

Eastern Suffolk BOCES
Internal Audit Report on Detailed Testing
August 24, 2022

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Internal Audit Report on Detailed Testing

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

We have prepared this report as the result of our detailed testing as further described, which were agreed to by the Board of Cooperative Educational Services First Supervisory District of Suffolk County (ESBOCES), on the Special Education Division and overtime and hourly payments during the period of January 1, 2021 through February 28, 2022.

ESBOCES' management is responsible for administering these areas.

This engagement for detailed testing 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 on ESBOCES' Special Education Division and overtime and hourly payments. 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 ESBOCES' administration and other employees during our engagement.

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

Cullen & Danowski, LLP
August 24, 2022

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Introduction:

This report is organized as follows, categorized by function (i.e., Special Education Division and overtime and hourly payments), and there are five sections under each function consisting of:

- 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 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 (CAP), approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department (NYSED).

ESBOCES should submit the CAP along with the respective Internal Audit Report via the NYSED Portal.

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SPECIAL EDUCATION DIVISION

Background:

We performed a review of ESBOCES' financial operations of the Special Education Division (Division) that included interviews, reviews, discussions and testwork to determine the effectiveness of the function in complying with policies and procedures. The Division offers a comprehensive array of programs to meet the requirements of special needs students. The students are placed in specific programs according to their individual academic capabilities and social/behavioral needs. The services within the Division include student placement opportunities within the comprehensive programs and within the special education centers. The students are placed in special education programs at the direction of each local school district's Committee on Special Education (CSE). Based on the CSE evaluations, an Individualized Education Program (IEP) is developed for each student based on their needs, which includes any related services, programs, equipment and/or other requirements.

ESBOCES has board policies, formal procedures, standard forms and designated employees related to these financial activities. We were engaged to review the financial operations of the Division because we had not previously reviewed the financial operations of the Division as part of our detailed testwork.

Our scope of work also focused on following 4 key processes related to the financial operations of the Division: (1) purchasing and vendor payments, (2) district billings, (3) student management and (4) itinerant services.

We have provided more details about each of these processes below:

Purchasing and Vendor Payments

Section 104-b of the General Municipal Law (GML) requires local governments to adopt written policies and procedures governing the procurement of goods and services when competitive bidding is not required. This statute also requires local government personnel to document certain purchase-related decisions. In addition to provisions to ensure compliance with GML Section 104-b, the adopted policies and procedures should identify authorization limits, the use of purchase requisitions and purchase orders (PO) and the process to follow when purchasing goods and services. Purchasing is a highly specialized activity and prudent purchasing practices help upgrade the quality of programs, as well as control costs. ESBOCES has a purchasing agent and employees whose responsibilities include reviewing and approving purchase requisitions to ensure that all legal requirements are met and that goods and services are purchased only after a full review of the purchasing requisition and at an appropriate cost.

ESBOCES uses WinCap as its financial accounting system, which is a robust system that has been designed to provide services to other BOCES' and school districts. The purchase requisition manager module and the PO manager module are fully integrated into the financial accounting system. The WinCap system provides certain levels of user controls and certain processing controls, which substantially reduce the likelihood of error in the processing of purchase requisitions and POs. The Division has designated employees who are WinCap users with the appropriate permissions in the system to create purchase requisitions, which are electronically routed to the proper approvers (e.g., Director) for approval prior to submission to the Purchasing Department for review.

After the PO is in place, ESBOCES has standard procedures related to the vendor payment process. The Division is required to verify that the goods or services have been received from the vendor or provider and sign-off on the proper documentation, which is submitted to the Accounts Payable Department for processing the respective payments. The Division has numerous open POs with vendors and providers where

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there are multiple payments to these third parties during the fiscal year. There is a standard Open PO Form and formal procedures to track and monitor the payments to ensure that there are adequate funds remaining on the open PO based on anticipated future payments. If necessary, the Division submits a Budget Transfer Form to request funds to be transferred between budget account codes where funds are available.

District Billings

ESBOCES provides services to 51 component school districts within the eastern part of Suffolk County, as well as school districts covered by other BOCES via cross contracts. There are on-going communications between the Division staff and personnel from each of the districts regarding current services and proposed new services that may be considered for inclusion. Prior to each school year, the Division, the Business Office, and the Chief Operating Officer (COO) come to an agreement regarding the services to be offered and the prices that will be charged for each Cooperative Service (CoSer) for the upcoming year. Descriptions of services and pricings are cataloged annually in a document called the *Shared Services Guide*.

In February of each year, an email is sent to each component school district informing them that WinCap Web is open for the districts to sign-up for the upcoming school year's ESBOCES shared services. The due date to sign-up for the upcoming school year's shared services is May 1st of the current school year. Administrators from the component districts review the services and pricing in WinCap Web on the electronic Service Requests page. After selecting all of the desired services, the component districts' superintendent needs to certify their district's request for shared services to ESBOCES electronically via WinCap Web. The certified Service Request is then used to generate the initial AS-7 contract between the component districts and ESBOCES. The initial AS-7s are sent to the component school districts for signature by their board president or district clerk and then returned to ESBOCES for signature by the ESBOCES Board President.

In the event that a component school district becomes aware of a need change (e.g., add, reduce or terminate a service) during the school year, the district must formally request this revision on a commitment form signed by the district superintendent. The revised commitment is then entered into Frontline ESA and the change in service is then updated through the billing process into WinCap.

There are instances when the component districts need to obtain services from another BOCES. The component district must complete a cross contract that is approved by the district superintendent then sent to ESBOCES. The staff at ESBOCES verifies that such service is not offered by ESBOCES and then submits the cross contract to the ESBOCES District Superintendent for approval. The ESBOCES approved cross contract is sent to the respective BOCES for review and approval by their district superintendent.

The Division works with the Business Office Principal Account Clerk, who is responsible for invoicing duties, to address any questions or issues related to the billings to school districts. The billing takes place approximately one week following each calendar month end. There are three main types of charges billed to the component districts:

- Enrollment based – the Special Education Principal Account Clerk exports the billing data out of Frontline ESA and sends the exported file to the Business Office. The file is imported by the Business Office Accountant into WinCap. The Business Office Accountant confirms the dollar amount of the import to the amount provided by the Special Education Principal Office Applications Specialist. The Frontline ESA import file includes all monthly billings and credits as well as the annual contract amount.
- Time based – WinCap will compute line items of the bill for the CoSers that are not attendance-based by dividing the number of months the service is provided (i.e., 10 months or 12 months) into the initial commitment and value of the net adjustments entered into WinCap.

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- Cross-contracts – the BOCES providing the services, invoices ESBOCES, who agrees the accuracy of the bill to the cross-contract then pays the invoice. ESBOCES includes these cross-contract costs on the invoices sent to the respective component district. The Administrative Services Principal Account Clerk maintains a spreadsheet that lists each CoSer for each component district and agrees the amounts found in WinCap and the supporting documentation (e.g., invoices from receiving agencies) to the amounts entered into the spreadsheet.

The Business Office Clerk reviews a WinCap generated receivable aging report each month and informs the Division about any outstanding balances. There are standard procedures related to collections of overdue accounts receivable balances.

Student Management

The Division has standard practices and protocols to manage and track the student activities, as well as, record and report student data as required. As noted above, an IEP is developed for each student based on their needs and includes any related services, programs, equipment and/or other requirements that must be provided for the student. The Division utilizes the Frontline ESA and Frontline Direct systems to facilitate the tracking and maintenance of student data. In addition, the component districts use Frontline Direct (IEP System) to enter each IEP for their respective students.

- Frontline ESA – system is used to track student attendance, which provides billing information as described above. This program includes the students’ demographics, parent information, related services, medical data, transportation information and transcript information. The Division rolls over the students’ data each school year and updates data based on the annual reviews of the students.
- Frontline Direct (IEP System) – the component districts set up the student IEPs in this program based on the results of the CSE meetings. This includes the programs, related services, accommodations, assistive technology, etc. to meet the student’s unique needs. This information is shared with the Division to manage and provide the IEP requirements of the students.

There are formal procedures followed by the Division staff related to the student management activities to properly monitor and review the information for accuracy and completeness. This includes the Director and administrators of the Division performing periodic reviews and assessments of the student data to manage the activities effectively and investigate any items and make adjustments, if necessary.

Itinerant Services

The Itinerant Services Program is a mainstream program in which teachers provide specialized related services to students in district schools. The primary goal of this program is to assist each student with addressing sensory, physical, speech, language and motoric difficulties in order to appropriately maximize academic skills.

Summary:

We noted that the administrators and support staff demonstrated a positive attitude towards strengthening the Division’s procedures and operations, as well as enhancing their roles through training, seminars and relevant associations. During our interviews with the employees, we communicated our findings, thoughts and suggestions based on the discussions about their key processes. We also spent time with the administrators during our fieldwork covering these items and determining practical solutions to address the results of our testwork. We recommend that the administrators 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 Division.

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Procedures:

Our procedures related to the Division, as per the engagement letter dated January 25, 2022, were as follows:

- Review Board policies, ESBOCES procedures, collective bargaining agreements and employee contracts related to the financial operations of the Special Education Division.
- Interview ESBOCES employees responsible for financial activities of the Special Education Division.
- Review the internal controls and procedures related to purchasing, vendor payments, district billings and student management. Note the strengths and weaknesses within the process and identify key control attributes for testing.
- Review the financial activities of the Special Education Division for the 2021-22 fiscal year and compare to the 2020-21 budget and the 2020-21 actual results. Investigate any unusual variances. On a test basis review supporting documentation for any budget transfers or adjustments.
- Prepare a 3-year variance schedule from 2019-20 through 2021-22 listing the revenues and costs of each cooperative service offered by the Special Education Division and discuss the results with the ESBOCES administrators.

Purchasing and Vendor Payments

- Select 3 of the 10 largest vendors related to the Special Education Division and review purchasing and bill payment procedures related to 3-5 invoices for each vendor that were paid during the period.
- Select another 25 invoices related to the Special Education Division and review purchasing and bill payment procedures for each vendor that were paid during the period.

District Billings

- Select 20 billings to school districts related to the Special Education Division during the period and review the supporting documentation to ensure completeness and accuracy of the billing amount.

Student Management

- Select 15 students to ensure that the services and programs per the student's IEP are scheduled, monitored, provided and billed to the respective districts during the period.

Itinerant Services

- Review the procedures related to itinerant services within the Special Education Division that includes the monitoring, tracking, reporting and billing of these services. Note the strengths and weaknesses within the process and identify key control attributes for testing.
- Select 10 providers of itinerant services during the period within the 2020-21 or the 2021-22 fiscal year to ensure that there is appropriate documentation to support the services and billings to the respective districts for the chosen fiscal year.

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Findings:

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

- There are numerous Board policies and formal procedures related to the financial operations of the Division covering budgets, purchasing, vendor payments, payroll, district billings, inventories and student management. Some of the policies include Policy 4110 – *Budget Planning and Preparation*, Policy 4120 – *Budget Development and Adoption*, Policy 4130 - *Administration of Budget*, Policy 4140 - *Budget Transfers and Adjustments*, Policy 4220 - *Revenue*, Policy 4230 - *Revenue from Local Districts*, Policy 4310 - *Purchasing*, Policy 4312 - *Approval of Contracts for Procurement of Goods and Services*, Policy 4411 - *Payroll*, Policy 5152 - *Temporary Personnel*, Policy 6110 - *Student Attendance* and Policy 6420 – *Confidentiality of Student Records*.
- The Division 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.
- The staff in the Division have been developing written, formal procedures covering key processes performed by the employees. The Division should continue developing written, formal procedures because these documents are very helpful in the event of employee separations or absences.

Review of the internal controls and procedures related to purchasing, vendor payments, district billings and student management found:

- The Division has formal procedures and internal controls related to these key processes as noted in the background section above.
- There are processes in place to properly review and verify the accuracy of data related to district billings and student management activities.

Review of the financial activities of the Division for the 2021-22 fiscal year and compare to the 2020-21 budget and the 2020-21 actual results noted:

- The Division 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, if necessary, take appropriate action (e.g., preparing a budget transfer). In addition, the Director and other senior administrators have meetings throughout the fiscal year to review the financial activities of the divisions and to perform comparisons with the prior year.
- The review of a selection of budget transfers and adjustments found that there was proper supporting documentation related to these transactions.

Preparation of a 3-year variance schedule from 2019-20 through 2021-22 listing the revenues and costs of each cooperative service offered by the Special Education Division found:

- There have been significant variances related to revenues and costs of services offered by the Division during the past 3 years mainly due to impacts of the pandemic. The Division had to work around school building closures from March through June 2020 and hybrid models during the 2021-22 year.
- There has been a recent uptick in special education enrollment since the 2021-22 year and the Division projects this trend to continue into the next fiscal 2022-23 year.

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Purchasing and Vendor Payments

Review of the selected invoices for 3 large vendors and the selected 25 additional invoices noted:

- There were no exceptions or findings based on our review of the selected invoices, as we found the amounts of these payments were correct and there was proper supporting documentation.

District Billings

Review of the selected 20 billings to school districts found:

- There is adequate segregation of duties and proper documentation related to billings to school districts.
- The test results found that there were no exceptions as the 20 billings were accurate and there was proper documentation to support the amounts of these invoices.
- There were no exceptions noted during the comparison of the BOCES Direct billing reports with the students' commitment letters.
- There were no exceptions noted during the comparison of the BOCES Direct billing reports with the WinCap Revenue Activity Report for Special Education billings.

Student Management

Review of the selected 15 students to ensure that the services and programs per the student's IEP were scheduled, monitored, provided and billed to the respective districts noted:

- There were 3 instances where a student's IEP did not align with the student's commitment letter. We were informed that ESBOCES researched this item and believes that these occurrences are the result of the districts not changing the IEP although the Division submits requests to the component school districts to revise the IEP accordingly. Further review found that the commitment letter agreed to the billing records to ensure that all services provided to these students were appropriately billed to the respective component school district.

Itinerant Services

Review of the procedures related to itinerant services within the Division that includes the monitoring, tracking, reporting and billing of these services found:

- The Division has recently made significant enhancements to the controls related to the monitoring, tracking, reporting, and billing of the itinerant services by developing procedures for these providers to enter the status of services being provided into a shared Google sheet. This new process of entering live attendance updates into a shared Google sheet has provided the Divisions' Administrators the ability to actively track and monitor the services being provided and better ensure the appropriate services are being provided. In addition, this will improve the ability to track the makeup sessions that may be required in the event that the IEP related services were unable to be provided on the scheduled date with the students due to absences.

Review of the selected 10 providers of itinerant services to ensure that there is appropriate documentation to support the services and billings to the respective districts for the chosen fiscal year noted:

- There were instances where our review of documentation related to 6 itinerant service providers found multiple occurrences where the code TA for Teacher Absent appeared in the Monthly Student Service Record of 21 students, but there did not appear to be a make-up day listed on the proposed schedules of these providers. Further review found that the prior process of using proposed schedules did not include the recording and tracking of makeup sessions that may have taken place.

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Recommendations:

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

1. Continue efforts with developing written, formal procedures related to key processes. We recommend that the staff prioritize these items based on the frequency of performing these tasks. For example, start with the procedures performed annually then quarterly, monthly and daily.
2. Establish procedures for an Administrator to perform periodic spot checks of itinerant service providers to help ensure the services being billed are being provided. This process by the Administrators would include the tracking and monitoring of the services being provided by the itinerant service providers based on the actual schedule information that is entered into the shared Google sheet.

OVERTIME AND HOURLY PAYMENTS

Background:

Good business practice requires that ESBOCES establish proper segregation of duties and adequate controls regarding overtime. These controls should ensure the authorization, completeness and accuracy of payroll related overtime and hourly payments and the retention of any proper documentation supporting the activities.

The ESBOCES' actual overtime payments for the audit period January 1, 2021 through February 28, 2022 totaled \$2,006,956. ESBOCES utilizes the WinCap financial system to process payroll including overtime and hourly payments. This is a powerful, sophisticated product that has been tailored to meet the requirements of New York State school districts. The payroll module is fully integrated into the financial reporting module, which is very efficient and significantly reduces the likelihood of processing errors. In addition to WinCap, ESBOCES also utilizes a product called WinCap Web, which allows employees to view their paycheck information, attendance data and make changes to their tax withholdings. WinCap Web is also used to facilitate the electronic timesheet entry and approval process including overtime transactions, the approval of which is required for the WinCap system to process these payroll payments to the employees.

We performed a review of ESBOCES' overtime and hourly payments processing that included meetings and testwork, as per the engagement letter dated January 25, 2022, to determine the effectiveness of the payroll area. As we performed our procedures, some objectives were to identify opportunities to strengthen internal controls, improve operational efficiencies, ensure proper oversight and verify supporting documentation related to overtime and hourly payment processing activities.

Summary:

We found that the employees we interviewed demonstrate a positive attitude towards improving procedures and are knowledgeable about the requirements related to their responsibilities. We also noted some opportunities to improve operations as a result of our engagement that are described further in the findings and recommendations sections below. We suggest implementing these recommendations to further strengthen internal controls and/or improve operational efficiencies related to ESBOCES' overtime and hourly payments.

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Procedures:

Our procedures related to overtime and hourly payments, as per the engagement letter dated January 25, 2022, were as follows:

- Review the current processes related to overtime and hourly payments that includes preapprovals, approvals and payments. Identify the strengths and any opportunities for improvement.
- Obtain overtime reports from the WinCap financial system and review the data for any anomalies or other types of results (e.g., the amount of overtime paid to the employees). Discuss the results with the ESBOCES administrators.
- Select a sample of 40 hourly and overtime payments to ensure that each transaction was properly supported (i.e., preapproval and approval) and the amount paid was correct.

Findings:

Review of the current processes related to overtime and hourly payments procedures that includes preapprovals, approvals and payments found:

- There are standard processes related to overtime and hourly payments that includes the requirement to obtain preapprovals by the employee's immediate supervisor in advance of the work to be performed, with the exception of emergencies. However, we found that there is opportunity for improvement related to the preapproval process because there was a lack of consistent practices at ESBOCES. We noted that the method for completing the preapproval process varied among the departments and divisions that includes the use of emails, oral communications or a combination of both. Subsequent to our fieldwork, ESBOCES addressed this item by creating a standard Overtime Preapproval form (#4411F.14) and developing procedures to require the employees to prepare this form and submit the form to their respective supervisor to preapprove all non-emergency overtime. The implementation of this new process, effective July 1, 2022, has established consistent practices related to preapprovals of overtime.
- The Payroll Department has procedures in place that includes reviewing the overtime reports to ensure that a reason is included in the employees' WinCap Web timecard. In the event that the reason is missing in the timecard, the Payroll Department sends an email message to the employee and approver(s) informing them that the reason field must be populated in compliance with ESBOCES protocols.
- The Business Office requested that the WinCap Web programmers make the note field a required one, but the WinCap vendor is unwilling to do so at this time. We were informed that there has been improvement with the employees filling out the reason section as we found there was only 1 timecard that was missing this information during the recent review of the overtime reports by the Payroll staff.
- The ESBOCES offers compensatory time to employees when they work overtime hours in lieu of receiving a payment for these hours through payroll. We understand that the Human Resources Department is responsible for managing the compensatory time of staff. We find that the use of compensatory time requires additional administrative involvement and results in other operational challenges in comparison to overtime payments.

Obtaining overtime reports from the WinCap financial system and reviewing the data for any anomalies or other types of results (e.g., the amount of overtime paid to the employees) noted:

- There are several employees who earn a substantial amount of overtime with 13 staff who were paid more than \$25,000 during the audit period, January 1, 2021 through February 28, 2022.

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- The administrators perform periodic reviews of the overtime payments that includes sizable earnings for some staff and to assess the reasons for these employees working these overtime hours. This includes determining potential resolutions or options including changes in staff sizes, engaging contractors or third parties, realigning projects, etc. However, we found that ESBOCES does not formally document the completion of this review to memorialize the process.

Selection of a sample of 40 overtime and hourly payments to ensure that each transaction was properly supported (i.e., preapproval and approval) and the amount paid was correct found:

- The payment amounts were correct and the overtime rates (i.e., 1.5 or 2 times regular rate of pay) related to the hours worked agreed with the employees' bargaining unit contract.
- The WinCap Web timecards are submitted systematically to the Payroll Department; therefore, we were unable to verify if there was any supporting documentation to support the preapprovals. As noted above, some preapprovals are handled orally with no documents related to these instances.
- There were 5 instances where the reason for the overtime on the timecard was general information instead of an adequate explanation for working those hours.

Recommendations:

We recommend that ESBOCES consider implementing the following items to further improve internal controls and operational efficiencies related to the overtime and hourly payments:

3. Develop procedures to formally document the periodic reviews of the Overtime Reports performed by the administrators, which includes assessments regarding the employees who have earned a sizable amount of overtime pay during the period.
4. Assess the use of compensatory time by considering the elimination of this option for the employees who work overtime and develop procedures to require all overtime to be paid to the staff after this work is performed. The managing of compensatory time requires more administrative oversight than processing overtime payments and impacts productivity because the staff end up with 1.5 or 2 hours off in the future for each hour of compensatory time. The administrators need to cover the workload of staff when they are out of the office when taking their compensatory time off.
5. Establish procedures to reinforce the requirement that the overtime submitted by staff includes an adequate reason for working these hours rather than general descriptions.

