



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
SUBJECT: Board of Regents Oversight – Financial Accountability
DATE: October 4, 2011
AUTHORIZATION(S):

SUMMARY

Issues for Discussion

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

1. Review of the Monthly Fiscal Report
2. 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

1. **Review of the Monthly Fiscal Report**
The Committee will be updated on the Department State Operations expenditure and revenue projections.

2. 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 Audit Services

Hannibal Central School District ARRA
New York City Department of Education ARRA

Office of the State Comptroller Audits

Briarcliff Manor Union Free School District
East Ramapo Central School District
Lavelle School for the Blind Follow-up Report
Phoenix Central School District
Plainedge Union Free School District
Professional Business College TAP Audit

City of New York Office of the Comptroller

Collection and Reporting of School Capacity and Utilization Data by the
Department of Education and the School Construction Authority
Department of Education's Utilization of the Absent Teacher Reserve Pool

Recommendation

For items one (Review of the Monthly Fiscal Report) and two (Completed Audits) no further action is recommended.

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
October 2011
Review of Audits Presented
Department's Internal Audit Workgroup**

Newly Presented Audits

We reviewed the 10 audits that are being presented to the Committee this month. Two of the audits were issued by the Office of Audit Services (OAS), six by the Office of the State Comptroller (OSC), and two by the City of New York's Office of the Comptroller. Eight of the audits were of school districts including three of the New York City Department of Education. The remaining two consist of one audit which examined the Tuition Assistance Program (TAP) payments of a degree-granting college, and one audit was a follow-up audit on a school providing special education services.

The findings were in the areas of procurement, payroll, cash, information technology, extraclassroom activity fund, budgeting, compliance with ARRA requirements, cost savings, the TAP program, and the tracking of school building capacity and use of the Teacher Reserve Pool.

The Department has issued letters to the 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 one of the audits for further review and follow-up. That audit was of the East Ramapo Central School District which identified failure of Board members to reimburse the District for health insurance; a lack of competitive bidding for the procurement of professional services; failure to control significant text book inventory and purchases; and poor projecting of fund balance levels. The Department has met with other agencies regarding the District, and will look into the textbook aid impact of the lack of inventory controls.

Audit	Procurement	Payroll	Information Technology	Extraclassroom Activity Fund	Budgeting	Tuition Assistance Program (TAP)	Other
Office of Audit Services							
* Hannibal Central School District (footnote 2)							√
* New York City Department of Education (footnote 2)							√
Office of the State Comptroller							
* Briarcliff Manor Union Free School District (footnote 3)			√				√
* East Ramapo Central School District (footnote 4)	√				√		√
Lavelle School for the Blind	√	√					
Phoenix Central School District		√					
Plainedge Union Free School District		√	√	√			
Professional Business College (2010-T-3)						√	
New York City Office of the Comptroller							
* New York City Department of Education (footnote 5)							√
* New York City Department of Education (footnote 1)							√
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- 1. Absent Teacher Reserve Pool
American Recovery and Reinvestment Act (ARRA)
- 2. Funds
- 3. Custodial Services
- 4. Management Oversight
- 5. School Capacity

** 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 Audit Services		
Audit	Major Finding(s)	Recommendation/Response
<p>Hannibal Central School District Use of American Recovery and Reinvestment Act (ARRA) Funds Awarded for the July, 1 2009 - June 30, 2010 School Year. ARRA-0411-29 5th Judicial District</p> <p>Contract for Excellence</p>	<p>The District appropriately charged 55 percent of an employee's salary to ARRA-IDEA 611 for their related efforts to that program; however, the District charged 78 percent this individual's fringe benefits to ARRA-IDEA 611 resulting in \$3,676 being overcharged.</p> <p>Additionally, the District did not establish sufficient appropriations for the ARRA-ESF accounts. The District had an approved budget of \$877,022 for ARRA-ESF, but the District only appropriated \$544,556. Consequently, available balances for ARRA-ESF in the District's accounting system inaccurately appeared as negative \$332,466.</p> <p>The District had a process in place to certify time and effort of employees. However, there were errors found in some personnel activity reports.</p> <p>Finally, the District also did not have a process for ensuring compliance with federal cash management requirements.</p>	<p>5 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to ARRA funds use.</p> <p><i>The District agreed with the recommendations and has indicated that they will implement corrective action.</i></p>
<p>New York City Department of Education (NYCDOE) Use of American Recovery and Reinvestment Act (ARRA) Funds Awarded for the July, 1 2009 – June 30, 2010 School Year ARRA-0910-21 1st, 2nd, 11th, 12th,</p>	<p>New York City Department of Education (NYCDOE) charged ARRA-Title I \$1,418 for 80 children and 60 adults to visit the Bronx Zoo as a reward for 100 percent attendance for at least three months. This amount was charged to parental involvement in the FS-10-F. Additionally, NYCDOE charged ARRA-Title I \$7,656 for two performances at the Lincoln Center Institute attended mostly by students. These costs were charged to professional services-curriculum and professional development in the FS-10-F. The appropriateness of these charges is being questioned, because they did not meet the approved uses of purchased services as established in the FS-10.</p>	<p>7 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the use of ARRA funds.</p> <p><i>NYCDOE agreed with the recommendations and indicated that they will implement corrective action.</i></p>

<p>13th Judicial District</p> <p>Contract for Excellence</p>	<p>NYCDOE was also very late in the submission of their FS-10-Fs. Three FS-10-Fs were submitted in December 2010 and one was submitted February 2011.</p> <p>Finally, NYCDOE does not have a process to calculate and remit interest earned on federal funds in excess of \$100 annually.</p>	
<p>Office of the State Comptroller</p>		
<p>Audit</p>	<p>Major Finding(s)</p>	<p>Recommendation/Response</p>
<p>Briarcliff Manor Union Free School District Custodial Staffing Levels and Access Rights</p> <p>2011M-100</p> <p>9th Judicial District</p>	<p>District officials have not implemented adequate performance measures to efficiently manage staffing levels at its buildings and grounds department. If District officials used meaningful performance measures to determine the most efficient way to use their custodial staff resources, the District could eliminate the need for an outside contractor and save District taxpayers up to \$344,000 annually. In addition, the treasurer and a payroll clerk were allowed greater access rights to the District's financial system than is required to effectively perform their job functions.</p>	<p>3 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to financial software, access rights, and custodial services.</p> <p><i>District officials disagreed with the amount of potential savings but did agree with the recommendations and agreed to implement corrective action.</i></p>
<p>East Ramapo Central School District Internal Controls Over Selected Financial Activities</p> <p>2011M-52</p> <p>9th Judicial District</p>	<p>District officials allowed the Board president, vice president, and a Board member to continue receiving health insurance coverage while neglecting to reimburse the District. As of June 2010, the two Board members had health insurance coverage even though the Board president owed \$9,017, and the other Board member owed \$6,655, for a total of \$15,672.</p> <p>In addition, the vice president defaulted on his health insurance payments from June 2009 through November 2009, owing a balance of \$1,282. However, on January 1,</p>	<p>11 recommendations</p> <p>The recommendations focused on strengthening the policies and procedures pertaining to management oversight, and budgeting practices.</p> <p><i>District officials indicated they would specifically address the</i></p>

	<p>2010, he finally paid the District this amount and cancelled his health insurance.</p> <p>Furthermore, District officials failed to procure professional services totaling \$2.4 million through the use of competition, and allowed two professionals to be paid \$495,023 despite the lack of written agreements.</p> <p>Finally, District officials inaccurately projected a June 30, 2010 fund balance of \$13,153,000 when preparing the District's 2010-11 budget. In fact, the District's audited financial statement showed a June 30, 2010 fund balance of \$17,793,047.</p>	<p><i>recommendations through the Corrective Action Plan. They did indicate disagreement with the health insurance premiums issue related to three individuals and with the extent of the use of RFP's.</i></p>
<p>Lavelle School for the Blind Selected Financial Management Practices Follow-Up Report 2011-F-9 12th Judicial District</p>	<p>The initial audit report examined the system of controls over procurement, cash disbursements, and payroll, and was issued on January 14, 2010.</p> <p>The follow-up report determined that school officials have made significant progress in correcting the problems that were identified in the initial report. However, improvements are still needed. Of the nine prior audit recommendations, six have been implemented, and three recommendations have been partially implemented.</p>	<p>The recommendations that were partially implemented were those pertaining to policy and procedures when competitive bidding is not required, the documentation of purchases, and the notification of part-time employees related to membership in the Employee Retirement System (ERS).</p> <p>The remainder of the recommendations have been implemented.</p>
<p>Phoenix Central School District Internal Controls Over Payroll 2011M-148 5th Judicial District</p>	<p>Although the payroll clerk has developed an informal system to process payroll, the Board has not established written policies and procedures for payroll processing, District officials have not adequately segregated payroll duties, and each employee's responsibilities have not been defined. Management has also not instituted mitigating controls, such as verification of payroll changes, or conducting a payroll</p>	<p>5 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to internal controls over payroll.</p>

	<p>audit. These control deficiencies leave the District vulnerable to payroll-related errors and irregularities that may not be detected and corrected.</p>	<p><i>The District agreed with the recommendations and have indicated that they will implement corrective action.</i></p>
<p>Plainedge Union Free School District Internal Controls Over Selected Financial Operations 2011M-32 10th Judicial District</p>	<p>The District has not administered Extraclassroom Activity (ECA) fund monies, which totaled more than \$318,000 in 2009-10, in accordance with its own regulations or those of the New York State Commissioner of Education.</p> <p>District officials also failed to establish a standard workday by contract or Board resolution for 117 of 304 employees in seven job titles.</p> <p>Additionally, the District did not retain signed forms on file acknowledging New York State and Local Retirement System (NYSLRS) membership notification to 83 of the 100 optional employee files that were reviewed. The District also needs to improve its controls over information technology.</p>	<p>13 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the extraclassroom activity fund, retirement reporting, and information technology.</p> <p><i>The District agreed with the recommendations and have indicated that they will implement corrective action.</i></p>
<p>Professional Business College Tuition Assistance Program (TAP) Audit 2010-T-3 1st Judicial District</p>	<p>The Professional Business College (PBC) was overpaid \$5,438, because school officials incorrectly certified three students as eligible for Tuition Assistance Program (TAP) awards. The accuracy of the school's certifications for the three-year period ended June 30, 2009, by reviewing a sample of 150 randomly-selected awards. For the transactions tested, it was determined that the PBC complied, in most material respects, with certification requirements. However, the testing of these, and other awards, identified three ineligible awards totaling \$5,438.</p>	<p>2 recommendations</p> <p>It is recommended that the Higher Education Services Corporation (HESC) recover \$5,438, plus applicable interest, from PBC.</p> <p>It is also recommended that the Department ensure that PBC officials comply with Department requirements relating to full-time attendance, and good academic standing, cited in this report.</p>

New York City Office of the Comptroller

Audit	Major Finding(s)	Recommendation/Response
<p>New York City Department of Education (DOE) Audit Report on the Collection and Reporting of School Capacity and Utilization Data by the Department of Education and the School Construction Authority ME11-064A 1st, 2nd, 11th, 12th, 13th Judicial District</p> <p>Contract for Excellence</p>	<p>Controls over the collection and reporting of school capacity data in the Blue Book need to be improved. The audit identified some deficiencies in the data collection process leading up to the reporting of capacity figures and utilization rates in the Enrollment-Capacity-Utilization Report (Blue Book.)</p> <p>Principals have not been adequately informed by DOE and the School Construction Authority (SCA) about the importance of their roles in the collection of school capacity data and that SCA could improve its monitoring of the principals' reporting on this data. The comparison of actual school room functions to the ones the principals noted on the surveys for the 23 sample schools, disclosed that the functions of almost one-quarter of the sampled rooms were reported incorrectly by the principals, and that more than two-fifths of these had implications for the capacity data presented in the Blue Book. The comparison of room sizes as indicated on school building blueprints to the sizes the principals noted on the surveys for the 23 schools disclosed that the sizes of more than one-third of the sampled rooms were reported incorrectly by the principals, and that about one-sixth of these had implications for the capacity data presented in the Blue Book.</p>	<p>6 recommendations</p> <p>The recommendations focused on strengthening the DOE and SCA's policies and procedures pertaining to Annual Facilities Surveys (AFS) information, excess space in schools, and the use of the Blue Book to identify over-utilized schools.</p> <p><i>The DOE and SCA generally agreed with the recommendations, but disputed the need to implement two of the recommendations concerning collecting and reporting on the availability of excess space in each schools and more effectively utilizing the Blue Book data. Additionally, the agencies disagreed with the significance of their findings.</i></p>
<p>New York City Department of Education (DOE) Audit Report on the Department of Education's Utilization of the Absent Teacher</p>	<p>Teachers in the Absent Teacher Reserve (ATR) pool are primarily assigned to schools and most of them appear to be working in teaching and teaching-related positions. In addition, DOE has made a number of efforts to assist teachers in the pool in finding permanent positions at schools. However, auditors were unable to determine whether DOE has been effective in its efforts because the agency does not</p>	<p>2 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the ATR Pool.</p>

<p>Reserve Pool MD11-108A 1st, 2nd, 11th, 12th, 13th Judicial District</p> <p>Contract for Excellence</p>	<p>formally or centrally track and maintain the data needed for such an assessment to take place.</p> <p>DOE'S records indicate that 95 percent of the teachers in the pool as of March 1, 2011, have been assigned to work in schools; the remaining 5 percent have been assigned to non-school locations. Responses from a survey of principals and administrators revealed that 73 percent of the sampled teachers are reportedly working in teaching and teaching-related positions.</p> <p>DOE has provided online workshops, teacher recruitment fairs, and one-on-one recruitment consultations to teachers in the pool. DOE has also attempted to add incentives and remove disincentives so that school administrators would be more inclined to offer permanent positions to teachers in the ATR pool. However, DOE is significantly hindered in evaluating the effectiveness of these efforts because the agency does not collect and track the data needed for such an evaluation. For instance, DOE does not track all applications made by the ATR teachers, nor does it assess which of its efforts are most effective in helping teachers find permanent teaching positions.</p>	<p><i>The DOE agreed with the recommendations but contended that they already capture, maintain, and analyze data which they believe meet the intents and purposes of the recommendations.</i></p>
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