



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: October 4, 2018
AUTHORIZATION(S): *Mary Ellen Elin*

SUMMARY

Issues for Discussion

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

1. Completed Audits (Attachments I & II).

Reason(s) for Consideration

Update on Activities.

Proposed Handling

Discussion and guidance.

Procedural History

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

Background Information

1. Completed Audits

The Committee is being presented with eighteen audits this month. (Attachments I & II)

Audits are provided as follows:

Office of the New York State Comptroller

Bath Central School District
Berne-Knox-Westerlo Central School District
Carthage Central School District
Dundee Central School District
Frontier Central School District
Iroquois Central School District
King Center Charter School
New Hyde Park-Garden City Park Union Free School District
North Merrick Union Free School District
Orchard Park Central School District
Port Jefferson Union Free School District
Riverhead Charter School
Sagaponack Common School District
Schenevus Central School District
The Network for Children's Speech, Occupational & Physical Therapy, LLC
West Valley Central School District
Westfield Academy and Central School District
Wyandanch Union Free School District

Recommendation

No action required for audit initiatives and presentation of audits.

Timetable for Implementation

N/A

The following materials are attached:

- Summary of Audit Findings including Audit Abstracts (Attachments I and II)

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

Newly Presented Audits

The Department's Office of Audit Services summarized the eighteen audits that are being presented to the Committee this month, all of which were issued by the Office of the New York State Comptroller (OSC). Fifteen audits were of school districts, two of charter schools, and one was of a provider of special education services.

The findings were in the areas of, cash, claims processing, controls over debit cards, financial reporting, information technology, online banking, oversight of monthly records/reporting, procurement, and reimbursable cost manual compliance.

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.

All the audits were reviewed internally, and none have been identified to bring to the Committee's attention.

**October 2018 Regents Audits/Budget and Finance Committee Meeting
Summary of Audit Findings**

Audit	Cash	Claims Processing	Financial Reporting	Information Technology	Procurement	Reimbursable Cost Manual Compliance	Other
Bath Central School District (footnote 1)							√
Berne-Knox-Westerlo Central School District (footnote 2)							√
Carthage Central School District			√				
Dundee Central School District				√			
Frontier Central School District					√		
King Center Charter School				√			
Iroquois Central School District			√				
New Hyde Park-Garden City Park Union Free School District	√						
North Merrick Union Free School District					√		
Orchard Park Central School District			√				
Port Jefferson Union Free School District		√					
Riverhead Charter School (footnote 3)							√
Sagaponack Common School District			√				
Schenevus Central School District			√				
The Network for Children's Speech, Occupational & Physical Therapy, LLC						√	
West Valley Central School District			√				
Westfield Academy and Central School District			√				
Wyandanch Union Free School District					√		
September/October 2018	1	1	7	2	3	1	3

Description - Other Findings	Footnote #
Online Banking	1
Oversight of Monthly Records and Reports	2
Internal Controls Over the Use of Debit Cards	3

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Summary of Current and Prior Audit Findings

	July 2018	August 2018	September 2018	October 2018	Running Total
Banking	0	0	0	0	0
Budgeting/Financial Reporting	2	5	3	4	14
Capital Assets	0	0	0	0	0
Capital Construction	0	0	0	0	0
Cash	0	0	1	0	1
Charter School Management/Tuition	0	0	0	0	0
Claims Processing	0	1	0	1	2
Conflict of Interest	0	0	0	0	0
Data Reliability (Graduation, Attendance, etc.)	0	0	0	0	0
Extra classroom Activity Fund	0	2	0	0	2
Fuel Accountability/Energy Management	1	0	0	0	1
Grant Reporting Compliance	0	0	0	0	0
Information Technology	1	1	1	1	4
Internal Controls	0	0	0	0	0
Payroll/Leave Accruals	0	2	0	0	2
Procurement	0	1	0	3	4
Reimbursable Cost Manual Compliance	0	1	1	0	2
Tuition Assistance Program (TAP)	0	0	0	0	0
Other	1	4	3	0	8
Total	5	17	9	9	40

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Definitions of Categories

Banking – includes findings related to electronic banking.

Budgeting/Financial Reporting – includes budget reviews required for school districts that have received approval for deficit financing; poor expenditure and revenue projections; and inaccurate accounting statements, such as, an overstated fund balance, fund balance exceeding the legal limit, general fund transfers without Board and/or voter approval, and improper use of accrued liability reserve funds.

Capital Assets – includes failure to have a manager responsible, lack of policy, and inappropriate disposal.

Capital Construction – includes a lack of detailed accounting records related to a capital project, undocumented expenses, inappropriate and unapproved change orders.

Cash – includes poor control of cash, failure to prepare bank reconciliations, and weaknesses in the treasurer's duties.

Charter School Management/Tuition – includes findings related to audits of charter school's management.

Claims Processing – includes claims being paid without adequate documentation, failure to audit the claim, an untrained claims auditor, and a claims auditor that lacks independence.

Conflict of Interest– includes personal conflicts of board members, district officials, and district employees where they have an interest in a contract, where they have the power, or may appoint someone who has the power to negotiate, authorize, approve, prepare, and make payment or audit bills or claims of the contract.

Data Reliability/Attendance/Grade Changes – includes findings related to cohort data, graduation rates, drop out data, attendance, and grade changes.

Extra-Classroom Activities – includes poor accounting over funds and no documentation of expenses.

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Fuel Accountability/Energy Management – includes findings and observations relate to school districts use of energy and measures to reduce such use.

Grant Reporting/Compliance – includes findings related to grant reporting and compliance.

Information Technology – includes lack of a disaster recovery plan, failure to back up information, inappropriate or undocumented user rights, inappropriate or missing password protection, no policy and procedures, and disposal of computer equipment.

Internal Controls – includes findings related to one of the five internal control components – Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Medicaid Revenue – includes failure to significantly document eligible services or to claim reimbursement.

Payroll/Leave Accruals – includes a lack of segregation of duties in the payroll process; no policy and procedures and inappropriate payments to district administrators including leave accruals and health benefits; improper classification of employees; insufficient policies and procedures for the employee retirement system; improper contractual benefit payments; and improper longevity payments to the former superintendent.

Procurement – includes findings related to lack of a contract, failure to competitively bid, failure to use purchase orders, lack of segregation of duties, no approval of the purchase and a lack of documentation.

Reimbursable Cost Manual Compliance – includes findings related to audits of special education providers.

School Lunch Fund – includes findings related to the administration of the School Lunch Fund.

Tuition Assistance Program – includes instances of TAP payments being received for students that did not meet the eligibility criteria.

Other – includes findings related to Violent and Disruptive Incident Reporting (VADIR), Employment Preparation Education (EPE), migrant education program, community college.

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Office of the State Comptroller		
Audit	Major Finding(s)	Recommendation/Response
<p>Bath Central School District</p> <p>Online Banking 2018M-79</p> <p>7th Judicial District</p>	<p>District officials lacked adequate bank agreements for online banking transactions, did not dedicate a computer solely for user access to online banking, or provide cybersecurity training to employees. In addition, the Board did not adopt online banking policies and procedures to properly monitor and control online banking transactions and safeguard cash assets.</p>	<p style="text-align: center;">8 recommendations</p> <p>Recommendations focused on ensuring the sufficiency of written agreements with banks; designating a computer to be used for online banking transactions; ensuring that officials and employees receive adequate cybersecurity awareness training and training on online banking and IT policies; and adopting online banking policies and procedures.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>
<p>Berne-Knox-Westerlo Central School District</p> <p>Monthly Records and Reports 2018M-82</p> <p>3rd Judicial District</p>	<p>Detailed budget to actual reports and bank reconciliations were not provided to the Board timely.</p>	<p style="text-align: center;">2 recommendations</p> <p>Recommendations focused on ensuring that detailed budget to actual reports for revenue and expenditures, and bank reconciliations are presented to the Board in a timely manner.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>
<p>Carthage Central School District</p> <p>Financial Condition 2018M-93</p> <p>5th Judicial District</p>	<p>Unrestricted fund balance at the end of 2016-17 was \$6.2 million, or 9.9 percent of the next year's budget, and Impact Aid revenues were underestimated by an average of \$5.9 million each year from 2014-15 through 2016-17. In addition, the District's budgets included appropriated fund balance that was not used as planned to fund operations.</p>	<p style="text-align: center;">4 recommendations</p> <p>Recommendations focused on developing a plan to reduce unrestricted fund balance; updating long-term plans to include more realistic estimates of Impact Aid; adopting budgets that include realistic estimates for appropriations; and discontinuing the practice of appropriating fund balance that will not be used to fund District operations.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>

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<p>Dundee Central School District</p> <p>Information Technology 2018M-74</p> <p>6th and 7th Judicial District</p>	<p>District officials did not adopt adequate IT security policies and procedures or provide IT security awareness training for District employees.</p>	<p style="text-align: center;">9 recommendations</p> <p>Recommendations focused on the adoption of comprehensive IT security policies and procedures and plans to safeguard computerized assets and data; and providing IT security awareness training.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>
<p>Frontier Central School District</p> <p>Procurement of Professional Services 2018M-98</p> <p>8th Judicial District</p>	<p>District officials did not establish adequate written procedures for procuring professional services, and nine professional services providers were paid \$466,960 but the basis for selecting them was undocumented.</p>	<p style="text-align: center;">1 recommendation</p> <p>The recommendation focused on updating purchasing policies and procedures to ensure they include detailed guidance for procuring professional services.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>
<p>Iroquois Central School District</p> <p>Financial Management 2018M-102</p> <p>8th Judicial District</p>	<p>From July 1, 2014 through June 30, 2017 appropriations were overestimated by an average of \$2.3 million annually, which resulted in fund balances that were not needed to finance operations. In addition, reserves were overfunded, improperly restricted, not transparently budgeted, and not reported on annually.</p>	<p style="text-align: center;">4 recommendations</p> <p>Recommendations focused on adopting budgets with realistic, and transparent estimates of appropriations and appropriated fund balances; reviewing reserves to determine whether balances are necessary and reasonable; and providing the Board with an annual report on reserve funds.</p> <p>District officials generally disagreed with the recommendations but indicated they plan to initiate corrective action.</p>

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<p>King Center Charter School</p> <p>Information Technology 2018M-61</p> <p>8th Judicial District</p>	<p>Information technology (IT) policies and procedures for addressing breach notification, disaster recovery, data backup, password security, asset inventory, and user rights have not been adopted. In addition, inappropriate or questionable use was identified on six computers.</p>	<p style="text-align: center;">12 recommendations</p> <p>Recommendations focused on adopting written IT policies; providing periodic reports to the Board so it can provide sufficient oversight of IT operations; and ensuring employees periodically receive cybersecurity awareness training.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>
<p>New Hyde Park-Garden City Park Union Free School District</p> <p>Bank Reconciliations 2018M-80</p> <p>10th Judicial District</p>	<p>The District's book balance for the payroll bank account did not reflect the actual balance, and bank reconciliations were not reviewed by someone independent of the recordkeeping function.</p>	<p style="text-align: center;">2 recommendations</p> <p>Recommendations focused on ensuring that the payroll account adjustments are properly recorded; and ensuring bank reconciliations are reviewed by an individual independent of recording cash and journal entry transactions.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>
<p>North Merrick Union Free School District</p> <p>Purchasing 2018M-87</p> <p>10th Judicial District</p>	<p>No findings were identified, the District generally complied with New York State General Municipal Law and its purchasing policy.</p>	<p>There were no recommendations.</p>

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<p>Orchard Park Central School District</p> <p>Financial Management and Payroll 2018M-89</p> <p>8th Judicial District</p>	<p>The Board did not effectively manage district finances, which led to underestimated revenues, overestimated appropriations, appropriated fund balances that were not used, and an increase in the tax levy by a total of \$4.4 million from 2014-15 to 2017-18. In addition, three teachers were paid stipends at rates not established by a collective bargaining agreement (CBA), employment contract, or Board resolution.</p>	<p style="text-align: center;">8 recommendations</p> <p>Recommendations focused on developing budgets that include realistic estimates for revenues and appropriation of fund balances that would be used to fund operations; adopting a comprehensive reserve policy; and ensuring that all payments, pay rates, and stipends are paid at rates established by a CBA, employment contract or Board resolution.</p> <p>District officials generally disagreed with the recommendations but indicated they plan to initiate corrective action.</p>
<p>Port Jefferson Union Free School District</p> <p>Claims Processing 2018M-055</p> <p>10th Judicial District</p>	<p>No findings were identified, the claims audit process was adequately designed and properly implemented.</p>	<p>There were no recommendations.</p>
<p>Riverhead Charter School</p> <p>Debit Cards 2017M-254</p> <p>10th Judicial District</p>	<p>The School does not have a comprehensive debit card policy, and debit card purchases were not supported by purchase requisitions/orders, nor was there any indication that the Board reviewed them.</p>	<p style="text-align: center;">6 recommendations</p> <p>Recommendations focused on adopting a comprehensive debit card policy; ensuring purchases are included in the monthly disbursement reports presented to the Board; and minimizing the use of debit cards for purchases where sales tax is incurred.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>

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<p>Sagaponack Common School District</p> <p>Fund Balance Management 2018M-53</p> <p>10th Judicial District</p>	<p>Unrestricted fund balance as of June 30, 2017 was \$1.04 million, or 61 percent of the ensuing year's appropriations. In addition, adopted budgets were overestimated by an average of about \$360,000 from 2014-15 through 2016-17, and reserves were not properly established and overfunded.</p>	<p style="text-align: center;">6 recommendations</p> <p>Recommendations focused on using surplus funds to pay for one-time expenditures and needed reserves; adopting realistic annual budgets; using appropriated fund balance to fund operations; and determining if amounts reserved are necessary, reasonable and in compliance with statutory requirements.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>
<p>Schenevus Central School District</p> <p>Financial Condition 2018M-83</p> <p>6th Judicial District</p>	<p>District officials incorrectly projected 2016-17 fund balance, which caused them to budget more than what was available for the 2017-18. In addition, the cafeteria fund incurred deficits and ended 2016-17 with a negative fund balance.</p>	<p style="text-align: center;">2 recommendations</p> <p>Recommendations focused on monitoring the district's financial plan for stabilizing the general fund and addressing any unforeseen expenditure changes to expected funding; and exploring ways to reduce the cafeteria fund's reliance on the general fund.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>
<p>The Network for Children's Speech, Occupational & Physical Therapy, LLC</p> <p>Compliance with the Reimbursable Cost Manual 2017-S-79</p> <p>5th Judicial District</p>	<p>\$707,677 adjustment (.283% of \$2.5 million reported in reimbursable costs on the CFR)</p> <p>The Network for Children's Speech, Occupational & Physical Therapy, LLC (CTN) on its Consolidated Fiscal Reports (CFR) reported \$707,677 in costs that did not comply with the Reimbursable Cost Manual's requirements for reimbursement. These costs included \$668,259 in personal service costs, and \$39,418 in other than personal service costs.</p>	<p style="text-align: center;">4 recommendations</p> <p>Recommendations focused on the State Education Department (SED) reviewing disallowances and making the appropriate adjustments to CTN's CFR and tuition reimbursement rates; and CTN ensuring that costs reported on annual CFRs comply with SED's reimbursement requirements.</p> <p>SED and CTN officials generally agreed with the recommendations plan to take corrective action.</p>

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<p>West Valley Central School District</p> <p>Financial Management 2018M-7</p> <p>8th Judicial District</p>	<p>District officials overestimated appropriations by \$3.1 million from 2014-15 through 2016-17, and its reserve fund policy does not adequately address funding levels, which resulted in overfunded reserves that were not used.</p>	<p style="text-align: center;">4 recommendations</p> <p>Recommendations focused on the Board and District officials adopting budgets using realistic estimates of appropriations; using excess funds to fund one-time expenditures/necessary reserves and reduce property taxes; and adopting a more comprehensive reserve policy.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>
<p>Westfield Academy and Central School District</p> <p>Financial Management 2018M-67</p> <p>8th Judicial District</p>	<p>The Board appropriated fund balance that was not needed to fund operations, overestimated appropriations by approximately \$2.7 million, and did not adopt an adequate reserve fund policy. In addition, the unrestricted fund balance exceeded the statutory limit by four percent.</p>	<p style="text-align: center;">4 recommendations</p> <p>Recommendations focused on adopting budgets that include realistic estimates for expenditures and a more comprehensive reserve policy; and reducing the amount of unrestricted fund balance within the legal limit.</p> <p>District officials generally disagreed with the recommendations but indicated they plan to initiate corrective action.</p>
<p>Wyandanch Union Free School District</p> <p>Professional Services, Administrative Expenses and Fuel Inventory 2018M-24</p> <p>10th Judicial District</p>	<p>District officials did not use competitive methods to select nine professionals paid a total of \$849,696, could not fully account for gasoline and diesel fuel inventories, and did not comply with the district's travel policy. In addition, expenses for cell phones were not properly approved, documented, or necessary.</p>	<p style="text-align: center;">10 recommendations</p> <p>Recommendations focused on revising the procurement policy; developing procedures to account for fuel inventories; and ensuring that expenses for travel and cell phones are properly documented, necessary, and supported.</p> <p>District officials generally agreed with the recommendations and plan to initiate corrective action.</p>