



TO: Audits/Budget and Finance Committee
FROM: Sharon Cates-Williams *Sharon Cates-Williams*
SUBJECT: Board of Regents Oversight Financial Accountability
DATE: March 9, 2012

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:

1. Review of the Monthly Fiscal Report
2. New York State Single Audit – State Education Department Findings (Attachment I)
3. Completed Audits including the Report of the Internal Audit Workgroup (Attachments II & III)
4. Statewide Financial System (SFS) Presentation

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. Results of the New York State Single Audit
Staff from the accounting firm of KPMG will brief the Committee on seven audit findings related to the Department's administration of federal funds. (Attachment I)
3. Completed Audits including the Report of the Internal Audit Workgroup
The Committee is being presented with 13 audits this month. (Attachments II & III)

Audits are provided as follows:

Office of the State Comptroller

Clifton-Fine Central School District
 Kendall Central School District
 New York Institute for Special Education Follow-up Report
 Protecting Personal, Private, and Sensitive Information When Disposing of or Reusing Electronic Equipment (Dansville Central School District and Shenendehowa Central School District)
 Salamanca City School District
 Springville-Griffith Institute Central School District
 State Education Department – Higher Education Services Corporation
 Effective Oversight of the Tuition Assistance Program
 Syosset Central School District
 Westbury Union Free School District

City of New York Office of the Comptroller

Department of Education's Food Distribution Vendor Contracts
 Procurement of Direct Student Services by the Department of Education
 Performance of the New York City Department of Education's Achievement Reporting and Innovation System

4. Statewide Financial System (SFS) Presentation

Recommendation

For items one (Review of the Monthly Fiscal Report), two (Results of the New York State Single Audit) and three (Completed Audits), no further action is recommended.

Timetable for Implementation

N/A

The following materials are attached:

- State Education Department Single Audit Findings and Corrective Actions (Attachment I)
- Report of the Internal Audit Workgroup (Attachment II)
- Summary of Audit Findings Including Audit Abstracts (Attachment III)

Regents Committee on Audits/Budget and Finance
Summary of
New York State Single Audit
4/1/10 – 3/31/11
State Education Department Findings

The New York Single Audit was conducted by KPMG. The audit examined the following federal programs:

Title I, Part A, Special Ed.	Grants to LEA's - regular and ARRA IDEA Grants to States - regular and ARRA IDEA Preschool Grants - regular and ARRA
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Rehab Services	Vocational Rehabilitation Grants to States regular and ARRA
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Improving Teacher Quality State Grants

ARRA State Fiscal Stabilization Fund	Education State Grants Government Services
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21st Century Community Learning Center

Seven Findings

Finding number 11-22 - Special Education Grants to States and Preschool Grants (ARRA and regular), ARRA State Fiscal Stabilization Fund – Educational and Government Services

The Department (P-12) has not established a procedure to monitor LEA for compliance with the Davis-Bacon and Buy American requirements when used for construction. The Department has not conducted field monitoring visits or requested sufficient information from LEAs who used ARRA funds for construction.

Finding number 11-23 - Rehabilitation Services Vocational Rehabilitation Grants to States (ARRA and regular)

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

Finding number 11-24 – Title I Regular and ARRA, Special Education Grants to States and Preschool Grants (regular and ARRA), ARRA State Fiscal Stabilization - Education and Government

The Department (P-12) did not cross check CCR registration information that is submitted by sub recipients. The auditors identified a number of sub recipients that didn't appear to have a valid CCR registration.

Finding number 11-25 - Title I Regular and ARRA, Special Education Grants to States and Preschool Grants (regular and ARRA), 21st Century Community Learning Center, and Improving Teacher Quality

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

Finding number 11-26 – Rehab Services Vocational Rehabilitation Grants Regular and ARRA

The Department (ACCESS VR), reported one quarter of Section 1512 data inaccurately due to an internal communication error. It was corrected in the subsequent quarter.

Finding number 11-27 – Special Education Grants to State and Preschool Grants – regular and ARRA

The Department (P-12) did not monitor non ARRA IDEA sub recipients for fiscal compliance during the audit period.

Finding number 11-28 - Title I Regular and ARRA, Special Education Grants to States and Preschool Grants (regular and ARRA), ARRA State Fiscal Stabilization - Education and Government

The Department (P-12) did not provide complete information regarding ARRA awards at the time of disbursement of funds. The auditors did acknowledge the information is provided at other times in the grant process. Lastly, sub recipients were not provided specific notification as to how ARRA Funds are to be reported to the federal government.

Corrective Actions

The Department has submitted corrective action plans for each of the seven findings. Those actions include expanding information provided to LEAs, review existing policies and operational and monitoring procedures to make improvements, review of vocational rehabilitation cases to ensure compliance, and Department staff training.

**Regents Committee on Audits/Budget and Finance
March 2012
Review of Audits Presented
Department's Internal Audit Workgroup**

Newly Presented Audits

We reviewed the 13 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 three by the City of New York – Office of the Comptroller. Eleven of the audits were of school districts; one was a follow up audit of a section 4201 school that provides services to disabled students and one was an examination of the State Education Department and the Higher Education Services Corporation oversight of the Tuition Assistance Program (TAP).

The findings were in the areas of procurement, information technology, budgeting, financial reporting, payroll, fingerprinting requirements, Medicaid claiming and TAP oversight.

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 two audits: the NYC Comptroller's audits of provision of related services and the provision of food distribution services for referral to the Department program office for review and assessment of the need for any follow-up action.

March 2012 Regents Audits/Budget and Finance Committee Meeting Summary of Audit Findings

Audit	Procurement	Payroll	Financial Reporting	Information Technology	Budgeting	Fingerprinting	Revenue Enhancements	Tuition Assistance Program (TAP)
Office of the State Comptroller								
Clifton-Fine Central School District			√		√			
Dansville Central School District				√				
Kendall Central School District	√		√					
New York Institute for Special Education	√					√		
** Salamanca City School District								
Shenendehowa Central School District				√				
Springville-Griffith Institute Central School District					√			
State Education Department and Higher Education Services Corporation – Oversight of Tuition Assistance Program								√
Syosset Central School District		√						
Westbury Union Free School District							√	
New York City Office of the Comptroller								
New York City Department of Education (7I11-118A)				√				
New York City Department of Education (FK10-147A)	√							
New York City Department of Education (ME10-144A)	√							
March 2012	4	1	2	3	2	1	1	1

** 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>Clifton-Fine Central School District Financial Condition and Transportation Aid Claims 2011M-213 4th Judicial District</p>	<p>District officials consistently overestimated expenditures for the past five years, by a total of \$4.5 million. As a result, the District had operating surpluses totaling \$2.3 million in four of the last five years, and did not need to use the majority of the \$1.2 million of fund balance which the Board appropriated as a revenue source in the general fund budgets over the last five years. Despite its budgetary surpluses, the District also increased its real property tax levy by approximately \$300,000 – a total of 8 percent – over the last five years.</p> <p>District officials did not adequately inform taxpayers about how the seven general fund reserves were funded. The District over-funded four of these reserves.</p> <p>Finally, the District was not claiming all of its eligible miles for State aid. Therefore, during the State aid years 2009-10 and 2010-11 the District potentially lost transportation revenue of \$26,500 and \$23,000 respectively.</p>	<p>10 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to expenditure estimates for the annual budget, the use of surplus balances, reserves, and maximizing transportation aid for the District.</p> <p><i>The District agreed with the recommendations and indicated that they plan to take corrective action.</i></p>
<p>Kendall Central School District Independent Audit Services 2011M-206 8th Judicial District</p>	<p>District officials did not procure independent audit services in accordance with established policies and procedures. Instead of evaluating proposals based on quality (such as experience and professional competence) and cost, District officials selected the CPA who had submitted the lowest-cost proposal. As a result, the District selected a CPA who provided inadequate audit services.</p> <p>The audit services that the CPA provided to the District for the 2009-10 fiscal year were reviewed, and there were serious concerns regarding his documentation and judgment used. In fact, a previous audit found that the District concealed more than \$7.85 million in fund balance that should have been used</p>	<p>5 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the procurement of independent audit services, effective communication with the District auditor, and engaging the services of a different external auditor.</p> <p><i>District officials agreed with the recommendations and has</i></p>

	to benefit taxpayers; the CPA either initiated, or allowed the District to engage in these practices. Therefore, it is strongly suggested that the District select a more qualified external auditor. The audit report will be referred to the State Board for Public Accountancy by the Office of State Comptroller.	<i>indicated that they will implement corrective action.</i>
New York Institute for Special Education Follow-Up Report to Selected Financial and Management Practices (Report 2008-S-157) 2011-F-7 12th Judicial District	<p>The initial report determined that officials had not always performed certain criminal background checks on new employees, and that some employees from a non-State program were enrolled in the New York State and Local Employees Retirement System (ERS).</p> <p>It was also determined that the Institute earned at least \$88,867 in interest on State funds, but did not use this interest to offset the costs of its State-funded programs. The objective of the follow-up was to assess the extent of implementation, as of August 26, 2011, of the 12 recommendations included in the initial report.</p> <p>Of the 12 prior recommendations, 9 have been fully implemented, 2 have been partially implemented, and 1 had not been implemented.</p>	<p>The recommendations that were only partially implemented pertained to sufficient documentation for services obtained by the School and Statewide Central Register Clearance for all employees.</p> <p>The recommendation that was not implemented was for the School to include all equipment items in the inventory records.</p> <p>The response from the school has not yet been received.</p>
Salamanca City School District Energy Reduction 2011M-259 8th Judicial District	<p>The audit revealed that District officials did plan for and include specific items targeted at reducing energy consumption in the project. This effort resulted in net annual savings of approximately \$17,000 per year at the middle school/high school complex.</p> <p>The District was able to further save local taxpayers money with State building aid funding of \$5.7 million to offset the energy upgrade cost.</p>	There were no recommendations.
Springville-Griffith Institute Central School District	The District included more realistic estimates of appropriations in the 2010-11 budget than in prior years, and used fund balance and reserves to help fund operations. This	2 recommendations The report's recommendations

<p>Financial Management 2011M-218 8th Judicial District</p>	<p>resulted in the fund balance being reduced to an amount that was closer to the amount allowed by statute at the end of the 2010-11 fiscal year than in prior years.</p> <p>The 2011-12 budget also included more realistic estimates of appropriations than in prior years, and used fund balance and reserves to help fund operations.</p>	<p>focused on strengthening the policies and procedures pertaining to realistic estimates of unreserved fund balances and appropriations pertaining to the budget.</p> <p><i>The District agreed with the recommendations and has indicated that they will implement corrective action.</i></p>
<p>State Education Department and Higher Education Services Corporation Effective Oversight of the Tuition Assistance Program 2012-D-1</p>	<p>New York State spent \$869 million in 2010-11 for 309,540 students. Three agencies share oversight responsibilities for the Tuition Assistance Program (TAP); The Department promulgates regulations, the Higher Education Services Corporation (HESC) reviews whether or not students are financially eligible, and the Comptroller's Office conducts audits.</p> <p>The Comptroller's audits have found that certain schools distribute awards incorrectly, and since 2007, 17 audits have found \$9.9 million in disallowances. One school went out of business owing \$1.3 million, because HESC is sometimes slow in collecting.</p>	<p>3 recommendations</p> <p>It is recommended that college staff attend training, and utilize computer software to ensure students maintain eligibility. It is also recommended that a multi-agency workgroup be created, to study problems, and recommend legislative reforms.</p> <p><i>The Department participates in a multi-agency workgroup that includes DOB, HESC, OSC and the Financial Aid Advisory Council. On March 16, 2012 a training session is scheduled for Financial Aid Officers on changes in Federal and State regulations and policies. The Workgroup is committed to ongoing meetings to address emerging financial aid issues.</i></p>

<p>Syosset Central School District Administrative Costs 2011M-108 10th Judicial District</p>	<p>For 2008-09 and 2009-10, the District's administrative salary costs were higher – by amounts ranging from \$1.2 million to \$2.7 million - more than the average costs of administrative salaries at comparable districts in four separate comparisons.</p> <p>During the same two-year period, the District paid almost \$420,000 more for fringe benefits for its three top administrators than did the three comparison districts with similar needs and resources that were selected by OSC.</p> <p>Further, the District paid about \$432,000 more for fringe benefits for its three top administrators than did the comparison districts selected by District officials.</p>	<p>1 recommendation</p> <p>It was recommended that the Board explore administrative costs in line with those of comparable districts.</p> <p><i>The District agreed with the recommendation and has already implemented corrective action.</i></p>
<p>Westbury Union Free School District Medicaid Revenues 2011M-185 10th Judicial District</p>	<p>The District lacks written policies and procedures to define the duties of individuals responsible for collecting student data and documentation; submitting and reconciling claims; and monitoring the Medicaid reimbursement process.</p> <p>Additionally, the District did not claim a total of \$606,178 in reimbursable costs, and therefore, did not realize revenues of \$151,544 for IEP-related services, special transportation, and ongoing service coordination provided to Medicaid-eligible students in the 2008-09 fiscal year.</p>	<p>9 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to student data and documentation; claims; and the Medicaid reimbursement process.</p> <p><i>The District agreed with the recommendations and has indicated that they will implement corrective action.</i></p>
<p>Protecting Personal, Private, and Sensitive Information When Disposing of or Reusing Electronic Equipment (Fulton, Oneida, Steuben, and</p>	<p>Only two of the eight entities, Fulton and Steuben Counties, had written policies covering the removal of PPSI from computers and related electronic equipment before it is discarded or reused; only one entity, Steuben County, had written procedures detailing the steps to take to protect PPSI on such equipment. At the start of the audit, none of the entities had written procedures for removing PPSI from the</p>	<p>6 recommendations in global report</p> <p>(8 recommendations for the two districts)</p> <p>The report's recommendations</p>

<p>Westchester Counties; Cities of Port Jervis and Syracuse; and Dansville (S9-10-57) and Shenendehowa Central School Districts (S9-10-62)) 2011-MS-2 4th, 7th Judicial District</p>	<p>hard drives of copiers before they are discarded. Further, none of the entities had implemented a written method of classifying the security risk of all the types of electronic data they store.</p> <p>Tests of 27 PDA-Smart phones did not find any PPSI on the devices, but examination of 65 computers prepared for disposal identified PPSI on five computers. Information included a child's health evaluation, bank account and tax lien data, and firewall information. Tests of 121 copiers with hard drives found that 55 of these copiers were disposed of with intact hard drives that likely contained PPSI. Exposing any of this data to unauthorized users could result in a breach of security. Steuben County was the only entity that had documented its sanitization efforts; however, this process did not cover copiers and did not require verification of employees' work.</p> <p>Finally, while five entities had adopted breach notification policies, as required by statute, staff at three of these entities told us they did not know the steps to follow if a breach occurred. The other three entities had not developed a breach policy at all.</p>	<p>focused on creating or strengthening the policies and procedures pertaining to the removal of PPSI prior to the reuse and disposal of electronic equipment, and the establishment of a breach notification policy.</p> <p><i>Overall, entity officials were in agreement with the findings and recommendations in the report, and agreed to implement corrective action.</i></p>
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New York City Office of the Comptroller

Audit	Major Finding(s)	Recommendation/Response
<p>New York City Department of Education Audit Report in the Performance of the New York City Department of Education's Achievement Reporting</p>	<p>Despite spending more than \$80 million on system design and development, the Department lacks effective measurements for gauging whether the Achievement Reporting and Innovation System (ARIS) is an effective tool for enhancing and improving student performance. In addition, educators are not using ARIS to the extent for which it was intended. According to our survey of teachers and principals, many educators are not using the ARIS system to</p>	<p>9 recommendations</p> <p>The report's recommendations focused on improvements in the use and content of the ARIS system.</p> <p>The Department disagreed with</p>

<p>and Innovation System 7111-118A 1st, 2nd, 11th, 12th, 13th Judicial District</p>	<p>collaborate with other teachers as was intended, are using alternative computer systems to obtain information in place of, or in conjunction with, ARIS, and are not utilizing the system to its fullest extent. Therefore, the auditors believe that the Department is not completely attaining all the benefits for which the ARIS system was intended.</p> <p>Additionally, ARIS Usage Reports may not be reliable indicators because of discrepancies in the data. Furthermore, it was determined that less than 50 percent of educators accessed ARIS from April 1, 2011, to June 30, 2011. The Department, however, has adequate internal controls to preclude unauthorized access to ARIS.</p>	<p>three of the six recommendations.</p>
<p>New York City Department of Education Audit Report on the Procurement of Direct Student Services by the Department of Education FK10-147A 1st, 2nd, 11th, 12th, 13th Judicial District</p>	<p>It is not clear whether DOE made maximum reasonable efforts to contract with Related Service providers because it: did not utilize open-ended solicitations or re-solicit for Related Service providers more frequently to directly engage needed providers; imposed overly restrictive staffing requirements on prospective contractors; discouraged prospective contractors because it allowed contracted consultant companies to also act as independent consultants; and did not assign and award contracts based on a systematic needs analysis. Consequently, DOE does not have a sufficient pool of contracted resources to provide mandated Related Services. As a result, DOE is authorizing the use of independent consultants through Related Service Authorization (RSA) Forms to provide these services, which may result in higher rates paid under lesser performance standards, monitoring constraints, and insurance requirements. More important, according to DOE's Division of Instructional and Information Technology (DIIT) Related Service Status Reports for June 2010, DOE failed to provide Related Services to 72,302 of 285,736 students referred for such services—more than 25</p>	<p>10 recommendations</p> <p>The recommendations focused on strengthening the policies and procedures pertaining to Related Service providers and independent consultants.</p> <p>DOE acknowledged the report's findings, and agreed to implement or partially implement the majority of the recommendations.</p>

	<p>percent.</p> <p>Additionally, DOE did not ensure that available DOE internal or contracted resources were utilized prior to authorizing the use of independent consultants; review consultants' past performance prior to retaining services; or maintain and register independent consultant agreements. Consequently, DOE may have unnecessarily engaged independent consultants; may have employed consultants incapable of satisfactorily providing services to students; and cannot effectively monitor independent consultants and hold them sufficiently accountable for their performance.</p>	
<p>New York City Department of Education (DOE) Audit Report on the Department of Education's Food Distribution Vendor Contracts ME10-144A 1st, 2nd, 11th, 12th, 13th Judicial District</p> <p>Contract for Excellence</p>	<p>DOE's payment and contract management controls over its procurement of food distribution services were insufficient due to weaknesses in the food delivery payment process and in the monitoring of food distributor performance.</p> <p>The weak controls resulted in unsupported payments to distributors, failure to receive prompt-payment discounts, and overpayments for donated food. The analyses of payments made to food distributors in Fiscal Year 2010 identified a total of about \$410,000 that should be recouped.</p> <p>Additionally, DOE has not sufficiently monitored the prices being charged by manufacturers/suppliers for the food items they provide to the distributors. As a result, DOE is hindered in identifying opportunities to negotiate with the distributors for lower food prices. There was also insufficient documentation to support DOE's decisions concerning the imposition of liquidated damages for distributors' performance violations.</p> <p>Finally, DOE did not properly evaluate the performance of the</p>	<p>14 recommendations</p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to upgrading DOE's vendor invoice verification system (the Usage Basket System), sufficient documentation for deliveries made by distributors, proper classification of purchased and donated food items, maintenance of a central inventory system, identifying opportunities to negotiate lower prices with distributors, and vendor performance evaluations.</p> <p>DOE officials agreed with 11 of the 14 recommendations. Officials disagreed with the recommendations to upgrade the</p>

	food distribution vendors as required by the contracts and its own procurement manual.	Usage Basket System, ensure that Usage properly distinguishes between purchased and donated foods, and maintain a central inventory system. DOE officials indicated that they will implement corrective actions to address the recommendations.
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