulations of the Commissioner of Education states that EPE program funds may be spent for personal services, employee benefits, equipment, supplies and materials, contractual services, travel expenditures, staff development and training, and other expenditures approved by the Commissioner. These expenditures are to be used only for EPE Program purposes.

Orange-Ulster BOCES received a total of \$488,116 in EPE aid for the period July 1, 1995 through June 30, 1996 based on reported contact hours. The audit found that Orange-Ulster BOCES did not have an effective system for identifying, segregating, accumulating and allocating certain EPE expenditures and, as a result, expenditures were inaccurately, although reasonably allocated.

Allocations Need Improvement

Orange-Ulster BOCES did not allocate \$11,000 in expenditures to all programs encompassed by the 1996 Winter Course Catalogue. Instead, the entire \$11,000 was charged to the EPE Program. However, the audit found that other expenses that were EPE related were not allocated to the EPE Program. Orange-Ulster BOCES did not accurately allocate expenses; however, in total, the expenses charged to the EPE Program appeared to be reasonable.

Recommendation

1. Establish procedures to ensure that EPE expenditures are accurately identified, segregated, accumulated and allocated.

Comments of Orange-Ulster BOCES Officials

Orange-Ulster BOCES officials agreed with this recommendation and stated they have a system in place to monitor proper coding and allocation of expenditures. They state this was a mis-coding.

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 such areas as planning, organizing, directing and controlling program operations. They include systems for measuring, reporting and monitoring program performance. The audit reviewed several processes that it determined significant to the audit objectives and found several opportunities for improvement. The audit also recognizes that Orange-Ulster BOCES has undertaken a series of improvement actions since the inception of the audit.

Time and Attendance Records

The Office of the State Comptroller Financial Guide, Volume 1, Subsection 3.2010 (Guide) states that all employees should maintain daily time records showing actual hours worked. However, the appointing authority may exempt employees from keeping such records. Those exempt employees shall maintain a daily record of absences and time and leave credits earned and used. Also, the exemption should be in writing.

Orange-Ulster BOCES employees, unless funded by federal grants, do not maintain daily time records showing actual hours worked, nor do they maintain a daily record of absences and time and leave credits earned and used. Orange-Ulster BOCES does not have written procedures for recording attendance or the use of leave accruals. Audit testing revealed that Orange-Ulster BOCES does have designated forms to record absences and use of leave accruals. Administrative staff was able to verbally explain the use of these forms, but they were not able to provide any written procedures.

The lack of written procedures could result in inconsistent practices with employee time and attendance records. Also, employee absences may not be recorded and leave accruals not charged, resulting in future unnecessary costs.

Travel Reimbursement Guidelines

The General Municipal Law Section 77c states that per diem meal allowances for business related travel shall not exceed the standard meal allowance adopted or prescribed for by the Internal Revenue Service (IRS) for federal income tax purposes.

Orange-Ulster BOCES does not have written policies to document maximum reimbursement allowances for meals and lodging. However, audit testing did reveal that Orange-Ulster BOCES attempts to minimize travel expense whenever possible. Without a policy, BOCES and Board members may receive reimbursement for meals and lodging in excess of IRS rates.

IRS Accounting for Non-Overnight Meal Reimbursement

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

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

District Superintendent's Vehicle

The State Education Department's publication, *BOCES Administrative Handbook 3, General Requirements for Administrative Budget*, states that all expenses related to the District Superintendent should be recorded as administrative expenses. The expense of the District Superintendent's vehicle was charged to the Operation and Maintenance (O & M) CO-SER. Orange-Ulster BOCES stated that the vehicle is assigned to other

programs after a few years. Therefore, Orange-Ulster BOCES officials thought the expense should be charged to various programs by allocation of the O & M CO-SER.

Generally Accepted Accounting Practices (GAAP) require that costs be charged to the area benefiting from those costs. Even though Orange-Ulster BOCES officials stated that the District Superintendent's vehicle was available to be used by other employees if the District Superintendent was not using it, the vast majority of use was by the District Superintendent and the cost should be directly charged to Administration. Orange-Ulster BOCES claimed the recording of the expense in the Administrative budget only would be an overstatement of Administrative expenses. The audit believes that minimal cost would be allocated to other programs.

Personal Service Costs

The Education Law Section 1950 requires that the net cost of operating a BOCES be allocated among participating districts. The Uniform System of Accounts for BOCES states that to facilitate such allocation requires a separate accounting of revenues and expenditures for each CO-SER. Education Law Section 1951 further states that no district shall be charged for programs not requested. As such, the personal service costs charged to each CO-SER should reflect the actual efforts of personnel assigned to the CO-SER and these costs should be adequately documented.

The audit found that the personal service costs charged to each CO-SER did not reflect the actual persons working in that particular program. Orange-Ulster BOCES officials indicated that staff are charged to CO-SERs based upon an approximation of the full-time-equivalent (FTE) staff required to operate a program. For example, two business office employees were charged 100 percent to CO-SER 613 (Workers' Compensation) instead of Administration, although more than two people worked on CO-SER 613.

This practice is followed to minimize the administrative burden of tracking and allocating staff time. However, it also results in an inaccurate accounting of actual program expenditures, which has a bearing on chargebacks to districts. Orange-Ulster BOCES needs to develop a process to determine the actual cost of operating programs covered by CO-SERs. This will provide reasonable assurance that districts are only charged for program expenditures they request.

Operation and Maintenance Allocations

The Guide 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 allocation are reasonable and consistent.

We were unable to determine the reasonableness of the O & M allocation methodology because of the lack of documentation. Orange-Ulster BOCES officials indicated that the allocation of O & M is based on staff and square footage of the buildings used by the programs. However, there were no records to support the actual allocation of these expenditures. As such, the audit could not test the accuracy of O & M allocations.

Budgeting and Monitoring

The Guide states that BOCES institute and maintain strong budgetary control. Education Law 1950 (4)(d)(5) requires the BOCES to submit to the Commissioner, by June 1, an operating plan and budget based upon the request for services it has received from its component school districts. The audit considers this the minimum level of budgeting required for BOCES. An effective budget process considers the historical trend of actual expenditures. A budget is the primary instrument that provides an orderly financial plan for the efficient operation of an entity. The budget sets forth the proposed appropriations necessary to carry out activities for a school year and the proposed means of financing. Financial activity must conform to the budget and requires cooperation among the Board, the officers and the employees.

A close working relationship with its component school districts allows Orange-Ulster BOCES to maintain sound budgetary controls. The Orange-Ulster BOCES business office works closely with their program offices and their component school districts to determine the districts' needs. Orange-Ulster BOCES is then able to develop and implement budgets that reflect and meet the actual needs of its component school districts. During the school year, Orange-Ulster BOCES monitors the expenses incurred by each CO-SER to insure that expenditures do not exceed planned budgets.

Orange-Ulster BOCES goes beyond the minimum budget requirements in Education Law and establishes realistic budgets based upon the actual needs of its component school districts. Orange-Ulster BOCES also monitors the expenses incurred by each CO-SER to insure that budgets are adhered to.

Recommendations

2. Ensure the value of the Orange-Ulster BOCES inventory is accurately reflected in the financial records.
3. Establish written procedures for recording employee attendance.
4. Establish written policies for travel reimbursement.
5. Establish procedures to ensure non-overnight travel reimbursement is accounted for in accordance with IRS rules.
6. Charge the entire cost of the District Superintendent's vehicle to Administration.
7. Establish procedures, accurately segregate and accumulate personal service costs by CO-SER.
8. Maintain documentation of personal service costs allocations.
9. Establish procedures to accurately document the allocation of Operation and Maintenance expenses.

Comments of Orange-Ulster BOCES Officials

Orange-Ulster BOCES officials generally agreed with these recommendations.

Appendix A

Orange-Ulster BOCES Contributors to the Report

Calvin Spring, Audit Manager

Brian Jackson, Associate Auditor (Auditor-in-Charge)

Ronald Talarico, Senior Auditor