

Eastern Suffolk BOCES
Independent Accountant's Report On
Applying Agreed-Upon Procedures
August 25, 2021



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**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 payroll, contract processing and transportation activities during the period of January 1, 2020 through February 28, 2021.

ESBOCES' management is responsible for administering these areas.

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 on ESBOCES' payroll, contract processing and transportation activities. Accordingly, we do not express such an opinion. 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 25, 2021

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Introduction:

This report is organized as follows, categorized by function (i.e., payroll, contract processing and transportation activities), 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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PAYROLL

Background:

Good business practice requires that ESBOCES establish proper segregation of duties and adequate controls over the payroll area. These controls should ensure the completeness and accuracy of payroll related transactions (e.g., salaries, claims forms, stipends, separation payouts, etc.), changes to salaries, user account revisions and the retention of proper documentation supporting the activities.

As in all BOCES and school districts, payroll is one of the largest expenditures of ESBOCES. The 2020-21 budgets for ESBOCES' salary related expenditures including contract, hourly, longevity, stipend and all other earnings total \$157,975,132. The Payroll Department is managed by the Payroll Administrator who is assisted by the Payroll Supervisor. The Payroll Supervisor, who also serves as the backup for the Payroll Administrator, is responsible for overseeing two Senior Account Clerks. ESBOCES utilizes the WinCap financial system (WinCap) to process payroll. 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. In addition, this product is used to facilitate the electronic timesheet entry and approval process, the approval of which is required for the WinCap system to process these payroll payments to the employees.

We performed a review of ESBOCES' payroll processing that included meetings and testwork, as per the engagement letter dated January 21, 2021, 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 payroll processing activities.

Summary:

We note that the oversight and review of transactions is appropriate; the adequacy of internal controls designed to mitigate the inherent risk within the payroll process are adequate (e.g., Payroll Clerks are unable to set up employees in WinCap) and the Business Office understands the need to have proper controls in place. We also found that the employees we interviewed demonstrate a positive attitude towards improving procedures and are knowledgeable about the requirements related to their responsibilities.

We found 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' payroll area.

Procedures:

Our procedures related to payroll, as per the engagement letter dated January 21, 2021, were as follows:

- Review Board policies and ESBOCES procedures related to the payroll function.
- Interview Business Office and Human Resources personnel regarding policies, procedures and systems in effect.
- Review the current payroll cycle process and identify the strengths, weaknesses and key control attributes for testing.

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- Perform a payroll reconciliation from one cycle to the next during this fiscal year. On a test basis, review supporting documentation for all activities in one of the payroll cycles.
- Review all collective bargaining agreements and a sample of individual employment agreements to understand the terms and conditions.
- Review payroll related activity for the period under review as follows:
 - For contractual payments – select a sample of 50 payments to ensure the amount paid agrees to employee records and contract (if applicable) and compare all amounts withheld for taxes, benefits, etc. to supporting documentation.
 - For non-salary payments (i.e., hourly, stipend, overtime, etc.) – select a sample of 50 payments to ensure proper approval and accurate amount.
 - For separation payments – select a sample of 5 payments to ensure final amounts are correct (i.e., retirement incentives; accumulated unused time), proper documentation is on file (i.e., retirement or resignation letter from employee, Board resolution) and compliance and specifications in the respective contract.
 - For disbursements to third parties as a result of withholdings (i.e., union due, taxes, etc.) – select all third party payments from the 2 payroll cycles selected for the reconciliation testwork and ensure all monthly payments are captured.
 - For changes to the payroll module data – select a payroll change report for 2 payroll cycles and on a test basis ensure that all edits are appropriate, as well as, properly approved and supported (i.e., Board approval).
 - For substitute teacher payments – review and document the procedures and select these payments from one pay cycle to ensure accuracy and completeness, as well as reconcile these payments to the permanent teachers' absences and ensure the absence is recorded. Based on the results, determine if a reconciliation process needs to become a regular procedure.

Findings:

Review of Board policies and District procedures and interviews with personnel related to payroll found:

- There are numerous Board policies that cover topics such as compensation, benefits and negotiations. In addition, ESBOCES has Board *Policy #4411 – Payroll* that addresses the computation of daily pay rates, payday schedules and salary deductions.
- The Payroll Department has standard procedures related to key processes performed by the clerks with responsibilities related to payroll. The process includes a strong internal control in which the Payroll Clerks are unable to set up employees in WinCap. The Payroll Department has a comprehensive narrative which details the procedures related to the payroll procedures.
- The Human Resources Department performs a thorough review of the salary changes related to the annual rollover process. This includes using WinCap system-generated payroll reports (e.g., contract and rate reports; salaried employees payroll change reports; etc.), double checking the salary tables during the annual rollover and confirming the salary amounts for the various employee "types" within WinCap.
- The Human Resources Department is in the process of implementing the SchoolFront program, which has resulted in the hard copy Salary Notices no longer being provided to the Payroll Department. Although the Payroll Department will eventually have view-only access to the School Front system to verify the Salary Notices, this access has not yet been granted at the time of our fieldwork.

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- The WinCap Web program used by ESBOCES allows employees to make entries for future dates; this feature cannot be inactivated. This functionality has resulted in the Payroll Department needing to review the entries for each payroll cycle to ensure there are no potential errors.
- Although employees are required to enter a description in WinCap Web for the work performed as per practice, this entry is not a required field within WinCap Web. As a result, the Payroll Department reviews the overtime reports quarterly to ensure descriptions are included for each posting. According to the Payroll Administrator, this review process started about 2 years ago and there has been a significant reduction in lack of missing notes/descriptions.
- The WinCap financial system has an "Approve All" option for administrators when they are reviewing timesheets for employees. This option cannot be inactivated, resulting in a potential reduction of a diligent and thorough review performed by the administrators during their review process. We have also been informed that the system is unable to provide information on whether the approval was done specifically or done as an "Approve All".
- Although the use of payroll vouchers is minimal, ESBOCES still uses these items when entering another payroll payment during the same payroll cycle (i.e., additional job duties).

Review of the current payroll cycle process noted:

- The Payroll Department performs a complete review during each payroll cycle that includes the use of the WinCap system-generated *Salaried Employees Payroll Change Report*, verifying all contractual salary changes and maintaining appropriate supporting documentation.
- Throughout our review of the payroll cycle there were no exceptions or errors noted. There is adequate segregation of duties and all payments tested had been supported by collective bargaining agreements and appropriate authorization and approvals.

Performing a payroll reconciliation from one payroll cycle to the next found:

- The Payroll Department maintains the proper records related to the payroll reconciliation that the District completes for each payroll cycle.
- ESBOCES was able to provide the requested documentation to support the changes recorded in the WinCap system-generated *Salaried Employees Payroll Change Report*, which lists all contractual earnings variances from one cycle to the next. This included the supporting records for all employees with changes to their contract payroll code amount, the selected employees with changes to other payroll codes and explanations for variances to certain payroll codes in total.

Review of all collective bargaining agreements and a sample of individual employment agreements noted:

- The terms and conditions in these agreements were understandable and this information was used to complete our testwork related to the selected payroll payments that we reviewed during our fieldwork.

Review of the selected 50 contractual payments to employees found:

- There were no exceptions related to the payment amounts as we noted all of these contractual payments had been accurate based on the employee's salary amount as per their respective contract.

Review of the selected 50 non-salary payments (i.e., hourly, stipend, overtime, etc.) to employees noted:

- There were no exceptions related to the payment amounts as we noted all of these non-salary payments had been accurate based on the earnings amount as per the employment contracts or Board approvals.

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- There was at least one proper approval for each of the selected timecards processed in WinCap as per the respective approval hierarchy in the system.

Review of the selected 5 separation payments totaling \$122,978 found:

- The separation payments were properly supported with adequate documentation that included a detailed calculation of the payout, employees' attendance calendar, payroll authorization form, employees' resignation letter and Board minutes approving the employees' separation.
- The amount of the separation payments agreed to the employees' bargaining unit contract information related to the separation payouts.
- There were 3 instances where the calculation of the daily rate for the payout of vacation days used the denominator of 261 or 262. Further review noted that the separated employee's respective bargaining unit contract excludes a specific number of days regarding vacation days; however, there is language that states 260 days related to sick days. Thus, the practice is to use the actual number of work days when calculating the payouts for any vacation days.
- There were 2 instances where a retiree received a separation payment, but they did not provide ESBOCES with the 6 month notification of their intent to retire. Further review found that the language in the UPSEU bargaining unit contract under *Section I. Notice of Retirement* states "Employees shall provide six (6) months' notice of retirement unless it is not possible to do so." We understand that ESBOCES is unable to enforce the 6 month notification because of this language stating "shall" rather than "must" and there is no requirement for the employee to provide an explanation if they are unable to do so. This results in separations with minimal time for ESBOCES to find replacements for these positions.

Review of the disbursements to third parties as a result of withholdings for the selected 2 payroll cycles noted:

- The third-party payments related to withholdings had been processed correctly and timely.

Review of the payroll module data changes for the selected payroll change reports from 2 payrolls found:

- There were no errors related to the selected payroll change amounts, as we found that these revisions had been appropriate, supported and properly approved (i.e., Board resolution). Also, the reasons for these variances are formally documented on the *Salaried Employees Payroll Change Report* that lists the changes from the current payroll cycle to the prior payroll cycle related to contractual salaries.

Review of the procedures related to the substitute teacher payments and review of the selected payments from one payroll cycle noted:

- There were 3 instances where a permanent teachers name was not entered into WinCap Web related to the November 20, 2020 payroll cycle.

Recommendations:

We recommend that ESBOCES consider implementing the following items to further improve internal controls and operational efficiencies related to the payroll function:

1. Reinforce the procedure that the administrators perform a diligent review of the timesheets when selecting "Approve All" function for approvals.
2. Consider revising the collective bargaining agreements to include 260 days related to vacation days, instead of the current language that is silent with respect to the number of vacation days. The inclusion of 260 days for vacation days would be similar to the 260 days for sick days and would establish consistency and create a standard number of days regarding benefit time payouts.

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3. Consider revising the UPSEU contract and any other collective bargaining agreement with similar language related to notices of retirement, to change the language from “shall” to “must” to enhance operations by providing ESBOCES with sufficient time to hire employees to fill the positions vacated by retirements of these staff members.
4. Strengthen processes related to substitute teachers by ensuring compliance with the requirement that the substitute teachers include the names of the regular teachers in *WinCap Web* to ensure that each time a substitute covers for a teacher, the regular teacher’s name is recorded on the form to be verified. If no name is recorded, the electronic timecard should not be approved by the respective supervisor and returned to record the missing information prior to processing the payment.

CONTRACT PROCESSING

Background:

Good business practices related to the processing of contracts include appropriate reviews, proper approvals, timely preparations and verification of proper insurance coverages. We performed a review of ESBOCES’ contract processing that included meetings and a review of selected contracts.

ESBOCES has a Contract Processing Unit with responsibilities for the review, approval and timeliness related to all contracts between the agency and third parties, with the exception of contracts related to Arts in Education and Professional Development (CoSer 531) that are handled by the Educational Support Services (ESS) Division.

Summary:

We note that there has been personnel changes in the Contract Processing Unit during the past few years and there is only 1 full-time employee at the time of our fieldwork. We found some opportunities to improve the contract processing 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’ contract processing activities.

Procedures:

Our procedures related to contract processing, as per the engagement letter dated January 21, 2021, were as follows:

- Review Board policies and ESBOCES procedures related to the contract processing.
- Interview Business Office personnel regarding policies, procedures and systems in effect.
- Select 25 contracts executed during the period and test compliance with the key procedures.

Findings:

Review of Board policies and ESBOCES procedures and interviews with personnel related to contract processing found:

- There are Board policies and standard procedures related to contract processing that includes having a fully executed contract in place prior to engaging the third party to provide services, using standard contract language when feasible and verifying that the provider has proper insurance coverage.

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- The organizational structure of the Contract Processing Unit has changed regarding the staff. Prior to 2019, there were 3 full-time employees consisting of 2 contracts examiners and 1 senior contract manager. The position of Senior Contracts Manager was replaced with a Contracts Business Manager. Following the departure of 1 contracts examiner and the promotion of the other to the position of Contracts Business Manager, but neither position was replaced as of the time of our fieldwork.
- The contracts related to Arts in Education and Professional Development (CoSer 531) are generally handled by other departments rather than being processed through the Contracts Processing Unit.
- The Contracts Processing Unit maintains lists of contracts; however, the lists do not state the contract type (i.e., vendor, professional service or license renewal).

Review of the selected 25 contracts executed during the period and testing for compliance found:

- There was 1 instance where a Contract Submittal Form was not signed by a Program Administrator. However, all of the subsequent required approvals were present (e.g., Director, Associate Superintendent, Board, etc.).
- There was 1 instance where a contract was signed and fully approved by ESBOCES, but the contract did not include the signature of the third party. Further review found that this was due to the COVID shutdown.

Recommendations:

We recommend that the District consider implementing the following items to further improve internal controls and operational efficiencies related to the contract processing activities:

5. Assess the operations of the Contract Processing Unit that includes staffing, duties and organizational structure of the unit. We also recommend that this assessment include a determination regarding the contracts that are handled outside of the Contract Processing Unit (i.e., Arts in Education and Professional Development (CoSer 531)).
6. Revise the lists of contracts maintained by the Contracts Processing Unit by stating the contract type (i.e., vendor, professional service or license renewal) to create standardization, which would facilitate the search and review process.

TRANSPORTATION

Background:

We performed a review of the Transportation Department that included meetings, testwork and reviews of documentation as per the engagement letter dated January 21, 2021, to determine the effectiveness of the Transportation Department's operations in complying with Board policies and procedures of ESBOCES.

The Transportation Department operates in the Armory Building, which includes office space and a warehouse. The staff consists of the Transportation Administrator, Business Manager and support staff. ESBOCES provides districts with transportation services where the cost of transportation is prorated among all the districts sharing the total cost of each service. ESBOCES offers various services, designed to improve safety awareness and ensure compliance with regulatory agencies such as the NYSED, NY State Department of Motor Vehicles and the NY State Department of Transportation. ESBOCES provides programs, courses, training and testing to the districts' transportation supervisors, drivers, monitors, and attendants. Additionally, defensive driving and behavior management courses are offered for drivers, monitors, and attendants. Other transportation services available

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to the districts are safety and training courses; drug and alcohol testing; driver, monitor, and attendant physicals; driver abstract provision; point insurance reduction; and driver, monitor, and attendant file audits.

There are 20 buses consisting of 5 large buses and 15 vans that are owned and operated by ESBOCES. These buses are generally used during the day to transport students for work study programs and ad hoc transports (e.g., emergency transportations). ESBOCES provides most services to districts through contracts with transportation providers including Montauk Bus Company, Suffolk Transportation and We Transport. Hampton Jitney and McCarney provide transportation related to fieldtrips and coach buses. The Transportation Department works closely with the Purchasing Department to prepare detailed request for proposals (RFPs) and bids for transportation services. The majority of students that the Transportation Department services are those with special needs. There are also transportation services provided to students enrolled in the career and technical education programs, district requests for coach buses or field trips and transporting students to nonpublic schools.

Summary:

We note that the oversight and review of transactions is appropriate; the adequacy of internal controls designed to mitigate the inherent risk within the Transportation Department appear appropriate and the employees understand the need to have proper internal controls in place. We also found that the employees we interviewed demonstrate a positive attitude towards improving procedures and are knowledgeable about the requirements related to their responsibilities. We found opportunities to further improve operations as a result of our engagement. These items are described further in the findings and recommendations sections below. We recommend that ESBOCES and the Transportation Department implement these recommendations to further strengthen internal controls and/or improve operational efficiencies.

Procedures:

Our procedures related to transportation, as per the engagement letter dated January 21, 2021, were as follows:

- Review Board policies, BOCES procedures, collective bargaining agreements and employee contracts related to the financial operations of transportation.
- Interview BOCES employees responsible for financial activities of transportation including procedures related to pricing, billing and collections for services provided to districts.
- Review the transportation budget for the 2020-21 fiscal year and compare to the 2019-20 budget and the 2019-20 actual results. Investigate any unusual variances. On a test basis, review supporting documentation for any budget transfers or adjustments.

Purchasing and Vendor Payments:

- Select 3 of the 10 largest vendors 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.

Payroll and Contractors:

- Examine payroll records of transportation personnel for 2 pay periods during the period, and on a test basis, compare to source documentation:
 - Select 25 contract payments to employees and trace to collective bargaining agreement.
 - Select 25 hourly and overtime payments to employees and trace to supporting documentation.

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District Billings:

- Select 25 billings to school districts and review the supporting documentation to ensure completeness and accuracy of the billing amount.

Findings:

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

- ESBOCES has several Board policies and standard procedures that cover the appropriate areas related to transportation activities. This includes proper internal controls related to staffing, time reporting, work flow, purchasing, vendor invoice approvals, vendor payments, budget preparation, budget monitoring, district billings, managing services and ESBOCES vehicles.
- The Transportation Department has many standard practices related to key processes performed by the employees with responsibilities related to transportation including purchasing, receiving, payroll, overtime and billing activities. However, there are no written, formal procedures documenting the key roles and responsibilities performed within the transportation area, which would assist the designated staff and future employees in performing these transportation related duties.
- There is an opportunity for improvement related to the transportation vehicles, since ESBOCES does not have a formal replacement plan that would be based on the estimated useful lives of each vehicle. This would facilitate the budget process by identifying the anticipated purchases of vehicles as part of the annual budget preparation process.

Review of the transportation budget for the 2020-21 year and comparison to the 2019-20 budget and 2019-20 actual results noted:

- There were no unusual variances noted during our review of the transportation budget.
- The Transportation Department has procedures to perform reviews of the transportation 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, and, if necessary, take appropriate action (e.g., preparing a budget transfer).

Review of purchasing activities and examination of the selected vendor payments to 3 of the 10 largest vendors and the selected additional 25 invoices paid to vendors found:

- There were 2 instances where the purchase order was processed after the receipt of goods or services resulting in a confirming purchase order.
- There were 1 instance where the voucher packet documentation was missing the sign-off by the employee who received the goods or services on either the receiving copy of the purchase order, vendor invoice or packing slip.

Examination of payroll records for 2 payroll cycles of transportation personnel and our review of the selected 25 contract payments and the selected 25 non-salary (hourly and overtime) payments to employees noted:

- There were no exceptions related to the payment amounts as we noted all of these contract payments and non-salary payments had been accurate based on the earnings amount as per the employee contracts or collective bargaining agreements.

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Review of selected 25 billings to school districts and the supporting documentation found:

- ESBOCES utilizes WinCap to electronically setup service contracts related to initial commitments for transportation services requested by the districts.
- There were no exceptions related to the district billings selected for review, since the documentation supported the completeness and accuracy of the billing amounts.

Recommendations:

We recommend that the District consider implementing the following items to further improve internal controls and operational efficiencies related to student transportation:

7. Develop written, formal procedures to document the key processes that are performed by the Transportation Department employees including purchasing, receiving, approving payroll, overtime and billing activities. These documents are helpful to facilitate tasks that are performed infrequently (e.g., annually) and to assist in the event of staff changes (e.g., retirements, resignations, unexpected absences, etc.).
8. Strengthen procedures related to the transportation vehicles by creating a replacement plan based on the estimated useful lives of each vehicle. This would facilitate the budget process by identifying the anticipated purchases of vehicles as part of the annual budget preparation process.
9. Continue efforts with reducing the occurrences of confirming purchase orders.
10. Ensure compliance with the requirement for employees to sign-off on the receiving copy of the purchase order, vendor invoice or packing slip.

