



Oswego County Board of Cooperative Educational Services Internal Controls Over Cash Receipts and Disbursements

Report of Examination

Period Covered:

July 1, 2006 — June 30, 2007

2008M-141



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	3
EXECUTIVE SUMMARY	5
INTRODUCTION	7
Background	7
Objective	7
Scope and Methodology	7
Comments of BOCES Officials and Corrective Action	8
CASH RECEIPTS	9
Business Office Cash Receipts	9
Departmental Cash Collections	10
Recommendations	13
CASH DISBURSEMENTS	14
Segregation of Duties	14
Check Signing	15
Recommendations	16
APPENDIX A Response From BOCES Officials	17
APPENDIX B Audit Methodology and Standards	23
APPENDIX C How to Obtain Additional Copies of the Report	25
APPENDIX D Local Regional Office Listing	26

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2008

Dear BOCES Officials:

A top priority of the Office of the State Comptroller is to help BOCES officials manage their BOCES 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, in part, 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 Oswego County BOCES, entitled Internal Controls Over Cash Receipts and Disbursements. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's Authority as set forth in 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 Oswego County Board of Cooperative Educational Services (BOCES) is an association of nine component school districts governed by a nine member Board of Education (Board) which is 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 (Superintendent) is the chief executive officer of the BOCES and is responsible, along with other administrative staff, for the day-to-day management of the BOCES. By law, the Superintendent is an employee of both the appointing BOCES and the New York State Education Department. As such, the Superintendent works under the direction of both the Board and New York State Commissioner of Education.

Scope and Objectives

The objective of our audit was to determine if BOCES officials were properly safeguarding their financial resources for the period July 1, 2006 to June 30, 2007. Our audit addressed the following related questions:

- Are internal controls over cash receipts appropriately designed and operating effectively to adequately safeguard BOCES assets?
- Are internal controls over cash disbursements appropriately designed and operating effectively to adequately safeguard BOCES assets?

Audit Results

In addition to complete and accurate records, a well-designed system of controls over cash receipts should establish a reliable accountability for collections immediately upon receipt and should provide for segregation of duties to the extent practicable. We found that BOCES officials have not established policies and procedures to ensure that there is an adequate segregation of duties for and oversight of the handling and recording of cash receipts. Departmental cash collections were not monitored adequately. Even though the Art Department collected almost \$73,000 of revenue during 2006-07, we found no effective internal checks on the coordinator. The Adult Education Department charges adult students tuition to enroll in BOCES programs. In 2006-07, the Adult Education Department brought in over \$710,000, per the records at the Business Office. However, the department record showed revenue of only about \$686,000 and that database had not been reconciled to ensure that all revenue was recorded and controlled. As a result, there is an increased risk that errors and/or irregularities might occur and go undetected and uncorrected.

The assignment of job duties at the BOCES did not provide for adequate segregation of duties over financial transactions. The Treasurer's duties include making and recording inter-account bank transfers

and wire transfer payments, preparing and posting journal entries, and reconciling bank accounts. In addition, we identified deficiencies in the Treasurer's oversight of the check-signing function for computerized checks. There is a significant risk that the Treasurer and the accounts payable and payroll clerks could make unauthorized or improper disbursements without detection. To address these risks, we examined check disbursements, approved warrants, certified payrolls, wire transfers, and journal entries. We found no material irregularities or inconsistencies.

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. District officials generally agreed with our recommendations and indicated that they have already initiated corrective action.

Introduction

Background

The Oswego County Board of Cooperative Educational Services (BOCES) is an association of nine component school districts that serves approximately 25,000 students within the county. The BOCES is governed by the Board of Education (Board) which comprises nine members elected by the boards of education of the component school districts. The Board is responsible for the general management and control of the BOCES' financial and educational affairs. The District Superintendent (Superintendent) is the chief executive officer of the BOCES and is responsible, along with other administrative staff, for the day-to-day management of the BOCES. By law, the Superintendent is an employee of both the appointing BOCES and the New York State Education Department. As such, the Superintendent works under the direction of both the Board and New York State Commissioner of Education.

The Assistant Superintendent for Administrative Services oversees a staff of ten employees at the BOCES Business Office, including the Treasurer and Deputy Treasurer. BOCES' administrative offices and many instructional programs are located at a campus in Mexico, Oswego County and at satellite classrooms located at component districts in Oswego County. Approximately 550 full-time and part-time staff work at the BOCES in classrooms and offices throughout the BOCES area. The BOCES' 2006-07 fiscal year budget of \$49.5 million is funded primarily by charges to school districts for services, Federal and State grants/aid and charges to the public for services and educational programs.

Objective

The objective of our audit was to determine if BOCES officials were properly safeguarding their financial resources. Our audit addressed the following related questions:

- Are internal controls over cash receipts appropriately designed and operating effectively to adequately safeguard BOCES assets?
- Are internal controls over cash disbursements appropriately designed and operating effectively to adequately safeguard BOCES assets?

Scope and Methodology

We examined internal controls over cash receipts and disbursements of the BOCES for the period July 1, 2006 to June 30, 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 B 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. District officials generally agreed with our recommendations and indicated that they have already initiated corrective action.

The Board has the responsibility to initiate corrective action. A written response to the audit findings must be prepared and filed within 90 days, and to the extent practicable, implementation of the corrective action plan must begin no later than the end of the next fiscal year, pursuant to 8 NYCRR Section 170.12[e][4][c]. The Board should forward a copy of the plan to the Commissioner of Education and make the plan available for public review in the Oswego BOCES Administration 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*.

Cash Receipts

The BOCES billed school districts, other business entities and private individuals over \$45 million for the programs and services that it provided in the 2006-07 fiscal year.¹ During that same period, it recorded an additional \$3.6 million of revenue that was not part of its formal billing process. While the Business Office collects the vast majority of cash receipts, approximately \$678,000 was collected by various departments and then turned over to the Business Office for deposit and recording. A good system of internal controls provides reasonable assurance that BOCES assets are properly safeguarded, accounting transactions are recorded and reported properly, and work performed is monitored and routinely reviewed. We found weak controls over cash receipts at both the Business Office and departmental cash collections locations. Without adequate segregation of duties over cash collections and without establishing immediate accountability for collections, there is an increased risk that errors or irregularities might occur and go undetected.

It is important that BOCES officials establish a system of checks and balances over cash receipts so that one person does not exercise control over all or most parts of the process. When it is not practical to segregate duties, officials should establish compensating controls. Such compensating controls might include the BOCES management or other administrative staff periodically reviewing the work in question, rotation of duties, and mandatory vacations. Effective internal control requires that cash collections be immediately recorded to establish accountability and provide a basis for comparison with amounts deposited.

Business Office Cash Receipts

At the BOCES Business Office, the Deputy Treasurer² receives, records, and deposits³ cash receipts without an effective, independent check over her work. Another staff member in the Business Office logs checks that are received by mail. However, the log sheet is then turned over to the Deputy Treasurer along with the checks for recording and depositing. No one compares the log sheet to the bank deposits to ensure all receipts were deposited intact.

¹ Contract billing of \$37.5 million to component school districts accounted for the majority of BOCES' billings.

² The Deputy Treasurer is the individual whose primary job duties include cash receipts in the Business Office. The Treasurer performs these duties in the Deputy Treasurer's absence. While the Deputy Treasurer does not have user access in the accounting system to make adjustments in accounts receivable, the Treasurer does have the ability to do so.

³ The Deputy Treasurer told us that beginning in the fall of 2007, a courier now brings deposits to the bank.

When various departments' officials turn over cash receipts to the Business Office, the Deputy Treasurer generally does not count the money in their presence and does not immediately provide a Treasurer's receipt. A clerk in the Business Office counts any currency and coin receipts that the Deputy Treasurer receives, prepares that deposit slip, and returns the money and deposit slip to the Deputy Treasurer for deposit and recording. The Deputy Treasurer typically provides a Treasurer's receipt to the respective departments within a day or two. The Business Office does not review departmental cash receipts and no one compares the departmental cash receipts to the bank deposits.

Since duties are not adequately segregated and no comparison is made to ensure cash receipts are recorded and deposited, the Deputy Treasurer or Treasurer could misappropriate cash receipts without detection. To address this risk, we tested \$11.4 million in cash receipts listed on three months of log sheets for checks received by mail. We traced from the log sheets to the BOCES accounting records and bank deposit records to verify that the funds were deposited intact. We also traced \$65,535 in cash receipts over a three-month period from one department to the accounting system records and bank deposits. We did not find any irregularities. The Business Office coordinator said that they were aware of the lack of segregation of duties over cash receipts, but that budgetary issues took precedence in terms of work task priorities at the time.

Departmental Cash Collections

A well-designed system of controls over cash receipts requires that management should establish a reliable accountability for collections immediately upon receipt and should provide for segregation of duties to the extent practicable. Effective means of establishing accountability include depositing moneys as soon as possible in the BOCES bank account, and the use of daily cash sheets, cash registers, and press-numbered receipts. Other ways to establish accountability include reviewing receipts to ensure sequence integrity and comparing the amounts deposited with the amounts collected at each department. When it is not practical to segregate cash receipts duties, someone independent of the cash receipts process should verify that collections are recorded and deposited intact.

We examined controls over departmental cash receipts and found the BOCES officials have not established policies and procedures to ensure that there is an adequate segregation of duties for and oversight of the handling and recording of cash receipts. As a result, there is an increased risk that errors and/or irregularities might occur and go undetected and uncorrected.

We evaluated the BOCES cash receipts processes to determine where the greatest risk of loss may occur and selected two departments for further testing. We selected these because they were at greater risk

due to management concerns and high volume of transactions. At both departments, we found that; cash handling and recordkeeping duties were not properly segregated, employees did not establish an immediate and reliable accountability for collections, and basic revenue control records such as billing and class enrollment lists were not properly maintained and reconciled.

Art Department — The Art Department charges tuition and fees for those program participants who are not sponsored by a school district pursuant to a Cooperative Service Agreement (COSER). Cash handling and recordkeeping duties are not adequately segregated in the Art Department and there is no independent accountability for cash receipts collected by the Art Department coordinator. The Art Department coordinator is responsible for maintaining student registration and billing records. During 2006-07, the BOCES' Business Office recorded \$72,855 of revenue that the Art Department collected and remitted to the Business Office for the two COSERs that we examined. However, we found that there are no effective internal checks on the Art Department coordinator and she does not keep reliable records of program enrollments, billings and adjustments, accounts receivable, or cash collections and remittances. As a result, there is significant risk that Art Department revenues may be lost due to undetected errors or irregularities. The Business Office coordinator told us that she is aware of the lack of control over Art Department revenues and attempts to monitor the integrity of program cash remittances by comparing student lists provided by the Art Department coordinator to the cash remitted to the Business Office. She attempts to check the accuracy of the student lists by comparing them to other business office records, such as COSER-related invoices, budget status reports, and expenditure detail reports. However, we concluded that this informal control procedure is inherently time-consuming and unreliable.

Because of this risk, we tested the reasonableness of the \$72,855 of revenue collected and remitted by the Art Department for the 2006-07 fiscal year for four of the department's programs. The reliability of our testing was compromised because we had to use unverifiable program enrollment records maintained by the Art Department coordinator. Although our testing did not identify significant irregularities, it did detect a double payment of \$1,100 collected from both a student and her school district and a \$200 payment that had not been remitted to the Business Office.

Our testing also determined that during the summer of 2006, the Art Department coordinator deposited at least \$59,370 of program-related cash receipts into a non-BOCES account belonging to a non-profit organization, for which the Art Department coordinator is also the director. We verified that the Art Department coordinator did remit

all but \$200 of these funds to the Business Office by January 2007. However, when unrecorded BOCES cash receipts are deposited into non-BOCES bank accounts, there is no clear audit trail and the BOCES lost approximately six months of interest earnings on the deposits. The Art Department coordinator did not give us a valid reason as to why she deposited BOCES tuition into a non-BOCES account.

Adult Education Department — The Adult Education Department charges adult students tuition to enroll in the BOCES vocational education classes. The Adult Education Department officials do not maintain adequate cash receipts records. We found significant weaknesses in how they account for tuition receivables. A secretary enters and tracks student charges and payments in a departmental database. The secretary is generally responsible for the cash collections, although others in the Adult Education Office may collect cash receipts and turn them over to her. She ultimately remits the receipts to the Business Office for recording and deposit. Most Adult Education revenues are not recorded in the BOCES' accounting system records until they are remitted to the Business Office.⁴

The department maintains separate databases to record enrollment and financial data. The number of students enrolled and the number billed did not agree between the two databases and the differences had not been reconciled. We asked for class attendance sheets and attempted to determine which departmental database might be more accurate, but neither record was consistent with the attendance sheets and attendance sheets were not available for some of the classes.

Finally, we compared the revenue recorded in the department financial database to the accounting system maintained by the Business Office for one COSER and identified an unreconciled difference of \$24,729 (3.5 percent). The Business Office recorded \$710,691 of revenue (cash receipts and outstanding accounts receivable) and the department record showed only \$685,962.⁵ Neither the department head nor the Business Office reviews or reconciles these databases to ensure the all revenue is being recorded and controlled.

The Business Office coordinator told us that there had been significant staff turnover within Adult Education Department in the past few years, adding to some of the confusion within the department. The

⁴ On occasion, some payment plans with Adult Education students are entered in the BOCES accounts receivable.

⁵ The revenue recorded in both the Adult Education Department and Business Office for this COSER includes some institutional payments that are comprised of checks mailed directly to the Business Office (e.g., social services, community employers, community organizations, etc.).

Superintendent also said that the previous director kept tight control over the Adult Education Department and delegated little authority. As a result, the current staff has been learning about the department as a whole and its various functions. The Adult Education Director and Treasurer told us that there could be various reasons for inconsistencies within the departmental records and between the Business Office records (e.g., students may have dropped but still owe money and no longer appear on all records, revenue may have been recorded improperly, etc.).

There is a risk that not all revenues have been recorded. Because the Business Office does not oversee or reconcile departmental cash receipts, the BOCES lacks assurance that all the cash receipts were reported and deposited.

Recommendations

1. The Board should provide oversight guidance to BOCES Management by adopting and communicating written internal control policies for cash receipts.
2. BOCES Management should formally evaluate the design of the Business Office and departmental cash receipts functions and implement a system of internal controls that adequately safeguards cash resources.
3. BOCES Management should monitor the effectiveness of the cash receipts process and require departments to maintain reliable records. They should periodically review these records to ensure cash receipts for various programs are consistent with the respective enrollments.

Cash Disbursements

The Board is responsible for establishing an internal control system that provides reasonable assurance of safeguarding resources. BOCES management is responsible for implementing the Board's control directives by designing and documenting operating policies, practices, and procedures, and by delineating employee responsibilities. The BOCES printed and disbursed 14,442 checks totaling \$34.3 million during the period July 1, 2006 through June 30, 2007. Accounts payable and payroll clerks print BOCES checks at the Business Office.

We identified internal control weaknesses in the BOCES' cash disbursements operations that could lead to errors or irregularities occurring and not being detected. Specifically, we found that the duties of the Treasurer were not adequately segregated, and Business Office staff members could print signed checks without the Treasurer's oversight. The Treasurer told us that the practices in place were carried forward from the previous administration and that she inherited the same duties as her predecessor.

Segregation of Duties

To have effective internal controls, duties must be adequately segregated so that no single individual controls most, or all, phases of a transaction. The work of one employee should be routinely verified in the course of another employee's regular duties. This reduces the risk that errors and irregularities could occur and go undetected and uncorrected. When it is not practical to segregate all duties because of limited staff resources, BOCES officials should establish compensating controls, such as managerial review of an employee's work.

Treasury duties are not properly segregated. The duties of the Treasurer include making and recording inter-account bank transfers and wire transfer payments, preparing and posting journal entries, and reconciling 10 of the 13 bank accounts. The ability to maintain accounting records, disburse cash, and perform bank reconciliations would allow the Treasurer to make improper payments without detection. As an oversight function, the Coordinator of the Business Office, Public Relations and Special Projects started reviewing journal entries during our audit period.⁶ However, this review is not sufficient because it is based on reports printed by the Treasurer and does not include comparing one month's report to the next to see

⁶ The review of journal entries started in November 2006 and it went back to the beginning of the 2006-07 fiscal year.

if all entries were listed. By comparing the prior month's journal entry to the next, a reviewer could identify missing journal entries because the accounting software automatically numbers journal entries sequentially.⁷

Because of these control weaknesses, we examined wire transfers and cash disbursement activities, including journal entries. We reviewed all external wire transfer payments and inter-account bank transfers. We verified that wire transfers were supported and that inter-account bank transfers were deposited in other BOCES bank accounts. We traced 140 journal entries totaling \$19.2 million to certified warrants, payroll registers, or other supporting documentation to confirm that payments were proper. We found no evidence of improper payments. However, we did find an \$894 error. The payroll clerk voided a direct deposit and re-issued a payroll check when a former employee notified her that she had closed her bank account. However, after processing the void, the bank did not return the voided direct deposit amount. After we notified BOCES officials, they contacted the affected individual to seek repayment.

Check Signing

As the BOCES official responsible for signing checks, the Treasurer plays a critical role in the cash disbursement process. The Treasurer must ensure that her signature is not used for unapproved payments. The Treasurer must affix or directly supervise the use of her actual or facsimile signature. Unless a statutory exception applies, the Treasurer should sign checks only after receiving a warrant certified by the claims auditor directing the Treasurer to pay the related claims, or after receiving a payroll register certified by the Assistant Superintendent for Administrative Services. The Treasurer should compare the signed checks with the certified warrant or payroll for accuracy and consistency before the checks are issued.

We identified deficiencies in the Treasurer's oversight of the check signing function. BOCES checks are computer-generated with the Treasurer's signature printed on them. The Treasurer, Deputy Treasurer, and accounts payable and payroll clerks all have the ability to print checks. However, only the accounts payable and payroll clerks routinely process and print checks. The Treasurer stores her signature disk in the Business Office safe when it is not in use. When the clerks are ready to print checks, they retrieve the disk from the safe, log the check series on a log sheet that is kept with the disk, and return the disk and log sheet to the safe upon completion of the task. The log also contains a place for the Treasurer's initials – essentially

⁷ A gap in the series usually indicates an entry was excluded from that printed report.

authorizing her signature to be affixed to the computerized checks. However, we found that the Treasurer did not always initial this log sheet at the time the checks were being printed. Additionally, the Treasurer did not compare the signed checks with the certified warrant or payroll for accuracy and consistency before they were issued nor did she review the cancelled checks, so there is no assurance that all checks have been authorized.

This process does not require the Treasurer's direct supervision of the check signing function and does not give her control over applying her signature to checks. As a result, BOCES officials have limited assurance that signed checks are being produced for only legitimate business purposes. Because of these weaknesses, we compared 138 non-payroll and 37 payroll cancelled checks, totaling \$1.3 million to the approved warrants and certified payroll registers. We found no evidence of unauthorized payments.

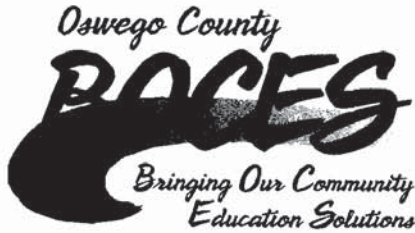
Recommendations

4. BOCES Management should review the BOCES system of internal controls over the cash disbursement functions and take steps to segregate the duties of the Treasurer or establish proper supervisory reviews or effective compensating controls.
5. BOCES Management should ensure that the Treasurer controls her electronic signature to prevent its misuse.
6. The Treasurer should ensure that check disbursements have been properly authorized by comparing signed checks to certified warrants or payrolls.

APPENDIX A

RESPONSE FROM BOCES OFFICIALS

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



MICHAEL J. SHEPERD, Assistant Superintendent for Administrative Services

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msheperd@oswegoboces.org

EXPRESS MAIL

August 27, 2008

[REDACTED]
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428

Dear Sirs:

Please accept this letter as the Oswego County BOCES official response to the Comptroller's Preliminary Draft Findings report.

We believe that the representations in the Executive Summary of the Comptroller's Report for the period of July 1, 2006 to June 30, 2007 illustrate a somewhat dramatically worded, but fair representation of the internal controls within the Oswego County BOCES. We appreciate the willingness of the Audit team to reconsider some of the wording contained in the report and recommend some revisions to more reasonably reflect the status of internal controls.

Additionally, for the fiscal year that was the subject of the audit, these findings may have basis in accuracy, however since that year and with the onset of the requirement for Audit Committee and the Internal Audit Function reviews, much of these items have been independently identified and addressed. Likewise, we appreciate the efforts of the auditors to identify areas in need of improvement, and probe more deeply to reaffirm that there were no instances of material irregularities, inconsistencies, or improper payments found during their detailed reviews.

With respect to the items noted about Cash Receipts, the following three recommendations were provided:

Recommendation #1 – The Board should provide oversight guidance to BOCES management by adopting and communicating written internal control policies for cash receipts.

- i) **Implementation Plan of Action** – For the 2008-09 school year, the Board is actively engaged in the process of policy review and will be including policies to address controls relative to cash receipts.
- ii) **Implementation Date** – As part of the Board's policy review process, policies will be developed and adopted during the 2008-09 fiscal year.

- iii) **Person Responsible for Implementation** – Board of Education.

Recommendation #2 – BOCES Management should formally evaluate the design of the Business Office and departmental cash receipts functions and implement a system of internal controls that adequately safeguards cash resources.

- i) **Implementation Plan of Action** – As a result of our Internal Audit, since the beginning of the 2007-08 fiscal year, certain procedural changes have been instituted in the Business Office relative to cash receipts, as follows:
- a. The Coordinator of Business Administration receives, opens, and reviews the bank statements before forwarding them to the Payroll Clerk (General and Federal fund checking accounts) and to the Treasurer (all other remaining accounts) and for preparation of the reconciliations.
 - b. Based on suggestions from both the Internal and External Auditing firms, Business Office and related personnel have taken on the separated duties as follows:
 - i. Purchasing Clerk or other available Clerk opens, logs, stamps “for deposit only”, and completes deposit tickets for daily cash receipts from internal programs.
 - ii. Typist opens, logs, and stamps “for deposit only” cash receipts received externally via US mail and passes off to Deputy Treasurer.
 - iii. Deputy Treasurer, completes the deposit ticket and places the deposit into the safe for pick-up by the Courier. She then logs the deposit into the financial system, and generates a hard-copy cash receipt, which is given to the Typist for reconciliation and filing with original log.
 - iv. Courier picks up deposits in the Business Office daily and brings them to the bank.
 - v. Payroll Clerk performs a monthly reconciliation of Federal and General fund checking account bank statements (the two largest accounts with the most activity) against the General Ledger, the Treasurer reconciles all remaining accounts, and the Assistant Superintendent for Administrative Services reviews reconciliations for all accounts.

Implementation Date – As previously described, the items have already been implemented.

Person Responsible for Implementation – The new responsibilities have been assigned to personnel by the Coordinator of Business Administration.

Recommendation #3 – BOCES Management should monitor the effectiveness of the cash receipts process and require departments to maintain reliable records. They should periodically review these records to ensure receipts for various programs are consistent with the respective enrollments.

Implementation Plan of Action – In the report, two departments were noted as being in need of improvement relative to student enrollment and record keeping, Adult Education and Arts in Education.

The Adult Education Department is currently working with the Business Office to create accounting for tracking receipts of student enrollment and tuition. Additionally, during the 2008-09 school year, Management is pursuing revision and re-development of database structures across the entire organization. This will provide consistency in student enrollment information for reconciliation purposes. The Adult Education department will be a benefactor of this effort.

Items in need of tracking in the Arts in Education department include summer student enrollments and registrations for certain functions during the school year. These items have been brought to the attention of the Director. Class enrollment and function registration lists will be provided to the Business Office prior to program delivery to allow for reconciliation of deposits.

The cash receipts processes in both departments have been examined. Students in the Adult Education programs who make payments are now remitting these directly to the Business Office during regular business hours. Students remitting payment after hours do so in the Adult Education Department, at which time a numbered itemized two-part receipt is issued to the student. On the next day of business, the deposit is forwarded to the Business Office along with a copy of the receipt and verified against the enrollment roster for the class.

In the Arts in Education Department, Management will review the cash receipts processes to ensure that checks and other payments are remitted to the Business Office in a timely manner. Upon receipt, checks will be reconciled with class roster to ensure complete collection.

The duties of roster creation and payment collection within each department will be segregated where possible to ensure adequate controls over cash receipts. Where segregation is not possible, payments will be remitted to the Business Office, and the receipts will be reconciled with rosters previously provided by the department.

Implementation Date – For Adult Education, as the databases are established during the 2008-09 school year, the processes will be implemented. For Arts in Education, processes will be established by November 2008.

Person Responsible for Implementation – The Assistant Superintendents for Administrative Services, Student Programs, and Instructional Support Services will work jointly to implement the items above.

With respect to the items noted about Cash Disbursements, the following three recommendations were provided:

Recommendation #4 – BOCES Management should review the BOCES system of internal controls over the cash disbursement functions and take steps to segregate the duties of the Treasurer or establish proper supervisory reviews or effective compensating controls.

Implementation Plan of Action – Upon recommendation of our External Auditors, the Treasurer duties do not include reconciliation of the General and Federal fund bank accounts, as she possesses the ability to make deposits and post journal entries for these funds. This was enacted as a compensating control since these two funds contain the largest amount of activity. Instead, these duties lie with the Payroll Clerk. Furthermore, on a monthly basis after closing, the Coordinator of Business Administration reviews the general ledger and cash receipts journal for all funds. Also, the Assistant Superintendent reviews monthly the bank reconciliations for all bank accounts in all funds. Additionally, upon recommendation of the OSC Auditors during their review, the Coordinator of Business Administration now runs the reports and compares consecutive month reports for irregularities.

Implementation Date – As noted above, these actions are already in effect.

Person Responsible for Implementation – The Coordinator of Business Administration and Assistant Superintendent are performing these oversight tasks.

Recommendation #5 – BOCES Management should ensure that the Treasurer controls her electronic signature to prevent its misuse.

Implementation Plan of Action – Signature disks are no longer in use. Instead, the signatures of the Treasurer, Deputy Treasurer, Purchasing Agent, and Deputy Purchasing Agent are all embedded in the financial software and password protected. In the absence of the Treasurer, the Deputy Treasurer will provide signature for processing. For a signature to be appended to a document, the signatory enters their password directly into the machine of the operator processing the documents. This ensures that the integrity of the signature is maintained. Following the check run, the Internal Claims Auditor reviews the items, and then the Treasurer reviews the payment packets including the check register prior to distribution.

Implementation Date – As noted above, these actions are already in effect.

Person Responsible for Implementation – The Coordinator of Business Administration assigned these steps to the personnel as indicated above.

Recommendation #6 – The Treasurer should ensure that check disbursements have been properly authorized by comparing signed checks to certified warrants or payrolls.

Implementation Plan of Action – As noted in the Plan for Recommendation #5, the Treasurer reviews the Internal Claims Auditor approved check register and warrant prior to the check distribution. Currently, the Treasurer does not review the certified payroll, but measures will be instituted to have the Treasurer perform this step.

Implementation Date – As noted above, the warrant review by the Treasurer is already implemented. The review of the certified payroll will be implemented in September 2008.

Person Responsible for Implementation – The Coordinator of Business Administration has assigned and will assign these duties as indicated above.

In closing, we would like to express that the BOCES Board, Management, and Staff hold in the highest regard their fiduciary responsibilities for the safeguarding and use of public funds. We would like to reiterate our appreciation to the OSC staff for their support and guidance in this effort throughout the Audit process.

Sincerely,



Michael J. Sheperd
Assistant Superintendent for Administrative Services

MJS:mak

cc: Board of Education
Dr. Joseph Camerino

APPENDIX B

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, and payroll and personal services.

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 objective and scope by selecting for audit those areas most at risk. We selected cash receipts and disbursements for further audit testing.

For cash receipts at the Business Office, we focused on the procedures for receiving, recording, and depositing cash collected through the mail and through remittances from other BOCES departments. To determine the effectiveness of internal controls and to evaluate the effect of any associated deficiencies in those controls, we tested a sample of departmental cash remittances to the Business Office and a sample of mail remittances to the Business Office.

For cash receipts at the Departments, we focused on the procedures for recording and collecting tuition revenues. To assess the effectiveness of internal controls and to evaluate the effect of any associated deficiencies in those controls, we tested the reasonableness of the total revenue recorded by the BOCES for the 2006-07 fiscal year against our revenue estimate derived from established tuition rates and student enrollment data for the Art & Adult Education Departments. We selected cash receipts from these two departments to test whether all receipts were deposited timely and intact.

For internal controls over cash disbursements, we focused our attention on the procedures for processing expenditures, maintaining accounting records, and reconciling bank accounts. To determine the effectiveness of internal controls and to evaluate the effect of deficiencies in those controls, we:

- Tested the reliability of electronic cash disbursement data from the BOCES computerized accounting system by reconciling to bank statements and comparing a sample of 175 expenditure records that indicated a greater potential for improprieties to warrants and cancelled checks on file at the Business Office. We also verified that each selected disbursement was a proper expenditure.

- Reconciled the check count and payment total on all paid warrants to bank statements and electronic disbursement data. We also verified that warrants were properly certified by the claims auditor.
- Examined all external wire transfers listed on the bank statements to verify that transfers were appropriate. We also examined all non-routine journal entries to ensure they appeared proper and were authorized.

We conducted our 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 C

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