



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:** June 13, 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:

1. Presentation by the New York State Council of School Superintendents and the New York State Association of School Business Officials on the effect of audits on school districts. (Attachment I)
2. Completed Audits including the Report of the Internal Audit Workgroup (Attachments II & III)

Please note that there will be no Fiscal Report for discussion. As you know, the State implemented a new financial system on April 1. Staff has worked diligently to ensure that the new system is processing payments. We are still working on the overall reporting functionality of the system. We continue to monitor spending through various manual processes; however we are not yet able to prepare a comprehensive fiscal report through May 2012.

**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. Presentation by the New York State Council of School Superintendents (NYCOSS) and the New York State Association of School Business Officials (NYSASBO)

Expanded auditing of school districts has been ongoing for more than five years. Representatives from NYCOSS and NYSASBO will discuss how the school districts are addressing and responding to the various school districts audits. (Attachment I)

2. Completed Audits including the Report of the Internal Audit Workgroup  
The Committee is being presented with 19 audits this month. (Attachments II & III)

Audits are provided as follows:

### Office of Audit Services

Williamsburg Charter High School

### Office of the State Comptroller

Greater Amsterdam School District  
Beacon City School District  
Byram Hills Central School District  
Campbell-Savona Central School District  
Chenango Valley Central School District  
Cost-Effectiveness of BOCES' Non-Instructional Services  
East Moriches Union Free School District  
Elmira City School District  
Fabius-Pompay Central School District  
Fashion Institute of Technology (TAP)  
Liberty Central School District  
Monroe-Woodbury Central School District (2 reports)  
Troy (Enlarged) City School District  
New York City Department of Education  
    Dr. Daniel Hale Williams Middle School  
    Michelangelo Middle School  
    William Alexander Middle School

### City of New York Office of the Comptroller

Champion Learning Center LLC

## **Recommendation**

No action required. For discussion only.

## **Timetable for Implementation**

N/A

The following materials are attached:

- Presentation by the NYSCOSS and NYSASBO (Attachment I)
- Report of the Internal Audit Workgroup (Attachment II)
- Summary of Audit Findings Including Audit Abstracts (Attachment III)

Regents Committee on Audits/Budget and Finance  
Presentation by the New York State Council of School Superintendents and New York  
State School Boards Association  
June 2012

Background

In 2005, two school finance reform bills were passed. One was the five-point plan for school financial accountability which strengthens auditing, training and financial oversight by school district officials and their boards. The second reform bill called for the fiscal audits of all school districts, BOCES and charter schools in the State by the Office of the State Comptroller (OSC) within a five-year period.

New York State Council of School Superintendents

The New York State Council of School Superintendents (NYSCOSS) represents more than 800 school superintendents in the State. NYSCOSS provides professional development opportunities, publications and personal services while advocating for public education and superintendency.

New York State Association of School Business Officials

The New York State Association of School Business Officials (NYSASBO) is an organization of school business managers dedicated to the advancement of education by providing leadership in the practice of school business management and delivering opportunities for professional growth with supporting services and programs.

Robert N. Lowry, Deputy Director, NYSCOSS and Michael J. Borges, Executive Director, NYSASBO will provide some historical prospective on school district audits and update the Board on how school districts are addressing and responding to school districts audits.

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

Newly Presented Audits

We reviewed the 19 audits that are being presented to the Committee this month. One audit was issued by the Office of Audit Services (OAS), 17 by the Office of the State Comptroller (OSC), and 1 by the Office of the New York City Comptroller. The audits were of school districts including three New York City Schools, a charter school, a degree granting college's Tuition Assistance Program (TAP) payments and a provider of supplemental education services.

The findings were in the areas of extraclassroom activity funds, financial reporting, procurement, information technology, segregation of duties, the tuition assistance program, use of federal grant funds, and non-instructional service costs at BOCES.

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 the audit of non-instructional services at BOCES, and the Williamsburg Charter School Audit for further action or review.

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

Audit	Procurement	Financial Reporting	Information Technology	Extracurricular Activity Fund	Segregation of Duties	Tuition Assistance Program (TAP)	Other
<b>Office of Audit Services</b>							
* Williamsburg Charter High School (WCHS) (footnote 1)	√						√
<b>Office of the State Comptroller</b>							
** Beacon City School District							
Byram Hills Central School District			√		√		
** Campbell-Savona Central School District							
** Chenango Valley Central School District							
* Delaware-Chenango-Madison-Otsego BOCES (footnote 2)							√
** East Moriches Union Free School District							
Elmira City School District		√					
** Fabius-Pompey Central School District							
** Greater Amsterdam City School District							
* Hamilton-Fulton-Montgomery BOCES (footnote 2)							√
Higher Education Services Corporation - SUNY Fashion Institute of Technology						√	
** Liberty Central School District							
** Monroe-Woodbury Central School District							
Monroe-Woodbury Central School District		√					
New York City Department of Education (2010-N-9)				√			
New York City Department of Education (2010-N-8)				√			
New York City Department of Education (2010-N-10)				√			
* Oneida-Herkimer-Madison BOCES (footnote 2)							√
* Onondaga-Cortland-Madison BOCES (footnote 2)							√
** Troy City School District							
<b>New York City Office of the Comptroller</b>							
* New York City Department of Education (footnote 3)							√
<b>June 2012</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>6</b>

- 1 Federal Grant Funds
- 2 Non-Instructional Services Costs
- 3 Supplemental Education Services Program (SES)
- \*\* 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 auditees reminding them of the requirement to submit a corrective action plan.

**Office of Audit Services**

Audit	Major Finding(s)	Recommendation/Response
<p><b>Williamsburg Charter High School (WCHS) For the School Year July 1, 2009 through June 30, 2010 CH-1110-01 2nd Judicial District</b></p>	<p><b>\$822,272 adjustment</b></p> <p>The Board did not follow its Charter by entering into a management contract (Agreement) without approval. They also did not set up a required escrow account and were operating a school at an unapproved location.</p> <p>Further, WCHS overpaid its management company and paid contractors for services that should have been provided or paid for by its management company.</p> <p>WCHS also could not support the appropriateness of expenditures paid from federal grant funds.</p> <p>There were many instances of purchases, including credit card purchases, that were not necessary, reasonable, and/or adequately documented. There were other unapproved payments to the former Chief Executive Officer of WCHS.</p> <p>Finally, it was determined that WCHS did not comply with appropriate accounting principles as they relate to fixed assets and inventory.</p>	<p><b>10 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to compliance with the Charter, management fees, contractor services, supported expenditures, and inventory.</p> <p>It is recommended that the \$807,854 received in grants funds, be returned to the Department and that \$14,418 in inappropriate payments be recovered by the School from the former CEO.</p> <p><i>School officials agree in part and respectfully disagree in part with the findings. WCHS requested additional information upon which the findings are based to further support the recommendations above.</i></p>



<b>Office of the State Comptroller</b>		
<b>Audit</b>	<b>Major Finding(s)</b>	<b>Recommendation/Response</b>
<b>Amsterdam (Greater) City School District Budget Review B5-12-15 4th Judicial District</b>	<p>The significant revenue and expenditure estimates in the proposed budget are reasonable.</p> <p>The District's proposed budget included a tax levy that is under the statutory limit by \$212,173. The District's proposed tax levy for 2012-13 is \$21,437,610, and the District's tax levy limit for 2012-13 is \$21,649,783. In adopting the 2012-13 budget, the Board of Education should be mindful of the legal requirement to maintain the tax levy increase to no more than the calculated limit, unless 60 percent of District resident residents vote to exceed this statutory limit.</p>	There are no recommendations.
<b>Beacon City School District 2012-2013 Budget Review B6-12-9 9th Judicial District</b>	The significant revenue and expenditure projections in the proposed budget are reasonable and the District's proposed budget complies with the property tax levy limit set by statute.	There are no recommendations.
<b>Board of Cooperative Educational Services (BOCES) Officials Cost-Effectiveness of BOCES Non-Instructional Services 2011-MS-4 (Delaware-Chenango-Madison-Otsego BOCES (S9-10-52), Hamilton-Fulton-Montgomery BOCES (S9-10-51), Oneida-</b>	<p>Board of Cooperative Education Services' (BOCES) costs for non-instructional services are generally higher than the costs districts would pay if they performed the services themselves. However, when BOCES Aid is factored in, the net costs paid by the districts usually were lower because State taxpayers helped subsidize the services that BOCES provide.</p> <p>Given their ability to partner with multiple districts to provide cost-effective shared services by means of efficiencies and economies of scale, BOCES should be able to help taxpayers save money on school districts' operating and management services costs. However, in 28 of the 47 instances (60 percent) in which costs of non-instructional services could be</p>	<p><b>2 recommendations</b></p> <p><b>(7 recommendations for 4 BOCES)</b></p> <p>The report's recommendations focused primarily on strengthening the policies and procedures pertaining to non-instructional services costs, and Cooperative Service Agreements.</p> <p><i>Officials from Delaware Chenango</i></p>

<p><b>Herkimer-Madison BOCES (S9-10-63), and Onondaga-Cortland-Madison BOCES (S9-10-50))</b>  <b>4th, 5th, 6th Judicial Districts</b></p>	<p>compared, it was determined that BOCES costs were 56 percent higher, on average, than districts' costs for delivering the same services. Only one of the four BOCES – Oneida-Herkimer-Madison (OHM) BOCES - did cost analyses to make sure its costs were competitive.</p> <p>New York State is the only state in the nation that provides incentive aid (BOCES Aid) for broad categories of shared services. Because BOCES Aid is available, districts continue to contract for BOCES higher-cost non-instructional services. In 23 instances in which BOCES services cost more than districts' costs for in-house services, the total BOCES Aid exceeded the total extra costs of BOCES services by more than \$122,000. For 17 of these services (74 percent), BOCES Aid reduced the net cost of BOCES' services to below what districts would pay to provide the services themselves. Therefore, the availability of BOCES Aid does not incentivize BOCES to minimize service costs, or districts to demand less expensive choices. Instead, BOCES Aid shifts the burden of BOCES extra costs from local taxpayers to State taxpayers.</p>	<p><i>Madison BOCES, Hamilton-Fulton-Montgomery BOCES, and Onondaga-Cortland-Madison BOCES responded to the report and generally disagreed with the findings. The basis for the stated disagreement was the methodology used by the auditors and a general belief that BOCES services are cost effective prior to aid.</i></p> <p><i>Oneida Herkimer Madison BOCES elected not to provide a response to the report.</i></p>
<p><b>Byram Hills Central School District Internal Controls Over Selected Financial Activities</b>  <b>2011M-289</b>  <b>9th Judicial District</b></p>	<p>The treasurer, payroll supervisor, and payroll clerk were all allowed greater access rights to the District's financial system than were required to effectively perform their job functions.</p> <p>The treasurer was also the Deputy Purchasing Agent during our audit period. These duties were incompatible. When this was brought to the attention of District officials, they rescinded the treasurer's incompatible title of Deputy Purchasing Agent and reduced her access rights to the system, effective August 11, 2011. Additionally, no irregular or fraudulent purchasing transactions were found, and in general, the claims were properly processed.</p>	<p><b>3 recommendations</b></p> <p>The recommendations focused on strengthening the policies and procedures regarding access rights to the financial software, and the segregation of duties for purchasing.</p> <p><i>District officials agreed with the recommendations and indicated they will implement corrective action.</i></p>

<p><b>Campbell-Savona Central School District 2012-2013 Budget Review B2-12-5 7th Judicial District</b></p>	<p>The significant revenue and expenditure projections in the proposed budget are reasonable and the District's proposed budget complies with the property tax levy limit set by statute.</p>	<p>There are no recommendations.</p>
<p><b>Chenango Valley Central School District 2012-2013 Budget Review B4-12-8 6th Judicial District</b></p>	<p>The significant revenue and expenditure projections in the proposed budget are reasonable and the District's proposed budget complies with the property tax levy limit set by statute.</p>	<p>There were no recommendations.</p>
<p><b>East Moriches Union Free School District 2012-2013 Budget Review B7-12-6 10th Judicial District</b></p>	<p>The significant revenue and expenditure projections in the proposed budget are reasonable and the District's proposed budget complies with the property tax levy limit set by statute.</p>	<p>There were no recommendations.</p>
<p><b>Elmira City School District Financial Management 2011M-196 6th Judicial District</b></p>	<p>Due to significant reductions in Federal and State aid, the District exhausted its unrestricted fund balance during the 2010-11 fiscal year and ended the year with a deficit of (\$629,700). The District included more realistic estimates of revenues and appropriations in the 2011-12 budget than in prior years, and used some reserves to help fund operations. This should result in the fund balance being restored to a positive amount by the end of the 2011-12 fiscal year.</p> <p>Although the District ended the year with a deficit at June 30, 2011 the District had \$2.9 million in excess reserve funds that can be used to help finance the District's operations and</p>	<p><b>3 recommendations</b></p> <p>The recommendations focused on strengthening the policies and procedures pertaining to District revenues and reserve funds.</p> <p><i>The District agreed with the recommendations and has indicated they will implement corrective action.</i></p>

	offset any unexpected fluctuations in revenues and expenditures.	
<b>Fabius-Pompey Central School District 2012-2013 Budget Review B3-12-7 5th Judicial District</b>	The significant revenue and expenditure projections in the proposed budget are reasonable and the District's proposed budget complies with the property tax levy limit set by statute.	There were no recommendations.
<b>Higher Education Services Corporation - SUNY Fashion Institute of Technology Tuition Assistance Program (TAP) 2010-T-4</b>	<p><b>\$598,537 adjustment</b></p> <p>It was determined that the Fashion Institute of Technology (FIT) was overpaid \$598,537 because school officials incorrectly certified students as eligible for Tuition Assistance Program (TAP) awards.</p> <p>Twenty-one students received awards although they did not meet the requirements for full-time attendance. Ten students did not meet the requirements for maintaining good academic standing, one student did not meet the requirements for matriculation, and one student presented insufficient proof of New York State residency.</p>	<p><b>3 recommendations</b></p> <p>It is recommended that the Higher Education Services Corporation (HESC) recover \$598,537 plus applicable interest, from FIT for its incorrect TAP certifications, as well as ensure that FIT officials verify that residency requirements are met for students who are certified as eligible for TAP.</p> <p>It is also recommended that the Department ensures FIT compliance with Department requirements relating to matriculation, full-time attendance, and good academic standing.</p>
<b>Liberty Central School District 2012-2013 Budget Review B4-12-4</b>	<p>The significant revenue and expenditure projections in the proposed budget are reasonable.</p> <p>The District took appropriate action to implement and resolve the recommendations, contained in the budget review report</p>	There were no recommendations.

<b>3rd Judicial District</b>	<p>issued in April 2011, with regard to excessive fund balance.</p> <p>The District's proposed budget complies with the 2 percent tax levy limit set by statute.</p>	
<b>Monroe-Woodbury Central School District 2012-2013 Budget Review B6-12-14 9th Judicial District</b>	<p>The significant revenue and expenditure estimates in the proposed budget are reasonable and the District's proposed budget complies with the property tax law.</p>	<p>There were no recommendations.</p>
<b>Monroe-Woodbury Central School District Financial Activities 2011M-296 9th Judicial District</b>	<p>Over the last three years, District officials have consistently overestimated budgetary appropriations despite data they should have used to develop more accurate estimates. As a result, District officials generated over \$13.6 million in operating surpluses which caused the accumulated fund balance to exceed the statutory maximum of 4 percent of the ensuing year's budget.</p> <p>To reduce the fund balance, District officials transferred money to the District's reserves, which caused the reserves to be overfunded by \$6 million, in effect, circumventing the 4 percent limit. Furthermore, District officials did not include the transfers to the reserves in the budgets, and did not make financial information readily available to the public.</p>	<p><b>6 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the use of the surplus fund, and the funding and the use of District reserve funds.</p> <p><i>District officials disagreed with the findings. The District response interprets the audit as concluding it is in poor financial condition. The audit, in fact, discusses budgeting practices, transparency and compliance with real property tax law.</i></p>
<b>New York City Department of Education Dr. Daniel Hale Williams Middle School:</b>	<p><b>\$8,529 adjustment</b></p> <p>General School Fund (GSF) expenditures in the amount of \$8,529 was used to pay for items that were not related to student activities. Regular tax levy funds should have been</p>	<p><b>5 recommendations</b></p> <p>The report's recommendations focused primarily on strengthening the policies and procedures</p>

<p><b>Management of General School Funds 2010-N-9 1st, 2nd, 11th, 12th, 13th Judicial District</b></p>	<p>used to pay for \$7,921 of these expenditures since the costs directly related to general school operations. These costs included curriculum supplies, postage and replacement seats for the cafeteria. The remaining \$608 was spent on items that were not directly related to the students, including gift cards, staff food and discount club memberships for the principal and his spouse.</p> <p>Daniel Hale officials also did not report accurate GSF account balances to the Department of Education's Bureau of Financial Management and Reporting Banking Unit, resulting in inaccurate reporting of cash and liabilities in the Department's and the City of New York's financial statements.</p>	<p>pertaining to the appropriate use of the GSF. It is recommended that the school principal reimburse the \$190 for discount shopping club memberships, from which he derived personal benefits. It is also recommended that \$8,339 be reimbursed to the GSF account for all of the other funds that were disbursed inappropriately.</p> <p><i>School officials agreed with the recommendations and have indicated they will implement corrective action.</i></p>
<p><b>New York City Department of Education Michelangelo Middle School: Management of General School Funds 2010-N-8 1st, 2nd, 11th, 12th, 13th Judicial District</b></p>	<p><b>\$13,638 adjustment</b></p> <p>The control environment over the General School Funds (GSF) accounts at Michelangelo is weak and, as a result, there was mismanagement and significant deficiencies over the receipt, disbursement and recordkeeping of the GSF. School officials did not maintain complete or accurate accounting records to document GSF activity. Further, required approval processes were routinely ignored, and there is no reliable record of the amount of funds that should be on deposit.</p> <p>For the 2008-09 through 2009-10 school years, the School treasurer recorded receipts for \$128,835 in the accounting records, but only \$126,806 was deposited in the GSF bank account. The treasurer was unable to explain the \$2,029 discrepancy. It is recommended that Department officials investigate this matter.</p>	<p><b>6 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the appropriate use of GSF accounts. It is recommended that the \$2,029 discrepancy between recorded receipts and the amount deposited into the GSF bank account, be investigated, and that the \$13,638 in expenses that were not in support of students, be reimbursed into the GSF account.</p> <p><i>School officials agreed with the recommendations and have indicated they will implement</i></p>

	<p>Support was examined for all 232 payments made between July 2008 and August 2010, and it was determined that \$13,638 was used to pay for items that were not student-related or that should have been paid for with the school's regular tax levy funds. Examples include \$4,329 for school supplies, \$2,096 for staff meals, \$1,809 for postage.</p>	<p><i>corrective action.</i></p>
<p><b>New York City Department of Education William Alexander Middle School: Management of General School Funds 2010-N-10 1st, 2nd, 11th, 12th, 13th Judicial District</b></p>	<p><b>\$16,270 adjustment</b></p> <p>School officials used General School Funds (GSF) to make 99 payments totaling \$58,825, unrelated to student activities. The School's Parent Teacher Association reimbursed \$42,555 of these payments. Of the remaining \$16,270, \$4,614 directly benefited school officials and staff, including cost for staff lunches and holiday parties, gift cards for teachers and a computer that appears to have been used by the principal for personal purposes. The other \$11,656 paid for items that should have been funded through the school's normal budget and tax levy funds.</p> <p>Additionally, three teachers each cashed \$1,000 checks to pay gratuities for student trips and events. However, vendor invoices for some of these events show that gratuities were already included. Since the teachers' payments were made in cash with no receipts, there is no assurance the funds were actually used as reported.</p> <p>Internal controls over cash receipts, disbursements and recordkeeping practices were also generally inadequate, evidencing a poor control environment established by School officials. In many cases, required forms were not used, journal entries were not made, and supporting documentation was not retained. As a result, it is not certain how much money</p>	<p><b>7 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the appropriate use of GSF funds.</p> <p><i>School officials agreed with the recommendations and have indicated they will implement corrective action.</i></p>

	students actually raised during the audit period, nor whether it was all properly deposited.	
<b>Troy City School District 2012-2013 Budget Review B5-12-16 3rd Judicial District</b>	The significant revenue and expenditure estimates in the proposed budget were found to be reasonable and the District's proposed budget complies with the property tax law.	There were no recommendations.

<b>New York City Office of the Comptroller</b>		
<b>Audit</b>	<b>Major Finding(s)</b>	<b>Recommendation/Response</b>
<b>New York City Department of Education Audit Report on Champion Learning Center LLC's Compliance with the Supplemental Education Services Vendor Agreement with the Department of Education MD11-106A 1st, 2nd, 11th, 12th, 13th Judicial District</b>	<b>\$858,779 adjustment</b>  Champion Learning Center has control weaknesses which prevented the company from adequately complying with key provisions of its contract with the Department of Education (DOE) to provide Supplemental Education Services (SES) to eligible students. Champion had inadequate controls in place to ensure that SES was provided and student attendance was processed in accordance with program requirements. These weaknesses were compounded by DOE's own control weaknesses, which led to inadequate monitoring of Champion's compliance with the SES program. Champion billed and was paid by DOE for services for which there was inadequate or questionable support. An analysis of payments made to Champion for school years 2009-2010 and 2010-2011 identified a total of about \$858,779 in questionable payments that should be investigated and, where warranted, recouped.	<b>13 recommendations</b>  The report's recommendations focused on strengthening the policies and procedures pertaining to SES requirements and eligibility for students, NCLB contracts, attendance, and SEPs.  DOE and Champion officials agreed with the audit recommendations addressed to their respective entities.



	<p>Champion was also not in compliance with the provision of the No Child Left Behind (NCLB) contract requiring all SES providers to offer tutoring services only during non-school hours. In addition, there were a number of isolated instances where Champion reported that it provided services to students at atypical times (between midnight and 5:00 AM).</p> <p>Finally, Champion did not consistently obtain the required signatures before processing student attendance for reimbursement and did not ensure that the attendance information it certified was adequately supported by attendance sheets. Champion also did not always create and share Student Education Plans (SEPs) or progress reports with parents in a timely manner.</p>	
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