



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
SUBJECT: Board of Regents Oversight Financial Accountability
DATE: September 26, 2012

AUTHORIZATION(S):

John 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. Proposed Audit Initiatives – Office of Audit Services 2012-2013 Audit Plan (Attachment I)
2. Completed Audits including the Report of the Internal Audit Workgroup (Attachments II & III)

Reason(s) for Consideration

Update on Activities

Proposed Handling

Discussion and Guidance

Procedural History

The information is provided to assist the Committee in carrying out its oversight responsibilities.

Background Information

1. Proposed Audit Initiatives – The Committee is being briefed on several proposed audit initiatives for the Office of Audit Services. (Attachment I)
2. Completed Audits including the Report of the Internal Audit Workgroup
The Committee is being presented with 5 audits this month. (Attachments II & III)

Audits are provided as follows:

Office of the State Comptroller

Achievement Academy Charter School
Fort Ann Central School District
Green Island Union Free School District
Madison-Oneida BOCES
Pocantico Hills Central School District

Recommendation

Guidance and input sought for the proposed audit initiatives, No action required for presentation of audits.

Timetable for Implementation

N/A

The following materials are attached:

- Areas Recommended for Audit (2012-2013) (Attachment I)
- Report of the Internal Audit Workgroup (Attachment II)
- Summary of Audit Findings Including Audit Abstracts (Attachment III)

Areas Recommended for Audit Based on Expected Staffing November 2012 – October 2013

Audits of School Districts

- Race to the Top– Audits will examine the reliability of expenditure data that has been submitted by districts for expenses incurred in implementing approved scope of work plan and activity level budget.
- School Improvement Grants – Audits will continue on expenditures incurred in implementing School Improvement Grant activities. The Big 5 school districts have received this funding beginning with the 2010-11. The audits will focus on the compliance with grant requirements and allowable use of these funds.
- Annual Professional Performance Review (APPR) – Audits will examine district compliance with the terms of the review procedures that have been approved by the Department.
- Test Security – An audit will examine districts control over the security of examinations.

Audits of Special Education Providers

- OAS will coordinate with the Office of the State Comptroller, NYSED Office of Special Education and the Rate Setting Unit to identify providers for audit. Audits will be conducted to verify the accuracy of the Consolidated Fiscal Report and compliance with the Reimbursable Cost Manual.

Non-profit Recipients of Federal Funds

- Recent audits conducted by the Office of the State Comptroller have identified several non-profit sub-recipients of federal funds that lacked the accounting systems to appropriately account for the funds. These audits have led to significant disallowances of federal funds and questioning the oversight ability of the Department. A series of audits will be conducted of these types of sub-recipients to verify the adequacy of their accounting systems and appropriateness of expenditure claims.

Follow-up Audits

- OAS will conduct follow-up audits of those issued during the 2009-12 plan years.

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

Newly Presented Audits

We reviewed the 5 audits that are being presented to the Committee this month. All of the audits were issued by the Office of the State Comptroller (OSC). The audits were of one charter school, three school districts and one BOCES.

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

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

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

Audit	Procurement	Claims Processing	Information Technology	Capital Construction
Office of the State Comptroller				
Achievement Academy Charter School	√			
Fort Ann Central School District		√	√	
Green Island Union Free School District		√		
Madison-Oneida BOCES			√	
Pocantico Hills Central School District				√
October 2012	1	2	2	1

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 the State Comptroller		
Audit	Major Finding(s)	Recommendation/Response
<p>Achievement Academy Charter School Board Oversight 2012M-89</p>	<p>The Board does not provide oversight of the purchasing function as directed by the School's policy. Payments to vendors in excess of \$5,000 for the 2010-11 school year and the 2011-12 school year were reviewed. For the 2010-11 school year, the School made 62 individual payments to 13 vendors totaling \$1,118,991 that required Board approval. The Board did not approve 38 of these payments totaling \$521,882. For the period from July 1, 2011 through February 29, 2012, the School made 41 individual payments to 18 vendors totaling \$828,170 that required Board approval. The Board did not approve 31 of these payments totaling \$507,878. School officials provided Board minutes from prior years showing the approval of certain purchases in the past; however, School officials could not produce Board minutes approving the purchases made during the scope period.</p>	<p>1 recommendation</p> <p>It was recommended that the Board approve all purchases and contracts with vendors who will receive more than \$5,000 in a fiscal year prior to School officials making the purchases or signing the contracts.</p> <p><i>School Officials believe that other actions taken by the Board satisfies the requirement for Board approval.</i></p>
<p>Fort Ann Central School District Internal Controls Over Claims Processing and Information Technology 2012M-81</p>	<p>The District does not have written procedures on how to process claims; however, through interviews, observation and a review of selected claims, it was determined that the District has established an adequate system of checks and balances for claims processing. However, the accounts payable clerk prepares signed checks prior to the claims auditor's review and approval of the claims for payment.</p> <p>There were areas in need of improvement concerning some information technology controls. Because of the sensitivity of some of this information, the vulnerabilities are not discussed in this report, but have been communicated confidentially to District officials so they could take corrective action.</p>	<p>2 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to claims processing and information technology.</p> <p><i>District officials agreed with the recommendations and indicated they planned to initiate corrective action.</i></p>

<p>Green Island Union Free School District Claims Processing 2012M-72</p>	<p>There were weaknesses in controls related to the processing of claims and it is specifically recommended that the District perform a thorough audit of all claims and ensure payments are made only after the claims are audited. On September 1, 2007, the Board did adopt policies and procedures for claims audit, which included the Board's stated intention to appoint a claims auditor. During the audit period, the Board did not appoint a claims auditor until September 1, 2011. The Board was, therefore, responsible for performing a proper audit of claims from July 1, 2010 through August 31, 2011. However, the Board did not do so, either before or after claims were paid.</p> <p>Further, although the claims auditor does audit claims, the review takes place after the treasurer has paid the vendors. District officials informed us that all claim payments are made prior to a review by the claims auditor.</p>	<p>1 recommendation</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to claims processing.</p> <p><i>District officials agreed with the recommendations and indicated that they will implement corrective action.</i></p>
<p>Madison-Oneida BOCES Internal Controls Over Information Technology 2012M-109</p>	<p>The information technology vulnerabilities identified in this audit were not discussed in the report due to the sensitivity of the information. Rather, the findings have been communicated separately to the Mohawk Regional Information Center (MORIC) officials so they could take corrective action.</p>	<p>4 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to internal controls over information technology.</p> <p><i>MORIC officials agreed with the recommendations and indicated they have already implemented three out of the four recommendations and are currently exploring cost effective options to implement the Comptroller's remaining recommendation.</i></p>

<p>Pocantico Hills Central School District Management of Capital Project 2012M-40</p>	<p>District officials needed to issue change orders that significantly increased the scope and cost of the initial contracts awarded through the bid process, and did not bid this additional work even though it exceeded the statutory dollar thresholds.</p> <p>By the end of the fieldwork, the total changes to the four main construction contracts represented an increase of \$1,690,794, or 18 percent, over the \$9,510,323 million in original awards. Throughout the construction period, District officials awarded contracts for change orders based on the recommendation of the construction manager, the architect, the approval of the Interim Superintendent and the Board.</p> <p>The District also received approval from the New York State Department of Education prior to awarding each of the change orders. However, based on a review of the bid documents provided by the District, the change orders varied significantly from the original plan and may have altered the essential identity or main purpose of the contract; therefore, they may have constituted new undertakings. Further, the aggregate change orders to each type of contract exceeded General Municipal Law bidding thresholds.</p>	<p>3 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures pertaining to capital projects.</p> <p><i>District officials indicated they have reviewed the findings and will take corrective action. NYSED updated guidelines for school districts on managing capital projects, specifically best practices for effectively incorporating change orders into existing projects</i></p>
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