
Audit Report

Cattaraugus-Allegany-Erie-Wyoming
Board of Cooperative Educational Services

For the Period

July 1, 1996 through June 30, 1997

BOC-0498-11

June 30, 2000

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





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

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

June 30, 2000

Mr. Brian Klice
Board President
Cattaraugus-Allegany-Erie-Wyoming BOCES
Center at Olean
1825 Windfall Road
Olean, New York 14760

Dear Mr. Klice:

The following is our final audit report (BOC-0498-11) on the Cattaraugus-Allegany-Erie-Wyoming BOCES for the period July 1, 1996 through June 30, 1997. The audit was conducted pursuant to Sections 305 and 1950 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

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

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

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

Sincerely,

Daniel Tworek

Enclosure

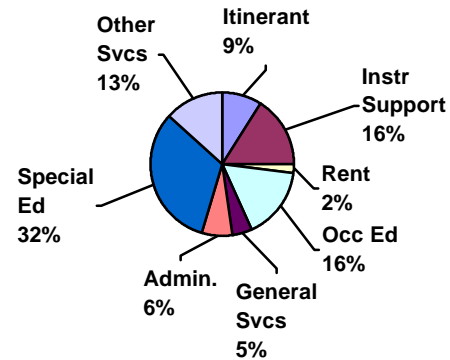
cc: Commissioner Mills, R. Cate, G. Illenberg, J. Kadamus, T. Sheldon, S. Spear, B. Stambler, C. Szuberla, C. Foster (DOB), H. Hoffman (OSC), J. Grant, District Superintendent of Schools

Executive Summary

Cattaraugus-Allegany-Erie-Wyoming (CAEW) BOCES ranked as the 19th largest BOCES in the State, in terms of total general fund expenditures, for the 1996-97 school year (\$30,406,493).

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

**Cattaraugus-Allegany-Erie-Wyoming
BOCES
1996-97 General Expenditures**



Background and Scope of the Audit

The audit examined financial management practices and documentation related to selected areas of CAEW BOCES operations for the period July 1, 1996 through June 30, 1997. The areas examined included Administration, Operations and Maintenance, Employment Preparation Education (EPE), and other selected cooperative services (CO-SERs). 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

Below is a summary of the audit findings developed in response to the audit objectives.

- CAEW BOCES prematurely declared two vehicles as surplus equipment so that the vehicles could be made available to the component districts.
- Several opportunities exist to improve management practices.
- CAEW BOCES offset an approved increase to the Administrative Budget against each district's occupational education refund. This resulted in an assessment different from if it were included in the Administrative Budget.
- The audit found that some CO-SERs were not operated in compliance with Department guidelines. Corrective action was taken on all matters cited on or before July 1, 1999.
- Personnel Services were operated as a separate CO-SER, rather than part of the Administrative CO-SER.
- EPE student folders lacked some required documentation and a small number of contact hours were not documented (\$635).

Table of Contents

INTRODUCTION.....	1
OBJECTIVE, SCOPE AND METHODOLOGY	1
COMMENTS OF CATTARAUGUS-ALLEGANY-ERIE-WYOMING BOCES	2
OFFICIALS.....	2
OPPORTUNITIES TO IMPROVE MANAGEMENT PROCESSES	3
DISPOSAL OF EQUIPMENT	3
OPPORTUNITY EXISTS TO IMPROVE ACCOUNTING PROCEDURES	4
CONFIRMING PURCHASE ORDERS.....	5
POLICIES AND PROCEDURES.....	5
DOCUMENTATION OF CREDIT CARD USAGE.....	6
DOCUMENTATION OF ALLOCATION METHODOLOGIES.....	7
CONTROL OVER BOCES VEHICLES	8
IMPROVE PERSONAL PROPERTY ACCOUNTABILITY	9
OPPORTUNITY EXISTS TO IMPROVE ACCOUNTING PRACTICES	10
STUDENT ACTIVITY FUND	10
RECOMMENDATIONS	11
COMMENTS OF CATTARAUGUS-ALLEGANY-ERIE-WYOMING BOCES	12
OFFICIALS.....	12
AUDITOR’S NOTE	12
ADMINISTRATIVE EXPENDITURES	13
SUPPLEMENTAL RETIREMENT INCREASE DEDUCTED FROM OCCUPATIONAL EDUCATION REFUND	13
PERSONNEL DEPARTMENT EXPENSES NOT ACCOUNTED FOR IN THE	14
ADMINISTRATIVE BUDGET.....	14
RECOMMENDATIONS	14
COMMENTS OF CATTARAUGUS-ALLEGANY-ERIE-WYOMING BOCES	14
OFFICIALS.....	14
COOPERATIVE SERVICES.....	15
COOPERATIVE SERVICES PROVIDED TO PRIVATE ENTITIES.....	15
ENVIRONMENTAL EDUCATION SERVICES BEING OFFERED TO PRIVATE ENTITY	16
BUSINESS OFFICE SUPPORT SERVICES	16
FOOD SERVICE PROGRAM EXPENSES ARE UNDERSTATED.....	17
CO-SER 710, PROGRAM ADMINISTRATION BEING USED IMPROPERLY.....	18
ENVIRONMENTAL EDUCATION CO-SER INCLUDES SOME WEEKEND ACTIVITIES AND SOME INELIGIBLE COSTS ..	19
RECOMMENDATIONS	20
COMMENTS OF CATTARAUGUS-ALLEGANY-ERIE-WYOMING BOCES	20
OFFICIALS.....	20
EMPLOYMENT PREPARATION EDUCATION PROGRAM	21
CONTACT HOURS WERE OVERSTATED	21
STUDENT FOLDER DOCUMENTATION NEEDS IMPROVEMENT	21
TEACHER CERTIFICATION DOCUMENTATION NEEDS IMPROVEMENT.....	22
HOURS OF INSTRUCTION	22
RECOMMENDATIONS	23
COMMENTS OF CATTARAUGUS-ALLEGANY-ERIE-WYOMING BOCES	23
OFFICIALS.....	23

Appendix A - Contributors to the Report

Appendix B – Comments of Cattaraugus-Allegany-Erie-Wyoming BOCES Officials

Appendix C – Audit Review Proceedings

Introduction

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 are called participating districts and 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.

Cattaraugus-Allegany-Erie-Wyoming (CAEW) BOCES, headquartered in Olean, New York, serves 23 component districts which enroll more than 24,000 students. During the 1996-97 school year, CAEW BOCES ranked 19th largest in the State with \$30,406,493 in general fund expenditures.

Objective, 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 CAEW BOCES for the period July 1, 1996 through June 30, 1997. 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 CAEW BOCES services comply with Department approved specifications and provide measurable cost savings to school districts;
- verify that CAEW BOCES only incurred costs that were reasonable and necessary to carry out its responsibilities;
- verify that CAEW BOCES 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, the audit reviewed applicable laws, regulations, policies and procedures; interviewed Department and CAEW BOCES management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the CPA 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 second objective.

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

Comments of Cattaraugus-Allegany-Erie-Wyoming BOCES Officials

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

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, including more control over confirming purchase orders; some additional policies and procedures; and improved documentation with credit card purchases and allocation methodologies.

Disposal of Equipment

Section 1950, Subdivision 18, of the Education Law and Section 170.3 of the Regulations of the Commissioner of Education (Regulations) define surplus personal property as "property which has no known, immediate or currently foreseeable use to the board of cooperative educational services." It also states that the property be disposed of in accordance with procedures that provide for the sale of the surplus property to the highest bidder, except if the equipment is not marketable because it is damaged, obsolete or in poor condition and has proven not to be marketable after at least one prior attempt at competitive bidding.

CAEW BOCES' Policy 4320, BOCES Personal Property Accountability, states that "All sales of surplus and absolute personal property shall be open to the public. Notice of the sale and/or request for bids shall be made through advertisements in the local newspapers and other appropriate means to assure public awareness."

CAEW BOCES purchased two Dodge Ram pickup trucks in July 1996 with plows for \$21,148 each. Each truck was sold to a component school district in March 1997 for \$10,002 each. CAEW BOCES provides component districts the opportunity to purchase good, serviceable equipment from CAEW BOCES' inventory at considerable savings by declaring the equipment surplus prior to the expiration of their useful life. It limits the offer to the component districts by polling them first before offering the equipment to the public.

The vehicles were delivered to the purchasing component district in June and September of 1997. At the time of sale, the trucks' mileage was 1,600 and 2,583 respectively. The audit consulted the Kelly Blue Book, as of October 1998 (two years after the delivery to the districts), and determined that the trade-in value for these trucks with 10,000 miles would be \$17,225 each. Based on this calculation, the audit considered the transaction to the school districts an imprudent use of resources as the audit did not consider these trucks at the end of their useful lives at the time of the sale. The premature replacement of these vehicles by CAEW BOCES increased the cost of operations for CAEW BOCES.

CAEW BOCES officials disagree with the finding and maintain that this has been a long-standing practice and their components are very satisfied with the arrangement.

Opportunity Exists to Improve Accounting Procedures

The Office of the State Comptroller's Uniform System of Accounts for Boards of Cooperative Educational Services (System of Accounts) states that "Financial statements must be presented in conformity with generally accepted accounting principles; accounting must be in compliance with legal provision. If a conflict exists between these two, financial reporting must be based on generally accepted accounting principle and, if necessary, legal compliance will be reported in supplemental schedules."

One generally accepted accounting principle is the matching concept. The matching concept requires that revenues and related costs be matched in determining net income for a specified period.

The audit found ten desktop computers (\$14,000) were charged to the School Food Management: Itinerant CO-SER 316; however, these computers were being used in CAEW BOCES' Instructional Support Services (ISS).

CAEW BOCES officials stated that, during the 1995-96 school year, CO-SER 316 needed to purchase three expensive laptop computers (approximately \$14,000). The computers were needed so each supervisor could satisfy the change in the federal regulations for menu planning. The regulation changes were after the budget process, therefore there were no funds available in CO-SER 316. CAEW BOCES officials used available ISS funds to make the laptop purchases.

The funds to purchase the ISS equipment postponed from the 1995-96 budget were incorporated into CO-SER 316 in the 1996-97 budget.

CAEW BOCES officials agree with this finding; however, it was their intention not to have to increase budgets at such a late date in the school year.

Confirming Purchase Orders

The Financial Management Guide for Local Governments (Guide), issued by the Office of the State Comptroller, Volume 2, Subsection 8.3050, defines confirming purchase orders. It states, "A verbal order, subject to subsequent confirmation by a written purchase order, may be given in cases where necessity for immediate action exists. Naturally, such a deviation from 'the norm' should have a very limited use. The individual placing such an order should justify the need for this action. Lack of proper planning should not be considered a valid reason for this process."

CAEW BOCES' purchasing regulation manual states that "A verbal order, subject to subsequent confirmation by a written purchase order, may be issued only in cases where a bona fide emergency situation exists which can be handled only by this procedure."

The audit took a very small sample of purchases requiring purchase orders and noted several of the purchases were made using confirming purchase orders. Further examination of these purchases did not indicate emergency situations.

CAEW BOCES officials agree with this finding and are improving controls over verbal orders.

Policies and Procedures

The Guide, Volume 2, Subsection 11.1010, 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.

A component of an effective internal control structure is to establish written policies and procedures that define management's position and guide employees in performance of their duties. Current, updated policies and procedures allow a

comparison of how things are actually done to how they are supposed to be done so that corrections can be made when necessary.

CAEW BOCES did not establish adequate written policies and procedures in certain areas for which such management controls could be beneficial, such as:

- Non-overnight travel reimbursement subject to IRS withholdings;
- Pre-approval of overtime;
- Personal use of office and cellular telephones; and
- Use of credit cards.

CAEW BOCES' travel policies and procedures lacked:

- Dollar limits on staff food and hotel expenses;
- Dollar limits on personal calls home when in overnight status;
- Prohibition against guest travel utilizing CAEW BOCES credit or incurring expenses for CAEW BOCES, regardless of subsequent reimbursement; and
- Travel advance instructions.

CAEW BOCES officials agree with all of the above except that:

- There is not enough non-overnight travel reimbursement to justify a special policy.
- A Purchasing Agent reviews all telephone bills for inordinate use and this is a sufficient control.
- Credit cards are very strictly limited.

In addition, they do not feel that it is necessary to put a dollar limit on personal phone calls, and they now have a dollar limit on staff food and lodging expenses.

Documentation of Credit Card Usage

The Guide, Volume 2, Subsection 8.1020, states that a claim for payment must include sufficient detail to permit a satisfactory audit by a person who is entirely unfamiliar with the transaction.

In relation, Subsection 8.1025 (page 10) states, "The board must be satisfied that the amounts claimed were actually and necessarily incurred by the claimant in the performance of official duties or in the authorized attendance at a conference or training school. Each claim must be in such detail, with appropriate documentation, that the board can see exactly and

precisely what goods were purchased, services rendered or expenses incurred by the claimant. As a general rule, a claim must contain enough detail and documentation so that the board is supplied with sufficient information concerning the nature of the claim to enable it to determine whether the claim represents a lawful and proper charge.”

The documentation supporting the monthly payments to American Express did not always contain the vendor receipts, making reconciliation and verification of the charges shown on the statement difficult. The audit sample included an examination of the November, December and February statements. The statements revealed \$2,798.17 in charges with only \$351.63 (12.56 percent) of the charges being supported by actual vendor receipts. As a result, there is less assurance that only actual and necessary expenses were incurred.

CAEW BOCES officials agree with this finding but add that only the District Superintendent and Assistant District Superintendent use the card; the total billing for the year was less than \$6K and some of the original receipts were sent to Questar BOCES for the District Superintendent's SURR related travel and Questar BOCES reimbursed CAEW BOCES; and \$1,240 was for a phone registration for Board travel to a national conference that could be easily verified.

Documentation of Allocation Methodologies

The System of Accounts (pages 4-7) states, "The Education Law requires that the net cost of operating a BOCES service shall be allocated among participating districts. To facilitate such allocation, this system requires a separate accounting of revenues and expenditures for each service program." Expenditures should be charged directly to the pertinent service involved and expenditures related to more than one service should be prorated accordingly.

Section 1950 (4)(d) of the Education Law states those component districts that do not participate in a cooperative service are not required to pay any share of the expenditures for such service. In order to ensure that component districts pay only for services received; cost allocations between funds and among CO-SERs should be accurate and reasonable.

The audit reviewed the accounting for salaries of 19 employees. Of the 19 employees, nine had their salary allocated to two or more CO-SERs. Allocations were supported by timesheets for two of the employees. For the seven remaining employees,

CAEW BOCES allocated the various salaries based on estimated days worked per week on a CO-SER, time spent in a CO-SER, and/or available funds in a CO-SER. However, CAEW BOCES did not maintain documentation to support the basis of allocations. Alternative methods to verify allocations were not available or could not be used to determine appropriate allocations. For example, job descriptions were very generalized; timesheets were not required for salaried employees; and time studies were not done. Without the necessary documentation to support the allocation of the salaries, the audit cannot be certain that the allocations are appropriate.

CAEW BOCES officials agree with the finding; however, they feel that the budget process, wherein component districts review the budgets and the FTEs assigned to those budgets, was a sufficient review to determine appropriateness.

Control Over BOCES Vehicles

The Guide, Volume 2, Subsection 11.1010, 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. It is generally recognized that good internal controls make the commission of wrongful acts more difficult."

Good business practices dictate that 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. In addition, vehicles should bear vehicle logos or markings that easily identify the vehicle as belonging to the BOCES. This deters unauthorized use as a clearly marked vehicle is visible to the BOCES' constituency who may question BOCES officials on its use. The audit observed that 11 of the 14 vehicles inspected at the Olean Center were not marked as CAEW BOCES vehicles.

CAEW BOCES officials disagree with the finding and feel that vehicle decals are not necessary and that the "official" plates are sufficient control. Decaling the vehicles in a sparsely populated but large rural area, such as this BOCES, would cause greater problems, such as numerous false, unauthorized vehicle use reports.

Improve Personal Property Accountability

The Guide, Volume 1, Subsection 3.2010 (page 1), states that it is important to maintain adequate fixed asset records to meet the requirements of Generally Accepted Accounting Principals (GAAP) and to control fixed assets and plan replacements. In Subsection 3.2020 (page 3), it states that the identification of fixed assets is necessary for internal control and audit trail purposes. "If a local government can identify a particular fixed asset by some other method (serial numbers on typewriters, or calculators, engine number, complete description, etc.) decaling is not required."

The Guide, Volume 2, Subsection 11.1010 (page 1), 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. Also, all resources should be safeguarded against waste, loss and misuse."

Section 1950, Subdivision 18 of the Education Law and Section 1703 of the Regulations require, "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."

The audit performed a small review of purchased equipment to determine if they were being accounted for properly. A small test of inventory was done with no exceptions, except those already noted in the management letter from CAEW BOCES' certified public accountant, and that there were no inventory tags.

CAEW BOCES officials agree with the observation and point out that they have been implementing corrections as a result of the 1996-97 management letter. In an effort to address the need to improve CAEW BOCES' personal property accountability, CAEW BOCES officials have:

- Established a centralized receiving operation at the Olean Center;
- Updated the accuracy of Fixed Assets Inventory Lists; and
- Considered the purchase of software that would bar code the items and provide the accounting for the perpetual inventory system.

Opportunity Exists to Improve Accounting Practices

Education Law, Section 1950(4)(d), indicates that any component district that 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 such as salaries of teachers or other personnel employed in providing such services, for 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 System of Accounts states "...expenses will be charged to the pertinent service on the basis of invoices received. Invoices which contain items for two or more services will, of course, be prorated accordingly."

The audit found two instances where invoices were not charged to the "pertinent service." One was an invoice for welding supplies (\$1,130), which was requested by an occupational education teacher and was considered inappropriately charged to operation and maintenance because of the quantity ordered. The second invoice was for conference expenses for the director of instructional support services to attend a Technology/Learning and Staff Development conference. These expenses were reported under CO-SER 316 (School Food Supervisor). The audit considered that this expense would be related to the director and the director's salary expenses were reported in CO-SER 710 (Program Administration).

CAEW BOCES officials agree with the finding.

Student Activity Fund

Section 1 of Article 8 of the New York State Constitution states that "No county, city, town, village or school district shall give or loan any money or property to or in aid of any individual, or private corporation or association, or private undertaking."

Section 172.1 of the Regulations defines a student activities fund as, "An organization within a school district whose activities are conducted by students and whose financial support is raised other than by taxation or through charges of the board of education...."

The Vocational Industrial Club of America (VICA) is a national organization serving high school and college students and instructors who are enrolled in training programs in technical, skilled, and service occupations, including health occupations. VICA clubs existed at CAEW BOCES during the audit period

and a student activity fund for each location was used to account for their activities.

The audit found that CAEW BOCES donated public funds to the VICA extra classroom activity fund. This occurred when VICA members performed maintenance on CAEW BOCES vehicles. The maintenance occurred after school hours, on CAEW BOCES property, using CAEW BOCES equipment.

VICA members would perform routine vehicle maintenance, such as lubrication, oil and filter change, and minor repairs, such as bulb replacement. VICA issued invoices to CAEW BOCES, which included the cost of the lubricating fluids, parts used, and a \$3 labor charge per invoice. VICA members were not paid for this service so the labor charge is the equivalent of a donation to the extra classroom activity fund.

CAEW BOCES officials agree with this finding.

Recommendations

1. Consult with CAEW BOCES' independent accountants for the useful life of vehicles and utilize the equipment until it is no longer economically feasible to do so.
2. Increase the program budgets when justified and assesses the components accordingly.
3. Take measures to limit the number of confirming purchase orders to those that are of an emergency nature.
4. Implement and/or amend policies and procedures to require prior approval for overtime; establish dollar limits on personal telephone calls; prohibit guests from using the credit of CAEW BOCES; and establish travel advance procedures.
5. Establish a policy governing the use of all credit cards.
6. Document and keep the methodologies used in allocating resources so that an audit trail exists and the documentation can be presented if required.
7. Decal CAEW BOCES-owned vehicles using logos or other markings to clearly identify them as CAEW BOCES vehicles.

8. Continue complying with the management letter and personal property accountability policy, and supply a proposed completion date.
9. Use budget transfers to make funds available and refrain from the practice of charging invoices to related CO-SERs if the correct CO-SER has no funds available.
10. Reimburse VICA only for the cost of materials.

Comments of Cattaraugus-Allegany-Erie-Wyoming BOCES Officials

CAEW BOCES officials agree with recommendations 2, 3, 5, 6, 8, 9, and 10. They partially agree with recommendation number 4 and disagree with recommendations 1 and 7. In regard to recommendation one, CAEW BOCES officials feel the practice of selling vehicles has been a long-standing practice which the component districts support. In regard to number 7, they feel that official plates are sufficient control.

Auditor's Note

BOCES vehicles are funded with public resources and the identification of vehicles as such is an appropriate control.

Administrative Expenditures

Education Law, Section 1950(4)(b)(1), states that the Administrative Budget shall include, but need not be limited to, any and all expenditures associated with the Board, office of the District Superintendent, general administration, central support services, planning and all other administrative activities. Each component district is responsible for a proportionate share of the costs included in the Administrative Budget, irrespective of its participation in the elective services that it may request.

The audit found that CAEW BOCES did not fund the Administrative Budget increase appropriately and did not include the expenses of their personnel operations in the Administrative Budget.

Supplemental Retirement Increase Deducted from Occupational Education Refund

Education Law, Section 1950 (2)(4)(b)(5), requires the trustees or board of education of each component school district to adopt a public resolution either approving or disapproving the tentative Administrative Budget prepared by BOCES. There is no provision in law to amend the Administrative Budget once adopted, except in rare instances.

The Department gave approval to increase the adopted Administrative Budget for 1996-97 for an unanticipated increase in the supplemental retirement benefit expense for the Teachers' Retirement System (TRS).

The audit found that during the 1996-97 school year, CAEW BOCES increased the Administrative Budget by \$97,000 to enable the payment of the supplemental TRS retirement benefit. CAEW BOCES calculated each component district's share of the increase based on Resident Weighted Daily Attendance (RWADA). However, instead of separately assessing each component for the increase, CAEW BOCES reduced each component's Occupational Education CO-SER refund by the amount of the supplemental assessment. Administrative costs are assessed on RWADA and a refund from the Occupational Education CO-SER is based on participation. CAEW BOCES' method for funding the increase in the Administrative Budget resulted in some districts receiving a larger occupation education refund and others a lower refund than what they should have received based on participation.

CAEW BOCES officials agree with this finding.

Personnel Department Expenses Not Accounted for in the Administrative Budget

Handbook #3, Section 1 (E), requires that under central support for operations the costs to be clearly stated in the Administrative Budget are business office operations, personnel services, and public information.

The audit found that CAEW BOCES reported expenditures for its personnel function in a separate CO-SER (714 - Personnel Services). CO-SER expenses totaled \$68,476 and were transferred to programs at year-end. The Administrative CO-SER received \$20,381 of these transfers.

CAEW BOCES officials agree with finding and have included the personnel department-related expenses in the Administrative Budget for school year 1999-2000.

Recommendations

11. Increases to the Administrative Budget will be funded in the same manner as the adopted budget.
12. Include the expenses of the personnel function in the Administrative CO-SER.

Comments of Cattaraugus-Allegany-Erie-Wyoming BOCES Officials

CAEW BOCES officials agree with these recommendations.

Cooperative Services

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 (Handbook #2), Criteria-Guidelines for Approval of BOCES Services, delineates the minimum standards for approvable service programs. A new service proposal must be submitted for any service that is new to a given BOCES.

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

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

The audit found that CAEW BOCES was providing services or facilities to private entities, and some CO-SERs were not fully in compliance with the guidelines under which they were approved.

Cooperative Services Provided to Private Entities

CAEW BOCES operates a Safety/Risk Management Program (CO-SER 609). The criteria-guidelines for Safety/Risk Management (Activity Code 7470) indicate that the program is designed to assist local education agencies to establish health, safety and risk management programs (e.g., Right-to-Know, Occupational Safety and Health Act, Disaster Preparedness, Fire and Building Code, Asbestos, etc.).

The audit found contracts that are not for the purpose of establishing, maintaining or enhancing the operation of the program and, therefore, are not considered necessary for the operation of the program.

Several private companies and individuals have contracted with CAEW BOCES for the asbestos training programs offered in the Safety/Risk Management CO-SER.

CAEW BOCES officials agree with this finding and indicated that, in order to secure the best rates from the company that provides the training (class size determines the rate), CAEW BOCES allowed private individuals to round out the classes. In the future, these classes will be offered in the Adult Education Program.

Environmental Education Services Being Offered to Private Entity

CAEW BOCES operates an Environmental Education Program (CO-SER 416). The criteria-guidelines for an Environmental Education Program (Activity Code 5843) indicate that BOCES employees "coordinate or provide a shared instructional program in which an outdoor setting serves as a laboratory for observing and demonstrating processes directly related to the environment, its abuse or enhancement." In order to provide these services in an environmental setting, CAEW BOCES rents facilities at Allegheny State Park from the NYS Office of Parks, Recreation and Historic Preservation.

The audit found that CAEW BOCES rented the Allegany State Park Facility to several private groups (for example, Camp New Horizons, JN Adam Ellinton, and the First Baptist Church of Lockport) when it was not needed for educational purposes. The revenues from these private rentals were applied toward the expenses of this CO-SER operation.

CAEW BOCES officials agree with this finding and have stopped renting out the facilities.

Business Office Support Services

Handbook #2 delineates the minimum standards for approvable service programs. A program description, which defines the nature of the service, its purpose and the target population, is generally submitted with a CO-SER. The criteria-guidelines for Business Office Support (Activity Code 7017) have the following aid restrictions: "Use of district-based shared

professional staff is limited to a total of 0.6 FTE with aid. Central technical and professional staff may be used instead of or in support of district-based staff, provided that each staff member is shared. A report showing the sharing of district-based staff shall be filed by the first of August following the close of the fiscal year. Services of a district-based clerical staff may not be approved for aid. Services of a district clerk or district treasurer may not be approved."

The Department's School District Organization-BOCES Unit has taken the position that a BOCES staff person cannot provide a school district function. In addition, an individual cannot be located at, and provide service to, one school district exclusively. This clarification of the shared services criteria, found in Regulation 112.3 and the BOCES Administrative Handbook #1, page 4, iii, must be considered even though an individual's FTE may be correctly split between several CO-SERs, and other districts correctly share the CO-SERs.

CAEW BOCES operates a Business Office Support CO-SER. Five of the business managers are also the district treasurer for the school districts. Additionally, one of the business managers worked more than 60 percent at one school district with no aid reduction. There are four district-based clerical staff claimed in the CO-SER.

CAEW BOCES officials disagree with this finding. They feel that the services of a treasurer are not offered as part of the cooperative services being purchased by the school districts, and CAEW BOCES has no control over the school districts appointing whom they want as treasurers.

Food Service Program Expenses are Understated

The System of Accounts is prescribed pursuant to Section 36 of the General Municipal Law. It is designed to provide uniformity with respect to classification and summarization of data from the books of account. The System of Accounts states that Education Law requires that the net cost of operating a board of cooperative educational services shall be allocated among participating districts. To facilitate such allocation, this system requires a separate accounting of revenues and expenditures for each service program.

Additionally, the System of Accounts states that revenue account A1422, Organized Activity Income, is the account that records "revenues received from the operations of activities organized in

connection with instructional departments (e.g., auto repair, sale of agricultural products, etc.)."

The audit found that CAEW BOCES was not accounting for the revenues as stated above, but was netting them against the expenses for the Culinary Arts/Foods Management program.

The Culinary Arts/Foods Management program provides lunches and refreshments for other programs. Students not only learn to prepare food, but also are instructed in the management aspects of running a "deli" or their food service program. As the other programs use lunches, refreshments and coffee services, the Culinary Arts program bills each program for the services provided. These bills are sent to Accounts Payable for accumulation and future application against the Culinary Arts program expenses. When vendors' invoices are received, instead of being charged to the Culinary Arts program expenses, they are charged to other programs in proportion to the accumulation of that program's bills. If there were not enough bills to absorb all the invoice costs, the remaining balance would be charged to the Culinary Arts/Foods Management program. This methodology resulted in the expenses to the Culinary Arts program being understated as these charges to other programs are coded against (netted against) the payment of expenses for the Culinary Arts program.

CAEW BOCES officials agree with this finding; however, they argue that netting expenses is a much simpler method and is more cost-effective. Students gain valuable hands-on experience and the expenses of the Culinary Arts/Foods Management program are less as they are absorbed by the CO-SERs benefiting from the service. The CO-SERs using the services of the Culinary Arts program would have fewer food-related expenses because they would not be patronizing the higher-priced outside food service vendors. CAEW BOCES officials feel that accounting for revenues and expenses separately, as stated in the criteria, is an additional expense and time-consuming.

CO-SER 710, Program Administration Being Used Improperly

Handbook #1, page 51, states that Program Serial Numbers (PSN) starting with 701 and ending with 799 are reserved for Occupation and Maintenance and other internal service activities. These activities are operated solely to serve BOCES service program needs and whose costs are fully supported by transfers among program budgets. It further states that the 700 series "should never have external sources of revenue, e.g., tuition, school district revenue." Continuing, it says that if there is the

likelihood of this, then the PSN from 101-699, which is appropriate to the area of service, should be used.

CAEW BOCES was improperly using CO-SER 710 (Program Administration for Instructional Support Services) to collect the costs of Xerox purchases for several school districts. A special pricing arrangement was procured from Xerox, which was predicated on billings and shipments to one location. These school districts were later billed for these purchases, thus relieving the account of expenses that did not pertain to it. In this manner, the school districts could take advantage of Xerox's volume-related lower prices, which also required orders to have only one shipping and billing location. Because of Xerox's requirements, the cooperative bidding CO-SER was not used because it would require that each participating school district place its own purchase orders and be responsible for receiving the items.

CAEW BOCES officials agree with the finding and have stopped using CO-SER 710 for this purpose.

Environmental Education CO-SER Includes Some Weekend Activities and Some Ineligible Costs

Handbook #2 delineates the minimum standards for approvable service programs. The CO-SER applications are approved with the understanding that this CO-SER is operated within the criteria-guidelines under which they are approved. Included in the criteria-guidelines for Activity Code 5843, Environmental Education, is a specific requirement that activities may not be scheduled on weekends and that food costs are not eligible for aid.

A review of sample invoices for the Environmental Education CO-SER noted that one of the stays at the Allegany State Park included a weekend stay. Additionally, food costs of \$547 were charged to the CO-SER and not excluded on the SA-112 (Breakdown of Unapproved Services).

CAEW BOCES officials agree with the finding and have stopped scheduling any activities on the weekends and will include nonaidable expenses on the SA-112 in the future.

Recommendations

13. CAEW BOCES should stop contracting with private entities with respect to offering CAEW BOCES services and facilities.
14. Seek Department approval for the business office support that CAEW BOCES offers if it does not operate as stated in the CO-SER approval.
15. Record charges to other CO-SERs for food expenses as miscellaneous revenues, and charge supplies directly to the Culinary Arts CO-SER.
16. Stop the inappropriate use of CO-SER 710.
17. Stop weekend activities and record any unaidable expenses on the SA-112.

Comments of Cattaraugus-Allegany-Erie-Wyoming BOCES Officials

CAEW BOCES officials agree with recommendation 13, 15, 16 and 17. In regard to recommendation 14, CAEW BOCES officials disagree because they state that they do not offer treasurer services and cannot control the school districts' appointment of a treasurer.

Employment Preparation Education Program

CAEW BOCES operates an Employment Preparation Education (EPE) Program. This categorical aid program targets students 21 years of age or older and is designed to provide instruction that leads to a high school or equivalency diploma. CAEW BOCES received a total of \$282,812 in EPE aid for the period July 1, 1996 through June 30, 1997 based on 58,312 contact hours of instruction.

EPE aid is generated based on the number of contact hours that are provided. Section 168.4 of the 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.

The audit report will be used by the Department to adjust future EPE aid payments to CAEW BOCES.

Contact Hours Were Overstated

Section 168.2 of the Regulations defines a contact hour to be 60 minutes of instruction given by a teacher in approved program component areas. The audit found that CAEW BOCES could not adequately document 131 contact hours. As a result, the audit reduced eligible EPE aid by \$635.

Student Folder Documentation Needs Improvement

Section 168.3 of the Regulations requires that every student served in an EPE Program shall have an individual student folder that is easily accessible to the student and the teacher, and includes information concerning registration, attendance, testing, and individual program needs. At a minimum, registration information must include the student's name, class attendance, date of birth or age, and the diploma status.

The audit reviewed 22 student folders for required documentation. Student attendance records were missing or incomplete for all of these student folders. In addition, 2 of the 22 student folders did not contain any diploma status or date of birth information. Also, a third student's diploma status could not be verified since documentation in the student folder did not match other diploma status documentation found.

Teacher Certification Documentation Needs Improvement

In October 1995, the Department issued a memorandum which clarified the policy guidelines for generating EPE aid. Attached to the memorandum were "Question and Answer" policy guidelines. The following describes the definition of a teacher:

"For purposes of EPE generation, what is the definition of a teacher?"

Section 157.1 of the Regulations states that services provided to out-of-school youths and adults must be conducted by teachers who hold a valid New York State teaching certificate, an adult education certificate, or an evening vocational certificate. The teacher must be employed by the district or BOCES claiming aid."

The audit selected a sample of six EPE teachers to request certification for the 1996-97 school year. Of the six teachers, only two had the required certification.

Hours of Instruction

Section 168.3(b) of the Regulations, requires that EPE eligible classes operate at least 6 but not more than 20 hours per week, unless otherwise approved by the Commissioner.

CAEW BOCES generally operated classes between 6 and 20 hours per week, however 7 classes operated for less than 6 hours per week. The Commissioner's approval for operating classes less than 6 hours per week was not obtained from the Department. CAEW BOCES did not obtain the required waivers for the following classes:

Class Code	Program	Hours per week scheduled
970L28	ARC Wellsville	3
970L33	Wellsville ARA (Allegany Rehab Assoc.)	4.5
970L38	Office: Olean Center	4
970L56	Allegany County Jail Life Skills	3
970L57	Cattaraugus County Jail Life Skills	3
970L58	Baking/Cattaraugus County Jail	2
	Little Valley - ABE/HSE	

Additionally, the ARA class was scheduled for 4.5 hours per week; however, attendance sheets showed that students only attended 1 to 3 hours per week.

The audit found that CAEW BOCES did not have procedures in place to ensure waivers were obtained for EPE classes that did not meet the minimum required hours.

CAEW BOCES officials agree with the EPE findings and have taken measures to improve their documentation processes.

Recommendations

18. Improve procedures to ensure that all claimed contact hours are adequately documented.
19. Keep adequate student folders that have all the requirements satisfied.
20. Request and keep the documentation of waivers.

Comments of Cattaraugus-Allegany-Erie-Wyoming BOCES Officials

CAEW BOCES officials agree with these recommendations.

Contributors to the Report
Cattaraugus-Allegany-Erie-Wyoming BOCES

- James Conway, Audit Manager
- Betty Jean Ray, Senior Auditor
- Ronald Talarico, Senior Auditor

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

Requests for Audit Review

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

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

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

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

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