



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 Financial Accountability
DATE: April 11, 2013

AUTHORIZATION(S):

J. B. G. G.
SUMMARY

Issues for Discussion

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

Completed Audits including the Report of the Internal Audit Workgroup (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

Completed Audits including the Report of the Internal Audit Workgroup
The Committee is being presented with 11 audits this month. (Attachments I & II)

Audits are provided as follows:

Office of the State Comptroller

Albany City School District

Helping Students Get Course Credit: Credit Recovery Programs in School Districts
KIPP Tech Valley Charter School
Mill Neck Manor School for the Deaf
Niskayuna Central School District
Patchogue-Medford Union Free School District
Pine Bush Central School District
Rotterdam-Mohonasen Central School District
South Glens Falls Central School District
Wayne Central School District

City of New York Office of the Comptroller

Audit Report on the Department of Education's Efforts to Address Student-to-Student Harassment, Intimidation, and/or Bullying in Compliance with Chancellor's Regulation A-832

Recommendation

No action required for presentation of audits.

Timetable for Implementation

N/A

The following materials are attached:

- Report of the Internal Audit Workgroup (Attachment I)
- Summary of Audit Findings Including Audit Abstracts (Attachment II)

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

Newly Presented Audits

We reviewed the eleven audits that are being presented to the Committee this month. Ten of the audits were issued by the Office of the State Comptroller (OSC) and one by the New York City Comptroller's Office. Seven of the audits were of school districts, one was of a charter school, one was a provider of special education services, one examined a reporting process within the New York City Department of Education, and one was of Credit Recovery Programs throughout the State. In October 2011, the Board of Regents requested that OSC conduct this particular audit. (See the Board of Regents P-12 Education Committee meeting item from October 2011 for more information.)

The findings were in the areas of financial reporting, information technology, segregation of duties, budgeting, student transportation, credit recovery and accuracy of certain student data.

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 determined the following audits required no specific follow-up activities by Department staff.

- Albany City School District
- KIPP Tech Valley Charter School
- Mill Neck Manor School for the Deaf
- Niskayuna Central School District
- Patchogue-Medford Union Free School District
- Rotterdam-Mohonasen Central School District
- South Glens Falls Central School District
- NYC DOE Audit Report on the Department of Education's Efforts to Address Student-to-Student Harassment, Intimidation, and/or Bullying in Compliance with Chancellor's Regulation A-832

The Department's Internal Audit Workgroup identified the following audits for specific attention by Department Staff.

- Helping Students Get Course Credit: Credit Recovery Programs in School Districts
- Pine Bush Central School District
- Wayne Central School District

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

Audit Summary	Recommendation/Response
<p>Pine Bush Central School District Budgeting Practices and Transportation Cost Savings</p> <ul style="list-style-type: none"> • OSC Audit • Routinely overestimated expenditures • Districts unexpended surplus increased from \$4 million in 2010 to \$8.9 million in 2012 • Exceeded the Real Property Tax Law (RPTL) limit by \$4.8 million. 	<p>The report's recommendations focused on strengthening the policies and procedures pertaining to the adoption of realistic budgets, the maintenance of unexpended surplus funds, and the development of a plan to use the surplus fund in a manner that is beneficial to taxpayers. It is also recommended that the Board evaluates the efficiency of bus routes, and reduce the number of bus routes to utilize school bus capacity.</p> <p><i>District officials agreed with the findings and indicated they will implement corrective action.</i></p> <p><u>Next Step</u> Department staff will review Corrective Action Plan and monitor compliance through the submission of subsequent financial statements.</p>
<p>Wayne Central School District Financial Management</p> <ul style="list-style-type: none"> • OSC Audit • Over the last five years consistently underestimated revenues and overestimated expenditures by \$20.5 million • To comply with the Real Property Tax Law limit on unassigned fund balance, the District identified a portion of fund balance to be used in the subsequent year and it was not needed. • Transferred \$14 million to reserves without plan or documented need. 	<p>The report's recommendations focused primarily on strengthening the policies and procedures pertaining to budgeting practices, encumbrances, and reserves.</p> <p><i>District officials disagreed with the majority of the recommendations, but indicated they would implement corrective action.</i></p> <p><u>Next Step</u> Department staff reviewed the subsequent year financial statements and determined that the district did experience a \$3.3 million deficit which reduced fund balance by that amount. Staff will review the Corrective Action Plan and monitor compliance through the submission of subsequent financial statements.</p>
<p>Helping Students Get Course Credit: Credit Recovery Programs (CRPs) in School Districts</p> <ul style="list-style-type: none"> • OSC Audit 	<p>The report's recommendations focused on strengthening the policies and procedures pertaining to alignment of CRP courses with the Learning Standards, use of certified teachers to directly instruct/supervise students in CRP and proper</p>

<ul style="list-style-type: none"> • Eight districts reviewed. All districts provided evidence to show that CRPs aligned with the Learning Standards. However, current measure is very easy to meet. More explicit Department expectations for demonstrating alignment is needed. • Four districts could not prove that CRP students were instructed by teachers certified in the applicable subject areas. 	<p>approval of students' participation in the program. It also recommends the districts ask the Department to define review actions and documentation requirements to ensure online CRP courses align with the Learning Standards.</p> <p><i>Only two of the eight districts responded. They generally agreed with the findings and recommendations.</i></p> <p><u>Next Step</u> Department staff will develop additional guidance on review actions and documentation requirements related to online CRP courses.</p>
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March 2013 Regents Audits/Budget and Finance Committee Meeting Summary of Audit Findings

Audit	Financial Reporting	Information Technology	Segregation of Duties	Budgeting	Other
Office of the State Comptroller					
Albany City School District		√			
Helping Students Get Course Credit: Credit Recovery Programs in School Districts (footnote 3)					√
** KIPP Tech Valley Charter School					
Mill Neck Manor School for Deaf Children	√				
Niskayuna Central School District	√				
Patchogue-Medford Union Free School District				√	
* Pine Bush Central School District (footnote 2)	√			√	√
** Rotterdam-Mohonasen Central School District					
South Glens Falls Central School District			√		
Wayne Central School District	√			√	
Office of the State Comptroller					
* New York City Department of Education (footnote 1)					√
April 2013	4	1	1	3	3

- 1 Compliance with Chancellor's Regulation A-832
 2 Transportation
 3 Credit Recovery Programs
 ** No recommendations

The Department's Internal Audit Workgroup met to review each of the audits being presented this month. Letters will be sent to all of the auditees reminding them of the requirement to submit a corrective action plan.

Office of the State Comptroller

Audit	Major Finding(s)	Recommendation/Response
<p>AlbanyCitySchool District Separation Payments and Information Technology 2012M-251 3rd Judicial District</p>	<p>During the audit period, 32 employees left District service and received separation payments totaling \$722,738. Generally, District officials calculated the correct amount for separation payments provided to the employees leaving District service. Except for two minor exceptions, which were discussed with District officials, generally the District has appropriate internal controls over employee separation payments and those controls are operating effectively.</p> <p>In 2010, District officials developed a disaster recovery plan; however, the Board has not formally adopted the plan. Also, the plan does not sufficiently address all necessary components and does not contain the level of detail necessary to ensure that the computer system could be restored in a timely manner. Further, the District has not tested the plan to ensure it can be implemented in emergency situations, or that management and staff understands how it is to be executed. Finally, all employees had not been made aware of the plan.</p>	<p>2 recommendations</p> <p>It is recommended the District calculate separation payments in accordance with the provisions in employee contracts or Board resolutions, and that the disaster recovery plan is reviewed and modified to include all of the components of an effective plan.</p> <p><i>The District agreed with the recommendations and indicated they will implement corrective action.</i></p>
<p>Helping Students Get Course Credit: Credit Recovery Programs in School Districts 2012-MS-8 3rd, 4th, 5th, 6th, 7th, 8th and 10th Judicial Districts</p>	<p>Eight districts that offer Credit Recovery Programs (CRPs) from across New York State were audited. All eight districts, with minimal exception, provided evidence to the Department's satisfaction that CRPs aligned with the Learning Standards. However, the Department's current measure of satisfactory alignment is very easy to meet. More explicit Department expectations for demonstrating alignment with Learning Standards would provide better assurance that online CRPs provide intensive instruction in a subject that is equivalent to teacher-provided classroom instruction. Seven of the eight districts did not approve students' participation in CRPs in accordance with Regulations. Four districts could</p>	<p>4 recommendations</p> <p>It is recommended the Districts ensure that all CRP courses are aligned with the Learning Standards to ensure adequacy of education and awarding of appropriate educational credit. Properly approve students' participation in CRPs in accordance with Regulations, and document their approval process.</p>

	<p>not prove that CRP students were instructed by teachers certified in the applicable subject areas.</p>	<p>Ensure that teachers certified in the appropriate subject areas directly instruct, or supervise the instruction, of students in CRP courses.</p> <p><i>Only two of the eight districts responded. They generally agreed with the findings and recommendations.</i></p> <p><i>Department staff will develop additional guidance on review actions and documentation requirements related to online CRP courses.</i></p>
<p>KIPP Tech Valley Charter School Enrollment and Billing 2012M-256 3rd Judicial District</p>	<p>While overall the internal controls appear adequate, risk existed in the area of enrollment and billing school districts of residence. Therefore, the School's current related billing process for the period July 1, 2011, through August 31, 2012 was reviewed.</p> <p>Upon review, it was evident that the School had accurately billed the school districts of residence and had maintained adequate supporting documentation for the students.</p>	<p>There were no recommendations.</p>
<p>Mill Neck Manor School for Deaf Children Compliance With the Reimbursable Cost Manual 2011-S-40 10th Judicial District</p>	<p>\$282,169 adjustment</p> <p>The audit found \$282,169 in non-reimbursable costs reported on the Mill Neck School's CFRs for the two fiscal years ended June 30, 2010. During this time Mill Neck claimed \$16.7 million in reimbursable expenses.</p> <p>These non-reimbursable costs include \$72,505 in personal service costs, \$198,911 in other-than-personal-service costs</p>	<p>2 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures pertaining to non-reimbursable expenses and compliance with the cost manual.</p>

	<p>(OTPS) and \$10,753 in contracted direct care costs. For example, the Mill Neck School's Executive Director, who also oversees the other entities comprising the Mill Neck Family of Organizations, received \$338,361 in compensation for the two fiscal years ended June 30, 2010. By prorating his salary based on operating expenses it was determined that just \$214,712 of this amount should have been allocated to the Mill Neck School.</p> <p>The Mill Neck School also billed the Department \$7,688 for accrued vacation expenses which are not reimbursable until they are actually paid.</p> <p>There were also \$89,500 in inappropriate depreciation expenses, and the loan interest thereon, associated with certain major repairs because Mill Neck School officials did not submit the repair proposals for pre-approval by SED as required.</p> <p>Finally, \$48,063 in costs claimed by the Mill Neck School were either not related to the program or were unsupported.</p>	<p><i>The Department agreed with the recommendations and indicated they will implement corrective action.</i></p> <p><i>Mill Neck officials believe that some of the recommended disallowances are inappropriate and excessive. They state they appreciate the suggestions offered to improve procedures and are committed to the careful and appropriate use of public funds. They have redoubled efforts to assure accurate reporting and compliance with the Reimbursable Cost Manual.</i></p>
<p>Niskayuna Central School District Financial Condition 2012M-218 4th Judicial District</p>	<p>District officials' appropriation of fund balance in excess of the amount actually available to fund operations resulted in an unassigned fund balance deficit of \$1.5 million as of June 30, 2011.</p> <p>District officials addressed this situation by implementing reductions to budgeted expenditures in the 2011-12 fiscal year. The District's latest annual report shows the deficit was eliminated as of June 30, 2012.</p>	<p>2 recommendations</p> <p>It is recommended that the Board adopt a comprehensive fund balance policy that clearly communicates fund balance details to District taxpayers. It is also recommended that the District continue to closely monitor the use of fund balance and ensure that there are other funding sources available, should the fund balance no longer be available to fund</p>

		<p>District operations.</p> <p><i>The District agreed with the recommendations and indicated they will implement corrective action.</i></p>
<p>Patchogue-Medford Union Free School District 2013-14 Budget Review B7-13-1 10th Judicial District</p>	<p>The significant revenue and expenditure projections in the tentative budget are reasonable.</p> <p>The District's 2013-14 tentative budget includes the appropriation of \$5 million of fund balance to help finance 2013-14 operations. District officials project that approximately \$12.6 million in fund balance may be available.</p> <p>The District's proposed budget complies with the tax levy limit because it includes a tax levy of \$100,750,000, which increases the 2013-14 tax levy within the limits established by law. In adopting the 2013-14 budget, the District should be mindful of the legal requirement to maintain the tax levy increase to no more than 2 percent, unless 60 percent of District residents vote to exceed this statutory limit.</p>	<p>1 recommendation</p> <p>It is recommended that the District closely monitor its fund balance to ensure that action is taken, if necessary, to identify other funding sources that can be used if fund balance is no longer available to fund District operations.</p>
<p>Pine Bush Central School District Budgeting Practices and Transportation Cost Savings 2012M-238 9th Judicial District</p>	<p>The Board and District officials routinely overestimated expenditures in the District's annual budget. Total expenditures were overestimated by approximately \$4.8 million in the 2009-10 fiscal year and \$3.6 million in both the 2010-11 and 2011-12 fiscal years. As a result, the District's unexpended surplus funds increased from approximately \$4 million at June 30, 2010 to \$6.8 million at June 30, 2011, and to \$8.9 million at June 30, 2012. The District's unexpended surplus fund balance at June 30, 2012 exceeded the limit set by Real Property Tax Law (RPTL) by over \$4.8 million.</p> <p>Further, the elementary, middle, and high school bus runs were evaluated and the total capacity based on the number of</p>	<p>5 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the adoption of realistic budgets, the maintenance of unexpended surplus funds, and the development of a plan to use the surplus fund in a manner that is beneficial to taxpayers. It is also recommended that the Board evaluates the efficiency of bus routes, and reduce</p>

	<p>buses assigned to those routes and the average number of students actually riding these buses, were calculated. The District had excess capacity on 124 of the 210 routes reviewed. These routes were compared to determine if any could be combined to reduce the number of buses used by the District. Six routes were identified that could potentially be reduced to three. It is estimated that by eliminating these three bus routes, the District could potentially save over \$130,000 per year.</p>	<p>the number of bus routes to utilize school bus capacity.</p> <p><i>District officials agreed with the findings and indicated they will implement corrective action.</i></p>
<p>Rotterdam-Mohonasen Central School District Claims Processing 2013M-19 4th Judicial District</p>	<p>District officials have established adequate controls over the claims processing function that allow claims to be audited in a timely manner and in accordance with District policy and Education Law.</p> <p>During the audit period, 40 claims (totaling \$176,364) were selected for the period July 1, 2011, to October 31, 2012. The claims were reviewed for proper documentation, authorization, and itemization of the goods or services and accompanying receipts. The claims were also reviewed to ensure they were for a legitimate District purpose and were audited and approved by the claims auditor prior to payment. All claims reviewed were for a legitimate District purpose and were properly audited in a timely manner and in compliance with District policy and Education Law.</p>	<p>There were no recommendations.</p>
<p>South Glens Falls Central School District Access Rights 2012M-257 4th Judicial District</p>	<p>The Board has not adopted comprehensive policies to ensure that access to the District's financial system is restricted to only those functions required by individual employees' job duties.</p> <p>District officials also have not implemented access controls to ensure proper segregation of duties within the financial system and to limit access to users based on their job descriptions and responsibilities.</p>	<p>3 recommendations</p> <p>It is recommended that the Board adopt comprehensive policies to limit financial system access rights to only those functions that employees need to perform their job duties, assign financial system access rights to match respective job functions, and designate an</p>

		<p>employee outside the business office as the District's financial system administrator.</p> <p><i>The District agreed with the recommendations and indicated they will implement corrective action.</i></p>
<p>Wayne Central School District Financial Management 2012M-229 7th Judicial District</p>	<p>The Board and District officials have not fulfilled their fiduciary responsibility. Over the last five years, District officials consistently underestimated revenues and overestimated expenditures in the adopted budgets by a total of \$20.5 million. As a result, the District had operating surpluses totaling \$13.8 million, which caused the accumulated fund balance to exceed the statutory maximum of 4 percent of the ensuing year's budget. To make it appear that the fund balance was within statutory limits, District officials: appropriated \$4.6 million in fund balance that was not needed to fund the budget, created fictitious encumbrances (by at least \$3.1 million for the 2009-10 and 2010-11 years); and transferred approximately \$14 million to the District's reserves with no documented plan or justification for their excessive funding levels. In routinely using these inappropriate practices, District officials have, in effect, circumvented the 4 percent fund balance limit, levied more real property taxes than necessary, and retained large amounts of taxpayer dollars without full disclosure and transparency.</p>	<p>6 recommendations</p> <p>The report's recommendations focused primarily on strengthening the policies and procedures pertaining to budgeting practices, encumbrances, and reserves.</p> <p><i>District officials disagreed with the majority of the recommendations, but indicated they would implement corrective action.</i></p>
New York City Office of the Comptroller		
Audit	Major Finding(s)	Recommendation/Response
<p>New York City Department of Education Audit Report on the</p>	<p>This audit concluded that the Department of Education (DOE) provides support to the City's schools in regards to addressing, investigating, and following up complaints of student-to-student bias-related bullying, harassment, and/or</p>	<p>5 recommendations</p> <p>It is recommended that OORS be modified to allow it to</p>

<p>Department of Education's Efforts to Address and Report Student-to-Student Harassment, Intimidation, and/or Bullying in Compliance with Chancellor's Regulation A-832 MJ12-073A 1st, 2nd, 11th, 12th, 13th Judicial District</p>	<p>intimidation. However, this support did not adequately ensure that those incidents were treated in a consistent manner among city schools. Further, although DOE's Online Occurrence Reporting System (OORS) is accessed and used by all schools citywide to report behavioral incidents, the database was not designed, and through at least the end of the 2011/2012 school year, had not been modified to make possible the identification of all incidents that fall under Chancellor's Regulation No. A832 (CR-A832). Therefore, for the period under review, reasonable assurance could not be obtained to ensure that the City's public schools consistently complied with CR-A832.</p>	<p>comprehensively and effectively track and identify all bias-related incidents, including CR-A832 violations, and to ensure that school principals understand what is required of them regarding CR-A832 violations and that they comply with those requirements. It is also recommended that DOE enhance its oversight of the school-reporting process and establish more effective controls to better ensure that bias-related incidents are entered in OORS.</p> <p><i>DOE agreed with the recommendations and indicated they will implement corrective action.</i></p>
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