



Sullivan County Board of Cooperative Educational Services

Cash Collections and Claims Audit Process

Report of Examination

Period Covered:

July 1, 2005 — March 9, 2007

2007M-204



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	3
EXECUTIVE SUMMARY	5
INTRODUCTION	7
Background	7
Objective	7
Scope and Methodology	8
Comments of BOCES Officials and Corrective Action	8
DEPARTMENTAL CASH COLLECTIONS	9
Segregation of Treasurer's Duties	9
Off-site Cash Collection Procedures	10
Recommendations	11
CLAIMS AUDIT PROCESS	13
APPENDIX A Response From BOCES Officials	14
APPENDIX B Audit Methodology and Standards	16
APPENDIX C How to Obtain Additional Copies of the Report	18
APPENDIX D Local Regional Office Listing	19

State of New York

Office of the State Comptroller

Division of Local Government and School Accountability

November 2007

Dear BOCES Officials:

A top priority of the Office of the State Comptroller is to help BOCES officials manage their BOCES efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support BOCES operations. The Comptroller oversees the fiscal affairs of BOCES statewide, as well as BOCES' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished 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 Cash Collections and Claims Audit Process. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for BOCES officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

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

Approximately 335 full-time and part-time staff work at the BOCES in classrooms and offices throughout the BOCES area. The BOCES' 2006-07 fiscal year general fund budget of \$22 million is funded primarily by charges to school districts for services, Federal and State grants/aids and charges to the public for services and educational programs.

The BOCES' cash receipts totaled approximately \$29.3 million in the 2005-06 fiscal year. Approximately \$296,000 of these receipts were collected at locations other than the Business Office. Moneys collected at off-site locations are couriered to the Business Office, entered into the Assistant Superintendent's cash receipts log, and then given to the Treasurer to enter into the financial accounting software. The Treasurer then prepares a deposit slip, which is couriered with the cash moneys to the bank for deposit.

The accounts payable clerk compiles purchase requisitions, purchase orders, invoices, and supporting documentation into a claims package for the claims auditor's review. Part of the claims auditor's review involves making sure that the claim is adequately supported, is added correctly, does not contain a charge for sales tax, and has all appropriate approvals. She also compares the purchase order amount to the claim amount to ensure the claim is kept within authorized limits. She indicates her approval by initialing each claim, signing a warrant of audited claims, or both.

Scope and Objective

The objective of our audit was to determine if the Board adequately safeguarded BOCES' assets for the period July 1, 2005 to March 9, 2007. Our audit addressed the following related questions:

- Were internal controls over departmental cash collections appropriately designed and operating effectively?
- Is the claims auditor properly auditing BOCES claims?

Audit Results

Although BOCES officials properly accounted for departmental cash collections, we found certain deficiencies in the cash receipts and collection process. We also found a lack of segregation of duties in the Treasurer's Office. The Treasurer is responsible for cash receipts data entry, preparing deposits, making electronic transfers, and preparing journal entries. Because one person has access to cash and has the responsibility of recording transactions, there is a risk that he could misappropriate cash.

We also found that the Assistant Superintendent's secretary maintains a cash receipts log for all off-site cash collections, which are couriered directly to her; however, nobody ever reviews this log. The Cosmetology Department does not have set prices for the services they provide, multiple departments do not utilize daily cash sheets, and nobody compares the amounts deposited with the amounts collected at each department. As a result, errors or irregularities could occur without being detected or corrected. Such deficiencies could enable an employee to collect cash and not have it recorded and deposited.

We tested 57 claims totaling \$1,021,954 for proper authorization, reasonableness, sufficient support, and indication of claims auditor review. Our testing disclosed that the claims auditor properly audited BOCES claims.

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 initiate corrective action.

Introduction

Background

The Sullivan County Board of Cooperative Educational Services (BOCES) is an association of eight component school districts that serves approximately 11,000 students within a four county area. The BOCES is governed by the Board of Education (Board) which comprises nine members elected by the boards of education 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 chief executive officer of the BOCES and is responsible, along with other administrative staff, for the day-to-day management of the BOCES. By law, the District Superintendent is an employee of both the appointing BOCES and the New York State Education Department. As such, the District Superintendent works under the direction of both the Board and NYS Commissioner of Education.

The BOCES houses its administrative offices and many of its instructional programs in Liberty, Sullivan County and at satellite campuses located in Monticello, White Sulphur Springs, and Youngsville, Sullivan County. Approximately 335 full-time and part-time staff members work at the BOCES in classrooms and offices throughout the BOCES area. The BOCES general fund budgeted expenditures for the 2006-07 fiscal year were \$22 million, which were funded primarily by charges to school districts for services, Federal and State grants/aids and charges to the public for services and educational programs.

The BOCES cash receipts totaled approximately \$29.3 million in the 2005-06 fiscal year. Approximately \$296,000 of these receipts were collected at locations other than the Business Office. These off-site locations include a student-run café, a health and safety building for fingerprinting and CPR instruction receipts, the cafeteria, the cosmetology department, the teacher's center, the adult education program, and various other departments in the Career and Technology office.

Objective

The objective of our audit was to determine if the Board adequately safeguarded BOCES' assets. Our audit addressed the following related questions:

- Were internal controls over departmental cash collections appropriately designed and operating effectively?
- Is the claims auditor properly auditing BOCES claims?

**Scope and
Methodology**

We examined internal controls over departmental cash collections and procedures of the claims auditor of the BOCES for the period July 1, 2005 to March 9, 2007.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of BOCES
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with BOCES officials and their comments, which appear in Appendix A, have been considered in preparing this report. 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 8 NYCRR Section 170.12 [e][4][c], the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, and begin implementation of the corrective action plan no later than the end of the next fiscal year. The Board should also forward a copy of the corrective action plan to the Commissioner of Education.

Departmental Cash Collections

One of the Board's managerial responsibilities is to ensure the design and implementation of a system of internal controls incorporating policies and procedures to provide reasonable assurance that all assets and resources entrusted in its care are used in accordance with all laws, regulations, policies and sound business practices and protected against waste, loss, damage and misuse. An effective system of internal controls over cash receipts ensures that all moneys received are properly recorded, deposited and accounted for. BOCES officials must provide sufficient oversight for those officers and employees who receive cash.

We found that internal controls over departmental cash collections were not appropriately designed and operating effectively. We found weaknesses related to the segregation of duties over cash receipts in the Treasurer's office. We also found that BOCES officials did not provide sufficient oversight for off-site collection of cash receipts. As a result, the BOCES is vulnerable to the possibility of loss, misuse, errors and/or irregularities occurring and not being detected in a timely manner.

Segregation of Treasurer's Duties

Internal controls should include proper segregation of duties, including the division of key tasks and responsibilities among the various employees of an organization. No one individual should control all the key aspects of a transaction or event. By separating key tasks and responsibilities, such as receiving, recording, depositing, securing and reconciling assets, management can reduce the risk of error, waste, or wrongful acts occurring or going undetected. If it is not feasible for officials to segregate duties of the Treasurer adequately, then BOCES officials should ensure that compensating controls are in place to protect assets. These controls could include having a different staff member review the work performed by the Treasurer. In addition, someone other than the person preparing journal entries and bank transfers should review and approve them.

The Treasurer is the BOCES' chief accounting officer and the custodian of all BOCES moneys. His duties include receiving all cash receipts from the Assistant Superintendent's secretary, recording the receipts in the financial accounting software, preparing deposit slips for the moneys received, and securing the money in a safe until it is deposited. As a result, there is a lack of segregation of duties in the Treasurer's office. We found that the BOCES officials did not implement other compensating controls; no one reviews or approves the Treasurer's work including approving journal entries.

Concentrating key duties with one individual with little or no oversight significantly increases the risk that errors and/or irregularities might occur and go undetected and uncorrected.

Off-site Cash Collection Procedures

An effective cash receipts system consists of Board-adopted policies, practices and procedures that provide reasonable assurances that cash is safeguarded and accounted for properly. Effective means of establishing accountability include depositing moneys as soon as possible in the BOCES bank account, and the use of daily cash sheets, cash registers, and press-numbered duplicate receipt books. Other ways to establish accountability include setting prices for all services offered, performing periodic comparisons of daily cash sheets and cash receipt logs to deposits made in the bank, reviewing the duplicate receipts books to ensure sequence integrity, and comparing the amounts deposited with the amounts collected at each department. Someone independent of the cash collection and deposit process should verify that collections are deposited intact.

Staff and students collect money (cash and checks) at the off-site locations. A BOCES courier delivers the money to the Assistant Superintendent's secretary who records them on a log. The secretary then delivers the money to the treasurer who records the money in the computerized accounting system and prepares a deposit slip. A courier then delivers the money and the deposit slip to the BOCES bank.

We tested 100 percent of cash collections recorded in duplicate cash receipts books from selected months for five departments. We reviewed 337 daily collections, totaling \$37,802, from these off-site departments to determine if internal controls were appropriately designed and operating effectively and to determine if BOCES officials were properly accounting for cash collections. Our sample included collections from a nursing program (February 2006 and 2007), the Teachers' Center (August and September 2006), the Adult Education programs (November 2005 and 2006), the cafeteria (October 2006), and the Cosmetology program (January 2007). These departments' recorded combined cash collections totaled \$217,330 in the 2005-06 fiscal year and \$104,960 in the 2006-07 fiscal year through March 9, 2007. Although we did not find any significant discrepancies in those recorded collections, we found deficiencies in off-site cash receipt and collection procedures:

- Departments do not require the issuance of duplicate receipts when money is transferred from one BOCES employee to another. This diminishes, if not eliminates, accountability over the money. Therefore, the risk exists that employees could collect money and not deposit or record it.

- Four of the five departments selected for testing did not compare amounts deposited with amounts collected at each department. Although personnel in these off-site locations maintain duplicate receipts in the receipt books, these receipts are not totaled and verified to deposits. Cafeteria receipts were the only receipts that were compared to amounts deposited. The Treasurer told us that comparing receipts and deposits for the other off-site locations would be difficult, but not impossible, to perform for the other departments since all of their cash collections are commingled in the same bank account. The cafeteria has a separate bank account, making the comparison more feasible. By not having a record of daily cash collections, there is no way to verify that all cash collected was actually recorded and deposited.
- Three of the five departments tested did not utilize daily cash sheets or cash register tapes in their cash receipts procedures. Instead, these three departments attached only the individual receipts to the moneys they received. By not having a record of daily cash collections, there is no way to verify all that was collected was actually recorded and deposited.
- BOCES officials have not set prices for services provided in the Cosmetology Department. Instead, the cosmetology students collect donations for the services they perform. The cosmetology teacher told us that they have not established set prices for services because they do not want to discourage customers from utilizing BOCES services, especially since the main goal is to give the students experience.
- Nobody reviews the duplicate cash receipts books to ensure sequence integrity.

All of the weaknesses above exist because BOCES officials have not created cash receipts policies and procedures to improve the cash receipts process. The weakness in the cash receipts process is compounded by the lack of segregation of the Treasurer's duties for cash collections. As a result, there is a risk that errors and irregularities might occur and remain undetected and uncorrected.

Recommendations

1. BOCES officials should evaluate the Treasurer's duties and responsibilities and, where practicable, assign them to other business office staff to better segregate duties. Where it is not practicable to segregate some duties, the sufficient compensating controls should be established, including routine reviews by other employees.

2. The Board should create BOCES-wide cash receipts policies and procedures requiring the use of daily cash sheets and consider setting prices for all services provided. Further, these policies and procedures should require the review of duplicate receipts books to ensure sequence integrity, and the comparison of amounts deposited to amounts collected at each department.

Claims Audit Process

The Board is responsible for establishing an effective system of internal controls over its claims processing procedures. An effective claims auditing system ensures that there is a deliberate and thorough audit of all claims prior to disbursement. If the Board so chooses, it may adopt a resolution to appoint a claims auditor, who then assumes the powers and duties of the Board as to the approval and disapproval of claims against the BOCES. The claims auditor should ensure that all claims are legitimate and supported, and that all purchasing policies and procedures are followed prior to approving the claims for payment. This individual should be qualified, trained, and knowledgeable about the BOCES' purchasing policies and procedures.

Purchase requisitions are approved through a three-step process: department secretaries approve purchase requisitions if the department has funds available; purchase requisitions are then approved at a supervisory level if the purchase appears appropriate and necessary; the Assistant Superintendent (acting as purchasing agent) then gives the final approval. The accounts payable clerk (acting as assistant purchasing agent) can approve purchases up to \$2,000. All purchases over \$2,000 must be approved by the purchasing agent. Once a purchase requisition is fully approved, the accounts payable clerk creates four copies of a purchase order: one for the vendor; one for the accounts payable clerk's records; one for the requesting department's records; and one for the Central Receiving Department to check off the items purchased as they arrive. The accounts payable clerk compiles the purchase requisitions, purchase orders, invoices, and supporting documentation into a claims package for the claims auditor's review. Part of the claims auditor's review involves making sure that the claim is adequately supported, is added correctly, does not contain a charge for sales tax, and has all appropriate approvals. She also compares the purchase order amount to the claim amount to ensure the claim is kept within authorized limits. She indicates her approval by initialing each claim, signing a warrant of audited claims, or both.

Our examination included interviewing local officials, and testing 57 claims totaling \$1,021,954 for proper authorization, reasonableness, sufficient support, and indication of claims auditor review. Additionally, we scanned warrants for travel expenditures for key BOCES officials and utility expenditures. Our testing disclosed that the claims auditor properly audited BOCES claims.

APPENDIX A

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

6 Werk Avenue • Liberty, NY 12754-2151
Tel.: 845-292-0082 • Fax 845-292-8694

November 2, 2007

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Binghamton Regional Office
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State Office Building, Room 1702
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Binghamton, New York 13901-4417

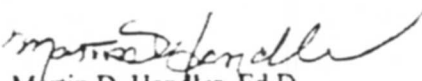
Dear ██████████

Thank you for giving the Sullivan County BOCES an opportunity to respond to the Report of Examination by the Office of the State Comptroller regarding the BOCES Cash Collections and Claims Audit Process for the Period July 1, 2005 – March 9, 2007. The BOCES wishes to commend the auditors for their professional demeanor and thank them for the important insight and information they provided.

We are pleased that your audit report confirms that the BOCES claims auditor properly audits the BOCES Claims. In response to the recommendations regarding the Treasurer's duties, the BOCES has evaluated these responsibilities and is in the process of reassigning the cash receipts duties of the Treasurer to other business office personnel. Due to the size of the BOCES Business Office there are some aspects of the Treasurer's position that are not able to be re-assigned and therefore we will be requiring additional compensating controls including the verification of journal entries and electronic transfers. In addition, the business office will create and recommend that the Board of Education adopt BOCES-wide cash receipt procedures requiring the use of daily cash sheets. The business office offers periodic workshops on various business office procedures and will also incorporate the proper recording and management of cash received in outlining departments in future training sessions.

The BOCES has always and will continue to take very seriously our responsibilities over fiscal management and we are grateful for this opportunity to work with the State Comptrollers auditors to identify an area in which we can improve. We appreciated their courteous attitude and their unobtrusive presence which enabled the BOCES to continue its operations without disruption throughout the audit. On behalf of the Board of Education and Administration, we extend our thanks to the State Comptrollers office and acknowledge their thorough review of the BOCES operations.

Sincerely,


Martin D. Handler, Ed.D
District Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard BOCES assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and the information technology system.

During the initial assessment, we interviewed appropriate BOCES officials, performed limited tests of transactions and reviewed pertinent documents, such as BOCES policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the BOCES' financial transactions as recorded in its databases. Further, we reviewed the BOCES' internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected cash receipts and claims processing for further audit testing.

To accomplish the objective of this audit, we performed the following procedures:

- We interviewed BOCES officials and employees to learn about existing internal control systems.
- We verified which employees were responsible for cash receipt collections, recording, reconciling, and depositing to determine if duties were adequately segregated.
- We performed a monthly trend analysis for off-site cash receipts to determine if there were any significant differences between years.
- We reviewed certain bank reconciliations to ensure they were prepared monthly and agreed with accounting records.
- We reviewed certain cash receipts to ensure that they were properly received, recorded and deposited timely and intact.
- We reviewed duplicate, press-numbered cash receipt books to ensure sequence integrity among the receipts.

- We scanned bank statements for voided or returned credit card charges to verify that the voided charges were proper.
- We verified that customers receiving free services did not actually pay for the services.
- We interviewed the claims auditor to determine what her process was for auditing claims.
- We verified that selected claims packages were reviewed and approved by the claims auditor, and included supporting documentation (i.e., receiving documentation and invoices).
- We reviewed claims to determine that the individuals requesting, approving and auditing claims were different in order to verify segregation of duties among those functions.
- We reviewed various utility and cell phone bills to ensure that all payments were for appropriate BOCES expenditures.

We conducted this 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.

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