



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:** March 4, 2013  
**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:

- New York State Single Audit – State Education Department Findings (Attachment I)
- 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**

New York State Single Audit – State Education Department Findings  
Staff from the accounting firm of KPMG will brief the Committee on six audit findings related to the Department’s administration of federal funds. (Attachment I)

Completed Audits including the Report of the Internal Audit Workgroup  
The Committee is being presented with 9 audits this month. (Attachments II & III)

Audits are provided as follows:

Office of Audit Services

New York City Department of Education  
Rochester City School District  
Syracuse City School District

Office of the State Comptroller

Cortland Enlarged City School District  
Hadley-Luzerne Central School District  
Hyde Park Central School District  
Kids & the Training Institute, Inc.  
Kids Quality Care, Inc.  
Pawling Central School District

**Recommendation**

No action required for presentation of audits.

**Timetable for Implementation**

N/A

The following materials are attached:

- Summary of New York State Single Audit Findings 2011-12 (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  
 Summary of  
 New York State Single Audit  
 4/1/11 – 3/31/12  
 State Education Department Findings

The audit examined the following federal programs;

Summer Food Service Program for Children	
Child Nutrition – School Lunch, Milk Program and Summer Food Service	
Title I-Grants to LEAs (regular and ARRA)	
Special Education	Grants to States (regular and ARRA) Preschool Grants (regular and ARRA)
21 <sup>st</sup> Century Community Learning Centers	
Improving Teacher Quality State Grants	
ARRA State Fiscal Stabilization Fund	Education State Grants Government Services
Education Jobs Fund	
Rehabilitation Services-Vocational Rehabilitation Grants to States (regular and ARRA)	

### **Six Findings**

#### **Finding number 12-06 - Summer Food Service Program for Children**

The Department (Child Nutrition) reported incorrect meal counts for one of the reports tested. The Department inadvertently reported the same data as the prior year. Review procedures did not operate effectively to ensure an accurate report was submitted.

#### **Finding number 12-07 – Child Nutrition -School Lunch, Milk Program and Summer Food Service**

The Office of General Services (OGS) manages the receipt, inventory and distribution of donated foods on behalf of the Department of Education. OGS did not conduct an annual physical inventory of donated USDA food for all of its distribution and warehouse centers. Additionally, from a sample of 25 USDA food inventory deliveries (out of 1931), one delivery receipt did not agree to the OGS records by approximately 3%.

#### **Finding number 12-08 – Title I Grants to LEAs (regular and ARRA), Special Education Grants to States (regular and ARRA), Special Education Preschool Grants (regular and ARRA), 21<sup>st</sup> Century Community Learning Centers, Improving Teacher Quality State Grants**

The Department (OMS Finance) does not appear to have met cash management requirements when funds are paid to sub recipients. The auditors found no procedures to ensure the sub recipients make related disbursements on a timely basis.

Finding number 12-09 – Special Education Grants to States and Preschool Grants (regular and ARRA)

The Department (P-12) did not monitor non-ARRA sub recipients for fiscal compliance (allowability of costs).

Finding number 12-10 – 21<sup>st</sup> Century Community Learning Centers, Improving Teacher Quality State Grants, ARRA State Fiscal Stabilization Fund Education State Grants and Government Services, and Education Jobs Fund

The Department (P-12) lacks routine or timely site visits to its sub recipients which may result in not being able to timely recognize noncompliance with laws, regulations and provisions of grant agreements or lack of performance goal achievement.

Finding number 12-11 – Rehab Services Vocational Rehabilitation Grants (regular and ARRA)

Based on a sample of ACCES VR consumer folders, the auditors determined that the requirements for eligibility determination were not always documented or not done on a timely basis.

**Corrective Actions**

The Department has submitted corrective action plans for each of the six findings. Those actions include developing a new monitoring protocol for special education, expanding existing monitoring procedures and providing training to Department staff.

**Regents Committee on Audits/Budget and Finance  
March 2013  
Review of Audits Presented  
Department's Internal Audit Workgroup**

Newly Presented Audits

We reviewed the nine audits that are being presented to the Committee this month. Six of the audits were issued by the Office of the State Comptroller (OSC) and three by the Office of Audit Services (OAS). Seven of the audits were of school districts and two were of preschool providers of special education services.

The findings were in the areas of procurement, financial reporting, claims processing, information technology, payroll, segregation of duties, Medicaid reimbursements, the Employment Preparation Education program and school improvement grants.

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 identified the following audits for specific attention by Department Staff.

New York City Department of Education – Employment Preparation Education (EPE) program  
Kids & the Training Institute, Inc.  
Kids Quality Care, Inc.

The Department's Internal Audit Workgroup determined the following audits required no specific follow up activities by Department staff.

Rochester City School District  
Syracuse City School District  
Cortland Enlarged City School District  
Hadley-Luzerne Central School District  
Pawling Central School District  
Hyde Park Central School District

**March 2013 Regents Audits/Budget and Finance Committee Meeting  
Summary of Audits Requiring Specific Attention**

<b>Audit Summary</b>	<b>Recommendation/Response</b>
<p><b>New York City Department of Education – Employment Preparation Education (EPE) program</b></p> <ul style="list-style-type: none"> <li>• OAS audit.</li> <li>• NYCDOE Office of Adult Continuing Education (OACE) oversees the EPE program in 8 Regions.</li> <li>• \$29.4M State aid in 2009-2010 in support of all 8 Regions.</li> <li>• Audit examined Region 5: \$4.3M in claims.</li> <li>• Found \$2.6M in unsupported costs.</li> </ul>	<p>The recommendations focused on strengthening controls over the documentation of EPE contact hours.</p> <p>OACE agreed with the recommendations.</p> <p><u>NEXT STEP:</u> Department will reduce future EPE payments to NYCDOE to recover \$2.6M unsupported funds.</p> <p>OAS will annually conduct an audit of the administration of the EPE program at one of the remaining 7 NYCDOE Regions.</p>
<p><b>Kids &amp; the Training Institute, Inc.</b></p> <ul style="list-style-type: none"> <li>• OSC audit</li> <li>• Agency received \$3.3M in public support during 2008-2009.</li> <li>• \$287,952 disallowance.</li> <li>• Agency non-compliant with provisions pertaining to less-than-arm’s-length (LTAL) relationship with another privately-owned special education company (Kids Quality Care, Inc.).</li> </ul>	<p>The recommendations focused on the Department adjusting reimbursement rates based on the disallowance and the agency compliance with procedural guidance on LTAL business relationships as outlined in the Reimbursable Cost Manual (Manual).</p> <p>Department agreed with the recommendations and will closely examine the circumstances that led to the findings described in the audit report.</p> <p><u>NEXT STEP:</u> Department will recalculate rates based on appropriate adjustments, provide technical assistance to agency and recommend agency officials attend Consolidated Fiscal Report (CFR) training.</p>
<p><b>Kids Quality Care Inc.</b></p> <ul style="list-style-type: none"> <li>• OSC audit</li> <li>• Agency received \$2.7M in public support during 2008-2009</li> <li>• \$237,926 disallowance</li> <li>• Agency non-compliant with provisions pertaining to</li> </ul>	<p>The recommendations focused on the Department adjusting reimbursement rates based on the disallowance and the agency compliance with procedural guidance on LTAL business relationships as outlined in the Reimbursable Cost Manual (Manual).</p> <p>Department agreed with the recommendations and will closely examine the circumstances that led to the</p>

<p>less-than-arm's-length (LTAL) relationship with another privately-owned special education company (Kids &amp; the Training Institute).</p>	<p>findings described in the audit report.</p> <p><u>NEXT STEP:</u> Department will recalculate rates based on appropriate adjustments, provide technical assistance to agency and recommend agency officials attend Consolidated Fiscal Report (CFR) training.</p>
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## March 2013 Regents Audits/Budget and Finance Committee Meeting Summary of Audit Findings

Audit	Procurement	Claims Processing	Payroll	Financial Reporting	Information Technology	Segregation of Duties	Revenue Enhancements	Other
<b>Office of Audit Services</b>								
* New York City Department of Education (footnote 1)				√	√			√
* Rochester City School District (footnote 2)								√
* Syracuse City School District (footnote 2)								√
<b>Office of the State Comptroller</b>								
Cortland City School District			√			√	√	
Hadley-Luzerne Central School District				√				
Hyde Park Central School District				√				
Pawling Central School District	√	√		√		√		
State Education Department and Kids & the Training Institute, Inc.				√				
State Education Department and Kids Quality Care, Inc.				√				
<b>March 2013</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>3</b>

- 1 Contact Hours
- 2 School Improvement Grant

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.



<b>Office of Audit Services</b>		
<b>Audit</b>	<b>Major Finding(s)</b>	<b>Recommendation/Response</b>
<p><b>New York City Department of Education EPE Program - For the Period July 1, 2009 through June 30, 2010 EPE-0907-1 1st, 2nd, 11th, 12th, 13th Judicial District</b></p>	<p><b>\$2,682,067 adjustment</b></p> <p>The New York City Department of Education (DOE)'s Office of Adult Continuing Education (OACE) oversees the Employment Preparation Education Program (EPE). For the period from July 1, 2009 to June 30, 2010 DOE received \$29.4 million in EPE funds in support of seven regions. The audit examined the appropriateness of \$4,395,130 in claims from 1 (Region 5) of the 8 adult education regions. Audit testing resulted in the following exceptions at Region 5:</p> <p>DOE was only able to provide documentation for 72 classes and 224,989 contact hours within those classes. In addition, documentation provided only supported 9,356 contact hours claimed for intake and assessment. In total only \$1,713,062 of the \$4,395,130 claimed could be supported. Future EPE payments to DOE will be reduced by \$2,682,067.</p> <p>OACE failed to secure student files prior to an asbestos abatement project resulting in missing documentation to support contact hours.</p> <p>Subsequent to the issuance of the draft audit report the Department agreed to examine substantially more documentation than was provided during initial field work. This documentation resulted in NYCDOE being credited with almost \$1 million in EPE funds.</p>	<p><b>3 recommendations</b></p> <p>It is recommended that DOE only claim contact hours supported by adequate attendance documentation, securely maintain student records, and properly document intake and assessment contact hours.</p> <p>NYCDOE agreed with the recommendations and have begun to implement corrective actions</p>
<p><b>Rochester City School District School Improvement Grant</b></p>	<p>The audit examined \$6,253,724 in School Improvement Grant (SIG) funds received by the District for the period July 1, 2010 to September 30, 2011. Non-salary expenditures were found in the amount of \$11,759, that should not have been charged</p>	<p><b>3 recommendations</b></p> <p>The report's recommendations focused on strengthening the</p>

<p><b>SD-1111-01</b> <b>7th Judicial District</b></p>	<p>to SIG.</p> <p>The District spent \$10,128 for a batting cage, swimwear, a coffee cart, and an electronic safe, all of which were not contained in their approved application or in the associated budget.</p> <p>The District also claimed \$1,631 in undocumented travel costs.</p>	<p>policies and procedures pertaining to SIG funds.</p> <p><i>The District agreed with the recommendations and indicated that they will implement corrective action.</i></p>
<p><b>Syracuse City School District</b> <b>School Improvement Grant</b> <b>SD-0112-01</b> <b>5th Judicial District</b></p>	<p>The audit examined \$5,492,732 in School Improvement Grant (SIG) funds received by the District for the period July 1, 2010 to September 30, 2011. The District claimed \$200 for an expenditure for goods that were not received and \$470 for an expenditure that benefited a non-School Improvement Grant building.</p> <p>The District also failed to meet the requirements set forth by OMB Circular A-87 requiring that salaries be supported by personnel activity reports.</p>	<p><b>2 recommendations</b></p> <p>The report's recommendations focused on strengthening policies and procedures pertaining to SIG funds.</p> <p><i>The District agreed with the recommendations and indicated that they will implement corrective action.</i></p>
<p><b>Office of the State Comptroller</b></p>		
<p><b>Audit</b></p>	<p><b>Major Finding(s)</b></p>	<p><b>Recommendation/Response</b></p>
<p><b>Cortland City School District</b> <b>Oversight of Financial Operations</b> <b>2012M-230</b> <b>6th Judicial District</b></p>	<p>The former Superintendent and Director of Business Services did not provide sufficient oversight over the District's financial operations. They both failed to properly assign users within the financial software, and Business Office staff performed incompatible duties without management's sufficient oversight or control.</p> <p>District officials failed to ensure that Business Office staff were billing for various reimbursements due to the District. As a result, the District lost out on at least \$52,000 in reimbursement revenues due.</p>	<p><b>3 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the oversight of financial operations.</p> <p><i>The District agreed with the recommendations and indicated that they will implement corrective</i></p>

		<i>action.</i>
<b>Hadley-Luzerne Central School District</b> <b>Financial Condition</b> <b>2012M-188</b> <b>4th Judicial District</b>	<p>The Board adopted budgets that cut costs by abolishing positions, outsourcing services or sharing them with other districts, and saving money on energy costs. Given the District's declining enrollment and the current economic climate, cost-cutting is prudent. However, the District's budgets did not cut revenues at the same pace.</p> <p>The District has accumulated an increasing amount of money in restricted fund balance, or reserves, and built up amounts of unexpended surplus funds that exceeded the legal limit in the past two years.</p> <p>Although the District appropriated more than \$1 million in unexpended surplus each year to help finance the ensuing year's budget, the District did not use these funds because it generated a surplus each year.</p> <p>The Board has also not yet developed a multi-year financial plan to improve the budget development process.</p>	<p><b>5 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the District's financial condition.</p> <p><i>The District agreed with the recommendations and indicated they planned to take corrective action.</i></p>
<b>Hyde Park Central School District</b> <b>Financial Management Practices</b> <b>2012M-172</b> <b>9th Judicial District</b>	<p>The Board and District officials did not ensure that budget estimates and reserve balances were reasonable and take corrective action to address the excessive fund balance in the general fund. In addition, the Board did not receive timely financial reports to evaluate the District's finances.</p> <p>During 2008-09, 2009-10 and 2010-11, the Board overestimated expenditures by approximately \$1.9 million. Expenditures were overestimated by over \$4 million in the 2011-12 budget.</p>	<p><b>7 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to financial management practices.</p> <p><i>District officials agreed with the recommendations and indicated that they will implement corrective action.</i></p>

	<p>The District's tax certiorari fund was over-funded by \$207,000 to \$636,000 for the three fiscal years ended June 30, 2010.</p> <p>The former treasurer did not prepare and present monthly reports to the Board and did not prepare bank reconciliations in a timely manner.</p>	
<p><b>Pawling Central School District Selected Financial Activities 2012M-185 9th Judicial District</b></p>	<p>The Board did not provide adequate oversight of the District's capital projects and tax certiorari reserve funds. District officials overfunded the High School Roof project and burdened District taxpayers with \$1.3 million in unnecessary borrowing. Further, the District paid approximately \$579,300 in tax certiorari claims from July 1, 2009 through June 30, 2012 from the general fund instead of using the tax certiorari reserve.</p> <p>The District's Audit Committee acted outside the scope of its authority.</p> <p>The District paid four professional service providers (legal, architectural, internal audit, and external audit) \$233,894 during the audit period without first soliciting competition.</p> <p>The Board did not properly segregate the treasurer's and deputy treasurer's duties over cash disbursements.</p>	<p><b>11 recommendations</b></p> <p>The recommendations focused on strengthening the policies and procedures pertaining to financial management practices.</p> <p><i>District officials agreed with the recommendations and indicated they will implement corrective action.</i></p>
<p><b>State Education Department and Kids &amp; the Training Institute, Inc. Compliance with the Reimbursable Cost Manual 2010-S-69</b></p>	<p><b>\$287,952 adjustment</b></p> <p>During the fiscal years ended June 30, 2008 and June 30, 2009 the Kids &amp; the Training Institute, Inc. (KTI) received \$3.3 million in public support. During that time KTI claimed \$287,952 in costs that were not properly calculated, adequately documented, or allowable. There were disallowances including \$215,592 in personal services and \$72,360 in other-than-personal services.</p>	<p><b>4 recommendations</b></p> <p>It is recommended that the Department review the disallowances and make the appropriate adjustments, and adjust KTI's reimbursement rates, as appropriate. It is also recommended that the Department</p>

	<p>The personal service disallowances consisted of \$44,824 in excess salary costs for its Executive Director, \$169,648 in unsupported bonus payments, and \$1,120 in gift cards to employees.</p> <p>The other-than-personal-service disallowances identified included (among a range of improper charges) \$31,577 for ineligible vehicle costs, \$16,389 for numerous personal expenses, and \$3,753 in expenses claimed for the private residence of the Executive Director.</p> <p>KTI did not comply with provisions of the Department's Reimbursable Cost Manual (Manual) pertaining to a less-than-arm's-length relationship with Kid's Quality Care (KQC) Inc., time and attendance records, and the classification of expenses.</p>	<p>direct KTI officials to comply with provisions pertaining to time and attendance records, the classification of expenses, and Department program site approval.</p> <p>It is also recommended that KTI comply with requirements of the Manual and other Department procedural guidance.</p> <p>The Department agreed with the findings and indicated that they will implement corrective action.</p> <p><i>KTI officials believe the report contains inaccuracies as well as certain instances where they believe that principles contained in the Manual have been misapplied or misinterpreted.</i></p>
<p><b>State Education Department and Kids Quality Care, Inc. Compliance with the Reimbursable Cost Manual 2010-S-68</b></p>	<p><b>\$237,926 adjustment</b></p> <p>During the fiscal years ended June 30, 2008 and June 30, 2009 Kids Quality Care, Inc. (KQC) received \$2.7 million in public support. During that time KQC claimed \$237,926 in costs that were not properly calculated, adequately documented, or allowable for the two years covered by the audit. The disallowances included \$138,136 in personal services and \$99,790 in other-than-personal services.</p> <p>The personal service disallowances consisted of \$73,258 in excess salary costs for its Executive Director/Owner and</p>	<p><b>4 recommendations</b></p> <p>It is recommended that the Department review the disallowances and make the appropriate adjustments and adjust KQC's reimbursement rates, as appropriate. It is also recommended that the Department direct KQC officials to comply with provisions pertaining to time and attendance records, the</p>

	<p>\$64,878 in unsupported bonus payments to employees.</p> <p>The other-than-personal service disallowances included \$31,925 for unapproved facility lease and improvement costs and \$32,120 for ineligible vehicle costs (among a range of ineligible expenses).</p> <p>KQC did not comply with provisions of the Department Manual (Manual) pertaining to a less-than-arms-length business relationship with Kids &amp; the Training Institute, Inc., time and attendance records, and the classification of expenses in its accounting records.</p>	<p>classification of expenses, and Department program site approval.</p> <p>It is also recommended that KQC comply with requirements of the Manual and other Department procedural guidance.</p> <p>The Department agreed with the findings and indicated that they will implement corrective action.</p> <p><i>KQC officials believe the report contains certain inaccuracies as well as certain instances where they believe that principles contained in the Manual have been misapplied or misinterpreted.</i></p>
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