



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY12234

TO: Audits/Budget and Finance Committee
FROM: Sharon Cates-Williams *Sharon Cates-Williams*
SUBJECT: Board of Regents Oversight of Financial Accountability
DATE: May 11, 2015

AUTHORIZATION(S):

Eugene B Berlin
SUMMARY

Issues for Discussion

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

1. New York State Single Audit by KPMG – State Education Department Findings (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. New York State Single Audit – State Education Department Findings - Staff from the accounting firm of KPMG will brief the Committee on ten audit findings related to the Department's administration of federal funds. (Attachment I)
2. Completed Audits including the Report of the Internal Audit Workgroup
The Committee is being presented with 17 audits this month. (Attachments II and III)

The audit reports are as follows:

Office of the State Comptroller

1. The Academy Charter School - Board Oversight
2. Alfred-Almond Central School District – Financial Software Access and Monitoring
3. Beacon City School District – Budget Review
4. Charlotte Valley Central School District – Budget Review
5. Chenango Valley Central School District– Budget Review
6. DeVry College of New York – TAP Audit
7. East Moriches Union Free School District – Budget Review
8. Eastport-South Manor Central School District – Financial Software User Access
9. Eldred Central School District – Budget Review
10. Enterprise Charter School – Enrollment and Billing
11. Fabius-Pompey Central School District – Budget Review
12. Green Tech Charter School – Resident Tuition Billing
13. Jasper-Troupsburg Central School District – Financial Condition
14. Liverpool Central School District - Employee Compensation and Benefits
15. Niagara-Wheatfield Central School District – Financial Condition
16. Ripley Central School District – Cost Savings and Budgeting
17. Whitestone School for Child Development- Compliance with the Reimbursable Cost Manual

Recommendation

No action required for audit initiatives and presentation of audits.

Timetable for Implementation

N/A

The following materials are attached:

- Summary of New York State Single Audit Findings 2013-14 (Attachment I)
- Report of the Internal Audit Workgroup and Summary of Audit Findings Including Audit Abstracts (Attachments II and III)

Regents Committee on Audits/Budget and Finance
Summary of
New York State Single Audit
4/1/13 – 3/31/14
State Education Department Findings

The audit examined the following federal programs:

- Child Nutrition (School Lunch, Milk Program and Summer Food Service)
- Title I-Grants to Local Education Agencies(LEAs)
- Special Education (Individuals with Disabilities Education Act(IDEA)) Grants
- 21st Century Community Learning Centers
- Improving Teacher Quality State Grants
- School Improvement Grants
- State Fiscal Stabilization Fund – Race to the Top Incentive Grants and Recovery Act
- Rehabilitation Services-Vocational Rehabilitation Grants to States

The following are the 10 findings for the 2013-14 fiscal year and the federal programs each finding applies to:

Finding 14-001 - Title I Grants to LEAs, Special Education Grants, 21st Century Community Learning Centers, Improving Teacher Quality State Grants, School Improvement Grants

Under the current payment process to grantees, the Department has not appeared to have met the cash management requirements, as an initial advance is made and there are no procedures in place to ensure that grantees make related disbursements on a timely basis.

Department's Corrective Action: The Department will continue to review the procedures for making payments to subgrantees to ensure that time lapsing between the transfer of funds to the subgrantee and disbursement of funds by the subgrantee is minimized. Using a risk-based approach, cash flow to sub-recipients will continue to be monitored and follow-up will be made with agencies that are flagged as potential problems.

Finding 14-002 – Title I Grants to LEAs, Special Education Grants, 21st Century Community Learning Centers, Improving Teacher Quality State Grants

During the sample testing of subrecipients for the above federal awards, the Department either did not file the required Federal Funding Accountability and

Transparency Act (FFATA) report timely or it could not be verified that FFATA reports have been filed.

Department's Corrective Action: The Department will continue to review and enhance controls and procedures to improve completeness of FFATA reporting. Recommendations by auditors were incorporated into the existing procedures.

Finding 14-003 – Title I Grants to LEAs, Special Education Grants, Child Nutrition, 21st Century Community Learning Centers

For a sample of subrecipients tested from the above federal awards, the Department did not have DUNS number on file or there was no information on the expiration date, which determines whether the DUNS number is still active.

Department's Corrective Action: The Department will continue to review and enhance controls and procedures to improve completeness of DUNS number collection. Additional steps will be taken to ensure that all required information is obtained from each grantee on a more timely basis.

For the Child Nutrition Program Office, a system is being developed that will require all subrecipients to annually report their DUNS numbers and expiration dates.

Finding 14-004 – Title I Grants to LEAs

The review process of Title I Supplement Form, as part of subrecipient monitoring, is undocumented.

Department's Corrective Action: Starting in the 2014-15 school year, the Consolidated Application Review Form will incorporate a review of the Supplement form for each LEA identified for improvement.

Finding 14-005 – Title I Grants to LEAs

The review process of Title I Comparability Form, as part of subrecipient monitoring, is undocumented.

Department's Corrective Action: Starting with the 2014-15 school year, the Office of Accountability will incorporate into the Targeted and Coordinated monitoring visit protocol the review and approval of the Comparability Form for each LEA that receives an on-site visit.

Finding 14-006 – 21st Century Community Learning Centers

For a sample of monitoring visits tested, the Department did not appear to have monitored whether or not the subrecipient was in compliance with the supplement not supplant requirement (1 out of 10 cases).

Department's Corrective Action: For the one case found, an older Program Monitoring form was used, which did not include a review of the supplement not supplant provision. Moving forward, Program Monitoring Forms will be updated annually and will be reviewed for inclusion of all required elements, including a review of supplement not supplant.

Finding 14-007 – School Improvement Grants

During monitoring visits for the period of July 1, 2013-June 30, 2014, the Department did not perform any fiscal monitoring procedures over the program to ensure compliance with laws and regulation and the provisions of contracts or grant agreements and that performance goals are achieved. There were no monitoring procedures performed during the prior years. Progress reports for two out of three LEAs were not obtained and reviewed timely.

Department's Corrective Actions: The Office of School Innovation will work on incorporating a fiscal component into its monitoring procedures for the School Improvement Grants. For 2014-15 monitoring, the grants awarded during the prior year periods will be included. Maintenance of monitoring activity records will be strengthened.

Finding 14-008 - State Fiscal Stabilization Fund – Race to the Top Incentive Grants, Recovery Act

Two of five monitoring visits selected for testing showed that the monitoring reports were not issued timely. Although exit conferences were conducted after the monitoring visits, the report was not completed until about one year after the visit.

Department's Corrective Action: A streamlined review process has been implemented which should materially reduce the time it takes to issue reports to districts.

Finding 14-009 – Child Nutrition

The Department did not file the required FFATA report.

Department's Corrective Action: The Department will review and enhance controls and procedures for completing the required FFATA reporting. The Child Nutrition Program Office implemented actions to address the finding, including hiring a full-time staff to file all federal reports and establishing a committee to develop guidelines for compiling reports.

Finding 14-010 - Rehabilitation Services-Vocational Rehabilitation Grants to States

For 9 out of a sample of 40, eligibility determinations were not made within the required 60 days and no extension was prepared to document the reason for additional time needed.

Department's Corrective Action: District Office Managers and supervisors will continue to reinforce and train counselors on timeliness of eligibility determinations. A procedure will be developed to better document the date of receipt of applications and renewals.

**Regents Committee on Audits/Budget and Finance
May 2015
Review of Audits Presented
Department's Internal Audit Workgroup**

Newly Presented Audits

We reviewed the 17 reports that are being presented to the Committee this month. All 17 were issued by the Office of the State Comptroller (OSC). Six of the reports issued were budget reviews¹ of school districts, the rest are audits of six school districts, three charter schools, one provider of special education services and one college.

The findings were in the areas of budgeting, financial condition, information technology, segregation of duties, enrollment and billing, and board oversight.

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 reviewed all the audits and determined that there are no specific audits to bring to the Committee's attention.

¹ Budget reviews- Local Finance Law Section 10.10 requires all local governments authorized to issue obligations to fund operating deficits to submit to the State Comptroller each year for review, their proposed budget for the next succeeding fiscal year, starting with the fiscal year the local government is authorized to issue obligations and for each subsequent fiscal year the deficit obligations are outstanding.

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

Audit	Claims Processing	Financial Reporting	Information Technology	Segregation of Duties	Budgeting/Financial Condition	Tuition Assistance Program (TAP)	Other
Office of the State Comptroller							
Academy Charter School	√						
Alfred-Almond Central School District			√	√			
**Beacon City School District					√		
**Charlotte Valley Central School District					√		
**Chenango Valley Central School District					√		
DeVry College of New York – (Tuition Assistance Program)						√	
East Moriches Union Free School District					√		
Eastport-South Manor Central School District			√	√			
Eldred Central School District					√		
* Enterprise Charter School (footnote 2)							√
**Fabius-Pompey Central School District					√		
* Green Tech Charter High School (footnote 2)							√
Jasper-Troupsburg Central School District					√		
**Liverpool Central School District (footnote 1)					√		√
Niagara-Wheatfield Central School District					√		
Ripley Central School District					√		
Whitestone School for Child Development		√					
May 2015	1	1	2	2	10	1	3

- 1 Employee Compensation and Benefits
- 2 Residency, Enrollment and Billing

** No recommendations

Office of the State Comptroller

Audit	Major Finding(s)	Recommendation/Response
<p>(The) Academy Charter School Board Oversight 2014M-295 10th Judicial District</p>	<p>The Academy Charter School Board (hereafter “the Board”) did not approve contracts with the School’s management company and information technology (IT) consultant and did not audit claims for these services. Additionally, the Board did not ensure that the management company provided abstracts (detailed lists of claims) in its monthly reports to clearly identify \$1.9 million in payments made to the company and IT consultant. As a result, the School paid \$950,631 to the management company for management fees and \$193,221 to the IT consultant without Board approval. Moreover, the Board did not review or approve claims totaling \$1.9 million. Because the Board does not provide adequate oversight of financial activities, it is limited in its ability to ensure that School funds are appropriately spent.</p>	<p>5 recommendations</p> <p>The report's recommendations focused on the Board approving all contractual agreements and documenting them in meeting minutes, and strengthening controls related to payment of claims and employee payroll deductions.</p> <p><i>School officials disagreed with the findings and recommendations but indicated that they will enhance fiscal controls of its operations and already made changes to strengthen controls.</i></p>
<p>Alfred-Almond Central School District Financial Software Access and Monitoring 2014M-371 8th Judicial District</p>	<p>The District does not have written procedures for adding, deleting or modifying individual access rights to the District’s financial system or for the periodic monitoring of user activity. In addition, District officials did not designate an administrator who is independent of the financial recordkeeping functions. The former District Treasurer, four BOCES employees and the current District Treasurer all have been assigned full administrative access rights to the District’s financial software. In addition, the Business Manager and District Treasurer established a “system administrator” user account within the financial software that shares a common user name and password. Therefore, these individuals have unrestricted access to all functions within the software package, can add new users to the system, can change users’ access rights</p>	<p>5 recommendations</p> <p>The report's recommendations focused on the Board and District officials developing policies and procedures granting, changing, and disabling user access; designate an independent individual to operate as the financial software system administrator; monitor audit logs; and review user access rights and verify permissions are based on job duties.</p>

	and can make or delete evidence of payments or receipts. The establishment of a shared account weakens the ability to review user activity and hold appropriate individuals accountable for system changes.	<i>District officials generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i>
Beacon City School District Budget Review B6-15-4 9th Judicial District	Based on the results of a limited review, the significant revenue and expenditure projections for the 2015-16 fiscal year preliminary budget are reasonable. The District's 2015-16 preliminary budget includes the appropriation of \$2.5 million of fund balance to help finance 2015-16 operations. District officials must be aware that continued use of fund balance will eventually lead to its depletion and a new revenue source will need to be identified to fund operating expenditures. District officials should monitor the District's use of fund balance to ensure that action is taken, if necessary, to identify other funding sources that can be used to fund operations.	There were no recommendations.
Charlotte Valley Central School District Budget Review B4-15-6 6th Judicial District	Based on the review, the significant revenue and expenditure projections in the 2015-16 fiscal year preliminary budget are reasonable.	There were no recommendations.
Chenango Valley Central School District 2015-2016 Budget Review B4-15-8 6th Judicial District	Based on the review, the significant revenue and expenditure projections in the 2015-16 fiscal year proposed budgets are reasonable.	There were no recommendations.
DeVry College of New York (State Education Department and Higher	\$758,293 adjustment (11.8% of total award for the audit period)	4 recommendations The report recommended that the

<p>Education Services Corporation) - Tuition Assistance Program 2014-T-2</p>	<p>The audit determined that DeVry was overpaid \$758,293 because school officials incorrectly certified certain students as eligible for Tuition Assistance Program (TAP) awards. The audit tested the accuracy of the school's certifications by reviewing a sample of 100 randomly selected awards from the three academic years ended June 30, 2013. From a random statistical sample, 18 TAP awards (totaling \$33,027) were disallowed for several reasons, including awards made on behalf of students who did not have a certificate of graduation or a recognized equivalent; had not passed an ability to benefit test; or were not in good academic standing. The statistical projection of these 18 awards to the school's award population for the three-year review period results in an audit disallowance of \$744,853. Further, another seven awards were also disallowed, totaling \$13,440, relating to awards made on behalf of some of the sampled students outside of the three-year review period.</p>	<p>Department work with DeVry officials to ensure future compliance with the TAP requirements cited in the report. It is also recommended that the Higher Education Services Corporation recover from DeVry the \$758,293 plus interest in ineligible TAP awards and to ensure that student accounts are properly credited and requirements to students were met. It was recommended to DeVry that certifications are reconciled with payments.</p> <p><i>Department officials agreed with the report's recommendations.</i></p>
<p>East Moriches Union Free School District Budget Review B7-15-5 10th Judicial District</p>	<p>Based on the review, the significant revenue and expenditure projections in the 2015-16 fiscal year's tentative budget are reasonable, except for appropriations for tuition fees for high school students, charter school tuition fees and social security and Medicare taxes. In addition, revenues from tuition payments received from other districts may be overestimated.</p>	<p>3 recommendations</p> <p>The report's recommendations focused on District officials calculating social security payments and Medicare taxes, reviewing the appropriation for charter school tuition fees, and tuition payments from other districts, and making adjustments in the projections as necessary.</p>
<p>Eastport-South Manor Central School District Financial Software User Access</p>	<p>District officials improperly assigned administrative privileges and provided excessive access rights to the District's financial software system. The District did not have any written procedures outlining how user access rights should be</p>	<p>3 recommendations</p> <p>The report's recommendations focused primarily on the District</p>

<p>2014M-379 10th Judicial District</p>	<p>established or modified. District officials designated the Assistant Business Administrator as a financial system administrator even though she is not independent of the financial recordkeeping functions. Therefore, the Assistant Business Administrator has unrestricted access to all functions within the financial software package. She can add new users to the system, create and change user access rights and can make or delete evidence of payments without restriction.</p>	<p>ensuring proper internal control procedures for granting, changing, and terminating user access rights; designating an independent individual to be the financial systems administrator; and the assigning of user access based upon job duties and segregation of function.</p> <p><i>The District generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i></p>
<p>Eldred Central School District 2015-2016 Budget Review B4-15-3 3rd Judicial District</p>	<p>Based on the review, except for the matters described below, the significant revenue and expenditure projections in the 2015-16 fiscal year proposed budget are reasonable.</p> <p>The District's proposed budget for State aid revenues is \$274,899 higher than the NYS preliminary estimate. The District's proposed budget for health insurance is \$164,625 greater than the estimates from supporting documentation. The proposed budget will appropriate \$529,483 of fund balance which will decrease it to less than 2% of the 2015-16 budget appropriations leaving little cushion for unforeseen events or provide cash flow. The budget also does not account for the probable return of approximately \$200,000 in building aid to the Department.</p>	<p>3 recommendations</p> <p>The report's recommendations focused on District officials reevaluating the budget projections and making provisions and/or amendments to the State aid revenue and health insurance, building aid repayment, and continue monitoring the use of unexpended fund balance.</p> <p><i>The District generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i></p>
<p>Enterprise Charter School Enrollment and Billing</p>	<p>The audit tested to determine if billings to the school districts of residence were accurate and supported. Overall, the billings were accurate. However, control deficiencies were</p>	<p>1 recommendation</p> <p>The report's recommendations</p>

<p>2014M-378 8th Judicial District</p>	<p>identified with the School's residence verification process. The School requires that proof of residence be submitted before a student is admitted to the School. In addition, the School annually requests that parents/guardians update student information, but relies on parents/guardians to notify the School if a student's address changes during the school year. Further, the School does not periodically verify student residency information on file or require that a new proof of residence be submitted when a student's address changes.</p>	<p>focused primarily on School official's periodic verification of student residency and request verification of address when a student moves.</p> <p><i>School officials agreed with the recommendations and have indicated that they plan to initiate corrective action.</i></p>
<p>Fabius-Pompey Central School District 2015-2016 Budget Review B3-15-9 5th Judicial District</p>	<p>Based on the results of the review, the significant revenue and expenditure projections in the 2015-16 fiscal year proposed budget are reasonable.</p>	<p>There were no recommendations.</p>
<p>Green Tech Charter High School Resident Tuition Billing 2015M-2 3rd Judicial District</p>	<p>The audit found \$306,175 in school districts billings were not paid timely because the resident school districts had denied payment due to lack of proof of residency or other enrollment issues. The audit also found that because the School officials do not prepare the tuition bills on a FTE basis, the School did not receive \$120,529 of funds due from the Albany City School District (ACSD) until the School had completed its end-of-year reconciliation. Furthermore, inaccuracies in the end-of-year reconciliation, identified after the reconciliation bill had been paid by the ACSD, led to an excess of \$67,574 being billed to the ACSD.</p>	<p>6 recommendations</p> <p>The report's recommendations focused primarily on the Director of Finance completing residency updates more frequently; maintain up-to-date and accurate residency records; prepare bills on an FTE basis; ensure timely and accurate reconciliations of resident districts; and credit back any monies due as a result of errors.</p> <p><i>School officials generally agreed with the recommendations and</i></p>

		<i>have indicated that they plan to take corrective action.</i>
Jasper-Troupsburg Central School District Financial Condition 2015M-22 7th Judicial District	The Board has not adopted structurally balanced budgets, nor has it adopted a fund balance policy. Recurring expenditures were financed with fund balance, instead of with recurring revenues. The District's overreliance on fund balance to finance operations has decreased the amount of fund balance to precariously low levels. As of June 30, 2014, the District's unrestricted fund balance was \$154,920, which was only 1.3 percent of the ensuing year's appropriations and well below the 4 percent allowed by law. If the planned operating deficit occurs during 2014-15, the amount of fund balance available to finance operations in future years will be gone and District officials will need to find other funding sources to pay for these recurring expenditures or cut costs.	6 recommendations The report's recommendations focused on the Board's development of: structurally balanced budgets for the general and school lunch funds; a plan for the school lunch fund to repay advances by the general fund; fund balance policy for unrestricted fund balance; and multiyear financial plans. <i>District officials agreed with the recommendations and have begun to take corrective action.</i>
Liverpool Central School District Employee Compensation and Benefits 2014M-374 5th Judicial District	District officials have taken appropriate action to ensure the accuracy of compensation and benefits provided to employees. They were proactive in establishing effective payroll-related policies and procedures. In addition, many duties within the payroll process have been segregated. Timekeeping and supervisory functions are also segregated from payroll processing functions.	There were no recommendations.
Niagara-Wheatfield Central School District Financial Condition 2014M-364 8th Judicial District	A delay in State aid reimbursements for the Tuscarora Indian School, (of which the District's Board and administration are responsible for providing oversight and administrative services to) located on the Tuscarora Indian Reservation has caused cash flow problems for the District. The District	4 recommendations The report's recommendations focused primarily on the Board and District officials working with SED

	<p>reports a receivable for this State aid; however, the receivable is not liquid. Without the State aid, the District used general fund resources and cash flow borrowing to finance School operations. The District has also issued a significant amount of short-term cash flow borrowing during the past three fiscal years. Furthermore, the District's poor management of funds in the debt service fund may have resulted in avoidable debt service costs of more than \$500,000.</p>	<p>to ensure timely payments of State Aid; monitoring the operating results and fund balances for adequate cash flows; ensuring grant money is used properly; and consideration of using cash resources within the debt service fund to pay debt service costs.</p> <p><i>District officials generally agreed with the report's recommendations and have indicated that they plan to initiate corrective action.</i></p>
<p>Ripley Central School District Cost Savings and Budgeting 2014M-361 8th Judicial District</p>	<p>The District was able to reduce net costs by approximately \$452,000 by paying tuition and sending students in grades 7 through 12 to a neighboring school district. Due to the expected cost savings, the District decided to increase the in-house programming for students in kindergarten through sixth grade, costing approximately \$264,000, reducing the net cost savings to approximately \$188,000.</p> <p>The Board adopted a budget for 2013-14 that reflected the change in costs due to the first year of tuition payments. However, even though the Board planned to use fund balance during 2013-14 to fund expenditures, the District instead experienced an operating surplus, thereby increasing unrestricted fund balance and exceeding the statutory limit by 6 percent. Further, the District did not appropriate or use unemployment insurance reserve funds to pay for related expenditures or reevaluate its need to maintain such a substantial balance. Finally, as of August 28, 2014, the Board had not yet adopted a multiyear financial plan. The accumulation of fund balance beyond statutory limits and</p>	<p>4 recommendations</p> <p>The report's recommendations focused primarily on the Board and District ensuring the unrestricted fund balance is within statutory limits; use of the unrestricted fund balance to the benefit of taxpayers; reasonably funding the unemployment insurance reserve; and continuous monitoring of the multiyear fiscal plan.</p> <p><i>District officials generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i></p>

	<p>reserve funds without a reasonable plan increases the risk that funds may not be used in a manner that benefits District taxpayers.</p>	
<p>Whitestone School for Child Development Compliance with the Reimbursable Cost Manual 2014-S-38 11th Judicial District</p>	<p>\$154,563 adjustment (6.7% of reported costs for fiscal year audited)</p> <p>For the three fiscal years ended June 30, 2013, the audit identified \$154,563 in reported costs that did not comply with the Reimbursable Cost Manual requirements and recommend such costs be disallowed. These ineligible costs included \$115,296 in personal services costs and \$39,267 in other than personal service costs. Among the disallowances identified were :</p> <ul style="list-style-type: none"> • \$58,355 in unsupported employee expenses; • \$56,941 in bonus payments that did not comply with the Manual; • \$10,592 for unsupported vehicle charges; • \$9,344 for rental accruals reported in the wrong fiscal year; and • \$3,088 for other miscellaneous personal and unsupported expenses. 	<p>3 recommendations</p> <p>It is recommended that the Department review the disallowances resulting from the audit and make the appropriate adjustments to reported costs and provide School administrators and staff with training and/or additional guidance on the applications of the Manual as appropriate.</p> <p><i>Department officials agreed with the recommendations and will implement adjustments as appropriate.</i></p>