



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 7, 2016  
**AUTHORIZATION(S):** *Mary Ellen Ecia*

### **SUMMARY**

#### **Issues for Discussion**

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

1. Proposed Audit Initiatives – Office of Audit Services (OAS) 2016-2017 Audit Plan (Attachment I and 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**

1. Proposed Audit Initiatives – The Committee is being briefed on the initiatives the OAS plans to pursue during the period July 1, 2016 through June 30, 2017.

## **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:

- Summary of 2016-2017 Audit Plan (Attachment I)
- 2016-2017 Audit Plan (Attachment II)

## **Areas Recommended for Audit Based on Expected Staffing July 2016 – June 2017**

### Audits of School Districts/BOCES/Charter Schools

- Employment Preparation Education (EPE) Program – The audits will determine if EPE funds were used exclusively for EPE programs; if the programs were conducted in compliance with applicable laws, rules and regulations; if the program has the necessary supporting documentation/files; if reported contact hours are accurate; and if EPE service providers have the necessary certifications.
- Data Reliability Audit – Audits will focus on graduation rates and attendance rates reported to the Department by districts/schools. Audits will examine district records to ensure that they support the rates reported.
- Re-evaluation of Charter Schools – The New York State Board of Regents, through its administrative body, the New York State Education Department, is authorized to oversee and monitor each charter school authorized by the Regents in all respects, including the right to visit, examine and inspect the charter school and its records. Audits will ensure that each charter school is in compliance with all applicable laws and regulations, and the terms and conditions of the Charter.
- Smart School Bond Act of 2014 – Audits will examine the reliability of expenditure data that has been submitted by districts for expenses incurred in implementing their approved Smart Schools Investment Plans.

### Community Based Organizations Recipients of Federal Funds

- 21<sup>st</sup> Century Title IV Funds – The Department is the pass-through organization that has oversight responsibilities for these federal funds. Audits will focus on community based organizations that are at risk of claiming reimbursement for inappropriate expenditures and lack accounting systems to appropriately account for the funds.

### Internal Audit of Department Operations

- Internal Controls Certification - The Department is required to maintain adequate internal controls over the payment process to support the validity of the agency claim certification for processing payments. Each year, the State Comptroller will require agency heads to assess the internal controls for one or more specified area(s) each year.
- Accounts Receivable Receipts – Audits will focus on understanding the policies and procedures related to cash receipts within the Department and determining whether amounts collected are recorded accurately and timely. The transaction testing will ensure controls are adequate; transactions are adequately supported and reported; and the segregation of duties throughout the revenue recognition process is appropriate.
- ACCES Maintenance and Transportation - The audit will ensure adequate policies and procedures are in place for the Department’s review and approval of payments made to consumers.
- Smart Schools Bond Act – Audit will ensure there are adequate policies and procedures related to the Smart Schools Bond Act and determine whether the processes in place are appropriate, the approval process of districts’ Smart Schools Investment Plans are timely and efficient, and all related requirements are satisfied to receive funds.

### Fraud, Waste, and Abuse Hotline Follow-up

- Continue to follow-up on complaints or refer to appropriate office or agency.

### Review of Financial Statements, Single Audit Reports, and Other Fiscal Data

- Financial Statements and Single Audit Reports – financial condition, and compliance with reporting requirements. A management decision is issued by OAS on behalf of the Department for all applicable single audit findings.
- Other analyses of school districts, charter schools, and colleges and universities are provided upon request from Department staff.
- Collection and review of corrective action plans issued by school districts and BOCES in response to audits.

### Other Activities - Technical Assistance and Training

- Continue to provide technical assistance and information to Department staff, USNY institutions, government officials, and others.
- Continue to collaborate with various organizations (OSC, Association of School Business Officials, NYS Society of CPAs, NYS School Boards Association, and others) to improve fiscal accountability.
- Upon request, continue to provide training sessions to school business officials, school board members, superintendents, CPAs, and others (in conjunction with Department program staff).
- Professional auditing standards require that auditors receive Continuing Professional Education (CPE) to maintain and enhance their skills and proficiency. The Department has been supportive of the need for CPEs and has made resources available. OAS will continue to monitor CPEs for each of its auditors and seek cost-effective training.

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# AUDIT PLAN

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July 1, 2016  
Through  
June 30, 2017

June 2016

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**The University of the State of New York  
The State Education Department  
Office of Audit Services  
Albany, New York 12234**



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## Executive Summary

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This Audit Plan (Plan) defines the initiatives the Office of Audit Services (OAS) plans to pursue during the period July 1, 2016 through June 30, 2017. In developing the Plan, consideration was given to State Education Department (Department) executive managers' input and requests for audits, coverage provided by other audit organizations, audit staff and information from the Department's risk assessment. The audit areas are outlined in the following pages.

OAS conducts audits of external providers of services in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Internal audits of Department programs, activities and functions are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. The audits focus on assessing risk, compliance and identifying improvement opportunities. The audits result in written reports that are provided to the auditee and appropriate Department managers and staff. External audits are also presented to the Regents Committee on Audits/Budget and Finance, representatives of the Office of the State Comptroller (OSC), and the Division of the Budget.

OAS anticipates having 14 audit professionals, and one support staff to address the priorities and activities defined by this Plan. If additional audit staff becomes available, OAS will assess priorities and use the resources to expand to those areas with limited or no audit coverage. Likewise, as special audit requests arise, some initiatives in this Plan will be dropped or rescheduled for future years.

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# Areas Recommended for Audit Based on Expected Staffing July 1, 2016

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## Audits of School Districts/BOCES/Charter Schools

- Employment Preparation Education (EPE) Program – The audits will determine if EPE funds were used exclusively for EPE programs; if the programs were conducted in compliance with applicable laws, rules and regulations; if the program has the necessary supporting documentation/files; if reported contact hours are accurate; and if EPE service providers have the necessary certifications.
- Data Reliability Audit – Audits will focus on graduation rates and attendance rates reported to the Department by districts/schools. Audits will examine district records to ensure that they support the rates reported.
- Re-evaluation of Charter Schools – The New York State Board of Regents, through its administrative body, the New York State Education Department, is authorized to oversee and monitor each charter school authorized by the Regents in all respects, including the right to visit, examine and inspect the charter school and its records. Audits will ensure that each charter school is in compliance with all applicable laws and regulations, and the terms and conditions of the Charter.
- Smart School Bond Act of 2014 – Audits will examine the reliability of expenditure data that has been submitted by districts for expenses incurred in implementing their approved Smart Schools Investment Plans.

## Community Based Organizations Recipients of Federal Funds

- 21<sup>st</sup> Century Title IV Funds – The Department is the pass-through organization that has oversight responsibilities for these federal funds. Audits will focus on community based organizations that are at risk of claiming reimbursement for inappropriate expenditures and lack accounting systems to appropriately account for the funds.

## Internal Audit of Department Operations

- Internal Controls Certification - The Department is required to maintain adequate internal controls over the payment process to support the validity of the agency claim certification for processing payments. Each year, the State Comptroller will require agency heads to assess the internal controls for one or more specified area(s) each year.
- Accounts Receivable Receipts – Audits will focus on understanding the policies and procedures related to cash receipts within the Department and determining whether amounts collected are recorded accurately and timely. The transaction testing will ensure controls are adequate; transactions are adequately supported and reported; and the segregation of duties throughout the revenue recognition process is appropriate.

- ACCES Maintenance and Transportation – The audit will ensure adequate policies and procedures are in place for the Department’s review and approval of payments made to consumers.
- Smart Schools Bond Act – Audit will ensure there are adequate policies and procedures related to the Smart Schools Bond Act and determine whether the processes in place are appropriate, the approval process of districts’ Smart Schools Investment Plans are timely and efficient, and all related requirements are satisfied to receive funds.

Fraud, Waste, and Abuse Hotline Follow-up

- Continue to follow-up on complaints or refer to appropriate office or agency.

Review of Financial Statements, Single Audit Reports, and Other Fiscal Data

- Financial Statements and Single Audit Reports – financial condition, and compliance with reporting requirements. A management decision is issued by OAS on behalf of the Department for all applicable single audit findings.
- Other analyses of school districts, charter schools, and colleges and universities are provided upon request from Department staff.
- Collection and review of corrective action plans issued by school districts and BOCES in response to audits.

Other Activities - Technical Assistance and Training

- Continue to provide technical assistance and information to Department staff, USNY institutions, government officials, and others.
- Continue to collaborate with various organizations (OSC, Association of School Business Officials, NYS Society of CPAs, NYS School Boards Association, and others) to improve fiscal accountability.
- Upon request, continue to provide training sessions to school business officials, school board members, superintendents, CPAs, and others (in conjunction with Department program staff).
- Professional auditing standards require that auditors receive Continuing Professional Education (CPE) to maintain and enhance their skills and proficiency. The Department has been supportive of the need for CPEs and has made resources available. OAS will continue to monitor CPEs for each of its auditors and seek cost-effective training.

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# Audits of School Districts/BOCES/Charter Schools

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## Introduction

The Department has the responsibility of administering both federal and State funding to education agencies in New York State, including school districts, BOCES, charter schools and institutes of higher education. This responsibility entails the Department monitoring the activities of funding recipients to ensure that federal or State awards are used for authorized purposes in compliance with laws, regulations, contracts or grant agreements. This plan includes audits of both federal and State funding to school districts, BOCES, and charter schools. The Plan calls for audits of the Employment Preparation Education Program (EPE), the accuracy of student data reliability, charter schools, and Smart Schools Bond Act of 2014.

## Audit Areas

### Employment Preparation Education (EPE) Program

Historically, audits of this program showed significant non-compliance by providers and have resulted in millions of dollars of disallowance. The audit will determine if EPE funds were used in compliance with applicable laws, rules and regulations. The program area identified locations that were problematic and required further review.

The OAS plans to conduct two EPE audits that will examine financial records and documentation to support the total amounts received by providers in EPE aid.

### Data Reliability

Collected student data provides critical information to school leaders, policy makers, parents, and the public. Therefore, it is essential that adequate controls be in place to ensure student data is accurate and valid. Audits will focus on graduation and attendance rates reported to the Department by districts/schools.

The OAS plans to conduct two audits that will examine district records to ensure that they support the rates reported.

### Charter Schools

During the re-evaluation process for Charter Schools, it is important to ensure that each charter school is in compliance with all applicable laws and regulations, and the terms and conditions of the Charter to recommend continuance of the Charter. The OAS' Charter School Risk Assessment identified several Charter Schools for possible audits.

The OAS plans to conduct two audits of Charter Schools that will determine that governance is strong and operating in compliance with laws and regulations; fiscal controls are adequate; and that expenditures are appropriate and adequately documented.

### Smart Schools Bond Act

The Smart Schools Bond Act of 2014 (SSBA) authorized the issuance of \$2 billion of general obligation bonds to finance improved educational technology and infrastructure. The SSBA requires that a Review Board review and approve districts' Smart Schools Investment Plans before any funds may be made available for the program. The audits will be conducted to ensure that actual expenditures are allowable based on approved Smart Schools Investment Plans consistent with regulations and guidance.

The OAS will conduct a risk assessment to identify four specific schools to audit once the funding is disbursed and claims are received.

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# Community Based Organizations

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## Introduction

The Department is the organization that has oversight responsibilities for these federal 21<sup>st</sup> Century Title IV funds. The request for oversight from the federal government of this program has recently increased because previous audits have led to significant disallowances.

## Audit Areas

### 21<sup>st</sup> Century Community Learning Center Title IV Funds

Previous audits issued by the OSC have identified serious instances of disallowed funding provided to community based organizations. These audits have identified occurrences of lack of documentation to support reimbursements claimed and inappropriate use of funds. The Student Support Services Office's risk assessment identified several organizations as high risk for claiming reimbursement for inappropriate expenditures and lacking accounting systems to appropriately account for the funds.

Two audits of community based organizations that receive funds for after school activities will be audited under this Plan. The focus of the audits will be to ensure that expenditures reimbursed were appropriately documented and consistent with federal and State requirements.

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# Internal Audit

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## Introduction

OAS is responsible for conducting internal audits of Department programs, activities, and functions. Planning of internal audit initiatives is based on input from Department executive managers and other government audit agencies as a result of audit(s) conducted of the Department. In addition, OAS, in conjunction with the internal control officer, conducts a risk assessment of Department offices, key functions and processes, which may be used to determine the areas to audit.

## Audit

### Internal Controls Certification

Annually, the Department is required to certify the established system of internal controls over the Department's payment process to the OSC. The internal auditor will complete the review for certification by the April 30, 2017 due date.

### Accounts Receivable Receipts

Various program areas within the Department (i.e. Fiscal Management, Office of Professions, and Office of Higher Education) are responsible for the receipt of payments to Department accounts and at times, providing follow-up where funds are due.

The audit will review the adequacy of controls over cash receipts and account reconciliation. In addition, we will ensure proper procedures are in place between program areas receiving and depositing funds including the time elapsed to process the funds.

### ACCES Maintenance and Transportation

The audit will ensure adequate policies and procedures are in place for the Department's review and approval of payments made to consumers.

### The Smart Schools Bond Act

The Smart Schools Bond Act (SSBA) passed in the 2014-15 Enacted Budget, authorized the issuance of \$2 billion of general obligation bonds to finance improved educational technology and infrastructure to improve learning and opportunity for students throughout the State. The SSBA requires that a Review Board review and approve districts' Smart Schools Investment Plans before any funds may be made available for the program.

The audit will ensure adequate policies and procedures are in place for the Department's review and approval of districts' Smart Schools Investment Plans.

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# Fraud, Waste, and Abuse

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## Introduction

OAS is the initial contact point for any complaints received on the Department's Fraud, Waste, and Abuse Hotline. This plan calls for a continuation of this function. This could entail a follow-up to the complaint, which may or may not lead to an audit, or a referral to the appropriate office or agency.

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# Review of Financial Statements, Single Audit Reports, and Other Fiscal Data

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## Introduction

Districts, BOCES, charter schools, private colleges and universities, and certain non-profit organizations are required to submit audited financial statements and, where applicable, audits required by the federal Single Audit Act (Uniform Grants Guidance). OAS receives, processes, and reviews over 1,500 reports annually.

## Areas of Review

### Financial Statements and Single Audit Reports

Each report is reviewed to assess the following:

- Financial condition of the institution.
- Quality, accuracy, and completeness of the audit reports.
- Significance of any reported management control weaknesses.
- Compliance with the requirements of the Uniformed Grants Guidance and the adequacy of management's action related to any single audit findings, where appropriate.
- Accuracy of key ST-3 data used for State aid and reporting purposes for districts.

The financial statements of each district are evaluated to assess its financial condition, compliance with GASB 34, and the Department's Audit Reference Manual.

OAS provides a significant compliance function for the Department by issuing a determination (management decision) for all applicable single audit findings identified in audits of sub-recipients.

### Other Fiscal Data

The financial statements of all private colleges and universities in New York State are analyzed to determine the financial strength of the institution. In addition, financial projections for start-up colleges and proprietary schools are analyzed for

reasonableness and information is provided to the Office of Higher Education to assist in evaluating financial viability and the reasonableness of projections. In some cases, the colleges and proprietary schools are required to submit budgets and quarterly reports that are reviewed and commented on. When appropriate, OAS may participate in on-site reviews and hearings. Similarly, charter schools are also required to submit budgets that are reviewed for reasonableness.

#### Collection and Review of Corrective Action Plans

The school district financial accountability regulations require that each school district and BOCES file a corrective action plan to address findings contained in audit reports. The corrective action plan must be approved by their board and submitted to the Department. OAS collects and reviews these plans.

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# Other Activities

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## Introduction

OAS has developed an expertise in many areas of Department operations, and as a result, is called upon to provide technical assistance to other Department staff, school district personnel, CPAs, and others.

### Technical Assistance

OAS will continue to provide technical assistance and information to Department staff, USNY institutions, government officials, and others.

### Partner with Organizations

OAS will continue to collaborate with organizations such as the Office of the State Comptroller, Association of School Business Officials, NYS Society of CPAs, NYS School Boards Association, and others to improve fiscal accountability.

### Provide Training Sessions

OAS will continue to provide periodic training sessions to school business officials, school board members, superintendents, CPAs, and others (in conjunction with Department program staff).

### Continuing Professional Education (CPEs)

Professional auditing standards require that auditors receive continuing professional education to maintain and enhance their skills and proficiency. The Department has been supportive of the need for CPEs and has made resources available. OAS will continue to monitor CPEs for each of its auditors and seek cost-effective training.

Appendix A  
Office of Audit Services  
MAINTENANCE AND TRANSPORTATION Audit Initiatives/Other Activities/Audit Staff  
Resources  
July 1, 2016 through June 30, 2017

<b>Audit Initiatives</b>	<b>Estimated Number of Audits</b>
Employment Preparation Program	2
School Districts - Data Reliability	2
Charter Schools	2
Smart Schools Bond Act	4
21 <sup>st</sup> Century Community Learning Center Title IV Funds	2
Internal Audits of Department Operations	4
<b>Total Audits</b>	<b>16</b>
<b>Other Activities</b>	<b>2015-16 School Year*</b>
Fraud, Waste and Abuse Hotline Follow-up	254
Review of Financial Statements, Single Audit Reports, and other Fiscal Duties**	
Colleges/Universities	105
Schools/Districts	684
Charter Schools/BOCES	251
Single Audits	760
Management Decisions	64
Corrective Action Plans	300
Preschool Applications	134
Audit Reports Reviewed for Board of Regents	202
<b>Audit Services Staff Resources</b>	<b>Estimated Number of Staff</b>
Audit Director	1
Principal Audit Managers	2
Auditors ***	9
Internal Audit	1
Accountant - Financial Statements & Single Audits	1
Support Staff	1
<b>Total FTE</b>	<b>15</b>

\*These activity figures are actual figures for 11 months (July 2015-May 2016) plus estimated activities for the month of June 2016.

\*\*This initiative results in the analysis of the financial statements of all school districts, BOCES, charter schools, private colleges, and universities. It also includes collecting required corrective action plans related to any audits of school districts and BOCES.

\*\*\*Currently, the OAS has approval to hire three auditors (one staff auditor and two auditors-in-charge).