



TO: Audits/Budget and Finance Committee

FROM: Sharon Cates-Williams *Sharon Cates-Williams*

SUBJECT: Board of Regents Oversight of Financial Accountability

DATE: May 31, 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 including the Report of the Internal Audit Workgroup (Attachments I & II).

Reason(s) for Consideration

For information.

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 including the Report of the Internal Audit Workgroup
The Committee is being presented with 10 audits this month (Attachments I & II).

Audits are provided as follows:

Office of the New York State Comptroller

Alternatives for Children
Chenango Valley Central School District
Clifton-Fine Central School District
Interdisciplinary Center for Child Development
Salamanca City School District
Saranac Central School District
Schalmont Central School District
School for Language and Communication Development
Science Academies of New York Charter Schools
South Buffalo Charter School

Recommendation

No action required for audit initiatives and presentation of audits.

Timetable for Implementation

N/A

The following materials are attached:

- Report of the Internal Audit Workgroup and Summary of Audit Findings including Audit Abstracts (Attachments I and II).

**Regents Committee on Audits/Budget and Finance
June 2018
Review of Audits Presented
Department's Internal Audit Workgroup**

Newly Presented Audits

The Department's Internal Audit Workgroup reviewed the 10 audits that are being presented to the Committee this month. Ten audits were issued by the Office of the New York State Comptroller (OSC). Five audits were of school districts, three were of providers of special education services, and two were of charter schools.

The findings were in the areas of budget/financial reporting, capital construction, extra classroom activity funds, internal controls, payroll/leave accruals, 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.

The Internal Audit Workgroup reviewed all the audits and determined that there are no specific audits to bring to the Committee's attention.

**June 2018 Regents Audits/Budget and Finance Subcommittee Meeting
Summary of Audit Findings**

Audit	Budgeting/Financial Reporting	Capital Construction	Extra Classroom Activity Fund	Payroll/Leave Accrual	Reimbursable Cost Manual Compliance
Alternatives for Children					√
Chenango Valley Central School District	√				
Clifton-Fine Central School District	√				
Interdisciplinary Center for Child Development					√
Salamanca City School District	√			√	
Saranac Central School District	√		√		
Schalmont Central School District	√				
School for Language and Communication Development					√
Science Academies of New York Charter Schools		√			
South Buffalo Charter School				√	
June 2018	5	1	1	2	3

Summary of Current and Prior Audit Finding

	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018	April 2018	May 2018	June 2018	Running Total
Banking	0	0	0	1	0	0	2	1	0	0	0	0	4
Budgeting/Financial Reporting	0	6	2	2	0	9	1	1	3	3	4	5	36
Capital Assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Construction	0	0	0	0	0	0	0	0	1	1	0	1	3
Cash	0	0	0	0	0	0	0	0	0	1	0	0	1
Charter School Management/Tuition	0	0	1	0	0	0	0	0	0	0	0	0	1
Claims Processing	0	0	0	1	0	1	1	0	0	0	2	0	5
Conflict of Interest	0	1	0	0	0	0	0	0	0	0	0	0	1
Extraclassroom Activity Fund	0	1	1	0	1	0	0	2	1	0	1	1	8
Fuel Accountability/Energy Management	0	0	1	0	0	0	0	0	0	0	1	0	2
Grant Reporting Compliance	0	1	0	0	0	0	0	0	0	0	0	0	1
Information Technology	1	0	3	0	0	1	2	1	1	1	0	0	10
Internal Controls	0	0	0	2	0	3	3	1	3	0	1	0	13
Payroll/Leave Accruals	0	0	0	1	0	1	1	0	2	2	2	2	11
Procurement	0	0	0	1	0	1	3	0	2	0	0	0	7
Reimbursable Cost Manual Compliance	1	1	2	2	1	5	2	2	1	0	0	3	20
Tuition Assistance Program (TAP)	0	0	0	0	0	0	1	0	0	0	0	0	1
Other	2	5	1	0	2	2	4	6	1	0	2	0	25
Total	4	15	11	10	4	23	20	14	15	8	13	12	149

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

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/Internal Controls – 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.

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.

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.

Segregation of Duties – includes weakness in control caused by individuals having responsibility for incompatible functions.

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 safety reporting, and separation benefits in various audit reports.

Audit Report Abstracts
Regents Committee on Audits/Budget and Finance
June 2018

Office of the State Comptroller		
Audit	Major Finding(s)	Recommendation/Response
<p>Alternatives for Children</p> <p>Compliance with the Reimbursable Cost Manual 2017-S-44</p> <p>10th Judicial District</p>	<p>\$253,494 adjustment (0.98% of \$25.9 million reported in reimbursable costs on the CFR)</p> <p>The audit identified \$253,494 in ineligible costs reported by the Alternatives for Children (Alternatives) on its Consolidated Fiscal Reports (CFR) that did not comply with the Reimbursable Cost Manual's (RCM) requirements for reimbursement. The ineligible costs included \$122,966 in personal service costs and \$130,528 in other than personal service costs.</p>	<p style="text-align: center;">3 recommendations</p> <p>The report's recommendations focused on the State Education Department (SED) officials reviewing disallowances and making the appropriate adjustments to Alternatives' CFR and tuition reimbursement rates; and ensuring that costs reported on annual CFRs fully comply with SED's reimbursement requirements.</p> <p>SED officials generally agreed with the recommendations, and indicated they planned to take corrective action. Alternatives officials generally disagreed with some of the proposed disallowances.</p> <p>.</p>
<p>Chenango Valley Central School District</p> <p>2018-2019 Budget Review B18-4-3</p> <p>6th Judicial District</p>	<p>The District's revenue and expenditure projections in the proposed budget are reasonable.</p>	<p>There were no recommendations.</p>

Audit Report Abstracts
Regents Committee on Audits/Budget and Finance
June 2018

<p>Clifton-Fine Central School District</p> <p>Financial Condition 2017M-297</p> <p>4th Judicial District</p>	<p>The Board overestimated appropriations by over \$1 million each year during the fiscal years 2014-15 through 2016-17 and did not develop a multiyear financial plan to address its financial condition.</p> <p>In addition, the District retained over \$425,000 in the debt service fund without using the money to pay off related debt.</p>	<p style="text-align: center;">5 recommendations</p> <p>The report's recommendations focused on the Board and District officials developing realistic estimates of appropriations; adopting a multiyear financial plan; and using money in the debt service fund to pay related debt services expenditures within the statutory requirements.</p> <p>District officials generally agreed with the recommendations and indicated they plan to initiate corrective action.</p>
<p>Interdisciplinary Center for Child Development</p> <p>Compliance with the Reimbursable Cost Manual 2017-S-31</p> <p>10th and 11th Judicial District</p>	<p>\$453,670 adjustment (1.50% of \$30.2 million reported in reimbursable costs on the CFR)</p> <p>The audit identified \$453,670 in ineligible costs reported by the Interdisciplinary Center for Child Development (ICCD) on its CFR that did not comply with the RCM's requirements for reimbursement. The ineligible costs included \$178,558 in personal service costs and \$275,112 in other than personal service costs.</p>	<p style="text-align: center;">3 recommendations</p> <p>The report's recommendations focused on the SED officials reviewing disallowances and making the appropriate adjustments to ICCD's CFR and reimbursement rates; and ensuring that costs reported on future CFRs fully comply with SED's reimbursement requirements.</p> <p>SED officials generally agreed with the recommendations, and indicated they planned to take corrective action. ICCD officials generally disagreed with some of the proposed disallowances.</p>

Audit Report Abstracts
Regents Committee on Audits/Budget and Finance
June 2018

<p>Salamanca City School District</p> <p>Financial Management and Payroll 2017M-138</p> <p>8th Judicial District</p>	<p>The Board and District officials did not adopt or incorporate multiyear financial and capital plans into their annual budgeting process which resulted in the unrestricted fund balance exceeding the statutory limit by \$17 million. The audit also found that the Board and District officials did not effectively manage four reserve funds with balances totaling approximately \$4.1 million.</p> <p>In addition, the Board and District officials did not adopt and develop written payroll policies to ensure employees are accurately paid their salaries and wages.</p>	<p style="text-align: center;">7 recommendations</p> <p>The report's recommendations focused on the Board and District officials developing and adopting comprehensive multiyear financial and capital plans; maintaining the unrestricted fund balance within the statutory limit; analyzing all reserve balances to determine whether balances are necessary and reasonable in accordance with statutory requirements; and adopting written payroll policies and procedures to ensure that CBAs clearly identify employee salary step information.</p> <p>District officials generally disagreed with the recommendations but indicated they plan to initiate corrective action.</p>
<p>Saranac Central School District</p> <p>Financial Management and Extra-Classroom Activities 2017M-274</p> <p>4th Judicial District</p>	<p>The Board and District officials did not develop formal, written multiyear financial or capital plans which resulted in the District's unrestricted fund balance exceeding the statutory limit from 2014 - 15 through 2016 -17 by 11.6 percentage points.</p> <p>The audit also found that the Board and District officials did not establish policies and procedures to safeguard Extra-Classroom Activity (ECA) funds.</p> <p>In addition, the Central Treasurer did not reconcile the records with the student treasurers' records and the student treasurers did not retain adequate supporting documentation for ECA cash receipts and disbursements.</p>	<p style="text-align: center;">6 recommendations</p> <p>The report's recommendations focused on the Board and District officials developing comprehensive multiyear financial and capital plans; ensuring that the amount of unrestricted fund balances comply with statutory requirements; establishing policies and procedures over ECA cash receipts and disbursements; ensuring the Central Treasurer's ledger reconcile with student treasurers' ledgers; and student treasurers and faculty advisors retaining adequate supporting documentation for all ECA receipts and disbursements.</p> <p>District officials generally agreed with the recommendations and indicated they plan to initiate corrective action.</p>

Audit Report Abstracts
Regents Committee on Audits/Budget and Finance
June 2018

<p>Schalmont Central School District</p> <p>Financial Condition Management 2018M-15</p> <p>4th Judicial District</p>	<p>District officials did not properly manage finances or ensure fund balance budgets were realistic which resulted in the unrestricted fund balance exceeding the statutory limits in fiscal years 2015-16 and 2016-17 by 2.94 and 6.73 percentage points, respectively.</p> <p>In addition, the District accounted for certain proceeds in the general fund instead of the debt service fund, which caused the general fund balance to be overstated.</p>	<p style="text-align: center;">2 recommendations</p> <p>The report's recommendations focused on District officials ensuring the amount of the unrestricted fund balance comply with the statutory limit; and continuing to monitor the capital fund and transfer any excess funds to the appropriate fund in a timely manner.</p> <p>District officials agreed with the recommendations and indicated they planned to initiate corrective action.</p>
<p>School for Language and Communication Development</p> <p>Compliance with the Reimbursable Cost Manual 2017-S-59</p> <p>10th Judicial District</p>	<p>\$38,741 adjustment (0.004% of \$8.1 million reported in reimbursable costs on the CFR)</p> <p>The audit identified \$38,741 in ineligible costs reported by the School for Language and Communication Development (SLCD) on its CFR that did not comply with the RCM requirements for reimbursement. The ineligible costs included \$38,643 in personal service costs and \$98 in other than personal service costs.</p>	<p style="text-align: center;">3 recommendations</p> <p>The report's recommendations focused on the SED officials reviewing disallowances and making the appropriate adjustments to SLCD's CFR and reimbursement rates; and ensuring that costs reported on future CFRs fully comply with SED's reimbursement requirements.</p> <p>SED officials generally agreed with the recommendations, and indicated they planned to take corrective action. SLCD officials generally disagreed with some of the proposed disallowances.</p>

Audit Report Abstracts
Regents Committee on Audits/Budget and Finance
June 2018

<p>Science Academies of New York Charter Schools</p> <p>Purchase versus Lease of Buildings 2017M-279</p> <p>5th Judicial District</p>	<p>The Board did not conduct a thorough cost-benefit analysis when deciding the option on whether to lease or purchase its school building.</p>	<p style="text-align: center;">2 recommendations</p> <p>The report's recommendations focused on the Board performing and documenting a thorough cost-benefit analysis before making major financial commitments.</p> <p>District officials generally disagreed with the recommendations, but indicated they planned to initiate corrective action.</p>
<p>South Buffalo Charter School</p> <p>Employee Compensation 2018M-1</p> <p>8th Judicial District</p>	<p>The Board did not ensure employee salaries and wages were specified in the collective bargaining agreement (CBA) or supported by written documentation. The audit also found that the Board did not adopt a clear and comprehensive written payroll policy consistent with the provisions in the school's bylaws and charter.</p> <p>In addition, School officials did not ensure adequate written documentation pertaining to employees' compensation were retained in personnel files and provided to employees on an annually basis.</p>	<p style="text-align: center;">3 recommendations</p> <p>The report's recommendations focused on the Board and School officials ensuring all employee compensation is specified in the CBA; and adopting clear and comprehensive written payroll policies consistent with the school's bylaws and charter.</p> <p>District officials generally agreed with the recommendations and indicated they plan to initiate corrective action.</p>