



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: December 8, 2014

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 18 audits this month. (Attachments I & II)

Audits are provided as follows:

Office of the State Comptroller

Brewster Central School District
Cincinnatus Central School District
Eldred Central School District
Ellicottville Central School District
Elmira Heights Central School District
Evans-Brant Central School District
General Brown Central School District
Henry Johnson Charter School
Johnsburg Central School District
Lewiston-Porter Central School District
New York State Department of Education Management of General School Funds Follow-up Report
Northport-East Northport Union Free School District
Nyack Union Free School District
Spencer-Van Etten Central School District
Springs Union Free School District
Watervliet City School District
Wayne Central School District
White Plains City 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
December 2014
Review of Audits Presented
Department's Internal Audit Workgroup**

Newly Presented Audits

The Department's Internal Audit Workgroup reviewed the 18 audits that are being presented to the Committee this month. All 18 audits were issued by the Office of the State Comptroller (OSC). Seventeen audits were of school districts and one was an audit of a charter school.

The findings were in the areas of budgeting, financial reporting, reserves, procurement, capital construction, payroll, and travel.

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 *do not believe there are any specific audits to bring to the Committee's attention*. Of the 18 audits there are five districts that are not properly managing fund balance or reserve funds resulting in unexpended surplus funds exceeding the statutory limit of four percent, and five districts experiencing a deteriorating fiscal condition that has depleted available fund balance and reserves to dangerously low levels.

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

Audit	Procurement	Payroll	Financial Reporting	Capital Construction	Budgeting	Other
Office of the State Comptroller						
** Brewster Central School District						
Cincinnati Central School District			√		√	
* Eldred Central School District (footnote 4)					√	√
Ellicottville Central School District	√					
Elmira Heights Central School District					√	
* Evans-Brant Central School District (footnote 7)						√
* General Brown Central School District (footnote 8)					√	√
* Henry Johnson Charter School (footnote 1)						√
Johnsburg Central School District		√				
Lewiston-Porter Central School District					√	
* New York City Department of Education - Management of General School Funds John F. Kennedy Educational Campus (2013-F-32) (footnote 2)						√
Northport-East Northport Union Free School District			√		√	
* Nyack Union Free School District (footnote 6)						√
** Spencer-Van Etten Central School District						
* Springs Union Free School District (footnote 3)			√		√	√
* Watervliet City School District (footnote 5)				√	√	√
Wayne Central School District	√		√		√	
White Plains City School District	√					
December 2014	3	1	4	1	9	8

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| 1 Contract Language Unclear and Unreasonable Fee Structure | 5 Negative Total Fund Balance |
| 2 General School Funds | 6 Reserve Funds |
| 3 Leave Accruals | 7 Travel Expenditures and Reimbursements |
| 4 Low Unexpended Fund Balance and School Lunch Deficits | 8 Unrestricted Fund Balance Deficit |

** No Recommendations

Office of the State Comptroller

Audit	Major Finding(s)	Recommendation/Response
<p>Brewster Central School District Financial Condition 2014M-224 9th Judicial District</p>	<p>District officials have taken appropriate action to manage their financial condition. District officials provided effective financial planning and management by ensuring unrestricted unappropriated fund balance levels are in accordance with statutory requirements, and budget estimates and reserve balance levels are reasonable.</p>	<p>There were no recommendations.</p>
<p>Cincinnati Central School District Fund Balance and Reserves 2014M-191 6th Judicial District</p>	<p>The Board did not effectively manage fund balance and reserves. District budgets from fiscal years 2010-11 through 2012-13 included the planned use of fund balance averaging \$495,000 per year; however, less than \$51,000 was actually used. In addition, the District did not plan for the funding or use of reserves, but instead transferred excess surplus moneys to reserves to avoid exceeding the fund balance statutory limit. Regardless, the District's fund balance exceeded the statutory limit for two out of the last three years. Furthermore, District officials overfunded four of the District's seven reserve funds.</p>	<p>4 recommendations</p> <p>The report's recommendations focused primarily on the Board's adoption of more realistic budgets; keeping unexpended surplus within statutory limits; periodic review of all fund balances; and the development and implementation of a financial plan.</p> <p><i>District officials generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i></p>
<p>Eldred Central School District Financial Condition and Cafeteria Operations 2014M-204 3rd Judicial District</p>	<p>In an effort to reduce unexpended surplus funds to a reasonable level, the Board adopted budgets that limited tax increases by balancing its budgets with appropriations of fund balance. As a result, the District spent \$2.7 million more than it received in revenue, reducing unexpended fund balance by \$2.1 million. District officials have depleted these balances to precariously low amounts. Further, the school food service fund has not been self-sufficient and has required annual transfers from the general fund, averaging \$77,000, in order to keep it solvent. There are control weaknesses found in the</p>	<p>5 recommendations</p> <p>The report's recommendations focused primarily on the Board and District Officials taking steps to decrease expenditures and/or increases in property taxes; and the monitoring of unexpended surplus fund for use of financing sources.</p>

	cafeteria cash collection process which occurred because District Officials have not evaluated the process or provided any oversight.	<i>District officials generally agreed with the recommendations and indicated that they will take corrective action.</i>
Ellicottville Central School District Purchasing 2014M-177 8th Judicial District	The audit selected a sample of 22 vendors, which were paid approximately \$911,000 in total during the audit period of July 01, 2012 - April 10, 2014, to determine if goods or services from these vendors were properly procured in accordance with the District's policies and procedures and applicable statutory requirements. The audit found that the District did not properly procure goods or services from 16 vendors. The audit also found that the District could have saved up to \$1,500 by using a State contract for certain purchases.	4 recommendations The report recommended that the Board annually review and update the purchasing policy; review and update the Business Office Manual; and that the District distribute necessary purchasing and business office manuals to all individuals involved in the purchasing process; as well as ensuring that the purchasing agent maintains appropriate purchasing documents. <i>The District generally agreed with the recommendations and has indicated that they plan to initiate corrective action.</i>
Elmira Heights Central School District Financial Condition 2014M-76 6th Judicial District	While District officials have recently taken proactive measures to manage and improve the District's financial condition, their reliance on fund balance and reserves to finance planned operating deficits during the audit period has depleted available funds to dangerous levels. The District's total fund balance decreased over the past three years from \$5.1 million to \$4.0 million and is expected to continue to decline in the future. For 2013-14, District officials planned another operating deficit, budgeting \$600,000 in appropriated fund	5 recommendations The report's recommendations focused primarily on the Board and District's continued monitoring of financial condition by ensuring structurally balanced future budgets; reducing reliance on appropriated fund balance and

	<p>balance and \$384,560 from reserves as a funding source. It is projected that total fund balance will be \$3.2 million at the end of 2013-14 and the available moneys for funding operations will be exhausted by the end of 2014-15.</p>	<p>reserves; maintaining District's financial stability; evaluating ways to decrease expenditures and increase revenues; and returning money from the unemployment insurance reserve ensuring that future use of funds conform with statute.</p> <p><i>The District generally agreed with the recommendations and has indicated that they plan to initiate corrective action.</i></p>
<p>Evans-Brant Central School District Travel Expenditures and Reimbursements 2014M-194 8th Judicial District</p>	<p>The audit found that the Board and the claims auditor did not ensure that the District only paid for actual expenditures necessarily incurred on official District business and as limited by contract. This resulted in questionable or unsupported travel costs totaling more than \$9,000. Finally, while the Board has established a maximum daily rate for meals to ensure that travel is cost-effective and reasonable, the Board has not established maximum rates for lodging. Had the Board and District officials used the U.S. General Services Administration thresholds for lodging, they could have saved the District approximately \$2,400.</p>	<p>4 recommendations</p> <p>The report's recommendations focused on the Board ensuring compliance with travel, conference, and conference attendance policies; ensuring that the claims auditor only approves travel claims with appropriate documentation; ensuring that District officials expenditures are within contractual limits; and the adoption of per diem lodging rates.</p> <p><i>The District generally agreed with the recommendations and has indicated that they plan to initiate corrective action.</i></p>

<p>General Brown Central School District Financial Condition 2014M-216 5th Judicial District</p>	<p>In recent years, the District has struggled with fiscal challenges. The Board has balanced its adopted budgets with appropriations of fund balance and reserves while limiting tax increases, which has contributed to the District's deteriorating financial condition. As a result, by the end of the 2012-13 fiscal year, the District had approximately \$815,000 remaining in reserves and an unrestricted fund balance deficit of \$435,656.</p> <p>A review of the budget-to-actual results for the 2010-11 through 2012-13 fiscal year showed that District officials adopted realistic budgets and kept expenditures within budgeted appropriations. However, the Board's heavy reliance on appropriated fund balance and reserves on financing sources in the annual budget has resulted in a significant reduction in the District's unrestricted fund balance and reserve balances.</p>	<p>2 recommendations</p> <p>The report's recommendations focused on District official's evaluations to cut costs and increase revenue; as well as considering amounts used for available fund balance and reserves for future budget appropriations and maintaining reasonable amounts of unrestricted fund balance.</p> <p><i>District officials generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i></p>
<p>Henry Johnson Charter School Financial Operations 2014M-214 3rd Judicial District</p>	<p>The School signed a compact agreement with a not-for-profit foundation (Foundation), in December 2012 and then entered into a revised three-year compact agreement with the Foundation in June 2013, which is still current. The revised compact does not describe in detail the services that the foundation will provide. According to the compact, the Foundation "may" provide professional development services, teacher evaluations, external marketing assistance, and financial consulting services.</p> <p>The fee for these services is one percent of total pupil revenue for the 2012-13 fiscal year, one and a half percent of total pupil revenue for the following year, and two percent for the contract's final year. The total fees due to the Foundation for the 2012-13 and 2013-14 fiscal years were \$52,631 and \$80,645, and at the current rate the fee may be more than</p>	<p>3 recommendations</p> <p>The report's recommendations focused primarily on the Board ensuring that contracts related to the Foundation are signed and clearly delineate the nature and extent of services; that contracts have appropriate fee structures; and services from the Foundation are cost effective.</p> <p><i>School officials generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i></p>

	\$107,000 for the final year. The increase in the fee percentage over the course of the compact places an increasing financial burden on the School.	
Johnsburg Central School District Payroll 2014M-174 4th Judicial District	<p>The Board did not establish policies and procedures over payroll timekeeping to ensure that employees' work and leave time was accurately accounted for when implementing a new fingerprint time clock system. Additionally, District officials did not review employees' time records and monitor leave accrual use.</p> <p>The District's new timekeeping system did not adequately and accurately document the time employees worked. Once the District transitioned to using the fingerprint time clock, it resulted in less accountability over timekeeping because it was not used effectively. For example, employees did not consistently use the fingerprint time clock to punch in or out to record the times they reported for and left work or account for missed time clock punches. Due to these deficiencies, the audit could not determine from the time records reviewed if all hourly employees worked their scheduled hours.</p>	<p>5 recommendations</p> <p>The report's recommendations focused on the District developing and implementing policies and procedures related to timekeeping and leave time; ensuring that employees accurately use the timekeeping system to include punching in and/or out; and monitoring and reconciling accrued leave balances.</p> <p><i>The District generally agreed with the recommendations and has indicated that they plan to initiate corrective action.</i></p>
Lewiston-Porter Central School District Financial Condition 2014M-202 8th Judicial District	<p>The District's continued reliance on fund balance as a financing source in the annual budget has negatively impacted the District's financial condition. The District reported \$260,654 of unrestricted fund balance in the general fund as of June 30, 2013, and it is expected that unrestricted fund balance will further decrease to \$259,345 as of June 30, 2014. Given the size of the District's operations, this balance is well below 1 percent of the ensuing year's budget, which is a dangerously low level.</p> <p>The audit also reviewed the District's 2014-15 budget, which is similar to the 2013-14 budget. The District has not made any significant changes to the budget to improve its financial</p>	<p>3 recommendations</p> <p>The report's recommendations focused primarily on the Board reducing their reliance on fund balance as a source of financing; adopting budgets based upon recurring revenues and expenditures; developing policies and procedures for the reserve fund; and monitoring of operating results.</p>

	<p>position. If the District realizes unfavorable budget variances in the 2014-15 fiscal year, it could exhaust the District's unrestricted fund balance in the general fund and there will be no fund balance available to fund unanticipated costs or maintain cash flow.</p>	<p><i>District Officials generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i></p>
<p>New York City Department of Education Management of General School Funds John F. Kennedy Educational Campus 2013-F-32 1st, 2nd, 11th, 12th, 13th Judicial District</p>	<p>The initial audit, which was issued on May 25, 2010, examined the financial management practices related to general school funds to determine if such funds were managed and administered in accordance with New York City Department of Education (NYCDOE) guidelines and if the NYCDOE had provided adequate oversight of these funds on the Kennedy Campus. The objective of the follow-up was to assess the extent of implementation of the nine recommendations included in the initial report, as of July 9, 2014.</p> <p>The audit found that NYCDOE officials have made progress in addressing the issues identified in the initial report. However, additional improvements are still needed. Of the nine prior recommendations, six have been implemented and three have been partially implemented.</p>	<p>There are no new recommendations.</p>
<p>Northport-East Northport Union Free School District Financial Condition 2014M-164 10th Judicial District</p>	<p>The District reported year-end unrestricted fund balance at levels that essentially complied with the 4 percent fund balance limit for fiscal years 2008-09 through 2012-13. This was accomplished, in part, by appropriating fund balance and funding reserves at year-end. District officials' appropriation of fund balance aggregated to more than \$21 million over the past five years, which should have resulted in planned operating deficits. However, because the District significantly overestimated expenditures in its adopted budgets, it experienced large operating surpluses in four of those five years and did not use the appropriated fund balance included in its budgets.</p>	<p>5 recommendations</p> <p>The report's recommendations focused on the Board's adoption of realistic budgets as to avoid raising property taxes; developing a plan indicating how reserves will be funded; ensuring transparency to voters; and reducing the retirement contribution limit established.</p> <p><i>District officials generally agreed</i></p>

	<p>The District used surplus funds to finance reserves without including those transfers in the budget process. For the five years reviewed, total actual revenues exceeded expenditures by almost \$13 million and only \$5 million of the nearly \$21.5 million of appropriated fund balance was used to finance operations.</p>	<p><i>with the recommendations and have indicated that they plan to initiate corrective action.</i></p>
<p>Nyack Union Free School District Reserve Funds 2014M-185 9th Judicial District</p>	<p>The District's reserve fund policy, adopted in February 2014, provides guidance on how the District establishes, funds and maintains various reserve funds. The District has five general fund reserves with reported balances totaling about \$12.3 million as of March 24, 2014. The District's reserve funds included a capital reserve totaling \$5 million, a tax certiorari reserve totaling \$4.8 million, a retirement contribution reserve totaling \$1.8 million, an unemployment insurance reserve totaling \$604,438 and a liability reserve totaling \$100,000.</p> <p>The audit analyzed these reserves for reasonableness and adherence to statutory requirements and determined that all five were properly established. Funding for four of the five reserves were properly authorized and funded at reasonable levels. However, the District's unemployment insurance reserve appears to be overfunded. The amount in the reserve is enough to pay the District's average unemployment claims for approximately seven years. District officials initiated steps to reduce the reserve's balance when preparing the 2013-14 budget.</p>	<p>1 recommendation</p> <p>The report's recommendations focused primarily on the Board's routine review of the reserve fund balance and ensuring funds are reserved at appropriate levels in accordance with statutory limits.</p> <p><i>The District generally agreed with the recommendations and has indicated that they plan to initiate corrective action.</i></p>
<p>Spencer-Van Etten Central School District Financial Condition 2014M-233 6th Judicial District</p>	<p>District officials properly managed their financial condition. While facing some financial difficulties, the Board has adopted budgets with reasonable estimates, provided sufficient reserves for future expenditures, and reduced expenditures. While real property taxes have increased, the amount of available surplus money has been kept within the statutory</p>	<p>There were no recommendations.</p>

	limit.	
Springs Union Free School District Financial Condition and Leave Accruals 2014M-200 10th Judicial District	<p>The Board needs to improve its oversight of the District's budget and financial condition. In fiscal years 2010-11 through 2012-13, the District budgeted to use an average of \$811,000 of fund balance to fund each ensuing year's expenditures. However, the District did not use these funds as intended because revenues exceeded expenditures by an average of more than \$1.7 million in each of these years. As a result, the District's unrestricted fund balance, totaling \$3.8 million as of June 30, 2013, was 15 percent of the 2013-14 budgeted appropriations; this was almost four times the 4 percent statutory limit.</p> <p>The District's sick leave accrual records are not accurate and are not being periodically reconciled. As a result, District officials have no assurance that employee accrual information is accurate.</p>	<p>5 recommendations</p> <p>The report's recommendations focused on the Board's developing policies and procedures relating to leave accruals; adoption of budgets with realistic expenditure estimations and appropriations of fund balance; developing a plan for the use of excess unrestricted fund balance to benefit taxpayers; and ensuring that unrestricted fund balance is within statutory limits.</p> <p><i>District officials generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i></p>
Watervliet City School District Fiscal Stress 2014M-149 3rd Judicial District	<p>The Board did not adopt realistic, structurally balanced general fund budgets or adequately monitor the financial activity of capital projects to ensure fiscal stability. The District's general funds financial condition has diminished in recent years. In 2011-12 and 2012-13, the Board appropriated significant amounts of fund balance to finance operations, resulting in operating deficits in both years. As a result, the general fund reported an accumulated fund balance deficit of approximately \$275,000 at the end of the 2012-13 fiscal year. Furthermore, the Board and District officials failed to properly monitor capital project activity, expending \$741,000 more than the total amounts authorized for two projects causing a fund balance deficit in the capital</p>	<p>6 recommendations</p> <p>The report's recommendations focused on adoption of balanced budgets for the general fund; development of policies and procedures establishing adequate unrestricted fund balance within legal limits; exploration to cut costs and increase revenues; monitoring capital project activities and reducing its deficit; and developing a plan to address fiscal stress.</p>

	<p>projects fund in that amount. The District will ultimately need to transfer funds from the general fund to eliminate the capital project's deficit and, as of June 30, 2013, the general fund did not have sufficient funds available to do so.</p>	<p><i>District officials generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i></p>
<p>Wayne Central School District Financial Management and Property Purchase and Disposal 2014M-152 7th Judicial District</p>	<p>The purpose of this audit was to follow-up on the recommendations of a prior audit dated March 2013, on Financial Management and to determine whether the District established policies and procedures to ensure property was purchased and disposed of in a legitimate and cost effective manner. The Board and District officials have made limited improvements in budgeting and financial practices in response to the prior audit findings. Of the six previous audit recommendations, one recommendation was implemented, three recommendations were partially implemented and two recommendations were not implemented. The most significant improvement was in the area of reporting encumbrances. The District reduced its reported encumbrances as of June 30, 2013. The audit identified one inappropriate encumbrance totaling \$33,000. Additionally, the District ended the 2012-13 fiscal year with a much smaller operating surplus than in previous years and may report a small operating deficit for 2013-14, but may still use little of its appropriated fund balance. However, District officials continue to, in effect, circumvent the 4 percent fund balance limit by appropriating fund balance in the budgets that will not be used, preparing inaccurate revenue and expenditure budget estimates, levying more real property taxes than necessary and retaining large amounts of taxpayer dollars.</p>	<p>3 recommendations</p> <p>The report's recommendations focused primarily on the Board updating their purchasing policies and procedures for procuring goods and services as well as competitive bidding; audit claims in accordance with Department regulations; and adopting a more comprehensive policy for the sale and disposal of District property.</p> <p><i>District officials generally agreed with the recommendations and have indicated that they have begun to take corrective action.</i></p>
<p>White Plains City School District Procurement of Professional Services</p>	<p>District officials did not always comply with their purchasing policy and procedures when procuring professional services. Therefore, the Board does not have adequate assurance that services were procured in the most economical way and in</p>	<p>2 recommendations</p> <p>The report's recommendations focused primarily on the Board's</p>

<p>2014M-240 9th Judicial District</p>	<p>the best interests of the taxpayers. The audit reviewed the procurement of 20 professional service contracts totaling \$2.4 million during the audit period. The District properly awarded nine professional services contracts. However, District officials did not seek competition for nine professional service contracts totaling \$908,759, and did not have documentation to support why eight of the nine professional service contract providers were chosen. The remaining two professional service vendors provided specialized programs that did not require the use of quotes or an RFP procedure.</p>	<p>continued monitoring of the procurement of professional services to ensure compliance adopted policies and applicable laws; and ensuring that claims are supported with detailed documentation and attached to the vouchers to verify that professional services were actually received.</p> <p><i>District officials generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i></p>
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