



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY,
NY12234

TO: Audits/Budget and Finance Committee
FROM: Sharon Cates-Williams *Sharon Cates-Williams*
SUBJECT: Board of Regents Oversight of Financial Accountability
DATE: October 11, 2013
AUTHORIZATION(S): *J. B. G. G.*
SUMMARY

Issues for Discussion

The following topics will be discussed with the Members of the Committee on Audits/Budget and Finance:

1. Completed Audits including the Report of the Internal Audit Workgroup (Attachments I & II)

Reason(s) for Consideration

Update on Activities

Proposed Handling

Discussion and Guidance

Procedural History

The information is provided to assist the Committee in carrying out its oversight responsibilities.

Background Information

1. Completed Audits including the Report of the Internal Audit Workgroup
The Committee is being presented with 13 audits this month. (Attachments I & II)

Audits are provided as follows:

Office of the State Comptroller Audits

Andover Central School District
Educators for Children, Youth, and Families, Inc. Follow-up
Elmwood Village Charter School
Gloversville Enlarged School District
Hancock Central School District
Hendrick Hudson Central School District
Laurens Central School District
Oneonta City School District
Rensselaer City School District
Southold Union Free School District
Ticonderoga Central School District
Waverly Central School District
Whitehall Central School District

Recommendation

No action required for audit initiatives and presentation of audits.

Timetable for Implementation

N/A

The following materials are attached:

- Report of the Internal Audit Workgroup (Attachment I)
- Summary of Audit Findings Including Audit Abstracts (Attachment II)

**Regents Committee on Audits/Budget and Finance
October 2013
Review of Audits Presented
Department's Internal Audit Workgroup**

Newly Presented Audits

We reviewed the 13 audits that are being presented to the Committee this month. All 13 audits were issued by the Office of the State Comptroller (OSC). Eleven of the audits were of school districts, one was of a charter school, and one was a follow-up of a provider of after-school services.

The findings were in the areas of financial reporting, budgeting, information technology, claims processing, student enrollment and billing, extraclassroom activity fund, and board oversight.

The Department has issued letters to the school district auditees, reminding them of the requirement to submit corrective action plans to the Department and OSC within 90 days of their receipt of the audit report.

The Department's Internal Audit Workgroup determined the following audits required no specific follow-up activities by Department staff.

Elmwood Village Charter School

Gloversville Enlarged School District

Hancock Central School District

Hendrick Hudson Central School District

Oneonta City School District

Rensselaer City School District

Southold Union Free School District

Whitehall Central School District

The Department's Internal Audit Workgroup identified the following audits either for specific attention by Department Staff or to bring to the Committee's attention for informational purposes.

Ticonderoga Central School District – Financial Condition

Educators for Youth, Children, and Families, Inc.

Andover Central School District – Internal Controls over Reserve Funds

Laurens Central School District – Budgeting and Reserves

Waverly Central School District - Financial Condition

October 2013
Regents Audits/Budget and Finance Committee Meeting
Summary of Audits Requiring Specific Attention

Audit Summary	Recommendation/Response
<p>Ticonderoga Central School District – Financial Condition</p> <ul style="list-style-type: none"> • OSC Audit • District has deteriorating financial condition. • Appropriated significant amounts of fund balance and reserves to finance operations resulting in significant reduction to fiscal year end balances. • In 2012-13 did not appropriate unexpended surplus funds or reserves but adopted cost saving measures. • District needs multi-year financial plan. 	<p>The recommendations focused on developing budgets that are more structurally balanced and establishing a multi-year financial plan.</p> <p><i>District officials agreed with the findings and indicated they will implement the recommendations.</i></p> <p><u>Next Step</u> Districts are required to submit their corrective actions within 90 day of receipt of the report.</p>
<p>Educators for Children, Youth and Families, Inc. Follow-up: Use of Contract Funds</p> <ul style="list-style-type: none"> • OSC Audit • Seven contracts awarded to Educators, four were administered by SED and three were by the Office of Children and Family Services. • Amount disallowed from SED’s contracts was \$687,360 out of \$883,530, total claim. • All 3 recommendations from the initial audit in 2010 have been partially implemented. No funds have yet been recovered. SED made 	<p>There are no new recommendations.</p> <p><u>Next Step</u> SED has established contact with the Attorney General’s Office and determined Educators has not filed for bankruptcy. There are no contracts in force with Educators and the AG’s Civil Recovery Bureau is pursuing further action.</p>

<p>numerous attempts to contact Educators to no avail. The case was referred to the Attorney General's Office for fund recovery.</p>	
<p>Andover, Laurens, and Waverly Central School Districts – Financial Condition/Budgeting and Reserves</p> <ul style="list-style-type: none"> • OSC Audits • Over-funded or unnecessary reserves. • Overestimation of expenditures led to operating surplus. • Fund balance was appropriated in the budget to reduce amount; however, it was not used or very little was used due to operating surplus. 	<p>The recommendations focused on preparing budgets with more realistic revenue and expenditure projections and strengthening the policies and procedures pertaining to the use of reserves.</p> <p><i>District officials agreed with the findings and indicated that they will implement the recommendations.</i></p> <p><u>Next Step</u> Districts are required to submit their corrective actions within 90 days of receipt of the report.</p>

October Regents Audits/Budget and Finance Committee Meeting Summary of Audit Findings

Audit	Procurement	Claims Processing	Financial Reporting	Information Technology	Extracurricular Activity Fund	Budgeting	Other
Office of the State Comptroller							
Andover Central School District			√				
* Elmwood Village Charter School (footnote 3)							√
* Gloversville Enlarged City School District (footnote 1)	√	√		√			√
Hancock Central School District						√	
** Hendrick Hudson Central School District							
Laurens Central School District						√	
** Oneonta City School District							
Rensselaer City School District					√		
Southold Union Free School District		√					
* State Education Department and Office of Children and Family Services (Educators for Children, Youth and Families, Inc.) (footnote 2)							√
Ticonderoga Central School District			√			√	
Waverly Central School District			√			√	
** Whitehall Central School District							

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- 1 Board Oversight
- 2 Contract Funds
- 3 Student Enrollment and Billing
- ** No recommendations

The Department's Internal Audit Workgroup met to review each of the audits being presented this month. Letters will be sent to all of the school district auditees reminding them of the requirement to submit a corrective action plan.

Office of the State Comptroller

Audit	Major Finding(s)	Recommendation/Response
<p>Andover Central School District Internal Controls Over Reserve Funds 2013M-162 8th Judicial District</p>	<p>Internal controls over reserve funds are not appropriately designed or operating effectively. District policy provides that an annual report of District reserves must be prepared and submitted to the Board for review that includes a summary statement of projected use and need of the reserve funds. However, the annual report prepared by the Business Administrator does not include a summary statement. As a result, the Board's ability to monitor the projected use and need of reserve funds could be limited. Currently, the District has more than \$1 million in a debt service reserve that District officials could not associate with any outstanding debt and more than \$1.1 million in general fund reserves that exceeded reasonable needs of the District.</p>	<p>3 recommendations</p> <p>The report's recommendations focused on strengthening policies and procedures regarding the use of reserve funds.</p> <p><i>District officials generally agreed with the report's findings, and stated that they plan on implementing corrective action.</i></p>
<p>Elmwood Village Charter School Student Enrollment and Billing 2013M-174 8th Judicial District</p>	<p>The School annually requests that parents/guardians update student information and relies on parents/guardians to notify the School if a student's address changes during the school year. However, the School does not verify student information by periodically requiring new proof of residence, such as a utility bill, or requiring that a new proof of residence be submitted when a student's address changes.</p>	<p>1 recommendation</p> <p>The report's recommendation focused primarily on strengthening the policies and procedures regarding student enrollment and billing of the school districts of residence.</p> <p><i>The School officials agreed with the report finding, and will implement the recommendation.</i></p>
<p>Gloversville Enlarged City School District Gloversville Enlarged School District - Board Oversight and Information Technology</p>	<p>The Board did not exercise adequate oversight of financial operations. As stated by District officials, there is no audit committee active at the District. Although the Board members, as a whole, had been established as an audit committee in 2005, the Board has not since appointed an audit committee, and the Board members currently do not perform the duties</p>	<p>8 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures regarding Board oversight of the</p>

<p>2013M-180 4th Judicial District</p>	<p>required of such a committee. Also, the District has not received an internal audit report since 2010-11 and the District has not appointed an internal auditor for the 2012-13 school year. As a result, taxpayers do not have adequate assurance that risk is being effectively monitored and that internal control weaknesses are identified and addressed.</p> <p>In addition, the Board does not audit individual claims, nor has it appointed a claims auditor. As a result, none of the 50 claims tested, totaling \$967,570, had been audited. Furthermore, one claim, totaling \$48,998, was for a truck that had no documentation to show the purchase was subject to competition, and five claims, totaling \$3,317, were for credit card charges where the credit card company electronically debited payments directly from the District's bank account. As a result, there is an increased risk that goods and services will not be purchased in the manner most beneficial for the taxpayers and that unauthorized or improper transactions could occur.</p> <p>The Board did not adequately design and implement policies over the security of IT. As a result, the District does not have a written disaster recovery plan. In addition, the Treasurer has administrative rights in the financial software that allow access to all aspects of the system, and District officials do not produce or review activity logs. As a result, there is an increased risk of loss of computer equipment and data, and that unauthorized or inappropriate transactions could occur.</p>	<p>external and internal auditing processes, claims auditing, and information technology.</p> <p><i>District officials agreed with the recommendations and had already addressed the majority of the recommendations. A corrective action plan will be in place.</i></p>
<p>Hancock Central School District Financial Condition 2013M-187 6th Judicial District</p>	<p>Although the Board and District management believed they were effectively managing the District's financial condition, the adopted budgets continually included over-estimated appropriations. For fiscal years 2007-08 through 2010-11, these budgeting practices generated \$2.76 million in</p>	<p>2 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures</p>

	<p>operating surpluses, which caused the accumulated fund balance to exceed the statutory maximum of 4 percent of the ensuing year's budget for those same fiscal years. To reduce the unexpended surplus fund balance and bring it closer to the 4 percent limit, District officials made unplanned transfers to the District's reserves. The reserves were found to be over-funded by approximately \$699,000 at June 30, 2013. The Board was more conservative in its budgeting practices for fiscal years 2011-12 and 2012-13 and reduced its unexpended surplus funds to a more reasonable level. However, the Board did not include in its 2013-14 budget more than \$790,000 in insurance revenues it expects to receive during this fiscal year ending 2013-14. This, combined with the over-funded reserves, will bring total available fund balance to more than \$1.9 million in fiscal year ending 2013-14.</p>	<p>regarding developing budgets with realistic revenue and expenditure projections, and having reasonable amounts in the District's reserve funds.</p> <p><i>District officials generally agreed with the recommendations and will implement corrective action.</i></p>
<p>Hendrick Hudson Central School District Financial Condition 2013M-241 9th Judicial District</p>	<p>The District officials were found to have taken appropriate action to manage the District's financial condition.</p>	<p>There were no recommendations in this audit report.</p>
<p>Laurens Central School District Budgeting and Reserves 2013M-135 6th Judicial District</p>	<p>The Board adopted budgets that included the use of surplus fund balance to finance operations in an effort to avoid raising unnecessary real property taxes. However, although fund balance was included in the budgets, the District has not actually used fund balance to finance operations since 2008. In fact, the District has had operating surpluses for the past several years.</p> <p>As a result of the Board's budgeting practices, the District has accumulated significant reserve balances in excess of the District's average needs and has accumulated significant total fund balance, including reserves. For the fiscal years ending</p>	<p>3 recommendations</p> <p>The report's recommends that the Board prepare budgets with more realistic revenue and expenditure projections, and review reserve balances to ensure that the amounts in the reserves are reasonable.</p> <p><i>District officials felt that their budget projections were realistic and the</i></p>

	2008 through 2012, total fund balance has increased 72 percent to \$3.6 million, with reserves at almost \$3 million, or 82 percent of the fund balance at June 30, 2012.	<i>reserve balances were reasonable given the current financial climate. They generally agreed with the recommendations.</i>
Oneonta City School District Financial Condition 2013M-165 6th Judicial District	The District officials were found to have taken appropriate action to manage the District's financial condition.	There were no recommendations in this audit report.
Rensselaer City School District Internal Controls Over Extra-Classroom Activity Funds 2013M-153 3rd Judicial District	The Board and District officials did not adopt and implement appropriate policies and procedures for the extra-classroom activity fund. As a result, six student clubs were inactive but had deposits totaling \$4,450 that were not closed out. In addition, the student treasurers lacked documentation (accounting records) for remittances totaling \$10,188 and documentation, such as itemized receipts and payment orders, for disbursements totaling \$16,736. The central treasurer lacked duplicate receipts for remittances totaling \$13,188 and documentation, such as itemized receipts and payment orders, for disbursements totaling \$8,965.	4 recommendations The report's recommendations focused primarily on strengthening the policies and procedures regarding extra-classroom activities. <i>The District agreed with the recommendations and will initiate corrective action for the recommendations.</i>
Southold Union Free School District Claims Processing 2013M-183 10th Judicial District	Despite minor deficiencies that were discussed with District officials, the claims that were tested appeared to be for proper District purposes and audited prior to payment. However, purchase orders for six of the 25 claims totaling \$33,539 were confirming purchase orders which were prepared after the invoice was received from the vendor.	1 recommendation The report's recommendation focused primarily on strengthening the policies and procedures regarding purchasing. <i>The District officials agreed with the finding, and they are planning to take corrective action.</i>

<p>State Education Department and Office of Children and Family Services (OCFS) Educators for Children, Youth and Families, Inc. - Use of Contract Funds (Follow-up) 2012-F-16</p>	<p>The initial report, which was issued on August 20, 2010, examined whether Educators for Children, Youth and Families, Inc (Educators) appropriately used \$3.2 million of State funds received from the State Education Department (SED) and Office of Children and Family Services (OCFS) under the seven grant contracts for the Period July 1, 2002 through June 4, 2008. The audit reviewed claims amounting to \$1.8 million to determine if they were properly supported and appropriate. The audit found that Educators could not support \$883,530 of expenditures claimed. Of this amount, \$687,360 had been paid to Educators by SED. It was recommended that the Department recover the payments made to Educators; investigate the support and propriety of the remaining claim of \$1.4 million that was not audited; and review and strengthen contract oversight procedures for grant recipients.</p> <p>SED and OCFS officials have made some progress in addressing the matters in the initial report. However, no funds have yet been recovered and all three recommendations have only been partially implemented.</p>	<p>There are no new recommendations.</p> <p><i>SED continues to pursue recovery of funds. SED has established contact with the Attorney General's Office (AG) and determined Educator has not filed for bankruptcy. There are no contracts in force with Educators and the AG's Civil Recovery Bureau is currently pursuing further action.</i></p>
<p>Ticonderoga Central School District Financial Condition 2013M-154 4th Judicial District</p>	<p>The Board adopted budgets that limited costs and tax increases by reducing administrative and instructional positions in response to the District's decreasing enrollment, negotiating salary freezes with faculty and support staff, and adopting a different medical insurance plan that reduced rate increases. The Board balanced its budgets with appropriations of unexpended surplus funds and reserves. As a result, by the end of the 2011-12 fiscal year, the District had only \$10,000 remaining in reserves, and an unexpended surplus fund balance of \$384,362. To meet short-term cash flow needs, the District borrowed \$1.1 million at the beginning of the 2012-13 fiscal year. While the Board has taken steps to</p>	<p>3 recommendations</p> <p>The report recommends the Board adopt budgets that are more structurally balanced, and to establish a multi-year financial plan that will help to maintain the District's financial stability.</p> <p><i>District officials agreed with the recommendations.</i></p>

	attempt to address its declining financial position, the Board has not developed a multiyear financial plan to improve the budget development process.	
Waverly Central School District Financial Condition 2013M-148 6th Judicial District	<p>The Board and District management are not developing realistic expenditure budget estimates. For the fiscal years ended 2008 to 2011, the District spent an average of \$1.8 million less than budgeted appropriations each year. For the fiscal year ended 2012, the District's actual revenues and expenditures were far closer to budget estimates, receiving \$60,000 less than budgeted revenues and spending only \$702,000 less than budgeted appropriations.</p> <p>The District's annual budgets also included the use of fund balance to finance operations in order to keep the real property tax levies at amounts the Board considered to be reasonable, while filling the financial gap the Board perceived to exist. For a five-year period, the Board adopted budgets that included aggregate appropriated unexpended surplus of more than \$4.7 million, an average of more than \$940,000 annually, which should have decreased the amount available to appropriate. However, very little of the planned amount was used because, for the same period, actual operations generated surpluses totaling more than \$5.3 million.</p>	<p>2 recommendations</p> <p>The report recommends the Board adopt budgets that contain more realistic revenue and expenditure projections, and have more transparency in the budgeting process via public disclosure.</p> <p><i>District officials generally agreed with the recommendations.</i></p>
Whitehall Central School District Internal Controls Over Payroll 2013M-159 4th Judicial District	The District was found to have adequate internal controls over payroll.	There were no recommendations in the audit report.