
Audit Report

Rensselaer-Columbia-Greene Counties
Board of Cooperative Educational Services

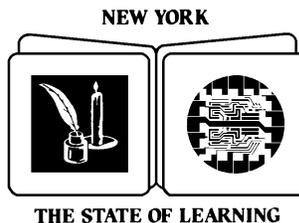
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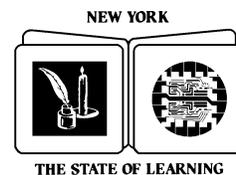
July 1, 1995 through June 30, 1996

BOC-0797-1

January 11, 1999

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





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January 11, 1999

Dr. Ann Myers Nepo
District Superintendent of Schools
Board of Cooperative Educational Services
Rensselaer-Columbia-Greene Counties
200 Schuurman Road
Castleton, New York 12033

Dear Dr. Nepo:

The following is our final audit report (BOC-0797-1) on the Rensselaer-Columbia-Greene Counties Board of Cooperative Educational Services for the period July 1, 1995 through June 30, 1996. 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.

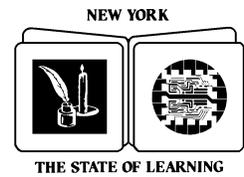
I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

Daniel Tworek

Enclosure

cc: Commissioner Mills
R. Cate
J. Kadamus
T. Sheldon
C. Foster (DOB)
H. Hoffman (OSC)
R. Lindholm (OSC)
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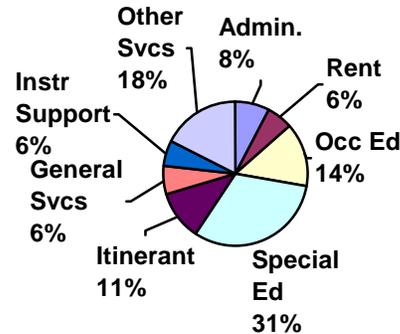
R. Kesper
S. Spear

Executive Summary

Rensselaer-Columbia-Greene (Rensselaer) BOCES ranked as the 23rd largest BOCES in the State, in terms of total general fund expenditures, for the 1995-96 school year.

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

Rensselaer BOCES



Background and Scope of the Audit

The audit examined management practices, records and documentation related to select areas of Rensselaer BOCES operation for the period July 1, 1995 through June 30, 1996. These areas included Administration, Operation and Maintenance, State Aid Planning 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.

- The audit questions the employer/employee relationship with a long-term retiree (page 4).
- Documentation of service approval was lacking (page 9).
- Expenditures were inaccurately charged to CO-SERs (page 11).
- Opportunities for improvement of management controls exist in the areas of reporting wages, use of public funds, monitoring vehicle use, and policies and procedures (pages 20-25).

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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.

Rensselaer-Columbia-Greene (Rensselaer) BOCES, headquartered in Castleton, New York, was established to be a means for the school districts of Rensselaer, Columbia and Greene 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. Rensselaer BOCES also provides a statewide service of technical assistance and training on State Aid Information to local school districts.

Rensselaer BOCES serves 21 component and two non-component districts and enrolls more than 39,000 students. Rensselaer BOCES ranked as the 23rd largest in the State, in terms of total general fund expenditures, for the 1995-96 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 Rensselaer 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 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 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 Rensselaer BOCES management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the Rensselaer BOCES audited financial statements.

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

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 Rensselaer BOCES Officials

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

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 of Education. Appropriations may also be included for the rental of facilities, payments to the Dormitory Authority for debt service, and transfers to the capital fund for construction purposes.

Rensselaer BOCES reported \$2,041,774 in administration costs for the 1995-96 school year, not including capital expenditures. This represents about 7.9 percent of the total of administrative and program general fund expenditures. Statewide, BOCES administrative expenditures ranged from about 3 to 11 percent with an overall average of 6.6 percent.

The audit found Rensselaer BOCES has contracted with a retired school official since 1991 as a consultant who may be an employee and made excessive use of the miscellaneous account.

Contractor vs. Employee Relationship Questioned

Retirement and Social Security Law Article 7 establishes the provisions for re-employment in public service of retired public employees. Section 211 defines the provision by which such retired persons can be employed without diminution of retirement allowances. In the case of retired public school district employees, the approval of the Commissioner of Education is required. Such approval may only be given on the written request of the employer. Section 211(4) also stipulates that retired persons who return to public service as a consultant shall be subject to the same limitations applicable to a re-employed retiree, as specified in this section or in any other provision of law.

In 1991, Rensselaer BOCES executed a consultant contract with MBR Associates whose principal officer is a retired school district official. The contract called for the services of MBR Associates to "serve in the capacity of Special Executive Assistant to the Rensselaer-Columbia-Greene BOCES to work on tasks and projects as assigned by the Executive Deputy Superintendent and Chief Operations Officer." Rensselaer

BOCES paid the consultant an average of \$57,112 over a six-year period.

Rensselaer BOCES did not seek a Section 211 waiver to employ the retired school official. MBR Associates was viewed by Rensselaer BOCES as an independent contractor acting as a consultant. As noted above, Section 211 also applies to retired employees employed as consultants. Furthermore, the audit questions whether a consultant/contractor relationship exists with MBR Associates or whether it meets the test of an employee.

The NYS Department of Labor-Unemployment Insurance Division has issued a flyer on Independent Contractors to help determine when a contractor is an employee. The Internal Revenue Service (IRS) also publishes a 20-step test as part of its Federal-State Reference Guide that helps to define the employer-employee relationship versus an employer-consultant relationship.

The manner in which the consultant conducted business, the assigned office and related equipment, and the long-term nature of the relationship (over six years) raise sufficient questions on whether the relationship would pass NYS Labor and IRS codes regarding independent contractor status. However, Rensselaer BOCES officials believe that the consultant does meet the IRS litmus test.

As of the preparation of this report, MBR Associates' contract with Rensselaer BOCES has been terminated. Furthermore, the NYS Teachers' Retirement System has requested information from Rensselaer BOCES regarding the retired school official to assess the employment status of the consultant.

Miscellaneous Expense Account

The Office of the State Comptroller's Financial Management Guide (Guide) states that "budgetary control requires that appropriations be available prior to incurring an obligation. A system that tracks the amount appropriated, the amount encumbered, year-to-date expenditures and the unencumbered balance is essential to guard against the creation of liabilities in excess of appropriations approved by the board."

Good internal controls require the preparation of a budget to serve as an operating plan which, besides forming the basis for policy decisions, provides a framework for operations and a method of controlling expenditures. Budgets prepared on a line

item basis enable an entity to track and monitor the cost of operations.

The miscellaneous expense category for the Administrative CO-SER exceeded the original budget of \$126,396 by \$99,170, or 178.5 percent, in fiscal year 1995-96. The miscellaneous expense account was charged for items that could be appropriately accounted for under other categories. Items such as computer equipment, consultant services, life insurance, health benefits, and computer maintenance and upgrade costs were charged to the miscellaneous account. Rensselaer BOCES has active accounts that are more appropriate for these items of expense.

Recommendations

1. Ensure compliance with Retirement and Social Security Law when employing retired public employees.
2. Ensure that sufficient detail is shown in the budget by using specific accounts, when applicable.

Comments of Rensselaer BOCES Officials

Rensselaer BOCES officials agreed with these recommendations.

Cooperative Services (CO-SERS)

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

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

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

The audit found BOCES: providing certain services that were not shared among at least two districts; providing some services for which documentation of Department approval was missing; and claiming BOCES aid for ineligible services.

CO-SERs Guidelines for Shared Services

The BOCES Administrative Handbook #1 states that each service must be operated on a shared basis. A service rendered to a single district is not considered a shared service. Each service must be provided to two or more districts to be considered a shared service, a requirement for aid eligibility.

If a district receives more than 60 percent of a central or area service, the circumstances are reviewed on a case-by-case basis by the Department. If it is determined that the district or BOCES have taken actions which inhibit sharing or if the district's share exceeds 80 percent, an aid exception will be applied to service in excess of 60 percent.

The audit included an analysis of Rensselaer BOCES' Surplus /Refund by CO-SER/Aidgroup Summary report and found ten CO-SERs having in excess of 60 percent of the services provided to one district. The Department's District Organization Unit reviewed our analysis and indicated some CO-SERs were acceptable since aid deductions were made for amounts over the 60 percent restriction. However, CO-SERs 311A, 508A and 602A did not meet Department guidelines and were not approved.

Rensselaer BOCES officials cannot provide documentation showing that the Department approved CO-SER 311. For CO-SERs 508 and 602, officials claim that the 60 percent criteria is not always attainable with small school districts. Officials further claim that they never have provided services that do not meet Department guidelines.

Rensselaer BOCES officials stated they will work with the Department's District Organization Unit to ensure all CO-SERs are approved.

Guidelines for CO-SERs

BOCES Administrative Handbook #1, Section I(C)(2)(f), further states "in limited instances, BOCES may contract with public agencies for part-time personnel where such service is in support of a BOCES operated program, where full-time personnel are not needed or available, where part-time personnel are not available or where part-time employment in BOCES would affect the full-time employment status of individuals. Such contracting arrangements may only be done with prior approval from the State Education Department, and require submission of a rationale by the District Superintendent."

BOCES Administrative Handbook #1, Section I(C)(2)(g), states "use of consultants, on a short-term basis, will be approvable where qualified staff are not available and where their use does not supplant those aspects described as part of a BOCES-operated service."

The audit included a review of Rensselaer BOCES's SA-111 for the 1995-96 fiscal year. Rensselaer BOCES operated five CO-SERs which generated revenue, but no salaries were charged to the CO-SERs. Expenditures for the CO-SERs were listed under categories such as contractual professional services, supplies and materials, contractual and other, and capital outlay equipment.

Department officials have indicated approval was not given to Rensselaer BOCES to act as an agent or to subcontract these services. Rensselaer BOCES officials claimed that CO-SERs 660 and 617 had no impact because no aid was claimed for these two CO-SERs. In regards to CO-SERs 508, 542 and 414, BOCES officials indicated they would pursue these issues with the Department's District Organization Unit to obtain documentation showing these CO-SERs were approved.

Services Provided

BOCES Administrative Handbook #1 also states that "whenever BOCES changes the nature of a previously-approved service, or whenever BOCES extends a previously-approved service to additional districts, a co-ser amendment must be submitted." An unapproved service is not aidable.

The audit reviewed the activities performed by staff of the State Aid Planning Unit and found, on occasion, staff worked in business offices of school districts on an interim basis while the districts recruited permanent staff. The cost of the service was billed to the districts as an additional State Aid Planning cost.

Rensselaer BOCES officials were asked if this activity had been approved by the Department. They indicated they had spoken to Department officials. Rensselaer BOCES provided copies of correspondence sent to the Department, which shows Rensselaer BOCES had inquired about operating the service, and was informed that CO-SER 347, Business Manager Itinerant, was the proper CO-SER to use. Rensselaer BOCES also provided correspondence indicating that they had submitted information to the Department requesting a new CO-SER, but correspondence showing the Department had approved the new CO-SER was absent.

Department officials acknowledged they had spoken to Rensselaer BOCES officials regarding the business office service and indicated they instructed Rensselaer BOCES to submit information to the Department requesting approval of a new CO-SER. However there was no record of receiving a request from

Rensselaer BOCES and therefore no Department action was taken.

In the absence of such Department approval, Rensselaer BOCES may have received aid for an unapproved service. Rensselaer BOCES officials claimed they submitted a revised CO-SER description. They acknowledge that they need to ensure that their records reflect the approvals given by the Department.

Recommendations

3. Ensure that services meet the sharing criteria for aidable CO-SERs.
4. Ensure that documentation is available for all approved services offered to districts.
5. Ensure services provided solely by third parties are not offered as aidable services to districts.
6. Submit revised expenditure reports showing the correct aidable expenditures.

Comments of Rensselaer BOCES Officials

Rensselaer BOCES officials generally agreed with these recommendations. However, they raise a concern with recommendation number three that the application of the 60 percent sharing rule might discourage larger urban or suburban districts from sharing services with smaller rural districts. They also raise a concern with recommendation number five about Rensselaer BOCES' ability to respond to local needs without discouraging efficiency efforts.

Auditor's Note

These concerns will be shared with Department officials.

CO-SER Cost Allocations and Expenditure Transfers

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 Office of the State Comptroller, facilitates such allocations by requiring a separate accounting of revenues and expenditures for each service program. Expenditures should be charged directly to the pertinent service involved and expenditures related to more than one service should be prorated accordingly. Interservice program transfers are used to record charges in other service programs.

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

The audit reviewed a limited number of transfers and found that Rensselaer BOCES needs to improve documentation to ensure that the net cost of operating BOCES services is accurately allocated among participating districts. The following sections explain each area in detail.

State Aid Planning Included Expenses of Other CO-SERs.

The BOCES Administrative Handbook #3 states in any instance where an appropriation or a portion thereof can be directly allocated to a service, which districts elect to request those expenses should be included in the budget of that service. Therefore, costs associated with the administration of BOCES should be charged to the Administration Budget and costs associated with the operation of a service program should be charged to that program.

The audit included a review of the expenses charged to the State Aid Planning CO-SER. Rensselaer BOCES had charges to State Aid Planning that were either excessive or more appropriately expenses attributable to other CO-SERs.

Rensselaer BOCES officials stated they will commence a review of the State Aid Planning budget and expenditures to ensure that costs are coded to the services appropriately.

Administration CO-SER Expenditures

Education Law Section 1950(4)(b)(1) states that the Administrative Budget shall include, but not need be limited to, any and all expenditures associated with the board, office of the district superintendent, general administration, central support services, planning and all other administrative activities.

Costs of Recruiting School Superintendents

Department officials indicated that Department policy has defined the role of the District Superintendent of schools to include providing assistance in the recruitment and interviewing of candidates for the position of school Superintendent in order to reach a level of knowledge needed to make a recommendation.

The audit found Rensselaer BOCES had entered into a contract with the former District Superintendent to recruit school Superintendents for component districts as vacancies occurred. The services provided included: advertising the position, screening candidates, meeting with local school boards and making recommendations on candidates to the component districts. These costs are charged to the Administrative CO-SER.

The costs of the Administrative CO-SER are shared by all the component districts, while only the districts using the service benefited. Therefore, component districts may have inappropriately received BOCES aid on the consultant and advertising costs by including them in the Administrative CO-SER as an aidable expense when the cost should have been billed to the applicable districts and deducted from aidable expenses.

Rensselaer BOCES officials agree that the advertising costs should have been charged directly to the school districts but not the costs of the former District Superintendent. Officials state that all districts are aware that the search service is available to them equitably. However, this search service is usually done exclusively by the District Superintendent, whose salary cost is already paid by all districts through the Administrative Budget. Additional and identifiable costs, such as advertising and hiring of a consultant, should be charged back to the school district requesting that service.

Business Office Services

The audit found that the Treasurer of Rensselaer BOCES has functional responsibilities over the business office and, on

occasion, provides direct service to some districts through the Business Office Services CO-SER (602). The audit found the Treasurer's entire salary was charged to the Administrative CO-SER while his efforts in CO-SER 602 were billed to the districts based on the time spent in the district. Revenue generated for the service was applied to the Business Office Services CO-SER. Revenues for the Business Office Services were not matched to the expenses of providing the service. As a result,

- administrative expenses were over reported.
- revenues for the Business Office Services CO-SER were not properly matched to expenses.

All component districts were charged for Business Office Services costs included in the Administrative CO-SER, while only a few used the service. Officials believe the Treasurer did not provide accounting services, only advice.

Allocations and Transfers

Education Law Section 1950(4)(d) indicates 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 components pay only for services received, the audit reviewed cost allocations between funds and among CO-SERs for accuracy and reasonableness.

Good internal controls include adequate documentation to support the allocation of costs to various programs and the transfer of costs among programs. The allocations and transfers should be based on a reasonable and consistent standard.

The audit included a review of the documentation supporting Rensselaer BOCES' allocations and transfers. Rensselaer BOCES officials stated transfers were made based on program participation and/or usage of a particular service. They also stated the costs of operations and maintenance (O&M) facilities are tracked by building and allocated based on square-footage occupied. However, documentation to support the square-footage and the allocation of costs was not available during the audit.

The audit reviewed the O&M costs allocated for the Administration building and found O&M costs of the Administration building were charged to State Aid Planning, although State Aid Planning did not occupy space in that building. The audit also found costs of operating programs, such

as legal advertising, central warehouse and duplicating, had been transferred to programs (state aid planning, special education etc.) which, based on our review, were receiving insufficient services to justify the costs charged.

The costs of operating Rensselaer BOCES programs, after allocations and transfers, need to more accurately reflect actual costs based on sound cost principles. The costs of some programs may be overstated while others may be understated. Therefore, rates charged to the districts for Rensselaer BOCES' services may be inaccurate and in non-compliance with Section 1950 of the Education Law. As a result, Rensselaer BOCES may not be accurately reporting program costs to the Department.

Rensselaer BOCES officials agreed that documentation needs to be readily available and updated on an annual basis. They have initiated a process to update the systems of allocation and will continue with that process until it is completed for each budget transfer.

Recommendations

7. Improve procedures to ensure that expenditures are accurately charged to the appropriate CO-SER (i.e. State Aid Planning); revenues and expenditures are properly matched; and transfers are accurate, consistent, and documented.

Comments of Rensselaer BOCES Officials

Rensselaer BOCES officials agreed with these recommendations.

Employment Preparation Education Program

Rensselaer 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 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.

Rensselaer BOCES received a total of \$393,490 in EPE aid for the period July 1, 1995 through June 30, 1996, based on reported contact hours. The audit found that Rensselaer BOCES' system for identifying, documenting and accumulating certain EPE contact hours need improvements. As a result, contact hours were inaccurately reported and \$26,793 in EPE aid was incorrectly claimed.

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 Rensselaer 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 Rensselaer BOCES.

Documentation of Contact Hours

Under Section 168.2 of the Commissioner's Regulations, a contact hour for EPE means 60 minutes of instruction given by a teacher in approved program component areas. Rensselaer BOCES receives EPE aid based on contact hours provided multiplied by a Department approved rate. To ensure that EPE revenues paid to the district or BOCES are appropriate, the number of reported contact hours must be clearly documented. Any undocumented or overstated contact hours will be questioned upon audit and revenues will be reduced accordingly.

Rensselaer BOCES claims reimbursement for EPE contact hours by submitting a completed State Aid Claim form (SA-160) to the Department. Their submission covering the 1995-96 fiscal year indicated 100,895 instructional hours were provided. However,

Rensselaer BOCES' documentation only accounted for 99,925 hours. The difference of 970 contact hours was explained by Rensselaer BOCES officials to be software/clerical errors.

Rensselaer BOCES routinely claims 12 contact hours for each EPE student receiving testing and assessment services. The audit revealed testing and assessment services were less than reported. The audit reviewed a judgmental sample of 100 students and found testing and assessment services were claimed for 12 EPE students generating a total of 144 contact hours for EPE aid.

The audit traced the reported contact hours back to the original documentation. The audit found notations in Rensselaer BOCES' records that only four hours of testing and assessment were provided to four of the 12 students. There was no evidence testing and assessment services were provided to the other eight students, therefore the remaining 128 contact hours were unsubstantiated.

Rensselaer BOCES' officials acknowledged the practice of claiming 12 contact hours for EPE students receiving testing and assessment services regardless of the actual hours provided. They indicated it was based on a time and motion study, which provided the approximate time an assessment should take. Section 168 makes no provision for claiming contact hours based on a study.

As a result of the contact hours reported on form SA-160 being overstated by 970 hours, and the testing and assessment hours overstated by 128 hours, Rensselaer BOCES overclaimed EPE aid by \$4,282.

Rensselaer BOCES officials stated they have developed a new form to aid in tracking the student through the assessment process.

Ineligible Students Claimed

Part 168.2 of the Regulations of the Commissioner of Education states that the EPE Programs are only for students who are at least 21 years of age and who have not received a high school diploma or high school equivalency issued by any state or territory of the United States.

Education Law 3602(4)(a) states school districts are eligible for aid for the attendance of persons 21 years of age or older who have not received a high school or a high school equivalency diploma who attend EPE Programs.

Rensselaer BOCES reported contact hours for students who were 20 years of age at the time the EPE service was provided, but subsequently turned 21 during the 1995-96 fiscal year. Rensselaer BOCES' computer program, used to track and report eligible contact hours, automatically included all the contact hours an individual may have had in the fiscal year as long as they were 21 years of age at the end of the fiscal period. The program included the contact hours for individuals receiving services prior to their 21st birthday.

The audit also found Rensselaer BOCES claimed students with either a high school diploma or GED as eligible for EPE aid. A sample of 22 student folders at the ACCESS Center disclosed that there were 11 students who either had a high school diploma, a high school equivalency diploma or the student folder was missing. The audit noted five students were high school graduates; one had a GED; another received his GED during the year but continued to generate contact hours; and the remaining four students' folders were missing.

Rensselaer BOCES claimed 66 contact hours for students under 21 years of age and 5,494 contact hours for students who had either a high school diploma or GED and overclaimed EPE by \$21,684.

Rensselaer BOCES officials acknowledged the errors in their system and stated procedures have been instituted to prevent contact hours from being claimed for students under 21 years of age and for students with diplomas.

Reported Contact Hours Were Inaccurate

The Department's instructions for completing the 1995-96 EPE State Aid Claim Form (SA-160.1/SA-160.2) requires that contact hours and student enrollment be claimed for the periods July 1, 1995 through December 30, 1995 and January 1, 1996 through June 30, 1996.

The audit of the EPE Program at Rensselaer BOCES included testing the reported contact hours. In the sample of 100 cases, the audit found one case where 12 contact hours were actually provided in July 1996, but claimed as part of the fiscal year ending June 30, 1996. Rensselaer BOCES management indicated the problem resulted from a data entry error.

The audit also found Rensselaer BOCES' records documenting student attendance do not support the information on the database used for reporting contact hours. Of the 100 records

reviewed, the audit found some contact hours totaled more on the attendance sheets and some totaled less. The net effect was Rensselaer BOCES overreported their claim by 200 hours.

As a result, Rensselaer BOCES over reported contact hours for fiscal year 1995-96 by 212 hours and overclaimed EPE aid by \$827. Rensselaer BOCES officials stated that procedures have been established to prevent these errors from reoccurring.

Recommendation

8. Improve procedures to ensure that attendance documentation is retained to support all reported contact hours; only those contact hours of eligible students are claimed for EPE aid; and contact hours are accurately claimed in the correct year and documented.

Comments of Rensselaer BOCES Officials

Rensselaer BOCES officials agreed with this recommendation.

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 inventory control, reporting to tax authorities, unnecessary and unreasonable expenses, and improving policies.

Safeguarding Fixed Assets

The Guide, Volume 1, Subsection 3.2010, states that it is important to maintain adequate fixed asset records to meet the requirements of Generally Accepted Accounting Principles (GAAP) and as a valuable tool for controlling fixed assets and planning replacements. The Guide, Volume 2, Subsection 2, 11.0101, also states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. In addition, all resources should be safeguarded against waste, loss and misuse.

Adequate internal controls include maintaining accurate accounting and inventory records and performing periodic comprehensive physical inventories of its assets. Rensselaer BOCES maintains an inventory record of fixed assets they acquire. As assets are received, an inventory record sheet is prepared which contains information such as the inventory tag number assigned, date purchased, location, a description of the item and the value or cost. These sheets are put into a binder and maintained by the business office. The existing system makes it difficult to identify the asset or location.

Rensselaer BOCES needs to develop procedures to update the inventory record sheets. When assets are moved from one location to another, or when disposed of, the records need to be revised to reflect the change. Furthermore, a physical inventory of assets needs to be conducted on a periodic basis.

Rensselaer BOCES' officials acknowledged the lack of adequate internal controls over their fixed assets and indicated that they

were planning to send out a request for proposal to develop a fixed asset accounting system.

Reporting of Wages

Internal Revenue Code, Section 614, requires the value of the personal use of an employer-provided vehicle be included in the individual's reported income. The Internal Revenue Service's (IRS) Publication 15, indicates fringe benefits must be included in an employee's gross income unless the law provides otherwise. The benefits are subject to income tax withholding and employment taxes.

The audit found Rensselaer BOCES excluded the value of the personal use of a Rensselaer BOCES vehicle by four employees in the calculation of wages. This oversight has been corrected starting with the 1997 year-end Wage Withholding Statements (W-2s) according to Rensselaer BOCES officials.

The Uniform System of Accounts (Uniform System) provides a code for the object of expense, employee benefits. This code is used for expenses such as teachers' retirement, employees' retirement, social security, health insurance, life insurance, etc. The review of the expenses charged to the Administrative CO-SER disclosed a charge to the miscellaneous expense account for an insurance policy for the Assistant Superintendent for Business. Rensselaer BOCES paid \$2,340 to the New England Variable Life Insurance Company for a policy in the Assistant Superintendent's name. The audit noted the payment was a fringe benefit but was recorded as a miscellaneous expense. The accounting for such expense must comply with the Uniform System which requires the classification in the insurance accounts.

Furthermore, a review of the salary paid and the W-2 statement for 1996 disclosed the benefit was not included in the calculation of wages. This could have been a result of the misclassification of the insurance premium. Rensselaer BOCES needs to ensure that its procedures for recording wages are adequate and follow the Uniform System requirements.

Insurance Coverage on Vehicles

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

As noted elsewhere in this report, the audit examined Rensselaer BOCES' fixed asset records. Rensselaer BOCES officials explained they rely on insurance records as the basis for their vehicle inventory and the audit tested the records by comparing the insurance records to a physical verification of the vehicles. The audit disclosed Rensselaer BOCES was carrying insurance for two vehicles, which were sold or discarded, and they were not carrying insurance on two vehicles awaiting disposal.

At the conclusion of the audit, Rensselaer BOCES officials provided documentation showing insurance was discontinued on the two vehicles, which were previously disposed. However, Rensselaer BOCES needs to maintain adequate insurance on all vehicles until such time as the vehicle is disposed of.

Use of Public Funds

Section 1950(4)(b)(1) states, "The administrative budget shall include, but need not be limited to, office and central administrative expenses, travel expenses and salaries and benefits of supervisors and administrative personnel necessary to carry out the central administrative duties of the supervisory district, any and all expenditures associated with the board, the office of district superintendent, general administration, central support services, planning and all other administrative activities."

Subsection 8.1025 of the Guide discusses 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; 3) the expense was in an amount no greater than necessary."

Article 8 of the New York State Constitution prohibits public agencies from using public funds for the benefit of private individuals. The Commissioner of Education has ruled that Article 8 of the New York State Constitution specifically prohibits school districts from making gifts of public monies.

Management should ensure that procedures exist to ensure funds are expended in a reasonable manner.

Necessary and Reasonable Expenses

The audit included testing expenditures charged to the Administrative CO-SERs to determine whether the expense was reasonable and necessary. The audit found Rensselaer BOCES paid for goods and services, which could be considered excessive and unnecessary. These items included:

- plants and floral arrangements to decorate the Hudson facility for the annual meeting (\$713);
- car clipboards as gifts to employees for recognition (\$1,797);
- pen and pencil sets as gifts for retirees (\$933);
- floral arrangement sent to various individuals for illness, deaths and births (\$3,501);
- coffee and spring water for employees and meetings (\$10,082); and
- registration fees for individuals to participate in the Corporate Challenge, a runner's road race (\$176).

The audit questioned whether these expenditures are ordinary or necessary for the administration or operation of a BOCES. Items such as flowers, coffee, bottled or bulk water, gifts and race registrations are considered personal expenses.

The audit contends that such expenditures are personal and not business related. It is not uncommon for public municipalities to establish restricted funds commonly known as "sunshine" funds whereby employees' contributions are used to accommodate these types of expenditures. BOCES needs to reassess its use of public funds for the purposes noted.

Rensselaer BOCES officials agreed that coffee, water and race registrations are personal expense items. However, they claimed that floral funeral pieces for board member deaths or for individuals with life threatening illnesses are a reasonable business expense. Although Rensselaer BOCES sentiment in sending flowers is laudable, such condolences are more appropriately made from personal funds of Rensselaer BOCES' employees, if they so desire.

Public Accounts Used For Private Functions

The audit found that Rensselaer BOCES had a practice of allowing retirement parties and other similar events to be financed and accounted for through the business office. Staff solicited contributions and deposited funds collected for these events into the general fund under the Administrative CO-SER's account. Rensselaer BOCES issued purchase orders and liabilities were incurred before sufficient funds were received from private sources to cover the events.

Public and private funds are being co-mingled when revenues and expenses for retirement parties and other events are received and disbursed through Rensselaer BOCES' accounts. Rensselaer BOCES officials agreed that private funds were co-mingled with public funds and will not collect money from individuals for participation in activities.

Policies and Procedures

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

During the course of the audit, certain policies were identified that were lacking and officials took action to develop and implement policies.

- The use of Rensselaer BOCES owned vehicles (this is discussed in the next section);
- Cash disbursements (A policy was developed and provided to the auditors during the audit); and
- Overtime (A policy was developed and provided to the auditors at end of the audit, however the policy did not specify who was entitled to overtime pay).

The audit also found that certain Rensselaer BOCES policies could be improved as follows:

- Petty Cash (The policy needs to indicate the purpose of the fund and designate the custodians of the fund); and

- The policy regarding the use of telephones needs more specificity. (The policy needs to ensure that the phones are being used for business use and reimbursement secured for personal use).

The establishment of such policies enhance Rensselaer BOCES' management controls over resources. Rensselaer BOCES officials stated that they will develop policies and procedures where none exist and will expand with greater specificity other policies to clarify the ambiguities identified.

Monitoring Vehicle Use

Adequate internal controls over assets should include a system to track the locations and use of assets to ensure they are used only for authorized purposes. Vehicle mileage logs that require beginning and ending odometer readings, destination and driver name help ensure that vehicles are only used for authorized trips. The mileage logs can also be used to monitor fuel usage and help schedule periodic maintenance.

As noted elsewhere in this report, the audit conducted a physical check of Rensselaer BOCES' vehicles. The vehicles used for maintenance, interagency mail, snowplowing and staff travel did not have any marking identifying the vehicle as belonging to Rensselaer BOCES. Rensselaer BOCES also did not maintain mileage logs for these vehicles.

Although the BOCES has a record of the person using the vehicle, the record excludes miles traveled or the destination. It is also accepted practice for public organizations to mark their vehicles with their logo to identify them as publicly funded vehicles. Rensselaer BOCES needs to improve the process used to monitor the use of vehicles. By identifying the vehicles as Rensselaer BOCES vehicles and requiring documentation for mileage and destination accountability with public usage is enhanced.

Rensselaer BOCES officials stated that all vehicles used for maintenance, interagency mail, media delivery, snow plowing and technical staff have been marked with the Rensselaer BOCES logo. Additionally, the specific departments to which vehicles are assigned are developing mileage logs. Officials further state that there is a vehicle listing and an authorized driver list that resides within the office of the transportation supervisor. However, officials state that they prefer not to identify the vehicles provided to staff for commuting purposes as Rensselaer BOCES vehicles.

It is accepted practice for public organizations to identify vehicles purchased with public funds, except for the vehicle assigned to the District Superintendent. Such logo serves to illustrate that vehicles are financed with public funds and are accountable for use in public business.

Rensselaer BOCES officials cited that these additional staff are required to attend numerous activities before or after normal business hours and the logo may mislead the public.

Purchasing Procedures

The Guide, Volume 2, Subsection 8.3050, defines confirming purchase order as "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 Education Department's School Business Management Handbook on Purchasing suggests the purchase order system follow specific steps from requisitioning the good or service 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.

Rensselaer BOCES' purchasing manual states that when supplies, equipment or services are deemed necessary other than through the bidding process, a purchase requisition must be sent to the Purchasing Department to initiate a purchase order. The purchasing manual states that confirming purchase orders will be given via telephone only in special situations.

In addition, the manual defines the payment process to include the preparation of a payment authorization form which is to be attached to the invoice with a copy of the purchase order and submitted to the accounts payable department for payment.

The audit tested 60 purchase transactions from the Administrative CO-SER and found that 17 of the purchases were made using confirming purchase orders and 21 of the purchases

were made without a purchase order being issued. In those instances where a purchase had been made without a purchase order, the voucher was paid after the invoice was attached to a payment authorization form and submitted to the accounts payable department. In addition, the audit noted three instances where secretarial or clerical staff signed purchase orders and payment authorization forms for other authorized personnel.

Rensselaer BOCES' independent audit for the 1995-96 fiscal year recommended that “properly authorized purchase orders be completed before goods or services are ordered and that BOCES procedures for payment be followed.”

Rensselaer BOCES officials stated they have instituted a procedure disallowing access to a confirmation order process over the telephone. They further state that correct procedures for signatures have been reviewed with all authorizing personnel to ensure that only authorized persons sign purchase orders and/or payment forms.

Recommendations

9. Improve inventory controls by conducting annual physical inventories and by tracking movement and disposition.
10. Ensure that procedures related to wage reporting requirements for fringe benefits (personal vehicle use and employer-paid life insurance) are adequate and result in proper accountability.
11. Annually reconcile current vehicles with the insurance coverage.
12. Improve procedures to ensure that public funds are used only for necessary and reasonable expenses.
13. Establish written policies that cover the use of Rensselaer BOCES vehicles, cash disbursements, overtime, and improve policies dealing with petty cash and the personal use of telephones by employees.
14. Establish procedures to require mileage logs for fleet vehicles and identify as Rensselaer BOCES vehicles.
15. Ensure that confirming purchase orders are used only for emergency situations in the future.

Comments of Rensselaer BOCES Officials

Rensselaer BOCES officials agreed with these recommendations.

Rensselaer-Columbia-Greene BOCES
Contributors to the Report

- Calvin Spring – Audit Manager
- Paul Bazaar – Associate Internal Auditor (Auditor in Charge)
- Bonnie Hahn – Senior Internal Auditor

RENSELAER-COLUMBIA-GREENE BOCES

	1994-95			
	Actual	Adopted	Budget	% of original
	Expenditures	Budget	Variance	budget spent
Expenses:				
Certified Salaries	\$280,709.99	\$314,297.00	\$(33,587.01)	89.31%
Other Salaries	\$400,445.01	\$440,701.00	\$(40,255.99)	90.87%
Capital Outlay Equipment	\$18,136.40	\$33,750.00	\$(15,613.60)	53.74%
Supplies and Materials	\$76,371.30	\$43,353.00	\$33,018.30	176.16%
Contract and Other	\$370,945.03	\$234,538.00	\$136,407.03	158.16%
Contract Prof. Services	\$46,267.48	\$14,040.00	\$32,227.48	329.54%
Sch. Dist. and other BOCES	\$4,993.13	\$2,000.00	\$2,993.13	249.66%
Employee Benefits	<u>\$172,305.76</u>	<u>\$479,166.00</u>	\$(306,860.24)	<u>35.96%</u>
Total Expenses	\$1,370,174.10	\$1,561,845.00	\$(191,670.90)	87.73%
Other Expenses:				
Undist. Supplemental Ret.	\$47,481.58	\$-	\$47,481.58	
Undist. Other Post Ret. Ben.	\$223,232.00	\$-	\$223,232.00	
Transfer from O&M	\$138,081.64	\$125,924.00	\$12,157.64	109.65%
Transfer from Service Prgm	<u>\$368,238.01</u>	<u>\$428,330.00</u>	<u>\$(60,091.99)</u>	85.97%
Total Other Expenses	\$777,033.23	\$554,254.00	\$222,779.23	140.19%
Expenses & Transfers	\$2,147,207.33	\$2,116,099.00	\$31,108.33	101.47%
Rental of Facilities	<u>\$1,524,590.56</u>	<u>\$1,907,153.00</u>	<u>\$(382,562.44)</u>	<u>79.94%</u>
Total Expenses and Transfers	\$3,671,797.89	\$4,023,252.00	\$(351,454.11)	91.26%

	1995-96			
	Actual	Adopted	Budget	% of original
	Expenditures	Budget	Variance	budget spent
Expenses:				
Certified Salaries	\$186,900.00	\$324,821.00	\$(137,921.00)	57.54%
Other Salaries	\$423,187.00	\$446,113.00	\$(22,926.00)	94.86%
Capital Outlay Equipment	\$32,885.00	\$32,500.00	\$385.00	101.18%
Supplies and Materials	\$72,552.00	\$39,896.00	\$32,656.00	181.85%
Contract and Other	\$335,824.00	\$222,524.00	\$113,300.00	150.92%
Contract Prof. Services	\$22,877.00	\$17,525.00	\$5,352.00	130.54%
Sch. Dist. and other BOCES	\$63.00	\$2,000.00	\$(1,937.00)	3.15%
Employee Benefits	\$139,139.00	\$207,352.00	\$(68,213.00)	<u>67.10%</u>
Total Expenses	\$1,213,425.00	\$1,292,731.00	\$(79,306.00)	93.87%
			\$-	
Other Expenses:				
			\$-	
Undist. Supplemental Ret.	\$50,363.00	\$55,000.00	\$(4,637.00)	91.57%
Undist. Other Post Ret. Ben.	\$242,192.00	\$228,252.00	\$13,940.00	106.11%
Transfer from O&M	\$178,892.00	\$165,602.00	\$13,290.00	108.03%
Transfer from Service Prgm	\$356,902.00	\$414,720.00	\$(57,818.00)	<u>86.06%</u>
Total Other Expenses	\$828,349.00	\$863,574.00	\$(35,225.00)	<u>95.92%</u>

Net Expenses & Transfers \$2,041,774.00 \$2,156,305.00 \$114,531.00 94.69%

Appendix C

**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 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.