
Audit Report

Orleans-Niagara Counties
Board of Cooperative Educational Services

For the Period

July 1, 1996 through June 30, 1997

BOC-0798-1

June 16, 2000

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





THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

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June 16, 2000

Mr. Darrel Oakes
Board President
Orleans-Niagara BOCES
4232 Shelby Basin Road
Medina, New York 14103

Dear Mr. Oakes:

The following is our final audit report (BOC-0798-1) on the Orleans-Niagara 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), B. Ouder Kirk, Interim District Superintendent

Executive Summary

Orleans-Niagara BOCES ranked as the 13th largest BOCES in the State, in terms of total general fund expenditures, for the 1996-97 school year.

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

Background and Scope of the Audit

The audit examined management practices, records and documentation related to select areas of Orleans-Niagara BOCES operation for the period July 1, 1996 through June 30, 1997. These areas included Administration, Operation and Maintenance, co-operative services, 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 expenditures of funds.

Audit Results

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

- Orleans-Niagara BOCES needs to obtain a waiver for class enrollments over 20 students (pages 7-8).
- Opportunities exist to improve processes related to EPE student folders, developing a procedures manual, and annual teacher training (pages 8-11).
- Opportunities exist to improve management processes relating to purchasing, documentation for payment, and classifying transactions (pages 15-21).

Orleans-Niagara BOCES has taken steps to improve their EPE procedures. They have also taken corrective action to improve management processes relating to purchasing, documentation and classifying transactions.

**Orleans Niagara BOCES
1996-97**

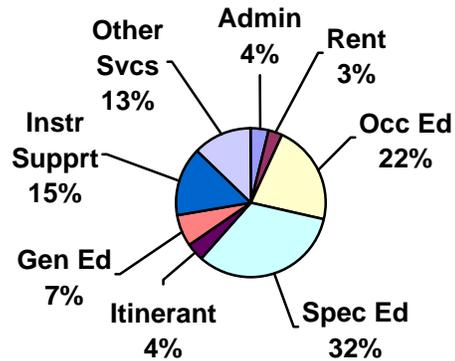


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Introduction

Background

Boards of Cooperative Educational Services (BOCES) are voluntary, cooperative associations of school districts that have joined together to provide educational programs or services more economically than each district could offer by itself. BOCES are organized under Section 1950 of the Education Law. Chapter 474 of the Laws of 1996 amended Section 305 of the Education Law to require the New York 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.

Orleans-Niagara BOCES, headquartered in Medina, New York, was established to be a means for the school districts of Orleans and Niagara counties to cooperatively carry out studies, develop specialized facilities and offer shared educational programs and services. Shared programs allow districts to offer opportunities to students and staff that might not otherwise be economically possible.

Orleans-Niagara BOCES serves 13 component districts which enroll more than 39,193 students. Orleans-Niagara BOCES ranked as the 13th largest in the State, in terms of total general fund expenditures, for the 1996-97 school year.

Objective, 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 Orleans-Niagara 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;
- 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 Orleans-Niagara BOCES management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the Orleans-Niagara 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, judgments and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions and recommendations.

Comments of Orleans-Niagara BOCES Officials

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

Personal Services

Cost Allocation of Salaries is Not Properly Documented

Education Law, Section 1950(4)(f), requires that the net cost of operating a BOCES service be allocated among participating districts. The Uniform System of Accounts for Boards of Cooperative Educational Services (System of Accounts) 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 program involved and expenditures related to more than one service program 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 service. In order to ensure that component districts pay only for services received, cost allocations between funds and among CO-SERs should be accurate and reasonable.

Orleans-Niagara BOCES does not maintain time distribution documentation to support staff salary allocations. Due to a lack of documented staff salary allocation calculations, there is no way to determine whether funds are charged appropriately. This would affect the charges for services as well as the cost of occupational, adult and EPE programs. In the case of EPE, salary allocations must be justified or there may be a dollar adjustment. Orleans-Niagara 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 ratio-value used to allocate special education salaries.

Orleans-Niagara BOCES agrees that staff salary allocation calculations were not maintained, but believes the supervisors' assessments are accurate and reasonable. However, there was no written documentation to support these assessments. Therefore, the audit could not verify their reasonableness and accuracy. Orleans-Niagara BOCES officials state they will maintain supporting documentation.

W-2 Valuation of Automobiles

According to IRS Publication 535, the Commuter Rule can be used to determine the taxable value (i.e., personal use) of employer-provided vehicles if an employee is not a control employee. One definition of a control employee is a governmental employee whose pay is at least as much as that paid to a federal government employee at Executive Level V, which was \$110,700 in 1998.

Orleans-Niagara BOCES used the Commuter Rule in determining the taxable value of the vehicle provided to the District Superintendent. The District Superintendent was paid in excess of \$110,700 in 1996-97, and therefore not eligible for the Commuter Rule.

The audit believes that the taxable portion of the vehicle provided to the District Superintendent has been understated. However, Orleans-Niagara BOCES did not provide information to the audit to be able to determine the correct amount. Orleans-Niagara BOCES has requested a formal response and the issue is under review by the Department's Office of Counsel.

Orleans-Niagara BOCES maintains it only paid the District Superintendent \$85,126, separating the amount paid to the District Superintendent by the Department. Therefore, they believe they correctly used the Commuter Rule in determining the taxable portion of the vehicle provided to the District Superintendent. They state that they spoke to the IRS and they agreed with Orleans-Niagara BOCES.

The audit also contacted the IRS and found that the audit is correct in stating the District Superintendent is not eligible to use the Commuter Rule. The District Superintendent's total salary is the amount paid by the Department and Orleans-Niagara BOCES.

Recommendations

1. Maintain documentation of salary allocations.
2. Ensure the value of automobiles provided to employees is reported correctly to tax authorities.

Comments of Orleans-Niagara BOCES Officials

Orleans-Niagara BOCES officials concur with the first recommendation, but believe that only the amount paid to the District Superintendent by Orleans-Niagara BOCES counts in determining eligibility for the commuter rule.

Employment Preparation Education (EPE)

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

Part 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.

Orleans-Niagara BOCES received a total of \$343,132 in EPE aid for the period July 1, 1996 through June 30, 1997, based on reported contact hours. The audit found that Orleans-Niagara BOCES needs to improve its system for identifying, documenting and accumulating certain EPE contact hours.

Education Law 3602 states that when total revenue received exceeds the entire cost of such program, State aid payable in the following year will be reduced by the amount of such excess. This means that Orleans-Niagara BOCES must refund the larger of revenues disallowed or expenditures disallowed, but not both. The audit report will be used by the Department to adjust future aid received by Orleans-Niagara BOCES.

The audit found that Orleans-Niagara BOCES did not request waivers when class enrollment exceeded 20 students, did not maintain original attendance registers, and did not have adequate documentation for Giving Rural Adults a Study Program (GRASP) contact hours. In addition, it does not have a procedures manual for the EPE Program, did not have all required documentation in student folders, and did not provide required staff development to EPE teachers.

Class Size

Under Section 168.3(b) of the Regulations, EPE class enrollment size should not exceed 20 students unless a waiver is approved.

EPE class size exceeded 20 pupils per class in some instances, but no waivers were obtained by Orleans-Niagara BOCES from

the Department. The audit reviewed attendance documentation for 16 traditional classes. Nine of the 16 classes had at least one month where the class size exceeded 20 students. As a result, Orleans-Niagara BOCES is not in compliance with the Regulations.

Orleans-Niagara BOCES officials do not agree that they have to obtain a waiver because they say the actual attendance was always less than 20. However, the EPE guidelines are quite clear that when enrollment exceeds 20 students a waiver is to be required, and there were instances where class attendance exceeded 40 students.

Student Folders

Section 168.3 of the Regulations requires that every student served in an EPE Program have an individual student folder that is easily accessible to the student and the teacher, and includes information concerning registration, attendance, testing and individual program needs. At a minimum, registration information must include the student's name, class attendance, the student's date of birth or age, and the student's diploma status. Beginning in 1995-96, each folder is also required to contain an Individual Education and Employment Preparation Plan (IEEPP).

The audit reviewed 29 student folders and found that original attendance documentation was not maintained. Per ONB, teachers recorded actual attendance on attendance registers. However, at the end of the month the teachers only reported the total contact hours by student for the month to the main EPE office on the "Attendance List Class List." The teachers kept the original attendance registers. The main EPE office does not verify that the information provided by the teacher is correct, i.e., compare what the teacher reported to the attendance registers.

The audit accepted the information as reported on the "Attendance List Class List" for the audit year. However, in future audits, Orleans-Niagara BOCES can improve internal controls by providing original attendance registers and avoiding significant audit adjustments.

The audit found that none of the 23 student folders reviewed contained IEEPPs. As a result, Orleans-Niagara BOCES is not in total compliance with the Regulations because student folders did not contain original attendance information or the required IEEPPs.

Without original attendance documentation, the audit has little assurance that the contact hours claimed were correctly calculated, that all claimed contact hours were provided, etc. Without the required IEEPPs, it is difficult to determine if the students are receiving necessary services or the services provided are in line with the students' stated goals, etc.

Orleans-Niagara BOCES officials state that completed attendance registers were submitted to EPE staff supervisors at the end of the fiscal year. However, the director of the EPE Program stated the original attendance registers were kept by the EPE teacher and only monthly totals were submitted to the EPE office. Orleans-Niagara BOCES officials need to provide training to teachers concerning procedures for attendance keeping.

The documentation maintained to support the GRASP contact hours was not clear. Without the help of the GRASP coordinator, the audit was not able to determine:

- when packets were handed out to students,
- when the packets were returned by the students, and
- whether a packet was handed out or if there was just consultation with the student.

There were instances where extra packets were handed out to a student because the student was not returning for four weeks. Orleans-Niagara BOCES counted this as 24 contact hours, but this information was not clearly documented in the student's file. As a result, the audit was originally counting 12 hours per date in the records.

The audit accepted the documentation to support the GRASP hours for the audit year. However, in future audits Orleans-Niagara BOCES needs to better document the GRASP packet exchanges to avoid significant audit adjustments. The audit suggests Orleans-Niagara BOCES devise a form that tracks this information more clearly.

Orleans-Niagara BOCES officials agree that the documentation to support the GRASP contact hours is not clear or concise. They indicate that standardized forms have been developed. They also agree that student folders do not have required IEEPPs, and that they have revised procedures and IEEPPs have been developed and implemented.

Procedures Manuals

The Comptroller's Financial Management Guide for Local Governments (Guide), Volume 2, Subsection 11.0101, states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. Also, all resources should be safeguarded against waste, loss and misuse. A component of an effective internal control structure is written "control procedures" which are established policies and procedures. Policies and procedures define management's position and guide employees in the performance of their duties.

Orleans-Niagara BOCES has no written policies or procedures for the EPE Program. There is no written guidance on how attendance is to be kept or how contact hours are to be calculated, and there are no standard forms provided to teachers to fill out in order to maintain consistency within EPE activities, etc.

There is also a greater chance of misunderstanding on how to record attendance and calculate EPE hours. Without proper guidance, appropriate documentation might not be maintained by teachers that could result in adjustments upon audit.

Orleans-Niagara BOCES officials may look to other organizations with EPE Programs, Department officials, their independent auditors, and other BOCES in establishing the needed policies and procedures.

Orleans-Niagara BOCES officials agree that they have no written policies or procedures for their EPE Program and state they are working on a written manual for the EPE Program.

EPE Staff Development Training

Section 168.3(b)(7) of the Regulations requires that professional staff members serving in the EPE Program take at least five and one-half hours of staff development training annually related to the development and organization of such programs for adults.

The audit reviewed the training records for five professional staff members who worked in the EPE Program. The Orleans-Niagara BOCES EPE office provided a list of all employees who had received training and two of the five employees did not

appear on the list. As a result, Orleans-Niagara BOCES is not in compliance with Section 168.3(b)(7) of the Regulations.

Orleans-Niagara BOCES officials claim that training needs were met for two EPE staff. They state that they encourage and provide time for staff development and that certificates will be kept in personnel files.

Recommendations

3. Ensure waivers are requested when required.
4. Ensure that original attendance documentation is maintained for the required period of time and that this documentation clearly supports contact hours provided.
5. Develop a procedures manual for the EPE Program.
6. Ensure student folders contain all required information.
7. Ensure EPE teachers receive the required annual training and that the training received is documented.

Comments of Orleans-Niagara BOCES Officials

Orleans-Niagara BOCES officials generally concur with these recommendations.

Special Education Programs

Student FTE Calculation

BOCES are required to report student enrollment and bill for tuition based on programs they operate under Articles 81 and 89, in accordance with Section 175.6 of the Regulations.

According to the Regulations, a full-time student who is enrolled from September through June is deemed to be in attendance during that period and therefore a 1.000 FTE. If a student is enrolled for less than the full program duration, FTE attendance is calculated by dividing the total weeks of enrollment by the total number of weeks the program operated. The first and last weeks of the period of enrollment that contain three consecutive days of enrollment within the same week and month plus all weeks in between shall be counted in determining the total number of weeks of enrollment, provided that no more than four weeks of enrollment may be counted in any calendar month. For the summer programs, weeks should be counted as they actually occur; that is, more than four weeks in a single month may be counted. FTE attendance shall be calculated to three decimal places without rounding. A full-time student who is enrolled for the entire summer program, regardless of the number of weeks the program operates, is counted a 1.000 FTE for enrollment and attendance purposes.

Orleans-Niagara BOCES officials do not calculate FTE for Special Education Programs, per Section 175.6. As a result, Orleans-Niagara BOCES is not in compliance with the Regulations and may not be billing the components the appropriate amount of tuition.

Orleans-Niagara BOCES officials do not agree that they are not in compliance with Section 175.6. They contend that Section 1950 4(d) allows local component districts to agree to a billing methodology and that it is in conflict with Section 175.6.

Recommendation

8. Determine billing in accordance with Section 175.6.

Comments of Orleans-Niagara BOCES Officials

Orleans-Niagara BOCES officials believe the Department needs to more clearly resolve the apparent conflict in law.

Auditor Note

The Department has determined that Section 175.6 applies to FTE calculations for BOCES.

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 improvements. These areas include allocation and transfers, inventory control, reporting to tax authorities, unnecessary and unreasonable expenses, and improving policies.

Purchase Orders and Purchase Requisitions

The Guide, Volume 2, Subsection 11.0101, states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. In addition, all resources should be safeguarded against waste, loss and misuse.

As a part of an effective internal control system, purchase requisitions and purchase orders are used. A purchase requisition is a formal request by an employee of the organization for goods or services. The purchase requisition initiates the purchasing cycle and should include what is being purchased, when it is required, and where to deliver it. A purchase requisition requires supervisory approval to prevent an employee from purchasing personal items and to give the supervisor responsible for the budget the opportunity to ensure that sufficient funds are available in the budget for the request. A purchase requisition can be incorporated with the purchase order document.

A purchase order is a formal notice that authorizes a vendor to furnish supplies or services as described on the form. One benefit of a purchase order system is that it helps ensure that budgetary authority exists before commitments are made. The Guide states that the purpose of the system is to effectively control expenditures and realize the maximum savings of taxpayers' dollars. The Guide also notes that control over a

purchasing system involves compliance with required purchasing procedures and attention to necessary paperwork.

Per Orleans-Niagara BOCES procedure 5310.1, purchases are initiated with purchase requisitions. A purchase order is then prepared based on the approved purchase requisition. The audit reviewed 52 transactions. In some instances, a transaction may have had more than one purchase requisition/order. The audit found the following for the transactions tested:

- 1) Nine of the 49 (18.8 percent) purchase requisitions reviewed were not dated.
- 2) Six of the 65 (9.2 percent) purchase orders did not have any indication that they were approved.

During the audit year, Orleans-Niagara BOCES did not comply with its own policy regarding the use of purchase requisitions and purchase orders. Without a properly executed purchase requisition, Orleans-Niagara BOCES had less assurance that proper procedures were followed and that employees are not ordering goods and services for their own personal use. Without a properly executed purchase order, Orleans-Niagara BOCES had less assurance that expenditures were properly authorized and that funds were encumbered in a timely fashion.

Orleans-Niagara BOCES has taken steps to ensure dates are noted on the requisition by supervisors.

Confirming Purchase Orders

The Guide, Volume 2, Subsection 8.3050, defines confirming purchase orders. It states, "A verbal order, subject to subsequent confirmation by a written purchase order, 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 Department's School Business Management Handbook on Purchasing suggests the purchase order system follow specific steps from requisitioning the goods or services to approval of the claim for payment. It also suggests that by following the process, certain internal controls are inherent to ensure:

- The best value is obtained;
- Proper authority exists before commitments are made;
- There are sufficient funds for the purchases; and
- Competitive bidding requirements are met.

During the review of transactions, the audit found instances where purchase requisitions were dated after the date of the invoice/receipt, etc. (3 of 48, or 6.25 percent). There was one requisition dated 29 days after the invoice. The audit also found that confirming purchase orders were used 8 out of 65 times, or 12.3 percent. There was one requisition that was dated 46 days after the invoice date.

Without properly executed purchase requisitions and purchase orders, Orleans-Niagara BOCES has less assurance that expenditures were properly authorized and that funds were encumbered in a timely fashion.

Orleans-Niagara BOCES indicates that corrective improvements will occur through continued inservice and reminders to staff.

Inadequate Documentation

The Guide (Subsection 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 expenses should indicate the reason for the travel or expense and the authorization for incurring it."

In addition, the Guide, Subsection 8.1025, pages 1 and 2, discussed the reimbursement of "actual and necessary expenses" incurred by various individuals in performance of their duties. As a general rule, a particular expense may be considered "actual and necessary" if:

- 1) the 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.

Good business practice suggests that adequate supporting documentation should specify the exact nature and timing of an expenditure. Documentation that shows the nature and timing of an expenditure include invoices, itemized bills, itemized receipts, etc. For local meals and meals that exceed the federal maximum

rate when traveling on business, the purpose of the meeting and those in attendance should be noted.

Documentation that would not be acceptable as adequate supporting documentation includes, but is not limited to:

- 1) credit card slips which only show a total but no detail;
- 2) a credit card statement (with the exception of those that show exactly what items are purchased and when);
- 3) the remittance form on a bill without the supporting detail attached;
- 4) a receipt without item descriptions;
- 5) any documentation without a date (must include month, day and year);
- 6) any documentation that does not indicate who or what provided the goods and/or services.

When itemized and dated documentation is not available, the person receiving the goods or services should indicate on the documentation received what goods and/or services were received and when.

Good business practice suggests that all payments be reviewed and approved by the appropriate individuals, and that evidence of this approval be noted on supporting documentation. It is also suggested that, after a payment is made on an invoice/receipt, etc., there be an indication on the documentation that payment has been made to prevent any duplicate payments for the same goods or services.

During the testing of transactions, the audit noted that 6 of 103 (5.8 percent) items did not have adequate supporting documentation; 47 of 107 items did not have indication of approval for payment; and all 107 items reviewed did not have any indication that payment had been made.

Without proper documentation, approval or evidence of payment on supporting documentation, Orleans-Niagara BOCES and the audit have no assurance that:

- 1) the expenditure was actually made;
- 2) the item was necessarily incurred for an authorized purpose;
- 3) the expense was in an amount no greater than necessary; or
- 4) there were no duplicate payments made.

Orleans-Niagara BOCES officials agree that all appropriate supporting documentation, such as receipts, should be obtained, and all charges must be authorized as evidenced by a valid signature. They also believe that, since their system does not allow payment twice on a purchase order number, a notation made on the documentation that payment has been made is not necessary.

Transactions Not Correctly Classified

According to the System of Accounts, page 1, “Financial statements must be presented in conformity with generally accepted accounting principles (GAAP)...” According to GAAP, all transactions must be valid, properly classified, properly measured, recorded in the proper accounting period, and be presented properly in the financial statements. An appropriate internal control structure ensures that GAAP is being followed.

The proper recording of transactions also allows the Department to do meaningful comparative analysis with BOCES throughout the State.

During the sample testing of other than personal transactions, the audit found that 13 of 108 (12.04 percent) items were not correctly classified.

- In many instances, Orleans-Niagara BOCES classified catering services as supplies instead of contractual services.
- In one instance, Orleans-Niagara BOCES paid for equipment at a rented site, in accordance with the lease agreement, that remained the property of the lessor and remained at the site. The expense was recorded as equipment instead of as rent.
- In another instance, tickets for a play were purchased and classified as supplies rather than as contractual.

Transactions included in the sample tested were not properly recorded in accordance with GAAP. If enough transactions are not properly recorded, this can result in the financial statements not being in conformity with GAAP, and the Department loses its ability to do comparable analyses among BOCES.

Orleans-Niagara BOCES officials agree in part that they did not properly record some transactions and consequently are not in conformance with GAAP for these transactions. They state they are in conformance with GAAP’s principal of consistency concerning the reporting of catering services as supplies instead

of as contractual. The audit agrees that Orleans-Niagara BOCES is consistent in reporting catering services as supplies, but believes that catering services should be charged as contractual services. Supplies are items that have physical form, can be inventoried, and are assets. Contractual services are not assets, cannot be inventoried and do not have physical form. In addition, if Orleans-Niagara BOCES classifies contractual services as supplies and other BOCES do not, the Department cannot make meaningful comparisons among BOCES.

Policies and Procedures Manuals

The Guide, Volume 2, Subsection 11.0101, states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. Also, all resources should be safeguarded against waste, loss and misuse. A component of an effective internal control structure is written "control procedures" which are established policies and procedures. Policies and procedures define management's position and guide employees in the performance of their duties.

There are formal written policies and procedures. However, the policies and procedures manuals do not have complete, formal written policies and procedures for the following areas: payroll, purchasing, cash disbursements, use of the postage meter, food provided to staff, travel, personal phone calls, cellular phones, vehicles, receipt of gifts, and overtime.

Without complete formal written policies and procedures, there is a much greater chance that the directives of the Board and management will not be followed. There is also a greater chance of misunderstandings and improprieties.

Orleans-Niagara BOCES may look to their independent auditors, accounting literature, and other BOCES in establishing the needed policies and procedures.

Orleans-Niagara BOCES officials do not, in total, agree that their policies and procedures manual does not address pertinent areas for which formal, written policies and procedures should be in place. They will develop policies and procedures for the postage meter, cellular phones and personal phone calls.

Recommendations

9. Ensure the use of confirming purchase orders is minimized.
10. Ensure adequate documentation is attached to invoices and purchase orders.
11. Ensure all transactions are correctly classified.
12. Improve policies by implementing a policy for the postage meter, cellular phones and personal phone calls.

Comments of Orleans-Niagara BOCES Officials

Orleans-Niagara BOCES officials generally concur with these recommendations.

Orleans-Niagara BOCES
Contributors to the Report

- Calvin Spring – Audit Manager
- John Cushin – Associate Auditor, (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.