Audit Report

Washington-Saratoga-Warren-Hamilton-Essex
Board of Cooperative Educational Services

for the Period

July 1, 2001 through June 30, 2002

BOC-1102-2

April 21, 2004

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

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April 21, 2004

Mr. Gary L. Shumway
Board President
Washington-Saratoga-Warren-Hamilton-Essex BOCES
10 Lacrosse Street
Hudson Falls, New York 12839-1415

Dear Mr. Shumway:

The following is our final audit report (BOC-1102-2) of the Washington-Saratoga-Warren-Hamilton-Essex Board of Cooperative Educational Services (BOCES) for the period July 1, 2001 through June 30, 2002. The audit was conducted pursuant to Sections 305 and 1950 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

Ninety days from the issuance of this report, BOCES officials will be asked to submit a report on actions taken as a result of this audit. I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

Michael Abbott, CPA

Enclosure
cc: Commissioner Mills, T. Savo, J. Kadamus, B. Porter, T. Sheldon, J. Canaday, J. Stevens, C. Szuberla, C. Foster (DOB), W. Campbell (OSC), Dr. John L. Stoothoff, District Superintendent

Executive Summary

Background and Scope of the Audit

Washington-Saratoga-Warren-Hamilton-Essex BOCES (WSWHE BOCES) is headquartered in Hudson Falls, New York and serves 31 component districts that have enrollments of more than 46,000 students. WSWHE BOCES had general fund expenditures of $45.5 million and was ranked the 16th largest BOCES in the State in terms of total general fund expenditures for the 2001-02 school year.

The audit focused on management controls and reviewed practices, records, and documentation for the period July 1, 2001 through June 30, 2002. The objectives of the audit were to: assess the adequacy of the WSWHE BOCES system of management controls; assess the adequacy and reliability of the policies and procedures for collecting and reporting data for the Report Card, Chapter 602 Report, and State aid for the Employment Preparation Education Program (EPE); and follow up on findings and recommendations from our previous audit.

Audit Results

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

- Adequate documentation was maintained to support the data submitted to the Department for the BOCES Report Card and the Financial and Statistical Outcomes of the Boards of Cooperative Educational Services Report (Chapter 602 Report) (page 4).
- Systems and processes to track and claim EPE contact hours were generally adequate, but improvements could be made in documenting contact hours and program approvals (pages 5-7).
- Opportunities exist for improving management processes pertaining to the reporting of financial data, monthly bank reconciliations, extraclassroom activity funds, and continuing education courses (pages 8-10).
- The recommendations in our prior report were implemented (pages 11-13).

Comments of WSWHE BOCES Officials

WSWHE BOCES officials' comments about the findings were considered in preparing this report and are included as Appendix B. WSWHE BOCES officials generally agree with the recommendations and plan on implementing the recommendations as soon as possible.

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Introduction

Background

The mission of the Washington-Saratoga-Warren-Hamilton-Essex Board of Cooperative Educational Services (WSWHE BOCES) is to provide cost-effective shared educational programs and services that complement component school districts in strengthening the quality of living and learning in their communities. WSWHE BOCES is headquartered in Hudson Falls, New York and serves 31 component districts that have enrollments of more than 46,000 students. WSWHE BOCES had general fund expenditures of $45.5 million and was ranked the 16th largest BOCES in the State in terms of total general fund expenditures for the 2001-02 school year.

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

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

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

- The Report Card is available online at http://www.emsc.nysed.gov/repcrd2003/BOCES/home.html

- The Chapter 602 Report is available online at

http://www.emsc.nysed.gov/mgtserv/602%20Report/2003_00-01_01-02_eighth/3_Introduction.htm

Objectives, Scope, and Methodology

The audit examined selected management practices, records, and documentation for the period July 1, 2001 through June 30, 2002. The audit also followed up on the status of prior recommendations made in audit report number BOC–0797–1. The objectives of the audit were to:

- Assess the adequacy of WSWHE BOCES' system of management controls,
- Assess the adequacy and reliability of the policies and procedures for collecting and reporting data for the Report Card, Chapter 602 Report, and State aid for the Employment Preparation Education (EPE) Program, and
- Follow up on findings and recommendations from our previous audit.

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

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 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.

Audit Results

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

- Adequate documentation was maintained to support the data submitted to the Department for the Report Card and the Chapter 602 Report.
- Systems and processes to track and claim EPE contact hours were generally adequate, but improvements could be made in documenting contact hours and program approvals.
- Opportunities exist for improving management processes pertaining to the reporting of financial data, monthly bank reconciliations, extraclassroom activity funds, and continuing education courses.
- The recommendations in our prior report were implemented.

Comments of WSWHE BOCES Officials

WSWHE BOCES officials' comments about the findings were considered in preparing this report and are included as Appendix B. WSWHE BOCES officials generally agree with the recommendations and plan on implementing the recommendations as soon as possible.

The Report Card and The Chapter 602 Report

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

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

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

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

Employment Preparation Education Program

BOCES are eligible to receive aid for EPE programs that provide instruction leading to a high school or equivalency diploma for students 21 years of age or older. The Department provides EPE aid based on the number of contact hours provided to eligible students and the aid is limited to the lesser of program expenditures or the amount calculated using contact hours reported. The aid must be spent on allowable expenses for EPE-related services.

WSWHE BOCES received $119,234 in EPE aid for the 2001-02 school year, based on reported contact hours. WSWHE BOCES generally had adequate systems and processes to claim, track, document, and report contact hours properly. However, the audit found several improvement opportunities related to documentation and program approval.

Contact Hour Documentation

BOCES generate EPE aid by reporting contact hours and student enrollment to the Department. The Regulations of the Commissioner of Education (Regulations) define a contact hour for EPE as 60 minutes of instruction given by a teacher in approved program component areas. The Department requires the number of reported contact hours to be clearly documented to ensure that EPE revenues paid to the BOCES are appropriate.

The reported contact hours should be supported by summary records and classroom attendance rosters or student logs. The audit noted some exceptions as follows:

- The total number of contact hours reported to the Department was not adequately supported by detailed EPE reports.
- The reported contact hours for a sample of five students were not adequately supported by the student logs.
- WSWHE BOCES claimed 816 contact hours for those 5 students, but the student logs only supported 804 contact hours.
- WSWHE BOCES claimed 603 contact hours for intake and assessment, but did not have documentation to show the start and end times for each assessment. Rather, three

hours were claimed for certain students, regardless of the actual time.

The discrepancies for the summary report and the sample of five students were not material and no audit adjustment is necessary. In regard to the discrepancy for the intake and assessment contact hours, the Department's Office of Adult Education and Workforce Development recommends that no audit adjustment be made at this time. However, WSWHE BOCES must improve its documentation.

Program Approval Requirements

Section 168.3 of the Regulations requires each BOCES to submit to the Department for approval a comprehensive plan of service application for its EPE program. EPE classes should meet at least 6 but not more than 20 hours per week, unless otherwise approved by the Commissioner of Education. The audit determined WSWHE BOCES operated a computer literacy course that only met on Saturdays for a few hours. As a result, the course did not adhere to the requirement to meet at least six hours a week.

WSWHE BOCES needs a Department waiver to operate a class for less than six hours per week. The audit examined the EPE approval letters and determined that WSWHE BOCES did not have Department approval to operate this course.

The Office of Adult Education and Workforce Development agreed that the course did not meet the six-hour requirement and recommended that the hours be claimed as part of the already approved Adult Basic Education program. Since this program has prior approval, no waiver is needed and no audit adjustment is necessary.

Recommendations

1. Maintain adequate documentation to support the reported number of contact hours.

2. Ensure that the student logs support the reported contact hours.

3. Ensure start and end times are noted for intake and assessment activities.

4. Ensure that the computer literacy course contact hours are claimed properly.

Comments of WSWHE BOCES Officials

WSWHE BOCES officials agree with these recommendations.

Opportunities to Improve Management Processes

BOCES management is responsible for establishing effective management controls. Management controls include the plan of organization and the methods and procedures adopted by management to ensure that its goals are met. The purpose of the controls is to help ensure resources are safeguarded against waste, loss, and misuse; data and reports are accurate and reliable; operations comply with applicable laws, regulations, and policies; and operations are efficient, economical, and effective.

The audit reviewed areas that are significant to the audit objectives and determined that WSWHE BOCES implemented many of the necessary management controls. However, the audit identified opportunities for improvements in controls that relate to reporting of financial data, monthly bank reconciliations, extraclassroom activity funds, and continuing education courses.

Reporting Financial Data

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

The audit reviewed the information reported on the SA-111 and determined that the reported revenue and expenses in the Trust and Agency Fund did not agree with the audited financial statements. The financial statements showed revenue of $12,545 and expenditures of $12,643 while the SA-111 showed revenue of $8,367 and expenditures of $8,285. The audit did not determine the reason for the difference but made WSWHE BOCES and its CPA aware of the discrepancy.

Monthly Bank Reconciliations

Section 1950(4)(j) of the Education Law states that the duties of the clerk and treasurer of BOCES shall be the same as those established for clerks and treasurers of union free school districts. Section 170.2(o) of the Regulations requires the treasurer of the union free school district to provide the board with a monthly report for each fund showing the cash balance on hand at the beginning of the month, receipts by source during the month, total disbursements during the month, the cash balance on hand at the end of the month, and reconciliations with bank statements.

WSWHE BOCES prepared a monthly cash report for the Board; however, the report did not include the bank reconciliations. Therefore, WSWHE BOCES is not in full compliance with the Regulations and the Board has less assurance the reported balances are accurate.

Extraclassroom Activity Funds

Section 172.3(b) of the Regulations requires that records of extraclassroom activity funds' receipts and expenditures be maintained and reports made at least quarterly to the board. The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds, Finance Pamphlet 2 states, "once each month, the central treasurer shall receive and verify his/her bank statements and once each quarter prepare reports for presentation to the faculty auditor and the Board."

The central treasurer for the extraclassroom activity funds does not present the Board with the quarterly report. Therefore, WSWHE BOCES is not in full compliance with the Regulations and the Board is not in a position to review the activities of the extraclassroom activity funds.

Continuing Education Course

Section 3202 of the Education Law states that persons aged 5 and over, but less than 21, who have not received a high school diploma or equivalency are entitled to attend the public schools maintained in the district in which they reside, including BOCES programs in which the board has elected to participate.

Non-compulsory education should not be funded with public funds.

WSWHE BOCES offered continuing education courses at a discount for residents of component districts. The courses were offered under CO-SER 404 which is described as follows, "BOCES operates a program of continuing education including programs for adults." According to a WSWHE BOCES official, students who wish to take a continuing education class receive a discount on tuition if they reside within a participating district of CO-SER 404. In effect, participating districts of the CO-SER 404 pay the difference and are, therefore, paying for non-compulsory education. According to the Department, WSWHE BOCES should not charge districts for any of the cost of non-compulsory education.

Recommendations

5. Ensure that the amounts for Trust and Agency Funds listed on the SA-111 report agree with the audited financial statements.

6. Ensure that the monthly treasurer's report to the Board includes the bank reconciliation.

7. Ensure that reports for the extraclassroom activity funds are presented to the Board on a quarterly basis.

8. Ensure that the expenses for CO-SER 404 are covered by the revenue generated from the fees for the courses.

Comments of WSWHE BOCES Officials

WSWHE BOCES officials agree with these recommendations.

FOLLOW UP - RECOMMENDATION IMPLEMENTATION PLAN

On June 7, 1999, the Office of Audit Services issued a final report on management practices, records, and documentation related to select areas of WSWHE BOCES. The report contained 14 recommendations to improve operations. WSWHE BOCES submitted a Recommendation Implementation Plan for each recommendation on October 7, 1999. WSWHE BOCES successfully implemented or otherwise satisfied all 14 of the recommendations.

Recommendation 1: Ensure that contact hours are accurately claimed and documented for programs approved by the Department.

Implementation Action: The BOCES revised its student intake and classroom attendance procedures. In addition, the BOCES purchased new software to track and report EPE hours.

Implementation Status: Fully implemented.

Recommendation 2: Request a retroactive waiver from the Department to claim fewer than six class hours per week.

Implementation Action: A waiver was requested from the Department, and it was granted.

Implementation Status: Fully implemented.

Recommendation 3: Improve procedures to ensure that only the contact hours of eligible students are claimed for EPE aid.

Implementation Action: The BOCES revised its student intake and classroom attendance procedures. In addition, the BOCES purchased new software to track and report EPE hours.

Implementation Status: Fully implemented.

Recommendation 4: Discontinue the practice of reporting costs of other programs in a non-associated CO-SER. The preschool deficit cannot be included as a cost for school-age students.

Implementation Action: The BOCES Board has made it a requirement that no program be offered that doesn't have at least 11 students and that STAC forms are filed for each. A quarterly report on the program is given to the Board.

Implementation Status: Fully implemented.

Recommendation 5: Ensure all services claimed for BOCES aid represent shared services by two or more districts.

Implementation Action: BOCES does not offer services that are not shared.

Auditors' Comment: The audit verified all services are shared.

Implementation Status: Fully implemented.

Recommendation 6: Ensure there is adequate documentation for all allocations and transfers.

Implementation Action: BOCES Wincap system is helping in this regard. New personnel and procedures are in place to retain budget and expense calculations for allocation purposes.

Auditors' Comment: The audit reviewed the methodologies with WSWHE BOCES and the allocations seem appropriate, i.e., square footage, units of distribution, etc.

Implementation Status: Fully implemented.

Recommendation 7: Improve systems to account for fixed assets.

Implementation Action: BOCES hired an independent appraiser to complete the inventory. A fixed assets account clerk keeps the records up-to-date. All fixed assets inventory are inventoried. The invoices come to the accountant and she assigns coding and inventory tags.

Auditors' Comment: The audit's limited testing of procedures and a small sample of items in the business office indicate this situation was corrected.

Implementation Status: Fully implemented.

Recommendation 8: Comply with purchasing policies and ensure procedures comply with purchasing guidelines.

Implementation Action: Policies were strengthened by reviewing procedures with building principals and directors periodically. The WinCap system was implemented in 1999 and this system cannot be overridden.

Implementation Status: Fully implemented.

Recommendation 9: Ensure proper procedures are followed for encumbering funds.

Implementation Action: BOCES new system, WinCap, will not allow encumbering funds without an appropriation.

Implementation Status: Fully implemented.

Recommendation 10: Ensure there are written policies governing the personal use of office telephones, cell phones, and credit cards.

Implementation Action: The BOCES implemented the policies and they are in effect.

Auditors' Comment: The audit determined the policies were issued.

Implementation Status: Fully implemented.

Recommendation 11: Record sales and user fees as revenue to the proper CO-SER account.

Implementation Action: BOCES implemented this immediately and all staff dealing with these extraclassroom activity sales were notified. The treasurer now reviews the extraclassroom activities periodically and monitors the payment of sales tax to New York State.

Implementation Status: Fully implemented.

Recommendation 12: Ensure the personal use of WSWHE BOCES-owned vehicles is accurately reflected on wage records.

Implementation Action: BOCES has instituted a procedure for the use of mileage logs in all BOCES owned vehicles and is in compliance with IRS wage reporting for personal use.

Auditors' Comment: The audit verified this on a sample basis.

Implementation Status: Fully implemented.

Recommendation 13: Identify WSWHE BOCES-owned vehicles by having its name and/or logo in a conspicuous location on each vehicle.

Implementation Action: BOCES designed and attached decals to their vehicles.

Auditors' Comment: An inspection of WSWHE BOCES' parking lots at three locations noted that decals were present on the vehicles.

Implementation Status: Fully implemented.

Recommendation 14: Discontinue the use of occupational education funds for student extraclassroom activities.

Implementation Action: The BOCES treasurer reviews this area and the staff have been advised of the proper procedures.

Implementation Status: Fully implemented.

Appendix A

Contributors to the Report
Washington-Saratoga-Warren-Hamilton-Essex BOCES

- Calvin Spring, Audit Manager
- Ron Talarico, Auditor-in-Charge
- Stew Hubbard, Senior Auditor

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Terrence A. Blanchfield
Assistant Superintendent
for Administrative Services

April 14, 2004

Michael Abbott, CPA
Director
Office of Audit Services
New York State Education Department
Albany, New York 12234

RE: BOC-1102-2

Dear Mr. Abbott:

This is to confirm receipt of the draft audit report for the period of July 1, 2001 through June 30, 2002 from the State Education Department, Office of Audit Services.

We have had an opportunity to peruse the report at length, make a comparison to the exit conference notes of May 16, 2003 and thereby offer our comments to be included in the final report.

After careful review we agree to all findings mentioned in the draft report and it is our intention to implement the recommendations as soon as possible.

I would also like to take this time to complement the team that visited our BOCES. Ron Talarico auditor-in-charge, and Stew Hubbard senior auditor were very helpful, considerate and professional during their visit in March 2003.

Should there be any additional correspondence needed, please feel free to contact me.

Sincerely,

Terrence A Blanchfield

Terrence A. Blanchfield
Assistant Superintendent
for Administrative Services

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