
Audit Report

Schuyler-Chemung-Tioga
Board of Cooperative Educational Services

for the Period

July 1, 2001 through September 30, 2003

BOC-0703-1

June 3, 2004

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





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June 3, 2004

Mr. Robert Everett
Board President
Schuyler-Chemung-Tioga BOCES
459 Philo Road
Elmira, New York 14903

Dear Mr. Everett:

The following is our final audit report (BOC-0703-1) of the Schuyler-Chemung-Tioga Board of Cooperative Educational Services (BOCES) for the period July 1, 2001 through September 30, 2003. 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."

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,

Michael Abbott, CPA

Enclosure

cc: Commissioner Mills, T. Savo, J. Kadamus, B. Porter, T. Sheldon, J. Canaday, J. Stevens,
C. Szuberla, C. Foster (DOB), W. Campbell (OSC), A. J. Micha, District Superintendent

Executive Summary

Background and Scope of the Audit

Schuyler-Chemung-Tioga Board of Cooperative Educational Services (SCT BOCES) is headquartered in Elmira, New York and serves seven component districts that have enrollments of more than 18,000 students. SCT BOCES had general fund expenditures of \$35.4 million and was ranked the 22nd largest BOCES in the State, in terms of total general fund expenditures, for the 2001-02 school year.

The objective of the audit was to assess the adequacy of SCT BOCES' management controls which are designed to help ensure its goals and objectives are accomplished; laws, regulations, and good business practices are complied with; assets are safeguarded; and accurate and reliable data are maintained. The audit focused on management controls and reviewed practices, records, and documentation for the period July 1, 2001 through September 30, 2003. This audit also followed up on findings and recommendations from the previous New York State Education Department (Department) audit of SCT BOCES.

Summary of Audit Results

The audit determined that SCT BOCES had many of the necessary controls in place; however, improvement opportunities exist in certain areas. A summary of our findings and recommendations follows:

- SCT BOCES should consider establishing an audit and finance committee to assist the Board in meeting its fiduciary responsibilities (page 4).
- Improvements can be made related to budget administration, approval of attendance at conferences, and completeness of budget status reports (pages 5-8).
- SCT BOCES could improve its EPE documentation and should ensure its annual financial reports agree to the financial statements (pages 9-11).
- Controls over cash could be improved by use of pre-numbered, multicopy receipt forms and restrictively endorsing checks upon receipt. Improvements could also be made related to the treasurer's report and petty cash (pages 12-15).
- Avoid paying employees in advance of services being rendered and improve controls over inventory records (pages 16-19).
- Ensure the extraclassroom activity funds are used only for authorized purposes (pages 20 and 21).
- Adequate documentation was maintained to support the data submitted to the Department for the BOCES Report Card and the Financial and Statistical Outcomes of the Boards of Cooperative Educational Services Report (Chapter 602 Report) (page 22).
- Most of the recommendations in our prior report were implemented (page 23).

Comments of SCT BOCES Officials

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

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Introduction

Background

The mission of the Schuyler-Chemung-Tioga Board of Cooperative Educational Services (SCT BOCES) is to provide its component school districts, their students, and their communities with an effective and efficient educational program and support services that satisfy their current and projected needs and requests. SCT BOCES is headquartered in Elmira, New York and serves seven component districts that have enrollments of more than 18,000 students. SCT BOCES had general fund expenditures of \$35.4 million and was ranked the 22nd largest BOCES in the State, in terms of total general fund expenditures, for the 2001-02 school year.

BOCES are organized under Section 1950 of the Education Law to provide shared educational programs and services to districts. These programs and services may include career and technical education for students and adults, alternative education, adult basic education, special education, professional development, technology services, and school library services. Section 305 of the Education Law requires the New York State Education Department (Department) to perform fiscal audits of BOCES at least once every three years.

BOCES are required to collect and report various fiscal and performance data. The data are used to prepare the New York State BOCES Report Card (Report Card) and the Financial and Statistical Outcomes of the Boards of Cooperative Educational Services Report (Chapter 602 Report). The Report Card summarizes program accomplishments and services provided for children and adults. The Chapter 602 Report details certain financial and statistical data such as tuition costs for selected programs, per student cost information, and aggregate expenditure data.

The Report Card and Chapter 602 Report can be obtained from the following sources.

- The Report Card is available online at <http://www.emsc.nysed.gov/repcrd2003/BOCES/highlights.pdf>
- The Chapter 602 Report is available online at

Objectives, Scope, and Methodology

The Office of Audit Services (OAS) reviewed selected management practices, records, and documentation for the period July 1, 2001 through September 30, 2003. The audit used a questionnaire to focus on eight key areas: governance and planning, accounting and reporting, revenue and cash management, purchasing and expenditures, BOCES reports and services, facilities and equipment, student services, and student-related data. The questionnaire contains information on key controls in each of the areas and includes the specific criteria or the standards used in assessing SCT BOCES' operations. A copy of the questionnaire is available from OAS.

The objective of the audit was to assess the adequacy of SCT BOCES' management controls which are designed to help ensure its:

- goals and objectives are accomplished;
- laws, regulations, and good business practices are complied with;
- assets are safeguarded; and
- accurate and reliable data are maintained.

To accomplish this objective, we reviewed applicable laws, regulations, policies and procedures; interviewed SCT BOCES management and staff using our questionnaire; examined records and supporting documentation; sampled a limited number of transactions on a non-statistical basis; and reviewed SCT BOCES' audited financial statements.

Our audit included examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other procedures considered necessary in the circumstances. The audit also assessed the estimates, judgments, and decisions made by management and determined the status of the implementation plan submitted for our prior audit report (BOC-0897-5). We believe that the audit provides a reasonable basis for our findings, conclusions, and recommendations.

Summary of Audit Results

The audit determined that SCT BOCES has many of the necessary controls in place; however, improvement opportunities exist in certain areas. A summary of our findings and conclusions follows.

- SCT BOCES should consider establishing an audit and finance committee to assist the Board in meeting its fiduciary responsibilities.
- Improvements can be made related to budget administration, approval of attendance at conferences, and completeness of budget status reports.
- SCT BOCES could improve its EPE documentation and should ensure its annual financial reports agree to the financial statements.
- Controls over cash could be improved by use of pre-numbered multicopy receipt forms and restrictively endorsing checks upon receipt. Improvements could also be made related to the treasurer's report and petty cash.
- Avoid paying employees in advance of services being rendered and improve controls over inventory records.
- Ensure the extraclassroom activity funds are used only for authorized purposes.
- Adequate documentation was maintained to support the data submitted to the Department for the BOCES Report Card and the Financial and Statistical Outcomes of the Boards of Cooperative Educational Services Report (Chapter 602 Report).
- Most of the recommendations in our prior report were implemented.

Improvement opportunities are addressed in more detail in the body of the report. SCT BOCES officials should consider the recommendations to further improve their operation and management.

Comments of SCT BOCES Officials

SCT BOCES' officials generally agree with the findings and recommendations in this report. Their response is included as Appendix B.

Governance and Planning

A BOCES' board of education (board) is responsible for the provision of cost-effective programs and services and must provide for the governance and oversight of the BOCES' affairs, personnel, and properties. The audit determined that SCT BOCES' Board addressed many of its governance and planning responsibilities related to the control environment, compliance with legal requirements, fiscal oversight, staffing, and strategic planning. However, the Board could make improvements related to establishing an audit and finance committee, budget administration, approval of attendance at conferences, budget status reports, and Board minutes.

Audit and Finance Committee

Many private and public sector entities have established audit and finance committees to assist their boards in matters involving financial reporting, internal controls, internal and external audit processes, compliance with laws and regulations, and a code of conduct. The organization and activities of an audit and finance committee can vary among entities and, therefore, the responsibilities should be enumerated in a charter. The committee can assist the board in meeting its fiduciary responsibilities and can help improve accountability. The Board could improve its fiscal oversight through an audit and finance committee.

Recommendation 1: Establish an audit and finance committee and appoint members.

The Board of Regents' *Statement on the Governance Role of a Trustee or Board Member* gives several best practices for a governing board to follow. One of these best practices is for the board to establish an audit and finance committee. This committee should meet periodically with management and the independent auditor to consider the adequacy of internal controls and the financial reporting processes, and the reliability of fiscal reports. The committee should also assess the steps taken by management to address audit report findings and the steps to minimize risk to the BOCES. This could help ensure the integrity and credibility of the financial reporting systems and internal controls. The Board has not established an audit and finance committee.

Budget Administration

A budget is a fiscal plan for the year and must be carefully developed and administered to ensure finances are adequately controlled. The Board has implemented many of the necessary controls related to budgeting including the use of a budget calendar, mass encumbering of known obligations, preparation of periodic reports, and fund balance projections. However, the Board could improve its budgeting related to authorizing expenditures and encumbering funds.

Section 1950.4(k) of the Education Law and Sections 170.1(f) and 170.2(k) of the Regulations of the Commissioner of Education (Regulations) specifically prohibit a board from authorizing or permitting expenditures to be made that exceed appropriations or available funds. BOCES should have procedures in place to prohibit incurring an expense or issuing a purchase order if it will result in overspending an account. SCT BOCES did not have such a procedure. SCT BOCES' practice was to issue purchase orders even though it resulted in the account balances exceeding appropriations or available funds. SCT BOCES' budget status report showed several budget account codes had negative balances.

Recommendation 2: Ensure that appropriations are available before expenditures or encumbrances are made, as required by Section 1950.4(k) of Education Law.

While SCT BOCES' system has controls in place to prevent the encumbrance of accounts with insufficient balances, authorized staff can override this feature which allows SCT BOCES to continue to encumber or charge expenditures to budget account codes with an insufficient balance. The overspent account codes make monitoring the budget more difficult and increase the risk that the legally authorized amounts will be exceeded.

Blanket purchase orders or open-end accounts should be issued to vendors for purchasing items that are bought frequently from the same vendor and for purchasing items on an "as needed" basis. The purchasing agent and fiscal officer should determine the amount of the blanket purchase order, based on prior experience and expected needs, and then record the encumbrance on the accounting system. SCT BOCES did not use blanket purchase orders.

Recommendation 3: Use blanket purchase orders or encumber funds prior to using SCT BOCES credit cards for miscellaneous purchases.

The audit noted that SCT BOCES does not issue blanket purchase orders for groups of items that are purchased frequently from local vendors. Rather, SCT BOCES authorizes staff to use its credit cards for these purchases. While SCT BOCES has established controls over the use of the credit cards, it does not encumber the purchases at the time of the authorization. This can increase the risk that account codes may be overspent.

Approval of Attendance at Conferences

Section 77-b of the General Municipal Law (GML) and the Claims Section of the Office of the State Comptroller's Financial Management Guide (Guide) specify the requirements and guidelines for the expenses of officials and staff attending conferences. The Guide states the board should promulgate rules and regulations concerning reimbursement of expenses. Specifically, they should set forth the types of expenses that are reimbursable, the procedures and documentation necessary to support reimbursement, and any reasonable dollar or time limits. SCT BOCES has policies for travel reimbursement; however, it could make improvements related to the approval process.

Recommendation 4: Establish procedures for prior approval of attendance at conventions, conferences, or schools.

GML permits the board to authorize any of its members, officers, or employees to attend a conference. The law also permits the board to delegate the power to authorize attendance at a conference to any executive officer or administrative board.

The Board minutes did not show any resolutions approving attendance at conventions, conferences, or schools, nor was there any mention of delegation of this authority. Without such prior approval, the Board has less assurance that the resources it dedicates for these purposes are being used efficiently and for the benefit of SCT BOCES.

Budget Status Reports

A BOCES board needs accurate and timely budget status reports to monitor the financial condition and to ensure timely corrections to the budget plan. The budget status report provides an accounting of budget estimates compared to actual activity and can help ensure that the BOCES does not overspend its budget. SCT BOCES' budget status report needs additional information to be more effective.

Recommendation 5: Include revenues in the budget status reports to the Board.

Education Law Section 1950 4 (j) and Section 170.2 (p) of the Regulations require the treasurer to prepare a budget status report at least quarterly (monthly if budget transfers have been made) for all funds. The format for the report is given in the Regulations and the Department has a sample format of the report available for use on its web site. The format shows both revenue and expenditures; however, SCT BOCES did not include revenue in its budget status reports to the Board. Without a complete and accurate budget status report, the Board is not able to effectively monitor the financial condition of SCT BOCES.

Board Minutes

Board meetings are held to conduct official BOCES business including electing board officers, discussing and voting on educational and fiscal policies, and appointing officials. The minutes of board meetings are the legal and historical record of the actions of the board. As such, the minutes should be taken to accurately reflect the actions of the board during its meetings. The audit noted an improvement opportunity related to the minutes.

Recommendation 6: Include the results of the component districts' resolutions, either approving or disapproving the tentative administrative budget, in the Board minutes.

The adoption of the board's administrative budget is dependent upon a majority vote of the component districts approving the tentative administrative budget; otherwise, the board must prepare and adopt a contingency administrative budget. The audit found that the Board did not reflect the results of the

voting in the minutes. However, SCT BOCES officials said they provided the component districts' voting results to the Board verbally.

Comments of SCT BOCES Officials

SCT BOCES officials concur with recommendations 1, 2, 4, 5, and 6. They disagree with recommendation 3 to use blanket purchase orders or encumber funds prior to using SCT BOCES credit cards for miscellaneous purchases. They stated that blanket or open purchase orders do not work for them, but credit cards enable them to make necessary and timely purchases and to pay for these purchases as soon as receipts are submitted.

Auditor's Note

The audit believes SCT BOCES is not making use of an important budget control tool to prevent over expenditures of budget account codes. The audit has found that other BOCES use prior expenditure history to estimate the amount to encumber and then issue blanket purchase orders.

Accounting and Reporting

BOCES must have adequate accounting and reporting systems in place to ensure that accurate, timely, and complete financial records are maintained and disclosed in periodic reports to the board, the public, and the State. SCT BOCES has many of the necessary controls related to financial condition, financial accounting and reporting, auditing, and State aid and grants. However, SCT BOCES can make some improvements related to the documentation of Employment Preparation Education (EPE) expenditures and the accuracy of financial reports.

EPE Documentation

BOCES are eligible to receive aid for EPE programs that provide instruction that leads to a high school or equivalency diploma for students 21 years of age or older. The Department provides EPE aid based on the number of contact hours provided to eligible students and the aid is limited to the lesser of program expenditures or the amount calculated using reported contact hours. The aid must be spent on allowable expenses for EPE-related services. The total amount of EPE aid awarded cannot exceed total expenditures; therefore, documentation for both contact hours and expenditures is important.

SCT BOCES received about \$203,000 in EPE aid for the 2002-03 school year. SCT BOCES generally had adequate systems and processes to claim, track, document, and report expenditures and contact hours properly. However, the audit found several improvement opportunities related to the allocation of expenditures and documentation to support reported contact hours.

Recommendation 7: Maintain adequate documentation to support the allocation of expenditures for the EPE program.

Section 168.4 of the 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.

Expenditures that benefit more than one program must be

allocated to all programs that benefit from the expenditure. BOCES must use allocation methods that are fair and reasonable and can be documented for review. The allocation methods were generally adequate, but SCT BOCES could improve its documentation.

The audit found SCT BOCES did not maintain documentation to support the allocation of the cost of operation and maintenance expenditures and two computers. SCT BOCES was able to provide an adequate explanation for the allocation of the costs. Nevertheless, SCT BOCES should maintain documentation to support its allocations.

BOCES generate EPE aid by reporting contact hours and student enrollment to the Department. The Regulations define a contact hour for EPE as 60 minutes of instruction given by a teacher in approved program component areas. The Department requires the number of reported contact hours to be clearly documented to ensure that EPE revenues paid to the BOCES are appropriate. The audit found a few instances where the claimed contact hours did not agree with the supporting documentation.

Recommendation 8: Ensure the claimed contact hours are adequately supported by detailed documentation.

EPE revenue is based on the number of contact hours claimed and can never exceed total EPE expenditures. The reported contact hours must be accurate in order for SCT BOCES to receive the correct amount of aid that is due. However, the audit noted some exceptions, as follows:

- SCT BOCES claimed \$511 less in EPE aid on the SA-160s than what is supported by summary documentation of contact hours.
- SCT BOCES claimed two contact hours less than what is supported by class rosters for the Adult Learning Center class (ALC3000).
- SCT BOCES claimed 12 contact hours more than what is supported by student logs for the External Diploma Program class (EDP4000).

As a result of these exceptions, EPE aid was understated by \$456. SCT BOCES officials can submit an amended claim form if they wish.

Financial Reports

BOCES are required to prepare and submit financial statements and other financial information such as the SA-111, *The Annual Financial and Statistical Report of the Board of Cooperative Educational Services*, to the Department. The SA-111 includes information such as assets and liabilities by fund and revenue and expenses by program or service. The SA-111 should be complete and should agree to the audited financial statements; however, the audit found some differences between the financial statements and the SA-111.

Recommendation 9: Ensure that the information on the SA-111 agrees with the audited financial statements.

The audit reviewed the information reported on the SA-111 and determined that the reported amounts for revenues, assets, liabilities, and fund balance for the Special Aid Fund did not agree with the audited financial statements. For example, the SA-111 showed \$217,579 in total assets, while the financial statement showed \$1,491,935. SCT BOCES' independent auditor stated the differences may be due to journal entries that were reflected in the financial statements, but not on the SA-111.

Comments of SCT BOCES Officials

SCT BOCES officials concur with recommendations 7 through 9.

Revenue and Cash Management

BOCES collect and invest millions of dollars in revenue each year. They must have adequate controls in place to ensure the funds are collected and deposited, accounted for accurately, and safeguarded. The audit determined SCT BOCES generally complied with revenue and cash management requirements related to processing cash receipts and investments. However, SCT BOCES could make improvements related to cash collections, the treasurer's report, and petty cash.

Cash Collections

BOCES must establish strong internal controls over cash collections to prevent mishandling and to safeguard against loss. Good business practices and sound internal controls require the establishment of adequate separation of duties for cash collections, authorization of individuals to collect cash, the use of pre-numbered multiple copy receipt forms, a restrictive endorsement for all checks, and establishment of a record of all funds received. The checks should be turned over to the business office for deposit and someone independent of the record keeping function should verify the funds were in fact deposited into the bank. SCT BOCES established many of the necessary controls over cash collections, but it could make improvements related to the forms used to record the receipt of cash and checks, the authorization of individuals to collect money, restrictive endorsement on checks, and a list of checks received.

Recommendation 10: Use the required pre-numbered receipt forms books to acknowledge receipt of funds.

Section 170.2 of the Regulations requires the BOCES' treasurer to acknowledge receipt of all monies by issuing a pre-numbered receipt form as follows: original to the payer and the copy retained by the treasurer. This section also requires persons other than the treasurer, authorized by the board to receive money, to use a pre-numbered triplicate receipt form. Copies are distributed as follows: the original to the payer, a copy to the treasurer with the money or bank deposit receipt, and a copy retained by the individual authorized to receive money. Samples of these receipt forms are available on the Department's web site.

The audit found SCT BOCES does not use the required duplicate and triplicate pre-numbered receipt forms. Rather, SCT BOCES uses a single copy receipt form that is not pre-numbered. Such a practice increases the risk that funds may be misappropriated and not properly accounted for. The use of this type of receipt form does not establish an adequate audit trail which would allow management to verify that all funds collected were, in fact, turned over to the treasurer and deposited. The audit also found that some individuals collecting money at various locations were not authorized to do so by the Board, as required by Section 170.2 of the Regulations.

Recommendation 11: Require the Board to give authorization to the individuals collecting money at various locations.

The Board's approval of certain individuals to collect money would improve controls by letting employees know what is expected of them. It would also make the Board aware of the various collection sites and the reasons for collecting the money.

Restrictively endorsing checks upon receipt helps minimize the chance of misappropriation. Many BOCES use a rubber stamp to endorse checks "for deposit only" in the name of the BOCES. The audit found SCT BOCES does not restrictively endorse all checks upon receipt.

Recommendation 12: Establish procedures to restrictively endorse all checks upon receipt and create a record of checks received.

While SCT BOCES does restrictively endorse the checks before they are deposited, controls would be improved if the checks were restrictively endorsed upon receipt. This would lessen the risk of the checks being misappropriated.

Treasurer's Report

A BOCES treasurer is required to report to the board on the status of all BOCES funds in a monthly cash report. The board should use this report to check for negative balances, compare month end balances to bank reconciliations, review adjustments in the bank reconciliations, and review any need to adjust cash flow projections. SCT BOCES could improve its treasurer's report by including additional information in the report.

Recommendation 13: Include all required information in the monthly treasurer's cash report to the Board.

Section 170.2(o) of the Regulations requires the treasurer to render a monthly report for each fund showing the cash balance on hand at the beginning of the month, receipts by source during the month, total disbursements during the month, the cash balance on hand at the end of the month, and a reconciliation to the bank statement.

SCT BOCES' treasurer's cash report to the Board showed the ending cash balance. It did not, however, show the cash balances at the beginning of the month, the receipts by source during the month, total disbursements during the month, nor the reconciliation with the bank statements, as required by the Regulations. Without this information, the Board is not in a position to review the sources of funds or the adequacy of funds to pay disbursements during the same period.

Petty Cash

The Regulations authorize BOCES to establish petty cash funds for the payment of certain materials, supplies, and services. SCT BOCES had many of the necessary controls over petty cash, but could improve its controls by limiting the amount of the funds to the legally authorized level.

Recommendation 14: Limit each petty cash fund to the \$100 maximum amount allowed.

Section 170.4 of the Regulations requires that the petty cash balance on hand in each fund shall not exceed \$100 at any time. SCT BOCES has one petty cash fund operating at a \$300 limit. To comply with the Regulations, SCT BOCES should decrease the amount of the existing petty cash fund to \$100.

Comments of SCT BOCES Officials

SCT BOCES officials agree with recommendations 11 through 14. SCT BOCES officials disagree with recommendation 10 stating that their external auditors have indicated they do not need pre-numbered receipt form books.

Auditor's Note

Pre-numbered receipt forms are required by the Regulations and help to establish accountability over the revenue received by establishing a record of the transaction upon receipt.

Purchasing and Expenditures

BOCES purchase thousands of products and services each year. Purchasing in a BOCES is regulated by State law, court decisions, and local board policy. Strong controls are necessary to ensure purchases result in securing goods and services in the right quantity and quality, at the right time, and for the right price. Controls can also help ensure that purchases are made in compliance with the law and BOCES policy. SCT BOCES has many of the necessary controls related to purchasing and expenditures, but improvements can be made related to its payroll and personnel practices.

Payroll and Personnel Practices

Salaries and fringe benefits make up the single largest expense category of a BOCES' budget. As such, the payroll function should be clearly defined through policy and procedures and be closely supervised. The personnel function should provide assurance that a BOCES is hiring and retaining the most qualified individuals. SCT BOCES generally implemented the necessary controls for payroll and personnel, but it could make some improvements related to advancing payroll and correctly calculating personal income on fringe benefits.

Section 170.2(k) of the Regulations requires that the board pay no obligation of the BOCES until materials have been received or services rendered. Further, Education Law Section 3015 prohibits the advance payment of salaries for teachers, and the New York State Constitution, Article VIII Section 1 prohibits the loan of money or property to any individual. However, SCT BOCES paid some employees in advance of performing services.

Recommendation 15: Avoid paying employees in advance of services rendered, as required by the Regulations, Education Law, and the State Constitution.

SCT BOCES' employees are able to choose to receive their yearly salary in 26 or 27 installment payments. The total yearly salary is the same under either calculation; however, the 27 payment plan results in a check being issued in early July which is, in effect, a salary advance. In essence, the first pay checks are loans advanced to the employees and then slowly recovered by virtue of the lesser amount being paid to the

employees over the entire year. This practice is not in compliance with legal requirements and should be terminated.

BOCES are required to report certain benefits as taxable income for employees who derive a benefit. SCT BOCES was generally aware of the requirements and correctly reported the taxable income for its employees. However, in one case, their calculation for the taxable benefits for personal use of a vehicle was not correct.

Recommendation 16: Ensure that the calculation of the taxable benefit for the personal use of SCT BOCES-owned vehicles, including gasoline usage, are in accordance with the requirements.

Internal Revenue Service (IRS) Publication 15-B specifies the tax treatment for fringe benefits. It provided information on calculating the tax benefit of personal use of an employer provided car. The guidance requires that the taxable benefit be based on the value of the asset when it was first placed in service. It also requires that the value of gasoline be calculated separately.

SCT BOCES calculated the taxable benefit of the personal use of an SCT BOCES-owned vehicle by using the “book” value (\$18,570) of the vehicle as of January 8, 2003 rather than the value of the vehicle (\$28,749) when it was first put into service. Furthermore, SCT BOCES did not report any taxable benefit for gasoline. As a result, the taxable benefit reported to the IRS was understated. SCT BOCES should ensure it values its fringe benefits in accordance with the rules issued by the IRS.

Comments of SCT BOCES Officials

SCT BOCES officials concur with recommendation 16 and have referred recommendation 15 to their external auditors and attorney for review.

Facilities and Equipment

BOCES must provide adequate facilities and equipment for educating its students. In addition, BOCES must adhere to all requirements related to facilities maintenance and must implement the necessary inventory controls to safeguard their assets.

SCT BOCES has many of the controls related to facilities maintenance and inventory controls for its assets. However, SCT BOCES can improve its inventory records.

Accurate and Complete Inventory Record

Each BOCES is required by Section 170.3(i) of the Regulations to develop and adopt a formal policy on personal property accountability including procedures governing the acquisition, sale, and disposal of personal property. BOCES must implement inventory controls to safeguard assets against loss, establish effective utilization, identify amounts for insurance coverage, determine needs, and identify surplus items. In addition, BOCES must keep their inventory records up to date. SCT BOCES could make improvements to ensure its inventory records are accurate and complete.

Section 170.3(i) of the Regulations requires that BOCES include purchases of similar items whose aggregate cost is over \$500 for inventory purposes. For example, steel chairs used in the auditorium may only cost \$25 each. However, if 100 chairs were purchased, the total purchase represents a significant investment that should be included in the inventory records. The chairs should be accounted for on the inventory even though each chair is below the current capitalization threshold of \$500 per item. The audit determined SCT BOCES did not follow this practice.

Recommendation 17: Include assets in the inventory if the aggregate value of the items exceeds \$500 and the items meet other capitalization criteria.

The audit found that SCT BOCES records items valued at \$500 or more but does not record the purchase of groups of like items whose aggregate value is over \$500. As a result, adequate accountability is not established over the asset.

Recommendation 18: Require supervisory approval to delete assets from the inventory listing.

The audit inspected a small sample of the inventory and noted only one exception; a double convection oven that was not recorded in the inventory list for the Home Economics classroom. The audit determined that SCT BOCES deleted items from the inventory records without sufficient documentation as to the appropriateness of the transitions.

In addition, an account clerk was authorized to delete assets from the inventory records without written supervisory approval. These weaknesses increase the risk that items could be removed from SCT BOCES with little risk of detection.

Comments of SCT BOCES Officials

SCT BOCES officials concur with these recommendations.

Student Services

BOCES provide various services for their students including extraclassroom activities. In addition, BOCES should provide students with a learning environment that is safe and secure. The audit found that SCT BOCES generally complied with laws and regulations concerning student services, school safety, and security. However, SCT BOCES could make some improvements related to the extraclassroom activity funds.

Extraclassroom Activity Funds

Section 172 of the Regulations requires a BOCES to establish policies and procedures for the establishment and operation of extraclassroom activities, and for the safeguarding, accounting, and auditing of the funds. The Regulations also require that a record of the revenues and expenditures be maintained and reports be made at least quarterly to the board. The extraclassroom activity funds should be established for appropriate activities and should be operated by the students. The audit found SCT BOCES needs to report on extraclassroom activity funds to the Board on a more frequent basis.

Recommendation 19: Submit a report to the Board on the activity of the extraclassroom activity fund on at least a quarterly basis.

BOCES have a fiduciary responsibility to monitor the transactions of the extraclassroom activity funds. The Board received a report on the revenues and expenditures of the extraclassroom activity fund on an annual basis rather than quarterly as required by the Regulations. Without the quarterly reports, the Board cannot effectively monitor the transactions or meet its fiduciary responsibility.

Extraclassroom activities encompass any organization within the BOCES that is conducted by students and receives no financial support from the BOCES. As such, the funds raised by the organization should be used for its purposes and the funds should not be loaned to other organizations. SCT BOCES used some extraclassroom activity funds for other purposes.

Recommendation 20: Establish procedures to ensure extraclassroom activity funds are not used for General Fund expenditures.

The audit found that, on occasion, SCT BOCES used the extraclassroom activity funds to expedite payment for test fees. While the payments were reimbursed by SCT BOCES, it is not appropriate to loan the funds.

Comments of SCT BOCES Officials

SCT BOCES officials concur with these recommendations.

Student Related Data

BOCES are required to collect and report financial and other statistical data including expenditures, revenue, assets, liabilities, State aid information, attendance, special education placements, and other student and school information. This information is used to prepare the Report Card and the Chapter 602 Report. It is crucial that the data are reliable, accurate, accessible, and timely since the information may be used by other BOCES, districts, the Department, and the public.

The Report Card summarizes program accomplishments and services provided for children and adults. It is intended as a tool for the continuous improvement of BOCES programs and services, and for providing information to communities. The Report Card displays data about the following programs and services: career and technical education, alternative education, special education, professional development, technology services, the State testing program for all component districts, Regents examinations, and graduation results.

The Chapter 602 Report details certain financial and statistical outcomes, tuition costs for selected programs, per student cost information, and aggregate expenditure data for BOCES for the administrative, capital, and service functions. The Chapter 602 Report also includes prior year data.

The audit determined that SCT BOCES had adequate documentation to support the financial and statistical information reported to the Department for use in preparing the Report Card and the Chapter 602 Report.

FOLLOW UP - RECOMMENDATION IMPLEMENTATION PLAN

On June 23, 1999, OAS issued a final report on management practices, records, and documentation related to select areas of SCT BOCES. The report contained 11 recommendations to improve operations. SCT BOCES submitted a Recommendation Implementation Plan on November 8, 1999.

SCT BOCES successfully implemented or otherwise satisfied 9 of the 11 recommendations. This section of the report comments on the two exceptions.

Recommendation 2 (Not Implemented): Request reimbursement of the \$990 in excess costs incurred by driving to the conference in Orlando.

Implementation Action per SCT BOCES:

SCT BOCES believes reimbursement of the \$990 is not warranted. This Board member offset the travel cost incurred by driving to the conference by the savings incurred by staying with relatives.

Auditor's Comment: SCT BOCES adopted a policy to limit reimbursement to the most cost-effective method available.

Recommendation 11 (Not Fully Implemented): Record the value of the District Superintendent's personal use of the SCT BOCES-provided vehicle and report it as taxable income.

Implementation Action per SCT BOCES:

The value of the District Superintendent's personal use of the SCT BOCES-provided vehicle has been reported on the W-2 issued to the District Superintendent.

Auditor's Comment: SCT BOCES calculated the taxable income for the District Superintendent's personal use of a SCT BOCES vehicle and reported that amount on his W-2. However, SCT BOCES did not calculate the taxable amount correctly as reported in a previous section of this report.

Contributors to the Report
Schuyler-Chemung-Tioga BOCES

- Calvin Spring, Audit Manager
- Ronald Talarico, Auditor-in-Charge
- T. Stewart Hubbard III, Senior Auditor

SCT
BOCES

Schuyler-Chemung-Tioga Board of Cooperative Educational Services
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May 20, 2004

Mr. Michael Abbott, CPA
Director
Office of Audit Services
The State Education Department
Albany, NY 12234

RECEIVED

MAY 26 2004

OFFICE OF
AUDIT SERVICES

Dear Mr. Abbott:

We are in receipt of the SCT BOCES Draft Audit Report for the periods of July 1, 2001 through September 30, 2003.

Please note our response to the audit follows the outline of the Draft Audit Report.

Governance and Planning

Audit and Finance Committee

Recommendation 1

We will be asking our Board of Education to consider your recommendation of establishing an audit and finance committee at our June, 2004 Board of Education meeting.

Recommendation 2

We monitor the budget in detail every two weeks when the reports are printed. Transfers are made to cover expenditures/encumbrances as needed.

Recommendation 3

Blanket and/or open purchase orders do not work for the BOCES. Credit cards have enabled us to make necessary and timely purchases and pay for these purchases as soon as receipts are submitted to the business office.

Approval of Attendance at Conferences

Recommendation 4

Although there is a Board policy and administrative policies concerning the approval and attendance at conventions, conferences or schools, the Board will appoint the Assistant Superintendent for Administration and/or the Business Manager to grant final approval.

Budget Status Reports

Recommendation 5

We agree and will include revenues in the budget status to the Board beginning with July 2004 reports.

Board Minutes

Recommendation 6

We agree and provided our Board with the component districts' resolutions, and they accepted the results concerning the tentative administrative budget at the May, 2004 Board of Education meeting. This process is in place and will occur yearly from now on.

Accounting and Reporting

EPE Documentation

Recommendation 7

We agree that BOCES will better maintain adequate documentation to support the allocation of expenditures for the EPE program.

Recommendation 8

We agree and will establish procedures to ensure that the claimed contact hours are adequately supported by detailed documentation. We asked about submitting an amended claim to request the \$456 and were told that we could not.

Financial Reports

Recommendation 9

We have provided you with all the information available to the BOCES so you could review the SA-111 and external auditor's statement for the inconsistency cited regarding the Special Aid Fund. In the future, we will ensure through more stringent practices that the SA-111 data agrees with the audited financial statements.

Revenue and Cash Management

Cash Collections

Recommendation 10

Our external auditors have indicated that we do not need pre-numbered receipt form books to acknowledge receipt of funds. We have deposit slips that account for our transactions and the checks themselves constitute a receipt of transactions that have taken place. Receipts are provided to individuals and students making payments for services (Adult Ed and Patron Services).

Recommendation 11

We agree and will ask our Board at our re-organization meeting to appoint staff authorized to collect money at various locations.

Recommendation 12

We will endorse checks upon receipt as recommended.

Recommendation 13

We have been preparing a list of checks received when the mail is opened for almost two years.

Treasurer's Report

Recommendation 14

We agree and will include all required information in the monthly treasurer's cash report to the Board beginning with the July 2004 report.

Petty Cash

Recommendation 15

The petty cash fund will be limited to the maximum amount allowed which is \$100.00 effective July 1, 2004.

Purchasing and Expenditures

Payroll and Personnel Practices

Recommendation 16

This matter has been referred to our auditors and attorney for further review. We also have contractual obligations to comply with concerning the payment of salaries to employees.

Recommendation 17

This isn't an issue since the District Superintendent no longer uses the vehicle for personal use. Should this change, we will comply with the requirements of IRS publication 15-B.

Facilities and Equipment

Accurate and Complete Inventory Record

Recommendation 18

We agree to include inventory assets if the aggregate value of the items exceeds \$500 and items meet other capitalization criteria.

Sixty
Recommendation 19

The BOCES maintains "real time" records to support assets that are deleted from the inventory and the reason for the deletion.

Recommendation 20

The Business Manager and/or Supervisory staff provide *verbal* approval to delete assets from the inventory listing.

Step
Recommendation 21

There is an administrative format for adding and/or deleting assets from the inventory records. We have forms for staff to complete to make these changes.

Student Services

Extraclassroom Activity Funds

Recommendation 22

We agree that a report will be submitted to the Board of Education on the activity of the extraclassroom activity fund on at least a quarterly basis.

Recommendation 23

The BOCES will establish procedures to ensure extraclassroom activity funds are not used for General Fund expenditures.

Please let us know if you have any additional questions or are in need of further clarification.

Sincerely,



Horst G. Graefe, Ed.D.
Assistant Superintendent for
Administrative Services

HGG/cjs

C: Anthony Micha
Gayle Pritchard