



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: November 8, 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)
2. Audit Follow-up (Attachment III)

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 4 audits this month. (Attachments I & II)

Audits are provided as follows:

Office of Audit Services

Associated Medical Schools of New York Science and Technology Entry Program (STEP) Grant

Office of the State Comptroller

Islip Union Free School District
Mount Sinai Union Free School District
Ramapo Central School District

2. Audit Follow-up

Staff will provide the committee with an overview of Department efforts related to audit follow-ups and ensuring implementation of audit recommendations. (Attachment III)

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)
- Audit Follow-ups (Attachment III)

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

Newly Presented Audits

We reviewed the 4 audits that are being presented to the Committee this month. One of the audits was issued by the Office of Audit Services and the remaining three were issued by the Office of the State Comptroller (OSC). Three of the audits were of school districts and one was of a grant contract.

The findings were in the areas of financial reporting, budgeting, payroll, and expenditure documentation.

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 that the audit of **Islip Union Free School District** required no specific follow-up activities by Department staff. The Workgroup identified the following audits either for specific attention by Department Staff or to bring to the Committee's attention for informational purposes.

Ramapo Central School District – Fund Balance and Employee Compensation

Mount Sinai Union Free School District – Financial Management

Associated Medical Schools of New York Science and Technology Entry Program Grant

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

Audit Summary	Recommendation/Response
<p>Ramapo Central School District – Fund Balance and Employee Compensation</p> <ul style="list-style-type: none"> • OSC Audit • District has accumulated more than \$16.3 million in excess fund balance which is about 13 percent of subsequent year’s budget. • District’s financial reporting showed only \$5.1 million in excess fund balance due to inappropriately encumbering approximately \$8.7 million in purchase orders and tax certioraris for 2012. • District also had \$2.3 million in over funded unemployment and insurance reserves. • Employees started their employment at higher salary steps than entry level based on 9 out of 40 employees tested. There is no documentation to explain the starting salary level. The 9 employees cost the District about \$95,000 more per year. 	<p>The recommendations focused on strengthening policies and procedures regarding the use of fund balance and employee compensation.</p> <p><i>District officials felt their unexpended surplus is in full compliance with the statutory limit and their encumbrances and reserve balances were justifiable and appropriate. They indicated that the recommendations are already in place.</i></p> <p><u>Next Step</u> Districts are required to submit their corrective actions within 90 days of receipt of the report.</p>
<p>Mount Sinai Union Free School District - Financial Management</p> <ul style="list-style-type: none"> • OSC Audit • District officials consistently overestimated expenditures over the past 5 years, 	<p>The report’s recommendations focused primarily on strengthening policies and procedures regarding budgeting practices and the use of unexpended fund balance.</p> <p><i>District officials generally agreed with the recommendations and have indicated that they plan to</i></p>

<p>resulting in operating surpluses totaling \$7.1 million.</p> <ul style="list-style-type: none"> • Over the 5-year period, fund balance totaling \$14 million was appropriated in the budget; however, only less than \$1 million was actually used due to operating surplus. 	<p><i>initiate corrective action as soon as possible.</i></p> <p><u>Next Step</u> Districts are required to submit their corrective actions within 90 days of receipt of the report.</p>
<p>Associated Medical Schools of New York (AMSNY) Science and Technology Entry Program Grant</p> <ul style="list-style-type: none"> • OAS Audits • \$49,173 out of \$890,291 claimed expenses (5.5%) were not supported. • Most of the expenditures claimed in the grant were adequately supported and documented. 	<p>The recommendations focused on strengthening the policies and procedures pertaining to proper supporting documentation, expenditures, and payroll records.</p> <p><i>AMSNY officials generally agreed with the recommendations and have indicated that they will implement corrective action.</i></p> <p><u>Next Step</u> Department staff will send AMSNY officials a 90-day follow-up letter to ask for an update on the implementation of the recommendations.</p>

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

Audit	Payroll	Financial Reporting	Budgeting
Office of Audit Services			
*Associated Medical Schools of New York			
Office of the State Comptroller			
** Islip Union Free School District			
Mount Sinai Union Free School District		√	√
Ramapo Central School District	√	√	√
November 2013	2	2	2

* Grant contract
 ** 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 Audit Services

Audit	Major Finding(s)	Recommendation/Response
<p>Associated Medical Schools of New York Science and Technology Entry Program (STEP) Grant SP-0212-01 1st Judicial District</p>	<p>\$49,173 adjustment</p> <p>The Associated Medical Schools of New York (AMSNY) is a consortium of public and private medical schools in New York State. AMSNY entered into a contract agreement with the New York State Education Department (Department) to administer a Science and Technology Entry Program (STEP) grant. The purpose of STEP is to prepare historically underrepresented or economically disadvantaged secondary school students for entry into postsecondary degree programs in scientific, technical, health-related fields, and the licensed professions. There are 10 colleges that participate in the AMSNY STEP consortium. The colleges provide program activities to assist students in acquiring the skills and attitude necessary to pursue postsecondary education leading to careers in scientific, technical or health-related fields, or the licensed professions. AMSNY coordinates the receipt and distribution of funds, as well as the gathering of claims for expenditures from the 10 colleges. The audit was conducted to verify the allowability and accuracy of the amounts reported on AMSNY's Final Expenditure Report for the STEP grant for the period July 1, 2010 through June 30, 2011.</p> <p>The audit found that most of the expenditures claimed in operating the STEP grant were adequately supported and documented. However, out of the \$890,291 claimed, \$9,735 in salary related expenses and \$39,438 in non-salary expenses were not supported.</p>	<p>9 recommendations</p> <p>The recommendations focused on strengthening the policies and procedures pertaining to proper supporting documentation, expenditures, and payroll records.</p> <p><i>AMSNY officials generally agreed with the recommendations and have indicated that they will implement corrective action.</i></p>

Audit Report Abstracts
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October 2013

Office of the State Comptroller		
Audit	Major Finding(s)	Recommendation/Response
Islip Union Free School District Financial Condition 2013M-213 10th Judicial District	District officials were found to have taken appropriate action to manage the District's financial condition.	There are no recommendations in this audit report.
Mount Sinai Union Free School District Financial Management 2013M-227 10th Judicial District	District officials consistently over-estimated expenditures over the past five years, which resulted in operating surpluses totaling \$7.1 million. Although the Board appropriated unexpended surplus funds each year (exceeding \$14 million over a five-year period) to help finance the ensuing year's operations, District officials actually used less than \$1 million for District operations. As a result, the District's unexpended surplus funds routinely exceeded the amount allowed by statute and District taxpayers paid more than necessary to sustain District operations.	4 recommendations The report's recommendations focused primarily on strengthening policies and procedures regarding budgeting practices and the use of unexpended fund balance. <i>District officials generally agreed with the recommendations and have indicated that they plan to initiate corrective action as soon as possible.</i>
Ramapo Central School District Fund Balance and Employee Compensation 2013M-189 9th Judicial District	The District has accumulated more than \$16.3 million in excess funds that could be used to benefit taxpayers by paying one-time expenditures, funding necessary reserves, reducing debt and/or reducing the tax levy, in accordance with applicable statutory requirements. The excess balance is about 13 percent of the subsequent year's budget, which is much higher than the statutory 4 percent limit allowed for school districts. The District circumvented the 4 percent limit by inappropriately encumbering approximately \$8.7 million in	4 recommendations The report's recommendations focused primarily on strengthening policies and procedures regarding the use of fund balance and employee compensation. <i>District officials felt their</i>

**Audit Report Abstracts
Regents Subcommittee on Audits/Budget and Finance
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	<p>purchase orders and tax certioraris for 2012 fiscal year. In addition, the District had \$2.3 million in excess funds in the unemployment and insurance reserves.</p> <p>The report also focused on employee compensation. Nine of the 40 employees tested started their employment at steps higher than the entry level. In total, those nine employees cost about \$95,000 more a year than if they started at the entry level. District officials were unable to provide any documentation supporting why those nine employees received an initial salary at those particular levels.</p>	<p><i>unexpended surplus is in full compliance with the statutory limit and their encumbrances and reserve balances were justifiable and appropriate. They indicated that the recommendations are already in place.</i></p>
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**November 2013
Regents Audits/Budget and Finance Committee Meeting
Audit Follow-up**

The following is an overview of the efforts the department makes to ensure that audit findings are addressed and submitted corrective action plans are adhered to.

Office of Audit Services (OAS) maintains a database dedicated to the review of corrective action plans (CAPs) submitted by school districts, BOCES, charter schools and other organizations in response to completed audits. OAS reviews the CAPs and identifies potential audits for follow-up based on the following criteria:

- The audit disallowance is more than \$10M.
- Data reliability audit shows significant inaccuracy (i.e., more than 50% of the data reported is unsupported by district records).
- Significant control deficiencies related to financial practices (i.e., lack of segregation of duties and board oversight resulting in the misuse of funds).
- Final audit reports and CAPs are shared with applicable Department program areas for future action as needed, including requests for follow-up.

OAS prepares and submits an annual Audit Plan for Audits/Budget and Finance Committee review. Based on the number of planned audits, availability of staff resources, and identified audits necessitating a follow-up review, OAS conducts follow-up audits accordingly. In 2012, OAS conducted two follow-up audits.