



Sullivan County Board of Cooperative Educational Services

Central Business Office Internal Controls

Report of Examination

Period Covered:

July 1, 2014 – September 8, 2015

2015M-331



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 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 Sullivan County BOCES, entitled Central Business Office Internal Controls. 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 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 Sullivan County Board of Cooperative Educational Services (BOCES) is an association of eight component school districts. The BOCES is governed by the nine-member Board of Education (Board) elected by the boards of the component districts. The Board is responsible for the general management and control of the BOCES' financial and educational affairs. The District Superintendent is the BOCES' chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the 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 BOCES provides Central Business Office (CBO) services to districts, including cash disbursements, payroll and bank reconciliations. The districts participating in CBO services are Eldred Central School District (CSD), Fallsburg CSD, Liberty CSD, Livingston Manor CSD, Marlboro CSD, Monticello CSD, Sullivan West CSD and Tri-Valley CSD.¹ The Executive Director of Finance and Operations (Executive Director) is responsible for the CBO's day-to-day management. Including the Executive Director, the CBO has 22 full-time and part-time employees, resulting in approximately 15.5 full-time equivalent positions.

The component districts educate 10,968 students in Sullivan County. The BOCES delivers more than 58 educational and administrative services to its eight component districts and employs 309 staff members. The BOCES' 2015-16 fiscal year budget of approximately \$33.7 million is funded primarily by charges to districts for services and State and federal aid.

Objective

The objective of our audit was to examine the CBO's internal controls over the cash disbursements and payroll processes. Our audit addressed the following related question:

- Did BOCES officials ensure that internal controls over the cash disbursements and payroll processes were effective for constituent districts?

¹ See Appendix A for the extent to which each district participates.

**Scope and
Methodology**

We examined the CBO’s internal controls over cash disbursements and payroll processes for the period July 1, 2014 through September 8, 2015.

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**

The results of our audit have been discussed with BOCES officials, and their comments, which appear in Appendix B, have been considered in preparing this report.

Central Business Office

BOCES officials are responsible for establishing controls over cash disbursements and payroll to safeguard component districts' assets. Duties should be segregated so that no individual controls all phases of a particular transaction (i.e., cash disbursements transactions or payroll transactions). For instance, entering employee payroll information (e.g., pay rates, changes to pay amounts or withholdings), preparing and printing payroll checks and reconciling the payroll bank accounts should not be performed by the same individual. Additional controls could include providing increased oversight or having an individual independent of a particular transaction prepare the monthly bank reconciliations.

BOCES officials have established effective controls over cash disbursements and payroll, including segregating duties so that no individual controls all phases of a transaction, to safeguard component districts' assets. They also provide increased oversight by having independent staff review transactions for key business processes. We commend BOCES officials for establishing and implementing an effective system of internal controls over cash disbursements and payroll.

Cash Disbursements — Component districts deliver invoices and supporting documentation to the CBO's accounts payable clerks using the BOCES's mail courier. CBO staff then verify that sufficient appropriations are available in the districts' budgets. For cash disbursements, CBO staff enter disbursement information into the system, prepare the claims packets and print the warrants and checks. For most districts, the CBO's claims auditors or district claims auditors review² the claims packets and approve the warrants listing all the claims prior to printing the checks. However, one district requested that the checks be printed prior to the claims auditor review.³ The district treasurers initiate the check printing process through the financial software program, and the district checks are printed remotely at the CBO with the district treasurers' signatures affixed. Moreover, CBO staff have limited user access rights within the financial software program that restrict them from printing district checks. CBO staff mail checks directly to the vendors and perform

² Five districts use their own claims auditors and three use the CBO's claims auditors.

³ For this district, the checks are printed and delivered to the district's claims auditor along with the supporting documentation. Once the claims auditor approves the claims packet, the checks are mailed. If the claims auditor rejects a check for payment, the claims auditor documents it on her report and the checks are voided and reissued.

bank transfers between district accounts⁴ for one of the eight districts. Further, CBO staff perform bank reconciliations for six of the eight⁵ districts and ensure all transactions are recorded. They also submit the reconciliations to the districts for further review.

We examined the processes and procedures for claims auditing, cash disbursements, bank reconciliations and bank transfers to determine if sufficient and proper controls were in place. Accordingly, we randomly selected two districts and reviewed all 244 cash disbursements, totaling \$809,200 made during one judgmentally selected month and determined all were properly audited prior to payment. We randomly selected 33 of these cash disbursements totaling \$48,900, along with a sample of 58 payments issued to district officials totaling \$34,200, two checks totaling \$1,271 issued to CBO employees⁶ and a sample of 40 electronic fund transfers totaling \$6.2 million and found that all were approved, supported and for appropriate district expenditures. In addition, we reviewed a sample of two districts' bank reconciliations for one month and found that they were accurate.

Payroll — The majority⁷ of districts remit payroll documentation to the CBO, including employee additions, deletions and wage changes. CBO staff then record those additions, deletions and wage changes. The BOCES mail courier delivers timecards or timecard summary reports from the districts to the CBO, after which CBO staff record the hours worked in the payroll software. CBO staff review several reports for errors or omissions, and, once the checks are ready for printing, CBO staff contact the district treasurers. The district treasurers must access the financial software program to authorize the CBO staff to print district checks. The district treasurers' signatures are printed on the checks through this authorization. However, CBO staff cannot print district checks without the district treasurers' authorization. The BOCES's mail courier then delivers the checks to the districts while CBO staff remit direct deposit files to the bank for five of the eight districts. Finally, CBO staff perform bank reconciliations and ensure all transactions are recorded. They also submit the reconciliations to the districts for further review.

We reviewed processes and procedures for payroll, leave accruals and usage, vacation buy-backs and bank reconciliations to determine if sufficient and proper controls were in place. Accordingly, we randomly selected 30 employees' payments for one payroll for two component districts totaling \$49,700, all \$2.3 million payments to 18 district

⁴ There are controls in place that restrict CBO staff from transferring money to non-district bank accounts.

⁵ Two of the districts opted to not use the CBO for this service and, therefore, perform their own bank reconciliations.

⁶ These payments were for non-CBO services provided directly to component districts, such as tax collector services.

⁷ Three districts have staff that enter their own documentation.

officials and all four payments totaling \$14,500 issued to CBO employees⁸ and found that all were paid at Board-approved rates and were proper district payroll expenditures. In addition, we reviewed the same sample of 30 employees and tested their leave accruals and usage for one month and determined that all were accurately recorded. We randomly selected two districts and reviewed all 20 employees' vacation buy-back payments totaling \$76,800 and determined that they were paid and recorded correctly. Finally, we reviewed a sample of two districts' bank reconciliations for one month and found that they were accurate.

Since the inception of offering these services to component districts, the CBO has made changes and modifications based on constant monitoring of the processes and identification of weaknesses. Key CBO staff are cross-trained to review or perform various functions. Periodic CBO staff meetings occur to discuss issues and where staff identify opportunities for improvement in controls and operational efficiencies. As a result of these processes, the component districts have increased efficiencies due to shared staff and have decreased the risk of errors or irregularities occurring.

⁸ These payments were for non-CBO services provided directly to component districts, such as tax collector services.

APPENDIX A

DISTRICTS' PARTICIPATION IN CBO SERVICES

Figure 1: Districts' Participation in CBO Services						
	Claims Auditor	Cash Disbursements	Bank Reconciliation	Payroll	Leave Accruals and Usage	Vacation Buy-Back
Eldred CSD	DNP	Fully	Fully	Fully	Fully	Fully
Fallsburg CSD	DNP	Fully	Fully	Fully	DNP	Fully
Liberty CSD	Fully	Fully	Fully	Fully	Fully	Fully
Livingston Manor CSD	Fully	Fully	Fully	Fully	DNP	Fully
Marlboro CSD	DNP	Fully	DNP	Fully	DNP	Fully
Monticello CSD	DNP	Fully	Fully	Fully	DNP	Fully
Sullivan West CSD	DNP	Fully	Fully	Fully	Fully	Fully
Tri-Valley CSD	Fully	Fully	DNP	Fully	Fully	Fully

Fully = District fully participates in the CBO service
DNP = District does not participate in the CBO service

APPENDIX B

RESPONSE FROM BOCES OFFICIALS

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



Sullivan County Board of Cooperative Educational Services

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February 12, 2016

H. Todd Eames, Chief Examiner
NYS Office of the State Comptroller
44 Hawley Street - Rm 1702
Binghamton, NY 13901-4417

Dear Mr. Eames,

Thank you for giving the Sullivan County BOCES (SCBOCES) an opportunity to respond to the Draft Report of Examination by the Office of the State Comptroller (OSC) regarding the BOCES Central Business Office (CBO) Controls for the period July 1, 2014 – September 8, 2015. We commend the auditors for their professional demeanor and thank them for the information they provided in the report.

We are pleased the audit report confirms that SCBOCES has established effective internal controls over cash disbursements and payroll processes, including segregating duties so no individual controls all phases of a transaction. The commendation from the OSC audit team, validating that the CBO staff have established and implemented an effective system of internal controls substantiates both the hard work and the ongoing commitment towards excellence shared by the entire CBO team.

Both the SCBOCES management services administrators and the CBO staff take their positions and their responsibilities very seriously. Safeguarding the assets of the component districts served by the CBO has always been a top priority for everyone who works there. We are extremely proud of the staff and are pleased their hard work and dedication to providing high quality services has been acknowledged by the OSC. SCBOCES' efforts to both establish and maintain segregation of duties has been an ongoing process that has evolved over the last five (5) years. Our procedures will continue to be reviewed, adjusted, and evolve to adapt to transitions in staffing, regulations, and/or requests for additional services by school districts.

SCBOCES has always, and will continue to take very seriously our responsibilities over all aspects of fiscal management. We are grateful for this opportunity to work with the OSC auditors in the review of our procedures and processes. We appreciated the courteous attitude and the unobtrusive presence of the OSC audit team that enabled us to continue our operations without disruption throughout the time the auditors were present. On behalf of the Board of Education and Administration, we extend our thanks to the State Comptroller's office and acknowledge their thorough review of the SCBOCES Central Business Office Internal Controls.

Sincerely,

A handwritten signature in blue ink, appearing to read "Charles Khoury", is written over a faint, larger version of the same signature.

Charles Khoury, Ed.D
Interim District Superintendent

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the CBO's internal controls over the cash disbursements and payroll processes for the period July 1, 2014 through September 8, 2015. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed BOCES and component district staff to gain an understanding of claims auditing, cash disbursements, bank reconciliations, bank transfers, payrolls, leave accruals and usage and vacation buy-back processes and internal controls.
- We selected all 244 cash disbursements totaling \$809,200 for two randomly selected component districts for August 2015 from bank statement canceled check images to determine if payments were approved by the claims auditor prior to payment. From this sample, we randomly selected 33 of those transactions totaling \$48,900 to determine if they had invoices and proper supporting documentation, were for proper district expenditures and were accurately recorded. We selected the month of August 2015 with no expectations as to the outcome of our review.
- We selected the five largest payments issued to district officials (superintendents and treasurers) for further review. We reviewed 58 payments totaling \$34,200 to determine if they were approved, had proper invoices and supporting documentation and were for proper district expenditures.
- We reviewed the check lists for all component districts to search for checks issued to CBO employees. We discovered two non-payroll checks totaling \$1,271 and reviewed these two checks to determine if they were approved, had proper invoices and supporting documentation and were for proper district expenditures.
- We reviewed the first five electronic fund transfers for each of the component districts for August 2015 for a total of 40 electronic fund transfers totaling \$6.2 million to determine if they were approved and were for proper district expenditures. We selected the month of August 2015 with no expectations as to the outcome of our review.
- We reviewed a randomly selected sample of 30 payments totaling \$49,700, for 15 employees each for two randomly selected districts for one randomly selected payroll, to determine if employees were paid at component district board-approved rates and if withholdings were authorized by the component districts' boards, policies or contracts. We additionally reviewed leave accruals and usage for September 2014 for the same sample of 30 employees to determine if the leave accruals and usage were recorded accurately. We selected the month of September 2014 with no expectations as to the outcome of our review.
- We selected all 18 district officials' (superintendents and treasurers) salary payments, totaling \$2.3 million, and all four payments totaling \$14,500 issued to CBO employees to determine if those payments were properly supported, approved and for proper district payroll expenditures.

- We reviewed all 20 vacation buy-back payments, totaling \$76,800, paid to employees for a randomly selected sample of two districts to determine if they were paid and recorded accurately.
- We reviewed two randomly selected district bank reconciliations for December 2014 for accounts payable and payroll to determine if they were accurate. We selected the month of December 2014 with no expectations as to the outcome of our review.

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.

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