
Audit Report

Board of Cooperative Educational Services
Tompkins-Seneca-Tioga Counties

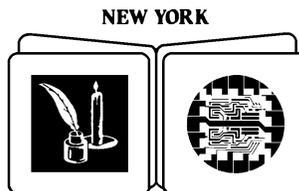
For the Period

July 1, 1996 through June 30, 1997

BOC-0797-4

July 1, 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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July 1, 1999

Dr. R. Timothy O'Neill
District Superintendent
Tompkins-Seneca-Tioga BOCES
555 Warren Road
Ithaca, New York 14850

Dear Dr. O'Neill:

The following is our final audit report (BOC-0797-4) on the Board of Cooperative Educational Services Tompkins-Seneca-Tioga Counties for the period July 1, 1996 through June 30, 1997. The audit was conducted pursuant to Sections 305 and 1950 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

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

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

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

Sincerely,

Daniel Tworek

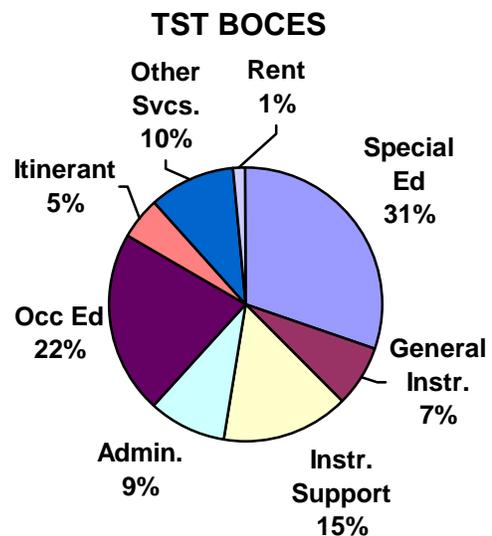
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Executive Summary

Tompkins-Seneca-Tioga (TST) BOCES ranked as the 32nd largest BOCES in the State, in terms of total general fund expenditures, for the 1996-97 school year (\$14,094,894).

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



Background and Scope of the Audit

The audit examined management practices, records and documentation related to selected areas of TST BOCES operations for the period July 1, 1996 through June 30, 1997. These areas included Administration, Operations and Maintenance (O&M), Employment Preparation Education, Secondary Occupational Education, Computers Service Management and Library Automation. This was a financial related audit and the objectives were to: determine if cost allocations and transfers were accurate and reasonable; determine if services comply with Department approved specifications; verify that only reasonable and necessary costs were incurred; and verify that the budgetary process provides control over the expenditure of funds.

Audit Results

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

- Contact hours totaling 196,562 hours, or \$833,424, were incorrectly claimed for EPE aid (page 5-6). TST BOCES has implemented new procedures and forms that are monitored monthly.
- Improvements can be made in documenting O&M allocations (pages 11-12). TST BOCES officials state they are reviewing allocation percentages and will determine an appropriate documentation and allocation basis.
- Opportunities exist to improve management processes relating to the inventory system, controls over vehicles, reporting tax information to the IRS, budgeting and accounting, hiring retirees, and employment contracts (pages 13-29). TST BOCES officials have implemented new policies and procedures regarding these areas.
- Improvements can be made ensuring only necessary and reasonable expenditures are being incurred (page 21-22). TST BOCES has taken action to ensure only necessary and reasonable expenditures are incurred.

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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 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.

Tompkins-Seneca-Tioga (TST) BOCES was established to be a means for the school districts of Tompkins, Seneca and Tioga 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.

TST BOCES, headquartered in Ithaca, New York, serves 9 component districts. TST BOCES ranked as the 32nd largest in

the State, in terms of total general fund expenditures, for the 1996-97 school year.

Objectives, Scope and Methodology

Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to selected operations of TST BOCES for the period July 1, 1996 through June 30, 1997. This was a financial related audit and the objectives were to:

- determine if cost allocations and transfers between funds and among CO-SERs are accurate and reasonable;
- determine if CO-SERs comply with Department approved specifications 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 TST BOCES management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed TST 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, judgments and decisions made

by management. We believe that the audit provides a reasonable basis for our findings, conclusions and recommendations.

Comments of TST BOCES Officials

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

Employment Preparation Education (EPE)

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

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

TST BOCES received a total of \$1,308,240 in EPE aid for the period July 1, 1996 through June 30, 1997 based on reported contact hours. The audit found that TST BOCES did not have an effective system for identifying, documenting and accumulating certain EPE contact hours and, as a result, contact hours were inaccurately reported.

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 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 TST BOCES.

EPE Contact Hours Were Overstated

Part 168 of the Regulations and Department policy govern the determination of contact hours eligible for EPE. Hours claimed by BOCES must be for eligible students and adequately documented.

BOCES generate EPE aid by reporting contact hours and student enrollment on Forms SA-160.1 and SA-160.2, EPE State Aid Claim Forms. Under Section 168.2 of the Regulations, a contact hour for EPE means 60 minutes of instruction given by a teacher in approved instruction program component areas. Part 168.4 of the Regulations states that the BOCES must clearly document the number of reported contact hours to ensure that EPE aid paid to the BOCES is appropriate. Any undocumented or overstated

contact hours will be questioned upon audit and revenues will be reduced accordingly. The BOCES must maintain classroom attendance rosters of all students who attend EPE Programs.

Attendance and Contact Hour Documentation

The audit found that documentation maintained for the EPE Program contact hours was not always adequate, consistent and/or complete. Because of the condition of the records, it was difficult for TST BOCES officials and the audit to properly account for and calculate EPE contact hours.

The audit selected a large judgmental sample and, using the same method TST BOCES' independent auditors used, projected the results of the judgmental sample to the population of the activity being tested. In some cases 100 percent testing was done and in others a large portion of the population was tested (over 50 percent of the contact hours). Audit adjustments were made based on the following reasons:

- ineligible contact hours (mostly for hours claimed for students under 21 years of age and/or with a US high school equivalency diploma);
- use of incorrect class lengths;
- incorrect contact hours for certain activities (e.g., claimed 3 hours for 2 1/2 hour class);
- contact hours that were claimed more than once;
- lack of documentation for hours worked for work experience contact hours;
- lack of attendance documentation; and
- students for whom it could not be determined whether they were EPE eligible.

Because many of the audit adjustments were a result of more than one of the factors noted above, the audit could not quantify the adjustment to contact hours attributable specifically to any one of these items. For example, TST BOCES may have claimed three hours for a two and one-half hour class in which there were students under 21 years of age and/or had a U.S. high school equivalency diploma.

Of the 330,773 contact hours originally claimed on the SA-160s, the audit determined that 134,211 hours were properly claimed. TST BOCES had their own independent auditors review their EPE records. The hours calculated by their auditors were 106,464 less than reported. Our review disallowed an additional

90,098 contact hours. The remaining hours (196,562) equating to \$833,424, were improperly claimed for EPE aid. See Schedule 1 for a list of the EPE Program activities reviewed and the audit adjustments.

TST BOCES officials stated they recognized shortcomings with the previous recordkeeping system and, as of July 1, 1997, a new data management system was implemented. They have also implemented new procedures and forms that are monitored monthly.

Student Folders

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

The students' files are available to teachers and students but they are not kept in a central location. TST BOCES was only able to provide 76 of the 99 student folders requested (77%). Of the 76 student folders reviewed:

- There were no copies of class attendance in 59 (77.6%). Of the remaining 17, one had complete attendance records and 16 had incomplete records.
- There was no evidence of testing in 10 (13.2%).
- There was no IEEPP in 12 (15.8%).
- There was no indication of diploma status in 37 (48.7%). Most of these relate to English for Speakers of Other Languages students. Without diploma status, it is difficult to determine EPE eligibility status.
- Six (7.9%) had IEEPPs that were not for the 1996-97 school year. Two were for prior school years and four were for subsequent school years.
- Three (3.9%) had IEEPPs where no goals were stated.
- Seven (9.2%) had IEEPPs that did not identify the year.

Without a centralized location for students' folders, there is a greater chance that the information required by the Regulations will be misfiled. TST BOCES is not in total compliance with the

Regulations because student folders were not maintained for every EPE student, and when folders were maintained, they did not always include all of the required information. Without the required information, it is difficult to tell when a student is EPE eligible, if the student is receiving necessary services, or if the services provided are in line with the students' stated goals, etc.

TST BOCES officials agree that they do not have a centralized record location for all student folders. However, as of July 1, 1997 the essential information about registration, intake, eligibility and attendance was centralized. They state that due to various program sites it is necessary to keep essential student performance data at the location of the program.

GRASP Program

Giving Rural Adults a Study Program (GRASP) is a non-traditional EPE Program, which is not conducted in regular classrooms during a regular school day. The EPE Program Comprehensive Plan of Service Application for 1995-96, Attachment #2 states:

"To calculate EPE hours for non-traditional programs a ... BOCES should determine the maximum number of professional staff hours that can be claimed by adding the number of students actively enrolled in the program each week for the length of the program and multiplying the cumulative total by 30 minutes or .5 hours. (For aid purposes BOCES are limited to an average of 30 minutes per week of professional staff time for each person actively enrolled.) Multiply the result by 12 to determine the total number of contact hours which may be claimed."

TST BOCES does not document the number of professional hours used in the GRASP program in order to determine allowable EPE contact hours.

The audit had to use alternative means to calculate the GRASP contact hours and has no assurance that the reported and audited GRASP contact hours did not exceed the actual allowable professional hours.

TST BOCES officials agree with the finding and believe that the payroll time sheets for the two GRASP teachers do show the

contact hours were proper. They state that professional hours will be recorded on the contact logs now also.

The audit allowed more hours for the GRASP Program than TST BOCES claimed. The problem was documenting the hours more clearly.

Class Size

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

TST BOCES generally adhered to the EPE class enrollment size requirement. However, in some instances EPE classes exceeded the maximum enrollment of 20 students. TST BOCES did not request or obtain a waiver to exceed the maximum enrollment of 20 students per class. The Family Reading class operating under Family Literacy had student enrollments at different locations that ranged from 24 to 34 for the months of October and December.

Because TST BOCES had classes where enrollment exceeded 20 students and did not request a waiver to do so, TST BOCES is not in compliance with the Regulations.

TST BOCES officials agree they did not obtain a waiver and state they will request any required waiver in the future.

Allocation of Costs

The Comptroller's Financial Management Guide for Local Governments (Guide), Volume 1, Subsection 1.1040, states that in order to provide "full cost" information, methods must be devised to allocate indirect costs to the benefited areas. Sound business practices dictate that any method that produces an equitable cost distribution and is adequately documented is acceptable. The documentation would be of a nature that a prudent person, familiar with functions of the organization, could determine that the methods and the underlying basis for the allocation are reasonable and consistent.

The audit found that, in the Special Aid Fund, personal service and other than personal service (OTPS) costs were either not allocated, or were not properly allocated. For those costs allocated, documentation was not available to show the allocation methodology.

TST BOCES claims that many of the other grants in the Special Aid Fund require in-kind contributions and by not allocating some costs to the grant satisfies this requirement. The audit found that not all of the grants in the Special Aid Fund served EPE eligible students or only served some EPE eligible students. TST BOCES should have allocated costs to those programs that have no EPE eligible students, and for programs with a mixed population, the costs should have been allocated for the non-EPE eligible students.

For OTPS costs, the EPE cost center was treated as a catch all for all shared costs. However, none of these costs were allocated to other programs.

Because TST BOCES did not properly allocate costs among EPE eligible and non-EPE eligible students, TST BOCES is not in compliance with EPE guidelines. Though the audit focused on contact hours and not expenses, if the audit found costs were not allocated out of the EPE cost center that should have been, TST BOCES could have lost EPE funding.

TST BOCES officials concur and state they are developing a cost allocation methodology that will ensure fair allocation of expenditures to EPE and non-EPE portions of the adult program.

Recommendations

1. Improve procedures to ensure that contact hours are accumulated and tabulated accurately and clearly documented.
2. Improve procedures to ensure that only the contact hours of eligible students are claimed for EPE aid.
3. Ensure that student folders are maintained for all students and contain all required information.
4. Ensure that contact hours for non-traditional programs are tabulated correctly.
5. Request waivers when class sizes exceed that allowed.
6. Ensure allocations are accurate and documented.

Comments of Tompkins-Seneca-Tioga BOCES Officials

TST BOCES officials generally agreed with these recommendations.

Cost Allocations and Transfers

The Education Law requires the net cost of operating a BOCES service be allocated among participating districts. The System of Accounts facilitates such allocations by requiring a separate accounting of revenues and expenditures for each service program. Expenditures should be charged directly to the pertinent service involved and expenditures related to more than one CO-SER or service should be prorated accordingly. Interservice program transfers are used to record charges in other service programs. In order to ensure that components pay only for services received, allocations should be reasonable, accurate and adequately supported.

Internal Service Activity CO-SERs

Good internal controls include adequately documenting certain calculations of costs. These documents should include, at a minimum, documentation of the basis of the calculation and an audit trail to the actual charges. The audit found the allocation percentages used by TST BOCES in school year 96-97 to allocate costs from internal service activity CO-SERs 701 Operations and Maintenance (O&M), 702 Special Education – Administration, and 703 Special Education – Instructional Support to the Administrative and program CO-SERs were inaccurate.

The allocation percentages:

- had not been revised for many years;
- were significantly different than the allocation percentages calculated by the audit for school year 1996-97 when using TST BOCES' methodologies and information from 1996-97; and
- were not supported by any written documentation that showed the information and/or methodology that was used in determining the allocation percentages.

The Director of O&M stated that square-footage is used to allocate O&M costs and submits current square-footage by program area to the business office at the end of each year. However, the business office does not use the square-footage as a basis for allocations. The business office was not sure how the allocations were originally determined but they differ

significantly from the allocation percentages based on square-footage. Examples are as follows:

- The allocation percentage used to allocate O&M costs to CO-SER 501 (Educational Communications Center) was 18 percent although it only occupies 10 percent of the square-footage. This resulted in CO-SER 501 getting 80 percent more in costs allocated to it.
- The allocation percentage used to allocate O&M costs to the Administration CO-SER was 8 percent, although it only occupies 2 percent of the square-footage. This resulted in the Administration CO-SER getting 300 percent more in costs allocated to it.
- The allocation percentage used to allocate O&M costs to the Special Education CO-SERs was 19 percent (before the new construction), although it occupies 26 percent of the square-footage. This resulted in the Special Education CO-SERs getting 27 percent less in costs allocated to it.

In addition, in the 1996-97 school year the size of the Special Education building doubled due to new construction. However, the allocation percentage used to allocate O&M costs to the Special Education CO-SERs was increased only slightly.

TST BOCES should revise their current allocation percentages to reflect current information and review the allocation percentages every year to determine if modifications need to be made. If no modifications are made, the reasons why should be noted.

TST BOCES officials concur with the finding and state that they are reviewing the allocation percentages and will determine an appropriate documentation and allocation basis.

Recommendations

7. Ensure that allocation percentages are based on accurate data and used consistently.
8. Ensure that allocation methods are adequately documented.

Comments of Tompkins-Seneca-Tioga BOCES Officials

TST BOCES officials agree with these recommendations.

Opportunities to Improve Management Processes

Management is responsible for establishing effective management processes or controls. In its broadest context, management controls include the plan of the organization, methods, and procedures adopted by management to ensure that its goals are met. These processes include such areas as planning, organizing, directing and controlling program operations. They include systems for measuring, reporting and monitoring program performance. The audit reviewed several processes 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.

Policies and Procedures Manuals

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

TST BOCES has a written policy manual but no written procedures manual. In addition, the policy manual is not comprehensive. TST BOCES does not have complete, formal written policies for the following areas: travel, personal phone calls, cellular phones, vehicles, overtime, purchasing, cash disbursements, petty cash and credit cards.

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

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

TST BOCES officials agree that their policy manual does not address pertinent areas for which formal, written policies should be in place. They state they have numerous written procedures but that they are not collected into a manual of procedures and are looking into avenues for updating the policy manual and implementing a procedure manual.

Policies for Travel and Expense Reimbursement Need Improvement

Local board policies and Internal Revenue Service (IRS) rules govern travel and expense reimbursements. General Municipal Law Section 77-b generally authorizes reimbursement of actual and necessary expenses incurred in attending a convention or conference conducted for the benefit of the municipality. Section 77-c allows municipalities the option to pay meal expenses based on a per diem meal allowance schedule, "... but in no event shall such allowance exceed the standard meal allowance for business-related travel adopted or prescribed for federal income tax purposes."

The Guide notes that the local government board "should promulgate specific rules and regulations concerning the reimbursement of expenses." Further, it notes that "the rules and regulations should set forth the type of expenses which will be reimbursed, the procedures and documentation necessary to support the reimbursement and any reasonable dollar or time limits which the board may wish to set."

TST BOCES has a written policy, number 5600 (which was adopted January 7, 1998), establishing maximum reimbursement amounts for lodging (\$100) and meals (\$85 in the New York City Metro area and \$60 for the rest of the State). There is no mention of a rate for out-of-state lodging. These amounts, although for actual expenses and not for per diem, are currently more than twice the established federal rates in most instances.

The current federal lodging allowance for New York State (excluding the New York City Metro area) is, with a few exceptions, less than \$100 with the lowest being only \$40. The current federal meal allowance for New York City is \$42 with the lowest New York State rate being \$30. The highest federal meal allowance in the United States is \$42.

TST BOCES officials agree that its lodging reimbursement rates for outside of New York City may exceed federal and State

guidelines but state that General Municipal Law applies to per diem allowance and theirs is a reimbursement of expenses.

The audit believes the fact that the General Municipal Law limits per diem rates to the IRS rate should be taken into consideration when determining the maximum amount to be reimbursed for actual lodging.

TST BOCES officials agree they have no reimbursement rates established for out-of-state lodging. They believe that their meal allowances are in compliance with General Municipal Law because they state a maximum reimbursable amount.

Cash Receipts

Good business practice dictates that all cash receipts are recorded immediately and deposited on a daily basis. In addition, good business practice dictates that there should be formal written policies and procedures concerning cash receipts.

The vocational education office regularly receives payments for services provided by the vocational education students. These receipts are not remitted to the business office on a daily basis. All cash receipts received by the business office are deposited daily.

There is a written policy regarding donated funds that states they are to be deposited on a daily basis. However, there is no written policy for any other receipts nor written procedures for cash receipts. There is a greater risk that cash receipts in the vocational education office could be lost or stolen if not remitted to the business office on a daily basis.

TST BOCES officials agree that the vocational education office does not remit cash receipts to the business office for deposit on a daily basis. They will develop a policy and procedures for ensuring cash receipts received by the vocational education office will be remitted on a daily basis to the business office for deposit.

General Business Office Controls

The Guide, Volume 2, Subsection 11.0101, states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where

applicable. In addition, all resources should be safeguarded against waste, loss and misuse.

As part of an effective internal control system: supervisory/management reviews of documentation should be recorded; employment eligibility should be confirmed; adequate provisions should be made to safeguard access to signature disks; key business employees should be required to take vacations; and cross-training should be provided to business office employees.

The audit found:

- 1) The Personnel Director (who is also the Assistant District Superintendent) does not sign or initial all personnel or payroll documentation reviewed, such as payroll/personnel changes and other miscellaneous payroll/personnel documentation reviewed.
- 2) TST BOCES does not review original copies of teacher certifications and does not always review original copies of transcripts/diplomas.
- 3) The location of the key to the safe with the signature disk is not secured.
- 4) Key business employees are not required to take vacations. When they do take vacations, their work is not done until they return.
- 5) Key business employees are not cross-trained.

Without reviewing original copies of teacher certifications and transcripts/diplomas, TST BOCES has less assurance that these employees actually have certifications, earned the grades, or have a diploma. Because of the technology available today, these items can be easily produced or manufactured in copy form. Therefore, there is a greater chance that employees may not be qualified for their positions. In fact, a school district in the State discovered after five years that a teacher had submitted a fake photocopy of a teaching certificate.

Some aspects of employees' salaries are based solely on certificates held and educational achievements (e.g., diplomas, completed classes, completed training, etc.). Therefore, without reasonable assurance that certificates are valid, that degrees/grades are earned, etc., there is a greater chance that employees may be paid salaries they are not eligible to receive.

Without a secure location for the key to the safe with the signature disk, there is a greater risk that the key could be stolen and unauthorized checks printed.

When key business employees are not required to take vacations, TST BOCES is less likely to uncover any improper activities that the employee may be engaged in. A way of uncovering improper activities is to have other employees perform the vacationing employee's duties.

Because key business employees are not cross-trained, TST BOCES does not have the ability to rotate staff to different positions on a random basis to prevent a monopoly over any key business activity and TST BOCES has less assurance that employees will not engage in improper activities.

TST BOCES officials agree and will review and improve the procedures as recommended.

Purchases Not Required to be Bid

General Municipal Law, Section 104-b, states that goods and services, which are not required by law to be procured through competitive bidding, must be procured in a manner that assures the prudent and economical use of public moneys. BOCES are required to adopt internal policies and procedures governing all procurement of goods and services that are not required to be bid. These policies and procedures should contain provisions which, among other things, "require adequate documentation of actions taken in connection with each such method of procurement."

Part of effective internal policies and procedures is to have a reasonable minimum dollar threshold before quotes and bids are to be obtained. General Municipal Law has very specific details on dollar thresholds for bids but none for quotes.

The audit found that TST BOCES' policies regarding bidding are in line with General Municipal Law. However, the audit believes that their minimum dollar threshold of \$5,000 before quotes are to be obtained is too high. A more reasonable threshold might be an amount closer to that stated in the Guide.

TST BOCES officials generally concurred and will review their policies and make changes as necessary.

Long Range Plan for Educational Facilities

Section 1950 (4)(c) of the Education Law requires BOCES to prepare long-range program plans to meet the projected need of services in its supervisory district for the next five years. In determining what should be included in a long-range program plan, the audit relied on Section 155.1(a) of the Regulations which provides guidance to school districts on comprehensive long-range plans. It states:

Each school district shall develop and keep on file a comprehensive long-range plan pertaining to educational facilities. Such plan shall be reevaluated and made current at least annually, and shall include appraisal of the following: the educational philosophy of the district, with resulting administrative organization and program requirements; present and projected pupil enrollment; space use and State-rated pupil capacity of existing facilities; priority of need of maintenance, repair or modernization of existing facilities, including consideration of the obsolescence and retirement of certain facilities; and the provision of additional facilities.

Although Section 155.1 does not apply specifically to BOCES, the audit believes it can be used as a reference to what BOCES could add to their long-range program plan.

During the audit year, TST BOCES did not have a long-range facilities plan. TST BOCES established a five-year Maintenance Long-Range Plan updated yearly which pertains only to Operations and Maintenance. Included in this plan is the maintenance of equipment and grounds. The other items in Section 155.1 are not addressed.

Without a comprehensive long-range plan in effect, TST BOCES might not have the necessary information available to develop an appropriate budget for its facilities and meet the future needs of the students.

TST BOCES officials state they will develop a long-range program plan consistent with Section 1950(4)(c) of the Education Law.

Payments for Personal Mileage

According to the Office of the State Comptroller Payroll Bulletin P-925, dated December 5, 1996, to determine the value of personal use of employer provided vehicles a rate of 31 cents per mile is used. There is a 5.5 cents per mile difference in the mileage rates when gasoline is supplied or reimbursed by the employer. If an organization supplies or reimburses for gasoline and pays the employee the higher rate, the difference of the 5.5 cents per mile should be reported on an employee's W-2 as taxable income and as part of their reported salary on the SA-111.

Per IRS Publication 463, "Commuting expenses. You cannot deduct the costs ... driving a car between your home and your main or regular place of work." Conversely, an employer should not pay for an employee's commuting mileage. To do so would result in taxable income and reportable salary.

TST BOCES reimburses the District Superintendent (DS) using the maximum standard mileage rate and provides gasoline. TST BOCES did not report the excess 5.5 cents per mile paid July 1996 through April 1997 as taxable income on the DS's W-2 or in the DS's salary on the SA-111. In May 1997, the mileage rate paid to the DS was reduced by 5.5 cents per mile.

According to the Memorandum of Agreement, TST BOCES pays for the DS's personal mileage in addition to any business mileage. Payment for personal miles should be included as taxable income on the employee's W-2 and in the employee's salary reported on the SA-111.

TST BOCES paid the DS a standard mileage rate more than the allowable rate and for personal mileage. Neither was reported on the DS's W-2 or in the DS's salary reported on the SA-111. The payments for the excess rate amounted to \$1,612 and personal mileage costs were estimated at \$1,182 (only commuting mileage was considered in the estimation). There was also an overpayment of \$26 because of a mistake in reporting beginning mileage for one month. The total payments for errors in standard mileage reimbursements were \$2,822, all of which should be reported as income on the DS's W-2 and as salary for the DS on the SA-111.

TST BOCES officials agree that it paid a standard mileage rate to the DS more than the allowable rate and did not include it as

taxable income on the DS's W-2 or in the DS's salary on the SA-111. They also agree that it paid for the DS's personal mileage but did not include these payments as taxable income on the DS's W-2 or in the DS's salary on the SA-111.

TST BOCES officials state that procedures have been implemented to ensure that any payments above the standard mileage rate and for personal mileage will be included as income on employees' W-2s and in the employees' salary on the SA-111.

Unnecessary and Unreasonable Expenses

Education Law, 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."

The Guide, Subsection 8.1025, pages 1 and 2, 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;
and
- 3) the expense was in an amount no greater than necessary.

The audit included testing expenditures charged to the CO-SERs to determine whether the expenses were reasonable and necessary. The audit found TST BOCES paid for goods and services that do not appear to be necessary for carrying out the central administrative duties of the supervising district. These items are listed below.

- Coffee was purchased for employees' use only. Each time an employee takes a cup of coffee, money is put into a container. This money is eventually used to reimburse TST BOCES. (\$4,279)
- Car washes for an employee's personal vehicle.
- A Varsity Club trip. This is an expense of the club, not TST BOCES. (\$1,152)

- Restaurant gift certificates were given to employees as a reward for perfect attendance. (\$1,040)
- Lunches and snacks were provided to TST BOCES employees during meetings.
- A catered Board/Retirement Dinner for 35 people. There were more people in attendance than usual due to the Board President's retirement. (\$538)
- A legislative breakfast for 55 attendees that included legislators, component Board Members, and BOCES Board Members. (\$786)

TST BOCES used public funds for expenses which were not ordinary or necessary for carrying out the duties of the supervisory district.

TST BOCES officials agree with the accuracy of the audit finding but believe some of the items should be considered ordinary and necessary for carrying out the duties of the BOCES. They state that such items will be reviewed to ensure that they are reasonable and necessary.

Personal Expenses of Employees

During the testing of transactions, the audit found five transactions where TST BOCES paid for employees' personal share of cellular and hotel telephone charges. None of the employees reimbursed TST BOCES for their personal calls. Any payments to employees or on behalf of employees for personal expenses are not considered necessary. TST BOCES does not have any policies or procedures regarding personal telephone charges.

The audit believes the reimbursement of personal telephone calls may not be reasonable nor an appropriate use of public funds. The audit notes that State employees are not reimbursed for personal telephone calls while traveling on State business. The per diem provided to State employees is to cover the cost of meals and other incidental expenses.

TST BOCES officials agree that it paid for employees' personal telephone charges and have adopted policies for personal telephone charges while staying at a hotel. They have developed procedures for reimbursement of personal cellular telephone charges.

Use of Temporary Workers

BOCES Administrative Handbook #1, General Guidelines and Procedures for CO-SER Preparation, Criteria Guideline #6320, states that “the use of consultants and/or contracted services to provide direct services to districts is not eligible for BOCES aid.”

Temporary workers were hired for the Library Automation CO-SER as data entry operators to input data as part of the retrospective conversion process at one component district, Newfield Central School. The total cost of these temporary workers was \$10,486. According to the Library Automation Coordinator, one TST BOCES employee was out sick for an extended period, therefore the temporary workers were hired.

TST BOCES incurred costs of \$10,486 on which BOCES aid was paid for temporary workers that are not eligible for BOCES aid.

TST BOCES officials agree that temporary workers were hired to work on the retrospective conversion project in the Library Automation CO-SER. TST BOCES believes that the contracted workers in the Library Automation CO-SER are a BOCES aidable expense. They do not consider the temporary workers hired through a temporary employment service as consultants or contracted services.

Transactions Not Correctly Classified

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

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

Per BOCES Handbook #4, page 33, “BOCES Renovation/Construction Projects – Approval and Budget Process, 1.A.2.a., “Costs for renovation or alterations are to be budgeted in the

capital fund or in the administrative budget and then transferred to the capital fund.”

During the sample testing of transactions, the audit found that TST BOCES incorrectly classified four transactions and incorrectly charged a construction expense to O&M.

TST BOCES officials agree that it did not properly record some transactions and will insure that all appropriate and affected staff receive in-service training to assure proper coding of transactions. They state any future projects will be budgeted appropriately in the capital fund or in the administrative budget as required.

Inadequate Documentation

The Guide for Local Governments (8.1020) states that a claim for payment must include sufficient detail to permit a satisfactory audit by a person who is entirely unfamiliar with the transaction. “Claims submitted by an officer or employee for reimbursement of expenses should indicate the reason for the travel or expense and the authorization for incurring it.”

Good business practice suggests that adequate supporting documentation should specify the exact nature and timing of an expenditure. Documentation that shows the nature and timing of an expenditure includes invoices, itemized bills, itemized receipts, etc. For local meals and meals that exceed the federal maximum rate when traveling on business, the purpose of the meeting and those in attendance should be noted.

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

During the testing of transactions, the audit noted that 35 of the 93 (38%) transactions did not have adequate supporting documentation. Most of the 35 transactions pertained to travel or credit card purchases. Of these 35 transactions, eight did not have proper authorization.

The audit reviewed all of the transactions for TST BOCES' Tompkins County Trust Company credit card. Of the 93 transactions reviewed, 20 were for this credit card. The 20 transactions totaled \$30,042.69. The audit noted that for

\$28,596.84 (95%) of the charges reviewed, documentation was not always complete. The receipt was missing in some instances and in eight cases, there was no signature to indicate that the transaction was proper and approved.

Processing credit card transactions without complete documentation increases the risk that the credit card could be used for unauthorized purposes or excessive charges.

TST BOCES officials agree that all appropriate supporting documentation, such as receipts, should be obtained and that all charges must be authorized, as evidenced by a valid signature. They will review with all departments that all appropriate supporting documentation, such as receipts, are obtained and attached in the future. They will ensure that the authorization for all charges is documented in the future.

Purchase Orders

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

As a part of an effective internal control system, purchase orders are used. A purchase order is a formal notice that authorizes a vendor to furnish supplies or services as described on the form. One benefit of a purchase order system is that it helps ensure that budgetary authority exists before commitments are made. The Guide states that the purpose of the system is to effectively control expenditures and realize the maximum savings of taxpayers' dollars. The Guide also notes that control over a purchasing system involves compliance with required purchasing procedures and attention to necessary paperwork.

Per TST BOCES officials, with a few exceptions, all purchases must be initiated with a purchase order. The current accounting software package used by TST BOCES allowed two program offices (Special Education and Occupational Education) to print and send out their own purchase orders without obtaining approval from the business office in the 1997-98 school year. According to TST BOCES officials, this problem has been corrected for the 1998-99 school year.

The audit found in the audit year, through testing of transactions, that in most cases TST BOCES used claim forms instead of purchase orders. Of the 69 transactions tested requiring a purchase order, 30 (43%) did not have a purchase order.

Purchase orders and claim forms did not always have prior approval. The audit found that, of the 93 transactions reviewed, the signature of the purchasing agent was missing on 14 (15%). The purchasing agent at TST BOCES is also the Business Manager.

TST BOCES has claimed that with the new accounting software package, purchase orders are used all of the time with few exceptions, and that all purchase orders have to be approved on-line by the Business Manager/purchasing agent prior to printing. However, the audit did not verify this.

TST BOCES officials state that the new accounting system (implemented during the 1997-98 school year) will not allow any office other than the Business Office to print and send out purchase orders.

Vehicle Controls

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

According to Internal Revenue Service (IRS) Publication 917: Business Use of a Car, the IRS requires adequate evidence for business and personal use of vehicles. They recommend a diary or log that is maintained at least weekly, and documents the business and personal mileage, including commuting and total mileage during the year. It is also an accepted practice for public organizations to identify their vehicles as official vehicles. This serves as an additional control over unauthorized use.

TST BOCES keeps detailed travel logs for vehicles that transport children, but no travel logs are maintained for vehicles used exclusively by certain TST BOCES employees.

At the end of the year, the staff with personally assigned vehicles submit a form indicating their personal mileage for use by TST BOCES in computing the taxable portion of this usage. TST BOCES relies solely on the employees' accounting of the miles. The vehicles assigned to these individuals are also not marked as TST BOCES property.

Without detailed travel logs for these vehicles, TST BOCES has limited assurance that the correct number of miles are used in calculating the taxable portion of usage. It is TST BOCES' responsibility to ensure that adequate documentation is maintained to meet minimum IRS record keeping requirements.

TST BOCES officials agree that travel logs are not maintained for TST BOCES vehicles that do not transport children, but will be required for all vehicles. They will ensure that all vehicles will be marked as TST BOCES property.

Receipt of Goods

As a part of an effective internal control system, a centralized receiving point and/or department is used to receive goods ordered. The purpose of a centralized receiving point and/or department is to ensure that goods are adequately accounted for, and for independent verification that the goods ordered were the goods received. A copy of the purchase order where item totals and dollar amounts are omitted is used by the receiver of the goods when goods are delivered. The total items received are noted by the receiver. The total items received are then compared to the original purchase order and invoice before payment.

There is no centralized receiving point for goods received. Orders can be sent to two different places though there are no written policies or procedures that specify the location to which items should be shipped. Per TST BOCES, larger items are usually sent to the warehouse in the Operations and Maintenance building and smaller items are sent to the mailroom in the administrative building. There are no written policies or procedures for the receiving function. Without a centralized receiving point there is a chance that the proper accounting of received goods may be affected and payments may be made on goods not received.

TST BOCES officials agree there is no centralized receiving point for goods received. They state that the Board will take this

finding under advisement and consider written policies and/or procedures to insure the proper receipt of goods.

Billing of Components

Per TST BOCES' policy 4200 Billing Component School Districts, dated July 3, 1984, "The participating component schools districts first billing shall be for 10 percent of the initial contract amount and shall be sent during the month of August. Subsequent billing (90%) shall be in the amount of 10 percent each during the months of September through May."

TST BOCES bills the component school districts once a year, the end of May/beginning of June. Per TST BOCES, the components voted on and approved this method of billing but TST BOCES has not updated its policy.

Because of this billing practice, TST BOCES must borrow money throughout the year to cover its expenses. In the 1996-97 school year, TST BOCES incurred \$281,291 in interest on borrowings. This interest contributed to TST BOCES exceeding the 10 percent administrative cap set by the Department by \$134,898. No BOCES aid is paid on the larger of this excess or excess administrative salaries. For the audit year the excess administrative salaries were \$164,939, and thus no BOCES aid was lost due to exceeding the 10 percent administrative cap.

Because of TST BOCES' billing practices in the 1996-97 school year, TST BOCES could have lost BOCES aid on \$134,898 due to interest paid on borrowings. Since TST BOCES is still using this billing method, there is a greater risk that future BOCES aid could be lost if the amount the 10 percent cap is exceeded is greater than the excess administrative salaries.

TST BOCES officials agree that it is not billing the component districts in accordance with its own policy and will need to update its policy regarding billing of component districts to reflect current billing practices.

Board Approval of Payments

Per the Guide, Subsection 8.1025, page 10, "...the board shall audit all claims ... and shall, by resolution, order payment by the treasurer of the amounts allowed...."

The Board does not review and approve claims before checks are cut and sent out. The Internal Auditor (also the Assistant District Superintendent) reviews and signs off on the check warrant that is run every two weeks.

TST BOCES officials agree that the Board does not approve expenditures before checks are cut and sent out, but state that the current schedule of Board meetings does not allow for proper ordering of payment. Bills must be paid as they are received in order to avoid carrying/interest charges. The Board only meets once each month, and has delegated responsibility to the Internal Auditor. All claims are available to Board members at the subsequent meeting for review.

Unsecured Storage of Confidential Information

Good business practice suggests that all measures be taken to adequately secure confidential information to prevent any contingent liabilities that may arise if the confidential information is obtained by unauthorized individuals and used for illegal and/or unauthorized purposes.

TST BOCES stores boxes of old payroll information in its warehouse. This payroll information contains confidential information. This information is not secured in any way. Anyone that has access to the warehouse can obtain confidential information.

By not adequately securing confidential information, TST BOCES exposes itself to contingent liabilities that may arise if the confidential information is obtained by unauthorized individuals and used for illegal and/or unauthorized purposes.

TST BOCES officials agree they are storing confidential payroll information in an unsecured place and are looking into other solutions that will allow for securing this information.

Recommendations

9. Develop, update and/or improve policies for travel, depositing cash receipts, personal phone calls, cellular phones, receipt of goods, overtime, purchasing, cash reimbursements, billing of component school districts, petty cash and credit card use.

10. Compile written procedures into a procedures manual and establish a system of updating obsolete procedures or modifying procedures when changes in procedures are made.
11. Improve general business office controls.
12. Improve the long-range educational program plan.
13. Ensure mileage reimbursement is accurately reflected in wage records.
14. Ensure only reasonable and necessary expenditures are incurred.
15. Ensure transactions are correctly classified and credit card transactions are adequately documented.
16. Ensure CO-SER guidelines are adhered to.
17. Ensure all TST BOCES-owned vehicles are clearly marked and mileage logs are maintained.
18. Ensure the storage of confidential information is secure.

Comments of Tompkins-Seneca-Tioga BOCES Officials

TST BOCES officials generally agree with these recommendations.

Tompkins-Seneca-Tioga BOCES
Contributors to the Report

- Calvin Spring, Audit Manager
- John Cushin, Senior Auditor, (Auditor-in-Charge)
- Louise Costello, Senior Auditor

Tompkins Seneca Tioga BOCES
7/1/96-6/30/97
Calculation of Audited EPE Contact Hours

	As recalculated by TST	Independent Auditor Adjustment	Per Independent Auditors	Audit Adjustment to Independent Auditor Total	Audited
Traditional					
Intake	4,614	(840)	3,774	(2,410.00)	1,364
ESL Intake	2,025	(369)	1,656	(274.00)	1,382
RAP Intake		0		382.00	382
GED/Jail	2,673	240	2,913	(1,647.74)	1,265.26
ABE/GED	20,646	(4,763)	15,883	(4,570.46)	11,312.54
GED/Alpha	12,054	(2,161)	9,893	(211.61)	9,681.39
ESL	86,597	(15,759)	70,838	(13,037.28)	57,800.72
ESL Library	21,882	(3,982)	17,900	(17,156.07)	743.93
Even Start	6,357	(92)	6,265	(936.15)	5,328.85
RAP Counseling	5,327	(746)	4,581	(540.70)	4,040.30
RAP Outreach	572	443	1,015	(639.00)	376.00
RAP Emp Class	343	0	343	(14.50)	328.50
DOORS	2,642	(1,561)	1,081	(880.34)	200.66
Bridging	1,280	(238)	1,042	(811.00)	231.00
Comp/Alpha	4,863	(427)	4,436	(2,786.64)	1,649.36
Life Skills/Alpha	2,286	201	2,487	(1,298.28)	1,188.72
Comp/ALC	5,590	(3,532)	2,058	(102.19)	1,955.81
Life Skills/ALC	773	(166)	607	(315.79)	291.21
WIC/ 1 to 1	540	(98)	442	(304.86)	137.14
Family Rdg.	7,770	(5,304)	2,466	(1,581.89)	884.11
Life Skills	10,651	(1,938)	8,713	(7,748.77)	964.23
Life Skills/Jail	4,489	(672)	3,817	(3,195.74)	621.26
Life Skills/Transit	324	609	933	(403.71)	529.29
Counseling/Jail	669	(144)	525	(525.00)	0.00
Library/Jail	946	(161)	785	(785.00)	0.00
Compu/Jail	1,222	(314)	908	(826.53)	81.47
Career/COU	570	(262)	308	(258.43)	49.57
Counseling	1,269	(461)	808	(708.50)	99.50
Case Management	2,949	(1,705)	1,244	(577.24)	666.76
Job Counseling	8,438	(5,429)	3,009	(2,560.12)	448.88
Subtotal Traditional	<u>220,361</u>	<u>(49,630)</u>	<u>170,731</u>	<u>(66,725.54)</u>	<u>104,004.46</u>

Non-Traditional

Home Study	16,356	696	17,052	(10,655.37)	6,396.63
GRASP	<u>7,852</u>	<u>(1,429)</u>	<u>6,423</u>	<u>1,619.23</u>	<u>8,042.23</u>
Subtotal Non-Trad.	<u>24,208</u>	<u>(732)</u>	<u>23,476</u>	<u>(9,036.14)</u>	<u>14,438.86</u>

Work Experience

RAP	1,920	(840)	1,080	(840.00)	240.00
ESL/Other	624	0	624	(624.00)	0.00
Alpha House	17,765	0	17,765	(9,931.00)	7,834.00
Jail	<u>1,662</u>	<u>0</u>	<u>1,662</u>	<u>(1,373.00)</u>	<u>289.00</u>
Subtotal Work Exp.	<u>21,971</u>	<u>(840)</u>	<u>21,131</u>	<u>(12,768.00)</u>	<u>8,363.00</u>

Adult Occupations

Voc HHA	1,367	61	1,428	12.40	1,440.40
Voc Computers	1,731	54	1,785	(449.20)	1,335.80
Voc Counseling	981	(311)	670	(472.24)	197.76
Voc Trades	6,187	(1,150)	5,037	(764.54)	4,272.46
Voc Intakes	<u>63</u>	<u>(12)</u>	<u>51</u>	<u>105.00</u>	<u>156.00</u>
Subtotal Adult Occ.	<u>10,329</u>	<u>(1,357)</u>	<u>8,972</u>	<u>(1,568.58)</u>	<u>7,402.42</u>

Total	<u>276,869</u>	<u>(52,560)</u>	<u>224,309</u>	<u>(90,098.26)</u> *	<u>134,208.74</u>
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EPE rate \$4.24 /contact hour
Effect of contact hour adjustment \$382,016.62

* additional contact hours disallowed by audit

Tompkins Seneca Tioga BOCES
7/1/96-6/30/97
Calculation of Audited EPE Contact Hours

Reported contact hours	330,773	
Contact hours per independent auditors	224,309	
Initial adjustment to contact hours	<u>106,464</u>	\$451,407.36 \$ Effect of initial adjustment
Additional audit adjustment	<u>90,098.26</u>	
Total audit adjustment to contact hours	196,562.26	
EPE Rate	<u>\$4.24</u>	
EPE revenues to be refunded	\$833,424	
Audited EPE hours as percentage of reported	<u>40.57%</u>	

**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.