STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

A.E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

September 30, 1997

Mr. Rudolph F. Crew, Ed. D.
Chancellor
New York City Board of Education
110 Livingston Street
Brooklyn, New York 11201

Mr. Richard Mills
Commissioner
State Education Department
The Education Building
Albany, New York 12234

Re: Final Report - Transportation Aid Claimed in 1991 and 1992 for Transit Authority Services, No. 96-N-3

Dear Messrs. Crew and Mills:

Attached is our report on the New York City Board of Education's Transportation aid claimed for New York City Transit Authority services in 1991 and 1992 (school years 1989-90 and 1990-91). This is the third in a series of reports on the Board's practices and procedures related to the preparation of its State Transportation aid claim. This report discusses expenditures for Transit Authority services. Two previous reports (Nos. A-16-93 and A-23-93) covered Franchise Carrier Services and Contract Carrier (yellow school bus) Services. In this audit, we did not allow $42.3 million of the expenditures claimed by the Board for Transportation aid.

These matters were discussed with Board of Education officials and the New York City Transit Authority (TA) as the audit progressed. A preliminary finding regarding TA tokens was sent to the Board on February 22, 1995 with a request for a response by March 9, 1995. No response was received. However, on July 6, 1995 we met with Office of Pupil Transportation (OPT) staff to review additional documents related to Program Exceptions. This report has been updated to reflect this

information. In addition, on August 3, 1995 a discussion document regarding TA passes was sent to officials at the Board, the New York City Transit Authority and the NYC Office of Management and Budget. An exit conference was held on August 7, 1995. On October 30, 1995 OPT replied to the audit results regarding the expenditures claimed for TA services.

A draft of this report was issued on March 21, 1996, with a request for a written response to by April 5, 1996. This date was later extended to April 22, 1996. A letter outlining the Board's position was received on May 21, 1996, and a meeting was held with the Board's Chief Financial Officer on June 5, 1996. The Board's response to the report was received on June 24, 1996. The State Education Department responded on April 16, 1996. The New York City Transit responded on June 25, 1996. These responses were considered in the preparation of this final report, and incorporated as appropriate.

We wish to express our appreciation for the cooperation and courtesies extended to our auditors by your staff.

Very truly yours,

Carmen Maldonado
Audit Director

cc: E. Torres, BE Auditor General
K. Gill, BE Exec. Dir. - Division of Food Services and Transportation
W. Carnevale, NYC Mayor's Office of Operations

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These matters were discussed with Board of Education officials and the New York City Transit Authority as the audit progressed. An exit conference was held on August 7, 1995.

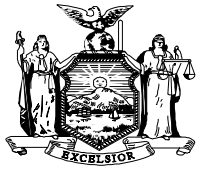
The State Education Department's role in the claim process is discussed in the background of the report, and three recommendations are directed to SED, including one which recommends SED revise its calculations to reflect the costs questioned in this report and that it calculate the amount of aid due the Board accordingly.

Your agency's response, as well as that of the New York City Board of Education and the New York City Transit Authority, have been considered in the preparation of this final report.

Very truly yours,

Carmen Maldonado
Audit Director

cc: M. Blum, BE Office of Budget Operations and Review
D. Boettner, Office of the State Comptroller
J. Connell, NYC Office of Management and Budget
G. Illenberg, SED State Aid
R. Joseph, BE Office of Budget Operations and Review
R. Laws, NYC Transit Authority
I. Torres, NYC Office of Management and Budget
B. Donohue, BE Chief Financial Officer
L. Spence, BE Deputy Chancellor for Operations



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Re: Final Report - Transportation Aid Claimed in 1991 and 1992 for Transit Authority Services, No. 96-N-3

Dear Messrs. Crew and Mills:

According to the State Comptroller's authority as set forth in the State Constitution, the State Finance Law and the General Municipal Law, we have examined the Transportation aid claimed in 1991 and 1992 for New York City Transit Authority Services as submitted by the New York City Board of Education's Office of Budget Operations and Review (OBOR). The audit focused on verifying if claimed expenditures were incurred, were allowable, and were supported by adequate documentation maintained by the Board's Division of Operational Support Services and OBOR. In addition, we determined if the costs were appropriately allocated to all services provided to the Board by the Transit Authority.

We list major contributors to the report in Appendix H.

Office of the State Comptroller
Division of Management Audit

NEW YORK CITY BOARD OF EDUCATION

TRANSPORTATION AID CLAIMED IN 1991 AND 1992 FOR TRANSIT AUTHORITY SERVICES

EXECUTIVE SUMMARY

PURPOSE

The purpose of this audit was to determine whether the expenditures claimed in years 1991 and 1992 (for school years 1989-90 and 1990-91) by the New York City Board of Education (Board or BE) for Transportation aid for New York City Transit Authority (TA or Transit) services were:

- Actually incurred, adequately documented, and properly accounted for;
- appropriately allocated to all services provided to the Board by the TA; and
- allowable, allocable, and in compliance with applicable State Education Laws and regulations and policies established by the Board.

BACKGROUND

A 1981 examination by our office found significant shortcomings in the procedures and operating practices that resulted in errors in BE's determination of student eligibility for Transportation aid. Also, we found that student eligibility for aid was not documented. We attributed the incorrect State aid claims to BE's use of inaccurate data, faulty procedures, and inadequate monitoring. To correct the deficiencies disclosed in our prior report, BE's Office of Pupil Transportation (OPT) began computerizing its system for collecting and maintaining a database of students receiving transportation services.

In 1987 we examined the new BE initiatives to determine if they provided sufficient assurances that the data related to pupil transportation would be complete and accurate. We concluded that

BE had placed a new system in operation which, with some modifications, should provide reliable data as to the number of students receiving services, and identify those students eligible for State Transportation aid. Therefore, our office did not act to effect a potential disallowance of over $40 million resulting from our 1981 examination. The letter to the Board accompanying the 1987 report stated our intent to undertake a review of State Transportation aid payments claimed in connection with the new system for determining pupil eligibility for transportation passes and that "any disallowances resulting from future audits for the current claim year and beyond will be put into effect."

During the school years which are the subject of this report, student eligibility for transportation was based on grade and distance criteria established by BE's Chancellor. OPT has primary responsibility for arranging the provision of appropriate services to students. OPT provides data to BE's Office of Budget Operations and Review (OBOR) that is used to prepare the Transportation aid claim.

State Education Law allows school districts to obtain reimbursement from the State Education Department (SED) for a portion of the costs they incur for transporting eligible students once daily to and from school. Such costs include contract carrier (yellow school bus) and common carrier (such as bus and subway service used by the public) costs. To receive such reimbursement, a school district must prepare a claim for Transportation aid, accounting for all transportation expenditures, and allocating them between aidable and unaidable categories. Annually, OBOR files a claim for Transportation aid with SED.

METHODOLOGY

OBOR provided a copy of: the Transportation aid claim, as filed, for each year audited; the OPT-100 system computer tapes and its computer program. We also obtained various documents from OPT, met with TA officials to discuss the methodology they used to determine the value of the services the TA provided during the school year.

We reviewed the methodology OBOR used to determine the amount of Transportation aid claimed, including the calculation of ratios of aidable students and the allocation of costs. We also reviewed the flow of transactions through the accounting system and the other systems supporting the claim for Transportation aid, and assessed

some of the underlying decisions and judgments used in preparing the claim. The TA invoice and the supporting Eligibility Card Distribution and Accountability Reports that were submitted to OPT by the schools and other pertinent documents were examined (see pp. 6-7).

We visited 21 schools to reviewrecords related to the large discrepancies detected by our comparisons of the number of passes reported issued by the schools and the number of student eligibility records on OPT's computer tapes (see pp. 15-16).

We recalculated the claim, correcting the errors we found, revising allocation formulas to appropriately distribute costs, and adjusting for unaccounted-for passes.

CONCLUSIONS: UNALLOWED EXPENDITURES

We did not allow expenditures of $42.3 million, as follows:

Expenditures claimed by BE	$ 217,433,213
Expenditures per audit	175,124,437
Expenditures not allowed	$ 42,308,776

Of this amount, $7,507,236 resulted from the Board not allocating any of the drawdown payments made to the TA as summer school. Another $585,680 is for tokens that were issued to schools for unaidable activities.

The balance, $34,215,860, is due to issues related to transportation passes such as the large number of passes the Board was unable to account for and the use of incorrect student ratios to allocate costs. The schedules in Appendices B through G give the details of our calculation of expenses not allowed per audit.

PASSES UNACCOUNTED FOR

Based on our review of the Eligibilty Card Distribution and Accountability Reports submitted by the schools and the OPT-100 file containing eligibility determinations, we determined that the Board could not account for many of the passes billed on the TA invoices (see pp. 11-13). We found that in 1989-90 BE could not account for 54,552 passes, and that in 1990-91 it could not account for 44,578 passes, as follows:

	School Year	
	1989-90	1990-91
Passes Per TA Invoice	311,441	316,431
Passes Accounted for Per Audit	256,889	271,853
Passes Unaccounted For	(54,552)	(44,578)
Percent Unaccounted For	17.5%	14.1%

COST ALLOCATION RATIOS

We found errors in the computer program used by OBOR to determine the number of students provided services and to categorize them as aidable (i.e., eligible for SED's Transportation aid) or unaidable. OBOR uses these student ratios to allocate expenditures as aidable and unaidable. The program did not count passes issued to students in the Free Choice program, or in instances when a second pass was issued to a student. Additionally, we noted that the file of student records used to prepare the claim contained 11,240 duplicate student records in 1989-90 and 18,385 in 1990-91, and 424 test records created to check the computer programs (See pp. 20-23).

The Board also used an incorrect ratio to allocate expenses between special education services and regular education services (See p. 11).

SUMMER SCHOOL

All moneys paid to the TA were included in the claim; none were allocated to summer school services which are not aidable (See pp. 9-10).

TOKENS USED FOR ACTIVITIES

Tokens issued for Program Exceptions (school programs where required travel cannot be accommodated by a transportation pass) were: issued to ineligible programs; claimed incorrectly because they were used for activities not eligible for Transportation aid; and not properly accounted for because OPT and the schools did not maintain adequate records. Furthermore, tokens sold to schools for unaidable purposes were erroneously claimed as reimbursable (See pp. 24-30).

SUBSEQUENT EVENTS

Effective with School Year 1995-1996, the City, the State, and the Transit Authority entered into a new agreement where costs of Transit Authority services to the Board are shared equally among the three parties, with no claim for aid. However, passes and tokens will continue to be provided, and OPT's systems will remain in place to provide control and accountability. The terms of this agreement have no impact on the period audited, or on many of the recommendations we made to improve Board procedures and systems. Recommendations regarding the claim process only impact years through School Year 1994-1995.

RECOMMENDATIONS

We made three recommendations to SED, that it should revise the Transportation aid calculations for the two years audited to reflect the $42.3 million of unallowed expenses, calculate the amount of aid due the Board accordingly, and review all subsequent claims for similar expenses. The 15 recommendations to the Board and its offices that are responsible for the administration of the pupil transportation program and the preparation of the claim require that it take action to ensure that the deficiencies in the methodology used to prepare the claim are corrected and used to prepare any unfiled claims. We also recommend that the Board compel schools to maintain the records needed to properly control passes and support the Transportation aid claim; to consider penalizing school districts for schools that are not in compliance; and to strengthen controls over tokens.

AGENCY RESPONSE AND AUDITOR COMMENTS

In response to the draft report, the SED officials replied that they agree with the recommendations and indicated that they will take appropriate action.

The Board of Education agreed with most of the recommendations regarding improvements in management controls. However, it disagreed with the recommended reduction in Transportation aid on several grounds and stated that the Board could not afford to lose substantial amounts of funding.

Board officials also disagreed with the methodology we used to recalculate the claim. They base their argument upon the terms of the drawdown agreement which in their view requires a lump-sum payment. They added that the amount of money paid does not vary because of the number of passes issued or the actual ridership. The

response also stated that no portion of the payments were for Summer School services. The Board believes that it was the "intent" of the parties to the 1986 agreement (OMB and the TA) that the payments to the TA be applied to services rendered only during the school year. Furthermore, the Board states that the invoice from the TA evidencing the services provided has no significance to the City or the Board.

The Transit Authority replied to the draft of our report that it indeed had received $231 million during the two years covered by this report to "cover all transportation services provided to students." It indicated that the amount was based on its agreement with the City and that the amount of the payment should not be affected by the number of passes on its invoice or by the number of eligible students as determined by audit."

We believe that it is important to examine the nature of the payments to the TA when discussing cost allocations. While the City (OMB) primarily views these payments as subsidy payments, the Board must, according to SED guidelines, reflect them on the claim as payments for services rendered for transporting students to and from home to school, else they would possibly not be reimbursable at all. Thus, the Board claims that these payments are made in return for certain services by incorporating schedules which show type, number, and cost of passes, per pass fare value and fare differential calculations from the TA invoice.

We believe that the Board's allocation methodology does not fairly allocate costs to all of the services provided by the TA. In particular, it allocates no costs to Summer School services. The agreements between the TA and OMB indicate that the payment to the TA covers all services provided the Board. The calculation stipulated in the agreement is solely a mechanism to determine the amount that the TA would be reimbursed. Far from having no significance to the City or the Board, the TA's invoice, and the supporting documentation provided with it, are incorporated into the Transportation aid claim by the Board, and are used in the Board's calculations of aidable expenditures.

The Board also disagreed with the auditors determination that passes were "unaccounted for." The response indicated that the methodology used "compared two incompatible reports" and relied on the OPT-100 system, which was not fully implemented or operational during the audit period. It noted that the OPT-100

system was "rolled out" in 1983, but that the "Pilot Project," which linked ticket shipments to the number of documented eligible students on the OPT-100 system, was not fully implemented until the Fall of 1996, 13 years later.

The Board's position is without merit. First, the comparison of the number of passes a school issues to the number of students eligible for that service at that school is valid. Ideally, these two numbers should be the same; however since students do come and go during a semester, and records are not always submitted on a timely basis, there may be reasonable differences. We believe the differences noted in this audit between the number of eligible students and the number of passes to be significant, and cannot be explained simply as the difference between "two incompatible reports".

The number of passes issued by a school is recorded on the 5A/C Report. In 1983, the OPT-100 system was implemented to verify eligibility and to record these eligibility determinations. In 1988, all schools were provided a manual which included instructions that all eligibility determinations were to be reported to OPT on the OPT-100 form. The eligibility data (in tape form) from this system was used by the Board to claim aid, and we used the very same file for our comparison.

We discussed a preliminary version of this report with Board staff in August 1995, and provided them with detailed computer reports of our findings at that time. However, it was not until they responded to the draft report on June 24, 1996, that for the first time documents were provided to support their position, and then for only one school. Unfortunately, a complete analysis of the data supplied for that school would have resulted in a reduction in the number of passes allowed per audit, rather than an increase as the Board contended.

As noted in the Background of this summary, the history of theTransportation aid claim is lengthy. OSC did several audits of the Transportation aid claims in the late 1970s, and the results clearly indicated that the Board was unable to "fix responsibility for the maintenance of accurate records and to ensure that the claiming procedures at all levels were monitored and reviewed." The last school year audited was 1978-79. This audit was done in 1981, and at that time the Board officials presented similar explanations for the unsupported claims. They indicated that the claims will be more accurate when the system is automated. In 1987 the Board showed

us its new system. We did not audit the claims for several years, and when we did the scope was limited to the Transportation aid claims filed for only two of the 12 school years since the prior audit. We believe the Board has had ample time to improve its recordkeeping and develop and implement appropriate computer systems.

The Board's response also indicates that its analysis of more recent school years shows that the quality of its data has improved and that new technological developments have allowed its systems to become more efficient and accurate. While these are positive steps, they are not relevant to a determination of whether Transportation aid was overpaid for the two years covered by this report.

Excerpts from these responses are incorporated throughout the report at the end of each chapter.

CONTENTS

		Page
EXECUTIVE SUMMARY		**ES-1**
CHAPTER I.	**INTRODUCTION**	**1**
	Objectives, Scope and Methodology	6
	Subsequent Events	8
CHAPTER II.	**ALLOCATION OF AIDABLE EXPENDITURES**	**9**
	Allocation Methods	9
	Accounting for Transportation Passes	11
	Number of Passes Shipped to Schools by OPT Compared to the Number of Student Records on the OPT-100 File	17
	Elementary School Passes	17
	Agency Response and Auditor Comments	17
CHAPTER III.	**STUDENT RATIOS USED TO ALLOCATE EXPENDITURES**	**20**
	Duplicate Student Records on the OPT-100 File	20
	Common Carrier Users Counted as Contract Carrier Users	21
	Second Pass Issued to Students	21
	Test Data	21
	Other Matters	22
	Agency Response and Auditor Comments	23
CHAPTER IV.	**ACCOUNTING FOR TOKENS**	**24**
	Program Exceptions	25
	Purchase Orders	28
	Exchange of Prior Years Tokens	29
	Other Matters	29
	Agency Response and Auditor Comments	30
CHAPTER V.	**RECALCULATION OF CLAIM**	**31**
	Agency Response and Auditor Comments	32
CHAPTER VI.	**RECOMMENDATIONS**	**34**
	Agency Response and Auditor Comments	36
APPENDIX A	**ABBREVIATIONS AND ACRONYMS USED IN THIS REPORT**	**39**

CONTENTS

		Page
APPENDIX B	**SUMMARY STATEMENT OF TRANSPORTATION AID CLAIMED FOR TRANSIT AUTHORITY SERVICES AND EXPENDITURES PER AUDIT**	**41**
APPENDIX C	**AUDITOR'S CALCULATION OF REGULAR SESSION PASSES (DRAWDOWN AMOUNT) FOR SCHOOL YEAR 1989-90**	**45**
APPENDIX D	**AUDITOR'S CALCULATION OF REGULAR SESSION PASSES (DRAWDOWN AMOUNT) FOR SCHOOL YEAR 1990-91**	**48**
APPENDIX E	**AUDITOR'S CALCULATION OF TOKENS FOR SCHOOL YEARS 1989-90 AND 1990-91**	**51**
APPENDIX F	**CALCULATION OF RATIOS OF AIDABLE STUDENTS USED TO ALLOCATE EXPENDITURES, SCHOOL YEAR 1989-90**	**53**
APPENDIX G	**CALCULATION OF RATIOS OF AIDABLE STUDENTS USED TO ALLOCATE EXPENDITURES, SCHOOL YEAR 1990-91**	**56**
APPENDIX H	**MAJOR CONTRIBUTORS TO THIS REPORT**	**57**

NEW YORK CITY BOARD OF EDUCATION

TRANSPORTATION AID CLAIMED IN 1991 AND 1992 FOR TRANSIT AUTHORITY SERVICES

CHAPTER I. INTRODUCTION

The State Education Law provides for the reimbursement to school districts of a portion[1] of allowable expenses incurred in transporting students to and from school once daily. To be eligible for reimbursement of transportation costs, regular education students must live 1½ miles or more from school. The New York City Board of Education (Board or BE) provides transportation, at City expense, to students who live less than 1½ miles from school. Special education students (students with handicapping conditions) are not subject to a minimum distance requirement. The State does not reimburse certain transportation-related expenses such as those for field trips, or the costs of traveling to summer school. To assist school districts in determining which costs are allowable, the State Education Department (SED) has prepared a Transportation Aid Handbook for their use.

During our audit period, State Transportation aid years 1991 and 1992 (covering service provided in school years 1989-90 and 1990-91), BE reported that it provided transportation services to over 568,000 pupils a year at a total cost of about $724.6 million ($356.2 million and $368.4 million for school years 1989-90 and 1990-91). BE determined that $633.5 million of this amount was an allowable expense for Transportation aid and claimed more than $570 million in Transportation aid for both years. As reflected in the chart below, services provided by the New York City Transit Authority (TA) represent a large portion -- almost 32 percent -- of the expenditures incurred for pupil transportation during these two years.

For these two years, BE claimed that $217.43 million of the total $231.66 million incurred in expenditures for TA services was aidable. The difference, $14.23 million, was attributed to the transportation of students who do not meet SED's criteria for reimbursement. BE's Transportation aid claim indicates that, on average, it issued 316,976 TA passes each month in 1989-90 and 320,608 each month in 1990-91.

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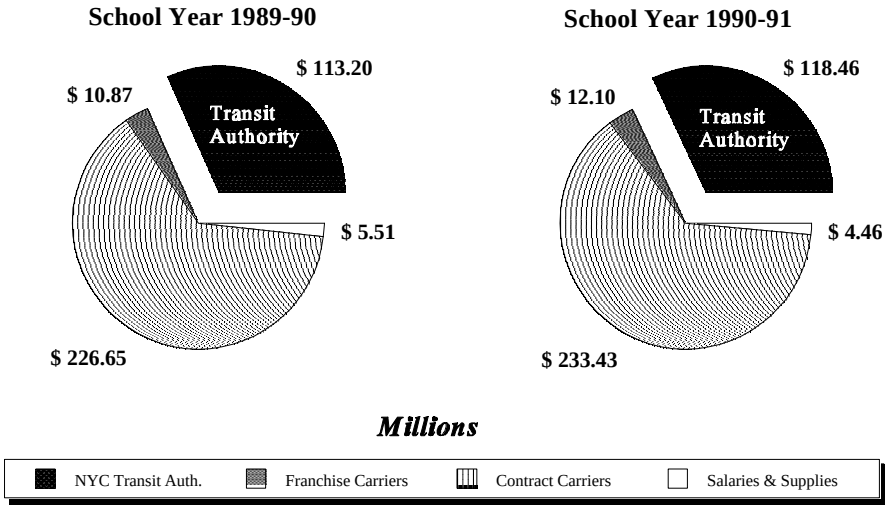
[1] The State Education Law requires that a school district be apportioned 90 percent of the approved transportation expenses incurred in the previous school year. However, Transportation aid payments for the 1990-91 school year (1992 aid year) were reduced due to State deficit reduction actions required by the Law. SED's Commissioner will have to make a final determination of the impact of the audited costs on the Transportation aid paid.

New York City Board of Education

Transportation Expenditures



Data Source: 1991 and 1992 State Aid Claims for Pupil Transportation, N.Y.C. Board of Education, Revenue Budget Unit.

Copies of each claim filed with SED are maintained in the Board's Office of Budget Operations and Review's (OBOR) Revenue Budget Unit (RBU). RBU coordinates the gathering of data, and prepares and submits the preliminary and final claims to SED. Documentation (invoices, purchase orders, ticket receipts, etc.) to support the claimed expenditures is supposed to be maintained in various operating units within the Division of Operational Support Services (Support Services). (Subsequent to our audit, Support Services became the Division of Food Services and Transportation.)

The Office of Pupil Transportation (OPT), a unit within Support Services, is responsible for arranging appropriate transportation services for all eligible students. OPT is supposed to ensure that the services are safe, reliable, and performed in a cost-effective manner.

Support Services' Accounts Payable Unit reviews all invoices and approves all payments for transportation services. A small portion of the Board's payments to the TA is made directly each month by the Board ($1 per month per elementary school pass and 2.5¢ per token). These payments are known as "BOE Free" payments. However, the majority of the payments are made by the City Comptroller's Office from a special "drawdown" account. The total amount of the drawdown for a particular school year is not based on actual fare value but rather on terms of an agreement between OMB and the TA. In essence, this agreement bases payment on the amount paid for TA services in 1986, adjusted for changes in the number of school days in the year of service, and by any increases in the fare. The agreement is not in contract form, but rather is embodied in a 1981 exchange of letters between OMB and the TA, and by some internal TA correspondence from 1986.

The payment process from this account starts when the City's Office of Management and Budget

(OMB) receives a request from the TA to draw funds from the account. OMB forwards the request to OBOR, which forwards it to Support Services for review and approval. Several drawdown requests are processed during the school year.

The TA prepares and submits an invoice to the City Comptroller at the end of each school year, accounting for all services provided during the year (which runs from July 1 to June 30) for both summer school and the regular session. The invoices for both years reviewed indicate that the drawdown amounts totaled less than the fare the TA charges the public:

	1989-90	1990-91
Full TA Fare, net of "BOE Free" Payments*:		
Summer School - July and August	$ 3,775,598	$ 4,723,685
Regular Session - September to June	128,064,703	134,667,530
Total due for period July 1 - June 30	$131,840,301	$139,391,215
Drawdown Payments Received	112,358,940	118,150,047
Balance Due to TA	$ 19,481,361	$ 21,241,168

* Actual "BOE Free" payments for the two years total $1,145,927 ($839,768 in 1989-90, $306,159 in 1990-91).

TA officials told us that the amounts shown as "balance due" have not been paid.

Students are provided access to TA services through passes and tokens. The TA does not send passes or tokens directly to the schools. Instead, it delivers passes and strip tickets (a ticket which school personnel can convert into 100 tokens at a token booth) to OPT, which is responsible for distributing them to schools.

There are various types of TA passes:

Pass Type	Used in Grades	Period of Use	Type of Service
1	7-12	month	bus
2	7-12	month	subway
3	7-12	month	bus and subway
A	K-6	2 months	bus and subway
B	Special Ed	2 months	bus and subway
P	all	2 months	bus and subway, good on Sunday, (nonpublic schools only)
Z	all	month	½ fare bus

To determine the number of passes needed at each school, OPT requires school staff to complete Form

OPT-100, "Application for Regular Education Services," for each student deemed eligible for transportation. This form includes the student's name, address, grade, date of birth, pass type, distance from home to school, and other relevant data. These forms are sent to OPT and processed through an OPT computer system (the OPT-100 System), which adds the student record to the System and which determines if the student is eligible for the service requested (based on grade and distance from home to school). Distance from home to school is calculated by computer. OPT sends Form OPT-100T, "Change/Delete Turnaround Form," to notify schools when the System detects errors in the data submitted, or when a student is determined to be ineligible for transportation services. School staff are expected to review these forms, revise them as necessary, and resubmit them to OPT. We were advised that the OPT-100 forms are returned to the schools after they are processed by OPT. OPT-100T forms are stored in OPT's warehouse after processing. At many elementary, intermediate and junior high schools, staff enter the required student information on-line on the Automate the Schools system, instead of processing an OPT-100 form.

The procedure for high schools is different. The vendor that prepares the classroom schedules (University Applications Processing Center) provides biographical data on incoming high school students (name, address, grade, birth date, etc.) to OPT on computer tape. Based on the student's address, the OPT-100 System predicts the transportation needs of each student and makes the OPT-100 record entry itself. The school is asked to check these records and authorize the entries, and submit corrected information or changes to OPT.

The OPT Ticket System controls and records the total number of TA passes shipped to schools. As students are found eligible, the counts in the Ticket System are updated. For many schools (known as "pilot schools"), the Ticket System bases the number of passes to be shipped on the number of eligible student records in the OPT-100 System plus an additional number the school can use for unexpected new students. However, for the non-pilot schools, OPT ships the exact number of passes the school requested. OPT staff can override the system and send additional shipments when deemed necessary (for example, in the event of an influx of new students).

Once each semester (November in the fall semester and April in the spring semester), OPT's Ticket Unit sends each school an Eligibility Card Distribution and Accountability Report (5A/C report) which shows the number of Types 1, 2, 3, and Z TA passes shipped to the school, according to the Ticket System. The school staff fill out the report regarding passes returned (voided, retrieved or unissued), issued, held at the school (for new students), or unaccounted for. The report is signed and returned to OPT. OPT generates a Ticket Accounting Report (TAR) summarizing all the 5A/C reports submitted by the schools. TA staff review the data on the TAR and comes to an agreement with OPT on the total number of passes issued. At this point, OPT prepares a letter stating the agreed-upon numbers. This letter is used by OBOR as a supporting document in the aid claim, and by the TA in its invoice calculation of full fare.

The TA does not require a 5A/C report for A, B or P passes or for tokens. OPT accounts to the TA for these based on its distribution of passes to schools, and does not require input from the schools. This data is provided to the TA which prepares an invoice for the "BOE free" portion of the expenses, and uses these numbers in its invoice calculation of full fare.

To prepare the Transportation aid claim, OPT annually provides OBOR a computer tape (referred to as the OPT-100 file) containing all student records on the OPT-100 System regardless of the type of transportation used. OBOR has written a computer program that it uses to prepare reports showing both the total number of students who use each type of service and the number of students who meet SED's requirements to be eligible for Transportation aid. These numbers are used to calculate the ratio of aidable students to total students by type of service used.

We note that in preparing the Transportation aid claim, OBOR does not compare for reasonableness the number of student records on the OPT-100 file to the number of passes OPT reported were issued to the schools.

In addition to, or in lieu of a pass, students may be given tokens for special circumstances that ordinary student transportation methods cannot accommodate. A school can obtain strip tickets (exchangeable for tokens) either by filing for a Program Exception or by issuing a Purchase Order.

Public schools can purchase strip tickets from OPT, at the full fare value, by issuing a Purchase Order. OPT treats this as a sale of tokens so there are no program or student eligibility guidelines for Purchase Orders. OPT receives payment in the form of a check from the local school district office. (Nonpublic schools must purchase tokens directly from the TA.)

Program Exceptions can be granted by OPT to educational programs that meet eligibility guidelines contained in OPT procedures (e.g., programs which require students to travel to more than one school site during the school day). Schools receiving strip tickets under a Program Exception are required to maintain distribution logs where students sign for tokens received, as well as to maintain accountability reports, reconciling the receipt of strip tickets from OPT, their conversion into tokens, the distribution of tokens to students, and the return of excess tokens to OPT.

In summary, OBOR files an annual claim for Transportation aid based on various data sources:

- for expenditures: actual payments made from both the drawdown (for all TA services) and BOE Free accounts (for elementary passes and all tokens);

- for services: the TA invoice, and its supporting documents (which include the TAR and the 5A/C report), which document the number of passes and tokens provided; and

- for students to whom services were provided: the student records on the OPT-100 file, which are counted and used to calculate ratios of aidable students by type of services.

Upon receipt of the claim, SED performs a desk audit, which includes a mathematical check of the amounts claimed for Transit Authority services and a determination of the reasonableness of the number of passes compared to the previous year. SED does not do any field work.
A 1981 audit by our office found significant shortcomings in the procedures and operating practices

that caused errors in BE's determination of students eligible for Transportation aid. Also, we found that student eligibility for Transportation aid was not documented. To correct the deficiencies disclosed in our prior report, OPT began computerizing its system for collecting and maintaining a data base of students receiving transportation services. In 1987, we examined the new BE initiatives to determine if they provided sufficient assurances that the data related to pupil transportation would be complete and accurate. We concluded that BE had placed a new system in operation which, with some modifications, should provide reliable data on the number of students receiving services, and should identify those students eligible for State Transportation aid. Therefore, our office did not act to effect a potential disallowance of over $40 million resulting from our 1981 audit . The letter to the Board accompanying the 1987 report stated our intent to undertake a review of State Transportation aid payments claimed in connection with the new system for determining pupil eligibility for transportation passes, and that "any disallowances resulting from future audits for the current claim year and beyond will be put into effect."

This is the third in a series of reports on the Board's practices and procedures related to the preparation of its State Transportation aid claim. This report discusses expenditures for Transit Authority services. Two previous reports (Nos. A-16-93 and A-23-93) covered Franchise Carrier Services and Contract Carrier (yellow school bus) Services.

Objectives, Scope and Methodology

The audit objective was to determine whether the expenditures claimed in years 1991 and 1992 (for school years 1989-90 and 1990-91) by the Board for Transportation aid for Transit Authority services were:

- actually incurred, adequately documented and properly accounted for;
- appropriately allocated to all services provided to the Board by the TA; and
- allowable, allocable, and in compliance with applicable State Education Laws and regulations and policies established by the Board.

For this two-year period, BE reported expenditures for Transit Authority services of $231.66 million.

During the audit, we met with officials from Support Services, the Board's Office of Budget Operations and Review, the State Education Department, the New York City Transit Authority, and the New York City Office of Management and Budget.

We reviewed the methodology employed by OBOR in constructing the Transportation aid claim, including the calculation of ratios (OBOR uses various ratios, for example special education students to total students, to allocate costs) and the methodologies used to allocate costs. In addition, we examined invoices provided by the TA, 5A/C reports filed by the schools, the Ticket Accounting Report, and other documents.

TARs for the spring semester of each of the two years audited were reviewed for accuracy and

completeness; 1,270 schools were listed in 1989-90 and 1,479 schools in 1990-91. We used an attribute sampling plan to check the accuracy and reliability of the TARs. Our confidence level was 90 percent with a desired precision of ±2 percent. Based on these parameters, we selected a statistical random sample[2] of 127 schools, and checked that the TAR entries for full-fare passes (Types 1, 2 and 3) matched the 5A/C report filed by the school.

We reviewed the computer program used by OBOR to count OPT-100 file student records and to calculate the student ratios used by OBOR to allocate costs (specifically the ratio of aidable students to total students for each type of service). We developed our own programs to process the same student data. Our programs compared the data on the OPT-100 file with the statistics in the BE aid claim, and analyzed the number of student records by school. We compared our analyses to the usage reported on the 5A/C reports and the number of passes OPT shipped to each school. We determined the number of passes OPT's records accounted for by accepting the number of passes reported as issued by the school on its 5A/C report, so long as the number of student records on the OPT-100 file was equal or higher. If this was not the case, we accepted only the number of student records on the OPT-100 file, since SED regulations require documentation of the eligibility determination for each student. The OPT-100 file entry was accepted as evidence of this determination.

We visited 21 schools to determine the cause for high rates of unaccounted-for passes. To select the schools to be visited, we first calculated a pass issuance variance. This variance is the difference between passes issued, according to the TAR, and student records on the OPT-100 file, divided by the number of student records on the OPT-100 file. We then visited 21 of the 23 schools that met the following criteria (using school year 1989-90 data):

- the pass issuance variance for any one pass type (Types 1, 2, or 3) was at least 75 percent; and

- there were at least 200 passes issued in the pass type with the variance.

The same criteria were met in school year 1990-91 at seven of these schools; we also reviewed that year's documentation.

Also, we examined 62 instances where the number of passes shipped to a school (according to the 5A/C report for 1989-90) exceeded the number of OPT-100 student records by more than 75 percent for a particular pass type, or where there were no student records on the OPT-100 file for a particular pass type.

We took a statistical sample of 83 of 260 Program Exceptions and 93 of 428 Purchase Orders to determine if the tokens issued were eligible for Transportation aid. For each such sample, we used an attribute sampling plan. Our sampling plan was based on a confidence level of 95% , a desired precision level of ±4 percent, and an expected rate of occurrence for the Program Exception sample that 5 percent would not be allowable, and for the Purchase Order sample that 5 percent would be allowable. Attribute sampling is designed to provide an estimate of the frequency an event occurs

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[2] The purpose of this sample was to determine the accuracy and reliability of the Ticket Accounting Report prepared by OPT. We found that the actual rate of error was within the acceptable precision rate, and therefore the report was relied upon.

within a population. This estimate is subject to sampling error, the difference between checking 100 percent of the population and checking our sized sample.

The State Comptroller served as President of the New York City Board of Education from July 1, 1991 through May 5, 1993. Upon assuming the responsibilities of Comptroller in May 1993, he issued an Executive Order recusing himself from having any role in the examinations (including the planning of examinations), reports or other work of the Office of the State Comptroller relating to the affairs of the New York City Board of Education during his tenure as President. Therefore, his name has been removed from the cover of this report and all applicable documents to which the report applies. This disclosure is being made to allow readers of this report to make their own judgment on any perceived impairments affecting their ability to rely on the contents of this report.

With due consideration to the matter described in the preceding paragraph, we conducted our audit in accordance with generally accepted government auditing standards. Field work started in December 1993 and was concluded during September 1994.

Results of this audit have been communicated to the Board on an ongoing basis, both through meetings and in writing. In particular, on August 3, 1995 we disclosed to the Board the extent of our questioned costs; and on August 9, 1995 we provided the Board with computer reports of passes accounted for, school by school, to enable it to focus its efforts on locating necessary student documentation.

Subsequent Events

Effective with School Year 1995-1996, the terms of a new agreement between the City, the State, and the Transit Authority take effect. These call for an equal sharing of the costs of Transit Authority services to the Board among each of the three parties, with no claim for aid. However, passes and tokens will continue to be provided, and OPT's systems will remain in place to provide control and accountability. The terms of this agreement have no impact on the period we audited, nor on many of the recommendations we made to improve Board proceedures and systems. Recommendations regarding the claim process only impact years through School Year 1994-1995.

CHAPTER II. ALLOCATION OF AIDABLE EXPENDITURES

The methodology used by the Board to allocate expenditures for TA services between aidable and unaidable expenditures resulted in an inequitable distribution of costs to the State. The cost allocation system did not fairly distribute the costs among the different TA services provided. Also, an incorrect formula was used to allocate costs between special education services and regular education services. There were significant differences between the number of student records on OPT's computer tapes and the number of passes OPT reported as issued to students. As a result of these errors, we determined that the Board overstated its expenditures for the school years 1989-90 and 1990-91. The schedules in Appendices B through G give the details of our calculation of questioned costs.

To accurately claim Transportation aid for services provided by common carriers such as the TA, BE must be able to separate the cost of such services into four categories: the cost of transporting special education students; the cost for general education students who meet SED's requirements for reimbursement; the cost for general education students who are unaidable; and the cost of services which are not allowable for Transportation aid. Appropriate allocation of cost among these categories is important since each is subject to different regulations and levels of Transportation aid. For example, the cost of transportation services to all special education students is aidable, whereas costs incurred for summer school transportation are unaidable. Costs which are unaidable become expenses of the local school district (in this case BE), whereas aidable costs are shared between the State and the local school district.

Allocation Methods

Where it is necessary to allocate costs among "final cost objectives" or beneficiary programs (e.g., regular school session and summer school), Federal Cost Accounting Standards literature indicates that such allocations should be based on fair measures of the activity provided, or on outputs and measures of the activity receiving the benefit. We examined the claims to determine if the allocation of expenditures among the four categories identified above was appropriate, and determined that the allocation was not. The Board allocated its expenditures for TA services more on the ability of the final cost objective to bear the cost of those expenditures instead of the relative benefits accruing to each final cost objective (i.e., based on full fare value of services provided); the cause for the incurrence of the cost to be allocated (i.e., based on students transported); and the fairness of allocating those costs (i.e., unbiased, activity-based costing).

Summer School Transportation Services

We determined that BE had not allocated costs for TA services between the regular session (whose transportation costs are aidable) and summer school (whose costs are not). Based on our calculations, we allocated $7.5 million in payments to summer school transportation, and questioned this amount of claimed expenditures.

Costs for travel to and from home to summer school are not eligible for Transportation aid. Therefore, the cost of any summer school transportation service is a local school district expense. However, the aid claim prepared by OBOR does not allocate any portion of the drawdown payments to summer school services. We believe that an allocation of payments between summer school and regular semester is necessary because:

- the TA provides service to the Board all year, and
- the invoice for TA services, and its supporting schedules, clearly document the services provided, by session (summer/regular) and type of service (pass/token).

Not allocating payments to summer school results in a transfer of a local school district expense to the State.

Officials from OMB disagree with this finding. In their opinion, all expenditures for TA services were for services provided from September to June. (This despite an invoice indicating services were provided throughout the entire year.) OMB provided documentation, mainly annual payment totals, and correspondence in an effort to support its position. We found this documentation unconvincing.

To determine how much of the drawdown should be allocated to summer school, we calculated the percent of the full fare value (as shown on the TA's invoice) that was for summer school and applied that same percent (e.g., 3.0052 percent in school year 1989-90, and 3.4961 percent in school year 1990-91) to the total drawdown amount as shown below:

	Fare Value Per TA Invoice*	Percent of Total**	Allocation of Drawdown Per Audit	Allocation of Drawdown Per Claim
1989-90				
Summer School	$ 3,962,712	3.0052	$ 3,376,643	$ 0
Regular Term	127,897,862	96.9948	108,982,297	112,358,940
Total	$131,860,574	100.0000	$112,358,940	$112,358,940
1990-91				
Summer School	$ 4,883,075	3.4961	$ 4,130,593	$ 0
Regular Term	134,790,708	96.5039	114,019,454	118,150,047
Total	$139,673,783	100.0000	$118,150,047	$118,150,047

* As adjusted based on documentation provided by Support Services during the audit.

** This percent was rounded for report presentation, but the calculation of the actual amount allocated was not rounded.

We allocated an aggregate of $7.5 million to summer school ($3.4 million for the 1989-90 school year and $4.1 million for the 1990-91 school year) as unaidable expenditures.

Distribution of Expenses Between Special and Regular Education

In allocating drawdown costs between special and regular education students, OBOR made two errors which resulted in an overstatement of allowable expenditures.

First, the wrong denominator was used in the formula to determine the ratio of special education students receiving transportation services to total students transported, thus overstating the percent of special education riders. For example, for school year 1989-90, OBOR used the total aidable riders of 258,175 as the denominator to calculate the percent of special education students. It should have used 274,678 which is the total number of students receiving TA services. As a result, OBOR's percent of special education students was 9.8069 instead of the correct percent of 9.2177, an overstatement of 0.5892.

Secondly, OBOR allocated the full fare value of TA services, rather than the Board's somewhat lower expenditures for these services. For example, OBOR incorrectly used the full fare value of TA services excluding summer school (e.g., $127,877,794 in 1989-90) to determine the value of services for special education students instead of a proportionate share of actual payments to the TA ($113,198,708 in 1989-90). As a result, the expenditure allocated to special education was higher than it should have been.

Both errors resulted in an overstatement of aidable expenditures. Using its allocation method, BE was able to shift costs from regular education (where not all students are aidable) to special education (where all students are aidable). As a result of reporting higher Special Education costs, BE was able to claim more Transportation aid.

Accounting for Transportation Passes

Based on our analysis of the TARs provided by OPT and the OPT-100 file provided by OBOR, we determined that together they did not fully support the number of passes reported as issued in the TA's invoice. We found that, compared with counts of spring semester high school passes and the average monthly number of elementary passes, these records (the TAR and OPT-100 file) together did not account for 99,130 of the 627,872 (15.8 percent) of the passes reported as issued on the invoice. The unaccounted-for passes represent a $36.8 million reduction in the amount of eligible expenditures prior to adjustments for incorrect student ratios used to allocate costs (between aidable and unaidable students). These adjustments are discussed in Chapter III.

The invoice from the TA, and accompanying documentation, provide detailed totals for each type of pass issued on a monthly, bimonthly, or semester basis. BE is required by State regulation to keep evidence of the determination of each student's eligibility for transportation for six years. The determinations are evidenced by the OPT-100 forms, the OPT-100T change forms, and transaction authorization reports for schools where OPT-100 entries are made by computer. The determinations are also evidenced by student records on the OPT-100 system. OPT's procedures require that the schools are responsible for document custody, except for the OPT-100T forms which are retained in

OPT's warehouse. OPT is responsible for retention of the OPT-100 System files itself, including master files, transaction logs, and backup files, and has provisions for secure off-site storage of backup files.

In a prior audit (Controls Over Determining Eligibility For Regular Education Transportation Services, No. A-13-92, issued December 15, 1993), we determined that schools could not locate eligibility documentation for a large portion of the students claimed to have received services. To preclude schools and OPT from having to locate, for this audit, the large volume of paper forms necessary to support claimed services, we accepted the student records on the OPT-100 file, which are an electronic version of the form sent into OPT. These records were obtained from the OPT-100 file tapes used by OBOR to prepare the claim.

To determine whether OPT could account for the passes claimed to have been issued, we compared the data on the OPT-100 file to the data reported by the schools on the 5A/C report. The number of passes accounted for per audit was computed as follows:

- duplicate student records, and records created for testing the computer programs, were removed from the OPT-100 file, and totals were accumulated by pass type for each school;

- data from the spring semester 5A/C reports for both school years were keyed to create a computer file; and

- a computer program was created to compare the OPT-100 and 5A/C files and determine the number of passes accounted for per audit, for each school. Our program accepted the number of passes reported as issued by the school on its 5A/C report, so long as the number of student records on the OPT-100 file was equal or higher. If this was not the case, the number of student records on the OPT-100 file was used, since SED regulations require documentation of the eligibility determination for each student.

Since elementary school passes are not accounted for on the 5A/C report, the total number of student records on the OPT-100 file for all schools (after removing duplicate and test records) was used as the number of passes accounted for per audit. This amount was subtracted from the number on the schedules supporting the TA invoice; the difference was considered unaccounted for.

This process resulted in a finding of substantial differences between the number of passes the TA

provided and billed for and the number of passes that OPT's records account for, as follows:

	Number of Passes Per Invoice*	Passes Unaccounted For Per Audit	Number	Percent
1989-90				
Elementary				
- Types A,B,P	80,645	57,128	23,517	29.16
High School				
- Type 1 Bus	124,381	107,051	17,330	13.93
- Type 2 Subway	100,695	89,743	10,952	10.88
- Type 3 Dual Mode	5,720	2,967	2,753	48.13
Subtotal	311,441	256,889	54,552	17.52
1990-91				
Elementary				
- Types A,B,P	78,509	62,193	16,316	20.78
High School				
- Type 1 Bus	127,653	112,652	15,001	11.75
- Type 2 Subway	104,660	93,795	10,865	10.38
- Type 3 Dual Mode	5,609	3,213	2,396	42.72
Subtotal	316,431	271,853	44,578	14.09
Total	627,872	528,742	99,130	15.79

* As adjusted based on documentation provided in Support Services' response to our preliminary findings.

OPT's inability to account for all of the passes may be due, in part, to the absence of records for students who receive passes under Program Exceptions. Another contributing factor may be the accuracy and reliability of data received from the schools. (The results of our school visits are presented in another section of this chapter.) The large number of passes which OPT cannot account for is indicative of severe accountability and control problems at schools and possibly at OPT as well.

Variances Between the 5A/C Report and the OPT-100 File

We found significant differences between the number of passes reported issued by the schools and the number of student records on the OPT-100 System. This should not have occurred. According to the flowchart for the Ticket System, information from the OPT-100 System regarding the number of eligible students is used as a base for ticket shipments to schools. However, the quantities of passes

to be shipped as determined by the Ticket System can be adjusted by OPT staff, thus bypassing built-in controls.

We were advised that the number of passes shipped is also affected by whether the school was a "pilot" or "non-pilot" school. A pilot school receives a ticket (pass) for each OPT-100 form for an eligible student. Although a non-pilot school must submit an OPT-100 form for each student, it receives passes based on a requisition from the school until OPT labels it as a pilot school.

The number of passes shipped to a school can also be affected by a manual override. This can occur when a school requests that OPT send additional passes (in excess of the number of student records on the OPT-100 System). Certain OPT employees are authorized to issue additional passes with the understanding that the OPT-100 forms will follow. This is accomplished by overriding the number of passes determined by the Ticket System.

Despite the fact that OPT and the schools should not have substantial differences in their records as to the number of students receiving transportation services, we found that the number of passes issued according to the TAR varied widely from the number of eligible student records on the OPT-100 file. For some schools, in fact, there were no OPT-100 records for certain pass types. Our analysis shows that well over half of the schools receiving passes had relatively high variances (over 20 percent) as reflected in the following table:

	Number of Schools With Variances*			Percent
Pass Type	Within ± 20%	Not Within ± 20%	Total**	Not Within ± 20%
1989-90				
1	442	574	1,016	56%
2	297	520	817	64%
3	67	308	375	82%
1990-91				
1	501	596	1,097	54%
2	328	560	888	63%
3	76	340	416	82%

*The difference between passes issued according to the TAR and student records on the OPT-100 file, divided by the number of student records on the OPT-100 file.

** The number of schools varies because not every school uses all three pass types.

We also found that the TAR did not contain entries for some schools for which the OPT-100 file (used by OBOR in claiming aid) contained student records (86 schools in school year 1989-90 and 85 schools in school year 1990-91). In response to our preliminary findings, OPT provided us with the following information regarding these occurrences:

- Regarding the 86 schools in school year 1989-90: 79 schools were never shipped any passes, therefore no 5A/C report exists; 4 5A/C reports were subsequently provided; 3 are still unaccounted for.

- Regarding the 85 schools in school year 1990-91: 54 schools were never shipped any passes, therefore no 5A/C report exists; 19 5A/C reports were subsequently provided; 12 are still unaccounted for.

It is important to note that in 133 of the 171 schools, OPT reported that no passes were ever shipped. If this is the case, it was not appropriate for OPT to provide OBOR with student records for these schools for use in determining Transportation aid. For the 23 reports subsequently received, we question why these reports were not provided to the TA to assist in calculating its invoice. Nevertheless, we adjusted our calculation of questioned costs to include this data.

Incomplete or Missing School Records

To determine the cause for the wide variances, we visited schools that met the following criteria (using school year 1989-90 data):

- the variance for any one pass type was at least 75 percent; and
- there were at least 200 passes issued in the pass type with the variance.

Twenty-three schools met our criteria. Seven of them met the same criteria in school year 1990-91, so their records were reviewed for both years.

We visited 21 of the 23 schools, met with school officials, and requested documentation that would identify the students who received TA passes. One school was not visited because the school staff did not return our telephone calls or answer our letter. Another school was eliminated from our review due to time constraints.

Taking into account records on the OPT-100 file as well as records on hand at the schools, we could not identify student records for about 45 percent of the passes reported by these 21 schools as issued in school year 1989-90 (12,612 student names, versus 22,852 passes issued, a difference of 10,240), and could not account for about 79 percent of the passes issued at seven schools in school year 1990-91 (1,240 student names versus 5,834 passes issued, a difference of 4,594).

Although SED requires that records be kept for six years, school principals and transportation coordinators at several schools could not provide any records, stating that they were not at the school during the time in question and could not locate the records. For the 1989-90 school year, 9 of the 21 schools could not produce pass issuance documentation of any kind, while for the 1990-91 school year 4 of the 7 schools could not produce such documentation.

Several reasons were provided for the variances at the schools with some documentation:

- One school's transportation coordinator (school code 11-135) had 200 Type 1 passes (with a fare value of over $40,000) left over from school year 1989-90 which were never turned in as required. She said she was not aware at that time of the requirement to return unused passes and was told by the principal to hold on to the passes. The school reported on the 5A/C report that all the passes had been issued to students. These 200 passes account for nearly the entire variance.

- One high school (school code 17-523) had logs that documented 841 of the 1,619 Type 1 passes claimed to have been issued in school year 1989-90. However, the transportation coordinator could not account for the other 778.

- Two schools produced documentation which indicated potential problems with the OPT-100 file. One school (28-541), which reported 795 Type 1 and 457 Type 2 passes issued, had no students listed on the OPT-100 file yet had in its own records 428 OPT-100 forms. At another school (02-518), the OPT-100 file showed eight students with TA passes, whereas an OPT-100 ridership report provided by the school showed 434 students with passes. We discussed these situations with OPT staff charged with maintaining the OPT-100 System. Although they said they would look into these cases, we were never told the outcome.

- The transportation coordinator at a Queens alternative high school (school code 25-500) which operates at multiple locations, informed us that he receives passes at the main location for it and the school's five other locations. He advised that OPT-100 forms would have been filed by the individual locations, using their own school code numbers. As a result, an analysis of passes for the main location results in a large variance between the number of passes issued to the main location and the student records on the OPT-100 file for school 25-500. When we contacted the transportation coordinator, he brought the logs for all of his school sites to OPT. The information was reviewed and it was still incomplete, but the resulting variance was much lower. The coordinator indicated that he planned to meet with OPT to determine how the condition can be corrected. (We made a manual adjustment to our pass-counting methodology for this group of schools.)

In our view, schools report inaccurate information because they have inadequate recordkeeping systems. As a result, BE's claim for Transportation aid cannot be adequately supported.

Number of Passes Shipped to Schools by OPT Compared to the Number of Student Records on the OPT-100 File

Our review of TAR data and records on the OPT-100 file showed, in many cases, that the number of passes shipped to a school is much greater than the number of eligible students on file. For example, at one school the passes shipped surpassed the number of students on the OPT-100 file by more than 1,400:

Pass Type	OPT-100 File	Shipped Per TAR	Difference
1	175	400	225
2	3,462	4,501	1,039
3	229	400	171
Total	3,866	5,301	1,435

Overshipment of passes unnecessarily increases the risk of loss or misuse at the school level. We asked OPT to review the data for the 62 schools with the largest variances, and to explain why so many extra passes were shipped. OPT has not responded to our inquiry.

In the absence of further information, we believe that part of the problem may be caused by OPT's override procedure, which allows passes to be shipped to a school based on the verbal assurance that completed OPT-100 forms will be forwarded to OPT. Furthermore, OPT adds 7 percent to the initial shipment of passes each semester, to have passes available for unexpected students that register at the school.

Elementary School Passes

As described previously, "BOE Free" payments ($1 per month per elementary school pass and 2.5¢ per token) are paid directly to the TA by the Board. We found that the amount claimed by OBOR for the 1990-91 school year was $306,159; however, OPT reported that the amount expended was $836,465 a difference of $530,306. Officials in OBOR's Revenue Budget Unit (RBU) said that the amount claimed reflected the expenditures reported on the City's Integrated Financial Management System, which superseded the expenditures as reported by OPT. However, neither RBU nor OPT staff were able to tell us the cause of this difference. Therefore, both offices need to formally document the reason for these differences, and then determine if this expenditure was underclaimed.

Agency Response and Auditor Comments

In response to the draft of this report, the Board disagreed with our allocation to Summer School services of any portion of the amount paid the TA. It based its argument on the terms of the drawdown agreement, which it says is based on the number of passes issued in 1986, the fare, and the 182-day school year. It also believes that it was the "intent" of the parties (OMB and the TA) to the 1986 agreement that the payments to the TA be applied to services rendered only during the school year. It further states that the invoice from the TA evidencing the services provided is "merely a construct of the TA" and has no significance to the City or the Board.

As we indicated previously, the drawdown "agreement" is actually an exchange of 1981 letters and some internal TA correspondence from 1986. These documents indicate that the payment is based on the "level of reimbursement in 1986 . . . adjusted up or down for the number of days in the school year . . . adjusted for the percentage change in the TA's regular fare." OMB's 1981 letter indicates that any change in City services would require separate negotiations to adjust BE reimbursement to the TA. In essence, the payment under this agreement effectively covers all services provided the Board. The calculation stipulated in the agreement is solely a mechanism to determine the amount that the TA would be reimbursed. Far from having no significance to the City or the Board, the TA's invoice, and the supporting documentation provided with it (detailed counts of passes issued by type, along with their related values), are appended to the Transportation aid claim by the Board as exhibits, and these counts and values both appear in the Board's claim schedules and are integral to the Board's calculations which allocate the amount paid to the TA.

The Board also was critical of the methodology we applied to determine "unaccounted-for passes." It believes that the 5A/C report and the OPT-100 file are not compatible, arguing the reports were designed for different purposes and were prepared at different points in time, accounting for some proportion of the discrepancies. It also indicated that the OPT-100 system offers only a snapshot in time, whereas the 5A/C covers all passes issued up to a particular date during the semester.
The Board claimed, in its response, that the OPT-100 system was "not fully implemented nor operational at the time." The Board developed the OPT-100 system in 1983, and implemented a "Pilot Project" in 1985 to tie shipment of passes to submission of OPT-100 forms. The response indicates that schools were phased in over a period of years because of technical development, training, and support required, and that OPT and the schools did not have sufficient resources, in light of budget cuts, to implement the change quickly. A schedule BE provided indicates it took eleven years to implement the Pilot Project, and that approximately half of the schools were involved in this project during the period covered by our audit.

We do not believe that comparing the number of passes a school issued as reported by the schools and the number of students at the schools that OPT has recorded as eligible for services is an inappropriate use of the data. Ideally, these two numbers should be the same if the data is compared at a particular point in time. The available data (that actually used by the Board to prepare its claim) was not prepared on the same dates. Since students do come and go during a semester, and records are not always submitted on a timely basis, there may be reasonable differences. We believe the differences noted in this audit to be significant, and cannot be explained simply as the difference between "two incompatible reports" or timing differences.

Both sets of data we reviewed were used by the Board to prepare its claim for aid. The number of passes issued by a school is recorded on the 5A/C Report, and when summed and reviewed becomes the number of passes issued on the TA's invoice. The Board carries number of passes and related values from the invoice to its claim and uses the data to allocate costs between Special and Regular Education costs. The eligibility data (in tape form) from this system were used by the Board on its claim for aid. It calculates student counts for each pass type as well as ratios (eligible students to total students and Special Education to total students) which appear in its claim. These ratios, in turn, are

used to allocate costs in the Board's calculation of aidable costs. We used the very same file for our comparison.

As noted on page 6 of this report, the history of problems with the Board's Transportation aid claim is lengthy. The OPT-100 system, first implemented in 1983 to address previously cited problems, was audited in 1991-92 and we issued three reports (No. A-13-92, A-23-92, and A-17-93). We subsequently undertook the present audit, based on the most recently available two years of Transportation aid claims. We believe the Board has had ample time to improve its recordkeeping and develop and implement appropriate computer systems. Since OPT's staffing costs are eligible for Transportation aid reimbursement (up to 90 percent), it is hard to use staffing reductions to justify delays in implementing new systems.

We discussed a preliminary version of this report with Board staff in August 1995, and provided them with detailed computer reports of our findings at that time. It was not until responding to the draft report on June 24, 1996, that the Board for the first time provided any hard data to evidence its position, and then for only one school. Unfortunately, a complete analysis of the data supplied for that school would have resulted in a reduction in the number of passes allowed per audit, rather than an increase as the Board contended. Many students listed on the OPT-100 file were not listed on the school's pass logs (119) or did not sign for a pass (32), and should not have appeared on the tape. As far as timing differences, 32 students whose OPT-100 records had been deleted were issued passes between February and April, but 10 who appeared on the tape did not receive their first pass of the semester until May or June, a net of 22.

The response also indicates that the Board's analysis of more recent school years shows that the quality of its data has improved, that a current review of 1994-95 data for 62 schools we cited (using our criteria) would produce no unaccounted-for passes. Also, it reported that all schools are now on the "Pilot System," and that new technological developments have allowed its systems to become more efficient and accurate. While these are positive steps, they do not directly impact a determination of whether Transportation aid was overpaid during the scope period covered by this report.

CHAPTER III. STUDENT RATIOS USED TO ALLOCATE EXPENDITURES

The computer program which OBOR uses to count student records on the OPT-100 file and calculate ratios of aidable students to total students has significant errors. In addition, there are a large number of duplicate records in the data. Therefore, the resulting ratios, a key factor in the allocation of costs between aidable and unaidable, are incorrect.

OBOR's computer program reads the student records on the OPT-100 file and produces reports which show counts of aidable students (those students who meet SED requirements to be eligible for Transportation aid), total students transported, and a ratio of aidable students to the total. These are shown separately for contract carrier service (yellow school bus) and for each common carrier pass type (i.e., Type 1 - TA Bus, Type 2 - TA Subway, etc.). OBOR uses the counts on these reports to calculate two additional ratios which are used to allocate the cost of TA services on the aid claim:

- a ratio of special education riders to total riders; this ratio is used to allocate total costs to special education service (with the balance attributed to regular education service); and

- for regular education riders, an overall ratio of aidable riders to total riders for all TA services (whether receiving tokens or passes); this ratio is used to allocate regular education service costs between aidable and unaidable.

We examined the OPT-100 files for both claim years and reviewed OBOR's program.

Appendices F and G reflect audit revisions to the number of passes issued, the total number of aidable passes, the ratio of special education riders to total riders, and the ratio of aidable riders to total riders. The revised ratios were used to determine the total amount of questioned costs in Appendix B.

Duplicate Student Records on the OPT-100 File

It is crucial that each transported student appear on the OPT-100 file which OBOR receives from OPT. The responsibility for ensuring that this occurs is shared by the school and by OPT. However, it is just as important that a student appears only once on the OPT-100 file. Accordingly, we checked the OPT-100 file for duplicate records.

Records were counted as duplicates when all the following data elements were the same:

- school (five-digit district/school code);
- first three characters of last name and first two characters of first name; and
- date of birth.

We developed a program to search the OPT-100 file and count duplicate records. The results were

11,240 duplicate records in 1989-90 and 18,385 duplicate records in 1990-91. Based on our review, we concluded that neither OPT nor OBOR had adequate programming controls to detect and eliminate duplicate records. To determine the number of passes issued per audit, we kept the student record with the latest date; earlier records were deleted.

We manually reviewed 1,787 of the duplicate records and concluded, at first, that 1.57 percent (28 records) might not be duplicates because they might represent twins whose first names start with the same letters. However, we discounted this because a manual review of other records on the OPT-100 file revealed a significant number of true duplicates which were not detected in our test program because of errors in the student records (such as a missing date of birth, or a reversal of the first and last name). Therefore, we did not adjust our count of duplicate records.

Common Carrier Users Counted as Contract Carrier Users

The OBOR program used to count passes contained instructions which effectively counted some common carrier users as contract carrier users. In every instance where the "Free Choice" field on the student record contained any entry, the OBOR program erroneously changed the pass type from a common carrier to contract carrier service. (Free Choice is a program where students can attend schools other than their neighborhood school for integration purposes. This program is also known as Open Enrollment.) This error resulted in an overstatement of contract carrier riders and a corresponding understatement of common carrier riders of 6,200 in school year 1989-90 and 7,488 school year 1990-91. We adjusted our calculations to properly reflect the services for these student records.

Second Pass Issued to Students

As part of our review of the OPT-100 file, we counted the total number of each type of pass. We compared our counts to the totals which resulted from OBOR's programs, and noted substantial differences. For example, OBOR's program, determined that there were 99,643 students in the school year 1989-90 OPT-100 file with Type 2 (subway) passes, while we counted 106,905, a difference of 7,262.

We examined OBOR's computer program instructions and found that the program examined only the first pass issued to a student; if a student record had a second pass type, it was ignored by the program. As a result, the number of passes was understated by 26,481 in 1989-90 and 28,960 in 1990-91. We adjusted our count to include these passes.

Test Data

OPT maintains nine fictitious schools on the OPT-100 System to allow testing of its computer programs. A number of fictitious student records were also created for testing purposes. OBOR’s computer program cannot detect the records of the fictitious students and processes them as if they were from a regular school. On the OPT-100 file used for the 1991 claim we found 224 such students,

and 200 for the 1992 claim year. We deleted these records from our count.

Other Matters

We noted other deficiencies in the data or in OBOR's calculations:

- Although the costs related to transporting Program Exception (PE) students are claimed, the OPT-100 file used to prepare the claim did not include all of the student records. For example, our examination determined that there were only two Program Exception student records for school year 1989-90, and none for school year 1990-91. (OPT told us that it maintains a separate file of PE student records; however a tape of this file was not provided to OBOR as part of the claim preparation process, nor to us.) The effect of not reporting all of the PE students was most noticeable for tokens, where, for example, the number of students shown on the claim was 36 in 1989-90, yet the number of tokens claimed was over 1 million.

- As indicated previously, OBOR includes students receiving tokens when calculating the overall ratio of aidable riders to total riders for all TA services. Many of these students do not receive tokens each day. Therefore, we believe that assigning the same weight to a student who uses a pass each day and to a student who receives a token once or twice a week is inappropriate. For purposes of this audit, we recalculated the overall ratio (see Appendices F and G) excluding student records for tokens and handled the cost of tokens separately (see Chapter IV).

- OBOR does not assign additional weight to a Dual Mode pass (Type 3, which allows for use of bus and subway). These passes should carry the weight of two passes, because the ten-month fare value of the pass (i.e., the value assigned by the TA based on actual fares) is twice that of a regular bus or subway pass. For example, the full fare value of a Type 1 (Bus) or Type 2 (Subway) pass in school year 1990-91 was $423.20 ($1.15 fare x 2 trips per day x 184 school days). The full fare value of a Type 3 (Dual Mode) was $826.40 ($2.30 fare x 2 x 184). For purposes of this audit, we recalculated the overall ratio (see Appendices F and G), giving Type 3 passes the additional weight.

- OPT-100 file tapes used to prepare the aid claim inappropriately contained records for students whose eligibility is pending (i.e., they have not yet been found eligible for the service requested, based on the data on the OPT-100 form submitted by the school). In making our audit calculations, we allowed these pending student records, because in our prior audit we found that many of these students received transportation, despite their pending status, and that

the schools simply had not submitted necessary corrections. We determined that 39,873 (7.7 percent) of the records on the 1989-90 file and 47,872 (8.4 percent) of the records on the 1990-91 file were for students who had not yet been found eligible. This matter was previously brought to OPT's attention and it indicated that corrective action was taken effective with the 1993-94 school year.

We were advised by OPT staff that before the OPT-100 file tapes were provided to OBOR, the files were "cleaned up," i.e., certain student records were removed from the tape, and other unspecified actions were taken to prepare the file for OBOR's use. However, OPT did not respond to our requests for detailed information about its methodology or the results of its clean-up efforts for the audited years. It is important that there be a clear audit trail from the OPT-100 system file at OPT to the tapes used by OBOR to prepare the claim for Transportation aid.

Agency Response and Auditor Comments

In response to our draft report, the Board stressed that OPT uses a more specific set of criteria in removing duplicates than the auditors did to avoid inappropriate deletions which could result in a child not being provided transportation. It also pointed out that the number of duplicates is small compared to the number of transactions processed. The Board also indicated that it had improved the screening out of duplicates based on our audit (Report No. A-13-92) of the OPT-100 system, and noted that subsequent years' files have contained fewer potential duplicate records.

While the number is small (only about three percent of the OPT records were duplicates) including them could imbalance counts and ratios. For the purpose of this audit, it was necessary that we remove those records we determined to be duplicates, and we believe that the criteria we used was appropriate. OBOR has requested that OPT use the criteria used in this audit in preparing tapes for any subsequent Transportation aid claim (these tapes are also used for the claim of Transportation expenditures for services provided by carriers other than the TA).

The Board also indicated in its response to the draft report that test school data is now "programmatically removed from our tapes prior to their submission to OBOR" and that OBOR and OPT programmers are reviewing the programs to determine what caused common carrier users to be counted as contract carrier users and the second pass issued to students not to be counted.

In an October 30, 1995 letter, Support Services stated that passes issued to Program Exception students have no relationship to the differences between the number of passes issued and accounted for by OPT. However, in response to a draft of this report, and in a departure from its previous position, the Board indicated that Program Exception data files would provide some insight into the cause for the differences noted in this report, but the files were provided to us.

CHAPTER IV. ACCOUNTING FOR TOKENS

Tokens were issued to programs that either did not meet eligibility criteria or could not document that tokens were issued to eligible students; the claim included expenses for tokens used for activities not eligible for Transportation aid; and recordkeeping at OPT and the schools did not provide assurance that the tokens were properly used and accounted for. Appendix E provides details as to the expenditures not allowed.

Under special circumstances when passes or contract carrier services cannot accommodate a student's travel needs, students may be given tokens in addition to, or in lieu of, a pass. OPT does not ship tokens to schools. Instead, it ships TA strip tickets, tickets which school personnel can convert into 100 tokens at a token booth. A school can obtain strip tickets by two methods:

- Program Exception request: granted by OPT to educational programs that meet eligibility guidelines contained in OPT procedures (e.g., programs which require students to travel to more than one school site during the school day).

- Purchase Order: Public schools are permitted to purchase strip tickets from OPT, at the full fare value. There are no eligibility guidelines for Purchase Orders. OPT receives payment in the form of a check from the local school district office. (Nonpublic schools must purchase tokens directly from the TA.)

During the 1989-90 and 1990-91 school years, the net number of tokens actually issued (based upon OPT's "Log of Strip Tickets Issued") was:

School Year	Tokens
1989-90	1,249,457
1990-91	1,441,475
Total	2,690,932

Based on our allocation of costs between passes and tokens (see Appendix E), we allocated $2,599,676 in BE payments to these tokens during the two-year audit period, or approximately 96.61 cents per token. The 2,690,932 tokens were distributed as follows:

- Program Exceptions (PE) received 2,193,732 tokens, net of returns (2,476,200 issued, 282,468 returned, for a net value of $2,119,331).

- 474,400 tokens (valued at $458,318) were issued based on 428 Purchase Orders (PO) received from schools.

- Another 22,800 tokens (valued at $22,027) have been labeled by us as "other" because they resulted from unique activities, not clearly identified as a PE or a PO in OPT's records.

Program Exceptions

We reduced expenditures of $2,119,331 paid for tokens used by schools under Program Exceptions by $106,301 as follows:

Program files not found	$ 10,434
Lack of adequate documentation	66,444
Poor Accountability over strip tickets and tokens:	
Accountability reports not found	8,868
Token issuance not reconciled	15,089
Stolen or lost tokens and strip tickets	5,466
Total	$ 106,301

OPT procedures require that a school must submit a written request with a completed Program Exception Application form to the OPT Ticket Unit to obtain OPT approval for PE status. The OPT Ticket Unit manager determines whether the program meets OPT guidelines. A PE number is assigned to each approved program and logged in a book. Approvals are valid for one school year, and schools must reapply each year.

OPT's procedures prohibit use of tokens by parents, teachers, and staff, and prohibit use for certain types of service (e.g., field trips, excursions, messenger service, and employment and clinic appointments). There is no distance requirement for receiving tokens; the only requirement is that the student participates in an approved program. Schools must, however, submit an OPT-100 form clearly stamped "Program Exception" and have the PE number coded on the form for each student who receives tokens under the program.

Once a PE application is approved, OPT ships strip tickets to the school, about a one-month supply based on the number of students enrolled. The school is required to submit monthly token usage reports to OPT. These reports are: the "Monthly Report of Tokens Received, Issued and On Hand"; and the "Monthly Roster of Students To Whom Tokens Are Issued." If a school fails to file these reports, OPT is not supposed to issue more tokens to the school until the delinquent reports are submitted.

OPT's log of approved program exceptions indicated that 370 PEs were approved during the two years. A review of OPT's Log of Strip Tickets Issued indicated that only 265 PEs received tokens (the other 105 PEs were either canceled or provided other forms of transportation).

Files Not Found

Files for five of the 265 programs could not be located. Therefore, we have no assurance that these programs were eligible for Program Exception status. These five programs used 10,800 tokens valued at $10,434, and we did not allow these expenses on the claim.

Documentation of Program Eligibility

We randomly selected 83 of the 260 remaining programs granted PE status to determine if they met the OPT requirements. Twenty programs (24.1 percent) either did not meet the guidelines or there was no evidence that the tokens were provided to students for eligible transportation purposes:

- For 16 PEs, there were no monthly reports documenting that the tokens were provided to students.

- For two PEs, the applications from the schools were not in the folder at OPT. We reported this to OPT staff, but no further information was received. In the absence of the applications, we could not verify that these programs were eligible.

- One PE was for a General Equivalency Diploma program, a program which does not meet OPT's guidelines for approval or for Transportation aid. If the "students" in the program were enrolled students of the school, they should have been processed through the regular eligibility determination process.

- One program applied for PE status in order to issue tokens to its regular education students who repeatedly lost passes. OPT's procedures specifically state that this can only be done for special education programs.

Our projection of the sample results[3] indicated that 63 programs out of the 260 either did not meet guidelines or for which there was no evidence that tokens were provided to students for eligible transportation purposes. We did not allow the cost of the 68,775 tokens provided to the 20 programs noted above, or $66,444.

Accountability Over Strip Tickets and Tokens

Of the remaining 63 PEs sampled, appropriate records were unavailable to account for all of the tokens issued to 51 PEs.

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[3] Based on our attribute sample, we are 95 percent confident that between 42 and 88 of the programs did not meet guidelines or there was no evidence that tokens were provided to students for eligible transportation purposes, with a point estimate of 63 programs.

Accountability Reports

For 11 of these 51 programs, 26 of 92 required monthly reports were not located. We question the cost of the tokens issued during the months for which the reports were not found, 9,179 tokens valued at $8,868.

We were advised that to ensure that all reports are received, starting with school year 1991-92, the process was changed to require a monthly checklist that identifies each school that has not submitted the reports; then an OPT employee contacts each of these schools.

For the remaining 40 PEs, we were unable to reconcile the number of strip tickets sent out by OPT with the number of tokens reported issued or returned by these programs.

Accountability reports for 13 PEs indicate that they issued a total of 78,400 tokens, or 6,953 more than the 71,447 they received from OPT, net of returns (one PE accounted for 3,872 of the extra tokens). Possible explanations offered by OPT staff were that some schools may have used tokens issued to them in the previous school year, or they may have borrowed tokens from other programs in the school or from other schools.

Twenty-seven PEs accounted for less tokens than were shipped to them by OPT. We reviewed the following year's monthly reports to determine if the unaccounted-for tokens were carried forward as a beginning balance in the following school year. There was no indication that the unused tokens were carried forward for 23 of the 27 PEs. Two other programs were not continued the following year. No documentation was provided for the remaining two programs.

Twelve of the 27 programs did not return any tokens to OPT, while 13 others returned some. Together, these 27 programs had not returned 15,619 in unissued tokens valued at $15,089. We did not allow these costs in the amount claimed for tokens. .

OPT does not check the accuracy of the reports received from the schools. As a result, any PEs with a balance of unused tokens or strip tickets is not monitored to ensure the return of unused tokens and tickets.

In addition to the reconciliation problem, staff at one high school (school code 17-549) advised that teachers accompanying PE students are provided tokens, a violation of OPT procedures.

Stolen or Lost Tokens and Strip Tickets

During the period of our audit $5,466 worth of tokens or strip tickets issued to PEs were either stolen or missing. These costs are unaidable.

There is significant inherent risk associated with tokens because they can be stolen for personal use or readily converted to cash. Several instances of token theft have been reported to BE investigative

units. At the time of our field work, two of the cases referred for investigation occurred during the school years being audited and were closed and thus available for discussion and our review. Other cases which were still in progress could not be discussed or reviewed.

One of the closed cases was for school year 1990-91 when a BE employee at one program stole tokens valued by BE at $4,500. The theft was discovered and the employee made partial restitution. BE, however, did not reduce the claim to reflect the value of the stolen tokens. These costs are unaidable because they did not involve the transportation of students.

An entry on OPT's strip ticket distribution log for April 1990 indicated that 10 strip tickets were "missing, mailed by mistake." We were told that these strip tickets were "voided." However, they were incorrectly included in the claimed expenditures at a value of $966.

Purchase Orders

Based on a review of a sample of Purchase Orders issued for tokens, we did not allow expenditures of $402,477 for Transportation aid. We also did not allow $55,841, the cost of 57,800 tokens issued to replace expired PO strip tickets from previous years.

A public school may obtain strip tickets by submitting a Purchase Order (PO) approved by the school's District Office to OPT's Ticket Unit. OPT sends the District Office an invoice and a copy of the PO indicating the number of strip tickets "purchased" by the school. The District Office sends OPT a check for the full fare value of the strip tickets. Support Services' Financial Administration unit deposits the check and posts the payment to BE's accounting system.

During the audit period, OPT distributed 4,166 strip tickets (416,600 tokens) to schools in exchange for Purchase Orders as follows:

School Year	Purchase Orders	Strip Tickets	Claim Value
1989-90	173	1,595	$154,093
1990-91	255	2,571	248,384
Total	428	4,166	$402,477

Schools are not required to file Accountability Reports for tokens issued under the PO process.

Tokens issued by OPT for POs are included in the expenses claimed for Transportation aid; however, the payments received by OPT from the District Offices were not used to offset the expense on the claim. We do not agree with this claim methodology, and believe that BE either should not have claimed the expense or should have offset the expense with the revenues.

We randomly sampled 93 of the 428 POs to determine whether the strip tickets issued were used for transporting students eligible to be claimed for Transportation aid. None of the 93 POs reviewed were deemed to have been issued for an aidable purpose. One sampled PO, for 20 strip tickets issued to one school in January 1990, could not be located by OPT staff.

Seventy-nine sampled POs did not state what the tokens would be used for. For the 14 POs where the intended use of the strip tickets was stated, the stated use was unaidable. For example, six POs indicated that strip tickets were purchased to transport parents and BE employees. OPT's policy does not permit this. In addition, a TA official advised us that strip tickets cannot be issued by OPT, or used by a school, for other than student transportation.

Based on our sample results,[4] none of the purchase orders in the population were used for aidable purposes. Based on our discussions with Board officials and their response which indicates that Purchase Order tokens should not have been claimed, the full amount of purchase order tokens was not allowed.

Exchanges of Prior Years Tokens

Strip tickets expire at the end of the school year, and should be returned to OPT so that the TA can properly account for token costs. However, OPT allows schools that have strip tickets purchased with a PO in a previous school year to exchange them for valid strip tickets during the following school year. The expired strip tickets were claimed in previous Transportation aid claims. The exchanged strip tickets were not treated as a return and an offset to the amount claimed for aid. This results in duplicative State aid payments. We found six exchanges involving 253 strip tickets in the 1989-90 school year, and 12 such exchanges involving 325 strip tickets in the 1990-91 school year. The value of these exchanged strip tickets $55,841 was not allowed on the Transportation aid claim.

Other Matters

There were several other instances where tokens were not issued in accordance with OPT's procedures and rules. In addition, poor recordkeeping unrelated to a program's eligibility also resulted in an incorrect number of tokens being reported by OPT. These items totaled $21,061 of expenses on the claim, as follows:

- We questioned $16,907 for 175 strip tickets where the Log of Strip Tickets Issued did not indicate a PO or PE number. The December 1989 entry in the log indicated the tokens were issued to “Citywide Programs.”

- We questioned $3,864 for 40 strip tickets marked as returned in the Log of Strip

[4] Based on our attribute sample, we are 95 percent confident that between 0 and 12 of the 428 purchase orders could have been used for aidable purposes, with a point estimate of 0 purchase orders.

Tickets Issued, but not reflected as such in the claimed amount. We were advised that these tickets were likely returned after the TA audited OPT's records and closed out the year, and were reflected in the claim as issued.

- We questioned $290 for three strip tickets issued to "OPT Fin/Admin" in November 1989. There was no PO to support this entry. OPT staff told us that these tickets were issued to OPT's Finance Administration unit to be used by office messengers, a prohibited use.

Agency Response and Auditor Comments

The Board's response to the draft report indicated that the absence of documents for Program Exceptions does not mean the program did not exist or meet necessary standards.

The response also indicated that it is OPT's policy that if OPT does not receive the appropriate monthly reports from schools with Program Exceptions, "**we do not issue any additional tokens**." (emphasis as in original) As noted in the report, we were advised that this policy was being strictly enforced, but it did not apply to the period audited.

The Board's response indicated that a General Equivalency Diploma program we disallowed as a Program Exception was operated by a Community Based Organization in conjunction with a public school, and that the principal could not include the "students" on his roster, so they were treated by OPT as a Program Exception. In our view, since these "students" aren't enrolled students, transportation services paid on their behalf are not reimbursable.

The Board's response acknowledged that tokens issued on the basis of Purchase Orders should not have been claimed for Transportation aid, and OPT will revise the data it supplies to OBOR to separately identify Program Exception tokens from PO tokens, and identify the associated revenues. It said that these tokens, once purchased by the school or office, can "be used in any fashion that entity deems appropriate."

The response stated that we had unfairly used OPT's purchase of tokens as an example, and that OPT had issued a check for its purchase of tokens for messengers, in essence treating it as a PO, a practice OPT believed was acceptable. Reporting OPT's purchase of tokens for an unaidable purpose was not "unfair." The fact is that it is an example of unaidable expenses that were claimed by the Board.

CHAPTER V. RECALCULATION OF CLAIM

We recalculated the claim, correcting the errors we found, revising allocation formulas to appropriately distribute costs, and adjusting for unaccounted-for passes. The difference between the claim as submitted, and the claim calculated per audit is $42,308,776. Detailed schedules appear beginning in Appendix B. An overview of our basic methodology follows:

- First, we allocated monies actually paid to the TA to services (between summer school and regular session, and between passes and tokens) on the basis of the TA's invoice. This resulted in a portion of these payments being allocated to summer school transportation expenses, which are unaidable.

- Second, we allocated monies paid to the TA for passes to each type of pass, and calculated an adjustment based on passes that OPT's records could not account for.

- Third, we allocated the remaining cost of passes between special education and regular education based on a corrected formula (one whose denominator is total students), after deducting duplicates and test school students, and adding in the students with two passes.

- Fourth, we calculated a new overall ratio of aidable riders to total riders for all TA services and applied it to regular education costs; the new ratio corrected OBOR's ratio by deducting duplicate and "test school" student records, and adding in students with two passes.

- Fifth, we proportionately allocated expenses not allowed for tokens between the two years, and deducted these amounts from the expenditures per audit. We did not apply any student ratio to tokens, since our audit methodology questioned and removed unaidable costs by program, rather than by student.

Using this methodology, we did not allow expenditures of $42.3 million, as follows:

Expenditures claimed by BE	$217,433,213
Expenditures per audit	175,124,437
Expenditures not allowed	$ 42,308,776

Of this amount, $7,507,236 is resulted from the Board not allocating any of the drawdown payments made to the TA as summer school. Another $585,680 is for tokens that were issued to schools for unaidable activities.

The balance, $34,215,860, was not allowed due to the large number of passes which the Board was unable to account for and the use of incorrect student ratios to allocate costs. The schedules in Appendices B through G give the details of our calculations.

Agency Response and Auditor Comments

The Board disagreed with the methodology we used to recalculate the claim. It bases its argument primarily upon the terms of the drawdown agreement. The Board's position is that the agreement essentially requires a lump-sum payment (the lump sum being formula based), and the amount of money paid does not vary because of the number of passes issued or the actual ridership. It argues that it does not make sense to translate the payment into unit costs, which it says is our premise. It believes that its methodology of calculating cost and claiming aid to be consistent with applicable State law. As previously indicated, the response also stated that no portion of the payments made were intended to cover summer school, and that the TA's invoice was irrelevant (See Chapter II for a discussion of this subject). As a result, the Board believes that its practice of applying a gross ratio of eligibility to the amount paid to the TA is appropriate.

We believe that it is important to examine the nature of the payments to the TA when discussing cost allocations. While the City (OMB) primarily views these payments as subsidy payments, the Board of Education must, according to SED guidelines, reflect them on the aid claim as payments for services rendered for the transport of students from home to school, otherwise these payments may not be reimbursable. Thus, the Board must claim that these payments are made in return for certain services that are eligible for reimbursement by the State. These services are detailed in the claim by schedules which show type, number, and cost of passes, per pass fare value and fare differential calculations from the TA invoice.

In addition, it is appropriate to relate the payment to the services received, as specified in the claim because the services provided do not have the same relative value. For example, a Type 3 pass is valued at twice that of a Type 1 or 2 pass, and the value of a token is much lower than a Type 1 or Type 2 pass. Thus, using a gross ratio, which weights a student receiving intermittent tokens equally with a student receiving a Type 3 pass, is inappropriate. Our approach fairly distributes the cost of TA service among all of the services for which benefit was received.

We did not develop per-pass costs in our audit. Instead, our methodology allocates the payment to the TA to general cost groups (tokens, regular semester passes, summer school passes, etc.) based on their relative percentage of total fare value. The expenses not allowed for passes are based on the percentage of passes, of each type, which are unaccounted for.

We used ratios in allocating costs to special education service, and in allocating regular education costs between aidable and unaidable; less than 100 percent of the data was available. We did not use the ratios as they were provided to us. The data provided was in need of adjustment, and the programs used to count the records were flawed. The ratios were not correct.

With 16 percent of the passes unaccounted for, the true portion of students who are aidable is not known. We do not believe it is reasonable for the State to have to assume these passes were provided to students, or if they were that they were aidable. Control weaknesses cited in earlier audits make this assumption unreasonable.

The Board's response further argues that SED reimbursement was never tied to individual passes. This is not true. SED requires the Board to provide data on the total number of passes, and OBOR does so. The Board provides this data in detailed schedules which show the total number of passes and their value, and also allocate the payments to the TA between aidable and unaidable. The Board also provides the total number of students on record (OPT-100) as using TA services, and a breakdown between aidable and unaidable students. SED reviews this data in its desk audit.

In summary, we believe our allocation of costs paid to services received results in a fair and appropriate distribution of cost, which is simply based on the overall value of the services received. It corrects the allocation formula errors we cited (and other minor errors which we did not cite), repairs programming errors (to the substantial benefit of the Board), and contains favorable treatment of pending records.

We recognize that OPT has taken actions to improve its operations and recordkeeping. These improvements, according to the Board, have resulted in better accountability over transportation passes. However, this does not cancel the audit results in this report.

CHAPTER VI. RECOMMENDATIONS

The State Education Department should:

1. Revise its Transportation aid calculations for the two years audited to reflect the $42,308,776 not allowed, and calculate the amount of aid due the Board of Education accordingly.

2. Review, as part of its desk audit of Board claims, all subsequent claims to determine if errors similar to those detected in this audit occurred in other years.

3. Require the Board of Education to properly allocate costs of the Transit Authority services as outlined in this report by revising subsequent claims.

The Board of Education should:

4. Instruct school principals on their responsibilities under Chancellor's Regulation A-801 and Office of Pupil Transportation (OPT) procedures. These cover determination of student eligibility, issuance of passes and tokens, recordkeeping requirements, security of passes and tokens, etc. Assess penalties, as provided in the Regulation against districts whose schools are not in compliance.

5. Instruct the Office of Budget Operations and Review (OBOR) and OPT to limit the Transportation aid claim to costs incurred for aidable activities on any unfiled claim.

6. Investigate and correct problems at schools and OPT which resulted in significant differences between the number of passes reported as issued by the school and the number of student records available to support the passes.

7. Require OBOR to investigate and document the possible underclaim of $530,306 "BOE Free" dollars.

The Office of Pupil Transportation should:

8. Review Eligibility Card Distribution and Accountability Reports (5A/C reports) for accuracy and completeness:

    - reports should be initialed and dated by the reviewer as evidence that they were reviewed;

- adjustments to these forms should be documented; and

- all 5A/C reports received should be reflected on the Ticket Accounting Report.

9. Determine the reason for the excessive number of passes shipped to the 62 schools on the list we provided to OPT during the audit.

10. Strictly adhere to its standard of shipping to a school only 7 percent more passes than there are student records on file for a school. If schools have no student records on file for a particular pass type, no passes should be shipped.

11. Limit ticket shipment overrides to one per school per term. When a school fails to submit OPT-100 forms (Applications for Regular Education [Transportation] Services), discontinue overrides for that particular school for the following school term.

12. Improve controls over Program Exceptions by:

    - Enforcing its requirement that the Program Coordinator prepare and submit monthly reports to account for the strip tickets received and issued to students.

    - Not issuing additional strip tickets to programs that do not comply with the requirement.

    - Developing and implementing a procedure that ensures return of unused tokens and strip tickets at the end of every school year or at the expiration of a program. Schools which fail to comply should be charged for the value of the tokens/tickets.

13. Discontinue the policy of allowing schools to purchase tokens from OPT using a Purchase Order. Tokens acquired through Purchase Orders for activities which are not eligible for Transportation aid should not be included on any claims as yet unfiled.

14. Reinforce instructions to school principals that they are responsible for tokens and passes issued to their schools, and that all records must be complete and available for review. Ensure that all unused passes are returned to OPT by the close of the school term.

The Office of Budget Operation and Review should:

15. Ensure that payments to the TA are appropriately allocated to all services

provided, and that summer school transportation costs are deducted from claims for State Transportation aid.

16. Revise its cost allocation methodology so that total students is used as a denominator in its calculation of the ratio used to allocate costs for transporting special education students. This ratio should be applied to actual payments made to the TA.

17. Revise its computer program so that students who use common carrier services are not counted as using contract carrier service, and so that a student's second pass type is counted.

18. Deduct the cost of tokens issued to schools via a purchase order from the State Transportation aid claim.

(Due to a subsequent change in the manner TA services are reimbursed, recommendations 15, 16, and 18 apply only to any unfiled claims for years in which these services were eligible for Transportation aid.)

Agency Response and Auditor Comments

In response to our draft report, the State Education Department agreed with Recommendations 1 through 3. SED also indicated that it will review subsequent claims for similar errors, that it would require the Board to properly allocate costs and, to the extent that it can, provide necessary technical assistance to the Board regarding cost allocations.

The Board agreed with most of the recommendations regarding improvements in management controls. However, it disagreed with the recommended reduction in Transportation aid on several grounds and stated that the Board "cannot withstand additional cuts or disallowances while struggling to maintain the same level of services to a repidly growing student population after the severe budget cuts already imposed on us."

The Board agreed with Recommendations 4 through 7 and indicated that it has taken the appropriate actions to implement them.

OPT agreed with Recommendation 8 and indicated that it was implemented.

With regard to Recommendation 9, OPT indicated it has already begun to review discrepancies at these schools, and expects to complete the review by November 1996.

OPT indicated it cannot implement Recommendations 10 and 11 without further improvements in the data processing systems which collect OPT-100 data, claiming the process of accurately documenting an eligible student may take weeks or months. OPT maintains that its primary responsibility is to ensure services are provided to students.

OPT agreed with Recommendations 12 and 14 and is taking steps to re-emphasize existing procedures and to tighten year-end reconciliations of tokens.

OPT indicated it cannot implement the first part of Recommendation 13 because it cannot discontinue the use of Purchase Orders for tokens without further discussions with the TA, and then only after notifying the schools of the new policy. The second part of the recommendation dealing with excluding Purchase Order tokens from the Transportation aid claim has been implemented.

The Board disagreed with Recommendation 15, stating that "OBOR prepares and files transportation claims (as well as other claims) in accordance with State regulations." It further states that all payments made to the TA by OMB were for the school term (i.e., not for summer school) and there is no need to allocate them. We reaffirm our position that OBOR's methodology results in an inappropriate allocation of costs between those which are allowable for Transportation aid and those which are not. Since the value of services provided to the students varies, from occasional token use to four fares per school day (combined bus/subway pass), it is not appropriate to apply one overall ratio (of aidable students to total students) to the total paid to the TA. The approach we used, allocating costs based on the value of services provided, then determining the percentage of each allowable for Transportation aid, appropriately relates the benefits of the expenditures to the students receiving them. We also reaffirm our position that Summer School transportation services were provided by the TA, and are part of the services for which the drawdown payment was made, and should be included in the cost allocation.

We did not make any recommendations to the TA. However, the TA was asked to review and comment on the draft report becuase of the issues related to summer school and whether the drawdown payments covered all of the TA's services. The Transit Authority replied to the draft of our report that it indeed had received $231 million during the two years covered by this report to "cover all transportation services provided to students." It indicated that the amount was based on its agreement with the City and that the amount of the payment should not be affected by the number of passes on its invoice or by the number of eligible students as determined by audit.

The Board agreed with Recommendations 16 and 18.

The Board indicated that it alone cannot implement Recommendation 17, but that it will jointly review the programming issues with OPT. It disagreed with the portion of the recommendation regarding counting the second pass issued to a student, citing this as a double-count of the student.

We believe the Board's position is incorrect. The object is not to arrive at a total count of students, regardless of transportation method. Instead, the object is to develop a ratio of State-aidable student records to all student records, separately for each carrier or type of service. Only by counting all student records eligible for a particular service can a meaningful ratio of State-aidable students to total students be calculated. Neglecting to count a pass distorts the ratio.

For example, a student living more than 1.5 miles from school has a Triboro Coach Franchise pass and also has a second pass (TA Type 2 Subway Pass), both of which are eligible for aid. The Board does not count this student in the ratio for Type 2 passes, inappropriately lowering the percentage of passes eligible for aid. There is only one student, but there are two State-aidable passes.

ABBREVIATIONS AND ACRONYMS USED IN THIS REPORT

Board or BE	New York City Board of Education
Drawdown	The process by which the TA draws upon the majority of the funds due by the Board for TA services. The total amount of the drawdown in any year is determined by the New York City Office of Management and Budget based on an agreed-upon formula between OMB and the TA.
5A/C report	Eligibility Card Distribution and Accountability Report; filed in November and April
Form OPT-100	OPT's "Application for Regular Education [Transportation] Services"
Form OPT-100T	OPT's "Change/Delete/Turnaround" form
OBOR	BE's Office of Budget Operations and Review
OMB	New York City Office of Management and Budget
OPT	Support Services' Office of Pupil Transportation
OPT-100 file	Copy of OPT's student eligibility data base provided to OBOR annually to assist it in filing the Transportation aid claim
OPT-100 System	OPT's computer system which reviews eligibility determinations and maintains student records
PE	Program Exception
PO	Purchase Order
RBU	OBOR's Revenue Budget Unit
SED	New York State Education Department
Strip Ticket	Ticket issued by TA that can be converted into 100 tokens
Support Services	BE's Division of Operational Support Services

TA	New York City Transit Authority
TAR	Ticket Accounting Report prepared by OPT to summarize 5A/C reports; generated once each semester
Ticket System	OPT's computer system which controls, records and ships tickets (passes) to schools

SUMMARY STATEMENT OF TRANSPORTATION AID CLAIMED FOR TRANSIT AUTHORITY SERVICES AND EXPENDITURES PER AUDIT

	Per Claim	Per Audit	Difference	Notes
For School Year 1989-90	$107,062,046	$84,396,310	$22,665,736	(1)
For School Year 1990-91	110,371,167	90,728,127	19,643,040	(2)
Total	$217,433,213	$175,124,437	$42,308,776	(3)

Notes:

(1) The per audit amount for **School Year 1989-90** is based upon our analysis of drawdown payments and BOE Free payments (see page 2 of this report for a description of these payments). The audited amounts of these payments were allocated between Special Education and Regular Education (because different "Percents of Costs Aidable" apply to each) and were calculated as follows:

	Total Before Allocation	Allocation to Special Education	Allocation to Regular Education	Total	Sub-Notes
Proportionate Allocation of Audited Drawdown Amount	$88,383,588	$7,827,098	$80,556,491		(I)
Allocation of "BOE Free" Audited Amount	571,280	222,098	349,182		(ii)
Total Cost for Passes	$88,954,868	$8,049,196	$80,905,673		
Percent of Costs Aidable		100.000%	93.319%		(iii)
Aidable cost for Passes		$8,049,196	$75,500,365	$83,549,560	
Tokens				846,750	(iv)
Total Per Audit - 1989-90				$84,396,310	

Subnotes:

(i) For purposes of our calculations, the audited drawdown amount for passes, $88,383,588, was allocated between Special and Regular Education using the ratio of passes accounted for respectively for each program (per the OPT-100 file, see Appendix G). See Appendix C for a detailed calculation of the $88,383,588.

(ii) OBOR allocated "BOE Free" costs based on a schedule supplied by OPT. Since our audit disallowance is solely based on accountability issues, we did not change the allocation methodology (except for a minor error correction). We allocated the audited costs based on the ratio of claimed costs as follows:

	Total	Special Education	Regular Education
"BOE Free" dollars for passes as stated in BOE claim (as corrected)	$808,532	$314,335	$494,197
Ratio	100.000%	38.877%	61.123%
Proportionate Allocation of Audited "BOE Free" Amount	$571,280	$222,098	$349,182

The audited "BOE Free" amount of $571,280 was derived by taking the number of elementary and handicapped passes (57,128) accounted for on the OPT-100 file and allowing $1 for each pass for each of the 10 months of the school year.

(iii) The “Percent of Costs Aidable” for general education is the overall ratio of aidable riders to total riders for all TA services. It was calculated after making corrections to the student record counting methodology cited in this report (i.e., removing duplicates and test school students, and adding students with two passes; see Chapter III). The corrected “Percents of Costs Aidable” are detailed in Appendix F.

(iv) The per audit amount for tokens and related disallowance is detailed in Appendix E.

(2) The per audit amount for **School Year 1990-91** is based upon our analysis of drawdown payments and BOE Free payments (see page 2 of this report for a description of these payments). The audited amounts of these payments were allocated between Special Education and Regular Education (because different "Percents of Costs Aidable" apply to each) and were calculated as follows:

	Total Before Allocation	Allocation to Special Education	Allocation to Regular Education	Total	Sub-Notes
Proportionate Allocation of Audited Drawdown Amount	$96,073,361	$8,384,398	$87,688,963		(i)
Allocation of "BOE Free" Audited Amount	291,954	113,725	178,229		(ii)
Total Cost for Passes	$96,365,315	$8,498,123	$87,867,192		
Percent of Costs Aidable		100.000%	92.256%		(iii)
Aidable cost for Passes		$8,498,123	$81,062,757	$89,560,880	
Tokens				1,167,247	(iv)
Total Per Audit - 1990-91				$90,728,127	

Subnotes:

(i) For purposes of our calculations, the drawdown amount for passes, $96,073,361, was allocated between Special and Regular Education using the ratio of passes accounted for respectively for each program (per the OPT-100 file, see Appendix G). See Appendix D for a detailed calculation of the $96,073,361.

(ii) In its methodology, the Board combined the "BOE Free" dollars, which are the amounts it pays directly to the TA, with the drawdown dollars for allocation between special education and regular education. This is not consistent with the methodology used in the previous year. Since "BOE Free" dollars apply only to elementary and special education passes, special education bears a higher proportion of the total. We allocated the audited costs using the same methodology used in 1989-90 as follows:

	Total	Special Education	Regular Education
"BOE Free" Dollars for Passes as stated in BOE Claim (as corrected)	$797,656	$310,711	$486,945
Ratio	100.000%	38.953%	61.047%
Proportionate Allocation of Audited "BOE Free" Amount	$291,954	$113,725	$178,229

OBOR could only evidence $306,159 in total BOE free payments, although OPT records indicate a higher amount, $836,465 (see page 20 of this report). We allocated $291,954 of the $306,159 to passes and the balance to tokens, based on the proportion of OPT's reported costs, since this was consistent with the method OBOR used in the previous year's claim.

(iii) The "Percent of Costs Aidable" for general education is the overall ratio of aidable riders to total riders for all TA services. It was calculated after making corrections to the student record counting methodology cited in this report (i.e., removing duplicates and test school students, and adding students with two passes; see Chapter III). The corrected "Percents of Costs Aidable" are detailed in Appendix G.

(iv) The per audit amount for tokens and related disallowance is detailed in Appendix E.

(3) Of this amount, $7,507,236 resulted from the Board not allocating any of the drawdown payments made to the TA as summer school (see pp. 9-10). Another $585,680 is for tokens that were issued to schools for unaidable activities (see Appendix E). The balance, $34,215,860 is due to issues related to passes.

AUDITOR'S CALCULATION OF COST FOR REGULAR SESSION PASSES (DRAWDOWN AMOUNT) FOR SCHOOL YEAR 1989-90

	Amount	Notes
Portion of Total Due per TA Invoice for Passes	$126,651,826	(1)
Ratio of Actual Drawdown Payment to Total Due per Invoice	85.2104%	(2)
Portion of Drawdown Payment (Allocated for Passes)	$107,920,544	
Less: Audit Adjustment	19,536,956	(3)
Drawdown Amount (for Passes) per Audit	$88,383,588	

Notes:

(1) Underlying support for the TA invoice indicates that of the $131,840,301 total on the invoice (plus $20,273 based on additional documentation supplied by OPT), $126,631,553 (plus $20,273) represents the amount due to Regular Semester Passes (or 96.0498% of the total).

(2) The Board paid the TA $112,358,940 in drawdown payments against an invoice total of $131,840,301 (plus $20,273 based on additional documentation supplied by OPT), or a total of 85.2104% of the invoiced costs.

(3) The audit adjustment is due to the proportion of passes which BE records do not properly account for, as indicated in the following sub-schedule:

	Break Out of "Total Due" on TA Invoice (i)	Percent of Total Invoiced	Drawdown Allocation by Pass Type	Percent of Passes Not Accounted For (iii)	Drawdown Portion Disallowed (ii)
Elementary Passes:					
Type A, B, & P	$32,259,191	25.4708%	$27,488,190	29.161%	$8,015,797
High School Passes:					
Type 1 - Surface	49,508,566	39.0903%	42,186,454	13.933%	5,877,837
Type 2 - Rapid	40,210,525	31.7489%	34,263,554	10.876%	3,726,644
Type 3 - Dual	4,673,544	3.6901%	3,982,346	48.129%	1,916,678
Total	$126,651,826	100.0000%	$107,920,544		$19,536,956

Subnotes:

(i) These amounts are as reflected on the TA invoice supporting schedules, adjusted based on additional information from OPT as follows: Type 1 increased by $17,138, and Type 2 increased by $3,135.

(ii) This is the "Drawdown Allocation by Pass Type" multiplied by the "Percent of Passes Not Accounted For."

(iii) The Percent of Passes Not Accounted For, by pass type, was determined after analyzing the TA invoice, the OPT-100 file supporting the claim, and the 5A/C reports filed by the schools. Our computation appears below:

	Number of Passes			Percent of Passes Not Accounted For (c)
	Issued Per TA Invoice (a)	Accounted For (b)	Not Accounted For	
Elementary Passes				
Type A, B, & P	80,645	57,128	23,517	29.161%
High School Passes				
Type 1 - Surface	124,381	107,051	17,330	13.933%
Type 2 - Rapid	100,695	89,743	10,952	10.876%
Type 3 - Dual	5,720	2,967	2,753	48.129%
Total	311,441	256,889	54,552	

Sub-subnotes:

(a) For elementary passes, this is the average number of passes issued in each of the 10 school months. For high school passes, this is the number of passes issued in the spring semester according to the TA invoice, adjusted based on additional information from OPT as follows: Type 1 increased by 82, and Type 2 increased by 15.

(b) For elementary passes, this was calculated by counting the number of student records on the OPT-100 file with this pass type. For high school passes, this was calculated on a school-by-school basis by using the number of passes the school reported as issued in the spring semester on form 5A/C. In instances where the number of student records on the OPT-100 file was lower, this amount was used (see page 13 of the report). This was adjusted based on additional information from OPT as follows: Type 1 increased by 64, and Type 2 increased by 5.

(c) This is the "Not Accounted For" divided by "Issued Per TA Invoice" for each category.

AUDITOR'S CALCULATION OF COST FOR REGULAR SESSION PASSES (DRAWDOWN AMOUNT) FOR SCHOOL YEAR 1990-91

	Amount	Notes
Portion of Total Due per TA Invoice for Passes	$133,026,335	(1)
Ratio of Actual Drawdown Payment to Total Due per Invoice	84.5900%	(2)
Portion of Drawdown Payment (Allocated for Passes)	$112,526,971	
Less: Audit Adjustment	16,453,610	(3)
Drawdown Amount (for Passes) per Audit	$96,073,361	

Notes:

(1) Underlying support for the TA invoice indicates that of the $139,391,215 total on the invoice (plus $282,568 based on additional documentation supplied by OPT), $132,743,767 (plus $282,568) represents the amount due to Regular Semester Passes (or 95.2407% of the total).

(2) The Board paid the TA $118,150,047 in drawdown payments against an invoice total of $139,391,215 (plus $282,568 based on additional documentation supplied by OPT), or a total of 84.5900% of the invoiced costs.

(3) The audit adjustment is due to the proportion of passes which BE records do not properly account for, as indicated in the following sub-schedule:

	Break Out of "Total Due" on TA Invoice (i)	Percent of Total Invoiced	Drawdown Allocation by Pass Type	Percent of Passes Not Accounted For (iii)	Drawdown Portion Disallowed (ii)
Elementary Passes					
Type A, B, & P	$32,436,666	24.3836%	$27,438,174	20.782%	$5,702,181
High School Passes					
Type 1 - Surface	53,108,561	39.9233%	44,924,529	11.751%	5,279,256
Type 2 - Rapid	42,718,808	32.1130%	36,135,838	10.381%	3,751,346
Type 3 - Dual	4,762,300	3.5800%	4,028,430	42.717%	1,720,827
Total	$133,026,335	100.0000%	$112,526,971		$16,453,610

Subnotes:

(i) The amounts are as reflected on the TA invoice supporting schedules, adjusted based on additional information from OPT as follows: Type 1 increased by $215,061, Type 2 increased by $61,655, and Type 3 increased by $5,852.

(ii) This is the "Drawdown Allocation by Pass Type" multiplied by the "Percent of Passes Not Accounted For."

(iii) The Percent of Passes Not Accounted For, by pass type, was determined after analyzing the TA invoice, the OPT-100 file supporting the claim, and the 5A/C reports filed by the schools. The computation appears below:

	Number of Passes			Percent of Passes Not Accounted For (c)
	Issued Per TA Invoice (a)	Accounted For (b)	Not Accounted For	
Elementary Passes				
Type A, B, & P	78,509	62,193	16,316	20.782%
High School Passes				
Type 1 - Surface	127,653	112,652	15,001	11.751%
Type 2 - Rapid	104,660	93,795	10,865	10.381%
Type 3 - Dual	5,609	3,213	2,396	42.717%
Total	316,431	271,853	44,578	

Sub-subnotes:

(a) For elementary passes, this is the average number of passes issued in each of the 10 school months. For high school passes, this is the number of passes issued in the spring semester according to the TA invoice, adjusted based on additional information from OPT as follows: Type 1 increased by 1,029, Type 2 increased by 295, and Type 3 increased by 14.

(b) For elementary passes, this was calculated by counting the number of student records on the OPT-100 file with this pass type. For high school passes, this was calculated on a school-by-school basis by using the number of passes the school reported as issued in the spring semester on form 5A/C. In instances where the number of student records on the OPT-100 file was lower, this amount was used (see page 13 of the report). This was adjusted due based on additional information from OPT as follows: Type 1 increased by 1,061, Type 2 increased by 458, and Type 3 increased by 4.

(c) This is the "Not Accounted For" divided by "Issued Per TA Invoice" for each category.

AUDITOR'S CALCULATION OF COST FOR TOKENS FOR SCHOOL YEARS 1989-90 AND 1990-91

	1989-90	1990-91	Total	Notes
Portion of Total Due Per TA Invoice for Tokens	$1,246,036	$1,764,372	$3,010,408	(1)
Ratio of Actual Drawdown Payment to Total Due Per Invoice	85.2104%	84.5900%		(2)
Portion of Drawdown Payment (Allocated for Tokens)	$1,061,753	$1,492,483	$2,554,235*	
BOE Free	31,236	14,205	45,441	(3)
Total BE Expenditures	$1,092,989	$1,506,688	$2,599,676	
Costs Not Allowed	246,239	339,441	$585,680	(4)
Costs for Tokens (Per Audit)	$846,750	$1,167,247	$2,013,996*	

* Differences due to rounding.

Notes:

(1) Underlying support for the TA invoice indicates that of the total on the invoice, the amounts shown represent the amount due to Regular Semester Tokens.

(2) In 1989-90, the Board paid the TA $112,358,940 in drawdown payments against an invoice total of $131,840,301 increased by $20,273 based on additional documentation supplied by OPT, or 85.2104% of the invoiced costs. In 1990-91, the Board paid the TA $118,150,047 in drawdown payments against an invoice total of $139,391,215 increased by $282,568 based on additional documentation supplied by OPT, or 84.5900% of the invoiced costs.

(3) For 1989-90, this represents the amount shown in the Claim supporting schedules for "BOE Free" payments for tokens. For 1990-91, BOE could not provide documentation for the full BOE Free amount shown in the claim supporting schedules. We allocated the amount that could be supported based on the ratio of costs in the supporting schedules.

(4) Categories of costs not allowed relate directly to sections in Chapter IV of this report. Costs are itemized below:

Program Exceptions:	
- Lack of Adequate Documentation	$66,444
- Program Files Not Found	10,434
- Poor Accountability:	
- Accountability Reports Not Found	8,868
- Token Issuance Not Reconciled	15,089
- Stolen or Lost Tokens and Strip Tickets	5,466
Sub-total - Program Exceptions	$106,301
Purchase Orders:	
- Total Value of Purchase Orders	$402,477
- Exchanged Tickets Claimed as Expense	55,841
Sub-total - Purchase Orders	$458,318
Other Matters:	
- Tokens Issued for Unidentified Purpose	$16,907
- Late Return of Strip Tickets	3,864
- Tickets Issued for OPT Messengers	290
Sub-total - Other Matters	$21,061
Total Costs	$585,680

These costs were proportionally allocated between the two claim years based on the total BE expenditures for tokens (42.0433% in 1989-90 and 57.9567% in 1990-91).

CALCULATION OF RATIOS OF AIDABLE STUDENTS USED TO ALLOCATE EXPENDITURES

SCHOOL YEAR 1989-90

	Student Records			
	Aidable	Total	Aidable %	Notes
Regular Education				
Total Per Claim	232,856	249,359	93.382%	(3)
Weighted Total Per Audit	238,795	255,890	93.319%	(1)
Special Education				
Total Per Claim	25,319	25,319	100.000%	(3)
Weighted Total Per Audit	24,863	24,863	100.000%	(1)
Combined (Total)				
Total Per Claim	258,175	274,678	93.992%	(3)
Weighted Total Per Audit	263,658	280,753	93.911%	(1)

Percent of Total Passes	Per Claim	Per Audit	
Regular Education	-	91.1442%	(2)
Special Education	9.8069%	8.8558%	(2)

Notes:

(1) Weighted totals are calculated by excluding counts of students who use tokens and by doubling the count of students with Type 3 passes (see pages 24-25 of this report).

(2) Per audit percents are based on weighted totals. The claim only shows the percent for special education passes, which was calculated using an incorrect formula (see page 11 of the report).

(3) Pass counts per claim and per audit were calculated as follows:

Pass Type	Student Records Per Claim(i) Aidable	Student Records Per Claim(i) Total	Student Records Per Audit (ii) Aidable	Student Records Per Audit (ii) Total	Increase (Decrease) In Aidable	Increase (Decrease) In Total
Regular Education						
1 - HS Surface	114,377	116,419	114,866	116,924	489	505
2 - HS Rapid	97,103	98,725	101,854	103,595	4,751	4,870
3 - HS Dual	169	171	175	177	6	6
A - Elementary	20,539	32,725	21,065	33,734	526	1,009
B - Special Ed.	137	280	140	285	3	5
P - Sunday	525	1,006	520	998	(5)	(8)
X - Tokens	6	33	7	34	1	1
Total	232,856	249,359	238,627	255,747	5,771	6,388
Weighted Total (iii)			238,795	255,890	5,776	6,393
Special Education						
1 - HS Surface	1,858	1,858	1,828	1,828	(30)	(30)
2 - HS Rapid	918	918	925	925	7	7
3 - HS Dual	0	0	0	0	0	0
A - Elementary	285	285	291	291	6	6
B - Special Ed.	22,254	22,254	21,818	21,818	(436)	(436)
P - Sunday	1	1	1	1	0	0
X - Tokens	3	3	3	3	0	0
Total	25,319	25,319	24,866	24,866	(453)	(453)
Weighted Total (iii)			24,863	24,863	(453)	(453)
Combined						
1 - HS Surface	116,235	118,277	116,694	118,752	459	475
2 - HS Rapid	98,021	99,643	102,779	104,520	4,758	4,877
3 - HS Dual	169	171	175	177	6	6
A - Elementary	20,824	33,010	21,356	34,025	532	1,015
B - Special Ed.	22,391	22,534	21,958	22,103	(433)	(431)
P - Sunday	526	1,007	521	999	(5)	(8)
X - Tokens	9	36	10	37	1	1
Total	258,175	274,678	263,493	280,613	5,318	5,935
Weighted Total (iii)			263,658	280,753	5,323	5,940

Subnotes:

(i) "Per Claim" figures are from the claim and supporting documents.

(ii) "Per Audit" figures are obtained by adding all passes shown in pass Type 2, deleting 224 test school records, deleting 11,240 duplicate records, bypassing the Free Choice code in OBOR's program, and using the program to count passes.

(iii) Weighted totals are calculated by excluding counts of students who use tokens and by doubling the count of students with Type 3 passes (see pages 24-25 of this report). Variances are calculated against the total as shown on the claim.

CALCULATION OF RATIOS OF AIDABLE STUDENTS USED TO ALLOCATE EXPENDITURES

SCHOOL YEAR 1990-91

	Student Records			
	Aidable	Total	Aidable %	Notes
Regular Education				
Total Per Claim	247,684	268,290	92.320%	(3)
Weighted Total Per Audit	252,332	273,513	92.256%	(1)
Special Education				
Total Per Claim	26,727	26,727	100.000%	(3)
Weighted Total Per Audit	26,152	26,152	100.000%	(1)
Combined (Total)				
Total Per Claim	274,411	295,017	93.015%	(3)
Weighted Total Per Audit	278,484	299,665	92.932%	(1)

Percent of Total Passes	Per Claim	Per Audit	
Regular Education	-	91.2729%	(2)
Special Education	9.7398%	8.7271%	(2)

Notes:

(1) Weighted totals are calculated by excluding counts of students who use tokens and by doubling the count of students with Type 3 passes (see pages 24-25 of this report).

(2) Per audit percents are based on weighted totals. The claim only shows the percent for special education passes, which was calculated using an incorrect formula.

(3) Pass counts per claim and per audit were calculated as follows:

Pass Type	Student Records Per Claim(i) Aidable	Student Records Per Claim(i) Total	Student Records Per Audit (ii) Aidable	Student Records Per Audit (ii) Total	Increase (Decrease) In Aidable	Increase (Decrease) In Total
Regular Education						
1 - HS Surface	121,523	125,543	120,739	124,783	(784)	(760)
2 - HS Rapid	102,151	104,525	106,588	109,171	4,437	4,646
3 - HS Dual	541	560	539	557	(2)	(3)
A - Elementary	22,684	36,156	23,202	37,033	518	877
B - Special Ed.	153	349	177	381	24	32
P - Sunday	552	1,038	548	1,031	(4)	(7)
X - Tokens	80	119	86	129	6	10
Total	247,684	268,290	251,879	273,085	4,195	4,795
Weighted Total (iii)			252,332	273,513	4,187	4,782
Special Education						
1 - HS Surface	1,449	1,449	1,452	1,452	3	3
2 - HS Rapid	945	945	944	944	(1)	(1)
3 - HS Dual	3	3	4	4	1	1
A - Elementary	314	314	340	340	26	26
B - Special Ed.	24,013	24,013	23,407	23,407	(606)	(606)
P - Sunday	1	1	1	1	0	0
X - Tokens	2	2	2	2	0	0
Total	26,727	26,727	26,150	26,150	(577)	(577)
Weighted Total (iii)			26,152	26,152	(576)	(576)
Combined						
1 - HS Surface	122,972	126,992	122,191	126,235	(781)	(757)
2 - HS Rapid	103,096	105,470	107,532	110,115	4,436	4,645
3 - HS Dual	544	563	543	561	(1)	(2)
A - Elementary	22,998	36,470	23,542	37,373	544	903
B - Special Ed.	24,166	24,362	23,584	23,788	(582)	(574)
P - Sunday	553	1,039	549	1,032	(4)	(7)
X - Tokens	82	121	88	131	6	10
Total	274,411	295,017	278,029	299,235	3,618	4,218
Weighted Total (iii)			278,484	299,665	3,611	4,206

Subnotes:

(i) "Per Claim" figures are from the claim and supporting documents.

(ii) "Per Audit" figures are obtained by adding all passes shown in pass Type 2, deleting 200 test school records, deleting 18,385 duplicate records, bypassing the Free Choice code in OBOR's program, and using the program to count passes.

(iii) Weighted totals are calculated by excluding counts of students who use tokens and by doubling the count of students with Type 3 passes (see pages 24-25 of this report). Variances are calculated against the total as shown on the claim.

APPENDIX H

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