



Capital Region Board of Cooperative Educational Services

Internal Controls Over Select Financial Activities

Report of Examination

Period Covered:

July 1, 2005 — February 2, 2007

2007M-260



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2008

Dear Board of Cooperative Educational Services (BOCES) Officials:

A top priority of the Office of the State Comptroller is to help BOCES officials manage BOCES resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support BOCES operations. The Comptroller oversees the fiscal affairs of BOCES statewide, as well as BOCES compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished through our audits, which identify opportunities for improving BOCES operations and Board of Education governance. Audits also can identify strategies to reduce BOCES costs and to strengthen controls intended to safeguard BOCES assets.

Following is a report of our audit of the Capital Region BOCES, entitled Internal Controls Over Select Financial Activities. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for BOCES officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Capital Region Board of Cooperative Educational Services (BOCES) is an association of 24 component school districts, and the City School District of Albany. BOCES is governed by a ten member Board of Education (Board) elected by the boards of the component districts. The Board is responsible for the general management and control of the BOCES financial and educational affairs. The District Superintendent is the chief executive officer of the BOCES and is responsible, along with other administrative staff, for the day-to-day management of BOCES and for regional educational planning and coordination. According to statute, the District Superintendent is an employee of both the appointing BOCES and the New York State Education Department. As such, the District Superintendent also serves as a representative for the New York State Commissioner of Education.

Combined, the component districts educate approximately 80,000 students in Albany, Schoharie, Schenectady, and Saratoga counties. BOCES delivers more than 160 educational and administrative services to its 24 component school districts and the City School District of Albany, and employs approximately 1,200 staff members. BOCES' 2006-07 fiscal year budget of approximately \$85.7 million is funded primarily by charges to school districts for services and Federal and State aid.

Scope and Objective

The objective of our audit was to evaluate the internal controls over the BOCES claims processing and purchasing functions, as well as internal controls over technology equipment and data security and the establishment of the internal audit function for the period July 1, 2005 to February 2, 2007. Our audit addressed the following related questions:

- Are internal controls over claims processing and purchasing appropriately designed and operating effectively to adequately safeguard BOCES assets?
- Are internal controls to safeguard electronic data, computers and other portable technology assets appropriately designed and operating effectively?
- Has the Board properly established the internal audit function?

Audit Results

Our audit disclosed weaknesses in internal controls over claims processing and purchasing. Deficiencies in the area of claims processing included the improper appointment of a senior account

clerk as claims auditor, no written job description for the claims auditor, and weaknesses in the audit and approval of claims. In early 2006, the Board appointed a permanent claims auditor; however, the claims auditor is not reporting directly to the Board, but rather to officials in the Business Office. As a result, BOCES may be paying for goods and services that have not been properly authorized or are not valid expenses. There is also an increased risk that the Board will not be informed of problematic claims and/or ongoing systemic processing issues because the claims auditor does not report directly to the Board.

The Board had not adopted a written policy outlining when it is appropriate to provide meals and refreshments to employees and Board members, and BOCES has made it a practice to provide meals and refreshments at administrative meetings and training, as well as at regularly scheduled meetings of the Board. In addition, six (21 percent) of 29 food and refreshment claims examined, totaling \$5,192, were for questionable business purposes. For example, two claims totaling almost \$3,800 were for lunches served at regularly scheduled meetings that did not appear to be business of an immediate nature or meetings that were essential at mealtime. Further, we found that most attendees at these meetings attended for only part of the day. BOCES also paid \$1,395 for bottled water for its employees at BOCES expense.

We also found BOCES circumvented its purchasing policy regarding aggregate purchases of food-related items (e.g., bottled water, produce), and had insufficient controls over prepaid coffee shop cards. Improvements in the process to procure cellular telephone services could result in a substantial cost savings totaling over \$20,000.

Our audit also identified weaknesses in internal controls over safeguarding electronic data, computers and other portable technology devices. BOCES does not maintain its inventory records on a current basis and a periodic physical inventory is not performed and a disaster recovery plan is not in place.

Finally, our audit disclosed that the Board did not properly establish the internal audit function. The Board appointed internal auditor continues to work in his existing BOCES position which requires the individual to perform responsibilities specifically related to BOCES business operations while serving as the internal auditor. Concurrently holding these two positions is incompatible, as the internal auditor is assessing programs for which he is responsible.

Comments of BOCES Officials

The results of our audit and recommendations have been discussed with BOCES officials and their comments, which appear in Appendix A, have been considered in preparing this report. BOCES officials generally agreed with our recommendations and indicate they plan to initiate corrective action. Our comments concerning the BOCES officials' response can be found in Appendix B.

Introduction

Background

The Capital Region Board of Educational Services (BOCES) is an association of 24 component school districts, and the City School District of Albany. BOCES is governed by a ten member Board of Education (Board) elected by the boards of education of the component districts. The Board is responsible for the general management and control of the BOCES financial and educational affairs. The District Superintendent is the chief executive officer of BOCES and is responsible, along with other administrative staff, for the day-to-day management of BOCES and for regional educational planning and coordination. According to statute, the District Superintendent is an employee of both the appointing BOCES and the New York State Education Department. As such, the District Superintendent also serves as a representative for the New York State Commissioner of Education.

Combined, the component districts educate approximately 80,000 students in Albany, Schoharie, Schenectady, and Saratoga counties. BOCES delivers more than 160 educational and administrative services to its 24 component school districts and the City School District of Albany and employs approximately 1,200 staff members. The BOCES' 2006-07 fiscal year budget of approximately \$85.7 million is funded primarily by charges to school districts for services and Federal and State aid.

The Board appointed a permanent part-time claims auditor in February 2006 to assume the Board's powers and duties with respect to auditing and authorizing claims for payment. In November 2006, the Board appointed the Business and Risk Management Services Program Manager, an existing BOCES employee, to serve as the internal auditor.

Objective

The objective of our audit was to review internal controls over the BOCES claims processing and purchasing functions, as well as internal controls over technology equipment and data security and the establishment of the internal audit function. Our audit addressed the following related questions:

- Are internal controls over claims processing and purchasing appropriately designed and operating effectively to adequately safeguard BOCES assets?
- Are internal controls to safeguard electronic data, computers and other portable technology assets appropriately designed and operating effectively?

- Has the Board properly established the internal audit function?

**Scope and
Methodology**

We examined internal controls over claims processing, purchasing, technology equipment and data security, and the establishment of the internal audit function of the BOCES for the period July 1, 2005 to February 2, 2007.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

**Comments of
BOCES Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with BOCES officials and their comments, which appear in Appendix A, have been considered in preparing this report. BOCES officials generally agreed with our recommendations and indicate they plan to initiate corrective action. Our comments concerning the BOCES officials' response can be found in Appendix B.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the BOCES Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Claims Processing and Purchasing

A good system of internal control consists of policies, practices and procedures that provide reasonable assurance that an entity is using its resources effectively (i.e. prudently and economically) and that it is complying with applicable laws and regulations. BOCES officials are responsible for designing internal controls that help safeguard assets and ensure the prudent and economical use of its moneys when procuring goods and services, and processing claims. The overriding goal of a procurement system is to obtain services and/or materials, supplies and equipment of the desired quality in the quantity needed at the lowest price in compliance with applicable Board and legal requirements. This helps ensure that taxpayer dollars are expended in the most efficient manner. An effective claims processing system ensures that every claim against BOCES is subjected to a thorough and deliberate review, contains enough supporting documentation to determine whether it complies with statutory requirements and policies, and that the amounts claimed represent actual and necessary expenses.

Our audit disclosed weaknesses in internal controls over claims processing and purchasing. We found that the Board had improperly appointed a senior account clerk to serve as the claims auditor in July 2005. In early 2006, the Board appointed a permanent claims auditor but the claims auditor reports to officials in the Business Office not directly to the Board. Furthermore, a written job description detailing the duties and responsibilities for the claims auditor position has not been established. We also found weaknesses in the audit and approval of claims. The claims auditor allowed payment of claims that lacked evidence of physical receipt of the good or service, lacked evidence of prior approval for price increases, and lacked adequate documentation (e.g. claims were paid based on faxed and/or photocopied invoices, and vendor statements; not original invoices). Because of these weaknesses, there is an increased risk that BOCES paid claims for items that were not received or were not for a valid purpose.

Claims Auditor

The claims auditor is appointed by the Board to carry out the important responsibility of verifying the appropriateness of all claims for payment. The claims auditor should thoroughly review all claims and is specifically responsible for formally examining, allowing, or rejecting all accounts, charges, claims, or demands against the BOCES. The claims auditor is an integral part of a properly designed system of internal controls. The claims auditor may not be a member of the Board, the Treasurer or Clerk of the Board, the Superintendent or any other official of BOCES responsible for business management

(such as the purchasing agent or other personnel directly involved in accounting and purchasing functions of BOCES). To maintain adequate independence, the claims auditor should report directly to the Board.

In July 2005, the Board improperly appointed a senior account clerk in the Business Office to serve as the temporary claims auditor. The senior account clerk served for more than seven months in this capacity, during which time, she approved 5,238 claims totaling approximately \$88 million. Although the Board subsequently appointed a permanent, part-time claims auditor who met the independence requirement, we found that the claims auditor reports directly to BOCES business officials, not the Board. While we were provided with documentation used to fill the BOCES' claims auditor position (i.e. web notice of job opening), as well as a civil service classification description for the claims auditor, we found that a written job description for the position of claims auditor has not been developed by the Board. Without a written job description, the Board cannot be certain that the claims auditor clearly understands his or her duties and responsibilities, including to whom he should report.

The absence of an independent and impartial audit of claims increases the risk that the BOCES could pay for goods and services that have not been properly authorized or are not valid expenses. Further, there is an increased risk that the Board will not be apprised of problematic claims and/or ongoing systemic processing issues because the claims auditor does not report directly to the Board.

Claims Processing

Before authorizing a claim for payment, the claims auditor should ensure that each claim includes adequate supporting documentation, such as training/meeting agendas, training/meeting attendance sheets, conference/travel request forms, etc., itemized receipts for the goods or services purchased, and written confirmations (or sufficient evidence) to indicate that the goods and/or services described in the claim were actually received. The claims auditor should also verify that each claim is paid from original documentation and does not include charges previously paid. Further, the claims auditor should verify that purchase orders with price increases in excess of ten percent over the total purchase order amount have evidence of prior approval, as required.¹

The claims processing function is not operating effectively because the claims auditor is not performing a thorough audit of claims to ensure appropriate and sufficient documentation is presented to

¹ BOCES purchase orders explicitly state price increases in excess of 10 percent require prior approval.

support each claim, that there is evidence of receipt of the good or service, and purchases that exceed authorized amounts are approved, as required. We tested 69 claims,² totaling \$1,325,879, that included a variety of expenditures for professional services, supplies and equipment, and travel and expense reimbursements, and found the following claims processing deficiencies:

- Eighteen claims (26 percent) totaling \$23,630 lacked adequate documentation for a proper claims audit. For example, a claim was audited and approved, and an employee was paid \$1,177 in advance for estimated travel, lodging and meals for a meeting in New York City; however, the claim did not include the required travel conference request form and the meeting agenda. In another instance, a vendor was paid \$4,900 for services from a photocopy of an invoice rather than the original invoice, which increases the risk that a duplicate payment could be made.
- Four claims (6 percent) totaling \$107,456 lacked evidence of physical receipt of the good or service, such as written confirmation or attached delivery slips.
- Three claims totaling \$2,489 lacked evidence of prior BOCES approval for price increases in excess of 10 percent over the total purchase order.

The failure to conduct a thorough audit of claims could result in the BOCES making payments for goods that are not received or services that are not rendered and/or payments for claims that are not legitimate, reasonable and/or for a proper BOCES purpose. Also, the practice of paying claims from photocopied/faxed invoices or vendor statements increases the risk that a duplicate payment will be made.

Meals and Refreshments

BOCES personnel are entitled to reimbursement of actual and necessary expenses incurred in the performance of their official duties. However, generally, governing boards should only consider meals provided at meetings necessary when board members and/or personnel travel outside of their regular work areas on official business for extended periods of time, or where events prevent them from taking time off during mealtime for food consumption because of a pressing need to complete business. In order to safeguard taxpayer moneys, BOCES should have a written meals and refreshments policy that outlines when it is appropriate to provide meals and

² Claims consisted of BOCES purchase orders (which may include the division and purchasing agent's approval), vendor invoices, receipts, and any additional supporting documentation.

refreshments to officials and employees attending meetings and events. To effectively control costs for meals and refreshments, the policy should only allow meals and refreshments in the event the BOCES is faced with business of an immediate nature and/or for meetings of BOCES officials and employees which are essential at mealtime. To ensure compliance with the meals and refreshments policy, related expenditures should be approved in advance and contain adequate supporting documentation (i.e. itemized receipt, purpose of the meeting or event, date, and a list of attendees).

The BOCES does not have a written meals and refreshments policy. Also, BOCES has made it a practice to provide meals and refreshments for various BOCES activities and events, such as administrative meetings, employee training sessions, and regularly scheduled meetings of the Board. A projection of BOCES annual expenditures for food purchases for the 2005-06 fiscal year amounted to approximately \$13,000 for the provision of bottled water and incidental food items for BOCES employees and approximately \$49,000 for meals and refreshments provided at BOCES meetings.³

We reviewed 29 claims for food and beverage expenditures totaling \$55,675 to verify that the costs incurred were for necessary business purposes. Our review found that six of the 29 claims (21 percent), totaling \$5,192, were for questionable business purposes. One claim from a local deli in the amount of \$1,903 was for a lunch served at BOCES for an April 25, 2006 meeting on the comprehensive search for a new Student Information System (SIS). Another claim from a Saratoga area deli for \$1,894 was for additional lunches served at four meetings, generally attended for only part of the day, regarding the same SIS search. These meetings were part of a pre-defined scheduled process for the SIS search and did not appear to be business of an immediate nature or meetings that were essential at mealtime. BOCES also paid four vendors \$1,395 for bottled water for its employees at BOCES expense.

Our test of the 29 claims also found the following additional claims processing deficiencies:

- Nine claims (31 percent) totaling \$23,883 lacked evidence of physical receipt of the goods.
- Seven claims (24 percent) totaling \$6,691 lacked adequate supporting documentation. For example, a vendor was paid \$1,568 for food provided at a training session and a

³ Amounts are based on our analysis of actual food expenditures for the month of October 2005.

conference. The claim supporting these payments lacked agendas for the training and the conference, and also lacked a signed attendance sheet for the conference. Without adequate supporting documentation for events such as these, the necessity for providing food cannot be determined.

- Nine claims (31 percent) totaling \$29,384 lacked evidence of prior approval for price increases in excess of 10 percent over the total purchase order amount.
- Five claims (17 percent) totaling \$3,378 were paid from faxed or photocopied invoices or vendor statements instead of original invoices.

Also, among the claims were two purchases totaling \$4,000 for 40 prepaid cards from a nationwide coffee franchise in denominations of \$100 each. The first 20 cards were purchased in September 2005 and the remaining 20 cards were purchased in February 2006. BOCES officials told us the cards are kept by two program managers and used for the Reality Check Program.⁴ However, there is little control over what these cards are used for once they are purchased and distributed and the necessity for purchasing both 40 cards and \$4,000 worth of cards is questionable. In addition, only five of 20 cards on the list that BOCES provided had been turned over to the program managers as liquidated (used up) and one card was recorded as being “lost.” When we inquired as to who was present at these meetings to support the use of the cards, BOCES officials stated that, due to program guidelines and underage participants, permission from a guardian would have been necessary in order to keep a record of meeting attendance. At the time of our audit, almost 75 percent of the 20 cards reviewed had not been used up. Therefore, it does not seem reasonable to purchase \$4,000 of cards in advance. Although the dollar amount for the coffee shop claims is not large, the nature of the items purchased and a lack of adequate record-keeping creates a situation where such prepaid cards may be used for non-business purposes and go undetected. Furthermore, the process used by BOCES to purchase and use these cards circumvents purchasing and claims audit internal controls such as pre-approval and verification of the appropriateness of purchases.

⁴ This grant program involves events at either on-site (classrooms) or off-site (community agencies/venues) locations. The program manager stated that the program initially focused on working with students to change their view of smoking, but has evolved into more of a focus on parents and policy. Therefore, a shift was made to network with various smoke-free or smoking cessation organizations. This year’s initiative for the grant involved the Clean Indoor Air Law. In order to implement the initiative, coordinators were asked to find an establishment that was always smoke-free. The coffee shop was designated as the smoke-free meeting location.

Finally, we found that aggregate purchases are not always procured in compliance with the BOCES Purchasing Policy. The BOCES Purchasing Policy states various procedures and requirements for purchases less than \$10,000. For example, purchases of supplies and equipment that cost between \$1,500 and \$2,999 require at least two catalog quotes obtained by the ordering division with price information indicated on a purchase requisition and attached to the purchase order. All purchases are to be looked at in aggregate for the fiscal year and the necessary quotes or bids obtained.

BOCES has not complied with this policy provision for food-related purchases. For example, BOCES expended \$9,860 during the period July 1, 2005 to June 30, 2006 for the provision of bottled water for BOCES employees which, according to the purchasing policy, required two or three written/fax quotes be obtained. None of the claims for water purchases included in our review contained evidence that the required quotes were obtained. Based on our review, BOCES is not considering its bottled water purchases in the aggregate, thereby circumventing the required purchasing process and increasing the risk of paying more than was necessary. In addition, BOCES spent \$24,448 on produce from two vendors during the 2005-06 fiscal year for the culinary arts program. BOCES may have found better prices by aggregating the produce as one type of purchase and soliciting competitive quotes for produce.

Since BOCES has not adopted a written policy outlining when it is appropriate to provide meals and refreshments to employees and Board members and the documentation requirements to support such occasions, there is an increased risk that payments will be made for claims that are not reasonable and/or not for a proper business purpose. The failure to solicit competitive quotes according to the BOCES Purchasing Policy increases the risk that goods and services will not be procured at the lowest possible price.

Cellular Telephones

BOCES officials are responsible for designing internal controls that help safeguard resources and ensure that they are used efficiently and economically. An adequate system of internal controls includes clear policies and procedures that promote effective operations, the prudent use of resources, and adherence to applicable laws and regulations.

BOCES' current cellular service plans are not purchased through a centralized purchasing process. Rather, procuring and providing cellular service for staff is performed on a division level. According to the BOCES purchasing agent, the purchase procedure begins with the completion of a purchase requisition by the ordering division, which is subsequently reviewed by the purchasing agent to ensure the service plan is purchased from a valid New York State contract. If all of the

information is correct, the purchasing agent approves the purchase order and returns it to the ordering division to make arrangements for the service. The division sets up the service plan on its account with the provider and processes the cellular service bills for payment. The decentralized procurement of cellular service plans hampers BOCES' ability to obtain the economic benefit of volume purchasing, which has resulted in higher costs than may be necessary.

We acknowledge that at the onset of our audit BOCES was considering the Northeastern Regional Information Center (NERIC) as a centralized source for purchasing and paying for cellular telephone service. If BOCES were to take this proactive step, the purchasing agent estimated that by pooling the accounts and ultimately the plans' minutes, BOCES could save approximately \$12,000 annually on their current service. We performed a review of all of the BOCES cellular telephone bills for the fiscal year 2005-06 and determined that BOCES spent \$41,199 for over a dozen cellular service plans (including charges for minutes, text messages and e-mail usage) for a total of 78 cellular telephones and Blackberry devices. Based on actual usage, the current cellular telephone plans⁵ are not cost efficient.

Current cellular phone service plans are purchased from two different providers (Provider A and Provider B). The decision as to which provider to use is typically based on the service used by the ordering division and may also take into account the location of the user. We identified three possible cost savings opportunities using the existing State contract plans offered by Provider A and Provider B. First, by combining and using the most cost-effective service plans offered by each provider, using Provider A for 30 cellular phone lines and Provider B for the remaining 48 lines, BOCES could save over \$17,000 annually. A second option, using only Provider B for all 78 phone lines could result in almost \$15,000 of annual savings. The third savings opportunity using only Provider A could result in annual savings of over \$20,000.

Savings Opportunities	Cost of Plan	Total Cost Savings
1 – Provider A and B	\$23,919	\$17,280
2 – Provider B	\$26,268	\$14,931
3 – Provider A	\$20,655	\$20,544

We also found that the BOCES cellular service bills/invoices are not reviewed centrally on a regular basis for usage and cost to ensure the service plans are the most appropriate for service needs, and there is no policy regarding assignment and use of cellular telephones

⁵ Includes both cellular telephones and Blackberry devices

and Blackberry devices. Without these important components of an internal control system, there is an increased risk that cell phones and Blackberry devices may not be used efficiently.

Recommendations

1. The Board should ensure that the claims auditor position is independent from accounting and purchasing functions.
2. The claims auditor should report directly to the Board.
3. The Board should provide the claims auditor a written job description or duty statement to ensure that the claims auditor clearly understands how to perform his or her responsibilities to comply with Education Law requirements and to meet the Board's expectations.
4. The Board should ensure that the claims auditor conducts a thorough and deliberate audit of claims in accordance with laws, regulations and BOCES policies.
5. BOCES officials should establish a policy that describes the circumstances when it is appropriate to provide food and beverages at meetings, training and conferences.
6. BOCES officials should improve controls over the purchase and use of pre-paid purchase cards.
7. The purchasing agent should ensure that all like purchases are aggregated and quotes are solicited in order to obtain the economic benefit of volume purchasing.
8. BOCES officials should develop a written policy for the assignment and use of cellular telephones and Blackberry devices.
9. BOCES officials should review their various cellular phone plans and consider ways to more efficiently purchase these services.

Technology Equipment and Data Security

BOCES officials are responsible for developing a system of internal controls that incorporates adopted policies and procedures to safeguard computerized data and assets. Elements of the policy should include the duties of a designated property control manager, how asset records will be maintained, when periodic inventories should be conducted, how assets will be physically identified as belonging to BOCES, any restrictions on access and use of assets, and the Board's expectation for disposal of capital assets. An effective system of internal controls to safeguard computerized data includes policies and procedures adopted by the Board to minimize the loss of essential data. Such policies and procedures should work to protect data from loss from any number of threats or accidents (disasters).

Our audit disclosed weaknesses in internal controls over safeguarding electronic data, computers and other portable technology devices. We found weaknesses in data security and accountability over technology equipment. BOCES does not maintain its inventory records on a current basis and a periodic physical inventory is not performed, which increases the risk for loss, misuse, or abuse of computer and communication equipment. In addition, we found that BOCES does not have a disaster recovery plan. As a result, BOCES personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures in the event of a disaster.

Computer and Communication Equipment

Electronic equipment, such as computers and communication devices, often represents a significant investment of an entity's financial resources. BOCES officials must ensure that such assets are safeguarded from loss, that their value is maintained, and that they are used effectively. This can be accomplished by adopting suitable internal control policies and procedures that require maintaining accurate and up-to-date asset records, and conducting periodic physical inventories to monitor the accuracy of the records. Good internal controls require regularly performing periodic physical inventories and verifying that the assets viewed are properly recorded in the detail asset records to ensure the accuracy and effectiveness of the system in safeguarding and accounting for those assets.

BOCES policy provides that a perpetual inventory of all valuable fixed assets⁶ belonging to BOCES shall be prepared and maintained

⁶ Valuable fixed assets are defined as tangible personal property that are not consumable, have a resale value or original cost of \$500 or more, and have a useful life of one year or more. Such assets may include equipment, software, materials and vehicles.

by the Business Office. In addition, the policy states that each division director is responsible for all personal property under his/her control and that each division shall report its current inventory of fixed valuable assets to the Business Office and report all acquisitions, transfers and deletions from that inventory, as well as the location and condition of all such assets on a current basis.

We tested a sample of technology-based items, including computers, Blackberry devices, monitors, projectors, and Oracle database software to ensure the system for safeguarding and accounting for these assets was operating effectively. Our inventory verification testing included confirming individual possession of portable communication equipment, such as cellular telephones and Blackberry devices. Although we found that BOCES does not maintain a centralized inventory of its communication equipment, departmental inventory listings for portable communication equipment were properly maintained.

However, the BOCES inventory records for other technology-based items had not been kept on a current basis. For example, our sample included ten computers listed in the BOCES inventory records in April 2007, with an original cost of almost \$800 each, and located at a component school district. We attempted to verify the existence of the ten computers by physical inspection; however school district and BOCES officials could not locate these computers. The component school district subsequently notified us that the computers had been returned to the vendor in 2006 as they were defective. Because periodic physical inventories of assets are not performed, the BOCES inventory records had not been updated for the return of these computers.

Through the many educational programs BOCES offers, computer and communication equipment is often leased to its component school districts. Without performing periodic physical inventories and verifying that the assets viewed are properly recorded, it is difficult to ensure the accuracy of inventory records and operating effectiveness of the internal controls, thereby rendering BOCES at a greater risk for loss, misuse, or abuse of computer and communication equipment.

Disaster Recovery

An effective system of internal controls to safeguard computerized data includes policies and procedures adopted by BOCES to minimize the loss of essential data. Such policies and procedures should work to protect data from any number of threats or accidents (disasters) and to restore data if it is unavoidably lost or corrupted. This system of internal controls should include a disaster recovery plan and a routine system of complete data back up so that, in the event of the loss of computerized data, it can be restored completely and accurately with

a minimum amount of liability or lost productivity. Also, there should be a formal plan detailing the responsibilities of individuals and the procedures to follow to recover lost data in the event of disaster. This plan should help minimize business cycle interruption and address the process of returning to normal business functioning as soon as possible.

A disaster is any sudden, catastrophic event (e.g. fire, computer virus, power outage, or inadvertent employee action) that compromises the integrity or data of the information technology system. A formal plan consists of the precautions taken so that the effects of the disaster will be minimized, and BOCES will be able to either maintain or quickly resume its mission-critical functions. Typically, a disaster recovery plan involves an analysis of threats to business processes and continuity needs. It may also include a significant focus on disaster prevention. BOCES has not developed a formal disaster recovery plan describing how it would deal with potential disasters. Consequently, in the event of a disaster, personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures. During our audit period, however, BOCES officials recognized the necessity for such a plan and have developed a basic plan that will be implemented in the 2007-08 fiscal year.

Recommendations

10. BOCES officials should strengthen the internal controls to safeguard BOCES computer and technology equipment assets, and monitor and enforce compliance with those controls.
11. BOCES officials should develop and the Board should adopt a formal disaster recovery plan. This plan should address the range of threats to the BOCES information technology system, including the need to adequately back-up all mission-critical data. The plan should be distributed to all responsible parties, periodically tested and updated as needed.

Internal Audit Function

Education Law requires BOCES to have an internal audit function, which includes at a minimum, the development of a risk assessment of BOCES operations. The risk assessment should include, but not be limited to, a review of financial policies, procedures and practices; an annual review and update of such risk assessment; annual testing and evaluation of one or more areas of the BOCES internal controls, taking into account risk, control weaknesses, size and complexity of operations; and preparation of reports (at least annually or more frequently as the Board may direct), which analyze significant risk assessment findings, recommend changes for strengthening controls and reducing identified risks and specify timeframes for implementation of such recommendations.

Education Law permits BOCES to use its own employees, inter-municipal cooperative agreements, shared services or independent contractors to fulfill the internal audit function. The internal auditor must have professional auditing qualifications and be independent of other BOCES functions. The internal auditor must have no other responsibilities related to business operations, and cannot be a close or immediate family member of an employee, officer, or contractor providing significant or material services to BOCES. In addition, an individual or consultant hired for the internal audit function may not have a significant or material interest in any other contracts with BOCES.

On November 20, 2006, the Board appointed the Business and Risk Management Services Program Manager, an existing BOCES employee, to serve as the internal auditor. This employee continues to work in his existing position, which requires him to assume managerial responsibilities and perform duties specifically related to business operations, while serving as the internal auditor. We believe that the concurrent holding of both of these positions is incompatible.

Recommendations

12. The Board should appoint an individual who meets the eligibility criteria, as defined in Education Law, to the internal audit position.
13. The Board should ensure that individuals appointed to the internal auditor position are independent and comply with Education Law.

APPENDIX A

RESPONSE FROM BOCES OFFICIALS

The BOCES officials' response to this audit can be found on the following pages.

**BOARD OF COOPERATIVE
EDUCATIONAL SERVICES**

BOARD PRESIDENT

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Office of the State Comptroller
Albany Regional Office
22 Computer Drive West
Albany, New York 12205-1695

To Whom It May Concern:

On behalf of the Capital Region BOCES we submit the following response to your report of examination on "Internal Controls Over Selected Financial Activities" for the period of July 1, 2005 – February 2, 2007.

We would like to offer our appreciation of your efforts and time during the months that your staff spent reviewing the operations of the BOCES. We are also appreciative that representatives of the Office of the State Comptroller were willing to ameliorate a number of inaccuracies that were in the initial draft report. After careful review of the examination report we are pleased that the final recommendations are procedural and process related and do not represent high risk systemic issues with the BOCES fiscal operations.

See
Note 1
Page 26

Recommendation #1 – The Board should insure that the Claims Auditor position is independent from accounting and purchasing functions.

The Internal Claims Auditor is appointed annually by the BOCES Board of Education. Specific job duties and a position description, both of which were supplied to the audit team, spell out in detail the responsibilities of the position. The internal day-to-day work of the Internal Auditor is physically located in the Business Office because that is where the information is located. In the course of his duties, questions might arise on the details of a particular claim; questions appropriately asked to Business Office personnel who have the information but do not in themselves make the internal auditor dependent on the accounting and purchasing functions. We are reviewing the Civil Service approved Claims Auditor job description and statement of duties to make it clear that the position is independent from the Business Office operations.

Recommendation #2 – The Claims Auditor should report directly to the Board.

The Board annually appoints the Claims Auditor. Over the past year, the auditor on at least two (2) occasions has met with and reported directly to the Board Audit Committee. We believe that both the Claims Auditor and the Board currently understand the line relationship from the Claims Auditor to the Board. In order to insure complete understanding, a directive is being prepared by the Board that will be shared with the Claims Auditor and the appropriate Business Office staff pointing out the lines of reportability and responsibility.

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Recommendation #3 – The Board should provide the Claims Auditor a written job description or duties statement to insure that the Claims Auditor clearly understands how to perform his/her responsibilities to comply with Education Law requirements and to meet the Board’s expectations.

During the course of the audit examination, the auditors were given a copy of the job description approved by the Albany County Civil Service and a copy of the specific job duties. Although we believe these two documents accurately reflect the job duties and responsibilities we have undertaken a review of both documents to update them to be sure the Claims Auditors understands his responsibilities. A copy of the updated job description and the duties statement will be reviewed with the Claims Auditor by the Board’s Audit Committee.

Recommendation #4 – The Board should insure that the Claims Auditor conducts a thorough and deliberate audit of claims in accordance with law, regulations and BOCES policies.

The review described under Recommendations 1, 2, and 3 above will lead to a better understanding between the Board and the Claims Auditor with respect to specific job responsibilities and duties.

Recommendation #5 – BOCES officials should establish a policy that describes the circumstances when it is appropriate to provide food and beverages at meetings, trainings and conferences.

A proposed policy has been drafted and will be presented to the Board’s Policy Committee for its review, revision as appropriate, and recommendation to the Board in February 2008.

Recommendation #6 – BOCES officials should improve controls over the purchase and use pre-paid purchase cards.

The pre-paid purchase cards that were the subject of the audit were purchased with grant funds and approved by the State Education Department. The cards were part of a Smoking Cessation Program. A proposed policy will be presented to the Board’s Policy Committee for its review and revision as appropriate with a recommendation to the Board in February 2008.

Recommendation #7 – The Purchasing Agent should insure that all like purchases are aggregated and competitively bid in order to obtain the economic benefit of volume purchasing.

Although the major items purchased by BOCES are pooled for competitive bidding purposes in order to insure the best price, there are a few instances as pointed out in the report where it appears this did not occur. Steps will be taken to review internal purchasing procedures specifically in the area of aggregating like items for competitive bidding and that the purchasing agent and staff are aware of the guidelines and procedures. The procedures will be incorporated into an administrative regulation and promulgated to appropriate staff.

Recommendation #8 – BOCES officials should develop a written policy for the assignment and use of cellular telephones and blackberry devices.

A proposed policy for the assignment and use of cellular telephones and blackberry devices will be presented to the Board's Policy Committee for its review and revision as appropriate with a recommendation to the Board in February 2008.

Recommendation #9 – BOCES officials should review their various cellular phone plans and consider ways to more efficiently purchase these services.

During the period of the audit, the OSC field auditors were informed that the BOCES had already conducted an analysis to change its methodology for purchasing cellular services. The BOCES has completed its study and has implemented a plan that will save in excess of \$10,000 each year.

Recommendation #10 – BOCES officials should strengthen the internal controls to safeguard BOCES computer and technology equipment assets, and monitor and enforce compliance with those controls.

The BOCES has a very thorough process for tagging and placing equipment in its inventory records. The audit cited that the existence of ten (10) computers could not be confirmed at the time of a random visitation to the local district in which the computers were supposed to be located. At the time of receipt the computers in question were immediately tagged and entered into the inventory tracing system and then delivered to the school district. Shortly thereafter, the districts' staff determined that the units were defective. The equipment was then returned to the vendor. Inventory records at the time of the audit had not been updated.

The BOCES has worked with its external auditor to develop a process that will address periodic movement of assets within its vast inventory.

Recommendation #11 – BOCES officials should develop and the Board should adopt a formal disaster recovery plan. This plan should address the range of threats to the BOCES information technology system including the need to adequately backup all mission-critical data. The plan should be distributed to all responsible parties periodically tested and updated as needed.

As acknowledged in the audit, the BOCES is in the process of developing a Business Continuity Plan. Given the comprehensive nature of such a process, the plan was not complete at the time of the audit.

Recommendation #12 – The Board should appoint an individual who meets the eligibility criteria as defined in Education Law to the Internal Auditor position.

Please see Recommendation #13 for a combined response.

Recommendation #13 – The Board should insure that individuals appointed to the Internal Auditor position are independent and comply with Education Law.

Internal Auditing is a “management” function which can be performed in one of three ways: by hiring an appropriately credentialed employee, by contract to a qualified vendor or via Inter-municipal Agreement, regardless of the method chosen the function must report directly to the Board of Education.

In the absence of timely and clearly defined implementing guidelines for districts to follow, the BOCES board decided to carry out the internal audit function by hiring an employee who is a CPA and has had significant prior work experience doing performance audits.

For purposes of fulfilling the internal audit function, this person is a direct report to the Board of Education.

Subsequent to the OSC audit period, the Board of Education has chosen to perform the Internal Audit requirement as outlined in Education Law §2116-b by entering into an Inter-municipal Agreement as authorized under General Municipal Law 5-g, thus eliminating any question regarding independence.

In closing, the BOCES Board of Education would like to thank OSC audit staff for their efforts associated with increasing the efficiency and effective use of public funds.

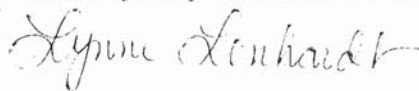
As stated numerous times during the exit conference and subsequently, the claims deficiencies noted in the audit report are a result of OSC interpretive opinion as they relate to our procedural process for claims audit. As a result we will now require “sign off” of all “packing slips” on received commodities along with the receiving copy of the purchase order which was previously signed and forwarded as part of the claims documentation. This will eliminate the notion of “presumptive receipt” due to our decentralized purchasing function.

In addition, meeting agendas will also be required to provide documentary support of expenses associated with food reimbursements.

The BOCES Board of Education takes its fiduciary responsibilities very seriously and views the audit process as a tool to uphold this responsibility.

Very truly yours,

Board of Cooperative Educational Services



Lynne Lenhardt
President

Via fax: December 27, 2007
Original U.S. Mail: December 27, 2007

APPENDIX B

OSC COMMENTS ON BOCES OFFICIALS' RESPONSE

Note 1

OSC auditors met with BOCES officials on December 4, 2007 and December 14, 2007 to review and discuss the audit findings and recommendations included in the draft report. The draft report contained no inaccuracies. However, subsequent to these meetings and after careful review of the audit evidence, OSC agreed to remove the citation of three claims deficiencies initially cited in the draft report. Other minor wording changes were made to clarify certain findings.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard BOCES assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate BOCES officials, performed limited tests of transactions and reviewed pertinent documents, such as BOCES policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the BOCES financial transactions as recorded in its databases. Further, we reviewed the BOCES internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected claims processing, purchasing and information technology for further audit testing.

We interviewed appropriate BOCES officials to obtain an understanding of BOCES processes for the claims processing and purchasing functions. We focused on adherence to BOCES policies and procedures, as well as pertinent laws and regulations related to claims processing and purchasing. We examined claim packets, cancelled checks and vendor history reports to determine the effectiveness of internal controls pertaining to the claims processing and purchasing functions and to identify any associated effect of deficiencies found in those controls.

We interviewed appropriate BOCES officials to obtain an understanding of BOCES inventory system and internal controls. We tested a sample of technology-based items to ensure the system in place to safeguard and account for these assets was operating effectively. Our inventory verification testing included confirming the physical existence of computers and related equipment and individual possession of portable communication equipment.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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