



Delaware-Chenango- Madison-Otsego Board of Cooperative Educational Services

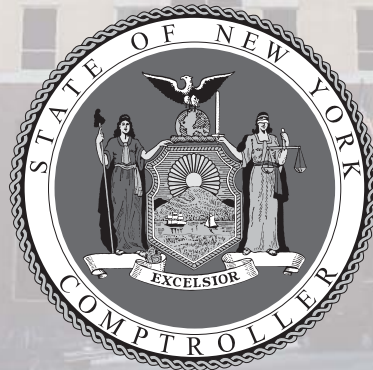
Internal Controls Over Financial Operations and Employee Background Checks

Report of Examination

Period Covered:

July 1, 2007 — January 31, 2009

2009M-173



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2009

Dear Board of Cooperative Educational Services Officials:

A top priority of the Office of the State Comptroller is to help officials manage their 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 local governments statewide, as well as 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 operations and governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard BOCES assets.

Following is a report of our audit of the Delaware-Chenango-Madison-Otsego Board of Cooperative Educational Services, entitled *Internal Controls Over Financial Operations and Employee Background Checks*. 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 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 Delaware-Chenango-Madison-Otsego Board of Cooperative Educational Services (BOCES) is governed by a seven-member Board of Education (Board) elected by the boards of its component school districts.¹ The Board is responsible for the general management and control of 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 16,700 students in Delaware, Chenango, Madison, and Otsego Counties. BOCES delivers educational and administrative services to its 16 component school districts and employs 375 full-time staff members. BOCES' 2009-10 fiscal year budget of approximately \$40 million is funded primarily by charges to school districts for services, and Federal and State aid. BOCES houses its administrative offices, including the Treasurer's office, at the Support Services (SS) Building in Norwich. Instructional programs are primarily housed at two occupational centers: the Robert W. Harrold Campus (HC) in Sidney Center and the Chenango Campus (CC) in Norwich.

Scope and Objective

The objective of our audit was to determine if BOCES officials were properly managing operations to safeguard BOCES assets for the period July 1, 2007 through January 31, 2009.² Our audit addressed the following related questions:

- Did BOCES personnel fully comply with Education Law by performing required fingerprint-supported criminal history background checks for all prospective BOCES employees who have direct contact with children?
- Did the Board ensure that reserve funds were funded properly and used for appropriate purposes?

¹ Component school districts (BOCES members) provide most of the funding for BOCES facilities and services. BOCES also serves "participating" school districts which elect to participate in one or more selected BOCES programs and are billed accordingly.

² For informational purposes, we also obtained updated information on reserve fund balances and allocations as of June 30, 2009.

- Did the Career and Technical Education (CTE) Director ensure that internal controls over occupational center cash receipts were designed appropriately?
- Did the Board establish comprehensive policies and procedures addressing the safeguarding of computerized data and information technology (IT) assets?
- Did the Business Manager ensure that internal controls over payroll were appropriately designed?
- Did the Board and school lunch manager properly manage the BOCES cafeteria financial operations?

Audit Results

The failure of BOCES officials to develop comprehensive policies and procedures or provide proper oversight of the work performed by BOCES employees allowed control weaknesses to exist in financial and operational areas, increasing the risk of the misuse of public moneys and potentially jeopardizing the well-being of BOCES students.

BOCES officials also did not comply with Education Law requiring prior criminal background checks for prospective employees expected to have contact with children. Only 22 of the 149 applicable employees we tested were properly cleared. Ten individuals were not cleared at all, 83 were cleared only after they started work, and 34 did not undergo the required clearance updates. As a result, the welfare of BOCES students may have been placed at risk.

We also found that the BOCES Board established an accrued liability fund for non-permissible purposes (other post-employment benefits, or OPEB). The moneys in this fund, which totaled \$3.5 million at June 30, 2008, constituted fund balance that should have been apportioned to the school districts.³ Further, BOCES management did not obtain Board approval to allocate \$290,000 of surplus funds to reserves,⁴ and did not clearly report such allocations to the component school districts. These practices compromise the transparency of BOCES operations and may deny the school districts a voice in how their moneys are spent.

The CTE Director did not ensure that occupational center staff maintained sufficient records for the Adult Education and CTE programs, properly used duplicate press-numbered receipts, or deposited moneys in a timely manner. The duties of the Adult Education clerk and day care teachers were not properly segregated. Although we found no significant exceptions, these weaknesses increase the risk of errors and irregularities.

The Board did not adopt policies and procedures to effectively safeguard computerized data and assets. We found control weaknesses relative to user access rights, system administration, computer use, physical security, and disaster recovery, which increase the risk that critical data may be lost or compromised. Our audit identified other vulnerabilities in the IT area which, due to their sensitive nature, are not addressed in this report but have been communicated separately to BOCES officials.

³ This fund contained approximately \$3.4 million at the end of the 2008-09 fiscal year.

⁴ For the following fiscal year, ended June 30, 2009, surplus allocations substantially decreased to a total of \$6,800.

Additionally, BOCES' Business Manager did not ensure that the payroll clerk's duties were adequately segregated. Although our tests did not identify any significant deficiencies, without a proper segregation of duties there is an increased risk that errors or irregularities could occur and go undetected and uncorrected in a timely manner.

Finally, the Board and school lunch manager did not ensure that cafeteria transactions were authorized or computerized data safeguarded, and did not investigate cash register discrepancies. We identified register shortages and overages that occurred on 192 of the 260 school days in our audit period.⁵ Without proper oversight, supervised cash counts, and timely reconciliation of recorded receipts with cash collections, BOCES officials cannot have assurance that cafeteria funds are properly accounted for, deposited, or used.

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 indicated they planned to take corrective action.

⁵ Totaling a net cash register shortage of \$6,529

Introduction

Background

The Delaware-Chenango-Madison-Otsego Board of Cooperative Educational Services (BOCES) is an association of 16 component school districts. BOCES is governed by a seven-member Board of Education (Board) elected by the boards of the component districts. The Board is responsible for the general management and control of 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. The Assistant Superintendent for Management Services is responsible for oversight of the Business Office, including the Business Manager and Treasurer.

Combined, the component districts educate approximately 16,700 students in Delaware, Chenango, Madison, and Otsego Counties. BOCES delivers educational and administrative services to its 16 component school districts and employs 375 full-time staff members. BOCES' 2009-10 fiscal year budget of approximately \$40 million is funded primarily by charges to school districts for services, and Federal and State aid. BOCES houses its administrative offices, including the Treasurer's office, at the Support Services (SS) Building in Norwich. Instructional programs are primarily housed at two occupational centers approximately 30 miles apart: the Robert W. Harrold Campus (HC) in Sidney Center and the Chenango Campus (CC) in Norwich.

Education Law and General Municipal Law (GML) define the reserves that BOCES can establish and the requirements for funding those reserves. BOCES maintained four reserve funds during our audit period, totaling approximately \$4.6 million at June 30, 2008.

Additionally, in accordance with Education Law, all prospective BOCES employees who have direct contact with children under the age of 21 are required to undergo a fingerprint-supported criminal history background check before they start working with students. The Personnel Technician is responsible for monitoring the background check process to ensure compliance with Education Law.

BOCES offers various vocational and continuing education programs, commonly referred to as Career and Technical Education (CTE) and

Adult Education, to high-school aged children and adults. Various program-related moneys, including fees for services offered by the CTE classes⁶ and fees for Adult Education classes, are collected at the occupational centers. During the 2007-08 school year approximately \$771,000 was collected for classroom services and Adult Education fees. The CTE Director is responsible for developing operational procedures to ensure that occupational center cash receipts are accounted for properly. The Principal at each occupational center is responsible for monitoring and enforcing established procedures.

BOCES uses networked computer systems to process and store financial and non-financial data. The Network Specialist oversees the information technology (IT) network systems. The Business Manager is responsible for developing and implementing appropriate internal controls over the payroll function. This includes segregating job duties so that no one individual controls all phases of a transaction.

BOCES operates two cafeterias, one at each occupational center, which offer breakfast and lunch to students and employees on school days. The school lunch manager is responsible for the management of the BOCES cafeterias. BOCES uses a software program to process cafeteria transactions. The two cafeterias collected approximately \$127,000 in cash receipts during the 2007-08 fiscal year.

Objective

The objective of our audit was to determine if BOCES officials were properly managing BOCES operations to safeguard BOCES assets. Our audit addressed the following related questions:

- Did BOCES personnel fully comply with Education Law by performing required fingerprint-supported criminal history background checks for all prospective BOCES employees who have direct contact with children?
- Did the Board ensure that reserve funds were funded properly and used for appropriate purposes?
- Did the CTE Director ensure that internal controls over occupational center cash receipts were designed appropriately?
- Did the Board establish comprehensive policies and procedures addressing the safeguarding of computerized data and IT assets?

⁶ CTE classroom cash receipts are moneys received for the performance of services by the CTE students for people in the community. For example, the automotive class performs maintenance on cars, the cosmetology class cuts hair and performs manicures, and the culinary class operates a restaurant. BOCES charges fees for each of these services.

- Did the Business Manager ensure that internal controls over payroll were appropriately designed?
- Did the Board and school lunch manager properly manage BOCES' cafeteria financial operations?

Scope and Methodology

We examined reserves, background check clearances of BOCES employees, occupational center cash receipts, information technology, payroll, and cafeteria operations for the period July 1, 2007 to January 31, 2009. For informational purposes, we also obtained updated information on reserve fund balances and allocations as of June 30, 2009. Our audit disclosed areas in need of improvement concerning IT controls. Because of the sensitivity of this information, certain vulnerabilities are not discussed in this report but have been communicated separately to BOCES officials so they could take corrective action.

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 is 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. BOCES officials generally agreed with our recommendations and indicated they planned to take corrective action.

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, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the BOCES Clerk's office.

Criminal History Background Checks

Education Law requires that all employees who have direct contact, or are reasonably expected to provide services that involve direct contact, with students under the age of 21 must have criminal history background checks. These fingerprint-supported criminal history background checks are required to be filed with the New York State Education Department's (SED) Office of School Personnel Review and Accountability (OSPRA). BOCES officials cannot employ an individual who is subject to Education Law requirements until SED has granted clearance for employment. If an individual already has a background check on file with OSPRA, BOCES must request a new background check to obtain a clearance for employment from SED. This background check captures any illicit activity from the last time the individual's background check was performed and notifies OSPRA to specify which BOCES must receive any criminal history updates. BOCES' Personnel Technician is responsible for enforcing the BOCES-developed system to ensure that employees are fingerprinted before they start working with children.

BOCES did not comply with Education Law by ensuring background checks were performed and filed with OSPRA. During the audit period BOCES hired 325 people, 149 of whom should have been fingerprinted. We reviewed the personnel files and OSPRA database for all of these 149 employees and found that 83 people were not cleared before they started work; clearance occurred from one day to nine months after the employee started work. Further, an additional 44 individuals were never cleared for employment specifically at BOCES. Of these, 34 had been previously cleared by other school districts, as shown in the OSPRA database, but were not subsequently cleared for employment at BOCES as required by Education Law. As a result, if these 34 employees had any criminal activity since the last background check, BOCES would not have been notified. The remaining 10 employees were not fingerprinted and cleared at all.

These deficiencies occurred because the Personnel Technician did not enforce the established system to ensure that all employees were fingerprinted. Because BOCES officials did not comply with Education Law and obtain the required background checks for employees, and did not ensure that BOCES received and filed employment clearances with OSPRA, they placed the welfare of BOCES students at risk.

⁷ We verified that these employees were not listed in the New York State sex offender registry or corrections database (Division of Criminal Justice Services).

Recommendation

1. The Personnel Technician should enforce the established procedures to ensure that applicable prospective employees are fingerprinted before they start working with children.

Reserve Funds

BOCES can legally reserve portions of its fund balance for specific future uses, reducing its reliance on operating funds or borrowed moneys. Education Law and General Municipal Law (GML) define the types of reserves that can be established. The law requires the Board to formally approve (by resolution) the establishment of reserves.

The Board is responsible for ensuring that reserve funds are properly established and necessary, that they comply with applicable laws, and that the moneys in those funds are used for appropriate purposes. Education Law requires BOCES to apportion surpluses (credit excess moneys) to each of its component and participating school districts every fiscal year. BOCES must also report to each district the cost allocated to that district in the past year's budget, the actual expenditures associated with providing shared services to the district during the past year, and any operating surplus that may result. While BOCES may retain surplus funds for reserves, good management practices require BOCES management to obtain Board approval of allocations made to various reserve funds; such allocations may be appropriated annually in the budget, or made from operating surpluses available at the end of the fiscal year. Any operating surpluses used to fund the reserves must be clearly identified, apart from other expenditures, in BOCES' reporting to its districts. In addition, any operating surpluses not used to properly fund the legally established reserves must be refunded to the component districts. BOCES are not legally allowed to accumulate unreserved fund balance.

During the audit period, BOCES maintained four reserve funds which totaled approximately \$4.6 million at June 30, 2008. BOCES officials used surplus funds to allocate moneys to three of these reserves. Of the total operating surplus of \$2,250,957 for the fiscal year ended June 30, 2008, \$290,000 (13 percent) was allocated to reserves as shown in the following table.⁸

⁸ The remaining \$1,960,957 in surplus operating funds was apportioned to the school districts.

Reserve Fund Balances and Allocations From Surplus Funds (Fiscal Years Ended June 30, 2008 and 2009)				
	FY 2007-08		FY 2008-09⁹	
	Balance	Surplus Allocations	Balance	Surplus Allocations¹⁰
Liability Reserve	\$864,160	\$150,000	\$708,701	\$3,800
Accrued Liability Reserve	\$3,466,287	\$120,000	\$3,410,151	\$0
Insurance Reserve	\$123,974	\$20,000	\$127,283	\$3,000
Unemployment Reserve	\$121,883	\$0	\$99,502	\$0
TOTAL	\$4,576,304	\$290,000	\$4,345,637	\$6,800

We reviewed the establishment, funding methods, uses, and balances of BOCES' reserve funds. BOCES management did not obtain Board approval to allocate the surplus funds to the reserves and did not directly report such allocations to the component and participating school districts. Further, while three of the reserves were established for legally authorized purposes, the accrued liability reserve fund was used to accumulate moneys for non-permissible purposes (other post-employment benefits, or OPEB) and was therefore established without legal authority. The moneys improperly retained in this reserve fund in effect comprised a \$3.5 million fund balance that should have been returned to the school districts.

Surplus Allocations

BOCES managers did not obtain the approval of the Board to allocate funds to the reserves, but instead decided, in conjunction with the independent auditors, the amounts to retain from BOCES' surpluses to allocate to the reserves at the end of the fiscal year.¹¹ The Assistant Superintendent for Management Services (Assistant Superintendent) told us that the Board was made aware of the reserve fund balances and related transactions by the monthly financial reports provided to them and the annual audited financial statements. However, the determination of reserve allocations by BOCES management, without the Board's approval, circumvents an important control over the use of surplus funds to which the component and participating school districts are entitled.

⁹ Provided for informational purposes only. Because our audit scope period ended January 31, 2009, we did not audit the reserve fund balances and allocations for the completed fiscal year ended June 30, 2009.

¹⁰ Allocations of surplus were reduced because of a reduction of available surplus due to unexpected energy costs.

¹¹ BOCES officials indicated that this method of allocating funds to the reserves has been their historical practice. We examined BOCES' method of allocating funds to reserves only for the completed fiscal year within our audit scope period (2007-08).

Allocations of surplus funds to BOCES reserve funds were not directly reported to component and participating school districts. At the end of the 2007-08 fiscal year, BOCES reported to each component and participating district the total BOCES expenditures and the cost allocated to each district. BOCES also reported any surplus or refund due and payable to each district. However, the amount of surplus retained by BOCES for funding reserves was not clearly identified, but was instead included in the total expenditure amounts reported. Therefore, allocations to the reserve funds were potentially made without the knowledge of the component and participating school districts.

Other Post-Employment Benefits (OPEB) Costs and Fund Balance

Other post-employment benefits, or OPEB, are employee benefits other than pensions, such as health insurance benefits, that an employee receives after his or her BOCES employment ends. Currently there is no legal authority for BOCES to accumulate reserve funds for payroll-related OPEB expenses. Accordingly, such costs must be budgeted on a “pay as you go” basis from operating funds. Additionally, Education Law stipulates that BOCES are not legally allowed to accumulate unreserved fund balance; any funds retained at fiscal year-end that are not in properly established reserves must be returned to the component and participating school districts.

In 1997, the Board passed a resolution to allow the use of BOCES’ accrued liability¹² account to accumulate moneys to pay for future (and a portion of current) OPEB expenditures. During our audit period, BOCES officials expended \$467,033¹³ from this fund toward OPEB costs, and allocated \$355,000 in funding for this reserve (during 2007-08). Since there are currently no reserve funds that BOCES can legally establish to accumulate moneys for future OPEB costs, BOCES in effect had an unreserved fund balance of approximately \$3.5 million as of June 30, 2008.¹⁴

The Assistant Superintendent told us that BOCES is accumulating surplus moneys for OPEB in an effort to limit the annual increase to the administrative budget¹⁵ and to associate the cost of future OPEB expenditures for each program with the districts that currently participate in that program. However, by accumulating moneys for OPEB purposes, BOCES officials are inappropriately retaining fund

¹² Accrued liabilities are used to account for expenditures chargeable to the current fiscal year but not due and payable until the following fiscal year.

¹³ \$291,486 in fiscal year 2007-08 and \$175,547 in 2008-09

¹⁴ At the end of the following fiscal year, ended June 30, 2009, this unauthorized fund had a balance of \$3,410,151.

¹⁵ The portion of the BOCES annual budget that includes administrative salaries, equipment, and services (i.e., expenses related to the Superintendent, Business Office, and Board)

balance that, according to Education Law, should be returned to the component and participating districts.

Without providing adequate information to the component and participating school districts or obtaining the approval of the Board for reserve contributions that are made from operating surpluses, management is not reporting BOCES' true results of operations to the component and participating districts. These practices compromise the transparency of BOCES financial operations and may deny the school districts a voice in how their moneys are spent. Further, the establishment of a reserve fund for OPEB costs is not legally authorized and withholds fund balance that should, by law, be apportioned to the school districts. BOCES officials should discontinue funding this unauthorized reserve.

Recommendations

2. BOCES management should obtain prior Board approval to allocate funds to the reserves, either through Board-approved appropriations during the budgeting process or by Board resolution to allocate surplus funds to the reserves at the end of the fiscal year.
3. The Board should ensure that participating and component districts are properly notified of BOCES' actual results of operations, including all surplus funds due and any specific surplus amounts that are allocated to reserves.
4. The Board should return the unauthorized OPEB moneys in the liability reserve to operating funds, and ensure those moneys are properly apportioned to the component and participating school districts.

Occupational Center Cash Receipts

Occupational center cash receipts at BOCES include moneys collected from students in the Career and Technical Education (CTE) and Adult Education programs as well as fees charged to the recipients of CTE services in the community. The CTE Director is responsible for developing a system of internal controls and operational procedures to ensure that occupational center cash receipts for both the Adult Education and CTE programs, held at either of BOCES' two occupational centers, are accounted for properly. Effective procedures identify the types of records that should be maintained, establish accountability over duplicate press-numbered receipt forms, and require that moneys are deposited in a timely manner. In addition, cash handling and recordkeeping duties should be properly segregated so that no single individual controls most or all phases of a transaction. Where it may not be feasible to completely segregate certain functions, compensating controls, such as supervisory oversight, can substantially limit the risk associated with having a single individual handle all facets of cash transactions. The Principal at each occupational center is responsible for monitoring and enforcing operational procedures.

The CTE Director did not ensure that internal controls over occupational center cash receipts were designed appropriately. CTE staff did not maintain sufficient records, properly account for duplicate press-numbered receipts, or deposit moneys in a timely manner. In addition, the duties of the Adult Education clerk and day care teachers were not properly segregated. As a result of these weaknesses, there is an increased risk that errors and irregularities could occur and remain undetected and uncorrected.

Adult Education

Proper operational procedures for Adult Education cash receipts must identify the types of records that should be maintained and period of time they should be retained on file. In addition, the proper segregation of duties requires someone independent of the cash receipt process to verify that enrollees in Adult Education classes pay the established fees and that all moneys collected are remitted to the Business Office for deposit. Further, the segregation of cash handling and recordkeeping duties should ensure that no single individual controls most or all phases of a transaction; for instance, the person responsible for collecting cash should not also prepare and maintain the class rosters. Where it may not be feasible to completely segregate certain functions, compensating controls, such as supervisory oversight, can substantially limit the risk associated with having a single individual handle all facets of cash transactions.

The CTE Director did not develop operational procedures to ensure that Adult Education cash receipts were accounted for properly and did not ensure that cash receipts duties were adequately segregated. The Adult Education clerk received payments, issued duplicate press-numbered receipts, remitted moneys received to the Business Office, and prepared the class rosters. No one verified that enrollees in the Adult Education classes paid the established fees and that all moneys collected, as documented on the duplicate press-numbered receipts issued, were remitted to the Business Office for deposit. In addition, the Adult Education clerk retained only one semester of class records at a time. For example, in January 2009, she had records only for the Fall 2008 semester. Therefore, we were unable to determine if individuals enrolled in Adult Education classes prior to the Fall of 2008 paid the required fee. Further, the duties of the Adult Education clerk were not properly segregated and there were no compensating controls in place.

Because of these weaknesses we reviewed five class rosters from the Fall 2008 semester and the corresponding 45 payments, totaling \$3,510, to determine if all adults enrolled in the program paid the required fees. We also compared 63 press-numbered receipts issued during the Fall 2007 semester, totaling \$2,708, to bank statements to determine if moneys collected were deposited in a timely manner. Although we found only minor discrepancies which we communicated to BOCES officials, the noted internal control weaknesses increase the risk that Adult Education fees may not be properly collected, accounted for, and/or deposited.

**Career and Technical
Education (CTE)
Classroom Services**

Because BOCES' CTE program provides for the instruction of students through hands-on performance of classroom services to the community, proper procedures for the processing of cash receipts require that occupational center teachers use appropriate recordkeeping processes. Such processes include issuing duplicate press-numbered receipts sequentially for all moneys received, establishing prices for all services provided, preparing itemized receipts (i.e., a detailed listing of all the services provided), maintaining proper source documents, and retaining records of services rendered and paid for on file. In addition, a copy of the duplicate press-numbered receipts issued to the recipients of CTE services should be remitted with the moneys for deposit, so that the Business Office can track all receipt books issued to the teachers. CTE cash management procedures should also be specifically suited to each cash collection point. For example, the moneys collected by the building trades class require different documentation (i.e., itemized invoices issued to the recipients of services) than the moneys collected by the cosmetology class (i.e., an appointment book).

The current established procedures for the occupational centers' classroom cash receipts require that duplicate press-numbered receipts are issued for all moneys received, prices are established for all services provided, and moneys collected are remitted to the CTE secretary at the end of each day for forwarding to the Business Office for deposit. However, these procedures did not specifically address each cash collection point. For example, because the procedures did not specify how the day care teachers should track payments received, each teacher developed and implemented unique recordkeeping and cash receipt processes. We found inconsistencies between the occupational centers and even within the same program held at both centers. For example, the recordkeeping processes used by the cosmetology class at the HC were different than those used by the cosmetology class at the CC. These inconsistencies increase the risk of errors in collecting, recording, and accounting for cash receipts.

To address this risk, we reviewed a sample of 344 cash receipt transactions totaling \$30,430 for three programs¹⁶ at each occupational center to determine if moneys were properly accounted for, and found that internal controls were weak in several areas:

- Duplicate press-numbered receipts were not properly accounted for. Receipt books were not used sequentially or maintained on file, and a copy of the duplicate press-numbered receipts issued was not always remitted with deposits. In addition, the Business Office did not comply with existing procedures to track the receipt books issued to each teacher. As result, there is no reliable way for BOCES officials to determine if all moneys collected were accounted for.
- Records maintained by teachers were not sufficient. Each teacher maintained very few or no source documents, and those that were maintained were not sufficiently detailed. For example, the appointment books used by the cosmetology teachers did not contain enough information to determine what services were performed and what rates should have been charged; the building trades teacher at the HC did not establish prices for all services and did not use itemized invoices; and the day care teachers did not maintain billing schedules or develop a tracking mechanism for day care tuition payments remitted by parents of the enrolled children.

¹⁶ We reviewed the cosmetology, day care, and building trades programs at both occupational centers. These programs collected \$163,473 during the scope period.

As result, we were unable to determine if all moneys collected were accounted for.

- Moneys were not remitted to the CTE secretary in a timely manner. For example, the cosmetology teacher at the CC retained custody of moneys collected from four days to three months before she remitted them to the CTE secretary (we did, however, determine that the moneys were properly secured).
- The duties of the day care teachers at both occupational centers were not properly segregated. Both teachers received payments, recorded payments, billed parents, and were responsible for tracking payments. There were no compensating controls in place to verify that all parents paid the correct amount of tuition or that all moneys collected were deposited. Because of this control weakness, we reviewed 252 day care tuition payments totaling \$26,585 (of the \$152,579 received during the scope period) to determine if the accurate amount of tuition was paid and if all moneys collected were deposited. At the HC, the tuition payments for eight of the 13 children enrolled in the day care program during the 2007-08 year were inaccurate.

These deficiencies occurred because the teachers were not made aware of the existing procedures. All six teachers whose records we reviewed told us they were unaware of the existing procedures and had not received any guidance on the cash receipt process. In addition, the Principal at each occupational center did not monitor the work of the teachers. These deficiencies increase the risk that errors or irregularities could occur and remain undetected.

Recommendations

5. The CTE Director should develop operational procedures to ensure that the Adult Education cash receipts are accounted for properly. These procedures should, at a minimum, require that:
 - The duties of the Adult Education clerk are segregated.
 - Records are retained on file.
 - Someone independent of the Adult Education cash collection process compares the class rosters to duplicate press-numbered receipts to ensure that all students enrolled in Adult Education classes paid the correct amount and that all moneys collected are remitted to the Business Office for deposit.
6. The CTE Director should develop operational procedures to ensure that CTE classroom cash receipts are accounted for properly. These procedures should, at a minimum, require that:

- Duplicate press-numbered receipts are accounted for properly.
 - The teachers maintain appropriate records.
 - Moneys received are remitted to the CTE secretary in a timely manner.
 - The duties of the day care teachers are segregated.
7. The Principal at each occupational center should ensure that the teachers are made aware of and adhere to established procedures.

Information Technology

Computerized data is a valuable resource that BOCES officials rely on to make financial decisions and report to State and Federal agencies. If the computers on which these data are stored fail, or the data are lost or inappropriately altered, the results could range from inconvenient to severe. Even small disruptions can require extensive time and effort to evaluate and repair. For this reason, it is important that BOCES officials control and monitor computer system access and usage, establish a formal disaster recovery plan, and ensure that computerized data and assets are physically secured. The Board is responsible for adopting policies and procedures and developing controls to safeguard computerized data and assets, and the Director of Instructional Support Services and Technology is responsible for ensuring that BOCES officials and employees adhere to adopted policies and procedures.

We found that the Board has not effectively addressed the safeguarding of computerized data and information technology (IT) assets. The Board and BOCES officials did not adopt comprehensive policies and procedures relating to user access rights, system administration, and computer use; did not develop a formal disaster recovery plan; and did not physically secure BOCES' computer assets. Our examination identified minor occurrences of unauthorized activity that we communicated to BOCES officials. The IT weaknesses identified increase the risk that sensitive or critical data may be lost or compromised, or that systems could be damaged or disrupted.

System Administrator

The Board is responsible for establishing adequate policies and procedures to ensure that user access rights to BOCES' financial software are based on the needs of employees' particular job duties. The system administrator, typically an IT staff person, is responsible for maintaining system resources which includes software security settings and the management of user access rights. Because the system administrator has the ability to add new users and change users' access rights, the individual in this position can control and use all aspects of the software. Accordingly, the administrator of the financial software should be someone who is not involved in the day-to-day activities of the Business Office to decrease the risk that BOCES' financial information or resources could be misused. As a mitigating control, BOCES officials also can review audit logs¹⁷ to

¹⁷ A function of the financial software that records who performed what action and when.

ensure that employees are not accessing areas of the financial software that are not related to their job duties.

The system administrator for BOCES' financial software is a senior account clerk who also has job duties in the Business Office. These duties include performing journal entries, budget transfers, and limited cash receipts and billing functions.¹⁸ The Assistant Superintendent told us that the senior account clerk was assigned as the system administrator because BOCES management believed the system administrator should be someone who had a working knowledge of the program in order to assist with testing and problem-solving, and that management believed there were sufficient internal controls in place to ensure that the senior account clerk would not be able to process improper transactions. For example, she could not modify her own user access rights. However, with administrator rights in addition to financial system access, the individual performing both the accounting and software administration functions could, potentially, still create a fictitious user and modify accounting information as that fictitious user. Further, BOCES officials did not review audit logs to verify that the senior account clerk accessed only those aspects of the financial software needed to perform her job duties, which would have provided a mitigating control.

Because of this weakness, we reviewed audit logs to determine if the senior account clerk used functions in the financial software that did not correspond with her job duties. Although we did not identify any occurrences of unauthorized activity, the lack of segregation of duties between the accounting and financial software administration functions increases the risk of unauthorized changes to the accounting records, to the software security settings, and to user authorization privileges for other employees without BOCES officials' knowledge or prior approval.

Computer Use

Good internal controls over computerized data include policies governing acceptable computer use. It is important that these policies address computer use for non-business purposes (i.e., personal use) and require the Network Specialist to monitor BOCES computers for inappropriate use. The BOCES acceptable-use policy states that IT staff must be consulted before any software is added and only software purchased or licensed to BOCES may be installed on a BOCES computer. One way to enforce this policy is to enable restrictions on BOCES computers to prevent software from being installed by anyone other than authorized IT staff.

¹⁸ The account clerk serves as a backup for the cash receipts and billing functions. She performs duties related to these functions only if the person primarily responsible is absent.

The BOCES computer use policy does not specifically address personal computer use or require the Network Specialist to monitor BOCES computers for inappropriate use. In addition, there are no restrictions enabled on BOCES' computers to prevent the unauthorized downloading of software. Because of these weaknesses we reviewed three of 99 laptops and eight of 749 desktops and found personal Internet use on eight computers. For example, employees visited shopping and real estate websites and accessed personal e-mail accounts. In addition, four of the 11 computers we reviewed had unauthorized software installed such as unauthorized virus-scanning software and upgrades to previously installed programs.

The Assistant Superintendent told us that it is BOCES' unwritten policy to allow personal use by employees during breaks and lunchtime, and that there are appropriate monitoring procedures in place. For example, computers are generally reviewed by the IT staff as part of the system upgrade process approximately every two years. However, the lack of routine monitoring of system activity increases the opportunities for inappropriate use. The failure to adopt comprehensive computer use policies significantly increases the risk that hardware and software systems and the data they contain may be lost or damaged, and leaves BOCES vulnerable to risks associated with personal use, including computer viruses and spyware.¹⁹

Physical Security

The physical security of computerized assets – computers, servers, wiring, and other components – is important for the adequate protection of BOCES' software and critical data. BOCES management is responsible for implementing policies and procedures for limiting and monitoring employees' access to IT components and maintaining a safe environment to guard against loss and destruction. For example, server rooms and wiring closets should be climate-controlled and protected against fire and water damage.

We found that physical access to BOCES' server rooms is not tracked or monitored. The server room at the HC is located in a janitorial closet with the door often left open, and anyone who has keys (administrators, janitors, and IT staff) has access to this room. In addition, this server room was not protected against fire damage (i.e., with an appropriate fire extinguisher). The server room at the CC has an emergency exit window making it visible and easily accessible. Further, the wiring closets at both the HC and the CC were not climate-controlled.

¹⁹ Spyware records users' activity and consumes valuable computer memory. Because spyware is using memory and system resources, it can cause system crashes and/or general system instability.

According to the Network Specialist, the door to the server room at the HC was left open because of heating issues. In addition, due to the recent construction the server room doors at both the HC and the CC were left open so the contractors could access the servers to make upgrades and repairs.

Without proper physical security, all other security measures may be meaningless. Physical threats, whether internal or external, malicious or inadvertent, could lead to damaged or stolen hardware and the loss or misuse of confidential information. Such security breaches can require significant time and money to correct, and could potentially leave BOCES vulnerable to costly litigation.

Disaster Recovery

BOCES officials are responsible for establishing a formal disaster recovery plan to prevent the loss of computer data and equipment and to provide staff with recovery procedures in the case of a disaster. Typically, a disaster recovery plan involves an analysis of business processes, continuity needs, and precautions to minimize the effects of a disaster so that critical functions can be maintained or quickly resumed.

BOCES has an IT Committee (Committee) that is comprised of administration and staff who work at the BOCES campuses and in the component districts. During our audit the Committee was working on a plan for disaster recovery and did some preliminary planning, but did not complete a formal plan which the Assistant Superintendent told us was because of unforeseen IT Department employee turnover and leave. Although BOCES has not experienced a major loss of IT assets due to this lack of a disaster recovery plan, it would be unprepared in the event of a disaster and may not be able to recover necessary data and/or promptly resume its computerized operations.

Recommendations

8. The Board should adopt policies and procedures over user access rights to require that:
 - System administrator rights are assigned only to the Network Specialist.
 - Audit logs are periodically reviewed by the appropriate BOCES officials.
9. The Board should adopt comprehensive computer use policies that address personal use by employees, and require the IT Department to monitor computer use to ensure that employees are using BOCES computers appropriately.

10. The Board should require that the IT Department enable restrictions on BOCES computers to prevent the unauthorized downloading of software.
11. The Board should ensure that the server rooms are secure and protected from fire damage and that wiring closets are climate controlled.
12. The Board should adopt a comprehensive disaster recovery plan that includes specific guidelines to protect confidential and essential data against damage or loss, and to recover lost data and quickly resume critical operations if a disaster occurs.

Payroll

The Business Manager is responsible for establishing controls over the payroll function so that no one individual controls most or all phases of a transaction. For example, the same person should not be responsible for entering employees' information, making changes in hourly and annual salary rates in the accounting software, and distributing paychecks. If it is not feasible to segregate duties, the Business Manager should implement compensating controls, such as having someone independent of the payroll process review completed payrolls. At a minimum, this review should include random checks to verify that payrolls are based on actual hours/days worked or authorized leave time; that employees are paid in accordance with Board-authorized rates; and that net payrolls agree with the payroll journals. The person conducting such a review should also assess the payroll for reasonableness.

The Business Manager did not ensure that internal controls over the payroll function were appropriately designed. The payroll clerk was responsible for virtually all aspects of payroll such as creating, updating and deleting employee records, activating new employees after their information is initially entered, inputting all payroll changes, collecting time sheets, entering the hours worked or salaries paid, and printing and distributing payroll checks. In an effort to segregate payroll-related duties, the Business Manager assigned a BOCES account clerk to assist the payroll clerk, in the Fall of 2008, on a part-time basis. However, because the account clerk was still receiving training during the audit period, the payroll clerk continued to perform all payroll functions. In July 2008, the payroll clerk began providing the Assistant Superintendent with a payroll change report,²⁰ the payroll register, and other payroll-related documentation each pay period for review and certification. The Assistant Superintendent reviews the payroll information for changes that seem unusual and for duplicate and/or large payments. However, although the Assistant Superintendent's certification does constitute an independent review, the fact that the payroll details (such as hours worked and salary calculation) are not periodically verified limits its usefulness in determining the payroll accuracy.

²⁰ The payroll change report shows all changes made to payroll records (i.e., rates of pay, hours worked, deductions, etc.) since the last pay period.

BOCES officials told us they were unaware of the full extent of the payroll clerk's responsibilities. For example, the Assistant Superintendent²¹ believed the Personnel Technician was responsible for adding new employees and therefore thought that payroll duties were partially segregated.

Due to the lack of segregation of duties, we attempted to determine if all active employees had a valid Social Security number.²² We also reviewed the payroll records of a sample of 21 employees to determine if wages were paid in accordance with Board-authorized rates, and if employees' withholdings and benefits were authorized and accurate. We also reviewed a sample of separation payments and payments made in lieu of health insurance to determine if such payments were accurate, authorized, and supported. Although our tests did not identify any significant deficiencies, without proper segregation of duties there remains an increased risk that errors or irregularities could occur and go undetected.

In May 2009, BOCES officials assigned the task of activating new employees in the financial software to the Personnel Technician. Although this step helps to mitigate the risk of creating a fictitious employee, the payroll clerk still has the ability to change and manipulate all payroll-related information once the employee is activated. For example, he could potentially pay someone for more hours than that person actually worked, and/or change pay rates.

Recommendations

13. The Business Manager should segregate incompatible duties in the payroll function. Where it is not practicable to segregate duties, the Business Manager should implement compensating controls.
14. The Assistant Superintendent should extend the review of payroll by periodically verifying payroll details such as pay rates, hours worked, and salary calculations.

²¹ The Assistant Superintendent served as the Business Manager during the 2007-08 fiscal year, previous to appointment as Assistant Superintendent.

²² We compared the names and Social Security numbers of all active employees, from the BOCES financial software, with the Federal Social Security database.

Cafeteria Operations

The Board, in conjunction with the school lunch manager, is responsible for managing cafeteria operations. This responsibility includes developing a system of internal controls to provide reasonable assurance that cafeteria transactions are authorized and recorded properly. A good system of internal controls over cafeteria operations includes policies and procedures to help ensure that computerized cafeteria data is safeguarded and that cash register overages and shortages are investigated, documented, and resolved. BOCES' two cafeterias collected approximately \$180,000 in cash receipts during the 2007-08 fiscal year.

The Board and school lunch manager did not properly manage the cafeteria operations or develop policies and procedures to ensure that cafeteria transactions were authorized and recorded properly. Computerized cafeteria data was not safeguarded and register overages and shortages were not investigated, documented, and resolved. The Board's failure to adopt appropriate policies and procedures and to provide effective oversight of cafeteria operations significantly increases the risk that errors and irregularities may occur and go undetected and uncorrected.

Computer Controls

The school lunch manager is responsible for evaluating the cafeteria computer system's internal controls and the Board is responsible for adopting policies and procedures to safeguard computerized information. These policies and procedures should ensure that supervisory approval is obtained prior to users making changes to cafeteria accounts,²³ and that supporting documentation for any change is maintained on file. In addition, the system should have the ability to restrict meal charges made to accounts that do not have sufficient cash balances. Further, the system should have an audit log function that provides a method of determining, on a constant basis, the identity of each person who has accessed the system, the time and date of the access and sign-off, and what transactions are being processed.

BOCES uses a computer system to maintain records of meals charged to student and staff accounts. However, the school lunch manager did not evaluate the cafeteria computer system's internal controls

²³ Students, teachers, and other staff may have a cafeteria account in which they deposit moneys with the school in advance and then draw from these funds to purchase meals.

and the Board did not develop policies and procedures to safeguard the computerized information. We evaluated the cafeteria computer system and found the following control deficiencies:

- All system users had the ability to adjust or delete account information without supervisory approval.
- Once an account is deleted from the system, there is no record of any of the transactions affecting that account. For this reason we were unable to determine the appropriateness of eight adjustments for which cafeteria staff did not maintain supporting documentation.
- The system does not have the ability to restrict charges made to accounts that do not have sufficient cash balances available. The cashiers are responsible for enforcing charge limitations and can allow anyone to charge at any time. We reviewed 20 of the 229 accounts that were overdrawn at the end of the audit period and found that 12 student accounts were overdrawn throughout the entire audit period, and five students were continually allowed to charge extra items such as ice cream, pretzels, snacks, etc.
- The system's audit log function was not sufficiently detailed to identify who accessed the system, what transactions were processed, what data changes were made, and the reason for the adjustments to the account. Because the audit log is not sufficiently detailed, we were unable to determine if the account adjustments we reviewed were appropriate, authorized, or supported.

The school lunch manager told us she did not evaluate the cafeteria computer system's internal controls because the system is used widely in several of the component school districts that she oversees and this is how the system has been traditionally operated. The Board did not adopt policies and procedures because they relied on the school lunch manager to oversee the cafeteria operations. The Board's failure to establish policies and procedures and ensure the review of computerized controls increases the risk that unauthorized users can gain access to system and inappropriately change, destroy, or manipulate data without accountability or detection.

Cash Register Overages and Shortages

The Board and BOCES management are responsible for developing policies and procedures to ensure that cash is properly collected, recorded (rung up on the cash registers), and counted at the end of each meal service period. Such procedures should ensure that cash counts are reconciled to recorded sales (as shown on the cash register

tapes) and that any variances are investigated and resolved. Effective controls also require each cashier to perform the cash count in front of another person to reduce the possibility of errors or irregularities. The school lunch manager is responsible for overseeing cafeteria operations and ensuring that the reasons for any significant register overages and shortages²⁴ are documented. BOCES employs two school lunch assistants to whom the manager delegates various cafeteria responsibilities, including the review of daily summary reports of cafeteria cash receipts in the manager's absence.

The Board did not establish written policies and procedures to ensure that cash collected is reconciled to recorded sales and any variances are investigated and resolved. The school lunch manager told us she visits each BOCES cafeteria an average of four to six times a year and that the school lunch assistants are responsible for the daily operations of the cafeterias. The cashier is responsible for entering a "declared ending cash" amount into the register at the conclusion of each meal period, showing the amount of money that is in the cash drawer, before closing the system. At each cafeteria, the cashier prints a daily summary report²⁵ that shows if there is a register overage or shortage. The school lunch manager implemented a verbal procedure that requires the school lunch assistants to review cash register overages and shortages in excess of \$5. The school lunch assistants told us that they do review daily summary reports and follow up on any overage or shortage in excess of \$5; however, because the assistants work at the BOCES cafeteria only one to two days a week, this review is usually conducted several days after the overage or shortage occurs. Further, the cashiers conduct the ending cash counts alone, removing another control over the accuracy of the cash count.

Because of this weakness we reviewed all 218 daily register overages and shortages in excess of \$5 to determine if they were supported, investigated, and resolved. These discrepancies occurred on 192 school days, or 74 percent of the approximately 260 school days in our audit period. There was insufficient documentation on file to resolve 152 shortages totaling \$7,056; of these, 94 occurred because the cashier did not enter the declared ending cash amount into the computer system and, therefore, we were unable to determine if all moneys received were accounted for.²⁶

²⁴ A register overage occurs when declared ending cash exceeds recorded sales. A register shortage occurs when declared ending cash is less than recorded sales.

²⁵ The daily summary report summarizes the number and type of meals served (i.e., breakfast or lunch, and free, reduced, or regular price), total deposits made to food service accounts, and the total dollar amount of meals charged and sold.

²⁶ We also identified 40 overages totaling \$528, for a net shortage of \$6,529 (rounded). The remaining 26 shortages and overages in our test occurred due to data entry errors by the cashier (e.g., entering \$25.00 instead of \$2.50).

These weaknesses occurred because there was not sufficient daily oversight over the work of the cashiers at either BOCES cafeteria. Without proper procedures and management oversight of cafeteria operations, BOCES officials do not have assurance that cafeteria moneys are properly collected, recorded, and/or deposited.

Recommendations

15. The Board should develop policies and procedures to safeguard computerized data which should, at a minimum, ensure that account adjustments are authorized and the reasons for the account adjustments are maintained on file.
16. The school lunch manager should evaluate the cafeteria system's internal controls, and BOCES officials should consult with the vendor who supports the cafeteria computer system to determine if the system can be configured to:
 - Restrict charges against cafeteria accounts that do not have sufficient cash balances
 - Capture detailed information about changes to account information in the audit log
 - Retain a record of transactions even after related accounts are deleted.
17. The Board and BOCES managers should develop policies and procedures to ensure that cafeteria cash collected is reconciled to recorded sales and that any variances are investigated, documented, and resolved.
18. The school lunch manager should provide for daily oversight of the work of the cashiers. Such oversight should ensure that the cashiers perform the ending cash counts with another employee present and input the declared ending cash at the close of each meal session.

APPENDIX A

RESPONSE FROM BOCES OFFICIALS

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

December 4, 2009

Mr. Patrick Carbone
Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear Mr. Carbone:

We are in receipt of the Draft Audit as of November 7, 2009. We would like to thank you and your staff for the professional and complete audit that was conducted. The cooperation and recommendations from the State Comptroller's office will assist the Board of Education, the administration at BOCES and all our staff in delivering high standards and cost effective services to our students, schools and communities.

The Board of Education will be forwarding in the future a plan to implement your recommendations. This will be received under a separate cover at a later date.

Following is an acknowledgment of your recommendations and response from DCMO BOCES (in italics) of any actions we have taken on the specific recommendations of your report.

Criminal History Background Checks -

1. The Personnel Technician should develop and enforce procedures to ensure that applicable prospective employees are fingerprinted before they start working with children.

DCMO BOCES has a procedure in place to have all required personnel fingerprinted and registered through OSPRA. A few deficiencies existed which allowed a small number of people to be employed prior to clearance. Through working with your staff we have developed a comprehensive procedure and process that includes separation of duties, with oversight and verification of proper compliance with this procedure. DCMO BOCES has been utilizing this procedure for over six months at this time.

Reserve Funds -

2. BOCES management should obtain prior Board approval to allocate funds to the reserves, either through Board-approved appropriations during

the budgeting process or by Board resolution to allocate surplus funds to the reserves at the end of the fiscal year.

3. The Board should ensure that participating and component districts are properly notified of BOCES' actual results of operations, including all surplus funds due and any specific surplus amounts that are allocated to reserves.
4. The Board should return the unauthorized OPED moneys in the liability reserve to operating funds, and ensure those moneys are properly apportioned to the component and participating school districts.

The BOCES administration and independent auditor have worked together to develop reserves and allocate funds to such reserves in a fiscally responsible level to limit future cost escalations to our component districts. We will review these recommendations with the Board to determine what Corrective Action Plan items are to be implemented, where necessary. The BOCES administration has always discussed and disclosed the BOCES reserves with both the Board and component district superintendents, we will take into consideration a more formal and public disclosure.

Occupational Center Cash Receipts-

5. The CTE Director should develop operational procedures to ensure that the Adult Education cash receipts are accounted for properly. These procedures should, at a minimum, require that:
 - The duties of the Adult Education clerk are segregated.
 - Records are retained on file.
 - Someone independent of the Adult Education cash collection process compares the class rosters to duplicate press-numbered receipts to ensure that all students enrolled in Adult Education classes paid the correct amount and that all moneys collected are remitted to the Business Office for deposit.
6. The CTE Director should develop operational procedures to ensure that CTE classroom cash receipts are accounted for properly. These procedures should, at a minimum, require that:
 - Duplicate press-numbered receipts are accounted for properly.
 - The teachers maintain appropriate records.
 - Moneys received are remitted to the CTE secretary in a timely manner.
 - The duties of the day care teachers are segregated.
7. The Principal at each occupational center should ensure that the teachers are made aware of and adhere to established procedures.

The CTE Director has begun working with both the Adult Education Coordinator and the CTE faculty to review procedures and processes for ensuring proper accounting for cash receipts, timely remittance and segregation of duties. More detailed comprehensive procedures are being developed. The CTE Director met with all faculties at the beginning of this school year to distribute and discuss the process. More training and overview is being planned during

this year to determine compliance and if additional training or procedures are needed.

Information Technology -

8. The Board should adopt policies and procedures over user access rights to require that:
 - System administration rights are assigned only to IT staff.
 - Audit logs are periodically reviewed by the appropriate BOCES officials.
9. The Board should adopt comprehensive computer use policies that address personal use by employees, and require the BOCES Administration to monitor computer use to ensure that employees are using BOCES computers appropriately.
10. The BOCES administration should require restrictions on BOCES computers to prevent the unauthorized downloading of software.
11. The BOCES administration should ensure that the server rooms are secure and protected from fire damage and that wiring closets are climate controlled.
12. The Board should adopt a comprehensive disaster recovery plan that includes specific guidelines to protect confidential and essential data against damage or loss, and to recover lost data and quickly resume critical operations if a disaster occurs.

The BOCES Administration will review our assignment of the administration rights and consider your recommendations to determine if any re-assignments should be considered. We anticipate implementation of additional reviews of the audit logs as recommended. Administration will review the recommended policies with the Board to determine if additional policies are needed along with additional computer restrictions. The IT department has already ensured additional security has been installed on the server rooms, although costs for climate controls are prohibitive for the wiring closets; the server room and data systems are climate controlled. The Administration and IT department will work with the Board on further items identified in the Corrective Action Plan.

Payroll -

13. The Business Manager should segregate incompatible duties in the payroll function. Where it is not practicable to segregate duties, the Business Manager should implement compensating controls.
14. The Assistant Superintendent should extend the review of the payroll by periodically verifying payroll details such as pay rates, hours worked and salary calculations.

The Business Manager has continued and furthered the segregation of payroll functions. Since conclusion of this audit we have implemented additional internal controls and segregation of duties in our payroll processes. Further reviews and refinement of these areas will be done both internally and with our internal auditor

risk assessments. We would like to again thank your staff for valuable insights and suggestions in this area. The Assistant Superintendent has informally verified payroll details such as these items, but is developing a procedure to formally implement your recommended periodical review and to record the verification for future auditor verification.

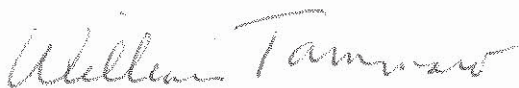
Cafeteria Operations -

15. The Board should develop policies and procedures to safeguard computerized data which should, at a minimum, ensure that account adjustments are authorized and the reasons for the account adjustments are maintained on file.
16. The school lunch manager should evaluate the cafeteria system's internal controls, and BOCES officials should consult with the vendor who supports the cafeteria computer system to determine if the system can be configured to:
17. The Board and BOCES managers should develop policies and procedures to ensure that cafeteria cash collected is reconciled to recorded sales and that any variances are investigated, documented, and resolved.
18. The school lunch manager should provide for daily oversight of the work of the cashiers. Such oversight should ensure that the cashiers perform the ending cash counts with another employee present and input the declared ending cash at the close of each meal session.

The BOCES administration and school lunch manager will work with the Board to review policies and procedures to determine if more comprehensive policies and procedures are needed. The school lunch manager will work with the BOCES and vendors to determine if additional internal controls or data safeguards may be desired and if these are fiscally able to be implemented. The scope and size of our lunch program may determine that some areas are fiscally cost prohibitive and we will explore other methods to ensure the required and needed data and financial records safeguards are addressed.

On behalf of the Board of Education, the staff of DCMO BOCES and the residents of all our components, I wish to thank the office of the State Comptroller for their work in safeguarding and ensuring DCMO BOCES delivers the best services we can for our students and communities.

Sincerely,



William Tammaro
District Superintendent

Cc: Board of Education, DCMO BOCES
Doreen Rowe, Assistant Superintendent of Management Services

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: criminal history background checks, financial oversight, cash receipts and disbursements, 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 BOCES' financial transactions as recorded in its databases. Further, we reviewed 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. Based on that evaluation we decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected reserve funds, criminal history background checks, occupational center cash receipts, information technology, payroll, and cafeteria operations for further audit testing.

To accomplish the objective of this audit, we performed the following steps.

For reserve funds:

- We gained an understanding of the reserve fund establishment, funding contributions, and reporting process.
- We reviewed the unemployment insurance reserve, liability reserve, insurance reserve, and accrued liability reserve to determine if they were properly established and funded. We reviewed Board minutes for the establishment of reserves, and evidence of the Board's involvement in the approval of funding for the reserves.
- We also reviewed the transactions for each reserve fund's activity for the entire audit period. This analysis involved collecting and reviewing past CPA reports, journal entries, budget transfer documentation, vendor payment packets, surplus refund (apportionment) documentation, and general ledgers provided by BOCES management.

For criminal history background checks:

- We gained an understanding of the background check process to ascertain how eligible employees are cleared for employment.

- We reviewed the personnel files and OSPRA databases to determine if 149 newly hired employees were fingerprinted and cleared for employment prior to starting work at BOCES.
- For employees who were not fingerprinted, we checked the New York State sex offender and corrections listings to determine if they had any criminal activity.

For occupational center cash receipts:

- We gained an understanding of the cash receipts process and related accounting records maintained for classroom service cash receipts and Adult Education.
- We reviewed all cash receipt transactions and related records for three programs at each occupational center to ensure all cash received by the teachers and students was deposited in the bank. At the CC, we reviewed cash collections from the cosmetology, day care, and Adult Education programs. At the HC, we reviewed cash collections from the cosmetology, day care, and building trades programs.
- We tested all 63 duplicate press-numbered receipts totaling \$2,708 issued by the Adult Education Department to determine if the moneys received were deposited in a timely manner.
- We gained an understanding of the collection and write-off processes for Adult Education accounts receivable.
- We reviewed five Adult Education class rosters to determine if all 45 students on the rosters paid the correct amount for the program and if the moneys received were deposited in a timely manner.

For information technology:

- We interviewed officials and employees regarding existing internal control systems.
- We interviewed employees in the SS building and IT Department concerning access rights of BOCES' financial software. We also reviewed those rights to determine if they were assigned in accordance with job duties.
- We reviewed audit logs to determine if the senior account clerk was accessing areas of the financial software that were outside of her job duties.
- We reviewed IT policies and procedures to determine if they were adequate.
- We reviewed 11 BOCES computers for acceptable use.
- We inquired about access into the network, including the password system, to determine if existing access controls were sufficient.
- We inquired about disaster recovery protocols and procedures to determine if they were satisfactory.

- We reviewed the physical security over BOCES' computerized data and IT assets to determine if it was adequate.

For payroll:

- We gained an understanding of the payroll process and the current internal controls system.
- We reviewed the payroll records of 21 employees to determine if wages were paid in accordance with Board-authorized rates, and if employees' withholdings and benefits were authorized and accurate.
- We reviewed six health insurance buyouts totaling approximately \$5,400 to determine if the buyouts were accurate, supported, and in accordance with the authorized contracts.
- We reviewed 13 separation payments and 10 payments for unused leave totaling approximately \$144,000 to determine if they were specifically authorized by the written provisions of policies or employment contracts and if they were accurate, approved, and supported.
- We reviewed 15 transactions that appeared on payroll change reports to identify significant fluctuations or errors and determine if those fluctuations or errors were supported.

For cafeteria operations:

- We interviewed BOCES officials and employees regarding the cafeteria computer system's internal controls.
- We scanned the daily cafeteria summary reports, selected overages and shortages in excess of \$5, and reviewed the supporting documentation to determine if the overages and shortages were supported, investigated, and resolved.
- We reviewed the cashier's attendance records and compared one week of sales before and after the day the cashier was absent to determine if sales varied significantly when she was absent.
- We reviewed 20 cafeteria accounts (10 from each cafeteria) that were overdrawn at the end of the audit period to determine if there were any limits or restrictions placed on the accounts, and if deposits were credited to the accounts during the audit period.
- We reviewed 40 cafeteria account adjustments (20 from each cafeteria) totaling \$914, made during the audit period, to determine if they were supported and legitimate.
- We compared the total free and reduced-price sales for both cafeterias to the reimbursement reports submitted to the State Education Department for March 2008, to determine if they were supported by actual sales.
- We reviewed free and reduced-price breakfast and lunch program participation rates for March 2008 at both cafeterias, and compared the rates to the number of students eligible to participate in the free and reduced-price breakfast and lunch program to ensure that the participation rates did not exceed 100 percent.

- We reviewed the cafeteria system audit log²⁷ to identify and differentiate the individual responsible for making adjustments to the food service accounts, to determine the reason for the adjustment, and to determine if proper approval was obtained.
- We reviewed the cafeteria computer system’s access, password, and security protocols, policies, and procedures to determine if existing controls were sufficient.

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.

²⁷ We were able to obtain the cafeteria system audit log only for the Robert W. Harrold Campus.

APPENDIX C

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