



Southern Westchester Board of Cooperative Educational Services

Billed Receivables

Report of Examination

Period Covered:

July 1, 2014 — August 25, 2015

2015M-364



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of BOCES Officials and Corrective Action	3
BILLED RECEIVABLES	4
Recommendations	6
APPENDIX A Response From BOCES Officials	7
APPENDIX B Audit Methodology and Standards	9
APPENDIX C How to Obtain Additional Copies of the Report	10
APPENDIX D Local Regional Office Listing	11

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2016

Dear Board of Cooperative Educational Services (BOCES) Officials:

A top priority of the Office of the State Comptroller is to help BOCES officials manage their BOCES resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support BOCES operations. The Comptroller oversees the fiscal affairs of BOCES statewide, as well as BOCES' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, 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 Southern Westchester BOCES, entitled Billed Receivables. 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 New York State General Municipal Law.

This audit's results and recommendation 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*

Introduction

Background

The Southern Westchester Board of Cooperative Educational Services (BOCES) is an association of 32 component and two non-component school districts (districts). BOCES is governed by a seven-member Board of Education (Board) elected by the component districts' boards. The Board is responsible for the general management and control of BOCES' financial and educational affairs. The BOCES Superintendent is the chief executive officer and is responsible, along with other administrative staff, for day-to-day BOCES management and for regional educational planning and coordination.

Combined, the BOCES component districts educate approximately 104,000 students in southern Westchester County. BOCES delivers more than 40 educational and administrative services to its component districts and employs approximately 1,200 staff members. BOCES provides shared services which are monitored and accounted for under service titles known as Cooperative Services (CoSers). The 2015-16 fiscal year budget is approximately \$153.5 million, funded primarily by charges for services to component districts and federal and State aid. The Assistant Superintendent for Business and Administrative Services is responsible for BOCES financial operations.

Objective

The objective of our audit was to evaluate the effectiveness of the billed receivable process. Our audit addressed the following related question:

- Did BOCES officials monitor accounts receivable activity to ensure that amounts due from CoSer services are paid in a timely manner?

Scope and Methodology

We examined BOCES' accounts receivable records from July 1, 2014 through August 25, 2015. We extended our scope period back to July 1, 2012 to analyze BOCES' accounts receivable trends.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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 initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the finding and recommendation 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.

Billed Receivables

An effective system of internal controls consists of policies and procedures that allow BOCES officials to have reasonable assurance that resources are safeguarded and properly accounted for and that payments for billed receivables are received within a specified period and recorded in the appropriate accounts.

BOCES provides various shared services to its component districts under various service headings called CoSers. Districts are billed based on unit cost related to their participation in each CoSer. All participating component districts share in the operational cost of each CoSer. BOCES has nine centers that provide services for allocated CoSers with each center having its own management team. Center employees input invoices in BOCES' computerized financial system, and the center's management team monitors the results of operations through monthly reports generated from the system. The central administration office collects payments. It is essential that BOCES has an efficient collection process, including the monitoring of unpaid CoSer fees, to ensure that each CoSer is self-sufficient. Unpaid CoSer fees are treated as accounts receivable. Proper monitoring of receivables requires updating individual districts' accounts and control accounts¹ with each bill issued and each payment received to ensure the control account balance agrees with the total of individual districts' accounts and financial statements.

Our review of BOCES records and financial statements showed that the total of individual accounts receivable balances agreed with the control account. However, some payments were late. The Board did not adopt a formal policy for effectively monitoring accounts receivable and ensuring that amounts due for CoSers are settled in accordance with contractual provisions. The contracts gave the districts 30 days to settle the invoices. However, certain districts did not pay the invoiced amounts within the allotted time. Because of the business relationship with component districts, BOCES officials consider legal action as their last option and try to maintain contact with delinquent districts to collect outstanding amounts.

During the 2014-15 fiscal year, BOCES provided services totaling approximately \$168 million. As shown in Figure 1, accounts receivable decreased from \$32.4 million in 2013 to \$28.5 million in 2015. However, our examination of the billed receivables for July 1,

¹ The control account is a general ledger account that is the equivalent to the total of all individual receivable accounts.

2014 through June 30, 2015 showed that the collection process needs to be improved since three districts took four months to one year past the due dates to settle invoices.

Figure 1: Accounts Receivable Balances

Fiscal Year	Receivable Balance
2012-13	\$32,431,434
2013-14	\$31,068,097
2014-15	\$28,499,257

We examined 34 invoices totaling approximately \$6.7 million for services provided during the period July 1, 2014 through June 30, 2015. We selected one invoice from each of the 32 component districts and one each from the two non-component districts.² Nine invoices totaling \$2.7 million were paid after the 30-day contractual period. For example, two invoices totaling \$2 million were paid four months after the respective due dates and one invoice totaling \$306,000 was paid one year past the due date without accruing any additional charges to the delinquent districts. BOCES officials told us they do not have a formal policy to deal with delinquent payments. However, they have kept in communication with these districts in an effort to have the debt settled.

BOCES officials noted that Special Act³ districts regularly experience financial difficulties due to tuition cost waivers that have to be approved by New York State when costs exceed revenue from tuition. The six participating Special Act districts accounted for \$1,308,276 (4.6 percent) of the BOCES billed receivables in 2014-15. While some of these districts have worked with BOCES to keep services active and make payments, one district has not made any payments and BOCES had to file a notice of claim to have the debt liquidated. In addition, other districts have taken extensive time to make payments. BOCES officials stated that there is no policy to charge these districts interest on late payments. Therefore, in effect, component districts that pay their invoices on time subsidize the operations of the delinquent districts.

Without a formal policy that stipulates what actions BOCES officials should take when districts do not fulfill their contractual obligations

² See Appendix B for information on sample selection.

³ Special Act districts are created by separate special acts of the New York State Legislature. They provide unique educational and therapeutic opportunities to students who had experienced difficulty in a previous school setting. These Special Act districts are financed by tuition that the home districts pay to the Special Act districts.

by paying for BOCES services in a timely manner, other component districts effectively extend interest-free loans for the period that the invoices remain unpaid.

Recommendations

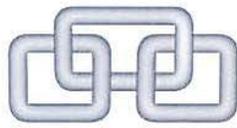
The Board should:

1. Adopt a formal policy to stipulate how to deal with delinquent districts for non-payment of services.
2. Consider assessing interest charges on invoices that remain unpaid after the due date.

APPENDIX A

RESPONSE FROM BOCES OFFICIALS

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



SOUTHERN WESTCHESTER BOCES

BOARD OF COOPERATIVE EDUCATIONAL SERVICES

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April 6, 2016

Ms. Tenneh Blamah
Chief Examiner
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Ms. Blamah,

The Southern Westchester BOCES Board of Education and Administration have received and reviewed the Draft Report of Examination from your office covering the period of July 1, 2014 through August 25, 2015. We would like to thank the audit team for their technical assistance as well as their favorable comments in regard to our employees and our systems of internal control. Southern Westchester BOCES is in agreement with the audit team's findings and will prepare a Corrective Action Plan.

We appreciate the Office of the State Comptroller's review of Southern Westchester BOCES. We value audits and consider them a valuable tool that can assist the organization in improving our current policies and procedures. If you have any questions, or require any further information, please contact me.

Sincerely,

Joseph E. Wooley
President, Board of Education

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate BOCES' billed receivable process. To accomplish our objective, we performed the following procedures:

- We interviewed BOCES officials, including the Superintendent, the Assistant Superintendent for Business and Administrative Services and the Board President, and we reviewed the Board meeting minutes.
- We reviewed the process followed at two of the most active BOCES centers (the Center for Instructional Support and Technology and the Special Services Center) through interviews of CoSer managers and the primary employees involved in inputting contract and service requests information in the computer system, and we reviewed management reports.
- To obtain a test sample that is representative of all of BOCES' districts, we judgmentally selected 34 invoices billed for services, consisting of one invoice from each of the 32 component districts and one from each of the two non-component districts. We selected this sample without any known bias and with no expectation that our test results would be different based on our selection. We examined these invoices to determine if amounts billed for services were properly recorded in the individual receivable accounts along with the respective payments. In addition, of these 34 invoices, we verified the rates for respective services provided and charged in 15 of the invoices.
- We analyzed accounts receivable financial results for the three years July 1, 2012 through June 30, 2015.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

APPENDIX C

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