
Audit Report

Ulster County
Board of Cooperative Educational Services

For the Period

July 1, 1995 through June 30, 1996

BOC-0997-6

June 30, 2000

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





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

Daniel Tworek, Director
Office of Audit Services
Room 524 EB
Tel. (518) 473-4516
Fax (518) 473-0259
E-mail: dtworek@mail.nysed.gov

June 30, 2000

Mr. Len Cane
Board President
Ulster BOCES
175 Route 32 North
New Paltz, New York 12561

Dear Mr. Cane:

The following is our final audit report (BOC-0997-6) on the Ulster BOCES for the period July 1, 1995 through June 30, 1996. The audit was conducted pursuant to Sections 305 and 1950 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

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

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

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

Sincerely,

Daniel Tworek

Enclosure

cc: Commissioner Mills, R. Cate, G. Illenberg, J. Kadamus, T. Sheldon, S. Spear, B. Stambler, C. Szuberla, C. Foster (DOB), H. Hoffman (OSC), W. LeDoux, District Superintendent of Schools

Executive Summary

Ulster BOCES ranked as the 26th largest BOCES in the State, in terms of total general fund expenditures, for the 1995-96 school year (\$23,836,750).

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

Background and Scope of the Audit

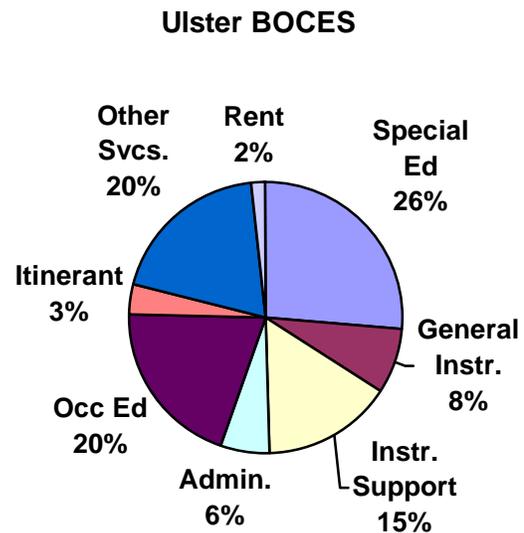
The audit examined management practices, records and documentation related to selected areas of Ulster BOCES operations for the period July 1, 1995 through June 30, 1996.

These areas included Administration, Occupational Education, Special Education, Alternative Education, Computer Administration/Instructional Support, Operations and Maintenance (O&M), and Employment Preparation Education (EPE). This was a financial related audit and the objectives were to: determine if cost allocations and transfers were accurate and reasonable; determine if services comply with Department approved specifications; verify that only reasonable and necessary costs were incurred; verify that the budgetary process provides control over the expenditure of funds; and verify the accuracy and reliability of data reported for EPE Program aid.

Audit Results

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

- The allocation of O&M and Special Education Supervision was not documented.
- The allocation of salaries was not documented for certain personnel in the Mid-Hudson Regional Information Center, the Vo-Tec Center, and the EPE Program.
- Opportunities exist to improve management processes relating to documenting the purpose of staff conference and meal expenses; establishing a travel policy that limits lodging allowances and specifies required supporting documents; improving equipment controls; the accuracy of equipment inventory records; complying with local BOCES requirements for competitive bidding; and improving controls to prevent purchase orders from exceeding approved budget line items.
- Management should better monitor CO-SERs to ensure proper sharing exists and BOCES aid is accurate.
- Adult Education programs were operated without sponsorship agreements and Ulster BOCES did not adequately show how excess revenues were accounted for.



- An Equivalent Attendance program was operated without Department approval and excess operating expenses were charged to the EPE Program.
- EPE Program attendance was not accurately reported for many classes, resulting in an underpayment of EPE aid.

Table of Contents

INTRODUCTION	1
BACKGROUND	1
OBJECTIVES, SCOPE AND METHODOLOGY	2
COMMENTS OF ULSTER BOCES OFFICIALS	3
COST ALLOCATIONS	4
OPERATIONS AND MAINTENANCE ALLOCATIONS WERE NOT PROPERLY DOCUMENTED	4
COST ALLOCATION OF SALARIES IS NOT PROPERLY DOCUMENTED	5
SPECIAL EDUCATION ADMINISTRATIVE ALLOCATIONS WERE NOT PROPERLY DOCUMENTED	6
RECOMMENDATIONS	6
COMMENTS OF ULSTER BOCES OFFICIALS	7
OPPORTUNITIES TO IMPROVE MANAGEMENT PROCESSES	8
LACK OF DOCUMENTATION FOR TRAVEL, CONFERENCE, AND CERTAIN OTHER EXPENSES	8
MEAL EXPENSES DID NOT HAVE A DOCUMENTED EDUCATION PURPOSE	9
THE TRAVEL POLICY SHOULD SET LIMITS ON LODGING EXPENSES AND REQUIRE SUPPORTING DOCUMENTATION	10
EQUIPMENT INVENTORY SYSTEM NEEDS IMPROVEMENT	10
PURCHASES DID NOT COMPLY WITH ULSTER BOCES' POLICIES	12
NO SYSTEM CONTROLS TO PREVENT PURCHASES IN EXCESS OF BUDGET LINES	13
RECOMMENDATIONS	14
COMMENTS OF ULSTER BOCES OFFICIALS	14
COOPERATIVE SERVICES (CO-SERS)	15
CERTAIN CO-SERS WERE NOT ADEQUATELY SHARED	15
PROGRAMS OPERATED WITHOUT SPONSORSHIP AGREEMENTS AND WITHOUT RETURNING SURPLUSES TO PARTICIPATING DISTRICTS	16
EQUIVALENT ATTENDANCE NOT AN APPROVED CO-SER	17
RECOMMENDATIONS	17
COMMENTS OF ULSTER BOCES OFFICIALS	17
EMPLOYMENT PREPARATION EDUCATION PROGRAM	18
ERRORS IN REPORTED CONTACT HOURS RESULTED IN UNDERSTATED EPE REVENUE	18
RECOMMENDATIONS	19
COMMENTS OF ULSTER BOCES OFFICIALS	19

Appendix A - Contributors to the Report

Appendix B – Comments of Ulster BOCES Officials

Appendix C – Audit Review Proceedings

Introduction

Background

Boards of Cooperative Educational Services (BOCES) are voluntary, cooperative associations of school districts that have joined to provide educational programs or services more economically than each could offer by itself and are authorized by 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 school, staff development, computer services, educational communications and cooperative purchasing. Today there are 38 BOCES in New York State and all but 13 of the 705 school districts in the State are members.

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

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

Ulster BOCES, headquartered in New Paltz, New York, serves 9 component districts which enroll more than 25,900 students. During the 1995-96 school year, Ulster BOCES was ranked 26th in the State with \$23,836,750 in general fund expenditures.

Ulster BOCES' services include vocational/technical education and adult services, special/alternative education, instructional services, and management services. Ulster BOCES is also the site of the Mid-Hudson Regional Information Center (MHRIC), which is one of twelve computer centers in the State. The MHRIC offers student and financial services, instructional

technology, office automation, and records management to the school districts in Orange, Sullivan, Ulster and Dutchess counties.

Objectives, Scope and Methodology

Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to select operations of the Ulster BOCES for the period July 1, 1995 through June 30, 1996. This was a financial related audit and the objectives were to:

- determine if cost allocations and transfers between funds and among CO-SERs were accurate and reasonable;
- determine if services (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 Ulster BOCES management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the Ulster 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 objectives.

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 Ulster BOCES Officials

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

Cost Allocations

Education Law, Section 1950(4)(f), requires that the net cost of operating a BOCES service be allocated among participating districts. The Uniform System of Accounts for Boards of Cooperative Educational Services, issued by the Office of the State Comptroller, facilitates such allocations by requiring a separate accounting of revenues and expenditures for each service program. Expenditures should be charged directly to the pertinent service program involved and expenditures related to more than one service program should be prorated accordingly. Interservice program transfers are used to record charges in other service programs. In order to ensure that components pay only for services received, allocations should be reasonable, accurate and adequately supported.

The audit determined that Ulster BOCES did not properly document the allocation of Operations and Maintenance (O&M), certain personal service expenditures, and Special Education Administration. As a result, there is no assurance that reported expenditures and tuition charges accurately reflected the cost of services.

Operations and Maintenance Allocations Were Not Properly Documented

The Office of the State Comptroller's Financial Management Guide (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 areas that benefit from such activities. Generally Accepted Accounting Principals allow any method that produces an equitable cost distribution and is adequately documented. 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.

Ulster BOCES expended \$2,044,575 on O&M services during the 1995-96 school year. Ulster BOCES accumulated O&M costs in CO-SER 701 and then allocated the costs to programs based upon a certain percentage. However, backup for the percentages identifying the rationale for their use was unavailable. It was unclear whether the percentages were based on such factors as square footage, full-time equivalents, or total expenditures.

Since the basis for allocation was unavailable, the audit used square footage to analyze the allocation for reasonableness. The percentage of total square footage was compared to the percent of O&M allocated to the program areas. The audit found several differences. For example, the Special Education/Alternative Education Program occupies 46 percent of the total square footage, but was allocated 22 percent of O&M expenditures. The Instructional Support and Computer Center occupies 12 percent of total space, but was allocated 33 percent of O&M. If square footage was used, the Special Education/Alternative Education Program would have received \$497,810 more in O&M allocations and the Instructional Support and Computer Center would have been charged \$451,000 less. Square footage may not be the best method to allocate certain O&M expenditures; however, an explanation of the basis for their allocations was unavailable.

The lack of documentation makes it difficult to determine whether O&M expenditures were allocated reasonably. The integrity of the Ulster BOCES billing process is based on accurate allocations of indirect costs. Documentation should be available to support the basis for the method used.

Cost Allocation of Salaries is Not Properly Documented

Ulster BOCES had several employees whose salaries were charged to various CO-SERs. The audit selected a sample of ten employees who were allocated to different CO-SERs. The total salaries sampled were \$442,577. There was no documentation to support the basis for the allocation of the ten positions. Many of the allocations appear to be based on a predetermined budgeted amount.

For the individuals in the MHRIC, Ulster BOCES stated that allocations were based on the time devoted to a particular CO-SER, yet there was no supporting documentation for the amount allocated. The time charged to CO-SERs 504, 505, 506, 605, and 620 varied from 5 percent to 75 percent among the three MHRIC personnel in the sample. Charges ranged from 25 to 75 percent in CO-SER 605 and 5 to 30 percent in CO-SER 505. Nothing exists to assess the reasonableness of the allocations.

The Director of the Vo-Tec Center (CO-SER 101) and Adult Education Programs' (CO-SERs 103 and 106) salary was allocated based on the budget for the CO-SERs except that no time was charged to the EPE Program. The salary was charged 70 percent to CO-SER 101 and 30 percent to CO-SERs 103 and

106. Again, no time records exist to support the allocations and no other documented basis was provided.

In addition to the sample of ten employees, the audit also determined that teachers' salaries were allocated to the EPE Program even though classes had both EPE and Alternative Education (AE) students. The audit determined that Ulster BOCES charged 95.7 percent (\$38,574) of a Practical Nursing teacher's salary to EPE, but could not provide the audit with attendance documentation to show what percentage of the class was EPE versus AE. Therefore, there was no way to determine if the allocation was reasonable.

The lack of documented salary allocation calculations makes it difficult to determine whether funds are charged appropriately. The areas affected are computer services, as well as the cost of the Occupational, Adult and EPE Programs. Ulster BOCES should develop a methodology to allocate time and maintain supporting documentation. Examples of such methodologies include recording the time spent working on individual CO-SERs, developing time studies, or allocating based on the amount of CO-SER expenses.

Ulster BOCES officials stated that the current documentation of cost allocations is sufficient for their purpose.

Special Education Administrative Allocations Were Not Properly Documented

Ulster BOCES allocated \$2,549,993 in Special Education (SE) Supervision costs to the Special Education, Alternative Learning Program, and Itinerant Education programs. Ulster BOCES accumulates SE Supervision costs in CO-SER 702 and then allocates these costs to the appropriate CO-SERs. However, there was no supporting documentation for this allocation.

Due to a lack of documentation, it is difficult to determine whether SE Supervision expenditures were allocated reasonably.

Recommendations

1. Document the basis for allocating O&M costs to other CO-SERs using factors such as square footage.
2. Document the basis for allocating SE Supervision costs to Special Education CO-SERs.

3. Document the basis for allocating salaries for personnel with responsibilities for several CO-SERs

Comments of Ulster BOCES Officials

Ulster BOCES officials agree with these recommendations.

Opportunities to Improve Management Processes

Management is responsible for establishing effective management processes or controls. Management controls include establishing the goals and objectives of the organization and the methods and procedures to ensure that the goals are met. These procedures include areas such 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 identified several opportunities for improvement. These areas include documenting the purpose of conference, travel, and meal expenses; improving the travel policy; updating the equipment inventory system; ensuring compliance with purchasing policies; and improving the system to restrict purchases from exceeding budget limits.

Lack of Documentation for Travel, Conference, and Certain Other Expenses

The Guide, Section 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."

Documentation of the purpose for several conferences and the related travel expenses was not available. In addition, the documentation supporting certain other expenditures lacked information to clearly indicate the purpose.

The audit tested 15 transactions, valued at \$16,288, related to conferences and the related travel of which 10 transactions, totaling \$8,573, lacked complete documentation to indicate the purpose of the expenditure. Documentation provided did not always indicate the purpose of the conference or seminar, attendees or the dates.

In general, conference documentation is limited to the name of the conference. No documentation was submitted from the conference to verify attendance. In addition to conference travel, the following expenditure was not completely documented to

enable a determination of the reasonableness and need without clarification from Ulster BOCES officials.

- Ulster BOCES had a credit card expense of \$200 for dinner at the Mid-Winter Conference. Four people, including the District Superintendent attended. The names of the other three individuals were provided, but they were not employees or board members.

Ulster BOCES is not complying with the Guide, Section 8.1020. The documentation provided for certain expenditures was not adequate to clearly indicate its purpose. The auditors could not determine whether certain expenditures were appropriate, reasonable and necessary without clarification from Ulster BOCES officials.

Meal Expenses Did Not Have a Documented Education Purpose

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) an 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 Guide further states that “the cost of meals while performing the usual duties of the office or position is generally a personal expense, rather than an actual and necessary expense incurred in the performance of official duties. The cost of meals for guests may not be paid for except in certain circumstances. If it is determined that a lunch or dinner meeting with guests will promote a valid local government purpose, such as a business luncheon with other government officials or community leaders for discussion or negotiation of a matter properly before the board for action, then the costs of the meals may be paid for. The claim for reimbursement should state the names of the guests and the topics discussed. The board must carefully assess the appropriateness of any given expenditure of this nature to be sure that it is not frivolous and there should be a reasoned determination that the meeting will promote a valid local government purpose.”

The audit noted three instances where there was no documentation to support the necessity of the expenditures. These items are:

- \$9,766 to Main Course for a catered lunch for 90 people, charged to CO-SER 509.
- \$6,305 to Cookies Café Catering for the Superintendent's Day breakfast for staff, charged to CO-SER 702.
- \$5,730 to Chez Joey's for 110 lunches, charged to CO-SER 509.

CO-SER 509 is Staff Development, Certified and Other Staff, and CO-SER 702 is SE Supervision. For CO-SER 509, Ulster BOCES did not indicate if the meals were for staff, CO-SER participants, or both. Criteria guideline 6261, which governs CO-SER 509, specifically prohibits the payment of aid for participants' meals. There is no Ulster BOCES policy that addresses meals for staff.

Travel Policy Should Set Limits on Lodging Expenses and Require Supporting Documentation

A component of an effective internal control structure is “control procedures,” which are established policies and procedures. Good internal control includes written policies and procedures. Written policies that define what are acceptable levels of reimbursement provide awareness to school officials and employees on what constitutes reasonable and necessary travel expenses. Such policies also help define what limits apply to various kinds of expenses which also helps control costs. In addition, they provide some assurance over compliance with tax laws.

Although Ulster BOCES has established reimbursement rates for meal and mileage during their Reorganizational Meeting (7/6/95), they do not have a written policy that specifically addresses travel and conference expenditures. There is no policy which sets a limit on lodging allowances or establishes documentation requirements for travel voucher reimbursement.

Written policies that define what are acceptable levels of reimbursement provide awareness to school officials and employees on what constitutes reasonable and necessary travel expenses. They help define what limits apply to various kinds of expenses which also helps control costs. Finally, they provide some assurance over compliance with tax laws.

Equipment Inventory System Needs Improvement

Education Law, Section 1950 (18), requires BOCES to develop and adopt a formal policy on personal property accountability,

including the acquisition, sale and disposal of personal property. Ulster BOCES' Board Policy #6900 states "the Chief Fiscal Officer shall develop in writing basic rules and regulations to be followed in maintaining the BOCES personal property records. Procedures employed shall comply with all applicable laws and requirements of the New York State Department of Audit and Control, which are issued pursuant to Section 36 of the General Municipal Law."

Policy #6900 states that the inventory record shall contain sufficient information to identify each item classified as personal property and include the following: the description, class, year of acquisition, historical cost (the cost at acquisition), and the source of financing or acquisition of the personal property. If the cost of the property is unknown or a gift, the value is estimated. Policy #6900 also states that a physical inventory shall mean determining the actual existence and condition of real and personal property in the records by visually examining the property in question. For personal property with a resale value of more than \$500, a physical inventory shall be conducted at least annually. For all other property, a physical inventory shall be conducted at least once every two years.

During the 1995-96 fiscal year, Ulster BOCES acquired \$1,324,697 in equipment. However, Ulster BOCES did not have a unified complete equipment inventory system in place and did not perform any physical inventory of equipment. Ulster BOCES' Computer Center maintained a current inventory of its own equipment, as well as computers housed in the districts. However, the rest of the equipment was maintained on a separate system, which had not been updated since 1995. Ulster BOCES has since hired an outside firm to perform a physical inventory and create a computerized inventory system which was completed in 1998.

The audit selected a computer purchase of \$118,936 by the Onteora School District (District) and attempted to physically verify 73 central processing units (CPUs). The audit found that Ulster BOCES' Computer Center inventory records did not always show the current location of the computers. However, the District maintained a listing of computers, serial numbers and room locations. The audit was able to verify 58 of the 73 CPUs to this listing. The 15 units that could not be traced to the District's records were valued at \$24,439, or 21 percent of the sample. The District does not provide Ulster BOCES with updated room locations of computers.

Ulster BOCES' inventory records did not include the purchase order number or the acquisition cost. Instead, the equipment was

recorded at "sound" value, which estimates the market value of the item. Without the purchase order number, it is difficult to locate the serial number of the equipment. Ulster BOCES could only estimate which items matched up with the purchase order. Ulster BOCES' CPA's financial statements noted there were no disposals of fixed assets in 1994-95 and 1995-96. In addition, Ulster BOCES informed the audit that donated assets were not included in the inventory records.

Ulster BOCES needs to improve accountability over assets located in component districts. Without an accurate inventory, there is no assurance that equipment is properly controlled. Unless Ulster BOCES' physical inventories include the component districts, the inventory record will not be a reliable control document.

Ulster BOCES is not accurately reporting equipment on the financial statements' General Fixed Asset Account Group because asset disposals have not been recognized and assets are not recorded at historical cost. In addition, donated assets are not being added to the inventory records.

Purchases Did Not Comply with Ulster BOCES' Policies

The Department's School Business Management Handbook on Purchasing suggests the purchase order system follow specific steps from requisitioning the goods or services to approval of the claim for payment. It also suggests that by following the process, certain internal controls are inherent to ensure:

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

Ulster BOCES has internal bidding thresholds. For the purchase of commodities, equipment, or goods, the following apply:

\$ 1 - 3,000	At the discretion of the Purchasing Department.
\$3,001 - 5,000	Documented telephone quotes from at least three separate vendors (if available), or a Request for Proposal at the discretion of the Purchasing Agent.
\$5,001 - 9,999	Formal written quotes from at least three separate vendors (if available) are required.
\$10,000 +	Sealed bids in conformance with Municipal Law, Section 103.

A sample of purchases revealed two instances where purchases were not properly bid or no sole source justification was on file.

Ulster BOCES purchased printing services for the Fall semester brochure (\$6,739) and the Winter/Spring tabloid (\$5,815). No formal written quotes were obtained. There was no documentation provided to explain why there were no quotes, nor was there any sole source justification.

Ulster BOCES may not have complied with State bidding requirements and did not comply with their own purchasing policy. As a result, Ulster BOCES may not have purchased these goods and services in a prudent and economical manner.

No System Controls to Prevent Purchases in Excess of Budget Lines

According to The Uniform System of Accounts for BOCES, 1988 edition, page 5, issued by the Office of the State Comptroller, "if a proposed purchase exceeds the appropriation available, the encumbrance cannot be entered and must be returned without approval." In addition, the Guide states that "budgetary control requires that appropriations be available prior to incurring an obligation."

Good internal controls require the preparation of a budget to serve as an operating plan which, besides forming the basis for policy decisions, provides a framework for operations and a method of controlling expenditures. A system that tracks the amount appropriated, the amount encumbered, year-to-date expenditures and the unencumbered balance is essential to guard against the creation of liabilities in excess of appropriations approved by the Board. Budgets prepared on a line item basis enable an entity to track and monitor the cost of operations.

The audit determined that it was Ulster BOCES' policy to approve purchase orders even if there were insufficient funds in the budget line item to cover the expense. The budget would be adjusted later to cover the expense. Ulster BOCES changed their policy, effective January 2, 1998, by prohibiting purchases from accounts with a negative balance. Balances would have to be transferred before the purchase was submitted or the purchase would be rejected.

There is a risk that purchase orders could be processed without sufficient funds to cover them. In the past, the purchase was approved because funds would be transferred later. Now the funds must be sufficient before the purchase is made. One

weakness that remains is that the accounting software will still allow purchases to be processed when insufficient funds are available. The prevention is dependent upon a manual review of the availability of funds. Controls would be improved if the purchase order was rejected by the accounting software in instances of insufficient funds.

Recommendations

4. Document the educational purpose of all expenditures before the purchase is approved and payment is made.
5. Document the purpose of all travel and conference expenditures before approval is made and verify attendance to the conference before the employee is reimbursed.
6. Amend the travel policy to establish limits on lodging, similar to meals, and define the documentation required for each type of expense.
7. Conduct an annual physical inventory of equipment, especially equipment placed in the districts.
8. Include donated equipment in the inventory record, as well as the acquisition cost for all equipment.
9. Remove disposals from the inventory record and fixed assets group.
10. Comply with Ulster BOCES' bidding policies to ensure goods are purchased at the best possible price.
11. Improve the computer system to prevent purchases from exceeding established line item budgets.

Comments of Ulster BOCES Officials

Ulster BOCES officials agree with these recommendations.

Cooperative Services (CO-SERs)

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

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

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

The audit determined that Ulster BOCES had several CO-SERs that were not adequately shared, accumulated surpluses from the Adult Education Program without having sponsorship agreements with participating districts, and operated a CO-SER for Equivalent Attendance without Department approval.

Certain CO-SERs Were Not Adequately Shared

According to Education Law, Section 1950 (4)(bb)(2), BOCES may provide academic and other programs and services in the school year on a cooperative basis. A stipulation for Commissioner approval requires that programs and services be requested by two or more component school districts.

The Department's BOCES Administrative Handbook #1, General Guidelines and Procedures for CO-SER Preparation (Handbook #1) states that, if a district receives more than 60

percent of a service and it is determined that the district or BOCES has taken actions which inhibits sharing, or if the district's share exceeds 80 percent, an adjustment to BOCES aid will occur.

Ulster BOCES operated two CO-SERs that were not adequately shared with other districts. CO-SER 616 Records Management revenue was \$18,009 of which \$12,567, or 70 percent, was from the Onteora School District. The CO-SER was used to pay for the salary of an individual not covered by a grant. CO-SER 503 Coordination, Other (Central) revenue was \$87,062 of which \$66,092, or 76 percent, was from the Saugerties School District. Ulster BOCES officials said they were not aware that the percent exceeded 60 percent and said they would restrict BOCES aid for the amount above 60 percent.

Ulster BOCES lacks an internal process to assess the extent of sharing prior to completion of the BOCES Report SA-112 Breakdown of Unapproved Services.

Ulster BOCES is not effectively sharing services with its component districts. The issue is whether the services should be offered in the first place, or whether the amount of BOCES aid to the districts should be reduced. Clearly, BOCES aid should be restricted above the 60 percent level to Onteora and Saugerties.

Programs Operated Without Sponsorship Agreements and Without Returning Surpluses to Participating Districts

According to Handbook #1, a sponsorship agreement must be submitted for each adult occupational education CO-SER that is supported totally by tuition to individuals. The Sponsorship Agreement states that, should the operation of the program result in a surplus, such surplus will be paid by BOCES to the district promptly after the audit of the school year's records. Districts would also be responsible for deficits caused by unforeseen liabilities.

Ulster BOCES did not have Sponsorship Agreements. The Adult Education Program CO-SER 102 generated a surplus of \$277,400 during the 1995-96 year that was not refunded to the districts. Ulster BOCES officials indicated that the computer courses generate surpluses that are used to cover the deficits of other adult education classes.

Ulster BOCES may be using the adult education surplus to pay for non-adult education programs instead of returning the surplus

to participating districts or lowering adult education tuition charges.

Equivalent Attendance Not an Approved CO-SER

Handbook #1 establishes general procedures for BOCES services. Any BOCES service is governed by a criteria-guideline which has been established by the Bureau of School District Organization.

The criteria guidelines for Equivalent Attendance Education (EA), activity code 5916, allow the BOCES to offer: 1) alternative high school equivalency preparation programs for in-school youth 16-20 years of age; and 2) high school equivalency programs for out-of-school youth 18-20 years of age to prepare for the General Education Development (GED) examination.

Expenses for students in GED programs are eligible for BOCES aid if claimed through an approved EA CO-SER. If BOCES aid is not claimed, the district can report the contact hours to the Department and receive additional general operating aid. Ulster BOCES provided 13,035 contact hours of instruction to EA students without a Department approved CO-SER.

Recommendations

12. Establish a procedure to determine which CO-SERs are not properly shared and do not report the expenditures for BOCES aid.
13. Return the Adult Education surplus to component districts or lower future tuition rates for participants.
14. Prepare sponsorship agreements with districts that participate in the Adult Education Program.
15. Request permission to operate an EA CO-SER or discontinue providing this service to components.

Comments of Ulster BOCES Officials

Ulster BOCES officials agree with these recommendations.

Employment Preparation Education Program

Ulster BOCES operates an Employment Preparation Education (EPE) Program. This categorical aid program targets students 21 years of age or older and is designed to provide instruction that leads to a high school or equivalency diploma. Ulster BOCES received a total of \$470,381 in EPE aid for the period July 1, 1995 through June 30, 1996, based on 137,942 contact hours of instruction.

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

Errors in Reported Contact Hours Resulted in Understated EPE Revenue

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

The audit tested the accuracy of the total reported contact hours for the audit period (137,942) by sampling 29 courses and/or teachers with the highest total number of contact hours claimed for the audit period. These 29 courses reported a total of 118,937 contact hours, or 86 percent of the total reported for the audit period. Based on the supporting documentation provided, the audit was able to verify 116,919 hours resulting in a difference of 2,018 hours (1.7 percent).

Subsequent to reporting this finding, Ulster BOCES reviewed all EPE attendance records and determined that there were many unreported contact hours that were greater than the original overstatement. In total, Ulster BOCES reported an additional 433 contact hours. The audit requested attendance rosters from a sample of the additional hours and found that the hours were adequately documented. Instead of an overstatement of 2,018 hours, there was an understatement of 433 contact hours or

\$1,477 (\$3.41 x 433). Even though the net difference was an understatement, Ulster BOCES reported revised contact hours for 47 of 71 classes. Sixteen of these classes had differences of 50 contact hours or more. As a result, Ulster BOCES needs to improve procedures to ensure there are fewer discrepancies in the future.

Recommendations

16. Improve procedures to ensure that reported contact hours are properly supported by attendance records.
17. Ensure that future EPE claims are reported accurately by properly tabulating the contact hours reported to the Department.

Comments of Ulster BOCES Officials

Ulster BOCES officials agree with these recommendations.

Contributors to the Report
Ulster BOCES

- James Conway, Audit Manager
- William Artini, Auditor-in-Charge
- Charles Archibald, Senior Auditor
- Maria Castro, Senior Auditor

**NEW YORK STATE EDUCATION DEPARTMENT
OFFICE OF AUDIT SERVICES
AUDIT REVIEW PROCEEDINGS**

Requests for Audit Review

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from a final audit report issued by the Office of Audit Services.

An organization requesting an audit review must make a written application to the Associate Commissioner for Planning and Policy Development, New York State Education Department, Room 128 EB, Albany, New York 12234 within 30 days of receiving the final audit report. An organization may request a review of an audit whenever the final audit report directs the recovery of funds from the organization and one or more of the following conditions is met:

- Recovery of funds would cause immediate and severe financial hardship to the organization, thereby affecting the well-being of program participants;
- The organization's violation was caused by erroneous written guidance from the State Education Department;
- The State Education Department failed to provide timely guidance on the matter or condition when the organization had previously requested such guidance in writing; and/or
- The report contains errors of fact or misinterpretation of laws, statutes, policies or guidelines.

Organizations requesting an audit review must submit a written application describing how one or more of the above conditions have been met. This application must include all evidence and information the organization believes are pertinent to support its position.

An audit report which recommends improvements in internal controls of administrative or financial systems, but has no material financial impact on the organization, will not be considered for an audit review proceeding.