



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 4, 2016
AUTHORIZATION(S): *May Ellen Elin*

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 12 audits this month. (Attachments I & II)

Audits are provided as follows:

Office of the State Comptroller

Altmar-Parish-Williamstown Central School District
Candor Central School District
Finger Lakes United Cerebral Palsy Compliance with the Reimbursable Cost Manual
Hancock Central School District
Jamestown City School District
Little Flower Union Free School District
Lowville Academy and Central School District
New York City Department of Education
Southern Cayuga Central School District
Unity House of Troy Compliance with the Reimbursable Cost Manual
Upstate Cerebral Palsy Compliance with the Reimbursable Cost Manual
Westhampton Beach Union Free 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 and Summary of Audit Findings including Audit Abstracts (Attachments I and II)

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

Newly Presented Audits

The Department's Internal Audit Workgroup reviewed the twelve audits that are being presented to the Committee this month. All twelve audits were issued by the Office of the State Comptroller (OSC). Nine audits were of school districts and three providers of special education services.

The findings were in the areas of capital assets, claims processing, financial reporting, budgeting, art education requirements, Consolidated Fiscal Reporting (CFR) compliance, the school lunch program, and tax certiorari.

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 Internal Audit Workgroup reviewed all the audits and determined that there are no specific audits to bring to the Committee's attention.

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

Audit	Capital Assets	Claims Processing	Financial Reporting	Budgeting	Other
Office of the State Comptroller					
* Altmar-Parish-Williamstown Central School District (footnote 4)			√	√	√
* Candor Central School District (footnote 3)					√
* Finger Lakes United Cerebral Palsy and the State Education Department (footnote 2)					√
* Hancock Central School District (footnote 3)					√
Jamestown City School District			√	√	
Little Flower Union Free School District		√			
Lowville Academy and Central School District	√		√	√	
* New York City Department of Education (footnote 1)					√
Southern Cayuga Central School District	√		√		
* Unity House of Troy and the State Education Department (footnote 2)					√
Upstate Cerebral Palsy and the State Education Department		√			
Westhampton Beach Union Free School District		√			
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- 1 Art Education Requirements
- 2 CFR Compliance
- 3 School Lunch
- 4 Tax Certiorari

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Office of the State Comptroller		
Audit	Major Finding(s)	Recommendation/Response
<p>Altmar-Parish-Williamstown Central School District Financial Condition 2015M-232 5th Judicial District</p>	<p>During the audit period, the Board and District officials did not develop reasonable budgets or effectively manage the District’s financial condition to ensure that the general fund’s unrestricted fund balance was within the statutory limit. Over the last four fiscal years, the District spent nearly \$3 million less than planned and only used \$1.5 million of the over \$4 million of appropriated fund balance that was budgeted to finance operations. As a result, the District’s year-end unrestricted fund balance as a percentage of the next year’s budgetary appropriations averaged about 41 percent over the last four years, which is more than 10 times the statutory limit.</p>	<p>4 recommendations</p> <p>The report's recommendations focused on the District ensuring that the unrestricted fund balance is in compliance with Real Property Tax Law statutory limits; developing a formal plan to reduce unrestricted fund balance that benefits District taxpayers; developing procedures to ensure more realistic budgets are adopted; and reviewing tax certiorari reserve amounts to determine if reserves are reasonable and necessary.</p> <p><i>District officials generally agreed with the report's recommendations and have indicated that they plan to take corrective action.</i></p>
<p>Candor Central School District School Lunch Operations 2015M-173 6th Judicial District</p>	<p>The District is serving nutritious meals to its students. However, the meals cost more to prepare than the revenue generated by the meal sales. In addition, the District’s productivity level for meals per labor hour (MPLH) is below the industry average. Although the industry average may not be achievable given certain District conditions, District officials can use the industry average to monitor operations and work</p>	<p>2 recommendations</p> <p>The report's recommendations focused on the District closely monitoring cafeteria operational costs and, where possible, implementing plans to control the</p>

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	<p>towards increasing productivity.</p>	<p>costs of food, materials, labor, and benefits; and monitoring the MPLH and considering taking measures to move toward the industry standard for MPLH.</p> <p><i>District officials generally agreed with the report's recommendations and indicated that they have initiated corrective action.</i></p>
<p>Finger Lakes United Cerebral Palsy and the State Education Department Compliance with the Reimbursable Cost Manual 2015-S-10 7th Judicial District</p>	<p>\$15,454 adjustment (.5% of \$3.4 million reported in reimbursable costs on the CFR for the year audited)</p> <p>For the fiscal year ended June 30, 2013, the audit identified \$15,454 in costs charged to the Programs that did not comply with the Department's requirements for reimbursement. These costs included \$13,570 in other than personal service (OTPS) costs and \$1,884 in personal service costs that were either ineligible expenses, not reasonable or necessary, not properly documented, or incorrectly reported on the CFR.</p>	<p>3 recommendations</p> <p>It is recommended that the Department review the disallowances identified by the audit and make the necessary adjustments to the School's reimbursement rates; and remind School officials of the pertinent guidelines related to the deficiencies identified. It is also recommended that School officials ensure that costs reported on annual CFRs fully comply with the Department's requirements.</p> <p><i>Department officials agreed with the recommendations and will implement adjustments as</i></p>

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		<i>appropriate.</i>
Hancock Central School District School Lunch Operations 2015M-176 6th Judicial District	The District is serving nutritious meals to its students. However, the meals cost more to prepare than the revenue generated by the meal sales. In addition, the District's productivity level for meals per labor hour (MPLH) is below the industry averages. Although the industry averages may not be achievable given certain District conditions, District officials can use the industry averages to monitor operations and work toward increasing productivity.	2 recommendations The report's recommendations focused on District officials closely monitoring cafeteria operational costs and, where possible, implementing plans to control costs; and monitoring the MPLH and consider taking measures to move toward the industry standard for MPLH. <i>District officials generally agreed with the report's recommendations and indicated that they have initiated corrective action.</i>
Jamestown City School District Financial Condition 2015M-120 8th Judicial District	District officials' overreliance on fund balance to finance operations resulted in planned operating deficits during the audit period and reduced unrestricted fund balance to approximately \$200,000 (0.2 percent of the ensuing year's appropriations) as of June 30, 2014. Given the size of the District's operations, fund balance has been reduced to a dangerously low level. Although the Board can designate fund balance to help finance the next year's budget, it should ensure that the level of unrestricted fund balance remaining is	4 recommendations The report's recommendations focused on the Board developing and adopting a budget in which recurring expenditures are funded by recurring revenues; developing and adopting a fund balance policy that establishes an adequate

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	<p>sufficient to provide adequate cash flow and address unforeseen circumstances, such as unanticipated expenditures or revenue shortfalls.</p> <p>The District budgeted to appropriate \$2.2 million of fund balance and \$800,000 of reserves in the 2014-15 budget. It is projected that the District will incur a \$2.2 million operating deficit using \$1.4 million of fund balance and \$800,000 from reserves. Because the District plans to appropriate \$1 million in fund balance to finance the 2015-16 budget, there will be no unrestricted fund balance remaining as of June 30, 2015.</p> <p>The District also lacks a multiyear financial plan for its operations and capital needs. Without a well-designed plan, it is difficult for the Board to make timely and informed decisions about the District's programs and operations.</p>	<p>amount of unrestricted fund balance to be maintained; ensuring that its members discuss the use of reserve funds in relation to adopted budgets and clearly communicate decisions to District taxpayers; and developing and updating a multiyear financial plan for a three to five-year period that is sustainable.</p> <p><i>District officials generally agreed with the report's recommendations and plan to initiate corrective action.</i></p>
<p>Little Flower Union Free School District Tuition 2015M-233 10th Judicial District</p>	<p>The District has contracts with 39 of 43 home school districts or counties stating the District will bill tuition monthly and that payment is due within either 30 or 60 days. Because it does not have a contract with four school districts or counties, disputes over payment terms or the District's entitlement to amounts billed could occur. The audit reviewed all 82 invoices totaling \$1,169,707 for September 2014 and March 2015 and determined that the District billed all of these amounts in a timely manner. In addition, 65 invoices (79 percent) totaling \$1,051,780 were paid within 60 days; all but one of the invoices, totaling \$9,325, had been paid by June 30. District officials explained that payments are often delayed at the beginning of the school year while contracts are being</p>	<p>2 recommendations</p> <p>The report's recommendations focused primarily on District officials ensuring the District has a written agreement including specific payment terms with all home school districts and counties; and continuing efforts to collect all past-due amounts billed.</p> <p><i>District officials generally agreed with the report's recommendations</i></p>

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	negotiated.	<i>and indicated that they plan to initiate corrective action.</i>
<p>Lowville Academy and Central School District Financial Condition 2015M-220 5th Judicial District</p>	<p>The Board and District officials did not manage fund balance in accordance with statute. Over the last four years, District officials budgeted to use approximately \$7.35 million of fund balance to finance District operations. However, primarily because of unrealistic appropriation estimates (overestimating expenditures), they did not use any of the appropriated fund balance during this period. The District’s unassigned fund balance more than doubled from \$5.3 million at the end of 2010-11 to \$10.8 million at the end of 2013-14 year. The unassigned fund balance as a percentage of the next year’s budgeted appropriations increased from 21 percent in 2010-11 to 42.6 percent in 2013-14, which is nearly \$9.8 million over the 4 percent limit allowed by Real Property Tax Law.</p>	<p>5 recommendations</p> <p>The report's recommendations focused on Board officials ensuring the amount of unassigned fund balance is in compliance with statutory limits; adopting budgets with realistic estimated expenditures and fund balance available for appropriation; developing comprehensive multiyear financial and capital plans; reviewing reserve funds at least annually to determine if the amounts reserved are necessary and reasonable; and developing a formal plan for the use of reserves.</p> <p><i>District officials generally agreed with the report's recommendations and indicated they planned to initiate corrective action.</i></p>
<p>New York City Department of Education Compliance</p>	<p>The initial audit report, which was issued February 28, 2014, examined whether NYCDOE students (in the 2011 graduating class) completed an Arts Education curriculum that complied</p>	<p>There were no recommendations with this follow-up audit because both of the prior recommendations</p>

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<p>with State Arts Education Requirements 2015-F-11 1st, 2nd, 11th, 12th, 13th Judicial Districts</p>	<p>with the Department’s regulations. The audit found that between 142 and 197 of 310 sampled students (46 to 64 percent) did not meet one or more of the Department’s Arts Education requirements. Consequently, students who did not receive Arts Education in compliance with the Department’s regulations might not readily develop the creativity, leadership, and communication skills that research attributes to Arts Education. In addition, the high exception rate the audit found suggested that there was a material risk that students throughout the NYCDOE public high school system might not have obtained a sufficient Arts Education, as otherwise required by the Department.</p> <p>This audit found that NYCDOE officials made significant progress in addressing the issues identified in the initial report.</p>	<p>were implemented.</p>
<p>Southern Cayuga Central School District Financial Management 2015M-224 7th Judicial District</p>	<p>District officials have generally taken appropriate action to manage the District’s financial condition. Although the District generated operating deficits of approximately \$160,000 in fiscal year 2011-12 and approximately \$375,000 in 2012-13, they were largely planned. District officials also implemented multiple cost savings actions that aided in improving the District’s financial condition and resulted in operating surpluses of approximately \$70,000 for 2013-14 and \$380,000 for 2014-15. The District’s fund balance increased by 20 percent in 2014-15, which improved its financial condition and ability to plan for the future. However, the District’s multiyear financial plan does not address its debt share or declining enrollment. These factors could adversely</p>	<p>2 recommendations</p> <p>The report's recommendations focused on District officials closely monitoring the District's financial condition and identifying opportunities for cost savings and efficiencies; and developing a multi-year capital and financial plan for a three to five-year period that will address the District's increasing debt.</p>

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	<p>affect the District’s financial condition and, therefore, should be planned for.</p>	<p><i>District officials generally agreed with the report's recommendations and indicated they plan to initiate corrective action.</i></p>
<p>Unity House of Troy and the State Education Department Compliance with the Reimbursable Cost Manual 2014-S-60 3rd Judicial District</p>	<p>\$404,952 adjustment (5.9% of \$6.85 million reported in reimbursable costs on the CFR for the year audited)</p> <p>Of the \$6.85 million Unity House claimed on its CFR for the Programs, the audit identified \$404,952 in costs reported by Unity House that were incorrectly calculated or otherwise did not comply with the RCM requirements for reimbursement. This included \$322,258 in personal service costs and \$82,694 in other than personal service (OTPS) costs. In certain instances, Unity House and the Department previously identified some disallowed costs; such instances were noted in the report.</p>	<p>3 recommendations</p> <p>It is recommended that the Department reviews the disallowances resulting from the audit and adjusts Unity House CFRs and tuition reimbursement rates; and to remind Unity House officials of the pertinent Department guidelines that relate to the deficiencies noted in the report. It is also recommended that Unity House officials ensure that costs reported on annual CFRs fully comply with the Department’s requirements, and communicate with the Department to obtain clarification as needed.</p> <p><i>Department officials agreed with the recommendations and will implement adjustments as appropriate.</i></p>

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<p>Upstate Cerebral Palsy and the State Education Department Compliance with the Reimbursable Cost Manual 2014-S-71 5th Judicial District</p>	<p>\$97,781 adjustment (1.2% of \$7.9 million reported in reimbursable costs on the CFR for the year audited)</p> <p>Upstate Cerebral Palsy (UCP) claimed \$97,781 in non-allowable costs for the year covered by our audit. These costs included \$83,905 in personal service costs consisting of ineligible bonuses, executive compensation above the regional median allowable salary, and non-program-related costs; and \$13,876 in non-personal service costs that were either non-program related, not allowable, or unsupported by proper documentation.</p>	<p>3 recommendations</p> <p>It is recommended that the Department review the disallowances identified in the report and make the necessary adjustments to UCP's reimbursement rates; and remind UCP officials of the pertinent guidelines related to the deficiencies found. It is also recommended to UCP to ensure costs reported fully comply with the Department's requirements and seek clarification when needed.</p> <p><i>Department officials agreed with the recommendations and will implement adjustments as appropriate.</i></p>
<p>Westhampton Beach Union Free School District Claims Processing 2015M-242 10th Judicial District</p>	<p>District officials have established adequate controls over the claims processing function that ensure claims are audited in a timely manner, properly supported and for legitimate District purposes. The Board has adopted policies detailing the claims processing and the purchasing guidelines. Additionally, there are detailed written procedures outlining these activities.</p>	<p>There were no recommendations</p>