
Audit Report

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

For the Period

July 1, 1995 through June 30, 1996

BOC-0797-1

June 7, 1999

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
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June 7, 1999

Dr. Gerald J. Carozza
District Superintendent of Schools
Washington-Saratoga-Warren-Hamilton-Essex BOCES
10 LaCrosse Street
Hudson Falls, New York 12839-1415

Dear Dr. Carozza:

The following is our final audit report (BOC-0797-1) on the Washington-Saratoga-Warren-Hamilton-Essex 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
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Executive Summary

Washington-Saratoga-Warren-Hamilton-Essex (WSWHE) BOCES ranked as the 15th largest BOCES in the State, in terms of total general fund expenditures, for the 1995-96 school year.

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

Background and Scope of the Audit

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

These areas included Administration, Operation and Maintenance, Preschool and Summer School, and Employment Preparation Education (EPE) Program. This was a financial related audit and the objectives were to: determine if cost allocations and transfers were accurate and reasonable; determine if services comply with Department approved specifications; verify that only reasonable and necessary costs were incurred; and verify that the budgetary process provides control over the expenditures of funds.

Audit Results

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

- Contact hours totaling 259,302 were claimed for a workplace literacy program that was not eligible for EPE funding (\$1,058,684) (page 5).
- Contact hours totaling 746 were claimed for ineligible students, lunch time was claimed for aid totaling 756 contact hours, and WSWHE BOCES could not document 828 contact hours (\$9,439) (pages 6-8).
- WSWHE BOCES claimed 1,047.5 contact hours for an unapproved work experience program (\$3,981) (page 8).
- The deficit in the preschool program, a State/County funded program, was improperly funded by the General Fund (\$217,513) (pages 10-11).
- Services not shared by two or more districts were provided (page 13).
- Opportunities for improvement of management controls exist in the areas of accounting for fixed assets, allocations and transfers, reporting personal use of vehicles to the IRS, recording of sales and user fees, and policies and procedures (pages 14-25).

WSWHE BOCES

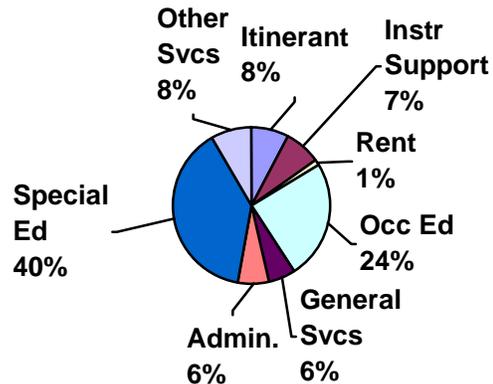


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Introduction

Background

Boards of Cooperative Educational Services (BOCES) are voluntary, cooperative associations of school districts that have joined together to provide educational programs or services more economically than each district could offer by itself. BOCES are organized under Section 1950 of the Education Law. Chapter 474 of the Laws of 1996 amended Section 305 of the Education Law to require the New York State Education Department (Department) to perform fiscal audits of BOCES at least once every three years.

BOCES may provide such services as special education for students with disabilities, occupational education, academic and alternative programs, summer schools, staff development, computer services, educational communications and cooperative purchasing. There are 38 BOCES in New York State and all but 13 of the 705 operating school districts in the State are members.

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

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

Washington-Saratoga-Warren-Hamilton-Essex (WSWHE) BOCES, headquartered in Hudson Falls, New York, was established to be a means for the school districts of Washington, Saratoga, Warren, Hamilton and Essex counties to cooperatively carry out studies, develop specialized facilities and offer shared educational programs and services. Shared programs allow districts to offer opportunities to students and staff that might not otherwise be economically possible. WSWHE BOCES also

provides a statewide service of technical assistance and training on State aid information to local school districts.

WSWHE BOCES serves 31 component districts which enroll more than 46,432 students. WSWHE BOCES ranked as the 15th largest in the State, in terms of total general fund expenditures, for the 1995-96 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 WSWHE BOCES for the period July 1, 1995 through June 30, 1996. This was a financial related audit and the objectives were to:

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

WSWHE BOCES officials generally agreed with the findings and recommendations in this report. Their comments have been included where appropriate. Their response is included as Appendix B to this report. WSWHE BOCES officials state they do not believe the audit scope should have been expanded for the EPE area to include school years 1993-94 and 1994-95.

Employment Preparation Education Program

WSWHE 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.

WSWHE BOCES received a total of \$605,872 in EPE aid for the period July 1, 1995 through June 30, 1996, based on reported contact hours. The audit found that WSWHE BOCES needs to improve its system for identifying, documenting and accumulating certain EPE contact hours.

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 WSWHE BOCES must refund the larger of ineligible revenues or expenditures, but not both. The audit report will be used by the Department to adjust future aid received by WSWHE BOCES.

The audit found that WSWHE BOCES claimed contact hours for a program that is not eligible for EPE aid, included students under 21 years of age, could not document all contact hours, and claimed non-instruction time for contact hours.

ARC Saratoga Program Was Ineligible for EPE Funding

Education Law, Section 3602(24)(b), states that EPE hours shall be the total hours of instruction given to all students in such programs. Part 168.2(a) of the Regulations states that EPE programs may include, but are not limited to, day or evening programs which provide instruction in basic education, life skills, high school equivalency examination preparation, English as a second language, and regular credit-bearing high school courses.

WSWHE BOCES claimed contact hours for a Workplace Literacy Program offered at the Association for Retarded Citizens - Saratoga County Chapter (ARC) from July 1993 through June 1997. The audit determined that WSWHE BOCES claimed contact hours for the time students worked in the ARC's sheltered workshops under the supervision of a job coach employed by the ARC and viewed this as a component of the workplace literacy program. However, these contact hours do not meet the criteria for workplace literacy. In essence, these activities involve students performing paid work for the ARC.

WSWHE BOCES officials indicated that they had approval from the Department to operate a workplace literacy program. The 1995-96 EPE Program comprehensive plan service application states "Work experience programs are appropriate, unpaid, structured and supervised work activities/tasks for a specific period of time in a public/private, profit/not-for-profit setting which enhance and build on the educational plan of the adult learner." However, the written program description for the ARC program did not match the actual service being provided. The audit found several conditions that indicate the services provided at the ARC did not qualify for EPE funding. The most notable conditions are listed below.

- The adult students were paid for their work on a piece-rate basis.
- The job coach is an employee of the ARC and not WSWHE BOCES.
- Lunch breaks are not deducted from contact hours.
- Class schedules were not maintained for the 1995-96 school year.
- Student sign-in sheets are not maintained.
- Permanent student files are the property of the ARC and not WSWHE BOCES.
- The number of students in the workshop (49) exceeds the allowable limit (20) established in Regulations.

The audit determined that the ARC Workplace Literacy Program generated 259,302 ineligible contact hours equating to \$1,058,684 in EPE aid. The following table illustrates these amounts by school year.

Table 1
Ineligible Contact Hours

School Year	Contact Hours	Dollar Value
1993-94	39,822	\$170,405
1994-95	58,436	\$245,340
1995-96	79,540.5	\$302,254
1996-97	81,503.5	\$340,685
Total	259,302.0	\$1,058,684

Source: Office of Audit Services working papers.

WSWHE BOCES has submitted documentation for the one-half hour per day of instruction provided at the ARC for the years 1993-94 through 1996-97 inclusive. For this documentation to be accepted, WSWHE BOCES must request a retroactive waiver from the Department to claim fewer than six class hours a week. If the waiver is granted, the EPE aid adjustment could be reduced by up to \$84,088.

WSWHE BOCES immediately discontinued the Workplace Literacy Program upon learning that it was ineligible for EPE aid.

Documentation of Contact Hours

Section 168.2 of the Regulations defines a contact hour for EPE as 60 minutes of instruction given by a teacher in approved instructional programs. WSWHE BOCES receives EPE aid based on contact hours provided multiplied by a Department approved rate. To ensure that EPE aid paid to the district or BOCES is appropriate, the number of reported contact hours must be clearly documented.

WSWHE BOCES claimed aid for EPE contact hours by submitting a completed State Aid Claim form (SA-160) to the Department. The submission covering the 1995-96 fiscal year indicated 157,777 instructional hours were provided. However, WSWHE BOCES' documentation only accounted for 157,049 hours, a difference of 728 hours. In addition, the audit reviewed a bus driver safety training course and found that 100 hours were not documented. The difference of 828 contact hours was explained by WSWHE BOCES officials to be software/clerical errors.

As a result of the contact hours reported on form SA-160 being overstated by 828 hours, WSWHE BOCES overclaimed EPE aid by \$3,146.

The audit of the EPE Program included testing the reported contact hours. The audit found that WSWHE BOCES' records documenting student attendance in some instances do not support the information on the database used for reporting contact hours. Of the attendance sheets reviewed, the audit found some contact hours totaled more on the attendance sheets and some totaled less.

As a result, WSWHE BOCES overreported contact hours for fiscal year 1995-96 by 254.5 hours and overclaimed \$967 in EPE aid.

Two EPE Programs offered at WSWHE BOCES were the Warren Education for Gainful Employment (EDGE) Program and the Washington EDGE Program. These programs were scheduled from 9 a.m. to 2 p.m. daily, which included a half-hour lunch break. WSWHE BOCES claimed six contact hours for each student per day, including the half-hour lunch break.

The audit determined that between the two programs a total of 756 contact hours were claimed that represented the lunch breaks. WSWHE BOCES officials indicated they thought that, since the students did not leave the building, reporting the half-hour lunch break as an EPE contact hour was appropriate. The 756 contact hours totaled \$2,873 in overclaimed EPE aid.

WSWHE BOCES officials indicated that procedures will clearly specify that lunch breaks are not to be counted for contact hour purposes. WSWHE BOCES officials stated they are developing internal procedures to ensure only EPE contact hours are claimed for EPE purposes, and that adequate documentation of attendance is maintained and stored.

Ineligible Students Claimed

Part 168.2 of the Regulations and Education Law, Section 3602(4)(a), states school districts are eligible to claim aid for the attendance of persons 21 years of age or older who have not received a high school or a high school equivalency diploma who attend EPE Programs.

WSWHE BOCES reported contact hours for students who were 20 years of age at the time the EPE service was provided, but subsequently turned 21 during the 1995-96 fiscal year. WSWHE BOCES' computer program used to track and report eligible

contact hours automatically included all the contact hours an individual may have had in the fiscal year as long as they were 21 years of age at the end of the fiscal period. The program included the contact hours for individuals receiving services prior to their 21st birthday.

WSWHE BOCES claimed 746 contact hours for students under 21 years of age and overclaimed \$2,834 in EPE aid.

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

Contact Hours Claimed for an Unapproved Program

WSWHE BOCES claimed contact hours for the time students spent attending a work experience component developed in conjunction with the Warren and Washington EDGE Programs. The audit determined that WSWHE BOCES did not have approval from the Department to operate a work experience component during the 1995-96 school year. This equated to 270.5 hours in the Washington EDGE Program and 777 hours in the Warren EDGE Program for a total of 1,047.5 contact hours, or \$3,981 in ineligible EPE aid payments.

WSWHE BOCES officials indicated they became aware of this deficiency in the Fall of 1996 and amended their 1996-97 program proposal. They are also preparing procedures to ensure that only approved program contact hours are counted.

Recommendations

1. Ensure that contact hours are accurately claimed and documented for programs approved by the Department.
2. Request a retroactive waiver from the Department to claim fewer than six class hours per week.
3. Improve procedures to ensure that only the contact hours of eligible students are claimed for EPE aid.

Comments of WSWHE BOCES Officials

WSWHE BOCES officials state they believe the audit scope should not have been expanded to the 1993-94 and 1994-95

school years. In addition, the officials state that there were no clear guidelines from the Department prior to October 1995. WSWHE BOCES officials generally concur with the recommendations.

Auditor Note

It has been Department protocol to expand the scope of an EPE audit in those instances where funding was claimed for ineligible programs. The audit criteria that were applied are based in statute and regulations, and not solely on guidelines.

Pre-School and Summer School Programs

Education Law, Section 1950(4)(d), indicates that any component district which does not elect to participate in a specific cooperative service shall not be required to pay any share of the expenditures provided in the budget. This includes salaries of teachers or other personnel employed in providing such services, equipment and supplies for such service, or for the transportation of pupils to and from the place where such service is maintained (excluding administrative expenses).

The audit found that the WSWHE BOCES allocated costs associated with the operation of the preschool and summer school programs to the general fund to subsidize a deficit in the operation of these programs.

For school years 1993-94 and 1994-95, WSWHE BOCES adjusted the general fund surplus (account A431) by \$3,024 and \$1,737 to fund a deficit created during the operation of the school-aged, special education, summer school program during the 1991-92 and 1992-93 school years.

In school year 1994-95, WSWHE BOCES adjusted the balance available for refund in CO-SER 203 (12:1:1 Skills Development) by \$217,513. The \$217,513 was to establish a reserve for a liability created as a result of an audit of the 1989-1990 preschool program and retroactive rate adjustments applied to the 1993-94 preschool tuition rates.

For school year 1995-96, WSWHE BOCES adjusted the balance available for refund in CO-SER 203 (12:1:1 Skills Development) by \$6,629.41 to fund a deficit created during the operation of the school-aged, special education, summer school program during the 1993-94 school year.

As a result of the deficits being charged to CO-SER 203, the component districts are assuming costs associated with the operation of the preschool and summer school programs. These costs would otherwise be paid for by the counties for the preschool program, and by the State for the summer school program.

WSWHE BOCES is reporting the costs (including the adjustments made to the surplus) associated with the operation of CO-SER 203 to the component districts on a per student basis.

This information is used by the school districts to apply for public excess cost aid. If the costs associated with the operation of CO-SER 203 exceed a specific level, the school would also be eligible for high cost aid. Therefore, it is important that only the actual expenses of operating CO-SER 203 be reported.

WSWHE BOCES officials stated that for 1994-95 the preschool and summer school programs operated at a deficit because a number of the costs associated with their operation are items that are out of their control. For example, they do not know what the approved summer school program tuition rate will be until approximately one year after the end of the program when the Department has concluded its expenditure audit. WSWHE BOCES indicated that, if the Department does not approve an expenditure, it has no other option to recover the cost.

WSWHE BOCES officials stated that the 1994-95 amount of \$217,513 is due to a county audit and that the county owes approximately \$179,000 of the amount to WSWHE BOCES and will be paid when the Department approves the audit.

WSWHE BOCES officials indicated the \$6,629 was for a 1:1 teacher aide, but the approved rate was exceeded by that amount. In order to fund the position, the excess was charged to CO-SER 203.

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.

Comments of WSWHE BOCES Officials

WSWHE BOCES officials generally agreed with this recommendation.

Cooperative Services (CO-SERs)

BOCES must obtain the prior approval of the Commissioner before providing any service. The 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 which is new to a given BOCES.

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

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

The audit found WSWHE BOCES provided services that were not shared between at least two districts.

CO-SERs Guidelines for Shared Services

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

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

The audit included an analysis of WSWHE BOCES' Surplus /Refund by CO-SER/Aidgroup Summary report and found three CO-SERs having in excess of 60 percent of the services provided to one district. The following table illustrates the percents found for these CO-SERs.

Table 2
Analysis of CO-SERs

CO-SER	Participating Districts	Total Contract	Percent
313A	Fort Edward	\$23,947.00	100
314A	Cambridge	\$28,245.00	100
414A	Galway	\$7,739.75	100

Source: WSWHE BOCES' Surplus/Refund by CO-SER/Aidgroup Summary Report.

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

Recommendation

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

Comments of WSWHE BOCES Officials

WSWHE BOCES officials concur with this recommendation.

Opportunities to Improve Management Processes

Management is responsible for establishing effective management processes or controls. In its broadest context, management controls include the plan of the organization, methods, and procedures adopted by management to ensure that its goals are met. These processes include such areas as planning, organizing, directing and controlling program operations. They include systems for measuring, reporting and monitoring program performance. The audit reviewed several processes that it determined significant to the audit objectives and found several opportunities for improvements. These areas include allocations and transfers, inventory control, reporting to tax authorities, unnecessary and unreasonable expenses, and improving policies.

Allocations and Transfers Need Additional Substantiation

Education Law, Section 1950(4)(d), indicates any component district which does not elect to participate in a cooperative service shall not be required to pay any share of the expenditures for such service (excluding administrative expenses referred to in Section B of SA-111).

The Uniform System of Accounts for BOCES, issued by the Office of the State Comptroller, facilitates allocations by requiring a separate accounting of revenues, and expenditures related to more than one service should be prorated accordingly. Inter-service program transfers are used to record charges in other service programs.

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

The audit included a review of the documentation supporting WSWHE BOCES' allocations and transfers of administration, and O&M costs. WSWHE BOCES officials stated that allocations and transfers were made based on program participation and/or usage of a particular service. However, a review of the final allocation and transfer documents revealed WSWHE BOCES adjusted the final transfers based on a

program's ability to absorb a greater percent of costs than actually associated with the program.

WSWHE BOCES officials indicated O&M costs for the Administration building were distributed based on space occupied. The remaining O&M costs were supposed to be allocated and transferred based on the program's ratio of overall budget to total budget. The audit found that allocations and transfers were calculated based on a program's ratio of overall budget to total budget; however, the allocations were subsequently adjusted to allocate a greater share of the costs to programs having greater resources.

The audit also found that although the special education administration cost allocations were calculated based on FTEs, they were subsequently adjusted to allocate a greater share of the costs to those programs having the ability to absorb more costs.

The costs of operating programs after allocations and transfers do not accurately reflect actual costs based on sound cost principles. The costs of some programs may be overstated while others may be understated. The rates charged to the districts for services may not be accurate; therefore WSWHE BOCES may be reporting program costs to the Department inaccurately.

The audit determined that WSWHE BOCES' allocations and transfers were calculated based on a program's ratio of overall budget to total budget; however, the allocations were subsequently adjusted to allocate a greater share of the costs to programs having greater resources. The costs of operating programs, after allocations and transfers, do not accurately reflect actual costs based on sound cost principles.

WSWHE BOCES officials stated they will review options available for allocation methodologies.

More Adequate Systems Are Needed For Fixed Assets

The Office of the State Comptroller's *Financial Management Guide* (Guide), Volume 1, Subsection 3.2010, states that it is important to maintain adequate fixed asset records to meet the requirements of Generally Accepted Accounting Principles (GAAP), and as a valuable tool for controlling fixed assets and planning replacements.

The Guide, Volume 2, Subsection 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.

Adequate internal controls over valuable assets should include a system to track the location and use of the assets and controls to ensure that the assets are used only for authorized purposes.

WSWHE BOCES' purchasing and property management procedures state "A perpetual inventory of all personal property owned by the Board of Cooperative Educational Services will be maintained by a professional appraisal firm in accordance with the following criteria:

- Property that is not consumable with
- An estimated life of one year or more, and
- A unit resale value or initial cost of at least \$500.

At his/her discretion, the Assistant Superintendent for Administrative Services may also include in the inventory, items of property with a resale value or initial cost of less than \$500."

Their policy also states "Each year, the data on all personal property included in the inventory will be verified by designated staff members employed by the Board of Cooperative Educational Services. The inventory will generally consist of property defined as valuable personal property."

The Regulations, Section 170.3(I)(1)(iii), states "Procedures for the perpetual inventory of all personal property, including the periodic inventory of valuable personal property having a unit resale value of \$500 or more on at least an annual basis, and the periodic inventory of all other personal property at least once every two years."

In 1991, WSWHE BOCES contracted with Industrial Appraisal Company (Company) to maintain a record of assets for insurance purposes. The records maintained by the Company include an asset identification number, asset location, description and cost. As assets are acquired and/or disposed of the information is supposed to be reported to the Company to enable them to update the insurance records.

In 1994, upon the merger of the Warren-Washington BOCES with Saratoga BOCES, a new inventory was conducted. The audit found that as assets are purchased they are not assigned an inventory number, unless they are being purchased with State or federal special aid funds, and the location of items is not tracked as the items are moved from one location to another. During a tour of the Administration building, numerous pieces of equipment were observed which did not contain an inventory tag number. These items included TVs, VCRs, filing cabinets, desks and computers. This could result in unauthorized use, disposition or loss of these assets.

WSWHE BOCES officials indicated their inventory system, as it currently exists, is difficult to maintain and update. They awarded a contract to an independent appraisal firm in February 1999 to do a complete appraisal of fixed assets. In addition, they will develop a system to ensure adequate tracking of all fixed assets and a periodic inventory.

Purchasing Practices

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

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

WSWHE BOCES' Purchasing and Property Management Procedures manual (purchasing manual) defines the action to be taken to initiate the purchase of goods and services using the purchase order process. In defining the use of confirming purchase orders, the purchasing manual states "A verbal purchase order, subject to confirmation by a written purchase order, may be given in cases where necessity for immediate action exists. Naturally such deviation from the norm should have a very limited use."

The audit tested 19 purchase transactions from the Administrative CO-SER and found that one purchase was made using a confirming purchase order and nine purchases were made

without a purchase order being issued. In those instances where a purchase had been made without a purchase order, the voucher was paid after the invoice was attached to a purchase request form and submitted to the accounts payable department.

Of the nine purchases made without a purchase order, three were for purchases using an MBNA credit card or a gas credit card, three were for travel expenses, and two were for telephone expenses. The remaining purchase was for coffee for the administrative offices.

WSWHE BOCES officials indicated they do not issue purchase orders for the use of credit cards, travel expenses and utilities because costs are usually not known and coding the expense is sometimes difficult in advance of the purchase.

WSWHE BOCES needs to follow provisions outlined in the School Business Management Handbook and comply with its own policies for procurement of goods and services. WSWHE BOCES is implementing a procedure to ensure that purchase orders are issued for credit card, travel expense and utility purchases.

Encumbrance of Funds

The Uniform System of Accounts for Boards of Cooperative Education Services, as prepared by the Office of the State Comptroller, states that “encumbrance accounting will be used.” Encumbrance accounting is defined as a system which "requires that each appropriation account show the amount appropriated, the amount encumbered, the amount expended and the unencumbered balance. The purpose of this system is to guard against the creation of liabilities in excess of appropriations approved by the board.”

The Uniform System of Accounts defines purchasing procedure by stating that “before a purchase order or similar document is released to a supplier or contractor, a notice of encumbrance shall be filed with the treasurer. If an appropriation balance is available, the treasurer will enter the encumbrance against the proper appropriation account and indicate his approval. In the case a proposed commitment exceeds the balance available, the encumbrance cannot be entered and must be returned to the unit without approval.”

WSWHE BOCES' purchasing manual defines the procedures to be followed when insufficient appropriations exist as follows:

"The business office will notify the division supervisor of the unavailability of funds. To request an increase in appropriations, the division supervisor should proceed as follows:

- Complete a Request for Appropriation Adjustment requesting the transfer of unneeded appropriation balances from other budget categories within the same CO-SER.
- Forward the signed request to the business office for approval.

The request must be approved by the Business Manager, the Assistant Superintendent for Administrative Services, and the District Superintendent, who has been authorized by the Board to approve budget transfers. Once the transfer is approved, the business office will make the requested transfers."

WSWHE BOCES' purchasing/accounts payable computer system provides the purchasing agent with information on the availability of funds when a purchase order is entered into the purchasing system. The purchasing agent can readily determine whether funds are available for the goods or services being requested. If the agent attempts to enter an amount greater than is available, the program will show a negative balance exists. The agent must then override the message to continue processing the purchase order.

The purchasing clerk indicated she had been instructed to ignore the negative balances shown on the system and to process purchase requests provided they had the appropriate level of approval.

The audit noted instances where negative balances appeared on the year-end budget status report, which indicates expenditures were made without a sufficient level of appropriation and a transfer of funds to cover the deficit was not made.

WSWHE BOCES officials stated they have implemented a system to ensure that no purchase order will be issued and charged to an account unless there are adequate funds to cover the purchase order.

Phone and Credit Card Use Need Policies

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 "control procedures," that is established policies and procedures. Policies and procedures define management's position and guide employees in the performance of their duties.

The audit found that WSWHE BOCES did not have written policies for the following:

- The personal use of office phones;
- The personal use of cell phones; and
- The personal use of credit cards.

WSWHE BOCES does not have policies to ensure that certain resources are being managed properly.

WSWHE BOCES officials stated they have adopted policies for the personal use of office telephones and credit cards, and already have a policy for the personal use of cell phones.

Sales and User Fees Treated As Donations

The Safeguarding, Accounting and Auditing of Extra Classroom Activity Funds, (Finance Pamphlet 2), revised 1992 and published by the University of the State of New York, The State Education Department, Bureau of Education Management Services, states "A school district is not exempt from the provisions of the Sales Tax Law whenever it becomes the vendor of services or property ordinarily sold by private persons. Each faculty adviser should know which activities his organization undertakes are subject to sales tax and take steps to see that all sales tax information is accurately recorded and sent to the central treasurer."

Some examples of taxable sales are candy, merchandise, floral arrangements, Christmas wreaths and fees for tire rotations.

During the period September 30, 1995 through November 30, 1996, all revenue received by the Extra Classroom Activity

Funds at the Southern Adirondack Education Center were classified as a donation and shown as nontaxable revenue. These included items such as puppet sales, candy sales, floral arrangements, Christmas wreaths, and fees for tire rotations, which were previously classified as taxable.

When items such as firewood, floral arrangements, and Christmas wreaths were purchased, the individuals purchasing the items were provided with a receipt which called the purchase a "donation." Fees collected for services provided to individuals such as tire rotations and inspections were also given a receipt referring to the transaction as a "donation."

WSWHE BOCES did not have controls in place which would periodically review the business practices within the Extra Classroom Activity Funds. In addition, WSWHE BOCES did not charge or remit the applicable sales tax to the State of New York because revenue was recorded as a donation rather than a sale. Also, treating the transaction as a donation instead of a sale may give the appearance that the transaction was a tax-deductible charitable contribution.

WSHWE BOCES officials indicated these types of sales will no longer be treated as a donation and classified as a sale with appropriate sales tax added to the sales price. The sales tax will be remitted to the New York State Department of Taxation and Finance. In addition, the treasurer, to ensure compliance with sales tax provisions, will review records of the extra-classroom account monthly.

Reporting Personal Use of Vehicles

Internal Revenue Code, Section 614, requires the value of the personal use of an employer-provided vehicle be included in the individual's reported income. The Internal Revenue Service (IRS) holds the individual responsible for reporting all income even if their employer does not.

The audit found WSWHE BOCES did not adequately document the value of the personal use of WSWHE BOCES vehicles by the staff. WSWHE BOCES computed the value of the personal use of vehicles at year-end by multiplying the number of miles to and from work for each individual by the potential number of working days in a year. This information was then communicated to the individual in a memo that also asked them to add any personal miles they were aware of; then to sign the

memo and return it to the treasurer's office. This information was then included in the calculation of wages. The audit found the calculations were based on estimates and the individuals' recollection rather than on documented actual use.

WSWHE BOCES officials stated they have instituted a procedure for the use of mileage logs in all WSWHE BOCES-owned vehicles and will comply with IRS wage reporting of personal use.

Some Vehicles Missing WSWHE BOCES Logo

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

Adequate internal controls over assets should include a system to track the locations 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.

Vehicles other than the buses used to transport students were not marked as WSWHE BOCES-owned vehicles. The vehicles used for maintenance, interagency mail, snowplowing and staff travel did not have any marking identifying the vehicle as WSWHE BOCES.

The Director of Operations and Maintenance indicated that the primary use of the fleet vehicles is for student transportation, but if they are not being used for student transportation and a staff member requests them, they can be used. A log is maintained of who is using the vehicle, but a formal approval process for requesting a vehicle does not exist unless student transportation is involved.

WSWHE BOCES may be at risk that vehicles could be used for unauthorized or personal use. WSWHE BOCES could better safeguard assets from waste, loss or misuse by identifying its vehicles.

WSWHE BOCES officials stated they have identified all WSWHE BOCES vehicles with WSWHE BOCES decals.

Occupational Education Funds Are Used For Student Extra Classroom Activities

On October 14, 1994, WSWHE BOCES adopted Administrative Regulations defining the procedures for the operation of Vo-Tec Clinics. The procedures state:

"All vehicles must have a repair order completed by the instructor with appropriate signature before any project is initiated. As soon as the work is completed, repair orders are to be completed for payment and sent to the Occupational Education Office by the end of the period. All repair orders will have a minimum shop fee of \$3.00."

All other instructors are to complete a general slip invoice for all live projects. This form is to be sent to the Main Office as soon as the work is completed. Payment must be made to the Occupational Education Office before the end of the workday in which the service is administered to a customer. This includes food, cosmetology, horticulture, as well as the other trade areas.

The audit found:

- The Horticulture Program at the Meyer's Center in Saratoga sold seasonal flowers and floral arrangements. The materials and flowers used to produce the products for sales were purchased from monies of the General Fund. In order to fund the Extra Classroom Activity Fund, all monies received as a result of sales, which occurred on Thursdays, were deposited into the Extra Classroom Activity Fund.
- The Auto Mechanics classes at the Meyer's Center and at the Southern Adirondack Education Center generated revenue for the Extra Classroom Activity Fund by depositing revenue received for the inspection of vehicles and the rotation of tires into the Extra Classroom Activity Fund (VICA Zeh-Cole). The facilities and equipment needed to perform this work are supplied with funding from the General Fund.
- The Culinary Arts class at the Southern Adirondack Education Center sold cookies and pastries made as part of their classes to raise money for the Extra Classroom Activity Fund. The audit disclosed the ingredients used in making the

foods were purchased from monies of the General Fund, but the revenue generated from sales was deposited into the Extra Classroom Activity Fund.

Extra Classroom Activity Funds are used to purchase items such as food, soda, clothing, admission fees to student functions, and other items for students.

The treasurer and the program directors for the Extra Classroom Activity Funds indicated they did not know generating revenue from goods or services paid for by Occupational Education Funds was an improper practice. Revenue, which should have been deposited into the General Fund to offset the cost of operating the programs, was diverted to the Extra Classroom Activity Funds.

WSWHE BOCES officials stated the treasurer will review these accounts monthly and advise staff of proper procedures.

Recommendations

6. Ensure there is adequate documentation for all allocations and transfers.
7. Improve systems to account for fixed assets.
8. Comply with purchasing policies and ensure procedures comply with purchasing guidelines.
9. Ensure proper procedures are followed for encumbering funds.
10. Ensure there are written policies governing the personal use of office telephones, cell phones and credit cards.
11. Record sales and user fees as revenue to the proper CO-SER account.
12. Ensure the personal use of WSWHE BOCES-owned vehicles is accurately reflected on wage records.
13. Identify WSWHE BOCES-owned vehicles by having its name and/or logo in a conspicuous location on each vehicle.
14. Discontinue use of occupational education funds for student extra classroom activities.

Comments of WSWHE BOCES Officials

WSWHE BOCES officials concur with these recommendations.

Warren-Saratoga-Washington-Hamilton-Essex BOCES
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