



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: June 10, 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:

Update on Department Actions to Address Concerns Identified in a State Comptroller's Report on Granting Credit Recovery (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

Update on Credit Recovery Audit

The members of the Committee will be briefed on planned Department actions to address weaknesses identified by the Comptroller's audit of the use of Credit Recovery Programs in school districts. (Attachment I)

Completed Audits including the Report of the Internal Audit Workgroup

The Committee is being presented with 19 audits this month. (Attachments II & III)

Audits are provided as follows:

Office of Audit Services Audits

Falconer Central School District
Geneva City School District
Yonkers City School District

Office of the State Comptroller Audits

Beacon City School District
Campbell-Savona Central School District
Chenango Valley Central School District
College of Mount Saint Vincent TAP Audit
East Moriches Union Free School District
Fabius-Pompey Central School District
Fairport Central School District
Genesee Community Charter School
Lake Grove School and Mountain Lake Children's Residence
Liberty Central School District
Maine Endwell Central School District
Monroe-Woodbury Central School District
North Colonie Central School District
Oppenheim-Ephratah Central School District
Urban Choice Charter School

New York City Office of the Comptroller

Audit Report on the Performance of the Department of Education's Children First Network 406

Recommendation

No action required for presentation of audits.

Timetable for Implementation

N/A

The following materials are attached:

- Update on Credit Recovery Audit (Attachment I)
- Report of the Internal Audit Workgroup (Attachment II)
- Summary of Audit Findings Including Audit Abstracts (Attachment III)

Update on Credit Recovery Audit

The following are planned Department actions to address weaknesses identified by the Comptroller's audit of the use of Credit Recovery Programs in school districts. These actions address concerns with documenting alignment to learning standards, ensuring the use of certified teachers, and ensuring proper district approval of student participation.

NYSED Recommendations for Credit Recovery Guidance

1. Develop guidance on methods for districts to ensure that all credit recovery program (CRP) courses are aligned with P-12 New York State Learning Standards (including the Common Core) to ensure adequacy of education and awarding of appropriate educational credit.
2. Develop guidance on review actions that districts should take, and the documentation requirements they should meet, to ensure that online CRP courses align with the P-12 New York State Learning Standards (including the Common Core).
3. Provide documentation requirements that districts should meet to ensure that teachers who are certified in the appropriate subject area(s) provide direct instruction, or supervise the instruction, of students in CRP courses.
4. Provide documentation requirements that districts should meet to ensure CRP alignment to section 100.5(d)(8) of Commissioner's Regulations, Making Up Incomplete or Failed Course Credit.
5. Develop guidance on how districts should properly approve students' participation in CRPs in accordance with the Commissioner's Regulations, and document their approval process.

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

Newly Presented Audits

We reviewed the 19 audits that are being presented to the Committee this month. Three of the audits were issued by the Office of Audit Services, 15 by the Office of the State Comptroller (OSC) and one by the New York City Comptroller's Office. Fifteen of the audits were of school districts, two were of charter schools, one was a College, and one examined the use of a network within the New York City Department of Education.

The findings were in the areas of claims processing, cash, financial reporting, information technology, capital construction, budgeting, the Tuition Assistance Program, and the use of a network.

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.

- College of Mount Saint Vincent TAP Audit
- Fairport Central School District
- Genesee Community Charter School
- North Colonie Central School District
- Urban Choice Charter School
- Audit Report on the Performance of the Department of Education's Children First Network 406
- Beacon City School District
- Campbell-Savona Central School District
- Chenango Valley Central School District
- East Moriches Union Free School District
- Fabius-Pompey Central School District
- Liberty Central School District
- Maine Endwell Central School District
- Monroe-Woodbury Central School District
- Oppenheim-Ephratah Central School District

The Department's Internal Audit Workgroup identified the following audits either for specific attention by Department Staff or to bring to the Committee's attention for informational purposes.

Use of Unique Student Identifiers

Falconer Central School District

Geneva City School District

Yonkers City School District

Claims Processing

Lake Grove School and Mountain Lake Children's Residence

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

Audit Summary	Recommendation/Response
<p>Unique Student Identifier Falconer Central School District, Geneva City School District, and Yonkers City School District</p> <ul style="list-style-type: none"> • OAS Audit • None of the three districts had formal policies and procedures in place to resolve records placed in the Hold Queue. • One district inaccurately assigned IDs in 68 percent of cases. • Two district’s assignments of IDs were mostly accurate. 	<p>The reports recommendations focused on developing or strengthening policies governing the review and resolution of student records identified in the New York State Student Identification System (NYSSIS) Hold Queue.</p> <p>When a student’s demographic data is entered into NYSSIS, the system checks the database to determine if the data matches any existing records. If no match is found, a <i>new</i> unique student ID is created. If a match is found, the <i>existing</i> ID is assigned to the student. A “Near Match” results if the system cannot determine if the data submitted matches an existing record that contains one or more similar data elements. As such the record is placed in a <i>Hold Queue</i>. Districts are required to use any additional information they may have on the student to either match an existing student ID or issue a new ID.</p> <p><i>One District official agreed with the findings and indicated they will implement corrective action. The two other districts did not provide responses to the draft report.</i></p> <p><u>Next Step</u> A report summarizing the results of the three audits has been provided to the Department's Office for Information and Reporting Services. The office is aware of the actions being requested of Districts, and are prepared to assist Districts in addressing issues identified in the report.</p>
<p>Lake Grove School and Mountain Lake Children’s Residence Maintenance and Tuition Payments</p> <ul style="list-style-type: none"> • OSC Audit • Dual agency audit (Office of children and Family Services and State Education Department) 	<p>The recommendations focused on the Department adjusting reimbursement rates based on the disallowance and conducting periodic site visits. The report also recommends the Department require the schools to maintain adequate documentation to support reimbursement claims.</p> <p><i>Department agreed with the recommendations.</i></p> <p><u>Next Step:</u> Department will recalculate rates based on</p>

<ul style="list-style-type: none">• Providers reported \$63.3M in reimbursable expenses during 2005-2009.• \$7.7 million disallowance related to inappropriate and/or unsupported costs.• \$356,061 in third party revenue should have offset reported expenditures.	appropriate adjustments, provide technical assistance to agency and recommend agency officials attend Consolidated Fiscal Report (CFR) training.
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June 2013 Regents Audits/Budget and Finance Committee Meeting Summary of Audit Findings

Audit	Claims Processing	Cash	Financial Reporting	Information Technology	Capital Construction	Budgeting	Assistance Program (TAP)	Other
Office of Audit Services								
Falconer Central School District				√				
Geneva City School District				√				
Yonkers City School District				√				
Office of the State Comptroller								
** Beacon City School District								
Campbell-Savona Central School District						√		
Chenango Valley Central School District						√		
College of Mount Saint Vincent TAP Audit							√	
** East Moriches Union Free School District								
** Fabius-Pompey Central School District								
Fairport Central School District			√		√			
Genesee Community Charter School		√						
Liberty Central School District						√		
** Maine-Endwell Central School District								
** Monroe-Woodbury Central School District								
North Colonie Central School District	√							
** Oppenheim-Ephratah Central School District								
State Education Department, Office of Children and Family Services, The Lake Grove School, and Mountain Lake Children's Residence	√							
Urban Choice Charter School				√				

Audit	Claims Processing	Cash	Financial Reporting	Information Technology	Capital Construction	Budgeting	Assistance Program (TAP)	Other
New York City Office of the Comptroller								
* New York City Department of Education (footnote 1)								√
June 2013	2	1	1	4	1	3	1	1

1 The Children First Network (CFN)

** 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 school district auditees reminding them of the requirement to submit a corrective action plan.

Office of Audit Services		
Audit	Major Finding(s)	Recommendation/Response
<p>Falconer Central School District Unique Student Identifier SD-1212-02 8th Judicial District</p>	<p>The District has not established formal written procedures governing the review and resolution of students identified in the New York State Student Identification System (NYSSIS) Hold Queue.</p> <p>The audit looked at 35 students in the Hold Queue. The District created a new ID for 24 students that should have been matched to an existing ID. The existing ID in NYSSIS had the same student name and date of birth and in some cases, a common guardian, place of birth, immunization date, or phone number as well. During the audit, a District official also confirmed that the records should have been matched to existing IDs. The remaining 11 students were either properly matched to existing IDs or new IDs were appropriately created.</p>	<p>3 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the review and resolution of student records identified in the NYSSIS.</p> <p><i>The District agreed with the recommendations and has already implemented corrective action.</i></p>
<p>Geneva City School District Unique Student Identifier SD-1212-03 7th Judicial District</p>	<p>The District has not established formal written procedures governing the review and resolution of students identified in the New York State Student Identification System (NYSSIS) Hold Queue. The lack of procedures may have contributed to the length of time taken to resolve a Near Match in the Hold Queue. The District took on average 26 days to resolve a Near Match for 2011-12 school year; nearly 80 percent of school districts in the State resolve them in less than 4 days.</p> <p>The District accurately resolved most of the Near Match records in the Hold Queue for the 2011-12 school year. 33 records were tested and found the District created a new ID in error for 2 records that should have been matched to existing IDs.</p>	<p>3 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the review and resolution of student records identified in the NYSSIS.</p> <p><i>The District did not provide a written response to the draft audit report.</i></p>

<p>Yonkers City School District Unique Student Identifier SD-0113-06 9th Judicial District</p>	<p>The District has not established formal written procedures governing the review and resolution of students identified in the New York State Student Identification System (NYSSIS) Hold Queue.</p> <p>The District accurately resolved most of the Near Match records in the Hold Queue for the 2011-12 school year. All 165 records were tested and it was found that the District accurately resolved all but four records, and could not provide documentation to support the decision regarding one student record.</p>	<p>3 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the review and resolution of student records identified in the NYSSIS.</p> <p><i>The District did not provided a written response to the draft audit report.</i></p>
<p>Office of the State Comptroller</p>		
<p>Audit</p>	<p>Major Finding(s)</p>	<p>Recommendation/Response</p>
<p>Beacon City School District 2013-2014 Budget Review B6-13-10 9th Judicial District</p>	<p>The significant revenue and expenditure projections in the proposed budget are reasonable. The District's proposed budget complies with the property tax levy limit.</p>	<p>There are no recommendations.</p>
<p>Campbell-Savona Central School District 2013-2014 Budget Review B2-13-12 7th Judicial District</p>	<p>Individual significant revenue and expenditure projections in the tentative budget appear reasonable. However, the tentative budget, as well as those from the last five years, is likely to produce an operating surplus. As a result, fund balance appropriated as a financing source is unlikely to be used and the District's fund balance will continue to increase.</p> <p>The District's tentative budget complies with the property tax levy limit.</p>	<p>1 recommendation</p> <p>It is recommended that the District review the tentative budget and use unexpended surplus funds in excess of the 4 percent limit to benefit taxpayers.</p>

<p>Chenango Valley Central School District 2013-2014 Budget Review B4-13-11 6th Judicial District</p>	<p>The significant revenue and expenditure projections in the proposed budget are reasonable.</p> <p>The budgeted revenues and appropriations for the food service fund are higher than average actual results.</p> <p>The District's proposed budget complies with the property tax levy limit.</p>	<p>1 recommendation</p> <p>It is recommended that the District adopt a food service fund budget that more closely aligns with previous years' actual results of operations, unless there are some known reasons for such increases.</p>
<p>East Moriches Union Free School District 2013-2014 Budget Review B7-13-3 10th Judicial District</p>	<p>The significant revenue and expenditure projections in the proposed budget are reasonable. The District's proposed budget complies with the property tax levy limit set by statute.</p>	<p>There are no recommendations.</p>
<p>Fabius-Pompey Central School District 2013-2014 Budget Review B3-13-5 5th Judicial District</p>	<p>The significant revenue and expenditure projections in the proposed budget are reasonable.</p> <p>The District's proposed budget included a tax levy that is over the statutory limit by \$58,246.</p>	<p>There are no recommendations.</p> <p>District officials plan to adjust the proposed budget as needed to ensure it does not exceed the tax levy limit.</p>
<p>Fairport Central School District Financial Condition and Capital Improvement Project Expenditures 2013M-23 7th Judicial District</p>	<p>Over the last five years, the District's tax levy only had an average change of 1.09 percent. However, District officials' conservative budgeting practices generated \$15.8 million in net operating surpluses. As a result of these operating surpluses, the accumulated fund balance exceeded the statutory maximum of 4 percent of the ensuing year's budget.</p> <p>To reduce the fund balance and stay within the 4 percent limit, District officials transferred moneys to the District's reserves and have continuously increased the amount of fund balance appropriated which has gone unused for the last four years.</p>	<p>4 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to financial reporting and capital construction.</p> <p><i>The District responded to the recommendations by indicating that they had already taken actions that comply with the intent of the</i></p>

	<p>As a result, the District's general fund's fund balance increased to \$48,661,075 as of June 30, 2012.</p> <p>The District did not solicit proposals for approximately \$2.7 million in professional services for a capital improvement project (CIP), as required by the District's policy.</p> <p>Expenditures for architectural services were not properly supported.</p>	<p><i>recommendations.</i></p>
<p>Genesee Community Charter School Revenue Billing and Collection 2013M-61 7th Judicial District</p>	<p>Revenues from resident school districts, School meals and field studies are properly billed, collected, recorded, and reported. However, the School has not developed procedures to segregate the collecting, recording, and reconciling of School meal and field study revenues.</p> <p>Monies received are held by the Coordinator of School Operations who also prepares the deposits and reconciles the bank statements without independent review of the deposits or reconciliations.</p>	<p>1 recommendation</p> <p>It is recommended that the Board require that bank and cash receipts reconciliations for School meal and field study collections be performed by someone independent of the cash receipts process.</p> <p><i>School officials agreed with the recommendations and indicated they would implement corrective action.</i></p>
<p>Liberty Central School District 2013-2014 Budget Review B4-13-4 3rd Judicial District</p>	<p>Except for certain matters related to the food service fund, the significant revenue and expenditure projections in the proposed budget are reasonable.</p> <p>The proposed 2013-14 fiscal year budget for the food service fund includes appropriated fund balance in the amount of \$36,162. Through February 28, 2013, the food service fund had spent \$10,517 more than they received in revenue, which reduces the available fund balance to \$39,040. Depending on the results of operations for the rest of this fiscal year, the food service fund may not have \$36,162 available to</p>	<p>2 recommendations</p> <p>It is recommended that the District prepare a projection of year-end fund balance for the food service fund to determine how much fund balance they can reasonably appropriate before they adopt their 2013-14 budget.</p> <p>It is also recommended that the</p>

	<p>appropriate at the end of the 2012-13 fiscal year.</p> <p>The food service fund relies on significant transfers from the general fund each year. The subsidies will only continue to drain the general fund's fund balance.</p> <p>The District's proposed budget complies with the property tax levy limit set by statute.</p>	District develop a long-term plan to reduce the need for general fund subsidies to fund the food service fund.
<p>Maine-Endwell Central School District 2013-2014 Budget Review B4-13-14 6th Judicial District</p>	<p>Individual significant revenue and expenditure projections in the proposed budget appear reasonable. The District's proposed budget complies with the property tax levy limit.</p>	There are no recommendations.
<p>Monroe-Woodbury Central School District 2013-2014 Budget Review B6-13-6 9th Judicial District</p>	<p>The significant revenue and expenditure estimates in the District's proposed budget are reasonable. The District's proposed budget complies with the property tax levy limit set by statute.</p>	There are no recommendations
<p>North Colonie Central School District Claims Processing 2013M-9 3rd Judicial District</p>	<p>The Board adopted claims processing policies which require all claims to be audited prior to payment except for certain allowed exceptions. District policy requires the claims auditor to ensure that all claims are properly authorized, itemized, supported and that goods and services have been received in the amount and price as ordered prior to payment.</p> <p>Forty-five claims were randomly selected from all funds (totaling \$60,051) during the audit period. The claims were tested to see if they were properly supported and audited in a timely manner. All of the 45 claims tested were audited timely and properly supported.</p>	<p>1 recommendation</p> <p>It is recommended that the Board ensure no claim against the District, other than those specifically allowed by Education Law, is paid prior to audit and approval by the claims auditor.</p> <p><i>The District agreed with the recommendation and indicated they will implement corrective</i></p>

	<p>However, the District reimbursed its dental insurance provider via automated clearing house (ACH) debits for payments made on behalf of District employees, totaling \$554,458, during the audit period. District officials stated these claims were not audited prior to payment.</p>	<p><i>action.</i></p>
<p>Oppenheim-Ephratah Central School District Business Office Operations 2013M-70 4th Judicial District</p>	<p>The District established adequate internal controls over Business Office operations. Board policies and written procedures have been developed and adhered to by staff for cash receipts and disbursements, payroll, purchasing, and claims processing.</p> <p>Furthermore, District officials had developed appropriate segregation of duties amongst business office staff where possible and also implemented various reviews of the work performed as mitigating controls.</p>	<p>There are no recommendations.</p>
<p>State Education Department and Higher Education Services Corporation Audit of the Tuition Assistance Program at the College of Mount Saint Vincent 2011-T-3</p>	<p>\$319,468 adjustment</p> <p>The College of Mount Saint Vincent received \$7.3 million in Tuition Assistance Program (TAP) awards for the three academic years ended on June 30, 2010. The audit found that the College was overpaid \$319,468 (4.3 percent) because School officials incorrectly certified students as eligible for TAP awards. The accuracy of the school's certifications (for the three-year period ended June 30, 2010) was tested by reviewing a sample of 200 randomly-selected awards.</p> <p>Fifteen payments (totaling \$23,523) were disallowed for a variety of reasons, including payments for students who were not in good academic standing or did not meet the full-time attendance requirement. The projection of these 15 awards to the school's population of TAP payments for the three-year period resulted in an audit disallowance of \$301,100.</p>	<p>3 recommendations</p> <p>It is recommended that HESC recover \$319,468, plus applicable interest, from Mount Saint Vincent for its incorrect TAP certifications, and to ensure that Mount Saint Vincent officials comply with requirements relating to the certification of enrolled and attending students, and the crediting of awards cited in this report.</p> <p>It is recommended that the Department ensure Mount Saint Vincent officials comply with Department requirements relating</p>

	<p>There was also a disallowance of 18 additional awards (totaling \$25,221) from outside of the three-year period relating to students in the sample.</p> <p>School officials decertified and returned the associated payments to the Higher Education Services Corporation (HESC) for eight awards totaling \$6,853.</p>	<p>to matriculation, full-time attendance, and good academic standing cited in this report.</p>
<p>State Education Department, Office of Children and Family Services, The Lake Grove School, and Mountain Lake Children's Residence Maintenance and Tuition Payments to The Lake Grove School and Mountain Lake Children's Residence 2009-S-90</p>	<p>\$7.7 million adjustment</p> <p>During the four fiscal years ended June 30, 2009, Lake Grove and Mountain Lake reported \$45 million and \$18.3 million, respectively, in reimbursable expenses. There were as much as \$7.7 million in inappropriate and/or unsupported costs claimed for reimbursement by the Lake Grove School and Mountain Lake Children's facilities. Such costs included payments to the CEO and other Board members.</p> <p>In addition, there was \$356,061 in revenues received by these Facilities for the three years ended June 30, 2008, that should have offset reported expenditures. Neither the Department nor the Office of Children and Family Services (OCFS) has adequately monitored the claimed expenses submitted by Lake Grove and Mountain Lake.</p>	<p>7 recommendations</p> <p>It is recommended that the Department and OCFS follow up on inappropriate expenses, revise reimbursement rates, and seek restitution for any overpayments. Additionally, they should conduct periodic site visits to the residences, require supporting documentation, revise reimbursement guidelines, and improve validation procedures.</p> <p>It is recommended that Lake Grove and Mountain Lake provide proper training to Board Directors, and ensure that the reporting of reimbursable expenses comply with Department and OCFS guidelines.</p> <p><i>The Department, OCFS, Lake Grove and Mountain Lake officials all agreed with the recommendations and indicated</i></p>

		<i>they will implement corrective action.</i>
Urban Choice Charter School Information Technology 2013M-53 7th Judicial District	<p>The Board has not established adequate internal controls over the School's Information Technology (IT) system to ensure the School's computerized data and assets are safeguarded from internal and external threats.</p> <p>The Board also has not established policies and procedures related to remote access, data backup, computer security, and data breach.</p> <p>Finally, the Board has not adopted a disaster recovery plan to address potential disasters.</p>	<p>4 recommendations</p> <p>It is recommended that the Board adopt comprehensive policies and procedures related to remote access, data backup, computer security, and data breach, as well as establish a comprehensive disaster recovery plan.</p> <p><i>The School agreed with the recommendations and indicated they will implement corrective action.</i></p>
New York City Office of the Comptroller		
Audit	Major Finding(s)	Recommendation/Response
New York City Department of Education Audit Report on the Performance of the Department of Education's Children First Network 406 MG12-107A 1st, 2nd, 11th, 12th, 13th Judicial District	<p>The New York City Department of Education (DOE) supports its schools through the Children First Networks (CFNs), which provide both instructional and operational support to the schools. CFN 406 provided instructional and operational support to its schools in accordance with DOE policies and procedures. DOE evaluates network performance on an annual basis by using an evaluating structure that consists of four components: Progress Report, Quality Review, Qualitative Network Evaluation, and Principal Satisfaction Survey.</p> <p>Satisfaction with the services provided by CFN 406 was confirmed by the four school principals interviewed. However, it is difficult to determine whether that support increased the</p>	<p>3 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the development of quantifiable criteria to determine the performance of the CFN, the Principal Satisfaction Survey, and the solicitation of feedback from other school officials who work with the CFNs.</p> <p><i>DOE officials agreed to implement</i></p>

	<p>efficiency of the schools' day-to-day operations as was anticipated by some of DOE's expectations for the CFNs. Specifically, DOE's current evaluation structure and the way each component is being used to measure network performance, is concerning. For two of these components, the Progress Report and the Quality Review, a network's contribution to the scores allotted to the schools cannot be directly ascertained. For another component, the Qualitative Network Evaluation, the evaluation is based primarily on activities planned by a network rather than the outcome or effectiveness of those activities. The remaining component, the Principal Satisfaction Survey, appears to be the best suited of the four to provide feedback on the work performed by a network. However, DOE is not sufficiently utilizing this tool.</p>	<p><i>two of the three recommendations in the report and disagreed with the recommendation to develop quantifiable criteria and standards, asserting that DOE already holds CFNs accountable for school performance through its annual Progress Reports and Quality Reviews.</i></p>
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