



TO: Audits/Budget and Finance Committee
FROM: Sharon Cates-Williams
SUBJECT: Board of Regents Oversight – Financial Accountability
DATE: December 1, 2011
AUTHORIZATION(S):

SUMMARY

Issues for Discussion

The following topics will be discussed with the Members of the Committee on Audits/Budget and Finance:

1. Review of the Monthly Fiscal Report
2. Completed Audits including the Report of the Internal Audit Workgroup (Attachments I & II)
3. Oral Report on Preliminary Analysis of 2010-11 School District Financial Statements

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. **Review of the Monthly Fiscal Report**
The Committee will be updated on the Department State Operations expenditure and revenue projections.

2. Completed Audits including the Report of the Internal Audit Workgroup
The Committee is being presented with 16 audits this month. (Attachments I & II)

Audits are provided as follows:

Office of Audit Services

Westbury Union Free School District ARRA
Wyandanch Union Free School District ARRA

Office of the State Comptroller

Brighter Choice Charter School for Boys
Center Moriches Union Free School District
Clinton Central School District
Dover Union Free School District
Harrison Central School District
Hudson Falls Central School District
Jordan-Elbridge Central School District
North Shore Central School District
Oakfield-Alabama Central School District
Perry Central School District
Peru Central School District
Webster Central School District

City of New York Office of the Comptroller

Department of Education's Compliance with the Physical Education Regulations
in Elementary Schools
Department of Education's Planning and Allocation of funds to Community-
Based Organizations for the Universal Pre-Kindergarten Program

3. Oral Report on Preliminary Analysis of School Districts 2010-11 Financial Statements
The Office of Audit Services receives and analyzes all school district financial statements. The Committee will be briefed on the preliminary results of the analysis.

Recommendation

For items one (Review of the Monthly Fiscal Report), two (Completed Audits), and three (Oral Report on Preliminary Analysis of School Districts 2010-11 Financial Statements) no further action is recommended.

Timetable for Implementation

N/A

The following materials are attached:

- Report of the Internal Audit Workgroup (Attachment I)
- Summary of Audit Findings Including Audit Abstracts (Attachment II)

**Regents Committee on Audits/Budget and Finance
December 2011
Review of Audits Presented
Department's Internal Audit Workgroup**

Newly Presented Audits

We reviewed the 16 audits that are being presented to the Committee this month. Two of the audits were issued by the Office of Audit Services (OAS), twelve by the Office of the State Comptroller (OSC), and two by the City of New York's Office of the Comptroller. Fifteen of the audits were of school districts including two of the New York City Department of Education. The remaining audit was of a Charter school. That audit represents the first of a series of charter school audits being conducted by the Office of the State Comptroller.

The findings were in the areas of information technology, budgeting, procurement, payroll, cash, compliance with ARRA requirements, and the provision of physical education and universal pre-k services.

The Department has issued letters to the 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 identified several of the audits for further review and follow-up. The Office of Educational Management Services will review property tax report card information when received for those districts cited for poor budgeting practices. The property tax report card for 2012-13 will include tax cap information. The audits involving the provisions of physical education and universal pre-k services have been sent to the appropriate program office.

Audit	Procurement	Claims Processing	Payroll	Cash	Financial Reporting	Information Technology	Segregation of Duties	Budgeting	Other
Office of Audit Services									
* Westbury Union Free School District (footnote 1)									√
* Wyandanch Union Free School District (footnote 1)									√
Office of the State Comptroller									
Brighter Choice Charter School For Boys		√							
Center Moriches Union Free School District	√					√		√	
Clinton Central School District					√				
Dover Union Free School District				√		√		√	
* Harrison Central School District (footnote 2)			√						√
Hudson Falls Central School District			√			√		√	
Jordan-Elbridge Central School District						√	√		
North Shore Central School District	√			√		√			
Oakfield-Alabama Central School District				√		√			
Perry Central School District								√	
Peru Central School District								√	
Webster Central School District			√						
New York City Office of the Comptroller									
* New York City Department of Education (footnote 3)									√
* New York City Department of Education (footnote 4)									√
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- 1. American Recovery and Reinvestment Act (ARRA) Funds
- 2. Custodial Operations
- 3. Physical Education Regulations

- 4. Universal Pre-K

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 auditees reminding them of the requirement to submit a corrective action plan.

Office of Audit Services		
Audit	Major Finding(s)	Recommendation/Response
<p>Westbury Union Free School District Use of American Recovery and Reinvestment Act (ARRA) funds awarded for the July, 1 2009 – June 30, 2010 school year. ARRA-0411-28 10th Judicial District</p>	<p>Westbury submitted their first claim for ESF for the 2009-10 school year on December 7, 2009, and claimed \$1,029,559 on line 3 as project cash expenditures to-date. The amount claimed was based on an estimate and not actual expenditures. The amount of the actual expenditures as of the date when the FS-25 was signed could not be determined; however, Department control systems limited the payment to \$908,791 which was 70 percent of the approved budget.</p> <p>The District did not post ARRA-ESF expenditures to ARRA cost centers until March 31, 2010, nine months after the start of the grant period. The District had a process in place to certify time and effort for employees. However, the personnel activity reports for one employee who worked on multiple cost objectives were not prepared at least monthly to coincide with one or more pay periods as required by A-87.</p> <p>The District's cash management policy does not adequately address compliance with federal requirements that include a process for minimizing time elapsing between receipt and disbursement of funds and remitting interest earned on federal funds in excess of \$100 annually. Their guidelines state that in the unlikely event funds are received in excess of expenditures, the federal requirement for minimizing the time elapsing between receipt and disbursement of funds must be recognized. It does not give a process for how this requirement will be addressed or that this requirement is in effect for all funds, not just those exceeding costs. Their guidelines also do not provide a process for calculating or remitting interest earned.</p>	<p>4 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the District's use of ARRA funds.</p> <p><i>The District agreed with the recommendations and has implemented corrective action.</i></p>

	<p>However, the analysis of revenue received and expenditures incurred for all federal funds during the 2009-10 school year showed that the District did not earn interest exceeding \$100 for that period because all funds are held in a non-interest earning account</p>	
<p>Wyandanch Union Free School District Use of American Recovery and Reinvestment Act (ARRA) funds awarded for the July, 1 2009 – June 30, 2010 school year. ARRA-0211-25 10th Judicial District</p>	<p>It was determined that the District deducted \$580 from one employee's ARRA-ESF payroll amount; however, this expenditure was included in the total amount reported for ARRA-ESF.</p> <p>Although the District had an approved budget of \$275,524 for ARRA-IDEA 611, the District only appropriated \$234,195 to that fund. Consequently, the unencumbered balance for ARRA-IDEA 611 in the District's accounting system inaccurately appeared as negative \$41,324.</p> <p>Further, on December 24, 2009, the Federal Department of Education issued Guidance for Grantees and Auditors on the State Fiscal Stabilization Fund Program which states that an entity that receives SFSF funds must maintain records that separately track and account for those funds. The District claimed salaries and benefits in their SFSF Final Expenditure Report. However, the benefit portion of what was reported was not posted to the SFSF account codes.</p> <p>The District also paid one employee in part from ARRA-IDEA 611 and from the general fund. The personnel activity report for this employee was for July 1, 2009 through June 30, 2010 and was signed April 1, 2011 by the principal/supervisor. Personnel activity reports for this employee were not prepared at least monthly to coincide with one or more pay periods, did not account for the total activity for which the employee was compensated, and were not signed by the</p>	<p>8 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the District's use of ARRA funds.</p> <p><i>The District has not yet responded to the report.</i></p>

	<p>employee as required by A-87.</p> <p>Finally, the District did have a process for minimizing time elapsing between receipt and disbursement of funds, but did not have a process to address the remittance of any interest earned annually in excess of \$100 on federal funds.</p>	
Office of the State Comptroller		
Audit	Major Finding(s)	Recommendation/Response
<p>Brighter Choice Charter School For Boys Financial Operations 2011M-168 3rd Judicial District</p>	<p>The School paid claims totaling \$329,017 before they were audited. The failure to audit claims prior to payment resulted in the School overpaying two vendors by \$8,319, and it also increases the risk that the School could pay for goods that are not received, services that are not rendered, and claims that are not legitimate, reasonable, or for proper School purposes. Further, the School paid six claims totaling \$85,215, of 51 claims examined, later than the 60-day time period that its purchasing policy required claims to be paid within. For example, the School paid a \$15,462 invoice for health insurance 93 days after the invoice was dated. It is important for School officials to ensure that claims are approved and paid by the due date to avoid late fees and to take advantage of any discounts offered for timely payment of claims.</p>	<p>2 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the processing of claims and resident school district buildings.</p> <p><i>The School officials agreed with the recommendations and have indicated that they will implement corrective action.</i></p>
<p>Center Moriches Union Free School District Internal Controls Over Selected Financial Activities 2011M-140 10th Judicial District</p>	<p>During the 2009-10 fiscal year, the District's purchasing agent routinely approved purchases without available appropriations, and the Superintendent did not make budget transfers throughout the year or submit them to the Board for approval, as required. Instead, District officials waited until June 30, 2010 to make \$3.1 million in budget transfers; these transfers included correcting 75 budget line items that had been over-expended by a total of \$2.6 million throughout the year. While the Board received monthly budget status reports throughout the year, Board members did not address negative balances in budget line items. In addition, the</p>	<p>9 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to purchasing, budget transfers, and information technology.</p> <p><i>District officials agreed with the recommendations and have indicated that they will implement</i></p>

	<p>purchasing agent did not ensure that the District solicited price quotes for four of the 10 purchases, totaling \$8,461, as required by the Board-adopted policy and procedures.</p> <p>Finally, the District does not have comprehensive IT policies and written procedures in place that adequately address all major areas of IT operations and inform employees on how computers should be used.</p>	<p><i>corrective action.</i></p>
<p>Clinton Central School District Financial Condition 2011M-133 5th Judicial District</p>	<p>District officials financed construction and legal costs associated with a capital project by recording improper inter-fund loans to the capital project fund. As a result, available fund balance was consistently overstated. Because the capital project fund did not have the financial resources to repay more than \$1 million inter-fund loans, we calculated that the reported fund balance of \$1.5 million at June 30, 2010 was actually about \$497,000.</p> <p>Also, officials have annually issued revenue anticipation notes (RANs) to finance District operations. The District currently lacks the fiscal resources to properly comply with the statutory requirements for issuing RANs and still pay District bills.</p>	<p>3 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the District's financial condition.</p> <p><i>The District agreed with the recommendations and has indicated that they will implement corrective action.</i></p>
<p>Dover Union Free School District Internal Controls Over Selected Financial Operations 2011M-55 9th Judicial District</p>	<p>District officials prepared and presented general fund budgets that consistently overestimated appropriations. For the three-year period 2007-08 through 2009-10, District officials overestimated appropriations by a total of \$4.86 million. These budgets resulted in operating surpluses of more than \$1.1 million in 2008-09 and 2009-10. To manage general fund balance levels, officials appropriated fund balance, made transfers of surplus moneys to various reserves, and accumulated other moneys in a Debt Service Reserve. By appropriating fund balance as a financing source and transferring moneys to reserves outside the budget process, District officials were able to keep fund balance within the</p>	<p>18 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to budgeting controls, cafeteria receipts, and information technology.</p> <p><i>District officials agreed with the recommendations and they have indicated that they will implement</i></p>

	<p>legal limit.</p> <p>In addition, the District has weaknesses in internal controls over daily cafeteria register receipts, prepaid moneys, and vending machine receipts. Finally, District officials need to improve internal controls to effectively safeguard the District's computer system and data.</p>	<p><i>corrective action.</i></p>
<p>Harrison Central School District Health Insurance Costs and Custodial Staffing Levels and Overtime Costs 2011M-123 9th Judicial District</p>	<p>The District has been a member of the State-Wide Schools Cooperative Health Plan (SWSCHP) since the inception of the consortium about 25 years ago. However, until May 2009, there was no evidence that District officials considered alternative providers of health insurance benefits who could offer similar or better benefits at a lower or comparable price. While NYS Insurance Law requires municipal cooperative health benefit plans such as SWSCHP to maintain a reserve fund, a review of financial statements for fiscal years 2005-06 through 2009-10 showed that SWSCHP reported fund balances were in excess of the mandated reserves. Excess fund balance increased from \$15.5 million to \$46.3 million, an approximate 198 percentage increase, between 2005-06 and 2009-10. Had District officials monitored SWSCHP's fund balance they could have questioned the increasing fund balance and the need for increasing premium rates. The increasing fund balance could have been used in earlier years to offset premium rate increases. The District's health insurance benefit costs for the last four fiscal years were compared to a similar health insurance benefits plan. Had District officials investigated alternate providers of health insurance benefits, they could have achieved significant cost savings. If District officials had sought competition and changed plans in 2006-07, the District and participants could have saved approximately \$2.9 million during the last four fiscal years. The District could have saved approximately \$2.7</p>	<p>4 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to potential health insurance cost savings, and custodial operations.</p> <p><i>The District agreed with the recommendations and indicated that they will implement corrective action.</i></p>

	<p>million, and employee contributions would have been approximately \$215,000 less.</p> <p>Further, District officials did not use performance measures to effectively and efficiently manage staffing levels or have procedures in place to track overtime by category to effectively manage overtime costs for the Department of Facilities (Department). The Department employs approximately 23 fulltime equivalent (FTE) custodians more than called for by the American School and University (ASU) standards. It is estimated that if the Department's custodial staffing levels were at the ASU standards, the District could potentially save up to \$1.6 million annually in salaries and benefits. In addition, the Department has not identified approximately \$350,000 of custodial overtime by categories such as mandatory, program related, and non-program related. As a result, management's ability to monitor custodial workers' overtime is limited.</p>	
<p>Hudson Falls Central School District Budgeting Practices and Internal Controls Over Selected Financial Activities 2011M-96 4th Judicial District</p>	<p>During the past three fiscal years District officials routinely overestimated appropriations and underestimated revenues even though data was available to help them develop more accurate budget estimates. As a result of these practices, the District generated more than \$5.1 million in operating surpluses over a three-year period. Further, District officials over-funded an employee benefits accrued liability reserve (EBALR) by \$3.7 million. The District's continued practice of retaining fund balance in excess of the amount allowed by law and over-funding its EBALR account resulted in the District levying approximately \$5 million more in taxes than were needed to fund operations for the 2009-10 fiscal year.</p> <p>District officials also need to improve controls over information technology and payroll payments to interim officials.</p>	<p>10 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to budget estimates, operating surpluses, and EBALR.</p> <p><i>The District agreed with the recommendations and indicated that they will implement corrective action.</i></p>

<p>Jordan-Elbridge Central School District Internal Controls Over the Treasury Function 2011M-178 5th Judicial District</p>	<p>District management did not take sufficient action to fully implement our prior audit recommendations concerning the treasurer's duties, and the Board did not effectively monitor management's implementation of corrective action. In response to the prior audit, management formally assessed and revised the treasurer's user rights on the computerized accounting system. However, management did not address other risks that resulted from continuing to assign conflicting job duties to the treasurer such as responsibility for both the custody of cash and preparing bank reconciliations.</p>	<p>2 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the segregation of duties for the treasurer, and user access controls.</p> <p><i>The District agreed with the recommendations and has indicated that they will implement corrective action.</i></p>
<p>North Shore Central School District Internal Controls Over Selected Financial Activities 2011M-162 10th Judicial District</p>	<p>The Board has not adopted written policies addressing electronic banking transactions and District officials have not developed specific written procedures for wire transfers and electronic funds transfers. Of the 43 transfers, 5 transfers totaling \$4,298,702 were not executed in accordance with the District's informal procedures.</p> <p>District officials did not always solicit competition by issuing RFPs when obtaining professional services as prescribed by the District's procurement policy. Fourteen professional service contracts totaling \$667,023 were tested, and it was found that District officials did not request RFPs for 5 contracts totaling \$190,475.</p> <p>Finally, District officials have not implemented comprehensive information technology (IT) policies and procedures to sufficiently assign responsibility for access to the financial software system, and to require the monitoring of remote access activities.</p>	<p>8 recommendations</p> <p>The recommendations focused on strengthening the policies and procedures pertaining to wire transfers, procuring professional services, and information technology.</p> <p><i>District officials agreed with the recommendations and indicated that they will implement corrective action.</i></p>

<p>Oakfield-Alabama Central School District Internal Controls Over Financial Operations - Audit Follow Up 2007M-184-F 8th Judicial District</p>	<p>The initial audit was dated November 30, 2007, and the report identified certain conditions and opportunities for District management's review and consideration.</p> <p>To further the policy of providing assistance to local governments, the District was revisited on September 23, 2011 to review their progress in implementing the recommendations.</p> <p>The recommendations that were partially implemented pertained to the cash disbursement process and financial software training.</p>	<p>Of the ten audit recommendations, eight were fully implemented and two were partially implemented.</p> <p><i>The District agreed with the recommendations and agreed to implement corrective action.</i></p>
<p>Perry Central School District Fund Balance and Reserves 2011M-126 8th Judicial District</p>	<p>The Board and District officials have not properly managed fund balance in accordance with statute. The District has accumulated approximately \$5.5 million in excess fund balance and unnecessary reserves that could be better used for the benefit of taxpayers. Because the Board and District officials routinely overestimated expenditures and underestimated revenues, the District generated operating surpluses totaling more than \$2.7 million over the last five fiscal years. To stay within the legal limit for retaining fund balance, District officials transferred excess fund balance to various reserves at the end of the fiscal year. However, District officials did not disclose their intent to fund reserves during the budget process.</p>	<p>7 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to fund balance.</p> <p><i>The District agreed with the recommendations and indicated that they will implement corrective action.</i></p>
<p>Peru Central School District Budgeting Practices 2011M-159 4th Judicial District</p>	<p>The Board routinely adopted budgets that were realistic and supported for revenues, however expenditures were consistently overestimated. For example, the District's budgeted expenditures were compared to actual results for the last three fiscal years and it was found that the District overestimated expenditures by a total of \$11.4 million.</p> <p>Additionally, during the same three-year period, the District's</p>	<p>2 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to budgeted expenditures and appropriated fund balance.</p>

	<p>budgets included appropriated fund balance totaling \$11,413,441, which should have resulted in operating deficits. In reality, the District's budget resulted in an operating surplus in each of the last three years. Therefore, none of the fund balance that was appropriated was actually used. These budgeting practices occurred even though the District's last three management letters from their independent auditors contained an audit comment to the Board that they over budgeted expenditures and they appropriated fund balance that was not used.</p>	<p><i>The District agreed with the recommendations and indicated that they will implement corrective action.</i></p>
<p>Webster Central School District Controlling Payroll and Overtime Costs 2011M-64 7th Judicial District</p>	<p>There are internal control weaknesses within the District's payroll processing including advance salary payments to most regular employees, which necessitated recovery of \$8,064 from employees who did not work the entire pay period, and circumvention of post-retirement earnings limitation statutes by delaying the payment of \$13,388 in wages to a retiree.</p> <p>District officials also have not established effective policies and procedures to monitor and control overtime costs and to ensure that only necessary overtime hours are incurred. In addition, they have not established policies and procedures for maintaining sufficiently detailed timekeeping records. As a result, District officials do not effectively monitor the use of overtime and the District incurred over \$1.8 million of overtime costs over two fiscal years for which the District did not require written pre-approval, supporting documentation, and verification of time worked.</p> <p>A potential annual cost-savings opportunity of at least \$80,000 was identified, and would be possible if the District better controlled its overtime</p>	<p>8 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to payroll processing, and overtime costs.</p> <p><i>The District agreed with the recommendations and has indicated that they will implement corrective action.</i></p>

New York City Office of the Comptroller

Audit	Major Finding(s)	Recommendation/Response
<p>New York City Department of Education (DOE) Audit Report on the Department of Education's Compliance with the Physical Education Regulations in Elementary Schools MD11-083A 1st, 2nd, 11th, 12th, 13th Judicial District</p> <p>Contract for Excellence</p>	<p>DOE is not in compliance with the Department's Physical Education Regulations for elementary-level students and middle-level students in elementary schools. DOE does not have an overall written physical education plan nor does it monitor schools' compliance with the regulations. Therefore, DOE has no assurance that the students in elementary schools are receiving the minimum required physical education. In fact, the review of a sample of 31 elementary schools found limited evidence that any of the sampled schools were in compliance with the SED physical education requirements for all of its students.</p>	<p>7 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to physical education requirements for elementary students.</p> <p><i>DOE officials agreed with five of the audit's seven recommendations. DOE disagreed with the recommendation to ensure that DOE adequately monitors schools' compliance with physical education requirements, and did not directly address the recommendation to require that principals certify whether students are receiving the minimum required physical education.</i></p>
<p>New York City Department of Education (DOE) Audit Report on the Department of Education's Planning and Allocation of Funds to Community-Based Organizations for the Universal Pre-Kindergarten (UPK)</p>	<p>DOE has not adequately planned for and distributed all funds appropriated by the State for the Pre-Kindergarten program. As a result of DOE's inability to spend all the funds made available to it by the State, \$29 million – which could potentially have been used to place 8,000 additional children in a UPK program – was unused by DOE and reverted to the State in Fiscal Year 2010. During fiscal years 2007-2010, \$133 million of the appropriate balance that was unused by DOE for the UPK program reverted to the State.</p> <p>DOE has not provided adequate evidence that it sufficiently</p>	<p>10 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to Universal Pre-K programs.</p> <p><i>In their response, DOE officials agreed with the nine recommendations and only disagreed with the</i></p>

<p>Program MH11-059A 1st, 2nd, 11th, 12th, 13th Judicial District</p> <p>Contract for Excellence</p>	<p>evaluated demand for UPK services or provided additional UPK services to districts with greater demand.</p> <p>DOE also did not conduct any trend analyses to determine which CBOs have a proven track record and have the ability to fill UPK seats.</p>	<p><i>recommendation that DOE collect waitlists maintained by the CBOs.</i></p>
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