

**Eastern Suffolk BOCES**  
**Independent Accountant's Report On**  
**Applying Agreed-Upon Procedures**  
August 4, 2017

**INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

Board of Education and Audit Committee  
Eastern Suffolk BOCES  
Patchogue, New York

We have performed the procedures described in the following pages, which were agreed to by the Board of Cooperative Educational Services First Supervisory District of Suffolk County (ESBOCES), on the financial operations of the Regional Information Center (RIC) for the period January 1, 2016 through March 31, 2017.

ESBOCES' management is responsible for administering this area.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of ESBOCES. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively on the ESBOCES' financial operations of the RIC. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from the ESBOCES' administration and other employees during our engagement.

This report is intended solely for the information and use of the ESBOCES and is not intended to be and should not be used by anyone other than the specified parties.

*Cullen & Danowski, LLP*  
August 4, 2017

**EASTERN SUFFOLK BOCES**  
**Report on Applying Agreed-Upon Procedures**  
For the Period Ended March 31, 2017

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**Introduction:**

This report is organized as follows:

- Background information
- Summary of the engagement
- Procedures performed during our detailed testwork
- Findings as a result of our review
- Recommendations to further strengthen internal controls or improve operational efficiency.

Some of the recommendations may require a reassignment of personnel duties within the ESBOCES and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

**Corrective Action Plan:**

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan, approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department.

ESBOCES should send the Corrective Action Plan (CAP) along with the respective Internal Audit Report via mail or email to the addresses listed below. The report needs to accompany the CAP to allow the Office of Audit Services (OAS) to reconcile the ESBOCES' CAP to the report to ensure all items have been addressed (i.e., CAP is not missing any recommendations).

***Submission Information – Mail & Email***

New York State Education Department (NYSED)  
Office of Audit Services (OAS)  
89 Washington Avenue  
Room 524 EB  
Albany, NY 12234  
[Fsanda133@mail.nysed.gov](mailto:Fsanda133@mail.nysed.gov)

***Contact***

Office of Audit Services  
(518) 473-4516

**EASTERN SUFFOLK BOCES**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended March 31, 2017

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**REGIONAL INFORMATION CENTER (RIC)**

**Background:**

We performed a review of the Regional Information Center (RIC) that included meetings, testwork and reviews of documentation as per the engagement letter dated February 1, 2017, to determine the effectiveness of the financial operations of the RIC in complying with policies and procedures of ESBOCES. The RIC is one of twelve statewide regional information centers. The RIC provides numerous information technology (IT) related services for both ESBOCES and many customers consisting of school districts. The school district customers are comprised of component districts within the ESBOCES region and non-component school districts, which are handled through cross contracts with other BOCES (e.g., Western Suffolk BOCES and Nassau BOCES). The RIC offers a variety of financial, acquisition (e.g., IT equipment) and technology services, such as point-of-sale and transportation management systems, administrative and instructional hardware and software options, internet, Local Area Network (LAN) and Wide Area Network (WAN) support, Voice over Internet Protocol (VoIP) solutions, distance learning services, hosted Network Operations Center (NOC) management solutions, network infrastructure and management, security and surveillance services, software as a service (SaaS) hosted and managed solutions, and other support and service offerings.

The organizational chart includes a director, 3 administrators, IT technicians, IT specialists and clerical support staff. The Director reports to the Associate Superintendent for Educational Services and is responsible for managing the RIC operations along with 3 administrators reporting to the Director. There is an administrator with responsibilities for one of the following three divisions:

- Technical Services
- Financial and District Services
- Technology Acquisition Services

**Purchasing and Bill payment:**

ESBOCES utilizes the financial system (WinCap) to facilitate the purchasing process. The RIC has designated clerical support staff who enter pending purchase requisitions into WinCap, which are electronically routed to the appropriate administrator then the Director for approval. After the pending requisitions are properly approved, the document is electronically routed to the Business Office for review and approval by the Purchasing Agent. Once approved by the Purchasing Agent a purchase order (PO) is issued.

The bill payment procedures include a detailed review by the RIC employees with a sign-off by an administrator prior to submitting the vendor invoices to the Accounts Payable Department for processing. In the event that the RIC staff identify any errors or discrepancies, they contact the vendor to resolve the situation. The expenditures for goods and services are authorized and in accordance with ESBOCES' purchasing guidelines.

**Payroll:**

There are bargaining unit contracts and individual employment agreements that include the compensation amounts and benefits for all of the RIC employees. The staff have annual salaries with applicable amounts included in each payroll cycle during the fiscal year.

There are some employees of the RIC who earn overtime. The employees enter their overtime hours in WinCap and there is a field where the employee can enter the reason or description for such overtime. The administrators and the Director are required to approve the overtime in WinCap and then the information is electronically routed to the Payroll Department for processing.

**EASTERN SUFFOLK BOCES**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended March 31, 2017

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*Billings to Districts:*

The RIC uses a software program (QuickBooks) for creating monthly bills that are submitted to the Business Office to include in the monthly WinCap invoice that is prepared for each district. The QuickBooks bills are included with the WinCap invoices because they provide the districts with more detailed information related to the RIC services. The clerical support staff create the QuickBooks bills that are approved by the respective administrator for completeness and accuracy before submission to the Business Office.

*Asset Inventory:*

There are written, formal processes related to asset inventory at ESBOCES. In addition, there is a Capital Asset Management (CAM) team with responsibilities over the assets. The procedures include proper tagging of the inventory with a sequentially numbered ESBOCES ID tag when the cost of the asset is more than \$500 or the item is deemed "critical" (i.e., laptops desktops, etc.) The RIC is responsible for performing a physical inventory of its capital assets each year in coordination with the CAM, which is performed throughout ESBOCES.

*Staff Attendance:*

The staff attendance information is maintained in WinCap. The administrators and Director approve the employees' absence requests (i.e., vacation days, personal days and conferences) prior to the time off. The clerical support staff enter all of the employee absences into WinCap.

**Summary:**

We noted that the RIC's Director, administrators, clerks and employees who we interviewed demonstrate a positive attitude towards strengthening the RIC's procedures and operations, as well as enhancing their roles through training, seminars and relevant associations. During our interviews with the staff, we communicated our findings, thoughts and suggestions based on the discussions about their key processes. We also spent time with the Director during our fieldwork covering these items and determining practical solutions to address the results of our testwork. We recommend that the Director and staff continue being active related to improving processes and consider implementing the recommendations noted below to further strengthen internal controls and enhance operational efficiencies related to the RIC.

**Procedures:**

Our procedures related to the financial operations of the RIC, per the engagement letter dated February 1, 2017, were as follows:

- Review Board policies, ESBOCES procedures, collective bargaining agreements and employee contracts related to RIC financial operations.
- Interview ESBOCES employees responsible for financial activities of the RIC.
  - Review the internal controls and procedures related to the purchasing, bill payment, payroll, attendance, district billing and asset inventory control; note the strengths and weaknesses within the process; and identify the key control attributes for testing.
- Review the actual financial results of the RIC for the 2015-16 fiscal year and compare to the 2015-16 and 2016-17 budgets and 2016-17 year to date actual results. Investigate any unusual variances. On a test basis, review supporting documentation for any budget transfers or adjustments.

**EASTERN SUFFOLK BOCES**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended March 31, 2017

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Purchasing and Bill payment:

- Select 5 of the 10 largest vendors (excluding equipment purchased for districts) utilized during the period and review purchasing and bill payment procedures related to 3-5 invoices for each.
- Select another 25 invoices and review purchasing and bill payment procedures for each.
- Select 5 equipment purchases for districts and review control activities.
- Review financing procedures and related documents for completeness. Review billings to districts for each of these purchases.

Payroll:

- Select 2 payrolls during the period. On a test basis trace payments to staff to supporting documentation or collective bargaining agreements.
- Select 3 new hires during the period and review supporting documentation.
- Select 3 employee separations during the period and review supporting documentation.

Billings to Districts:

- Select 50 invoices to school districts for completeness and accuracy. Review supporting documentation.

Asset Inventory:

- Obtain a listing of assets used within the RIC and assets utilized at Districts.
- Select 25 items for testing and have BOCES staff locate the items.
- Select 25 items from the RIC and trace back to the inventory records.

Staff Attendance:

- For the periods selected for the payroll testing obtain staff attendance records and determine if attendance was properly recorded in the WinCap records.

**Findings:**

Review of the Board policies and ESBOCES procedures, collective bargaining agreements and employee contracts and interviews with employees related to RIC financial operations noted:

- There are numerous Board policies and formal procedures related to the financial operations of the RIC covering budgets, purchasing, vendor payments, payroll, district billings, inventories and staff attendance. Some of the policies include Policy 4100 - *Program Development and Management*, Policy 4110 - *Budget Planning and Preparation*, Policy 4120 - *Budget Development and Adoption*, Policy 4130 - *Administration of Budget*, Policy 4310 - *Purchasing*, Policy 4311 - *Procurement of Goods/Services*, Policy 4312 - *Approval of Contracts for Procurement of Goods/Services*, Policy 4411 - *Payroll*, Policy 4420 - *Ordering of Services, Equipment, and Supplies*, Policy 4220 - *Revenues*, Policy 4221 - *Establishment of Fees*, Policy 4230 - *Revenue from Local Districts*, Policy 4240 - *Administrative Charge*, Policy 5150 - *Recruitment, Selection, and Appointment of Personnel*, and Policy 5154 - *Employee Separation*.
- The RIC has been improving the financial operations over the past few years, which includes proper segregation of duties, appropriate reviews of records by a second employee, creating standard practices to establish consistency and defining the responsibilities of the staff, to name a few of the improvements.
- There are standard administrative fees that are charged to the districts for the various RIC services. We found that generally the RIC charges a 15% fee for hardware products and a 10% fee for software

**EASTERN SUFFOLK BOCES**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended March 31, 2017

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products. However, we noted that there were 2 districts being charged a discounted administrative fee for technical services related to the 15% fee for hardware products and there were 4 districts being charged a discounted administrative fee for financial and district services. We understand that these discounted fees are legacy matters based on past practice and “arrangements” that were negotiated with these districts years ago. We note that the RIC is aware of these discounts and has started to address this matter, which includes bringing 1 of the districts in line with the published fee structure in the 2017-18 year.

Review of the actual financial results of the RIC for the 2015-16 fiscal year and comparison to the 2015-16 and 2016-17 budgets and 2016-17 year to date actual results noted:

- The RIC has procedures to perform reviews of its respective budget account codes to identify any significant variances between budget and actual results during the current fiscal year, and compare with the prior year. In addition, the Director and administrators have meetings throughout the fiscal year to review the financial activities of the RIC, and, if necessary, take appropriate action (e.g., preparing a budget transfer).
- There were no significant variances or unusual differences noted during this review.

Selection of invoices from 5 of the 10 largest vendors (excluding equipment purchased for districts) and the other 25 invoices and review of the purchasing and bill payment procedures related to these selections found:

- There were 4 instances where the vendor invoice was not date stamped by the Accounts Payable Department.

Selection of 5 equipment purchases for districts and review of financing procedures and related documents for completeness and review of billings to districts for each of these purchases noted:

- There are standard procedures related to agreements with districts to finance or set up a deferred payment plan (DPP) related to the purchase of equipment. This includes obtaining approvals from each district’s board and the ESBOCES board, as well as, approval from the New York State Education Department (SED) for financing agreements.
- ESBOCES appropriately invoices the districts semi-annually for the cost of the financing and invoices monthly for the DPPs plus administrative fees of 15% for hardware and 10% for software following the published fee structure.
- The contracts related to these equipment purchases were properly approved by the districts’ boards and the ESBOCES board, plus the SED when there was a financing agreement.

Selection of two payrolls during the period and review of a sample of payments to staff found:

- All salaries and any stipends, if applicable, were accurate and agreed to the employee contracts or collective bargaining agreements.
- The administrative staff was not paid for overtime, which is appropriate based on their positions and respective employment contracts.
- There were 2 instances where the employee did not include a reason or description for their overtime in the note field in WinCap when entering their overtime hours. We understand that the administrators look for this information during the approval process; however, the employees are not required to complete the note field and this is not a required field in WinCap.

**EASTERN SUFFOLK BOCES**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended March 31, 2017

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Selection of 3 new hires during the period and review of supporting documentation noted:

- There are formal procedures, a *Hiring Practices Manual* and standard forms related to hiring new employees. The *Hiring Practices Manual* is a detailed guide that includes a listing of the forms, policies and regulations, as well as, information about ESBOCES hiring practices and general hiring practices.
- There were no exceptions or findings as a result of our review of the selected 3 new hires. The employee files included the proper documentation to support the hiring and salary amounts of these employees.

Selection of 3 employee separations during the period and review of supporting documentation found:

- There were no separations of RIC employees during the period.

Selection and testing of 50 invoices to school districts for completeness and accuracy and review of supporting documentation noted:

- ESBOCES utilizes WinCap to electronically setup service contracts related to initial commitments by the districts. However, we found that the preparation of contracts after the initial cutoff period and preparation of contract modifications require these procedures to be handled manually with standard paper forms instead of using an electronic or automated process.
- There were 28 instances out of the 50 invoices where the districts' Billing Request Form included the administrative fee within the amount for services, instead of listing this fee on a separate line as it was for the other 22 instances. Thus, the amount on the Billing Request Form did not agree to the supporting documentation amount requiring the auditor to investigate the difference and to calculate the administrative fees to ensure the accuracy of the districts' billing amount. We understand that this was past practice in the RIC and the RIC administrators plan to address this item for the 2017-18 year.
- There was 1 instance where we estimated the annualized billing amount based on the monthly services charged to the district to be \$266,878; however, the contract amount was only \$222,870 resulting in an estimated difference of \$44,008. We discussed this matter with the administrator during our fieldwork in April 2017 and we were informed that they also found a variance at approximately the same time. This difference compared to the contract amount should have been identified earlier in the fiscal year. We understand that the RIC program acknowledged this variance and ESBOCES ended up writing off the difference, which actually totaled \$8,238.
- There was 1 instance where the QuickBooks Billing Request Form had the incorrect CoSer and description. Further review noted that this incorrect information was posted into WinCap. The Billing Request Form was charged to 601.340 - LAN Support Services, but it should have been charged to 601.630 - LAN Maintenance.
- There was 1 instance where the QuickBooks Billing Request Form had 1 service incorrectly listed as CoSer 201.090.215 instead of the correct CoSer 601.090.215. Further review noted that this service was correctly posted in WinCap to CoSer 601.090.215.
- There was 1 instance where the QuickBooks Billing Request Form had an incorrect description related financial services that listed the services as Finance Manager, but the actual services were for TimePiece. Further review found that the billing amount of \$2,020 was correct based on the published fee structure for TimePiece services.

Selection of 25 assets obtained from ESBOCES of items used within the RIC and located by staff noted:

- All of the 25 assets were tagged and safeguarded.



**EASTERN SUFFOLK BOCES**  
**Report on Applying Agreed-Upon Procedures (Continued)**  
For the Period Ended March 31, 2017

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- There were 4 assets at room locations other than the room location listed in the inventory records. Further review noted that each of the assets were in a location of the respective division and the business operations sometimes involves the movement of the assets within the division.

Selection of 25 items from the RIC and trace back to the inventory records found:

- All of the 25 items were tagged and safeguarded.
- There was 1 asset selected from room locations where there was a different room location listed in the inventory records. Further review noted that this asset was located in a room of the respective division.

Review of staff attendance records for the periods selected for the payroll testing noted:

- The attendance was properly recorded in the WinCap records.

**Recommendations:**

We recommend that ESBOCES consider implementing the following items to further improve internal controls and operational efficiencies related to the financial activities of the RIC:

1. Analyze the financial and district services fees to address the outliers related to the administrative fee discounts offered by the RIC, similar to technical services and acquisitions services.
2. Improve the overtime process by requiring the employees to enter the reason or description into the note field when posting their hours in WinCap and having the administrator verify that the note field has been completed during the approval process. We also recommend that ESBOCES determine if the note section of WinCap could be changed to a required field before the employee can submit the overtime.
3. Improve the district billing process by including the administrative fees charged by ESBOCES as a separate line item when applicable on the invoices sent to the districts. This would provide more transparency and an appropriate breakdown of the charges when reviewing and verifying the accuracy of the invoices.
4. Develop procedures to review and reconcile the district commitments, vendor proposals, services and fees. Develop a process to ensure that the annualized QuickBooks Billing Request Form amounts will not exceed the contract amounts for all annual agreements with the districts. We recommend that this procedure be performed early in the fiscal year and during the fiscal year based on any contract revisions. This would provide advanced notice regarding any potential significant variances between the contract amount and the projected actual amount. If necessary, the respective RIC administrator should promptly contact the district to discuss the matter.
5. Establish procedures to ensure that the ESBOCES asset database correctly reflects the location of the RIC assets with the proper room location or the program area if the asset is transient within the program.
6. Establish procedures to ensure that all vendor invoices are stamped by the Accounts Payable Department upon receipt of these records.

