



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: January 6, 2014

AUTHORIZATION(S):

J. B. G. Jr.
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 10 audits this month. (Attachments I & II)

Audits are provided as follows:

Office of Audit Services

Elmira City School District
Jamestown City School District

Office of the State Comptroller

Cleveland Hill Union Free School District
Middleburgh Central School District
New Suffolk Common School District
Quogue Union Free School District
Schoharie Central School District
Tapestry Charter School
West Buffalo Charter School
West Valley 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
January 2014
Review of Audits Presented
Department's Internal Audit Workgroup**

Newly Presented Audits

We reviewed the 10 audits that are being presented to the Committee this month. Two of the audits were issued by the Office of Audit Services (OAS) and eight were issued by the Office of the State Comptroller (OSC). Eight audits were of school districts and two were of charter schools.

The findings were in the areas of budgeting, financial reporting, payroll, claims processing, procurement, cash, Race to the Top Grant and student enrollment and billing.

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 reviewed all the audits and identified the audit of the New Suffolk Common School District pertaining to selected financial operations to bring to the Committee's attention for informational purposes. In addition, we also note the RTTT audits of Elmira City and Jamestown City School Districts by OAS.

January 2014
Regents Audits/Budget and Finance Committee Meeting
Summary of Audits Requiring Specific Attention

Audit Summary	Recommendation/Response
<p>New Suffolk Common School District – Selected Financial Operations</p> <ul style="list-style-type: none"> • OSC Audit • Retained excessive fund balance, exceeding statutory limit from 2007-08 through 2011-12 by as much as \$228,694. • Included unofficial reserves in the budget – tuition reserve and teacher personnel reserve, not authorized by Education Law or General Municipal Law • Tax levied was in excess of what was needed for budgeted expenditures. This excess is not included in the budget presented to the voters. From 2007-08 to 2012-13, a total of \$124,170 was added to the tax levy • Numerous deficiencies with the accounting records and with the performance of Treasurer’s duties. In addition, adequate financial reports were not provided to the Board by the Treasurer • Former Superintendent (August 2005 to 2011-12) was paid as a vendor and not through the payroll system. IRS form 1099 was issued but payment for health and dental insurance 	<p>The report’s recommendations focused on strengthening the policies and procedures regarding the District’s financial operations, budgeting, use of fund balance, Treasurer’s duties, financial reporting, compensation, and claims auditing.</p> <p>District officials generally agreed with the recommendations and plan on implementing corrective action.</p> <p><u>Next Step</u> District officials are required to submit their corrective actions within 90 day of receipt of the report.</p>

<p>premium not reported so as not to reduce Social Security benefits and pension being received. The failure to withhold taxes on earnings could expose the District to Federal and State liability.</p> <ul style="list-style-type: none"> • The Board does not audit claims for payment 	
<p>Elmira City and Jamestown City School Districts Audit of the Race to the Top (RTTT) Grants</p> <ul style="list-style-type: none"> • OAS Audits • The districts claimed expenditures that were not part of the approved budget and disallowed by the audit (\$57,367 total for both) • Elmira did not submit required reports timely • Jamestown did not file a budget amendment despite exceeding its approved budget for certain expenditure codes • Jamestown did not comply with a federal requirement on time and effort reporting 	<p>The audit report’s recommendations focused on strengthening policies and procedures regarding proper reporting of grant expenditures, timely submission of required reports and compliance with federal requirements on time and effort reporting.</p> <p>District officials generally agreed with the recommendations and plan on implementing corrective actions.</p> <p><u>Next Step</u> Districts officials are required to submit their corrective actions within 90 day of receipt of the report. In addition, they are required to file an amendment to reduce claimed cost in the final expenditure report.</p>

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

Audit	Procurement	Claims Processing	Payroll	Cash	Financial Reporting	Budgeting	Other
Office of Audit Services							
* Elmira City School District (footnote 1)							√
* Jamestown City School District (footnote 1)							√
Office of the State Comptroller							
Cleveland Hill Union Free School District					√	√	
Middleburgh Central School District					√	√	
New Suffolk Common School District		√	√	√	√	√	
Quogue Union Free School District					√	√	
Schoharie Central School District						√	
Tapestry Charter School	√						
* West Buffalo Charter School (footnote 2)							√
West Valley Central School District					√	√	
January 2014	1	1	1	1	5	6	3

- 1 Race to the Top (RTTT) Grant
- 2 Student Enrollment and Billing

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>Elmira City School District American Recovery and Reinvestment Act (ARRA) Race to the Top (RTTT) Grant - July 1 2011 – June 30, 2012 SD-0613-13 6th Judicial District</p>	<p>\$56,170 adjustment</p> <p>The District claimed an expenditure of \$56,170 paid to Greater Southern Tier BOCES that was not approved by the Department as part of their budget and is therefore disallowed.</p> <p>The District did not submit their third quarter 1512 Quarterly Report for the period ending March 31, 2012 or their Annual Program Report due at the time of the filing of their Final Expenditure Report for the year ended June 30, 2012.</p>	<p>3 recommendations</p> <p>The recommendations focused on strengthening the policies and procedures pertaining to proper reporting of expenditures, and timely reporting.</p> <p><i>District officials agreed with the recommendations and has indicated they will implement corrective action.</i></p>
<p>Jamestown City School District American Recovery and Reinvestment Act (ARRA) Race to the Top (RTTT) Grant - July 1, 2012 – June 30, 2013 SD-0913-01 8th Judicial District</p>	<p>\$1,197 adjustment</p> <p>The District submitted a Final Expenditure Report (FER) that claimed budgeted amounts rather than actual expenditures. The District's accounting records, approved budget, and FER matched in total. However, the amounts claimed in the FER for Purchased Services, Supplies and Materials, Travel, and Employee Benefits did not match the accounting records. In addition, the District exceeded its approved budget for Supplies and Materials and Travel expenses by more than 10 percent and should have filed a Budget Amendment with the Department.</p> <p>The District also paid \$1,197 to purchase an online training and testing module for Teacher Evaluations. However, this expenditure was not approved as part of the budget.</p> <p>The Personnel Activity Reports for three employees who worked on multiple cost objectives did not account for the</p>	<p>5 recommendations</p> <p>The reports recommendations focused primarily on strengthening the policies and procedures regarding grant reporting, and documentation of time and effort for employees working on Federal grants.</p> <p><i>District officials generally agreed with the recommendations and plan on implementing corrective action.</i></p>

	entire full-time equivalent (FTE) and were not prepared on a monthly basis.	
Office of the State Comptroller		
Audit	Major Finding(s)	Recommendation/Response
Cleveland Hill Union Free School District Financial Condition 2013M-272 8th Judicial District	For the three year period ending June 30, 2013, District officials have consistently overestimated expenditures by a total of \$12.2 million and increased the tax levy by 5.4 percent. These budgeting practices generated approximately \$2.4 million in operating surpluses, which caused unexpended surplus funds to exceed statutory limits in each of the past three years. For example, at June 30, 2013, unexpended surplus funds exceeded statutory limits by approximately \$3.2 million. Although District officials appropriated approximately \$3 million in each of the last three fiscal years to reduce the tax levy, the Board overestimated expenditures by between \$3 million and \$4 million annually, thus negating any benefit the appropriation of fund balance would have in reducing fund balance or the property tax levy. District officials also used some of the annual operating surpluses to fund nine reserves that, as of June 30, 2013, totaled \$4.6 million. Six of the nine reserves are over-funded.	4 recommendations The report's recommendations focused primarily on strengthening policies and procedures regarding budgeting and the use of reserves. <i>District officials generally agreed with the recommendations, and have indicated that they plan to initiate corrective action as soon as possible.</i>
Middleburgh Central School District Financial Condition 2013M-206 3rd Judicial District	Although the Board and District management believed they were effectively managing the District's financial condition, budgeting decisions over the last several years have made the District susceptible to fiscal stress. Even though District officials had knowingly generated surpluses in the past to prepare for economic difficulties, they have come to rely on using surplus funds to finance operations, and are close to depleting those funds. Additionally, District officials did not update the District's long-term financial plan to address how they will fund the budgets without the continued use of fund balance.	2 recommendations The report's recommendations focused primarily on strengthening the policies and procedures regarding budgeting and the use of fund balance. <i>District officials generally agreed with the recommendations and have indicated that they plan on implementing corrective action.</i>

<p>New Suffolk Common School District Selected Financial operations 2013M-197 10th Judicial District</p>	<p>The District retained excessive fund balance, exceeding the permitted statutory limit, in each of the fiscal years 2007-08 through 2011-12 by as much as \$228,694. Although the Board President stated the unexpended surplus fund balance was for cash flow purposes, none of the adopted budgets included a planned balance as is permitted by law.</p> <p>District officials have not properly budgeted for tuition and teacher personnel salaries. Instead, they improperly included appropriations from unofficial reserves in their budgets. Even with the addition of the improper tuition reserve appropriations, District officials still under-budgeted tuition appropriations for fiscal years 2008-09 through 2011-12 by \$151,113. Conversely, with the inclusion of the improper teacher salaries reserve appropriation, teacher salaries were over-budgeted by \$88,554 in the 2011-12 fiscal year. Currently, there is no authority under General Municipal or Education Law allowing the creation of a reserve for tuition or teacher salaries.</p> <p>District officials consistently levied more than was needed for budgeted appropriations between fiscal years 2007-08 through 2012-13 because they included an additional amount to the tax levy for "General Fund Balance" which was not needed to fund appropriations. This has resulted in a total increased tax levy amount of at least \$124,170 for the five-year period.</p> <p>The Board did not provide guidance or a detailed written job description to guide the Treasurer in the proper performance of her job. The audit found numerous deficiencies with the District's accounting records and with the performance of the Treasurer's duties. As a result, the Board does not have</p>	<p>18 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures regarding the District's financial operations, budgeting, the use of fund balance, the Treasurer's duties, financial reporting, compensation of the former Superintendent, and claims auditing.</p> <p><i>District officials generally agreed with the recommendations and plan on implementing corrective action.</i></p>
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	<p>complete and accurate financial information to make informed decisions about the District's finances.</p> <p>The Board compensated the former Superintendent \$28,687 in the 2011-12 fiscal year through vendor disbursements as if he were an independent contractor rather than through payroll. This included an extra \$2,167 which was not provided for in his contract. The failure to withhold taxes on these earnings could expose the District to liability from Federal and State tax authorities.</p> <p>Finally, the audit found that the Board does not audit the claims nor do they receive an abstract of claims for approval. The test of 50 claims totaling \$42,592 found that none were audited by the Board. The audit also found that 31 claims, totaling \$24,766, were not approved by the individuals who initiated the purchases or by any other District official, did not have sufficient support to enable a proper audit and/or did not appear to be for valid District purposes. Without properly auditing and approving all claims before payment, the Board does not have adequate assurance that the purchases were properly approved or that the goods and services were actually received. In addition, by routinely paying claims without the Board's audit, there is an increased risk of the misuse or diversion of District funds.</p>	
<p>Quogue Union Free School District Financial Condition and Cash Receipts 2013M-274 10th Judicial District</p>	<p>District officials have consistently overestimated expenditures and appropriated unexpended surplus funds that they did not use. Therefore, the District's unexpended surplus funds exceeded the statutory 4 percent limit during the 2011-12 and 2012-13 fiscal years and tax levies may have been higher than necessary. Additionally, the District had four established reserves that totaled approximately \$969,000 at June 30, 2013 and had no formal plan on funding or use of these</p>	<p>5 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures regarding budgeting and the use of fund balance.</p>

	<p>reserves. The District's retirement reserves balance of \$310,000 was five times what the District spent during the 2013 fiscal year.</p> <p>The District has a well-designed set of control procedures that can provide reasonable assurance that thefts of cash receipts will be prevented or detected. The audit reviewed the District's procedures for the collection of cash receipts for milk sales and non-resident tuition, totaling \$169,576, and found no exceptions.</p>	<p><i>District officials agreed with the recommendations and indicated that they planned to take corrective action.</i></p>
<p>Schoharie Central School District Financial Condition 2013M-263 3rd Judicial District</p>	<p>Although the Board adopted budgets with revenues that were realistic and supported, expenditures were consistently and significantly overestimated. As a result the District spent nearly \$8 million less than budgeted over a five-year period. In addition, although the Board appropriated on average approximately \$1.1 million of unexpended surplus funds each year – totaling more than \$5.4 million over five years – to help finance the ensuing year's operations, the District actually used only \$676,000 of the fund balance during this period. Therefore, the District's actual available fund balance at the close of fiscal year 2012-13 was \$2.1 million, or 10 percent of the 2013-14 budget.</p>	<p>3 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures regarding budgeting.</p> <p><i>District officials generally agreed with the recommendations, and plans on implementing corrective action.</i></p>
<p>Tapestry Charter School Internal Controls over Credit and Debit Cards 2013M-271 8th Judicial District</p>	<p>While the School's credit card policy adequately addresses many control procedures, certain additional controls should be considered. The policy does not define how many credit card accounts may be established, limit the number of credit cards to be issued, or address to whom the cards may be issued. The policy also does not define credit limits. The audit also found that the School did not ensure that all employees who were issued a credit card signed the policy to acknowledge their awareness of the procedures, as required by the policy. The audit found that, of the 12 employees issued credit cards, only seven had signed a copy of the</p>	<p>8 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures regarding the use of credit and debit cards.</p> <p><i>School officials generally agreed with the report's recommendations and indicated that they plan to</i></p>

	<p>policy. In addition, School officials did not ensure that credit card accounts were established in a manner that complied with the policy provision prohibiting cash advances. The School also has a debit card policy, which provides appropriate guidance regarding proper usage and pre-approval requirements.</p>	<p><i>implement corrective action.</i></p>
<p>West Buffalo Charter School Student Enrollment and Billing 2013M-314 8th Judicial District</p>	<p>The School had 138 students enrolled as of June 30, 2013, virtually all of which were from the Buffalo City School District except for two students from two other districts. For the 2012-13 fiscal year, the auditors compared billings totaling approximately \$1.7 million for the Buffalo City School District to revenues received and reported and did not identify any discrepancies. The auditors also reviewed the relevant factors included in the calculation for the final billing to the Buffalo City School District and identified a minor billing error due to the incorrect inclusion of certain days in the School's calculation.</p> <p>In addition, the auditors also selected a judgmental sample of 27 students to determine if billings to the districts of residence were accurate and supported. The auditors found that the School billed the correct school districts of residence, and, overall, the School maintained adequate supporting documentation regarding students' residency. However, the auditors found nine students' files did not contain the required proof of residency, three instances where no date was on the address verification document or the date was several years old, and one instance where the address did not agree with the address on the billing record.</p> <p>Although the results of the testing did not disclose significant errors or irregularities, the errors found occurred because the School has not fully developed its residence verification</p>	<p>2 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures regarding student enrollment and billing of the school districts of residence.</p> <p><i>School officials agreed with the report findings, and plan on implementing corrective action.</i></p>

	process.	
West Valley Central School District Financial Management 2013M-178 8th Judicial District	<p>District officials consistently over-estimated expenditures over the past four years by more than \$3.8 million, which resulted in operating surpluses totaling \$1.3 million. Therefore, the majority of the \$2.4 million in Board-appropriated unexpended surplus funds was not needed to fund District operations. Because the amount of unexpended surplus funds that can be legally retained is limited, each year since 2009 District officials transferred money in excess of this limit to various District reserve funds. As a result, reserves totaled more than \$2.1 million as of June 30, 2013. District officials could not demonstrate a planned need for more than \$1.7 million of the reserves. Officials also did not appropriately use the debt reserve fund, which had a balance of more than \$380,000 as of June 30, 2013. Instead, District officials levied real property taxes and paid debt service with general fund appropriations. By routinely using these practices, District officials have withheld significant funds from productive use, levied unnecessarily high taxes, and compromised the transparency of District finances to taxpayers.</p>	<p>7 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures regarding budgeting and the use of reserves.</p> <p><i>District officials generally agreed with the recommendations and plan to initiate corrective action.</i></p>

