THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

TO: The Honorable the Members of the Board of Regents

FROM: Daniel Tworek

COMMITTEE: Subcommittee on Audits
TITLE OF ITEM: Audit Activities
DATE OF SUBMISSION: January 13, 2003
PROPOSED HANDLING: Discussion
RATIONALE FOR ITEM: Enables the Board of Regents to review audits.
STRATEGIC GOAL: 5
AUTHORIZATION(S):

SUMMARY:

This month's agenda includes ten audit reports – four issued by the Office of Audit Services and six by the Office of the State Comptroller. Representatives from these offices as well as SED program staff will be present to answer any questions you may have. In reviewing these reports, certain policy issues or concerns may come to mind, which you may wish to discuss. Given the very limited time available, staff will not make presentations on the audits. Please come to the meeting armed with your questions.

The following materials are attached.

- Roadmap
- Minutes of October Meeting (Attachment I)
- Audit Report Abstracts (Attachment II)
- Audit Reports

REGENTS SUBCOMMITTEE ON AUDITS MEETING ROADMAP	**DATE:** **February 11, 2003** **TIME:** **12:10-1:15 pm** **ROOM:** **To Be Determined**		
TOPIC	**OUTCOME**	**WHO**	**MINUTES**
Opening Remarks	Greetings	Regent Chapey	2
Review Agenda/Minutes (Attachment I)	Approval	Sheldon	1
Audit Report Abstracts (Attachment II)	Field Questions	SED/OSC Staff	60
Next Session	Discussion	Sheldon	2

Attachment I

MEETING OF THE REGENTS SUBCOMMITTEE ON AUDITS

Thursday October 3, 2002

Subcommittee Members in Attendance:

Regent Geraldine D. Chapey, Chair
Regent James C. Dawson, Vice Chair
Regent Joseph E. Bowman
Regent Arnold B. Gardner
Regent Harry Phillips, 3rd

Discussion Items

Regent Chapey opened the meeting by commending Subcommittee members and Department staff for the increasing visibility of the work of the Subcommittee.

Audits

Office of Audit Services (OAS) staff were present to answer any of the Regents questions on the following audits.

- Nassau Suffolk Services for the Autistic, Inc., The Martin C. Barell School (SE-1298-1)
- Orange-Ulster BOCES (BOC-0999-3)
- Otego-Unadilla Central School District (SD-1100-3)
- Whitestone School For Child Development (CA-0302-8)
- East River Child Development Center Preschool Program (CA-0302-4)

Staff informed the members that future audit abstracts will be provided to all members of the Board of Regents. In addition, each audit will be identified on the abstract by judicial district.

Previous Meeting Minutes

The members of the Subcommittee voted to accept the minutes of the prior (September 13, 2002) meeting.

School Districts and Fiscal Indicators

OAS staff presented an overview of the process used to monitor school districts' finances and identify school districts with indications of fiscal stress. Regent Dawson asked that a brochure be prepared with the intent of providing it to school board members.

Tom Sheldon informed the members of the Subcommittee that the list of 286 districts with operating deficits is going to be released as a result of a Freedom of Information Law request. The list will be released to all members of the Board of Regents, in advance, as soon as next week (10/7- 10/11).

A staff member from the Office of Elementary, Middle, Secondary and Continuing Education briefly described the range of potential actions that are being considered to inform the public and board members of the importance of districts providing opportunities for increased student performance within an environment of fiscal responsibility.

Tom Sheldon reminded all that the next meeting of the Subcommittee will not be until February 2003. Staff will transmit any relevant material in the interim.

Attachment II

Audit Report Abstracts
Regents Subcommittee on Audits
February 11, 2003

Office of Audit Services		
Audit	**Major Finding**	**Recommendations/Response**
Ontario-Seneca-Wayne-Yates BOCES BOC-0600-8 **7th Judicial District**	**$38,768 adjustment** The audit found that BOCES Report Card data were reasonably accurate. Some attendance lists, which support the number of professional staff served, were missing. EPE contact hours were overstated by 45,794 hours, which resulted in the BOCES receiving $201,039 in excess EPE funds. The Department had already recovered $162,271 as a prior period adjustment resulting in a net adjustment of $38,768 for the period audited. Opportunities exist for the BOCES to improve management processes pertaining to safeguarding assets, segregating duties, reconciling bank accounts, and instituting compensating controls. The BOCES has implemented or otherwise satisfied 9 of the 14 recommendations contained in the prior audit report, which was issued on February 13, 1998. The remaining 5 recommendations were partially implemented.	**5 recommendations** The report recommends the BOCES ensure that all professional staff are included in Professional Development Statistics on the BOCES Report Card. The report also recommends that the BOCES improve documentation of non-traditional EPE programs, claim only eligible students for contact hours, and ensure all non-traditional EPE material is approved. The report also recommends improvement in management controls. *Ontario-Seneca-Wayne-Yates BOCES officials agree with the recommendations.* **The Department will recover the excess EPE aid through a reduction in EPE aid in the subsequent year.**

Otsego-Delaware-Schoharie-Greene BOCES **BOC-0301-8** **3rd and 6th Judicial Districts**	**$18,597 adjustment** The audit found a lack of documentation supporting some data included in the BOCES Report Card and the Chapter 602 Report. The BOCES overstated EPE contact hours by 4,335 hours, which resulted in the BOCES receiving $18,597 in excess EPE aid. Opportunities exist to improve management processes pertaining to business management, purchasing and accounting/auditing functions, transaction recording, safeguarding cash receipts, and segregating duties in the finance and payroll areas. The BOCES has implemented only three of the ten recommendations contained in the prior audit report, which was issued on February 9, 1998. Two recommendations were partially implemented and the remaining five were not implemented. The prior audit recommendations not implemented involved implementing procedures to prevent the expenditure of administrative funds at a level greater than the approved budget, improving procedures to ensure that all EPE contact hours are supported and provided only to students 21 years of age or older, improving budget controls by limiting expenditures to current year needs, and implementing a process to periodically verify the documentation that supports payroll.	**25 recommendations** The report recommends the BOCES maintain documentation related to the BOCES Report Card and Chapter 602 Report. The report also recommends maintaining documentation of EPE contact hours, ensuring student folders contain all required data, and that formal policies and procedures be established for the EPE program. The report also contains recommendations to improve management processes and to restructure the organization. *Otsego-Delaware-Schoharie-Greene BOCES officials agree with the recommendations.* **The Department will recover the excess EPE aid through a reduction in EPE aid in the subsequent year.**

Troy City School District **SD-1101-2** **3rd Judicial District**	**$0 adjustment** The audit found that Troy began the 2001-02 school year with a $7.8 million accumulated deficit, and ended the year with a $14.4 million accumulated deficit. One of the primary causes of the deficit was the failure of the Board, Superintendent, and senior administrators to adequately plan and monitor finances. Increasing operating deficits, decreasing fund balance, increasing expenditures without proportionately increasing revenue, and over-reliance on State aid contributed to the crisis. Additional State aid and deficit financing are enabling Troy to begin its recovery from this crisis. However, the deficit financing will place an additional strain on resources for many years to come. Troy used bond proceeds to fund current operations contrary to Local Finance Law. Also, Troy failed to file required reports relating to State building aid, putting itself at risk of not receiving building aid to which it is otherwise entitled and having to pay back the aid that it already received. At the time this report was written, the Department was analyzing the financial impact of Troy not filing the required reports. The report also identified the need to further review the School Lunch Program. The results of that review will be reported separately.	**36 recommendations** The recommendations include very specific steps to improve the fiscal controls within Troy. The recommendations also address methods to develop the expertise to provide appropriate fiscal oversight. *Both Troy's Superintendent and Board agree with the findings in this report. Further, they agree with the recommendations, have already implemented some, and stated intent to implement all.* *In his sections of the response, the Superintendent cites actions taken once officials were aware of the financial condition.* *In its sections of the response, the Board agrees that a primary cause of the current financial crisis was the failure of the Board, the Superintendent, and the senior administrators to adequately plan and monitor finances. The Board agrees that it needs to improve its governance and, in particular, its budget oversight so that the Board may hold itself, the Superintendent,*

		senior administrators, appointed officers, and staff accountable. **As part of the deficit financing arrangement, Troy must submit quarterly fiscal reports to the Office of the State Comptroller for its review and monitoring of current financial conditions.**
CUNY Master Plan Amendment Data Verification SP-1100-2 **1st, 2nd, 11th and 12th Judicial Districts**	**$0 adjustment** The audit found that CUNY has adequate management controls over the collection, compilation, and submission of data needed to measure the effect of the Amendment. The data submitted were, for the most part, accurate. There is opportunity to improve in the documentation of eligibility for opportunity programs, the interface between computer systems, the methods used to calculate persistence rates, assessment test results, and College Now results. The audit also observed that more accurate data could be obtained by collecting it at a later point in the semester.	**6 Opportunities to Improve** The opportunities to improve are in the following areas: • Maintaining documentation of student eligibility for the opportunity programs. • Re-examining the relationships between UAPC data and SIMS data. • The method used to calculate persistence rates. • The method used to present data on students' success in passing assessment tests. • The method used to report results of students in the College Now program. • Reviewing enrollment data prior to inclusion in reports distributed outside of CUNY. *CUNY officials agreed with the observations in the report. They*

		believe that they are constrained by tight time frames in reviewing some of the data prior to submission.
	Office of the State Comptroller	
Compliance with Section 215-c of the State Education Law 2001-S-59	**$0 adjustment** To promote cost-effectiveness in district operations, the State Legislature enacted Section 215-c of the Education Law. As a result of this legislation, the Department was required to: (1) identify current structures, policies, laws and regulations that hinder cost-effectiveness in schools and school districts; (2) identify cost-effective school districts that have demonstrated improvement in resource allocation in all areas related to education; (3) determine cost-effective practices and programs that can be replicated in other school districts; and (4) develop cost-effective ways to recognize and reward academic improvement and success in school districts. To accomplish the activities required by Section 215-c, the Department established the Commissioner's Advisory Sub-Committee on Cost-Effectiveness (Sub-Committee). The Sub-Committee became involved in a number of activities including developing a working definition of cost-effectiveness and developing and testing a tool (the Assessment Model for Cost-Effectiveness). The audit found that the Department initiated some of the actions required by Section 215-c of the Education Law, and took other actions that were consistent with the overall objectives of this legislation. However, the	**4 recommendations** The recommendations suggest having a discrete administrative entity to direct and monitor strategy for complying with Section 215-c requirements, updating a 1996 survey that identified hindrances to cost-effectiveness, assessing the viability of cost-saving practices described in the field test of the model, and formally assessing the results of the Sub-Committee's field test of the Assessment Model for Cost-Effectiveness. The Department disagrees with one recommendation, agrees in part with two, and agrees fully with one. The Department disagrees with the need to update and review a 1996 survey response because the Regents have already taken positions on several relevant policies, laws, and regulations.

	Department did not initiate all the required actions, and generally did not follow through to complete the actions that were initiated. The audit, therefore, concludes that the Department has not accomplished many of the clear directives contained in Section 215-c of the Education Law, such as identifying current policies, laws, and regulations that hinder cost effectiveness.	
Compliance with Section 3602 Subdivision 26 of the State Education Law 2002-S-7	**$0 adjustment** The audit examined school districts' compliance with requirements for providing an instructional technology plan pursuant to Section 3602, Subdivision 26 of the Education Law and the Commissioner's Regulations. The audit also examined the Department's monitoring and oversight of school district efforts to provide instructional technology plans. Of the 130 school districts that were surveyed, 86 did not respond. The audit questions whether all districts have provided the required plans. Of the 44 school districts that responded, 43 indicated that they had a plan. The audit reviewed seven of the plans to determine if the plans addressed the three stated requirements of the Commissioner's Regulation. The plans generally addressed two of the requirements. However, the audit found that none of the plans addressed the requirement for information about the maintenance and repair of (computer) equipment, consistent with the five-year capital assets preservation plan as required by Education Law. The audit also notes the Department has not provided school districts with guidance on what information must	**4 recommendations** The recommendations call for the Department to develop guidelines for school districts to follow, to review technology plans for compliance with the Education Law and Commissioner's Regulations, to develop methods to instruct school districts to prepare adequate technology plans, and to ensure that all school districts submit a technology plan. *Department officials agree with the recommendations.*

	be in instructional technology plans.	
Greenburgh-North Castle Union Free School District Reporting Costs and Enrollments for Tuition Rate-Setting Purposes **2001-S-8** **9th Judicial District**	**$381,157 adjustment** The audit examined the District's reported costs to determine if they are reasonable, necessary, and consistent with the Department's Reimbursable Costs Manual. The audit also examined the District's reported enrollment to determine its accuracy. The audit disallowed $381,157 in reported costs because the District was not in compliance with the Manual. The disallowances included $183,389 in construction renovation costs that were not pre-approved by the Department and were not competitively bid, $83,695 for student and staff uniforms, $33,538 for overnight travel to destinations including Disney World and Sea World, and $29,599 in costs that lacked the required supporting documentation. The audit also noted serious deficiencies in compliance with time and attendance controls, and other internal controls.	**20 recommendations, 4 to the Department and 16 to the District** The recommendations to the Department ask that the Department consider the disallowances and corrected enrollment figures, take appropriate action, and periodically perform field visits to ensure the District's compliance. The recommendations to the District include specific actions to be taken to ensure the submission of accurate cost and enrollment data, and to improve internal controls. **The Department is reviewing the audit and working with the District, the Comptroller's Office, and the Division of the Budget to consider the audit disallowances along with expenditures related to a compliance appeal that was submitted in 1998-99.**
Policies and Practices for Reviewing Applications and Monitoring Operations for Charter Schools **2001-S-22**	**$0 adjustment** The audit addressed the following questions about the State University of New York's Charter Schools Institute (Institute) and the Department's Charter Schools Unit. • Are the policies and practices adequately assuring	**9 recommendations, 5 to both the Department and the Institute, 2 to the Department only, 2 to the Institute only.** The recommendations call for the development of consistent, formal

	that charter school applications meet the requirements of the Act? • Are the monitoring policies and practices adequately assuring that charter schools operate in accordance with charter agreements and applicable laws, rules, and regulations? The Institute and Charter Schools Unit application review policies and practices needed improvement to adequately assure that two key items of required applicant information were properly addressed. The two key items are: the evidence of adequate community support sufficient for and interest in the charter school, sufficient to allow the school to reach its anticipated enrollment; and the assessment of the projected programmatic and fiscal impact of the school on other public and nonpublic schools in the area. Further, the report states that the Charter Schools Unit and the Institute need to improve their practices related to site visits of charter schools.	guidance and criteria for applicants and reviewers to use related to the two areas of required application information. Further, the recommendations suggest the two entities comply with their own internal requirements, provide the applicants with written notifications of deficiencies found during site visits, coordinate monitoring site visit schedules, and provide written approvals for student enrollment that varies from charter agreement thresholds. *Department officials agree with 5 recommendations addressed to the Charter School Unit and partially agree with the 2 other recommendations.*
Public Excess Cost Aid and Public Excess High Cost Aid Follow-up Audit 2002-MS-3	**$0 adjustment** In 1999-00, the Comptroller's Office conducted a statewide audit of 32 districts' data collection and reporting systems to determine the adequacy of school districts' systems of controls, policies and procedures for the accounting and reporting of data to Department for these aid programs. The audit found that school district officials have made limited progress toward improving their data collection and reporting processes. The accuracy of categorization of students has been improved and the Department has	**7 recommendations** The original report contained seven recommendations. The follow-up audit found that school districts have not taken corrective action on developing policies and procedures, providing guidance to staff in calculating FTEs, and obtaining appropriate year-end BOCES reports needed to obtain enrollment and cost information. Improvements have been made in developing internal

	provided some additional guidance. However, significant improvement opportunities remain at many of the school districts contacted.	controls to permit complete and accurate processing of High Cost Aid claims. The results were mixed in retaining documentation to support data submitted to the Department, providing clear guidance to staff in order to appropriately classify the disability weighting categories, and in collecting and tracking students to provide assurance that all eligible students are claimed for aid. **The Department is preparing a policies and procedures manual for Public Excess Cost Aid that will soon be available. The Department also had planned to hire four auditors to conduct on-site reviews of these two programs, but budget constraints prevented this from happening. In addition, the Department has developed an internet-based FTE calculator to assist districts.**
New York City Board of Education – Selected Procurement Practices – Follow-up 2001-F-50 **1st, 2nd, 11th and 12th Judicial District.**	**$0 adjustment** The Board has made some progress in implementing the recommendations contained in the prior report. For example, the Board had taken steps to promote the use of FASTRACK and was monitoring transactions to ensure that the imprest fund was being used properly.	**7 recommendations** The Board has implemented four of the seven recommendations contained in the prior audit. It has not implemented recommendations related to monitoring instances where the general office supplies requirement contract is not being

		used, contracting for parent-initiated transportation costs for special education students, and in establishing system checks to ensure consistency in payee names.