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# Audit Report

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Board of Cooperative Educational Services  
Ontario-Seneca-Yates-Cayuga-Wayne Counties

For the Period

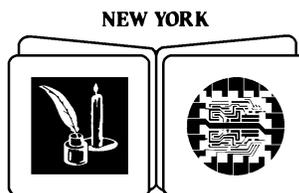
July 1, 1995 through June 30, 1996

BOC-0297-9

October 23, 1998

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



THE STATE OF LEARNING

October 23, 1998

Dr. Joseph J. Marinelli  
District Superintendent of Schools  
Board of Cooperative Educational Services  
Ontario-Seneca-Yates-Cayuga-Wayne Counties  
131 Drumlin Court, Eisenhower Building  
Newark, New York 14513-1863

Dear Dr. Marinelli:

The following is our final audit report (BOC-0297-9) on the Board of Cooperative Educational Services Ontario-Seneca-Yates-Cayuga-Wayne Counties 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 a 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  
Director

Enclosure

cc: Commissioner Mills  
R. Cate  
J. Kadamus  
T. Sheldon  
C. Foster (DOB)  
R. Lindholm (OSC)  
bcc: G. Illenberg  
R. Kesper  
S. Spear

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# Executive Summary

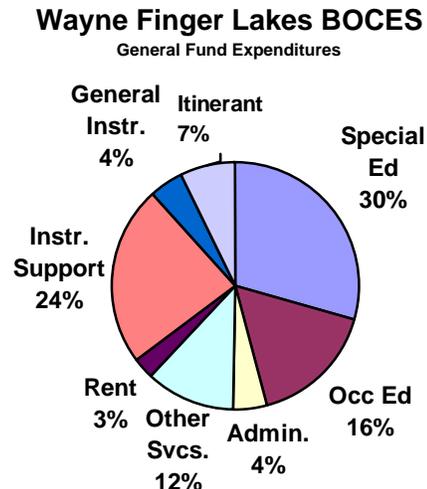
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Ontario-Seneca-Yates-Cayuga-Wayne BOCES (WFL) ranked as the 10th largest BOCES in the State, in terms of total general fund expenditures, for the 1995-96 school year (\$39,901,304).

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

## Background and Scope of the Audit

The audit examined financial management practices, records and documentation related to selected areas of Ontario-Seneca-Yates-Wayne BOCES, also known as Wayne Finger Lakes BOCES, operations for the period July 1, 1995 through June 30, 1996. These areas included Administration, Operations and Maintenance, Employment Preparation Education (EPE) and the Regional Computing Center. This was a financial related audit and the objectives were to: determine if cost allocations and transfers were accurate and reasonable; determine if services comply with Department approved specifications; verify that only reasonable and necessary costs were incurred; and verify that the budgetary process provides control over the expenditure of funds.



## Audit Results

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

- School districts were paid for leased space WFL no longer uses. (pages 4-5)
- Board members and staff received reimbursement for certain personal items. (pages 5-6)
- There is an opportunity to save on lodging costs for Board and staff travels. (pages 6-7)
- EPE expenditures were overstated by \$73,908 and contact hours were incorrectly reported. (pages 10-11)
- Improvement opportunities exist related to procedures for documenting accounting transactions, purchasing, allocation of operations and maintenance costs, planning for class offerings and inventory control. (pages 14-20)

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# Introduction

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## 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. 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 State Education Department (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.

Ontario-Seneca-Yates-Cayuga-Wayne BOCES, also known as Wayne-Finger Lakes BOCES (WFL), is headquartered in Newark, New York. WFL serves 25 component districts, which enroll more than 44,000 students. During the 1995-96 school year, WFL was ranked 10<sup>th</sup> largest of the 38 BOCES in the State with \$39,901,304 in general fund expenditures.

## 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 WFL for the period July 1, 1995 through June 30, 1996. This was a financial related audit and our objectives were to:

- determine if cost allocations and transfers between funds and among CO-SERs are accurate and reasonable;
- determine if WFL services comply with Department approved specifications and provide measurable cost savings to school districts;
- verify that WFL only incurred costs that were reasonable and necessary to carry out its responsibilities;
- verify that WFL's budgetary process provides reasonable control over the expenditure of funds; and
- verify the accuracy and reliability of data reported to the Department for Employment Preparation Education (EPE) aid.

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

There is no State or local standards 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 our 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 we considered necessary in the circumstances. An audit also includes assessing the estimates, judgements and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions and recommendations.

## **Comments of Wayne-Finger Lakes BOCES Officials**

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

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# Administrative Expenditures

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## WFL Leases Unneeded Space

Education Law, Section 1950 4(p)(a) allows BOCES to rent suitable land, classrooms, offices or buildings upon which to maintain and conduct such cooperative educational services, if the agreement is in the best financial interests of the supervisory district. The Section further states that nothing contained within Section 1950 shall prevent a BOCES from entering into a lease agreement, which provides for the cancellation of the lease upon a substantial change in the needs and requirements of the BOCES with respect to facilities.

In 1995-96 WFL paid \$224,373 in rent to component school districts for space that was not needed and not used. WFL officials further stated that in some cases the space is not vacant, but is being used by the school districts for classroom space. As a result, certain districts are receiving payments for services not provided. In addition, the leases do not appear to contain a cancellation provision.

The leases in question are with six of the 25 component school districts. They were initially executed between 1989 and 1995 for the purpose of providing classrooms for special education programs for children with disabilities in the least restrictive environment. These classrooms were built in response to Department policy and the leases were all reviewed and approved by the Department.

Officials indicated that the space was used by WFL until the Department redefined its policy regarding least restrictive environment in May 1994. At that time, many students were returned to school districts and vacant classroom space was created.

The six leases provide WFL with 89 classrooms and 13 offices at a combined cost of \$697,585. WFL data indicate that in 1995-96, 31.3 of the rooms were not being used for WFL programs. The audit calculated the cost of this unused space to be \$224,373.

The cost of the unused space is included in administrative costs and recovered from the component districts on a Resident Weighted Average Daily Attendance (RWADA) basis. WFL

officials have stated that they are bound by long-term leases and cannot reduce their payments for space no longer needed.

The audit contends that those districts utilizing the space for their own needs have violated the terms of the lease and WFL would be justified in withholding payments. In instances where the space is not being used WFL should seek an amendment to the lease.

## **WFL has an Opportunity to Recoup Rental Payments**

Prior to payment, the terms of a lease should be reviewed and verified. WFL entered into lease arrangements with several component districts. In some cases the determination of the lease cost is dependent upon the amount of building aid that is payable to a district. WFL miscalculated the amount of building aid available to one district and, as a result, overpaid by \$22,000.

WFL entered into a lease agreement with the Phelps-Clifton Springs Central School District on July 1, 1995. The lease agreement states that "the intent of the parties is that the lease payments be based on the final cost of the project and that Lessee's proportionate share of revenue from State Aid, interest and other revenue, will be used to reduce the annual rental payment." This lease had the effect of allowing the school district to construct a building addition without incurring any unreimbursed costs. All construction costs are either funded by State building aid or WFL rent payments.

The correct calculation of the district's building aid is essential to determining WFL's rent obligation. The audit found that the lease estimated the building aid rate to be 90.25 percent. The actual building aid rate was 95.01 percent, resulting in an overpayment by WFL to Phelps-Clifton Springs Central School District for 1995-96 of \$22,000.

## **Board Members and Staff Received Reimbursement for Certain Personal Items**

Article 8 of the New York State Constitution states that no school district shall give or loan any money or property in aid of any individual. In addition, the Office of State Comptroller Financial Management Guide (Guide) subsection 8.1025, pages 1 and 2, discussed the reimbursement of "actual and necessary expenses" incurred by various individuals in performance of their

duties. As a general rule, a particular expense may be considered "actual and necessary" if: 1) the expenditure was actually made; 2) the item was necessarily incurred for an authorized purpose; 3) the expense was in an amount no greater than necessary." The audit identified \$2,425 in personal or unnecessary expenses incurred by WFL.

A review of documentation supporting expenditures disclosed that the airfare of the spouses of Board members (\$350) was paid for by a WFL credit card, as well as tickets for a whale-watching excursion and a behind-the-scenes tour at the San Diego Zoo (\$108) in California. The audit considers these personal expenses of the individuals, which should not be paid for with public funds.

The audit also questions the necessity of certain other expenditures made by WFL. Specifically, those questioned include; key rings (\$1652) for all staff in recognition of a job well done, flowers sent to staff members in sympathy for the death of a family member (\$154), and holiday greeting cards (\$161) sent by WFL to selected agencies and individuals.

The audit recognizes that WFL officials, on occasion, may wish to recognize, commend or extend their sympathies to staff, colleagues and family members. However, expenditures related to these types of gifts cannot be financed with public funds as stipulated by statute.

WFL officials maintain that they have received reimbursement for the airline tickets and related activities. Further, WFL will no longer pay and later be reimbursed by employees or Board members for personal expenses. WFL will obtain a \$154 refund for the flowers.

## **Opportunity to Save on Lodging Costs**

The Guide states "The board should promulgate specific rules and regulations concerning reimbursement of expenses. The rules and regulations should set forth the type of expenses, procedures and documentation necessary and reasonable dollar or time limits subject to reimbursement."

An adequate system of internal controls should include guidelines for determining reasonable limits for employees'

travel expenses. These limits should recognize the variations in lodging costs at different geographic locations.

WFL reimburses its employees the actual cost paid for lodging without any regard to the level of rate incurred. In the public sector, per diem rates established by the Internal Revenue Service (IRS) are commonly used as an industry standard for reimbursement of lodging. These rates are used by federal, State and municipal entities as a basis for payment.

The audit compared the IRS rates to those lodging rates paid by WFL. A total of 82 invoices were reviewed which contained rates ranging from \$69 in Horseheads, New York to \$197 in San Diego, California. The analysis disclosed that WFL paid \$3,826 more than what IRS provides.

WFL did not have a policy that established an appropriate acceptable lodging rate for reimbursement of staff and Board members traveling on official WFL business. WFL could have realized savings of \$3,826 during 1995-96 if the IRS rates were adopted by the Board as the basis for reimbursement.

The audit contends that WFL is forgoing potential savings in lodging costs. The Board needs to adopt a policy to guide the payment of lodging expenses. We urge the Board to consider the adoption of the IRS rates, which are widely accepted in the public sector. Any policy that is adopted should address the issue of the reasonableness of lodging rates that are established as part of a convention. The policy should require documentation that any waiver from the IRS standard is based on documented cost effectiveness or other compelling reasons.

WFL officials indicate that the Board will establish rules and regulations that comply with the OSC guidelines.

## **Insurance Premiums Places District Superintendent's Salary Above the Legal Cap**

Education Law Section 1950(4)(a)(2) gives BOCES the power and duty to limit the total salary of the District Superintendent to 98 percent of the amount earned by the Commissioner of Education during the 1992-93 State fiscal year. That calculation establishes a salary cap at \$128,625 for District Superintendents. The section further establishes that any payments for whole life, split dollar or other life insurance policies having a cash value

shall be included in the total salary of the District Superintendent. WFL officials incorrectly interpreted the portion of cash value life insurance premiums that is included against the District Superintendent's salary cap. This resulted in the District Superintendent exceeding the salary cap by \$4,871.

The District Superintendent was provided three whole life insurance policies, each with a cash value. The audit reviewed the salary paid to the District Superintendent and the premiums for these policies and determined that the payments, when considering the entire premiums for the whole life policies, exceeded the legal limit. The following table illustrates the calculation.

Category	Amount
State Salary	\$43,499
WFL Salary	80,585
Cash Value Life Insurance Premiums	9,412
Total Compensation	\$133,496
Statutory Limit	\$128,625
Excess	\$4,871

Source: BOCES Employee Earnings Records

It is WFL's position that only the portion of the life insurance premiums related to the cash value should be included in the calculation of District Superintendent salary compensation. The balance of the premium, which is payment for the death benefit, should be treated as a term policy and not included in the compensation calculation. As a result, WFL calculated the total compensation subject to the cap as \$128,381, or \$244 under the cap.

The language in the statute does not make a distinction between nor does it provide for separate recognition of term insurance as part of a whole life policy. As such, it appears that premiums paid for a whole life policy should, in total, be subject to the cap, in which case the District Superintendent's salary for the 1996-97 school year would exceed the cap by \$4,871.

The District Superintendent stated that he reviewed these issues with the Department and received verbal approval to allocate the premium among the cash value and term insurance costs. Further, the District Superintendent provided a copy of correspondence in which a Department staff member states that

the contract is in compliance. The audit maintains that the law specifically defines the appropriate treatment for cash value life insurance premiums, the purpose of the Department review of the contract was not for legal compliance and, regardless, no Department employee has authority to waive a provision of the law.

## **Recommendations**

1. Seek a legal opinion on the appropriateness of terminating leases with those school districts that are using WFL's space for district purposes. Re-negotiate the leases with school districts that are providing space WFL no longer uses.
2. Adjust future lease payments to the Phelps-Clifton Springs Central School District to account for the overpayment in 1995-96 and review prior and subsequent years to determine if payments were appropriate.
3. Institute a policy that prohibits the use of public funds for personal expenses. Recoup any such expenses from the individuals that benefited.
4. Develop a travel policy which establishes reimbursement rates for travelers on official business. The policy should define a process to be followed in obtaining any waiver from such rates. Consider adopting the IRS per diem rates as the WFL standard.
5. Re-negotiate the contract with the District Superintendent to reduce compensation to the current salary cap.

## **Comments of Wayne-Finger Lakes BOCES Officials**

WFL officials agreed with recommendations number 2, 3, 4 and 5. In response to recommendation number 1, WFL has not requested a legal opinion on the appropriateness of terminating leases. They state that the contracts were reviewed by the Department and they feel obligated to pay the rent. Future leases will include language to modify terms.

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# Employment Preparation Education Program

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WFL 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. WFL received a total of \$579,484 in EPE aid for the period July 1, 1995 through June 30, 1996 based on 133,830 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 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.

Education Law 3602 requires that State aid payable in the following year be reduced by the amount of any excess revenue. In total, WFL claimed \$73,908 in EPE aid for expenses unrelated to the EPE Program. In addition, WFL claimed 15,521 ineligible contact hours that generated \$67,206 in EPE aid. Since the EPE Program is funded through the contact hours, and reports of expenditures combined, the audit reduced the amount of EPE funds WFL was entitled to by the greater of adjustments to contact hours and expenditures. The audit report will be used by the Department to adjust future aid received by WFL.

## **EPE Expenditures Were Overstated**

WFL was reimbursed for EPE related expenditures that were not supported by the internal accounting records. The audit attempted to verify \$579,484 in expenditures included on the EPE State Aid Claim Form by reconciliation with the internal accounting system. The internal accounting records indicated that only \$505,575 in EPE related expenditures were incurred. This resulted in WFL receiving \$73,908 in reimbursement for expenditures to which it was not entitled.

WFL officials could not explain the overstatement of the EPE claim. The program office responsible for EPE identified additional expenditures, however the information was found to

have already been included in the accounting records and therefore did not lessen the financial impact.

### **Contact Hours Were Overstated**

Section 168.2 of the Commissioner's Regulations defines a contact hour to be 60 minutes of instruction given by a teacher in approved program component areas. The audit found that a computer programming error at WFL resulted in ineligible contact hours being included in the EPE claim. The ineligible hours included those for Life Management and Diploma GED and also included prior year enrollment hours carried over for students that had left the program. As a result, contact hours were overstated by 15,521 hours, which would have generated \$67,206 in EPE aid.

### **Recommendations**

6. Improve procedures to ensure that only expenditures for EPE Program purposes are claimed for aid.
7. Improve procedures to ensure the correct calculation of EPE contact hours.

### **Comments of Wayne Finger-Lakes BOCES Officials**

WFL officials agreed with and have implemented these two recommendations.

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## Cooperative Services (CO-SERs)

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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 (Guidelines), delineates the minimum standards for approvable service programs.

The audit found that some school districts were underbilled for certain computer services and, in one instance, WFL is providing an unapproved service.

### **Computer Services Billing Understated**

The Guidelines for CO-SER 6360 (Instructional Computer Services), CO-SER 6366 (Computer Support Services), and CO-SER 7710 (Management Computer Services) require that every district that requests any activity under these CO-SERs is required to support the base service cost. This support is provided by WFL billing each participating district for a portion of the core services offered by the Regional Computing Center (RCC). WFL should have controls to ensure that billings to districts for services provided are complete and accurate.

Based upon BOCES' billing procedures, a \$2.58 fee per RWADA is payable by every district that requests any other computing service to cover management and research and development projects during the 1995-96 school year. The audit found that three districts were not charged a fee for participating in the RCC service, as required. As a result, BOCES did not receive nearly \$18,000 in additional revenues.

In addition to not charging the three districts for base service costs, other fees to cover the processing of Multi-Year Purchase Agreements (MYPA) of \$200 per MYPA were also not charged. This resulted in over \$9,000 in other lost revenues. Not equitably charging participating school districts for services resulted in some districts benefiting at the expense of others.

*Certain Energy Review Services are not Approved by the Department*

WFL must receive approval of the Commissioner before providing any service to school districts. The request for approval of service is contained on a CO-SER. WFL is providing an Energy Performance Contracting service that was not approved by the Department. The service offers school districts the option of paying \$1,900 for having WFL write a request for proposal, secure an energy services company and coordinate projects with school officials, Boards and the energy services company. WFL did not separately account for expenses associated with this activity and therefore the audit is unable to determine the extent of BOCES aid that was generated by this ineligible activity.

**Recommendations**

8. Institute controls to assure that every district is charged appropriately for computer services.
9. Discontinue providing the Energy Performance Contracting service.

**Comments of Wayne-Finger Lakes BOCES Officials**

WFL officials agreed with these recommendations. WFL officials will implement recommendation number 9 if required to do so by the Department.

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# Opportunities to Improve Management Processes

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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.

The areas in need of improvement include the recording of outstanding encumbrances, documentation of certain transactions, fixed asset inventory controls, allocation of operations and maintenance costs and assessing the viability of low enrolled classes.

## **Recording of Outstanding Encumbrances**

According to the Uniform System of Accounts for BOCES, issued by the Office of the State Comptroller, outstanding encumbrances for which materials have not been delivered as of the end of the year should be recorded as a liability not an expense. The expense will be recorded in the following year after the material has been received. WFL recorded \$584,205 in expenses in the 1995-96 school year although the material was not received until the 1996-97 school year.

The audit identified six computer purchases totaling \$584,205 that were recorded as expenses in the 1995-96 school year rather than being carried over as encumbrances into the next year. As shown on the following table, some of the equipment was not received until late October in the subsequent year.

<b>Vendor</b>	<b>PO #</b>	<b>Invoice Date</b>	<b>Invoice Amount</b>	<b>Amount Recorded</b>
Ameridata	75790	10/28/96	\$120,466	\$121,159
Ameridata	75784	9/27/96	95,719	96,291
Apple Computer	75900	7/22/96	58,170	75,761
Apple Computer	75892	7/22/96	92,749	87,956
Vanstar	75799	7/8/96	77,545	77,545
Western NY Comp. Sys.	75854	8/9/96	123,113	125,493
<b>Total</b>			<b>\$567,762</b>	<b>\$584,205</b>

Source: OAS Analysis of Sampled Purchases

As shown on the table, the actual invoice amount (\$567,762) was \$16,443 less than the amount recorded (\$584,205). By not properly recording the purchases, WFL is misstating their financial statements and accelerating the generation of BOCES aid to the participating districts. In addition, the potential exists that aid was paid on the invoice amount which, if not corrected in the subsequent year, would result in BOCES aid being overstated.

WFL officials acknowledge the misclassification of these six purchases and indicate that action will be taken to prevent this occurrence in the future.

### **Improved Documentation of Certain Activities Needed**

A critical component of an internal control system is the authorization process. Activities should only be undertaken that are authorized as appropriate. Appropriate authorization cannot be given unless the nature of the activity or transaction is known, and this cannot occur unless documentation is available that identifies the transaction or activity undertaken. WFL was lacking the required documentation to support certain transactions that were examined by the audit. Specifically, documentation of credit card use was unavailable.

The audit determined that the documentation supporting purchases through credit cards needs improvement. Specifically, the audit noted \$5,373 of \$39,093 (14%) in purchases that were

not supported with charge receipts, store receipts, or other explanations of the items purchased. WFL has little assurance that these purchases were valid, were authorized by the appropriate official, complied with all WFL guidelines and were necessary for the operation of WFL programs.

## **Recording, Tracking and Disposition of Assets**

The 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 2, 11.010, also 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 include maintaining accurate accounting and inventory records and performing periodic comprehensive physical inventories of assets. WFL needs to improve the control of assets that are located at its facilities as well as Regional Computer Center (RCC) assets that are located in school districts.

### *Assets at WFL Locations*

WFL does maintain an inventory list. However, officials indicated that they do not conduct annual physical inventories. The audit conducted a limited physical inventory of one WFL location. This inventory observed and recorded 42 assets. Three assets were incorrectly recorded on the inventory and all of the other 39 assets were not listed on the inventory. Therefore, the current inventory system was found to be unreliable. As such, there is little assurance that assets recorded are still in WFL's inventory or that their disposition was authorized.

In addition, the audit noted several material weaknesses in certain controls over assets. These include:

- a list of WFL owned vehicles is not maintained;
- inadequate controls over personal use of vehicles;
- donated vehicles are not recorded on the inventory; and

- WFL owned vehicles are not identified by logos.

There is a significant possibility that assets could be lost, misplaced or stolen without timely discovery of the theft or notification of insurance or law enforcement. In addition, assets may be used for unauthorized personal uses. WFL has recognized these weaknesses prior to the initiation of the audit and has hired a firm to create an inventory system and perform a physical inventory of WFL assets.

#### *RCC Assets at School Districts*

Frequently, as part of a shared service, WFL owned computers are located in the school districts participating in the service. The audit performed a physical inventory of a sample of assets maintained on an inventory of the RCC. The audit determined that the RCC inventory needs substantial improvement. Specifically the review found:

- 55 of 113 items were not correctly identified or located on the inventory;
- the owner of 22 of 113 items could not be determined; and
- one purchase of several computers could not be located on the inventory.

As a result, the audit finds the inventory unreliable. The audit further found that the inventory system did not track the computers that were used as a basis for billings to districts. If a district were to question a portion of a bill that was based on the number of computers, WFL would be required to review all of the purchase documents for that district over previous years to verify the accuracy of the count. This would not provide any assurance that the computers purchased are still being used and should remain billed.

## *Disposition of Assets*

Periodically, as assets are no longer in a condition that is useful or no longer needed, WFL will dispose of it. It is important that the disposition of assets purchased with public funds is equitable and well controlled.

The audit received copies of documentation that lists surplus items sold by auction. However, this documentation did not adequately describe the asset, the program it was removed from, the inventory tag number or any other information that would be useful in identifying the specific asset involved. In addition, the audit was not able to determine whether or not the sale of each asset was approved by the Board or removed from the WFL inventory. In some instances, documentation indicated that more assets were to be disposed of than were actually sold. The dispositions of the other assets are not known.

WFL has hired a firm to create an inventory system and perform a physical inventory of assets located at various locations. Officials indicated that since the audit a physical inventory has been conducted in all Wayne-Finger Lakes and Genesee Valley BOCES school districts. In addition, a full time inventory control clerk has been appointed to oversee inventory on a regular basis. A physical inventory of each school district will be done on a yearly basis.

## **Allocation of Operations and Maintenance Costs**

Education Law, Section 1950(4)(d), indicates that 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).

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.

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.

WFL stated that the allocation of O&M costs was based on the relative square-footage occupied by each program. However, documentation to support the square footage used was not available.

Therefore, the audit determined that the square footage information available for each program supported allocations of costs that materially differed from the amounts calculated by WFL. This resulted in three programs that were charged significantly more than if the allocations were calculated based on the information provided. In addition, several other programs were similarly undercharged. However, due to the number of programs undercharged, the amount for each program is less significant.

<b>Program</b>	<b>Amount Over Allocated</b>
Occupational Education	\$196,409
Adult Education	\$84,547
Administration	\$12,647

Source: OAS Analysis of O&M Allocation

WFL needs to develop an accurate and equitable method for allocating O&M costs. WFL officials indicated they agree that O&M charges were not done on the basis of square footage in the year audited. The allocation has been corrected in the following year.

### **Assessment of Classes with Low Enrollment**

Section 1950 (4)(c) states that BOCES are responsible for making surveys to determine the need for cooperative educational services and to present these findings to local school authorities.

The occupational education tuition rate charged to participating school districts for the 1995-96 school year was \$4,784. The audit determined that a course offered in the Wayne Area Vocational Center had an enrollment of only 7 students during the 1995-96 school year. As a result, the cost per student was

calculated to be \$17,197. WFL was aware of this low enrollment and that this class had enrollments as low as 5 since the 1992-93 school year. This means that the other occupational education courses were subsidizing the costs of the low enrolled course.

WFL needs to continue to assess the viability of occupational education courses with low enrollment and work with the school districts to illustrate the cost of offering such programs. WFL officials stated that they have a process and provided a copy of a proposed criterion. However, no documentation was provided that the criteria were used in assessing the program discussed above.

## **Recommendations**

10. Instruct business office staff on the appropriate way to account for year-end encumbrances and cease expensing items in the year prior to receipt and use.
11. Require supporting documentation prior to payment of credit card invoices and the approval of journal entries.
12. Maintain an inventory system that provides information that will specifically identify items and their location, including school districts. Include a process that allows for additions and deletions from the inventory and calls for a periodic physical verification of the items.
13. Initiate the use of vehicle logs for all WFL vehicles and affix a logo identifying them as WFL vehicles.
14. Establish a standard method to equitably allocate operations and maintenance costs to other areas and follow the standard method.

## **Comments of Wayne-Finger Lakes BOCES Officials**

WFL officials agreed with these findings and have implemented these recommendations.

## Appendix A

Contributors to the Report  
Ontario-Seneca-Yates-Cayuga-Wayne Counties  
Board of Cooperative Educational Services

- James Conway, Audit Manager
  - Daniel McCarthy, Auditor-in-Charge
  - Charles Archibald, Senior Auditor
  - Louise Costello, Senior Auditor
  - Bonnie Hahn, Senior Auditor
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Wayne - Finger Lakes BOCES  
 Schedule of Audit Adjustments  
 Employment Preparation Education (EPE) Program

## Revenues:

Claimed Contact Hours	133,830
Less Audit Adjustments Undocumented Contact Hours	<u>(15,521)</u>
Audited Contact Hours	118,309
Aid Rate per Hour	<u>\$ 4.33</u>
Audited Revenues	<u><u>\$ 512,278</u></u>
Claimed EPE Expenses	\$ 579,484
Adjustments to EPE Expenses Undocumented Expenses	<u>\$ (73,908)</u>
Audited EPE Expenses	<u><u>\$ 505,576</u></u>

The net adjustment is the greater of the adjustment to revenues or expenses. Therefore, the adjustment to the EPE Program is \$73,908.

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