
Audit Report

Otsego-Delaware-Schoharie-Greene Counties
Board of Cooperative Educational Services

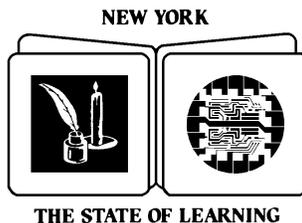
For the Period

July 1, 1994 through June 30, 1995

BOC-1196-5

February 9, 1998

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



February 9, 1998

Dr. William R. Miles
District Superintendent of Schools
Otsego-Delaware-Schoharie-Greene Counties
Board of Cooperative Educational Services
Frank W. Cyr Center
Stamford, New York 12167

Dear Dr. Miles:

The following is our final audit report (BOC-1196-5) on the Otsego-Delaware-Schoharie-Greene Counties Board of Cooperative Educational Services for the period July 1, 1994 through June 30, 1995. The audit was conducted pursuant to Sections 305 and 1950 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

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

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

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

Sincerely,

Daniel Tworek
Director

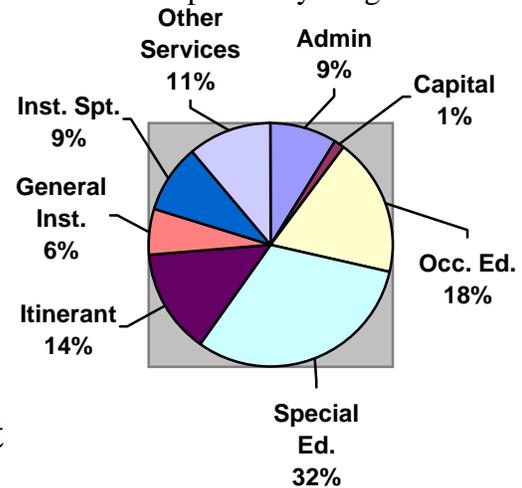
Enclosure

cc: Commissioner Mills
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Executive Summary

Otsego-Delaware-Schoharie-Greene BOCES General Fund Expenses by Program 1994 -95

Otsego-Delaware-Schoharie-Greene BOCES ranked 36th of the 38 BOCES in the State, in terms of total general fund expenditures, for the 1994-95 school year (\$11,716,397).



Background and Scope of the Audit

The audit examined management practices, records and documentation related to selected areas of Otsego-Delaware-Schoharie-Greene BOCES, also known as Otsego-Northern Catskill BOCES (ONC), operations for the period July 1, 1994 through June 30, 1995. These areas included administration, occupational education, and operations and maintenance. 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; to determine if ONC services comply with Department approved specifications; to verify that costs were reasonable and necessary to carry out its responsibilities; to verify that the budgetary process provides reasonable control over the expenditure of funds; and to verify the accuracy and reliability of data reported for Employment Preparation Education (EPE) aid.

Audit Results

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

- The Board increased the administrative budget by \$53,107, which is contrary to Education Law Section 1950 (page 4).
- Some EPE contact hours claimed were not supported by attendance records resulting in an overpayment of \$3,663 (page 6).
- Contact hours for three students under 21 years of age were claimed for EPE aid resulting in an overpayment of \$1,069 (page 7).
- One CO-SER budget was not used to control expenditures (page 8).
- Purchasing procedures were not applied consistently (page 9).
- Opportunity to realize a cost saving on a vehicle purchase was lost (page 10).
- Payroll is not reviewed by management prior to payment (page 11).
- Use of BOCES vehicles needs closer monitoring (page 12).
- One expenditure transfer totaling \$18,500 was not adequately documented (page 13).

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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 could offer by itself. BOCES are organized under Section 1950 of the Education Law. Chapter 474 of the Laws of 1996 and amended Section 305 of the Education Law require the 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 school, staff development, computer services, educational communications and cooperative purchasing. Presently there are 38 BOCES in New York State and all but 13 of the 705 school districts in the State are members.

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

Districts that belong to a BOCES are called component districts and are required to collectively pay the BOCES' administrative costs. Districts that use the programs offered by a BOCES are called participating districts and they, along with applicable component districts, are required to pay for the use of those programs. Costs charged to the districts for administration and programs are based on budgeted costs and are adjusted at the year-end to reflect actual costs. Typically, a refund is issued to the districts to reconcile differences.

Otsego-Delaware-Schoharie-Greene BOCES, also known as Otsego-Northern Catskill BOCES (ONC), is headquartered in Stamford, New York. ONC serves 19 component districts, which enroll more than 11,000 students. During the 1994-95

school year, ONC ranked 36 of the 38 BOCES in the State, with \$11,716,397 in general fund expenditures.

Objectives, Scope and Methodology

Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to select operations of ONC for the period July 1, 1994 through June 30, 1995. This was a financial related audit and our objectives were to:

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

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

The audit was conducted 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 Otsego-Northern Catskill Officials

ONC BOCES officials generally agreed with the findings and recommendations in this report. Their response to this report is included as Appendix B.

Administrative CO-SER Expenditures

Education Law Section 1950 (2)(4)(b)(5) requires the trustees or board of education of each component school district to adopt a public resolution either approving or disapproving the tentative administrative budget prepared by BOCES. If the trustees or boards of education of a majority of the component school districts adopt a resolution approving the budget, the BOCES may adopt a tentative administrative budget without modification. There is no provision in law to amend the administrative budget once adopted, except in rare instances.

Each component district is responsible for a proportionate share of the costs included in the administrative budget, irrespective of whether they participate in the services. The administrative budget includes expenses related to the District Superintendent's office, general costs of administration, expenses of the Board, needs and assessment planning, central support for operations and other activities as approved by the Commissioner. The budget may also include expected expenses for rentals of facilities, for payments to the Dormitory Authority and for transfer to the capital fund for construction purposes.

ONC's administrative budget for 1994-95 was \$1,036,625, excluding capital expenses. This represents about 8.8 percent of the \$11,716,397 total of administrative and program general fund expenses. Statewide, BOCES administrative expenses ranged from 3.0 to 10.6 percent with an overall average of 6.6 percent.

The Administrative Budget was Inappropriately Increased

The audit determined ONC increased the 1994-95 approved administrative budget by \$53,107, in violation of Education Law Section 1950. The original administrative budget of \$1,036,625 was increased by \$53,107 to \$1,089,732. Actual expenses only exceeded the original appropriation by \$2,903 at year end.

On May 15, 1995 ONC's administrative budget was increased by \$32,214 to reflect interest and earnings, miscellaneous revenue and a refund of prior years' services from Broome-Delaware-Tioga BOCES. The additional revenue was appropriated, or made available, for equipment (\$27,814), general supplies (\$2,900) and other miscellaneous expenses (\$1,500). Similarly, on the last day of the year (June 30, 1995), the administrative

budget was increased by \$20,893 to reflect unanticipated interest income, other State aid and miscellaneous income. These funds were appropriated for non-instructional salaries.

As a result of the increase in the administrative budget, ONC installed a Local Area Network (LAN) for the administrative offices at a cost of \$31,115 and incurred greater than expected expenses for non-instructional salaries. There were no funds budgeted for equipment purchases in the administrative budget that received the approval of the component districts.

ONC officials explained that, prior to the BOCES Reform Act of 1993, it was a routine practice to amend the administrative budget upward to reflect additional revenues earned during the year. Thus they point out that the year audited was the first budget subject to the revised laws, and that the administrative budget was increased due to the inexperience of new personnel. In addition, they stated that the LAN purchase was appropriate and followed internal procedures.

Recommendations

1. Do not amend the administrative budget to a level greater than the amount approved by the component districts.
2. Implement procedures to prevent the expenditure of administrative funds at a level greater than the approved budget.

Comments of Otsego-Northern Catskill BOCES Officials

ONC officials agreed with these recommendations.

Employment Preparation Education Program

ONC 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 equivalent diploma. ONC received a total of \$94,661 in EPE aid for the period July 1, 1994 through June 30, 1995 based on 24,095 contact hours of instruction.

EPE aid is generated based on the number of contact hours that are provided. Section 168.4 of the Regulations of the Commissioner of Education 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.

Education Law 3602 requires that State aid payable in the following year be reduced by the amount of any excess revenue. In total, ONC received \$4,732 in EPE aid based on undocumented contact hours and hours provided to students under 21 years of age (Schedule 1). The audit report will be used by the Department to adjust future aid claimed by ONC.

Some Contact Hours Not Supported by Attendance Records

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

The audit reviewed attendance records supporting the contact hours reported for students 21 years of age or older. Documentation was missing for 870 hours. As a result, ONC received \$3,663 in excess EPE aid.

Although ONC officials responded by submitting additional documentation, 870 contact hours are still unsubstantiated.

Ineligible Contact Hours were Claimed

The audit reviewed teacher reports that identified the ages of students as well as the associated contact hours. ONC does not have an effective system for verifying that only eligible students' contact hours are included in the EPE claim. The audit found that 283 contact hours were reported for three students under 21 years of age. As a result, ONC received \$1,069 in excess EPE aid.

ONC officials recognize that contact hours were inappropriately claimed for the students under 21 years of age.

Recommendations

3. Improve procedures to ensure that all hours claimed for EPE aid are supported by documentation of attendance.
4. Ensure that only contact hours provided to students 21 years of age or older are claimed for EPE aid.

Comments of Otsego-Northern Catskill BOCES Officials

ONC officials agreed with these recommendations.

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 considered relevant to the audit objectives and found several opportunities for improvements. The areas of improvement include updating budgets to reflect changes in programs; applying purchase controls; missed opportunity to save money on a vehicle purchase; reviewing payroll prior to payment; monitoring vehicle usage; and maintaining documentation with transfers.

A CO-SER Budget was Not Updated to Reflect Changes

Education Law 1950 (4)(d)(5) requires BOCES to submit to the Commissioner by June 1 an operating plan and budget based upon the request for services which it has received from its component school districts. ONC made significant changes to a program without amending the budget to reflect the change. As a result, surplus funds were used to purchase equipment late in the school year.

One program (Conservation 101-3112) within the occupational education CO-SER was budgeted at \$66,759 for the 1994-95 school year. The budget included \$50,000 to cover the salary of a teacher. Sometime after the budget was developed, a decision was made to merge the program with another (Agricultural Mechanics 101-3111) program. ONC officials stated that the program was merged with the Agricultural Mechanics program primarily because of the retirement of the teacher of the Conservation program.

The fee or tuition paid by districts participating in occupational education services is developed by dividing the total occupational education budget by the total number of students who were enrolled in the occupational education CO-SER the prior year. Districts are then billed for participation based on the percentage of students enrolled in the prior year. As a result of

this process, any program that is included in the budget will be funded, regardless of current year enrollment. Therefore, despite the merger of the two programs, sufficient revenue was generated to fund both programs as if they operated separately.

Despite the merger, the budget was not amended to reflect the new configuration. As a result, the entire budgeted cost remained available. During the year, \$20,754 was charged against the Conservation program, including \$10,151 in other salaries and \$3,720 in teacher retirement. In addition, \$36,787 was transferred from the Conservation budget to occupational education – undistributed where it was used to purchase a backhoe for the newly merged programs. The transfer took place on June 27, 1995, three days before the end of the school year.

A budget should be used to plan for generating revenues sufficient to cover the expenditures necessary to operate programs. Unanticipated revenues should be returned to the school districts participating in the service and not used for year-end purchases. As an alternative, a new budget should have been developed to identify the planned needs of the merged programs.

Improvements to Purchasing Procedures are Needed

Adequate purchasing procedures include the design and implementation of a series of procedures, which provide reasonable assurance that purchases comply with management's expectations. These controls should include written evidence that the purchases are authorized, funds are available, and that assets are safeguarded from misuse. The audit found that staff did not consistently apply the designed controls and purchases were made without sufficient budgeted funds.

The audit assessed the adequacy of ONC's purchasing procedures. In addition, 59 purchases, totaling \$90,362, were sampled to determine if the procedures were consistently followed. The audit found that the controls designed were adequate. However, ONC staff did not consistently apply them. Specifically, the audit noted that confirming purchase orders were issued, purchase orders were not issued when required by ONC procedures, documentation was not always available to support the purchase and a required internal audit review was not done.

Confirming orders are generally used for emergency purchases and result when purchase orders are prepared and approved after

the actual purchase is made. The use of confirming orders circumvents the purchasing process and can lead to overspending budgets or committing ONC to expenditures that are not reasonable or necessary. The audit found 16 confirming purchase orders for goods or services with a combined cost of \$20,561. For example, a confirming purchase order was issued the same date as the purchase of a \$12,000 station wagon. The purchase order was not approved until 11 days after the purchase.

The audit also found seven instances where a purchase order was not used in violation of ONC policy. In addition, seven purchases did not have the required documentation that goods or services were actually received prior to payment. For example, the audit found the documentation of credit card use was occasionally missing and in others lacked detailed information establishing the charge as related to official business. Finally, the audit determined that nine payments lacked the required approval by the internal auditor before payment was authorized.

As a result of these conditions, 56 percent of the purchases reviewed were processed in non-conformance with ONC policies.

ONC officials recognized the need to improve purchasing activities and have instructed the staff on the importance of following purchasing controls.

Missed Opportunity to Save Money on a Vehicle Purchase

ONC purchased a vehicle for one of the Assistant Superintendents in August 1994. The audit found that ONC could have saved approximately \$8,000 if the car was purchased off State contract.

In July 1994, ONC solicited bids for the purchase of a sedan. Two bids were received with the lowest being \$16,597 for a Nissan. ONC rejected both bids because they were both over the amount allocated in the budget for a new vehicle.

One month later, ONC issued new specifications for a sedan “equivalent to a Honda Accord.” These specifications were sent to seven car dealerships, including six Honda dealers. The previous low bidder was not sent the revised specifications.

ONC purchased a Honda Accord from the lower of the second group of bids. The purchase price was \$19,250, \$2,653 more than the previous low bidder. The audit determined that the State contract for the purchase of a mid-sized four-door sedan at that time was \$11,301, or \$7,949 less than the ONC purchase price. ONC missed an opportunity to minimize the cost of a vehicle purchase.

ONC officials stated that the original bids were rejected because the low bid was over the \$12,250 that was budgeted. The Board subsequently approved a rebid either as an outright purchase or trade in of an older vehicle. ONC officials further stated they are unaware of any regulation or local board of education policy mandating the purchase of a vehicle from a State contract.

The audit does not suggest that ONC was under a legal obligation to purchase the vehicle under a State contract. However, ONC is under an obligation to procure goods and services in a prudent and economical manner. In these circumstances a vehicle could have been purchased at a more economical price. In addition, the audit noted that ONC did utilize a State contract for the purchase of a station wagon during the audit period.

Management Review of Payroll Lacking

Payroll controls normally include a review by a management level employee, a scan of payments to employees and a review of some supporting documentation. The audit noted that ONC does not require a management review of the payroll prior to issuing checks to its employees.

ONC expended \$6,948,106 or 59 percent of all expenses on payroll without any evidence of management review. The payroll clerk has complete access to the payroll process and sufficient compensating controls do not exist. The payroll clerk enters the salary information into the system, runs payroll, reconciles payroll to her independent calculation, receives the printed checks and, after having someone else run the checks through the check signing machine, mails the checks to employees. There are no supervisory controls in place to prevent the clerk from entering unauthorized salary amounts, changing approved payments, paying employees extra amounts, or issuing erroneous checks.

The audit reviewed the supporting documentation of certain payments made to employees through the payroll process. The payments reviewed were either amounts above the employee's regular pay or payments made to employees whose payroll is irregular, such as itinerant teachers.

The audit examined 152 payments from two pay periods with a total value of \$25,416. Ten payments, totaling \$8,939, were not supported by documentation and it is unclear how the amount of the payment was determined. One payment was for accrued sick leave to a retiring employee and the other payments were for substituting or after school work.

ONC officials stated there is managerial review of payroll, which is accomplished through a review of program budgets for excess expenses. The audit does not consider this adequate since it would never require a review of programs that have surplus personal service funds. The fact that a program is under budget does not provide assurance that payroll is accurate and that unauthorized payroll expense will be detected. In addition, the significant level of personal service costs warrants some level of managerial review prior to payment.

BOCES Vehicle Use Needs Additional Monitoring

Internal controls include monitoring the use of valuable assets. These controls should be designed to prevent or detect unauthorized use and/or disposition of these assets. In addition, usage should be monitored to obtain information to make informed decisions on whether to purchase additional assets or dispose of some. ONC does not adequately monitor the use of vehicles. The audit found that ONC could improve controls over the vehicle inventory by maintaining logs on all vehicles and controlling the keys. The audit also feels ONC may be in violation of Internal Revenue Service (IRS) regulations and should require a more detailed log for the District and Assistant Superintendents.

At the time of the audit, ONC had 35 vehicles in their inventory comprised of sedans, station wagons, vans, pickups and other trucks, suburbans and buses. The process used to control vehicle usage does not require documenting the purpose of or the mileage for each trip. Therefore, ONC does not have adequate assurance that vehicle usage is directly related to BOCES programs and activities.

Internal controls include monitoring the use of valuable assets. These controls should be designed to prevent or detect unauthorized use and/or disposition of these assets. In addition, usage should be monitored to obtain information to make informed decisions on whether to purchase additional assets or dispose of some. ONC does not adequately monitor the use of vehicles.

Physical Control Over Keys

For other ONC vehicles, the audit determined that the security over access to the keys might also need improvement. The keys are kept in a locked box. However, many employees are able to access the box and, due to this access, ONC officials did not always know the location of each vehicle.

Personal Use of Vehicles

ONC permits two of its executives to take official vehicles home. ONC requires logs for these vehicles, but the logs do not provide sufficient documentation to determine if the individuals use the vehicles for personal reasons. As a result, ONC is providing uncontrolled use of vehicles and may be in violation of IRS regulations regarding record keeping and income reporting.

ONC officials agreed that controls over vehicle use need improvement and have instituted new procedures. They do not agree they are out of compliance with IRS regulations and have an opinion from their auditor supporting that position. ONC's auditor feels that the record keeping is sufficient for IRS regulations because there are only a minimum number of days per year in which these administrators go directly home from the office at night, or directly to BOCES in the morning, without first attending a BOCES related meeting or function.

The audit believes the documentation maintained by the individuals using the vehicles is not sufficient to substantiate that the vehicles are only used for official ONC business.

One Expenditure Transfer was Not Adequately Documented

The Education Law requires that the net cost of operating a BOCES service be allocated among participating districts. The Uniform System of Accounts for BOCES (System of Accounts),

issued by the State Comptroller, requires separate accounting of revenue and expenditures for each service. The System of Accounts requires that expenditures related to more than one service be prorated accordingly. Interservice program transfers are used to record charges in other service programs.

Section 1950(4)(d) of the Education Law states that 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 districts pay only for services received and components pay their share of administrative costs, cost allocations between funds and among CO-SERs should be accurate and reasonable.

The audit reviewed a limited number of transfers and found that ONC allocated costs in an appropriate manner, except as noted below. The audit included a review of documentation supporting expenditure transfers between funds and programs to ensure that these transfers were appropriate and adequately documented.

One transfer, totaling \$18,500, was made to other miscellaneous expenses and was neither adequately documented nor explained. The notation on the documentation indicated that the transfer was made to record the amount due to the distance learning trust and agency account. It lacked documentation of the calculation of the amount and did not explain why funds were due to the trust and agency account. ONC managers stated the documentation is adequate and explained that it was a transfer of an expense. However, they have not explained what expense or why the transfer was necessary.

Recommendations

5. Improve budget controls by limiting expenditures to current year needs.
6. Implement procedures to periodically verify that purchase procedures are being followed.
7. Adopt a policy to review the State contract prior to committing to purchases.
8. Design and use a vehicle log to record the purpose and mileage associated with BOCES vehicle use.

9. Implement a process to periodically verify the documentation that supports payroll.
10. Maintain adequate documentation of transfers and journal vouchers entries, including information on the reason for the transfer and a calculation supporting the amount.

Comments of Otsego-Northern Catskill BOCES Officials

ONC officials agreed with recommendations 6, 7 and 8. They generally agreed with recommendation 5, but point out that the revenues in question were not unanticipated, but anticipated and redirected according to ONC policies and practices. ONC officials continue to believe that their payroll controls are adequate and sufficient documentation was available for the expenditure transfer, therefore they disagreed with recommendations 9 and 10.

Auditor's Note

Payroll controls would be improved by instituting a review of documentation that supports payroll. The expenditure transfer in question does not provide sufficient detail on the calculation of the amount and, therefore, it is impossible to determine the reasonableness of the transaction.

Otsego-Delaware-Schoharie-Greene BOCES
Contributors to the Report

Contributors to the report are:

James Conway, Audit Manager
Daniel McCarthy, Auditor-in-Charge
Ronald Talarico, Senior Auditor
Louise Costello, Senior Auditor

Schedule 1
Otsego-Delaware-Schoharie-Greene BOCES
The Employment Preparation Education (EPE) Program

Results of the Review of Revenues Generated by Contact Hours

Audit Exception	Contact Hours Disallowed	Amount Disallowed
Contact hours were undocumented	870	\$3,663
Contact hours claimed for students under 21 years of age	283	1,069
Total	1,153	\$4,732