



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: February 3, 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)
2. Report on Corrective Action Plans received from previously highlighted audits.
(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 14 audits this month. (Attachments I & II)

Audits are provided as follows:

Office of Audit Services

Rome City School District
Utica City School District

Office of the State Comptroller

Allegheny-Limestone Central School District
Andes Central School District
Canton Central School District
Cassadaga Valley Central School District
Charlotte Valley Central School District
Hampton Bays Union Free School District
Harpursville Central School District
Newfield Central School District
Roosevelt Children's Academy Charter School
South Colonie Central School District
Wainscott Common School District

New York City Office of the Comptroller

Final Audit Report on the New York City Department of Education's Payments to Navigant Consulting, Inc.

2. Report on Corrective Action Plans Received from Previously Highlighted Audits (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)
- Report on Corrective Action Plans Received from Previously Highlighted Audits (Attachment III)

**Regents Committee on Audits/Budget and Finance
February 2014
Review of Audits Presented
Department's Internal Audit Workgroup**

Newly Presented Audits

We reviewed the 14 audits that are being presented to the Committee this month. Two of the audits were issued by the Office of Audit Services (OAS), eleven were issued by the Office of the State Comptroller (OSC) and one by the New York City Office of the Comptroller. Twelve audits were of school districts, one was of a charter school and one of a contractor.

The findings were in the areas of budgeting, financial reporting, payroll, claims processing, procurement, Race to the Top Grant and capital assets.

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*. However, of the eight school district audits that focused on financial condition/management and reserve funds, seven showed the districts are not properly managing fund balance or reserve funds resulting in unexpended surplus funds exceeding the statutory limit of four percent and/or maintaining excessive level of reserve funds. Such findings have become commonplace as districts endeavor to remain fiscally solvent.

The OSC recently released a public fiscal stress monitoring system that will identify school districts that are in fiscal stress as well as those showing susceptibility to fiscal stress. Such monitoring of the fiscal health of school districts should allow for early actions to prevent these entities from ending up in severe fiscal stress.

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

Audit	Procurement	Capital Assets	Claims Processing	Payroll	Financial Reporting	Budgeting	Other
Office of Audit Services							
* Rome City School District (footnote 1)							√
** Utica City School District (footnote 1)							
Office of the State Comptroller							
Allegany-Limestone Central School District		√				√	
Andes Central School District					√	√	
Canton Central School District						√	
Cassadaga Valley Central School District					√	√	
Charlotte Valley Central School District					√	√	
Hampton Bays Union Free School District			√				
Harpursville Central School District					√	√	
Newfield Central School District					√	√	
Roosevelt Children's Academy Charter School	√		√			√	
South Colonie Central School District				√			
Wainscott Common School District					√	√	
New York City Office of the Comptroller							
** New York City Department of Education (footnote 2)							
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- 1 Race to the Top (RTTT) Grant
2 Contractor's adherence to agreement
** 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>Rome City School District American Recovery and Reinvestment Act (ARRA) Race to the Top (RTTT) Grant - July 1, 2012 through June 30, 2013 SD-1013-04 5th Judicial District</p>	<p>\$1,918 adjustment</p> <p>The audit found that the District paid stipends to employees to attend a certain RTTT training event of which four were paid but did not actually attend. One of the four did not attend any training and three went to a non-RTTT training event. The total amount paid to these four individuals is \$1,918 and is disallowed.</p> <p>The District submitted an FS-25 to request funds for reimbursement of expenditures incurred for the period ending March 31, 2013. However, the claim included an amount anticipated for the following month which is not allowable under RTTT awards. Department controls prevented the payment of anticipated costs and the District was only reimbursed for actual expenditures to date.</p> <p>The District did not submit their 1512 Quarterly Reports for the periods ending December 31, 2012; March 31, 2013; and June 30, 2013.</p> <p>The District reported having hired a distinguished educator to work on its Network Team. However, the analysis of professional salaries did not show the funding of this position. Salaries were only claimed for substitutes to cover for teachers attending training and for District staff to attend training beyond their normal working hours.</p>	<p>5 recommendations</p> <p>The recommendations focused on strengthening the policies and procedures pertaining to proper reporting of expenditures, and timely reporting.</p> <p><i>The District agreed with the recommendations and has indicated they will implement corrective action.</i></p>

<p>Utica City School District American Recovery and Reinvestment Act (ARRA) - Race to the Top (RTTT) Grant - July 1, 2011 through June 30, 2012 SD-0813-02 5th Judicial District</p>	<p>The District generally reported costs that are allowable and accurate in the final expenditure report. In addition, the audit assessed that the District complied with pertinent federal requirements.</p>	<p>There were no recommendations in the report.</p>
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Office of the State Comptroller

Audit	Major Finding(s)	Recommendation/Response
<p>Allegany-Limestone Central School District Reserve Funds and Fixed Assets 2013M-228 8th Judicial District</p>	<p>Over the past five fiscal years, District officials added approximately \$1 million to reserves and increased the real property tax levy by approximately 26 percent. Additionally, the Board failed to adopt a formalized plan for reserve funds that included the intent, funding levels, and use of such funds. As of June 30, 2013, the District had more than \$2 million in a debt service reserve that District officials could not associate with any outstanding debt. Additionally, four of the District's six general fund reserves totaling approximately \$1.7 million were not supported by a plan or other documentation validating the amount retained.</p> <p>While the Board adopted an asset policy, it has not updated it to reflect current District processes. The District engaged a third-party asset tracking company to account for the District's fixed assets without any formal control procedures in place for this process. The review of 50 movable assets disclosed discrepancies for 16 of them valued at more than \$11,000. The review of nine assets included on the disposed asset list disclosed that five of them valued at \$6,000 were still in use at the District.</p>	<p>6 recommendations</p> <p>The report's recommendations focused primarily on strengthening policies and procedures regarding the use of reserves and movable fixed assets.</p> <p><i>District officials generally agreed with the findings in the report, and they plan on implementing corrective action.</i></p>

<p>Andes Central School District Financial Management 2013M-250 6th Judicial District</p>	<p>District officials are not properly managing the District's fund balance levels. They have appropriated funds they have not used in four of the last five fiscal years (2008-09 to 2012-13), because the District consistently spent less than what was budgeted. Although District officials used \$205,000 of appropriated fund balance in 2011-12, their unreserved fund balance increased to almost 20 percent of the following year's budgeted appropriations. While the 2012-13 unreserved fund balance dropped slightly, it is still well above the amount allowed by law. In addition, two reserves have excess balances totaling \$415,000, based on their intended use. Also, during this time, real property taxes have increased from \$2.5 million in 2009 to \$2.7 million in 2013, and the District has issued \$1.5 million in additional debt.</p>	<p>3 recommendations</p> <p>The report's recommendations focused primarily on strengthening policies and procedures regarding budgeting and the use of fund balance.</p> <p><i>District officials generally agreed with the findings in the report, and they plan on implementing corrective action.</i></p>
<p>Canton Central School District Financial Condition 2013M-287 4th Judicial District</p>	<p>Budget-to-actual results were reviewed for fiscal years 2009-10 through 2011-12 and found that District officials adopted realistic budgets and kept expenditures within budgeted appropriations. The Board reviewed budget-to-actual comparison reports throughout the year to monitor the budget and approved budget transfers at the monthly Board meetings. However, the heavy reliance on appropriated fund balance as a financing source in the annual budgets has resulted in a significant reduction in the District's unexpended surplus funds.</p>	<p>1 recommendation</p> <p>The report's recommendation focused primarily on strengthening the policies and procedures regarding the use of fund balance to fund operations.</p> <p><i>District officials agreed with the findings.</i></p>
<p>Cassadaga Valley Central School District Financial Condition 2013M-249 8th Judicial District</p>	<p>District officials consistently overestimated expenditures in the general fund by a total of \$6.3 million over the five-year period ending June 30, 2013. Therefore, the District did not need to use the \$5.8 million of fund balance that the Board appropriated as a funding source in the general fund budgets for the same five-year period. Instead, the District has experienced operating surpluses in the general fund for four of the last five years, totaling \$1,100,434, leading to unexpended surplus fund balance exceeding the statutory</p>	<p>4 recommendations</p> <p>The report's recommendations focused primarily on strengthening policies and procedures regarding budgeting and the use of fund balance and reserves.</p> <p><i>District officials generally agreed</i></p>

	<p>limit of 4 percent of the ensuing year's operations for the last two fiscal years. Also, District officials could not demonstrate a planned need for more than \$876,000 in reserves.</p>	<p><i>with the findings in the report, and they plan on implementing corrective action.</i></p>
<p>Charlotte Valley Central School District Financial Condition 2013M-232 6th Judicial District</p>	<p>District officials believed they were effectively managing the District's finances. However, the Superintendent and the Board did not develop reasonable budget estimates. For fiscal years ending 2007-08 through 2011-12, the Board adopted budgets that over-estimated expenditures by over \$2 million, with over-estimating the students with disabilities account comprising almost 68 percent of that variance. The District's revenue estimates were under-estimated by nearly \$723,000 for the same time period. These estimates ranged from as little as \$9,000 in 2010-11 to \$269,000 in 2011-12.</p> <p>The Board's adopted budgets also included appropriating fund balance totaling more than \$2 million during the 2007-08 to 2011-12 fiscal years. However, only \$420,000 of this fund balance was actually needed due to the operating surpluses in 2008-09 and 2009-10 (totaling \$1,155,011). This resulted in the unexpended surplus fund balance to be more than the 4 percent statutory limit, at 10.61 percent in 2007-08, 5.11 percent in 2008-09, 12.04 percent in 2009-10 and 4.05 percent in 2011-12. However, for the 2010-11 year, the fund balance was under the threshold at 3.95 percent.</p>	<p>3 recommendations</p> <p>The report's recommendations focused primarily on strengthening policies and procedures regarding budgeting and the use of fund balance.</p> <p><i>District officials stated that while they did not agree with the findings in the report as they are in dire financial straits, they plan on implementing corrective action.</i></p>
<p>Hampton Bays Union Free School District Claims Processing 2013M-333 10th Judicial District</p>	<p>Even though the claims auditor appeared to be properly auditing claims, the purchasing agent did not always formally approve all purchases prior to ordering goods and services. A total of 25 claims, totaling \$154,909, were selected and reviewed to determine if purchase orders were issued prior to the ordering of the goods and services and if claims were for legitimate District purposes and audited prior to payment. Despite minor deficiencies that were discussed with District</p>	<p>1 recommendation</p> <p>The report's recommendation focused primarily on strengthening policies and procedures regarding confirming purchase orders.</p> <p><i>District officials generally agreed</i></p>

	officials, the claims tested did appear to be for proper District purposes and audited prior to payment. However, purchase orders for 10 of the 25 claims, totaling \$50,859, were confirming purchase orders which were prepared after the invoices were received from the vendor.	<i>with the recommendation and have indicated that they plan to initiate corrective action.</i>
Harpersville Central School District Financial Management 2013M-261 6th Judicial District	The Board and District officials did not ensure that fund balances were reasonable. For the five-year period ending June 30, 2013, District officials planned to use \$4.2 million of fund balance to finance District operations; however, they only used \$1.27 million of appropriated fund balance during this period. As a result, the unexpended surplus funds exceeded the statutory maximum of four percent of the ensuing year's budget during this period, ranging from 21 percent to 33 percent. In addition, the District has four reserve funds with excessive balances.	3 recommendations The report's recommendations focused primarily on strengthening policies and procedures regarding budgeting and the use of fund balance. <i>The District officials generally agreed with the recommendations, and have indicated that they plan to initiate corrective action.</i>
Newfield Central School District Financial Condition 2013M-238 6th Judicial District	District officials did not ensure reasonable levels of fund balance were maintained. While their budgets included the use of surplus and reserved fund balances to finance operations, the positive variances between their budgets and actual results never necessitated the full use of the surplus funds. Instead, the amount of surplus increased the District's total fund balance by \$573,000 over a five-year period. Some of these surplus funds were transferred to various reserves resulting in three reserves having more money than is likely necessary. Additionally, the District reported liabilities that were more than \$1.3 million over the actual obligations for the same period. The adjustment of the overfunded reserves and correction of the overstated liabilities would increase the available fund balance by more than \$1.9 million. This would cause the fund balance to be well over the amount allowed by law.	4 recommendations The report's recommendations focused primarily on strengthening policies and procedures regarding budgeting, reporting of current liabilities, and the use of fund balance. <i>District officials generally agreed with the findings in the report. They plan on implementing corrective action, along with having developed a five-year financial plan.</i>

<p>Roosevelt Children's Academy Charter School Selected Financial Operations 2013M-254 10th Judicial District</p>	<p>The Board did not adopt realistic budgets or routinely monitor financial operations. School officials created an expenditure code entitled “building fund” and budgeted \$4.8 million in the 2010-11 fiscal year, \$5.2 million in 2011-12 and \$2.6 million in 2012-13, even though School officials had no expectation of any outflow of cash for such expenses. This created the appearance that there would be no net income for those years. As a result, net income was understated in each of those three years. Additionally, the Board is not monitoring the annual budget and has not established a Budget and Finance Committee as required by School by-laws. As a result, the Board is unable to effectively monitor the School’s financial operations.</p> <p>The School also paid for Board member expenditures that were not authorized by the School’s by-laws or policy. Of \$31,630 in Board expenditures, \$26,444 was not authorized. These expenditures, which included undocumented credit card charges as well as direct reimbursements, were for food, transportation to attend regular Board meetings, lodging, and charges for the Chairman’s cell phone. Four Board members who resided outside of New York State incurred transportation costs. Additionally, the former Chairman was directly reimbursed for an undocumented expenditure, and alcohol was purchased at Board dinners. When Board expenditures are not authorized, appropriate and/or supported by itemized receipts, the School could be paying unnecessary or excessive costs.</p> <p>Finally, the Board did not always seek competition when procuring goods and services, and its procurement policy needs to be improved. The School paid four vendors a total of \$521,197 for significant public work and purchase contracts</p>	<p>8 recommendations</p> <p>The report’s recommendations focused primarily on strengthening the policies and procedures regarding budgeting, reimbursement of Board expenditures, and procurement.</p> <p><i>School officials generally agreed with the recommendations and indicated they have taken, or plan to take, corrective action.</i></p>
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	<p>without fair competition, did not seek competitive price quotes when procuring goods and services totaling \$16,028 and engaged six professional service providers, paid a total of \$478,264, without soliciting competition. When purchases are made without using a competitive purchasing process there is an increased risk that goods and services will not be purchased prudently and at the best price. Further, the School paid an information technology consultant \$118,182 more than the agreement provided and did not have an applicable agreement for paying \$25,713 for security services. Without ensuring that proper agreements are in place and verifying that compensation is correct, School officials are at risk of paying providers more than the Board intended.</p>	
<p>South Colonie Central School District Internal Controls over Timekeeping Procedures 2013M-298 3rd Judicial District</p>	<p>The District communicates payroll procedures by various means, including a written payroll guide, periodic training and occasional email messages. Although the District provides useful information for clerks and supervisors involved in reporting to the payroll office, it does not provide uniform timekeeping procedures. Due to the lack of formal written guidance, the school buildings and functional departments have generally developed their own timekeeping procedures. The result is a lack of uniformity in procedures which may lead to confusion, errors or even timekeeping abuse.</p>	<p>1 recommendation</p> <p>The report's recommendation focused primarily on strengthening the policies and procedures regarding timekeeping.</p> <p><i>District officials generally agreed with the recommendation and have indicated that they plan to initiate corrective action.</i></p>
<p>Wainscott Common School District Financial Condition 2013M-268 10th Judicial District</p>	<p>The Board needs to improve its oversight and management of the District's budget. Over the last five years, District officials consistently underestimated revenues and over-estimated expenditures in the Board-adopted budgets by a total of more than \$1.7 million. Although the Board appropriated unexpended surplus funds each year, for a five-year total exceeding \$3.1 million, to help finance the ensuing year's operations, the District actually used less than \$1.9 million of the appropriated fund balance during this period. As a result,</p>	<p>4 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures regarding financial reporting and the use of fund balance.</p> <p><i>District officials generally agreed</i></p>

	<p>by the 2011-12 fiscal year, the District accumulated unexpended surplus fund balance equivalent to 68 percent of the ensuing year's budget, or 17 times the amount allowed by statute. For the same time period, the District also increased the real property tax levy by more than \$325,000. In addition, the District has not developed a multiyear financial plan that addresses the District's long-term operational needs or the use of unexpended surplus fund balance in a manner that benefits the District taxpayers.</p>	<p><i>with the recommendations and plan on initiating corrective action.</i></p>
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New York City Office of the Comptroller

Audit	Major Finding(s)	Recommendation/Response
<p>New York City Department of Education Final Audit Report on the New York City Department of Education's Payments to Navigant Consulting, Inc. FM13-131AL 1st, 2nd, 11th, 12th, 13th Judicial District</p>	<p>Navigant Consulting, Inc. (Navigant) is a court appointed independent auditor whose assigned responsibility is to calculate the timely implemented court orders related to the New York City Department of Education's (DOE) provision of special education services. The objective of the audit is to determine whether Navigant appropriately billed DOE and performed assigned responsibilities in accordance with the Stipulation that was entered into on December 11, 2007 between DOE, Advocates for Children of New York, and a group of parents attending New York City schools.</p> <p>Navigant appropriately billed the DOE for the services provided and performed its responsibilities as required by the Stipulation.</p>	<p>The report had no recommendations.</p>

**Regents Committee on Audits/Budget and Finance
February 2014**

Summary of Corrective Action Plans Received from Previously Presented Audits

NOTE: The requirement for submission of the corrective action plan (CAP) as per Commissioner's Regulations 170.12 applies to school districts and BOCES.

Auditor	Auditee-Scope	Judicial District# - Regent	Month Presented	Result of CAP review
OAS	Roosevelt – Data Reliability	10 th -Tilles	September	Sufficient
OSC	East Ramapo – Financial Condition	9 th -Phillips	September	Sufficient
OSC	Westchester School for Special Children – Compliance with the Reimbursable Cost Manual	9 th -Phillips	September	Sufficient

East Ramapo's CAP

The corrective action plan indicated that District officials agreed with all the audit recommendations and procedures were put in place to address the fund balance deficit for 2013 and any additional unanticipated shortfall.

Roosevelt's CAP

Roosevelt officials agreed with all the audit recommendations and established new procedures to ensure the accuracy of District's data. For example, a data team was created to periodically review accuracy of data and assignment of cohorts. In addition, student records will also be reviewed to ensure graduation requirements are met and student information in the system are corrected based on audit findings.

Westchester School for Special Children's CAP

As a preschool special education services provider, the Westchester School for Special Children is not required by the Commissioner's Regulations to submit a CAP. However, as a matter of procedure related to the Office of the State Comptrollers (OSC) audits of special education services providers, the Department's special education workgroup reviews the OSC audit report and determines if the provider should be placed on Conditional program approval pending submission of an acceptable CAP. Upon such determination, a letter is sent to the provider requiring submission of the CAP. Westchester School was required to submit a CAP. Upon review of the CAP submitted, the special education workgroup decided that it addressed all the findings in the OSC audit and reinstated Westchester School from Conditional program approval to Full program approval.