



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

**TO:** Audits/Budget and Finance Committee  
**FROM:** Sharon Cates-Williams *Sharon Cates-Williams*  
**SUBJECT:** Board of Regents Oversight Financial Accountability  
**DATE:** November 26, 2012

**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:

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**

Completed Audits including the Report of the Internal Audit Workgroup  
The Committee is being presented with 9 audits this month. (Attachments II & II)

Audits are provided as follows:

Office of the State Comptroller

Ark Community Charter School

Dundee Central School District  
Fort Plain Central School District  
Global Concepts Charter School  
Hartford Central School District  
Hornell City School District  
Quality of Internal Control Certification  
The New School TAP Audit

City of New York Office of the Comptroller

Letter Report on the Provision of Assistive Technology Devices by the  
Department of Education

**Recommendation**

No action required for 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)

**Regents Committee on Audits/Budget and Finance  
December 2012  
Review of Audits Presented  
Department's Internal Audit Workgroup**

Newly Presented Audits

We reviewed the 9 audits that are being presented to the Committee this month. Eight of the audits were issued by the Office of the State Comptroller (OSC) and one by the Comptroller of the City of New York. The audits were of two charter schools, five school districts, one institution of Higher Education, and one was of a State Education Department function.

The findings were in the areas of procurement, financial reporting, claims processing, information technology, capital construction and internal controls.

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 felt that none of the audits required specific follow up activities by Department staff.

## December 2012 Regents Audits/Budget and Finance Committee Meeting Summary of Audit Findings

Audit	Claims Processing	Financial Reporting	Information Technology	Capital Construction	Transportation Assistance Program (TAP)	Other
<b>Office of the State Comptroller</b>						
Ark Community Charter School			√			
Dundee Central School District		√				
Fort Plain Central School District		√				
* Global Concepts Charter School (footnote 1)						√
Hartford Central School District	√					
Hornell City School District				√		
* State Education Department (footnote 2)						√
The New School TAP Audit					√	
<b>New York City Office of the Comptroller</b>						
New York State Department of Education (DOE) (MG12-077AL)			√			
<b>December 2012</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>2</b>

- 1 High School Building Lease
- 2 Internal Control Certification

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.

<b>Office of the State Comptroller</b>		
<b>Audit</b>	<b>Major Finding(s)</b>	<b>Recommendation/Response</b>
<b>Ark Community Charter School</b> <b>Information Technology</b> <b>2012M-120</b> <b>3rd Judicial District</b>	<p>There were weaknesses found in the internal controls over Information Technology (IT). The Board did not develop a disaster recovery plan to minimize disruption of operations in the event of a catastrophic event.</p> <p>The Board also has not adopted policies and procedures for remote access and server room security.</p>	<p><b>3 recommendations</b></p> <p>It is recommended that the Board develop and adopt a formal, written disaster recovery plan that addresses the range of potential threats to the School's IT system and provides procedural guidance to staff.</p> <p>It is also recommended that the Board develop and adopt policies and procedures for granting and monitoring remote access to the School's computer system.</p> <p><i>The School agreed with the recommendations and indicated that they have implemented corrective action.</i></p>
<b>Dundee Central School District</b> <b>Financial Condition</b> <b>2006M-45</b> <b>7th Judicial District</b>	<p>Over the last three years, District officials have consistently overestimated expenses and increased the tax levy by 8 percent. These budgeting practices generated \$4.5 million in operating surpluses, which caused the accumulated fund balance to exceed the statutory maximum of 4 percent of the ensuing year's budget in the first two years reviewed.</p> <p>To reduce the fund balance and stay within the 4 percent limit, District officials transferred funds to the District's reserves during the 2010-11 fiscal year, causing them to be overfunded by \$3.9 million.</p>	<p><b>4 recommendations</b></p> <p>The recommendations focused on strengthening the policies and procedures pertaining to the financial condition; specifically, realistic budget estimates, and using the surplus fund in a beneficial way for the taxpayers.</p> <p><i>District officials agreed with the</i></p>

		<i>recommendations and indicated that they will implement corrective action.</i>
<b>Fort Plain Central School District Financial Operations 2012M-135 4th Judicial District</b>	<p>The Board did not adequately use excess surplus fund balance or reserves as funding sources. As a result, the Board levied more real property taxes than necessary and retained unexpended surplus funds in excess of the amount allowed by law.</p> <p>To reduce the unassigned fund balance as of June 30, 2009, District officials transferred surplus funds into the retirement contribution reserve and a newly created unemployment insurance reserve. District officials have neither used the money in the reserves, nor do they have a formal plan for its use.</p>	<p><b>3 recommendations</b></p> <p>It was recommended that the District develop realistic expenditure and fund balance estimates for the annual budget. It was also recommended that the District develop a plan for the use of surplus fund balance in a manner that benefits District taxpayers, and to develop a plan for the future funding and use of reserve funds.</p> <p><i>The District agreed with the recommendations and has indicated they will implement corrective action.</i></p>
<b>Global Concepts Charter School High School Building Lease 2012M-114 8th Judicial District</b>	<p>The Board did not demonstrate that it used an appropriate process to ensure it obtained a suitable site at a reasonable cost. School officials did not provide evidence that the Board performed an appropriate cost analysis of the selected site or alternative sites. As a result, it was estimated that the School will pay \$2.3 million more than necessary over the next five years for this school building.</p> <p>The Board also did not contact OGS for a list of State buildings with space available in the area, or the local school district for a list of school buildings available. The School's CEO stated that inquiries were made about two other</p>	<p><b>2 recommendations</b></p> <p>The recommendations focused on strengthening the polices and procedures pertaining to the high school building lease.</p> <p><i>School officials, although they believe the report did not accurately reflect the actual process used to assess available properties, indicated they will</i></p>

	<p>buildings within the City of Lackawanna. However, he could not provide documentation to verify this or to demonstrate that any contact had been made with either property owner. The CEO stated that one of the buildings would have cost the School approximately \$1 million to purchase and the other building did not meet the School's space needs. However, he did not provide any documentation to support what the School's space or other needs were.</p>	<p><i>carefully consider the recommendations.</i></p>
<p><b>Hartford Central School District Internal Controls Over Claims Processing 2012M-134 4th Judicial District</b></p>	<p>Internal control weaknesses were identified in the District's claims processing function, which could lead to errors or irregularities occurring and not being detected. Specifically, the account clerk is distributing checks prior to the Board auditing and approving the claims and warrants.</p> <p>Although testing did not disclose the payment of any inappropriate claims, when internal controls are not adequate, such as the failure to audit and approve all claims before payment is made, the Board cannot be assured that payments made for goods and services represent legitimate and necessary charges to the District.</p>	<p><b>1 recommendation</b></p> <p>It is recommended that the District ensure that no claim against them, other than those allowed by Education Law, is paid prior to audit and approval by the Board.</p> <p><i>District officials agreed with the recommendation and indicated they will implement corrective action.</i></p>
<p><b>Hornell City School District Capital Improvement Project Expenditures 2012M-73 7th Judicial District</b></p>	<p>In March 2008, District voters authorized a capital improvement project (CIP) for additions, reconstruction and renovations of the school buildings at a maximum cost of \$52.7 million. As of June 30, 2011, the District's total CIP expenditures were approximately \$34 million, which was under budget by \$18.7 million. We found the District awarded 37 construction contracts totaling approximately \$29.3 million after seeking competition and that the 249 proposed change orders totaling approximately \$1.3 million were properly approved and all were proper CIP expenditures.</p> <p>However, the District did not seek competition for the approximately \$5.4 million in CIP-related professional</p>	<p><b>3 recommendations</b></p> <p>It is recommended that District officials comply with the District's purchasing policy and award professional services contracts only after soliciting Request For Proposals (RFPs) and document a justifiable reason for not soliciting competition, and that all professional service agreements clearly state the terms of the contract, such as the services to be</p>

	<p>services.</p> <p>The professional service expenditures were not properly supported and fees for construction management services totaling approximately \$255,500 were paid in advance of audit.</p>	<p>provided and the basis for the compensation.</p> <p>It should also be ensured that all invoices for professional services are properly detailed, supported, and verified with contracts prior to payment.</p> <p><i>District officials did not agree with the auditors' finding regarding the process for the procurement of professional services, the terms of the agreement, or the detail required prior to payment. They stated that the RFP process was not required by District policy for the procurement of architectural and construction management services. They also stated that documentation supporting invoices from the construction management company was available for inspection and that no claim was paid prior to claims auditor approval. The NYSED Internal Audit work group referred this to the NYSED Facilities Planning for their assessment of the resolution and recommended next steps that should be taken as a result of the audit.</i></p>
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<p><b>State Education Department Quality of Internal Control Certification - State Education Department 2012-S-45</b></p>	<p>While the Department submitted an Internal Control Certification that exhibited the necessary quality, it was not submitted timely. Department officials stated organizational changes and staffing shortages led to the late submission.</p> <p>The Department responded to all of the questions in the certification and provided the requested level of detail for each of the questions. In each area, Department officials provided sufficient and appropriate documentation supporting the statements made in its Internal Control Certification.</p>	<p><b>1 recommendation</b></p> <p>It is recommended that the Department re-examine priorities to accommodate timely submission of the annual Internal Control Certification.</p> <p><i>The Department agreed with the recommendation and responded by saying they will work to ensure that the submission of the Internal Control Certification is completed in a timely manner.</i></p>
<p><b>The New School Tuition Assistance Program (TAP) Audit 2010-T-5</b></p>	<p><b>\$245,653 adjustment</b></p> <p>Schools receiving TAP payments must certify student eligibility. For the three academic years ended June 30, 2009, The New School certified 2,871 TAP awards totaling nearly \$4.7 million. Based on a sample of 150 TAP awards from that period, as well as other awards outside the three-year period the audit found that The New School was overpaid \$245,653 because school officials incorrectly certified students as eligible for TAP awards. This disallowance represents 5 percent of the total TAP award during the audit period. Incorrect certifications include six students who received awards but did not meet the requirements for maintaining good academic standing; six students who had not been fully credited with their TAP awards; two students who did not meet residency requirements; three students who did not meet the requirements for matriculation; two students whose tuition charges had been over-certified; and one student who did not meet the requirements for full-time attendance.</p>	<p><b>3 recommendations</b></p> <p>It is recommended that the Higher Education Services Corporation (HESC) recover \$245,653, plus applicable interest, from The New School, and also to ensure New School officials comply with requirements relating to certifying accurate tuition amounts, crediting TAP awards, and verifying students' residency.</p> <p>It is also recommended that SED ensure New School officials comply with the State Education Department requirements relating to matriculation, full-time attendance, and good academic</p>

standing cited in this report.

**New York City Office of the Comptroller**

<b>Audit</b>	<b>Major Finding(s)</b>	<b>Recommendation/Response</b>
<b>Letter Report on Assistive Technology Devices by the Department of Education MG12-077AL</b>	<p>The audit objective was to determine whether DOE provided Assisted Technology (AT) devices to students as called for in their Individualized Education Programs (IEPs). Certain control weaknesses severely limited auditors' ability to meet the audit objective.</p> <p>According to DOE's Child Assistance Program (CAP) database, there were a total of 48 students with approved AT devices in the four sampled schools. However, in eight instances (17 percent), the audit found inconsistencies between school records and CAP. Moreover, the audit found the reverse situation with an additional 24 students who were listed on their IEPs or other official DOE records as authorized to receive AT devices but were not identified in CAP as needing them. Auditors also attempted to conduct a test at a private school. At this school as well, the audit found conflicting information between authorized AT services on CAP and the information recorded in school records. As such, the information within CAP could not be used as a reliable source for identifying the population or selecting a sample for our testing purposes.</p>	<p><b>2 recommendations</b></p> <p>The recommendations were to ensure all data pertaining to a student's AT device is accurate, and to maintain a centralized listing of all students approved for AT devices on their ISP.</p> <p><i>DOE officials agreed with the recommendations and have assembled a team of high-level Department managers to address inaccuracies.</i></p>