

**DIVISION OF LOCAL GOVERNMENT
& SCHOOL**



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 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 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 Western Suffolk BOCES, entitled Budget Transfers and Confirming Purchase Orders. 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 recommendations are resources for BOCES officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

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



State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

reviewed 30 budget transfers totaling \$9.2 million and found that 24 totaling \$7.8 million were not presented to the Board for approval. The Board approved the remaining six budget transfers totaling \$1.4 million between 18 and 70 days after the transfers were processed. The Board's ability to monitor the budget and ensure that account codes are not overspent is compromised when it does not approve budget transfers. Additionally, BOCES officials are making excessive use of miscellaneous budget codes for expenditures. Expenditures totaling \$2.3 million were coded to miscellaneous budget codes during the 2014-15 fiscal year. This reduces the transparency of BOCES operations.

Furthermore, BOCES officials are not ensuring that all employees are adhering to the purchasing policy and procedures established by the Board. As a result, employees purchased goods and services totaling \$13,700 from six vendors before preparing purchase orders (POs) to be approved by the purchasing department. In addition, the purchasing department is not adequately tracking the occurrence of confirming POs by notifying employees of their lack of adherence to the established policy. As a result, there is limited assurance that purchases are made at the best price and quality and are for legitimate and authorized BOCES purposes.

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 disagreed with certain findings but indicated they plan to initiate corrective action. Appendix B includes our comments on issues raised in BOCES' response.

Introduction

Background

The Western Suffolk Board of Cooperative Educational Services (BOCES) is an association of 18 component school districts. BOCES is governed by a seven-member Board of Education (Board) elected by the boards of its component districts. The Board is responsible for the general management and control of BOCES' financial and educational affairs. The BOCES Chief Operating Officer is responsible, along with the Chief Financial Officer and other administrative staff, for BOCES' day-to-day management and for regional educational planning and coordination, including budget transfers and procurement of goods and services.

BOCES provides shared services in which component school districts participate to enhance their individual educational programs and allow the component districts to provide programs that they could not otherwise afford. State aid is paid to BOCES and then reimbursed to component school districts based on their respective financial support for program services and administrative and facilities expenditures. However, component school districts finance these expenditures primarily through the levy of real property taxes. BOCES does not have its own taxing authority. BOCES appointed a Director of Purchasing who oversees the purchasing department, which includes monitoring the use of confirming purchase orders.

Combined, BOCES and the component districts educate approximately 93,000 students in the western area of Suffolk County. BOCES delivers more than 70 educational and administrative services to its 18 component school districts and employs approximately 1,200 staff members. BOCES' general fund expenditures for the 2014-15 fiscal year totaled approximately \$163.8 million and were funded primarily by charges to school districts for services and State and federal aid. Budgeted appropriations for the 2015-16 fiscal year were approximately \$160.4 million.

Objective

The objective of our audit was to review BOCES' budget transfer and purchase order processes. Our audit addressed the following related questions:

- Did the Board appropriately authorize budget transfers?
- Did BOCES officials ensure that purchases were approved before items were ordered?

**Scope and
Methodology**

We examined the budget transfer and purchase order processes for the period July 1, 2014 through November 30, 2015. To evaluate budget transfers, we extended our scope back to July 1, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report. 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 disagreed with certain findings but indicated they plan to initiate corrective action. Appendix B includes our comments on issues raised in BOCES' response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the 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 should 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 Board Clerk's office.

Budget Transfers

The Board is responsible for oversight of BOCES operations and safeguarding its resources. This includes monitoring BOCES expenditures to ensure they stay within total budgeted appropriations.² Effective budgetary controls limit expenditures to the specific purposes and amounts authorized by the Board in the annual operating budget. Budget transfers allow BOCES to move funds from one appropriation account to another to avoid overdrawing an appropriation account. Controls over budget transfers help ensure that budget transfers are properly authorized and processed accurately, appropriately and timely. It is essential for the Board and BOCES officials to adhere to their policy and regulations to monitor actual expenditures against budgeted appropriations to ensure that appropriations are not overspent. Additionally, miscellaneous codes should only be used when there is no other code available for use.

The Board did not properly authorize budget transfers. The budget

**Transfers Greater
Than \$25,000**

The Board should:

1. Approve budget transfers in excess of \$25,000 in a timely manner as required by policy.
2. Revise its policy to reflect what budget transfers, if any, do

Confirming Purchase Orders

A purchase order (PO) serves as the source document for BOCES claims that are entered into the accounting system. A properly functioning PO system ensures that purchases are properly authorized and preapproved, and that adequate funds are available before a purchase is made. A PO should be issued prior to purchasing goods or receiving services. A confirming PO is one prepared after the goods or services have already been ordered or received from a vendor. BOCES officials should control and limit the use of confirming POs to emergency purchases because such purchases circumvent the review, approval and price verification processes of the normal purchasing process. Confirming POs result in limited assurance that purchases are made at the best price and quality and are for legitimate and authorized BOCES purposes. Confirming POs should be marked as such and include an explanation of the circumstances, such as a documented emergency.

The Board adopted a purchasing policy that states the purchasing agent is responsible for supervising purchases. The Board adopted regulations to supplement the policy that require the use of POs for anticipated expenditures. BOCES also had written procedures covering instances when an employee is found to have issued a confirming PO. The procedures require that BOCES officials issue a memorandum to an employee who purchases a good or service without an approved PO. The first and second memorandums inform the employee that it is improper to purchase or order goods or services without using a properly authorized PO and direct the employee to familiarize themselves with policy requirements. If the employee issues a confirming PO a third time, they should be sent a memorandum requiring them to meet with an official. Additionally, officials have created a confirming memo log to track employees who received a memorandum regarding their lack of adherence to the purchasing policy.

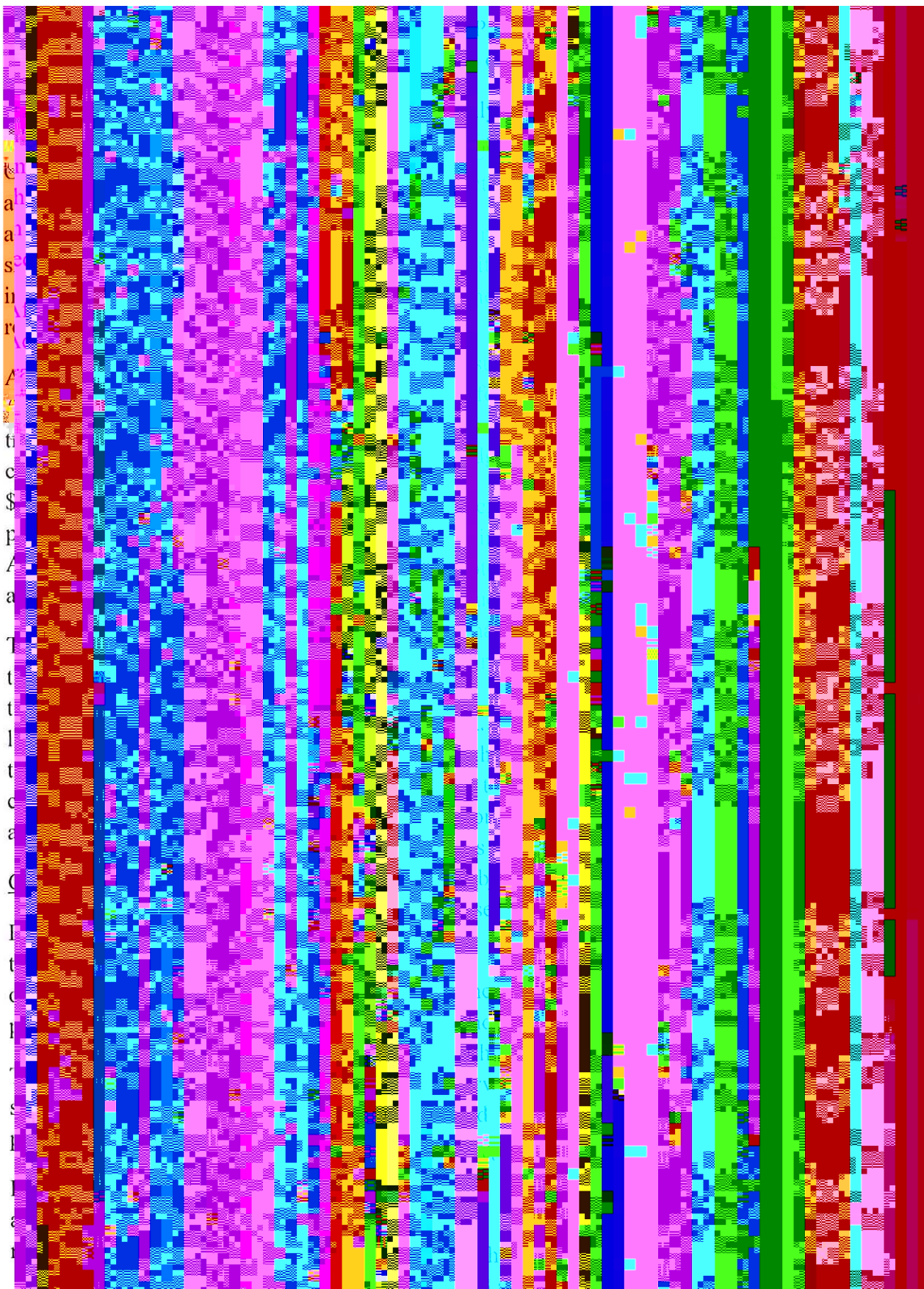
During the audit period, BOCES paid 13,521 general fund claims totaling approximately \$148.7 million. We selected 50 claims totaling \$311,578 to determine if POs were issued before goods were ordered or received.⁸ We found six POs⁹ totaling \$13,700 (12 percent of the total claims reviewed) were confirming POs. None of these purchases were documented as an emergency situation. These POs were approved between two and 27 days after the invoice dates.

⁸ See Appendix B, Audit Methodology and Standards, for details on our sample selection.

⁹ One of the claims totaling \$3,450 included purchases made after the PO was prepared and approved. These purchases, totaling \$1,860, are not included in the total \$13,700.

APPENDIX A
RESPONSE FROM BOCES OFFICIALS

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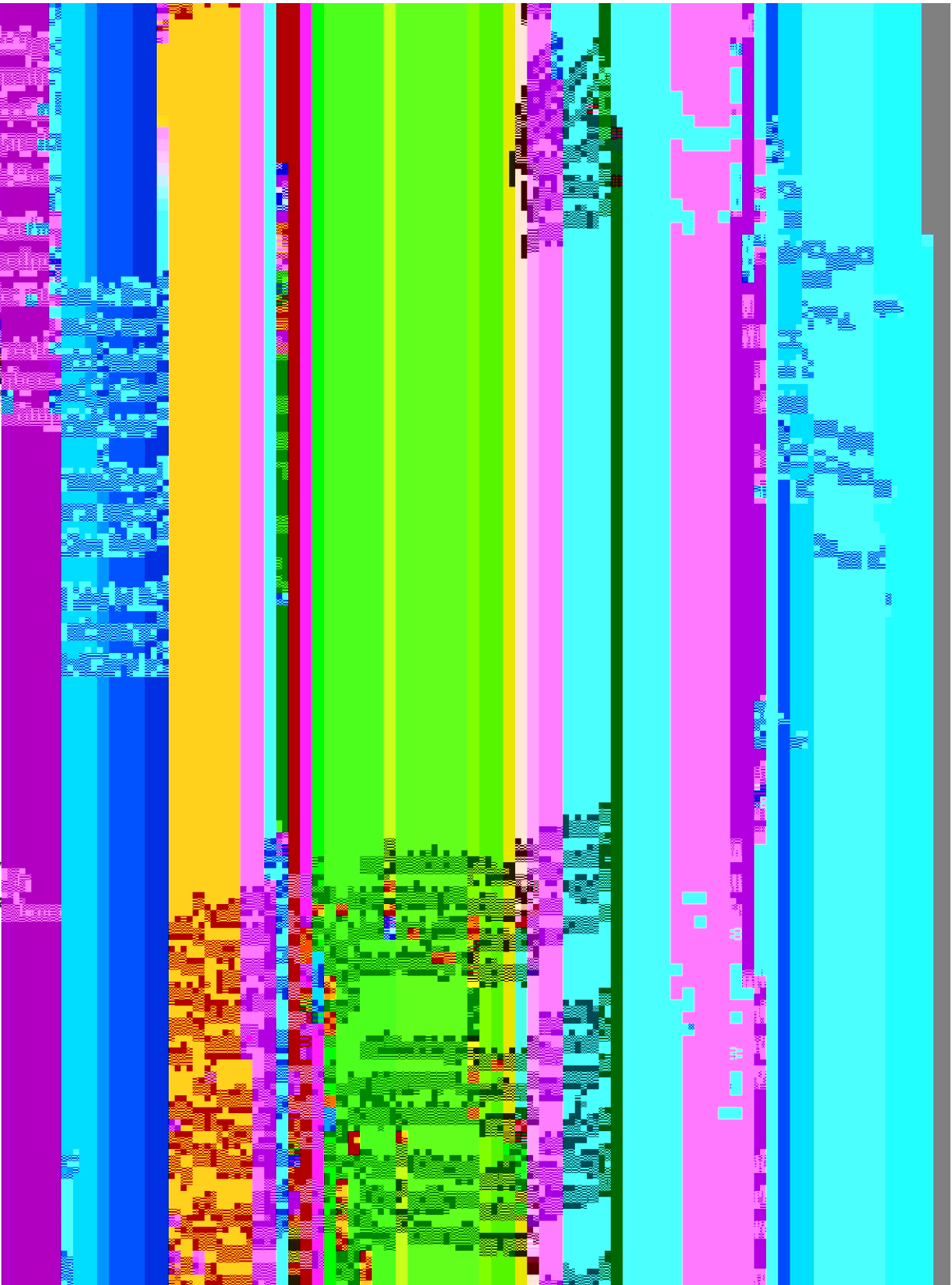
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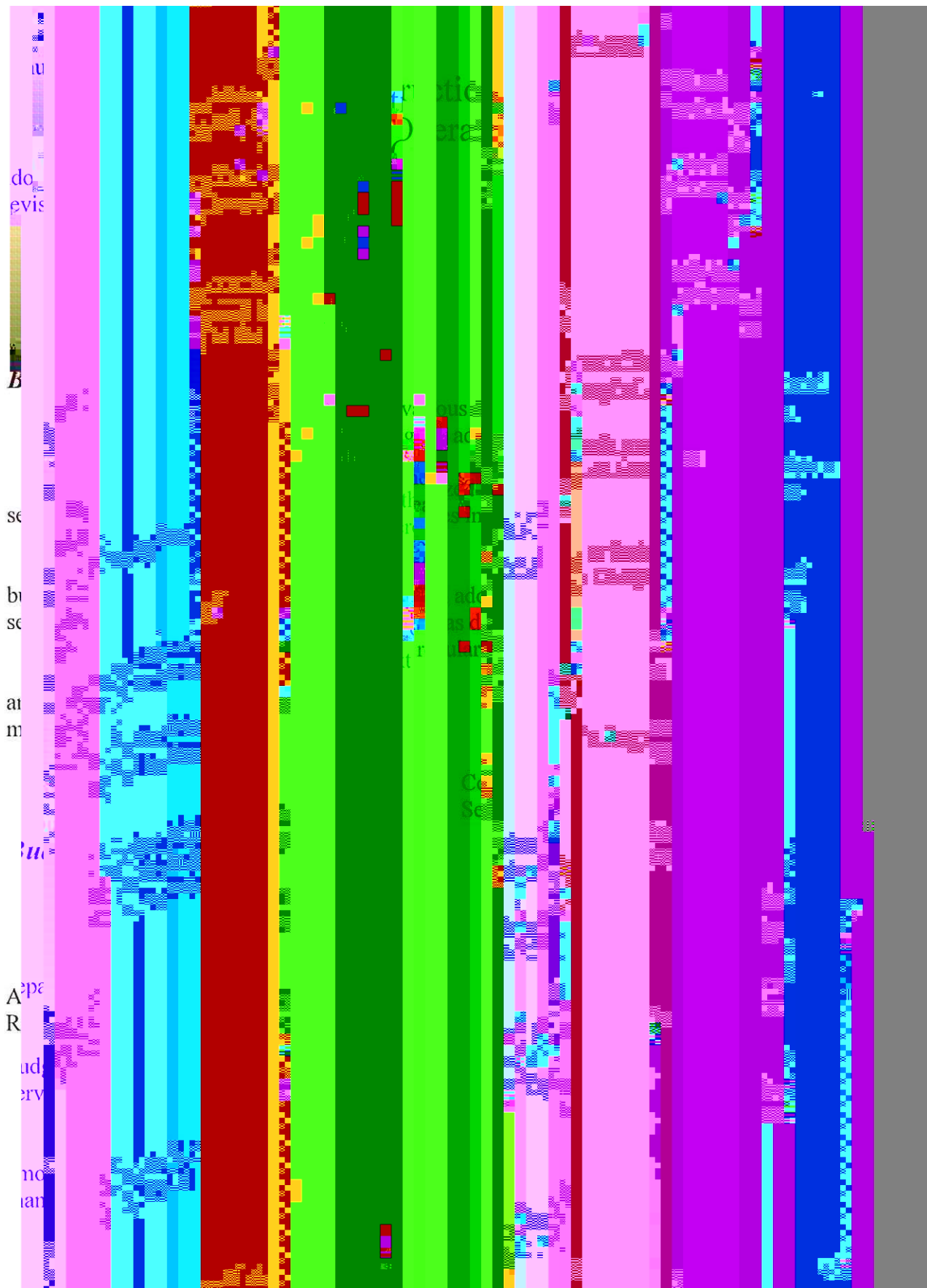
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APPENDIX B

OSC COMMENTS ON THE RESPONSE

Note 1

During the planning phase of our audit, we gained an understanding of the internal control environment. However, we did not perform detailed audit tests in all areas. We selected the areas most at risk: budget transfers and confirming purchase orders. We performed audit procedures and reported on the result of our review as related to our audit objective.

Note 2

Board policy required that all budget transfers that exceeded \$25,000 must be approved by the Board. However, 24 of the 30 budget transfers we reviewed were never presented to the Board for approval.

Note 3

Of the 24 items that were not presented for Board approval, two (not 23 as referred to in BOCES' response) were transferred between accounts with the same object code. Regardless of the object codes being the same, the policy required Board approval for any transfer above \$25,000.

Note 4

All budget transfers referred in our audit report exceeded \$25,000 and, therefore, should have been approved by the Board.

Note 5

We found no evidence on the invoices reviewed that goods and services were not ordered before the purchase orders were prepared. While it is common practice for vendors to indicate when an invoice is a proposal and not a bill, the invoices reviewed had no such indication. Furthermore, there were

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed appropriate individuals regarding BOCES' policies and procedures related to budget transfers and confirming POs.
- We conducted interviews with individuals regarding the budget transfer process.
- We reviewed Board resolutions to determine if, and when, the Board approved budget transfers.
- We obtained a listing of all 1,232 budget transfers from July 1, 2013 through November 30, 2015 totaling \$22.3 million. We then separated the budget transfers that were \$25,000 and above, totaling 180 budget transfers (\$18.7 million). We then selected the highest 30 budget transfers (about 17 percent, which is sufficiently representative of the population greater than \$25,000 and above) totaling \$9.2 million to determine if they were approved by the Board.
- For the budget transfers not approved by the Board, we identified the individual who approved the transfers. For those approved by the Board, we determined if they were approved before they were posted to the accounting system.
- We obtained a copy of each budget transfer request form that was submitted to the Chief Financial Officer for approval. We documented the date each request was made from the department, the date the budget transfer was approved by the Chief Financial Officer, and the date the budget transfer was submitted to the Board for approval.
- We conducted interviews with pertinent individuals regarding confirming POs, confirming logs and memoranda.
- We used a random number generator and selected 35 out of a population of 9,938 claims totaling \$166,148 for review from the Accounts Payable Check Register for the period July 1, 2014 through June 30, 2015. We selected an additional 15 of 3,583 claims totaling \$145,430 for review check from the Accounts Payable Check Register for the period July 1, 2015 through November 30, 2015. We selected 35 and 15 claims which we judged to be a sufficient representation of the population. After making selections and obtaining claims packets, we determined that the random number generator selected 22 payments that pertained to workers' compensation or travel and conference reimbursements made to employees. After omitting these claims from our selections, we judgmentally selected an additional 22 claims by selecting vendors paid for commodity type purchases.
- We reviewed the confirming memo log developed by the purchasing department to see if confirming POs were documented.
- We reviewed all pertinent documents for each claim selected, including POs, vouchers, vendor invoices, copies of checks, delivery receipts, warrants and aggregate purchase amounts.

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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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