



**Dutchess County  
Board of Cooperative  
Educational Services  
Internal Controls Over Selected  
Financial Activities  
Report of Examination**

Period Covered:

July 1, 2007 — January 8, 2009

2009M-183



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	3
<b>EXECUTIVE SUMMARY</b>	4
<b>INTRODUCTION</b>	7
Background	7
Objective	8
Scope and Methodology	8
Comments of BOCES Officials and Corrective Action	8
<b>PROFESSIONAL SERVICES</b>	10
Special Education Services	11
Procurement of Professional Services	12
Support for Payments	14
Recommendations	17
<b>CASH DISBURSEMENTS</b>	18
Wire Transfers	18
Check Signing and Distribution	20
Recommendations	21
<b>ADULT EDUCATION REVENUES</b>	22
Inadequate Recordkeeping Systems	22
Cash Receipts	26
Segregation of Duties	28
Recommendations	29
<b>INFORMATION TECHNOLOGY</b>	30
BOCES-Wide Security Plan	30
Software Installation	30
Remote Access	31
User Access Rights	32
Equipment Disposal	32
Recommendations	33

<b>APPENDIX A</b>	Response From BOCES Officials	34
<b>APPENDIX B</b>	Audit Methodology and Standards	37
<b>APPENDIX C</b>	How to Obtain Additional Copies of the Report	40
<b>APPENDIX D</b>	Local Regional Office Listing	41

# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

December 2009

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 Dutchess County Board of Cooperative Educational Services, entitled Internal Controls Over Selected Financial Activities. 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 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

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### EXECUTIVE SUMMARY

The Dutchess County Board of Cooperative Educational Services (BOCES) is an association of 13 component school districts. BOCES is governed by a seven-member Board of Education (Board) elected by the boards of education of the component districts. The Board is responsible for the general management and control of BOCES' financial and educational affairs. The District Superintendent (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 Superintendent is an employee of both the appointing BOCES and the New York State Education Department. As such, the Superintendent also serves as a representative for the New York State Commissioner of Education.

The 13 component school districts combined educate approximately 49,100 students throughout Dutchess County. BOCES provides shared services in which component school districts participate to enhance their individual educational programs. These shared services allow the component school districts to provide programs that they could not otherwise afford. These services include professional services for education, professional development training, and consulting. BOCES also provides adult career and technical education and continuing education to the general public. All adult education programs are self-sustaining; the individual adult pays directly for the course, or grants or employer reimbursements fund the programs. BOCES' 2008-09 fiscal year budget was approximately \$54.3 million and was funded primarily by charges to school districts for services and Federal and State aid.

#### **Scope and Objective**

The objective of our audit was to examine internal controls over selected financial operations for the period July 1, 2007, through January 8, 2009. Our audit addressed the following related questions:

- Are internal controls over professional services appropriately designed and operating effectively?
- Are internal controls over cash disbursements appropriately designed and operating effectively?
- Are internal controls over revenues from the adult learning program appropriately designed and operating effectively?
- Are internal controls over information technology appropriately designed to adequately safeguard BOCES assets?

## **Audit Results**

BOCES needs to improve its internal controls over its financial operations and information technology system. We identified weaknesses with regard to the procurement and payment of professional services, cash disbursements, adult education revenues, and information technology.

BOCES officials need to enhance controls over the procurement and payment of professional services to ensure that quality services are obtained at reasonable prices. BOCES contracted to pay approximately \$1.4 million for the salaries and associated expenses of a vendor's employees without ensuring that the contract included sufficient payroll controls. Also, the vendor did not provide adequate supporting documentation as evidence that the payroll costs incurred were in fact true and correct. In addition, BOCES did not ensure that the vendor actually maintained contracted staffing levels. BOCES personnel routinely acquired professional services without seeking competitive prices for those services, and the contracts for these professional services did not always sufficiently describe the details of the services provided or the methods that BOCES could use to measure the quality of the services. BOCES made payments to professional service providers without requiring them to provide adequate supporting documentation with their invoices to support those requests for payments. These invoices lacked key information including details of the service provided, days and/or hours worked, and locations where services were performed.

Internal controls over cash disbursements were inadequate. BOCES officials have not established sufficient controls over the electronic transfer of moneys, which averaged more than \$7.4 million per month. They have not instituted adequate segregation of duties over the wire transfer function, which allows the Treasurer to process transfers without independent confirmation and perform related bank account reconciliations. Also, the Treasurer does not adequately supervise and control the use of his electronic signature disk or compare printed checks against approved warrants and certified payrolls prior to releasing payments. Because the Treasurer could initiate wire transfers to a non-BOCES account without detection and because accounts payable and payroll personnel could create, sign, and disburse checks without the Treasurer's knowledge, BOCES has an increased risk that it could make unauthorized payments.

Internal controls over revenues and cash receipts need improvement at both the Manufacturing and Technology Institute (MTI) business office and the Career and Technical Institute (CTI) student accounts office. BOCES officials have not established control accounts for adult education revenues, and do not ensure that MTI and CTI personnel maintain records to adequately track expected revenues, amounts paid, and amounts due for adult continuing education and licensed practical nurse (LPN) courses. Without control accounts, BOCES officials cannot monitor the amount of revenue that should be collected by the MTI business office or determine the amounts remaining unpaid and due. As a result, we found that one recorded cash payment of \$390 for adult education tuition was never deposited in BOCES' bank account and nine LPN student tuition accounts had overdue balances totaling \$25,459. Also, MTI's enrollment software and the electronic spreadsheets used by the CTI account clerk to track tuition payments do not provide adequate control over transaction information. MTI personnel and the CTI account clerk have the ability to alter or delete information, leaving no evidence of the changes made.

Also, BOCES officials have not adequately segregated the registration and billing duties from the collection duties in the MTI business office or within the CTI account clerk's duties. When billing and

collection duties are performed by the same individual, there is the opportunity for cash receipts to be collected but not accounted for or deposited.

Finally, BOCES did not effectively safeguard its IT system by establishing appropriate control policies and procedures. BOCES officials have not developed a comprehensive security plan. BOCES does not have effective policies and procedures in place regarding remote access, user access rights, or equipment disposal. As a result of these control weaknesses, BOCES is placing its IT data and system at risk for possible compromise by theft, intentional or unintentional manipulation, loss, or corruption.

### **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 planned to initiate corrective action.

# Introduction

## Background

The Dutchess County Board of Cooperative Educational Services (BOCES) is an association of 13 component school districts. BOCES is governed by a seven-member Board of Education (Board) elected by the boards of education of the component districts. The Board is responsible for the general management and control of BOCES' financial and educational affairs. The District Superintendent (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 Superintendent is an employee of both the appointing BOCES and the New York State Education Department. As such, the Superintendent also serves as a representative for the New York State Commissioner of Education.

Combined, the component districts educate approximately 49,100 students throughout Dutchess County. BOCES delivers more than 100 educational and administrative services to its 13 component school districts and employs approximately 800 part-time and full-time employees throughout the year. BOCES has no taxing authority and derives all of its financial support for operations from its component school districts and State and Federal aid. BOCES' 2008-09 fiscal year budget was approximately \$54.3 million.

BOCES has three main locations: the Salt Point campus, BOCES Educational Training Academy (BETA campus) and the Manufacturing and Technology Institute, which are located in the city of Poughkeepsie in Dutchess County. Instructional programs are run at all three BOCES locations. BOCES provides shared services in which component school districts participate to enhance their individual educational programs.

BOCES also offers adult career and technical education and continuing education to the general public to enhance current job skills and to develop new ones. The adult licensed practical nurse program (LPN) is offered at the Career and Technical Institute (CTI) located at the Salt Point campus. All other adult education programs are offered through the Manufacturing and Technology Institute (MTI), with classes taking place at the MTI, CTI or BETA buildings, or via online classrooms. All adult education programs are self-sustaining; the individual adult pays directly for the course, or BOCES receives grants or employer reimbursements to fund the program.

The Assistant Superintendent for Business Services (Assistant Superintendent) reports to the Superintendent and is responsible for the operation and supervision of the BOCES business office, including the Treasurer's office, and the purchasing, accounts payable, and human resources functions. The Treasurer is BOCES' financial officer and custodian of all moneys belonging to BOCES, and he is responsible for depositing moneys and signing all BOCES checks.

## **Objective**

The objective of our audit was to examine internal controls over selected financial operations. Our audit addressed the following related questions:

- Are internal controls over professional services appropriately designed and operating effectively?
- Are internal controls over cash disbursements appropriately designed and operating effectively?
- Are internal controls over revenues from the adult learning program appropriately designed and operating effectively?
- Are internal controls over information technology appropriately designed to adequately safeguard BOCES assets?

## **Scope and Methodology**

We examined internal controls over professional services, cash disbursements, revenues from the adult learning program, and information technology for the period July 1, 2007, to January 8, 2009. Our audit disclosed areas in need of improvement concerning information technology controls. Because of the sensitivity of this information, certain specific vulnerabilities are not discussed in this report, but have been communicated confidentially to BOCES officials so that 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 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 planned to initiate 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 Clerk of the Board's office.

## Professional Services

Professional services generally include services rendered by accountants, attorneys, engineers, and others requiring specialized skill, training and expertise, use of professional judgment or discretion, and/or a high degree of creativity. Expenditures for professional services typically represent a significant outlay of public funds and are often made with no tangible evidence of the services received. Because of the cost and complexities associated with these specialized services, the Board must establish procurement policies and procedures for obtaining professional services that ensure that BOCES receives quality services at reasonable prices. Effective procurement policies and procedures require personnel to obtain price quotes or requests for proposals (RFPs) when procuring professional services. Also, it is important that the Board require BOCES personnel to obtain detailed contracts from all professional service providers that fully define the nature and extent of the services that they will provide and the methods by which BOCES officials can confirm the quality of the services performed. Because of the often intangible nature of these purchases, service providers must include detailed records with their invoices that identify the nature and extent of the services provided before payments are processed. This helps BOCES officials determine whether they received quality services in compliance with contractual provisions.

BOCES officials have not established sufficient controls over the procurement and payment of professional services to ensure that quality services are obtained at reasonable prices. BOCES contracted to pay approximately \$1.4 million for the salaries and associated expenses of a vendor's employees without ensuring that the contract included sufficient payroll controls. The vendor did not provide adequate supporting documentation as evidence that the payroll costs incurred were in fact true and correct. In addition, BOCES did not ensure that the vendor actually maintained contracted staffing levels. Also, BOCES personnel routinely acquired professional services without seeking competitive prices for those services. The contracts for these professional services did not always sufficiently describe the details of the services provided or the methods that BOCES could use to measure the quality of the services. BOCES made payments to professional service providers without requiring them to provide adequate documentation with their invoices to support those requests for payments. These invoices lacked key information including details of the service provided, days and/or hours worked, and locations where services were performed.

## Special Education Services

The quality of services provided by employees is assured through a combination of payroll controls. Comprehensive job descriptions and contracts clearly define the expectations and pay rates for employees. Detailed time records, routinely reviewed and approved by supervisors, help ensure that quality service has been received from employees. When such services are outsourced (provided by employees of an outside vendor), similar, equally effective controls are necessary and must be incorporated in each contract for services. BOCES officials must ensure that payroll controls are included in contracts for personnel services to ensure that they obtain the contracted services. Also, BOCES officials must ensure that the vendor includes proper documentation in the form of payroll records to support the actual payments for salaries and related expenses.

BOCES regularly employs the services of dozens of professionals providing a variety of professional and consulting services, including architectural, accounting, professional development, teaching, and physical, occupational and speech therapy. During the audit period, BOCES paid more than \$2.29 million to more than 176 professional service providers.

BOCES contracted with one vendor to provide a comprehensive range of clinical services for special education programs at two BOCES locations. The two annual contracts for these professional services totaled approximately \$1.4 million.<sup>1</sup> BOCES contracted to pay the salaries and associated expenses of the contracted vendor's employees (14 full-time and seven part-time positions) who provided clinical services for the special education programs. Although the contracts listed the positions and corresponding salaries of budgeted staff, they did not provide sufficient controls by defining the services to be provided by each position or the manner in which BOCES could effectively monitor the quality of those services. For example, one quality control aspect of the contract that BOCES officials could have used to verify that they were obtaining the services listed on the contract would have been to identify by name which individuals were performing each position listed in the contract. However, when we asked BOCES officials for a list of the individuals' names who were assigned to the positions and a description of services provided by each position, the officials had to request this information from the vendor. It was not part of the signed agreement.

Also, the vendor did not provide adequate supporting documentation as evidence that the payroll costs incurred, and paid by BOCES, were

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<sup>1</sup> The \$1.4 million that BOCES paid for these two contracts included \$976,705 in budgeted salaries, \$410,169 in estimated administrative expenses, and \$58,082 in estimated operating expenditures.

in fact true and correct. Instead, payments were based only on budgeted amounts of contracted salaries and expenses. They were not supported with time records of attendance, performance measures of services, or records that described how budgeted expenditures were actually incurred. Although the contracts stated that the monthly installments were to be paid based on staffing levels as they were incurred, the vendor did not provide documentation in the form of payroll or time records that would have supported the actual payments for salaries. BOCES simply divided the original budgeted amounts for salaries and administrative and operating expenses into 12 separate payments. Additionally, BOCES did not request statements of actual operating expenditures, such as purchased services for mental health, from the vendor prior to payment. Per vendor transaction reports and disbursement data, BOCES paid the full amount of the annual contracts without requiring supporting documentation to show that the vendor actually incurred these expenditures.

In addition, we found that BOCES did not ensure that the vendor actually maintained contracted staffing levels. When the vendor's program director provided the requested staff list, he stated that two of the staff members listed, with total contracted salaries of \$96,405, were on maternity leave for a portion of the year. Because BOCES officials did not track the vendor's staffing levels and because the vendor did not provide payroll records to support the services provided, BOCES officials did not have any assurance that appropriate substitute workers were provided for these two individuals in their absence. Also, BOCES officials do not have any assurance that the staffing levels that the vendor contracted for were actually necessary. Without payroll and time and attendance records and descriptions of services provided, the vendor could provide staffing levels that were excessive or inadequate for the tasks needed. The vendor also could be providing unnecessary staffing levels and charging BOCES an excessive amount for the costs related to employee benefits, when the tasks could be performed with less workers.

Without a contract that clearly describes expected services and provides a means to verify service quality and cost, BOCES is at risk of receiving substandard service and/or overpaying for those services. Without records substantiating the services actually provided, BOCES officials cannot be certain that they received the services for which they paid.

## **Procurement of Professional Services**

General Municipal Law (GML) requires that BOCES adopt policies and procedures governing the procurement of goods and services. The law provides that goods and services must be procured in a manner to assure the prudent and economical use of public moneys in

the best interest of the taxpayers, to facilitate the acquisition of goods and services of maximum quality at the lowest possible cost, and to guard against favoritism, improvidence, extravagance, fraud, and corruption. To achieve these goals, GML requires that competitive bids be sought when procuring certain goods and services. For all purchases not subject to competitive bidding, including professional services, GML requires governing boards to adopt policies that employ other methods of seeking competitive prices, such as requests for proposals (RFPs) and price quotes.

Although BOCES officials adopted a policy and regulations governing the procurement of goods and services, the accompanying procurement regulations do not require BOCES personnel to solicit competition when obtaining professional services which are not required to be bid. The policy does not provide any guidelines for staff to follow when procuring professional services that cost less than \$20,000. The guidelines state that when BOCES personnel procure professional services that cost more than \$20,000, they must obtain the Superintendent's (or his designee's) recommendation and the approval of the BOCES Board. However, the regulations do not clearly define when BOCES personnel must use RFPs for these services.

Because the procurement regulations were deficient, BOCES officials did not obtain competitive proposals when acquiring professional services. BOCES officials told us that they hired professionals based on reputation, specialized skills, or past use, and continued to use the same professionals year after year. We reviewed payments totaling \$400,094 made to 50 professional service providers<sup>2</sup> and found that BOCES hired 44 of these professionals without using competitive methods such as RFPs and price quotations. The contracts with these 44 professionals were approved for a total maximum cost of nearly \$1.2 million. For example, one vendor provided speech therapy services pursuant to a contract that was not to exceed \$312,700, another vendor provided legal services on an annual retainer of \$64,000, and a third vendor provided five days of professional development seminars pursuant to a contract that was approved for \$31,000.

Additionally, BOCES personnel did not properly procure the professional services of the external auditor. During the audit period, BOCES paid \$42,316 to an external auditor to perform its annual financial audits. BOCES did not seek competition when procuring these services as required by Education Law, and it has

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<sup>2</sup> These services included auditing, architectural, professional development, educational consulting, teaching arts, and therapy services.

been procuring these audit services from the same accounting firm for several years.<sup>3</sup> BOCES entered into single-year contracts with this accounting firm for each year's annual audit since at least 2005. BOCES officials believed they could employ the services of the same firm for up to five years before being required to solicit RFPs for the external audit.

Without adequate policies and procedures for the procurement of professional services, BOCES officials cannot provide assurance to their component school districts and taxpayers that they are obtaining professional services at reasonable costs while protecting against favoritism and abuse.

## Support for Payments

Professional services frequently involve the use of professional judgment or discretion and a high degree of creativity. Because these services often require significant amounts of money, are subject to complex specifications, and provide little or no tangible evidence of the services received, they can be seen as inherently risky expenditures. To help ensure that professional services expenditures are made only for quality services that have been performed, it is important that payments for these services are supported by written, signed contracts that clearly and completely describe the nature and quality of the services that the vendor will provide, and the compensation amounts and/or rates for those services.

To further ensure that payments are proper, it is BOCES' responsibility to ensure that contracts are signed by all parties prior to the commencement of services and that services received and the corresponding prices paid are in accordance with approved contracts. To allow BOCES officials to verify the quality and cost of services provided, it is essential that vendors adequately itemize their invoices to include detailed information about the services they have provided, and provide appropriate documentation supporting hours worked, rates for hourly services and, when applicable, work locations and clients served.

Contracts – BOCES often uses a standard boiler-plate contract, titled “Independent Contractor Retainer,” for written agreements with professional service providers. Many times, these contracts do not have specified amounts that the BOCES will pay that correspond to exact services provided, but instead include maximum amounts that these contracts may not exceed.

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<sup>3</sup> Effective July 1, 2005, Education Law was amended to specifically require BOCES to use RFPs when contracting for the services of an independent auditor and to require that the contract not exceed a five-year time period.

We reviewed 14 contracts that had contract limits totaling \$529,822 and found that 13 contracts, that had limits totaling \$526,072, did not adequately define the nature and quality of the service that BOCES was procuring. For example, BOCES contracted with one vendor for educational coordinator services at a daily rate of \$465, and the contract specified that the amount paid to this vendor was not to exceed \$98,672. However, the contract did not provide a description of the services that this vendor was to provide. Because the contract did not clearly define what constituted a day of service for this vendor, BOCES officials did not have any basis on which to determine whether the vendor's invoices submitted for payment were valid.

We also examined the contracts that corresponded to 50 payments totaling \$400,094 that BOCES made to professional service providers and found that seven of the 50 professionals performed services totaling \$34,594 before the Superintendent approved the contracts with these providers. For example, one vendor who provided surveying services submitted a \$10,000 invoice for payment that was dated three weeks before the date of the vendor's contract. The contract was not signed by either the vendor or BOCES officials until the claims auditor questioned the validity of the contract because it was not signed. In fact, the contract did not contain any agreed amount of compensation for the services provided by this vendor.

When BOCES allows professionals to perform services prior to signing an agreement, officials cannot be certain that the required service will be provided at an expected cost. By employing professional service providers without written contracts in place or entering into agreements that do not specify the amount for the service, BOCES officials cannot effectively monitor vendor activity and ensure services are provided as expected. Further, without written agreements that contain a detailed description of the services to be provided, there is no clear understanding of the services that the professional is obligated to provide.

Supporting Documentation – We examined claims packages for 50 payments totaling \$400,094 that BOCES made to 50 professional service providers and found that BOCES made 25 payments totaling \$168,481 from invoices which were not sufficiently detailed, itemized, and supported to provide adequate proof for BOCES officials to determine whether they received the services for which they paid. Some of these invoices lacked details of the services provided and start and end times for those professionals contracted at an hourly rate, and some invoices did not identify the locations where the services were performed. Some payments had more than one of these deficiencies, as follows:

- Fifteen payments totaling \$101,675 were paid from invoices that were not accompanied by sufficient documentation to provide proof that the services were, in fact, performed or received. For example, BOCES paid \$11,250 for consulting services to a contractor who was to be paid at a contract rate of \$750 per day to perform needs assessments and provide professional development. However, the invoice that this payment was made from did not include any supporting documentation for 11 service days billed, in the form of meeting agendas and lists of participants, or outlines of the resulting action plans. Also, BOCES made two payments totaling \$4,900 for arts-in-education services that BOCES personnel processed without signed documentary evidence<sup>4</sup> to show that the services were received.
- Fifteen payments totaling \$95,140 for services contracted at an hourly rate<sup>5</sup> were paid from invoices that did not contain start and end times. For example, BOCES paid \$6,000 to an education consultant for services billed at \$125 per hour, from three invoices that did not specify start and end times for 48 hours of service billed. BOCES also paid \$4,556 to a contracted coordinator of occupational and physical therapy, for services billed at \$67 per hour, for 10 days of activity sheets that did not specify the start and end times for 68 hours of services.
- Six payments totaling \$57,461 were paid from invoices that did not contain sufficient details of the services provided. For example, BOCES paid \$12,561 to an external auditor for the preparation of financial statements. The contract for this service specified that the fee would correspond to the firm's standard hourly rate and that hourly rates would vary according to the degree of responsibility involved and experience level of personnel performing the work. However, the two invoices from which this payment was made did not indicate what work had been completed or indicate the experience level of the personnel performing the work.
- Six payments totaling \$33,441 were paid from invoices that did not specify the location where the services were performed. For example, BOCES paid \$6,750 to a vendor that provided professional development services for nine

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<sup>4</sup> One of these invoices was not accompanied by the required artist verification form and school district evaluation form.

<sup>5</sup> These services included speech pathology, education consulting and professional development, occupational therapy (O/T), physical therapy (P/T), and the coordinator of O/T and P/T.

workshops, billed at \$750 each. The two invoices that this payment was made from did not specify the location of these workshops. These invoices also lacked accompanying supporting documentation, such as agendas and class rosters.

Without thorough descriptions and itemization of billed services, details of the times worked, supporting documentation to indicate that services were performed and received, and locations identified where services were performed, there is an increased risk that BOCES will pay for services that were not received. Further, BOCES cannot be certain that all charges were valid and as agreed upon.

## **Recommendations**

1. BOCES officials should ensure that contracts for outsourced services clearly define expected services and provide a means for monitoring quality and price.
2. BOCES officials should ensure that payments for outsourced and other professional services are based on actual services rendered and that vendors submit sufficiently detailed invoices and adequate documentation with invoices before officials approve payments.
3. The Board should amend its procurement policy to require BOCES officials to award professional services contracts only after seeking competition. BOCES officials should comply with Education Law and solicit competitive proposals for independent audit services.
4. BOCES officials should ensure that all written agreements for professional services provide BOCES and the service provider with a clearly defined and mutually agreed upon basis for determining service quality and cost. BOCES officials should approve written agreements with all professional service providers prior to commencement of services.

## Cash Disbursements

Public officials are responsible for designing internal controls to safeguard taxpayer resources from unauthorized access or improper use and ensure that cash assets are disbursed only as authorized. To provide effective safeguards, the Board and BOCES officials must establish written policies and procedures over cash disbursements to ensure that disbursement duties are properly segregated, so that no one person controls all phases of a transaction. It is important that access to bank account moneys is restricted only to authorized individuals.

We found weaknesses in internal controls over cash disbursements. BOCES officials have not established sufficient controls over the electronic transfer of moneys, which averaged more than \$7.4 million per month. They have not instituted adequate segregation of duties over the wire transfer function, which allows the Treasurer to process transfers without these transfers being independently confirmed by any other BOCES official and to perform related bank account reconciliations. Also, the Treasurer does not adequately supervise and control the use of his electronic signature disk or compare printed checks with approved warrants and certified payrolls prior to releasing payments. Because the Treasurer could initiate wire transfers to a non-BOCES account without detection and because accounts payable and payroll personnel could create, sign, and disburse checks without the Treasurer's knowledge, BOCES has an increased risk that it could make unauthorized payments.

### Wire Transfers

Cash disbursements made through electronic wire transfers often involve significant amounts of money, can be made with relative ease, and leave less tangible audit evidence, i.e., no cancelled check as proof of the transaction. To effectively address the risks associated with wire transfers, the Board must establish written policies and procedures related to approving, initiating, documenting, reconciling, and monitoring wire transfers. In addition, it is important that BOCES officials segregate the authorization, transmission, confirmation, recording, and reconciliation functions for wire transfers. While more than one person must be involved in the wire transfer process, it also is important to limit the access these individuals have to all steps of the process. Access to cash resources must be restricted only to authorized personnel who need such access to perform their duties. When more than one person can perform all of the functions within the wire transfer process without supervision, it increases the risk that cash may be disbursed improperly and that those disbursements may be concealed without detection.

BOCES uses online banking to routinely make wire transfers involving significant amounts of money. During our audit period, wire transfers out of and between nine BOCES bank accounts (including general, trust and agency, federal, and cafeteria accounts) averaged more than \$7.4 million per month. BOCES officials have not established sufficient controls over the electronic transfers of moneys. There are no written policies and guidelines governing these transactions and wire transfer duties are not adequately segregated. Although the Assistant Superintendent, or her designee, reviews and approves proposed transfers prior to execution, the Treasurer processes transfers without the bank independently verifying these transfers with another BOCES official and performs related bank reconciliations. While BOCES officials could provide a mitigating control of this process by reviewing an online transaction log, they do not monitor this log for inappropriate activity. We examined 41 wire transfers totaling \$24,826,000 for approval, supporting documentation, and transfer into the appropriate account. While we did not find any exceptions, because BOCES does not have written policies and procedures and adequate segregation of duties within the wire transfer process, it has an increased risk that unauthorized transfers may be made and not detected in a timely manner.

In addition to the inadequate segregation of duties issue, we found that more than one person within BOCES can perform wire transfers without being supervised or otherwise monitored by BOCES officials. The Treasurer, Deputy Treasurer, Assistant Superintendent, and a former Treasurer all had access to online banking transactions for the electronic transfer of BOCES moneys.<sup>6</sup> Through online banking, all of these individuals had the capability to electronically transfer moneys between pre-established BOCES accounts held at the bank (account transfer) and to initiate “free-form” transfers in which account numbers can be manually entered (funds transfer initiation). Because no one monitored the wire transfers, it is possible that any of these individuals could have initiated wire transfers into bank accounts that were not BOCES-related accounts without detection.

We reviewed the wire transfer authorizations to determine if these individuals were given access to appropriate transactions and bank accounts and found the following weaknesses:

- The former Treasurer still had access to all BOCES bank accounts three months after she had left BOCES employment.<sup>7</sup>

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<sup>6</sup> These access rights are administered by the Assistant Superintendent.

<sup>7</sup> After resignation, the former Treasurer worked for a health consortium for which BOCES provides treasurer functions. Three months after the former Treasurer left BOCES employment, she was still training the new BOCES Treasurer on how to handle the administration of the health consortium moneys, which are held in a BOCES bank account. Although it may have been acceptable to allow the former Treasurer to have online access to this account, it was unacceptable for her to have access to all of BOCES’ bank accounts

The Assistant Superintendent told us that when the bank assisted her in establishing access to online banking for the current Treasurer, bank officials did not instruct her to modify permissions for the former Treasurer.

- The Assistant Superintendent had access to all fund transfer transactions and all BOCES bank accounts. However, the Board authorized only the Treasurer, Deputy Treasurer, and Board President to disburse deposited funds.
- The Treasurer, Deputy Treasurer, Assistant Superintendent, and former Treasurer could delete transactions, create “free-form” wire transfers, and approve their own transfers. This causes a control weakness because any one of these individuals could create a “free-form” wire transfer (could transfer monies from a BOCES bank account to a non-BOCES account), approve the transfer, and then delete the transaction so that it would not be detected.

When several individuals have access to cash through wire transfer capabilities without supervision, accountability is weakened and there is an increased possibility of errors and/or irregularities occurring and not being detected. Also, because several individuals have access to BOCES monies through online banking and BOCES officials do not monitor these transactions, it may be difficult to determine who is responsible should any improper transfers be discovered.

## **Check Signing and Distribution**

As the BOCES official responsible for signing checks, the Treasurer plays a critical role in the cash disbursement process. The Treasurer must ensure that his signature is not used to make payments that have not been approved. Education Law requires the Treasurer’s actual or facsimile signature be affixed to BOCES checks by the Treasurer or affixed under the Treasurer’s direct supervision. It is important for the Treasurer to compare the signed checks with the certified payroll and warrants to ensure that the checks match the payments that were authorized to be made, and maintain custody of the checks before they are distributed.

During our audit period, BOCES processed approximately 10,120 accounts payable checks totaling approximately \$74.8 million. The Treasurer does not adequately supervise and control the use of his electronic signature disk that is used to sign accounts payable and payroll checks. To affix his signature on checks during a check run, the Treasurer gives his signature disk to the accounts payable and payroll supervisors. However, he does not supervise the use of his signature disk and has shared the password for his signature disk with these two supervisors. After checks are printed, these supervisors maintain

custody of the checks before distributing them. The Treasurer does not supervise BOCES personnel as they affix his signature to checks or while they are processing checks and does not maintain custody of the signed checks before they are distributed. Also, the Treasurer does not compare printed checks with approved warrants and certified payrolls prior to releasing payments to ensure that only authorized checks have been signed.<sup>8</sup>

We compared 20 cancelled checks totaling \$72,300 to approved warrants and examined 86 payments to vendors totaling \$2,293,700 for sufficient support to verify that purchases were for a legitimate, proper business purpose. We also examined the 20 cancelled checks for proper endorsements. Although we did not find any significant exceptions, when the Treasurer does not adequately control the signature process or verify the accuracy of the printed checks prior to their distribution, BOCES has an increased risk that it may make unauthorized payments.

## **Recommendations**

5. BOCES officials should establish policies and procedures to guide officials and employees who are authorized to make wire transfers. At a minimum, these guidelines should require an independent confirmation of wire transfers and that bank reconciliations be performed by someone other than the Treasurer.
6. BOCES officials should limit online banking access only to those employees who are directly responsible for performing banking transactions. They also should periodically review online banking transaction logs for unusual activity.
7. The Treasurer and Deputy Treasurer should supervise the use of their electronic signatures at all times. They also should change the passwords associated with the signature disks and refrain from sharing the new passwords with anyone.
8. If the Treasurer cannot personally affix his signature to all checks, he should supervise the signing of the checks, the comparison of the checks to approved warrants and certified payrolls, and the distribution of the checks.

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<sup>8</sup> In the Treasurer's absence, the Deputy Treasurer assumes the Treasurer's check-signing responsibilities. However, the Deputy Treasurer follows the same inadequate procedure for the check-signing process that the Treasurer uses, i.e., giving her signature disk and password to the accounts payable and payroll supervisors during the check processing function. The Deputy Treasurer also does not maintain custody of the signed, printed checks before they are distributed or verify the accuracy of the payments by comparing the certified payrolls and warrants to the printed checks.

## Adult Education Revenues

During our audit period, BOCES received approximately \$1 million in tuition and fee payments through its adult continuing education and adult licensed practical nursing (LPN) offices. The continuing education classes are administered by the Manufacturing and Technology Institute (MTI) and the nursing classes are administered by the Career and Technical Institute (CTI). Students pay tuition and fees at the MTI business office and the CTI student accounts office, and these payments are then submitted to the BOCES business office. It is the responsibility of the Board and BOCES officials to implement adequate control procedures to ensure that MTI and CTI staff appropriately account for, collect, and safeguard these tuition and fee payments.

Internal controls over revenues and cash receipts are weak at both the MTI business office and the CTI student accounts office. BOCES officials have not established control accounts for most of the adult education revenues and do not ensure that MTI and CTI personnel adequately track expected revenues, amounts paid, and amounts due for adult continuing education and LPN courses. Without control accounts, BOCES officials cannot monitor the amount of revenue that should be collected by the MTI business office and the CTI student accounts office or determine the amounts remaining unpaid and due. As a result, we found that one recorded cash payment of \$390 for adult education tuition was never deposited in BOCES' bank account and nine LPN student tuition accounts had overdue balances totaling \$25,459. Also, MTI's enrollment software and the electronic spreadsheets used by the CTI account clerk to track tuition payments do not provide adequate control over transaction information. MTI personnel and the CTI account clerk have the ability to alter or delete information, leaving no evidence of the changes made.

BOCES officials have not adequately segregated the registration and billing duties from the collection duties in the MTI business office or within the CTI account clerk's duties. When billing and collection duties are performed by the same individual, there is the opportunity for cash receipts to be collected but not accounted for or deposited.

### **Inadequate Recordkeeping Systems**

A basic requirement of accounting for revenues includes tracking expected revenues, amounts paid, and amounts due in a centralized fashion, so that management may oversee this information through related reports. To ensure that all continuing education and LPN revenues are collected, BOCES officials must establish control accounts (summary accounts) for each revenue source that show total

amounts to be collected and a history of all payments and adjustments within these accounts. These control accounts must be able to track outstanding receivables for continuing education and LPN courses, so that BOCES officials can ensure that all revenues due to BOCES have been properly collected. Control accounts are useful tools that help BOCES officials monitor the amount of revenue collected by MTI and CTI staff and determine whether there are any amounts remaining unpaid and overdue. To be effective, the accounting system used to track these revenues must safeguard all recorded data from unauthorized changes and also completely and uniquely identify and record all amounts billed and paid.

MTI – Students can pay for tuition and fees by cash, check, or credit card at the MTI business office. Tuition and fees are received from students and/or from grants paid by associations, unions, or other agencies. For courses that cost \$900 or more, students may use a payment installment plan. MTI personnel manage student accounts and record payments in MTI’s student enrollment software which is separate from BOCES’ accounting software. The BOCES business office is responsible only for recording total amounts received from the MTI business office into BOCES’ accounting software. During our audit period, MTI business office personnel collected more than \$500,000 in tuition and fees which they submitted to the BOCES business office for deposit.

The MTI business office uses a combination of electronic and hard-copy records to account for registrations, collections, payment plans, course completion certificates, and refunds. However, BOCES officials are not ensuring that MTI personnel adequately track amounts paid and amounts due for all continuing education classes. BOCES officials have not established control accounts for all of the continuing education classes to record expected tuition amounts for each class, payments students have made, and refunds made to students.<sup>9</sup> The use of control accounts that track outstanding receivables would allow BOCES officials to readily determine total unpaid tuition amounts. Without adequate records, BOCES officials cannot and do not adequately track adjustments and refunds made to student accounts.

MTI personnel do not maintain adequate records for those students who opt to use the payment plan.<sup>10</sup> MTI personnel track all payment

<sup>9</sup> Control accounts are maintained for student tuition that is funded by grants paid by associations, unions, or other agencies. MTI creates invoices billing these sources, and the corresponding receivables are recorded by BOCES.

<sup>10</sup> Students who elect to use payment plans must sign a commitment letter, printed on BOCES letterhead, in which the student promises to pay installments throughout the term on the dates and in the amounts specified in the letter. These letters, which are also signed by the Director of Adult Career and Technical Education, are the only record of the unpaid tuition of enrolled students using a payment plan. Because these commitment letters are not numbered, controlled documents, they could be altered, destroyed, or falsely recreated by anyone who has access to BOCES letterhead.

plan information using commitment letters only. Therefore, BOCES officials have no readily available means to track this information without looking at each commitment letter for the tuition amount specified. Because BOCES officials have not established control accounts and because MTI personnel are not using the enrollment software to track expected payment plan tuition amounts, BOCES officials cannot monitor the amount of revenue that should be collected by the MTI business office or determine the amounts remaining unpaid and due. In addition, BOCES officials do not provide effective oversight over these operations.

Also, the enrollment software does not provide adequate control over transaction information. Although the system electronically generates consecutive receipt numbers for each transaction, MTI personnel have the ability to alter, delete, lose or destroy transaction information without these actions being detected. Electronic information such as dates, payment amounts, and payment methods can be changed after it has been entered into the system. Similarly, hard-copy documents such as completion certificates and payment plan letters are not consecutively numbered and controlled and can be easily altered or falsely recreated. There also is no independent approval or review of changes made to the accounting system data or forms. BOCES officials do not perform periodic reviews of tuitions and payments to ensure the timely collection of outstanding tuition. Without an effective accounting system, the data that it contains and generates cannot be relied on and accountability for recorded receipts is suspect.

We reviewed 33 payment plan accounts with anticipated tuitions totaling \$73,179 and traced payments to deposits in the BOCES bank account. Although payments were generally made on time and in full, we found that one recorded cash payment of \$390 (for tuition of \$1,423) was not deposited in the bank account.<sup>11</sup> The MTI account clerk who received and recorded the payment and MTI business office employee who submitted receipts to the BOCES office could not explain why the \$390 was not submitted for deposit. Additionally, MTI business office personnel could not locate the student's hard-copy registration form and printed receipts documenting the student's enrollment and payments.

CTI – Students can pay for tuition and fees for the LPN program at the CTI student accounts office. Tuition and fees are received from several sources, including the student, financial aid awards (Pell grants and Stafford loans) and grants paid by associations, unions, or other agencies. The CTI account clerk receives tuition from students and Stafford loan checks at his location, and then submits

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<sup>11</sup> Refer to the Cash Receipts section for further information on moneys not deposited in BOCES bank accounts.

the student payments and loan checks to the BOCES business office, which is responsible for depositing these revenues and recording receipts into the BOCES accounting software. Also, he transfers Pell grant moneys through electronic fund transfers from the U.S. Department of Education's Federal Student Aid program into the appropriate BOCES bank account. The CTI account clerk does not have enrollment or accounting software and records tuition and fee payments in electronic spreadsheets only. During our audit period, the CTI student account office submitted more than \$490,000 in tuition and fees to the BOCES business office for deposit.<sup>12</sup>

BOCES officials have not established control accounts for LPN revenues<sup>13</sup> that would track expected tuition amounts for each term, payments students have made, unpaid amounts due, and refunds made to students. Without a control account, BOCES officials cannot and do not track account adjustments and refunds made to students and cannot readily determine total unpaid tuition. Because BOCES officials have not established control accounts for LPN revenues, they cannot monitor the amount of revenue that should be collected by the CTI student account office or determine the amounts remaining unpaid and due. In addition, BOCES officials do not provide effective oversight over these operations.

Also, the electronic spreadsheets used by the CTI account clerk to record tuition payments do not provide adequate control over transaction information. The clerk records transaction information in individual electronic spreadsheets for each enrolled student which, when printed, serve as the students' bills. The clerk has the ability to alter or delete this information, leaving no evidence of the changes made. The bills sent to LPN students also are inadequate. Bills are not uniquely identified and consecutively numbered so that all documents can be accounted for. Also, there is no independent approval or review of changes made to these spreadsheets. BOCES officials do not perform periodic reviews of tuitions and payments to ensure the timely collection of outstanding tuition. When an accounting system allows for the concealment of changes made to data, there can be no assurance that all revenues are accounted for and properly deposited.

We reviewed 75 student accounts for the Fall 2008-2009 term enrollment, with tuitions totaling \$468,925, to determine the number of accounts with unpaid balances. Nine accounts had overdue balances totaling \$25,459. For example, one student had not paid

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<sup>12</sup> Pell Grant moneys and payments from outside agencies are received directly by the BOCES business office.

<sup>13</sup> Control accounts are maintained for student tuition that is funded by outside agencies. The CTI account clerk creates invoices billing these agencies, and the corresponding receivables are recorded in the BOCES accounting software.

\$4,150 in tuition for the Fall 2008 semester; however, she was allowed to register for the Spring 2009 semester. In addition, nine months into the Spring 2009 semester, this student's account also was overdue by an additional \$4,150 in tuition for the Spring semester, for a total of \$8,300 in unpaid tuition.

Without control accounts to monitor the financial activities of the adult continuing education and LPN program, BOCES has no assurance that all revenues are properly accounted for and collected. Also, because MTI's enrollment software and the CTI account clerk do not track expected tuition amounts, BOCES officials are unable to determine how much tuition that BOCES should be receiving. Without control accounts that track outstanding receivables as a means to determine how much tuition BOCES should be receiving, BOCES officials cannot readily reconcile amounts submitted from the MTI business office and the CTI account clerk with records kept by these two offices. Without an adequate recordkeeping system and reconciliation process, BOCES officials did not know that a \$390 cash payment was never deposited in the BOCES bank account or that nine LPN student accounts had overdue balances totaling \$25,459.

## Cash Receipts

A well-designed system of internal controls over cash receipts requires that management establish a reliable process for accounting for all moneys immediately upon receipt. When used properly, records with multiple copies provide documentation of a transaction and include required approvals and key reference numbers. The sequential numbering of records and documents gives each a unique identity for tracking purposes. Ultimately, effective documenting of transactions enable BOCES officials to trace each transaction from its inception through the accounting records and into related reports (i.e., provides an audit trail). Effective means for establishing accountability include using daily cash sheets and consecutively issued, press-numbered receipts and depositing moneys as soon as possible after receipt. It is important that BOCES officials periodically reconcile the balances in the control accounts with individual student account records maintained by MTI and CTI personnel. BOCES officials must examine any differences to ensure that payments are properly posted to student accounts and to ensure that moneys are properly deposited. Proper reconciliations can result in the timely detection of errors or irregularities. BOCES officials must investigate any amounts shown to be unpaid and routinely enforce collection of unpaid accounts.

MTI – BOCES regulations require that employees send all moneys collected to the business office no later than the following business day. When submitting adult education moneys for deposit to the BOCES business office, employees must submit an original copy

of a three-part computerized receipt and a computerized summary listing (daily cash receipt information) along with the moneys to be deposited. The MTI business office did not submit moneys collected for deposit the day after they were collected, and the receipts that MTI employees submitted for deposit were not intact.<sup>14</sup> The numbered, printed receipts that accompanied and identified the moneys to be deposited were out of sequence. Because the receipts were out of sequence, it appeared that receipt numbers were missing, when in most cases, the collections associated with those receipts appear to have been deposited on different days. The MTI business office does not routinely generate summary listings from its accounting system or reconcile that information to the moneys collected for the day. Because the BOCES business office did not receive summary listings from the MTI business office, the BOCES business office was not able to reconcile moneys received from the MTI business office to the required summary listings.

We reviewed 152 receipt numbers for recorded transactions totaling \$46,183 from a two-week period to account for all transaction receipt numbers. We then examined these receipts to determine if tuition payments were properly recorded and subsequently submitted for deposit. We also traced 152 students from 30 class rosters to payment deposits to determine if the students who attended classes were entered into the system and if the students' payments were accurately recorded and deposited. We found three instances totaling \$468 where the payment type (i.e., cash, credit card, or check) recorded on the printed receipts did not match the type of the moneys recorded on the daily deposit sheets and bank deposit slips. Also, MTI business office personnel were unable to account for two receipt numbers and could not find transactions that corresponded to the missing receipts. Officials were unable to determine if these payments were deleted (voided) to correct an entry error or to conceal payments that were not submitted for deposit.

Because BOCES officials did not reconcile receipts in a timely manner, five receipts were not accounted for properly, and BOCES has an increased risk that all receipts will not be accounted for properly and that these mistakes may go undetected. When moneys are not deposited intact and in a timely manner, there is a greater risk that they may be misappropriated. Similarly, when unpaid accounts are not independently tracked and investigated there is an increased risk that moneys due will not be collected.

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<sup>14</sup> Moneys collected must be deposited intact, that is, in the same order and form (cash or check) in which they were received.

## Segregation of Duties

An effective system of internal control requires the separation of duties so that no one individual controls most, or all, phases of a transaction. To ensure that all cash receipts are properly accounted for and deposited, the duties of registering and billing students, collecting payments, and making adjustments to accounts must be segregated. It is important that refunds be processed by someone who is not involved with billing, collecting payments, and recordkeeping. Also, refund checks must not be returned to the person who initiated the request, but must be distributed by another person or office.

MTI – BOCES officials have not adequately segregated the registration and billing duties from the collection duties in the MTI business office. Three individuals in the office receive tuition payments and are responsible for registering students, recording tuition and payments, administering payment plans, and preparing refund requests. BOCES officials do not provide an independent verification (reconciliation process) of the work of MTI office staff to ensure that they are properly recording all cash receipts and submitting them for deposit. When the duties of registration and collection are not segregated, BOCES has an increased risk that registration information may be altered and the related cash receipts not recorded and submitted for deposit.

CTI – BOCES officials have not adequately segregated the CTI account clerk's duties. The CTI account clerk is solely responsible for maintaining student accounts. He prepares student bills, collects and records payments and fees, makes adjustments to student accounts, and forwards student payments and Stafford loan checks to the BOCES business office for deposit. BOCES officials do not provide an independent verification (reconciliation process) of the clerk's work to ensure that he is properly recording all cash receipts and submitting them for deposit.

The account clerk also is responsible for determining which students are to receive a refund, and for calculating the refund amount using BOCES' adult LPN refund policy. Although refund requests must be approved by the Coordinator of Health Occupations (Coordinator) and are examined by the claims auditor before being processed in the account payable office, no one reviews the account clerk's refund calculations and the Coordinator's and claims auditor's reviews rely on the information recorded in the student account by the CTI account clerk who requests the refund. In addition, after the refund checks are processed, they are returned to the CTI account clerk for distribution to the students, instead of being mailed by BOCES in the normal check distribution process. When the same individual prepares bills, collects payments, maintains the accounting records, and processes refunds, there is an increased risk that improper refund requests may be created. We reviewed 12 refund payments to LPN students totaling

\$26,637 to verify whether these refunds were valid and authorized and whether cleared refund checks were appropriately endorsed. We did not find any material discrepancies or exceptions.

## **Recommendations**

9. BOCES officials should establish control accounts for all adult continuing education and LPN program revenues. Officials should periodically reconcile these accounts to records kept at MTI and CTI offices, promptly investigate any differences, and pursue any moneys remaining unpaid and overdue.
10. BOCES officials should ensure that the accounting systems for adult continuing education and LPN program revenues provide reliable data. Officials should ensure that MTI and CTI personnel use accounting systems that do not allow data to be changed without leaving an audit trail. Also, BOCES officials should ensure that the staff makes changes to data only with prior approval and should subsequently review changes for authorization.
11. BOCES officials should independently reconcile daily cash receipts to recorded amounts. Officials also should ensure that MTI and CTI personnel promptly record all receipts, submit receipts for deposit intact, and deposit all receipts no later than the following business day.
12. BOCES officials should segregate cash collection, registration, billing, and refund processing duties in the MTI business office and CTI account office. Officials also should assign the responsibility of administering payment plans to an individual who is not involved in student registrations and billings or collecting and recording payments. If it is not practical to adequately segregate duties in the CTI account office, BOCES officials should institute compensating controls such as performing independent review of the accounting records by someone who is not involved in key transactions.
13. BOCES officials should mail approved refund checks directly to the eligible recipients or have someone other than the CTI account clerk distribute them.

## Information Technology

BOCES' information technology (IT) system is a valuable and essential part of operations. The IT system is used to maintain financial data, process financial transactions, provide computer education, access the Internet, communicate by electronic mail (e-mail), and report to State and Federal agencies and the general public. An effective system of internal controls over IT includes policies and procedures to protect data from loss by intentional or unintentional manipulation, or corruption. The Board and BOCES officials are responsible for establishing a BOCES-wide security plan to provide reasonable assurance that its valuable IT assets – including computer data, equipment, and systems – are properly safeguarded against loss and misuse. Policies and procedures must limit user access to only authorized persons, allow data to be restored if it is unavoidably lost or corrupted, and address system user privileges. Procedures for the proper deletion of data from obsolete or transferred equipment help to protect BOCES data from loss or improper use.

BOCES did not effectively safeguard its IT system by establishing appropriate control policies and procedures. BOCES officials have not developed a comprehensive security plan. BOCES does not have effective policies and procedures in place regarding remote access, user access rights, or equipment disposal. As a result of these control weaknesses, BOCES is placing its IT data and system at risk for possible compromise by theft, intentional or unintentional manipulation, loss, or corruption.

### **BOCES-Wide Security Plan**

A BOCES-wide security plan would identify and prioritize vulnerable areas and document the process for evaluating security risks and discussing and determining solutions to those risks. An effective plan establishes a framework for an ongoing process to identify areas of risk, and to develop and monitor the effectiveness of the policies and procedures to control risk. It is important that BOCES officials distribute the security plan to all BOCES employees who have access to applications, servers, and networks and maintain a security incident response log.

BOCES officials have not developed a security plan and do not periodically assess security risks. Without a security plan, areas that could be at risk may be overlooked, and the internal controls that are put into place to control risk may not be appropriate and/or effective.

### **Software Installation**

Prohibiting the installation of unauthorized software by system users is a crucial step in preventing potentially harmful software from

infecting BOCES computers. Unauthorized programs could transfer personal or sensitive information to outside networks, potentially slow down the network, or cause system crashes and loss of data.

Although all users are required to sign an agreement for the prudent use of computers and networked information resources, BOCES has no procedures to prevent staff from downloading and installing software onto their computers without the prior knowledge and approval of the BOCES Technology Department. We found that BOCES employees and students can download and install software onto their computers. Although BOCES technology technicians have installed an application that removes all traces of user-installed software on classroom computers each time the workstation is restarted, this does not prevent users from initially installing the software. These excessive software installation rights expose the BOCES network to potential damage from viruses, spyware, and other software that may not be properly screened for current technological threats. Malicious software also could infiltrate the network, thereby potentially destroying, manipulating, or stealing data.

## **Remote Access**

Remote access is the ability to access a computer system from an offsite location. Remote access creates security risks for an otherwise secure network because remote computers, even if physically secure, may be vulnerable to threats from other systems. It is important for management to control, track, and monitor remote access so that only authorized individuals are allowed to access the computer system or to retrieve data from it. Essential controls include policies and procedures that define who can access the IT system remotely, how remote access is granted, the methods of gaining access, and how remote access to the BOCES networked computer system and financial data is monitored, tracked, and controlled. A signed agreement between all remote users and BOCES outlining remote access standards and rules is an effective tool for establishing the security responsibilities of remote users.

BOCES has not implemented policies and established written procedures that address to whom remote access is given, how remote access is granted, and how remote access to the networked computer system and financial data is monitored, tracked, and controlled. BOCES allows its accounting software vendor to have unmonitored remote access to maintain software and application data and the server on which it resides. Certain BOCES employees are also given remote access to the financial software. Although the appropriate department head authorizes employee access, no written policies or agreements exist for remote access. Because virtually all BOCES accounting records are computer-generated and unmonitored, an unauthorized user could access and change computer data (i.e.,

add/delete employees, change pay rates, add/delete vendors, and change vendor information) and the unauthorized activity could go undetected and uncorrected. As a result, BOCES is at risk of unauthorized changes being made to its system, programs, or data without the knowledge of BOCES officials.

### **User Access Rights**

Having computer access controls in place prevents users from being involved in multiple aspects of financial transactions. Proper segregation of accounts payable duties is an essential internal control that can be accomplished by assigning duties so that no one employee performs key aspects of payment processing, such as adding new vendors, entering disbursements, and running checks within the BOCES computer system. If it is not practical to adequately segregate these duties, BOCES officials should institute compensating controls, such as requiring someone who is independent of the accounts payable process to review all new vendors added to the system.

BOCES officials have not adequately assigned user access to segregate duties related to cash disbursements. The three clerks in the accounts payable office have been assigned computer access rights that allow them all to create new vendor files, modify purchase orders, adjust purchase order amounts, verify and electronically approve purchase order information, enter disbursements, and run checks. These duties are incompatible when performed by one individual because they would allow the account clerks to initiate and conceal inappropriate transactions.

Although the purchasing agent must electronically approve purchase orders, the accounts payable clerks have user rights to modify approved purchase orders after the purchasing agent has approved them and can enter disbursements into the computer system without being monitored. Because the accounts payable clerks have excessive access to all phases of the computerized payment process, BOCES has an increased risk that unauthorized payments could occur.

### **Equipment Disposal**

Sensitive and confidential information and software must be cleared from computer hard drives, disks, thumb drives, and other equipment and media before those items are disposed of or transferred to another use. Organizations must have a plan that clearly describes the organization's security management program and the policies and procedures that support it, including procedures for the secure disposal of all equipment containing electronic information.

BOCES' hard drives are not cleaned and sanitized before disposal. BOCES does not have procedures to clear sensitive information and software from computers before disposing of them. If sensitive/confidential information is not fully removed, it may be recovered and

inappropriately used or disclosed by individuals with access to the discarded or transferred equipment and media.

## **Recommendations**

14. BOCES officials should develop a formal IT security plan and distribute the plan to appropriate BOCES employees.
15. BOCES officials should restrict the installation of software to Technology Department staff.
16. The Board should adopt a remote access policy and establish procedures that address how remote access is granted, who is given remote access, and how remote access is monitored, tracked, and controlled.
17. BOCES officials should assign user access rights to prevent users from having computerized access to multiple aspects of the payment process.
18. BOCES officials should establish policies and procedures to ensure that hard drives and other electronic media are properly sanitized before they are disposed of or transferred.

**APPENDIX A**  
**RESPONSE FROM BOCES OFFICIALS**

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



5 BOCES Road, Poughkeepsie, New York 12601  
Phone: 845.486-4800 | Fax: 845.486-4981  
E-mail: john.pennoyer@dcboces.org  
December 8, 2009

Kenneth Madej, Chief Examiner  
Albany Regional Office  
Office of the State Comptroller  
22 Computer Drive West  
Albany, NY 12205-1695

Dear Mr. Madej:

This letter is in response to the audit examination of the Dutchess County Board of Cooperative Services performed by the State Comptroller’s Office for the period July 1, 2007 – January 8, 2009 and to the report addressing Internal Controls over Selected Financial Activities. We acknowledge that the report provides us with recommendations that will improve our operations and strengthen some of our internal controls.

We accept the report and have addressed, or are in the processing of addressing the following corrective actions:

Professional Services

General Municipal Law does not require competitive bidding for the procurement of professional services that involve specialized skill, training or expertise. We have already implemented modifications to our contracts to define clearly the expected services. We will update our procedures for better supporting documentation for payment. We will ask the Board to review the recommendation to amend the Policy to provide guidelines for using competitive bids, RFP’s or quotes.

Cash Disbursements

We accept the recommendation that wire transfers be confirmed by someone other than the employee making the transfer. We are currently working with our banking institution to implement a “call back” option. This will guarantee that another employee is aware of the transfer.

We believe that the bank reconciliation function can continue to be performed by the Treasurer. We are assigning an Account Clerk from another area to also perform the reconciliation as a second review.

The online banking system has been corrected to allow only those employees with direct responsibility to have access. The daily bank account activity is reviewed by another independent BOCES administrator.

Dutchess County Board of Cooperative Educational Services Page 1 of 2  
Administrative Offices: 845.486.4800  
www.dcboces.org

The issue of the Treasurer's signature card and password has been resolved. We are working with our technology department to assign the current check printer with networking capabilities that will allow the Treasurer to start the process from his terminal and deliver the necessary micro toner to the Payroll and Accounts Payable Departments. It is not necessary for the Treasurer or Deputy Treasurer to watch the printing of the checks. We also are working with our banking institution to implement "positive pay" for general fund payable checks. This system ensures that cut checks match those approved on the warrants and certified payrolls.

#### Adult Education Revenues

We agree that the internal controls over cash receipts at MTI need improvement. Currently, MTI (Manufacturing Institute of Technology) uses our business office software for a majority of their revenues coming from grants and contracts. We are considering software for both MTI's adult continuing programs and CTI's LPN program. The administrators of both CTI and MTI have been directed to review their current office configurations based on recommended segregation of duties. New leadership at our MTI facility provides an opportunity for improving operations.

#### Information Technology

The Information Technology department has begun to develop a formal security plan. We are analyzing options to expand our current licenses to automatically store backups at our CTI facility. We are currently reviewing policy options for remote access.

A recommendation to limit the ability of the current Accounts Payable staff to add vendors is being addressed. Our Purchasing Agent is not part of the Accounts Payable staff and will be assigned the role of adding and deleting vendors.

The recommendation to restrict the installation of any software by the Technology department will be implemented to the extent practical.

We are developing an equipment disposal policy regarding sanitizing our hard drives.

#### Conclusion

Please note that the Business Administrator for Human Resources reports to the District Superintendent, not the Assistant Superintendent for Business Services. The Board of Education will adopt a corrective action plan to address the findings and forward the plan to your office within ninety days. We appreciate the professionalism with which the audit was conducted.

Sincerely yours,

John C. Pennoyer  
District Superintendent

Cc: Board Trustees  
Administrative Cabinet

## 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 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. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected professional services, cash disbursements, adult learning program revenues, and information technology for further audit testing. We performed the following actions, procedures, and audit steps:

- We reviewed policies and procedures over the procurement of professional services, the disbursement of BOCES funds via wire transfer and check, disbursements, revenues from adult learning programs, and information technology.
- We examined cash disbursement records and corresponding purchase orders in the BOCES accounting software to select payments to professional service providers. We then reviewed documentation and interviewed BOCES officials to determine if professional services were competitively procured and examined contracts and claim vouchers to determine if the professional services were adequately defined and payments were sufficiently supported.
- We reviewed electronic withdrawals (wire transfers) from bank statements issued during our audit period for BOCES operating, special aid, cafeteria, capital projects, and trust and agency funds and traced each transfer to supporting documentation to determine if the transaction was authorized.
- We examined payments from cleared check images based on dollar amounts, vendor, and/or questionable purposes, and traced them to voucher packets and approved warrants to determine if the check numbers, dates, amounts, payees and payee addresses were supported and approved. We also examined cancelled check images for proper endorsements.

- We reviewed disbursement data and risk assessment test samples and examined high-risk disbursements. We examined vouchers, contracts and supporting documentation to verify whether purchases were for legitimate and proper business purposes and whether they were adequately supported by sufficiently itemized vouchers and comprehensive, valid contracts.
- We reviewed transaction receipts generated by the continuing education enrollment software and selected a block sample of receipts from a highly active time period to account for all receipt numbers. We traced receipt numbers to printed receipt documents to identify the nature and validity of each corresponding transaction, and examined registration forms and course catalogs to determine if recorded payment amounts were proper. For receipt numbers that corresponded to payments billed to funding sources, we examined invoices to verify whether the student's tuition was being paid by another source. For receipt numbers that corresponded to refunds, we examined supporting documentation to determine the validity and approval of the refund. We further examined adult education daily deposit sheets and bank deposit slips to determine if the total payment amount was submitted to the BOCES business office for deposit. We also examined deposit slips to determine if all submitted payments were deposited into the BOCES bank account.
- We selected classes from the continuing education course catalogs and reviewed the records of selected students from attendance rosters to determine if payments for all enrolled students were recorded. We further examined adult education daily deposit sheets and bank deposit slips to determine if the total payment amount was submitted to the BOCES business office for deposit. We also examined deposit slips to determine if all submitted payments were deposited into the BOCES bank account.
- For continuing education transactions for which deposits differed from the corresponding recorded payment (i.e., the deposit slip check number did not match the recorded check number, and/or the recorded payment type – cash/check – did not match the recorded deposit type), we requested details of the deposit from the bank in which BOCES deposited adult education payments to confirm that the payments were deposited.
- We examined certificates of completion and final class rosters from continuing education classes and reviewed the records of students who elected to pay for their classes using a payment plan as indicated on their registration forms. We then traced all expected payments per the payment plan commitment letters to their submission to the BOCES business office for deposit, and to actual deposits in the appropriate bank account.
- For those continuing education students who used a payment plan, we mailed five confirmation letters to students asking for details on all payments made for the identified course: one to a student with a recorded cash payment that was not submitted for deposit, two to students who appeared to have received certificates of completion without completing tuition payments, one to a student with unusual payment dates, and one to a student for which the manually recorded date of a cash payment had been modified to match the recorded payment date.
- We reviewed continuing education payments recorded as cash from the enrollment software transaction data and examined adult education daily deposit sheets and bank deposit slips to determine whether these payments were submitted to the BOCES business office in the form

of cash, were submitted for deposit in a timely manner, and were deposited into the appropriate bank account.

- We examined enrollment records and fee schedules for the Fall 2008-09 adult LPN program to determine the total tuition amount for the Fall 2008-09 enrollment.
- We reviewed the Fall 2008-09 enrollment records of 20 adult LPN students (making certain to include some who received financial aid or changed enrollment status). We calculated the account balances of these students by posting tuition and applying student payments, financial aid, and adjustments, and then reconciled these audited balances to the student accounts maintained by the CTI account clerk to determine whether the tuition and fees, financial aid, payments, and adjustments were properly and correctly recorded.
- We reviewed disbursement records of and refund payments to 12 adult LPN program students. We examined payment voucher packets and cancelled check images to verify whether the refunds were valid and authorized and whether the cleared checks were properly endorsed.
- We reviewed student accounts for the adult LPN program Fall 2008-09 term enrollment to determine the number of accounts with unpaid balances.
- We reviewed BOCES financial accounting software cash receipt journals to determine the amounts collected and submitted to the BOCES business office from the continuing education and student account offices.
- We interviewed appropriate BOCES officials and staff to obtain an understanding of internal control over BOCES' computerized financial system.

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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