



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 of Financial Accountability  
**DATE:** January 3, 2019  
**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. New York State Single Audit by KPMG - State Education Department Findings (Attachment I).
2. Completed Audits (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**

1. New York State Single Audit – State Education Department Findings - 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).
2. Completed Audits  
The Committee is being presented with fifteen audits this month (Attachments II & III). One audit was issued by the New York City Office of the Comptroller and fourteen audits were issued by the Office of the New York State Comptroller:

New York City Office of the Comptroller

New York City Department of Education

Office of the New York State Comptroller

Bank Street College of Education  
Bedford Central School District  
Byron-Bergen Central School District  
Canton Central School District  
Edinburg Common School District  
Finn Academy: An Elmira Charter School  
Fort Plain Central School District  
Greenburgh-North Castle Union Free School District  
Hadley-Luzerne Central School District  
Kinderwise Learning Associates, LLC  
Lake George Central School District  
Pocantico Hills Central School District  
State Education Department  
Ulster County Community College

**Recommendation**

No action required for audit initiatives and presentation of audits.

**Timetable for Implementation**

N/A

The following materials are attached:

- Summary of New York State Single Audit Findings 2017-2018 (Attachment I)
- Summary of Audit Findings including Audit Abstracts (Attachments II and III)

Regents Committee on Audits/Budget and Finance  
Summary of  
New York State Single Audit  
4/1/17 – 3/31/18  
State Education Department Findings

The audit examined the following federal programs;

- School Improvement Grants
- Vocational Rehabilitation Grants to States
- English Language Acquisition State Grants

**The following are the findings for the 2017-18 fiscal year and the federal programs each finding applies to:**

Findings - School Improvement Grants

- The Department did not have a risk assessment and process designed at a precision level to include each local educational agencies (LEAs) building's individual evaluation of risk of noncompliance with Federal regulations for the purpose of determining appropriate subrecipient monitoring procedures.
- The Department did not have sufficient documentation to demonstrate that its subrecipient monitoring policies and procedures were in accordance with Federal regulations.
- The Department did not have internal controls in place to ensure that subrecipient monitoring policies and procedures were performed over schools. Such procedures should have been performed to ensure SIG funds were only used to supplement and not supplant the amount of non-Federal funds.

**Department's Corrective Action:** The Office of Innovation and School Reform (OISR), has updated its risk assessment to include multiple risk factors related to the individual buildings, and developed a risk assessment policy and procedure manual. The Department implemented new procedures for subrecipient monitoring and revised internal control procedures to include monitoring activities over subrecipients and ensure the buildings only use SIG funding received to supplement and not supplant non-Federal Funds that the school would otherwise have not received if it were not operating the schoolwide program.

### Findings - Vocational Rehabilitation Grants to States

- The Department did not have effective monitoring controls in place to ensure each participant's individualized plan for employment (IPE) was developed within 90 days after the date of the determination of eligibility.
- The Department did not have effective internal controls in place to ensure each participant's IPE was approved by both the participant and the VR counselor prior to any activity on the IPE.

**Department's Corrective Action:** Department policy and procedures have been updated, and Internal Controls strengthened to ensure all participants IPEs are reviewed and approved by both the appropriate individuals and the VR counselor.

### Finding – English Language Acquisition State Grants

- The Department Office of State Aid performs the annual Maintenance of Effort (MOE) calculation to ensure each local educational agency's (LEAs) combined fiscal effort per student or aggregate expenditure follows regulations. For fiscal year 16-17, the Department identified one of the 689 LEAs failed to maintain the required effort by falling below the 90% threshold.
- The Department did not have effective internal controls to ensure the MOE calculation was timely communicated to the P-12 Administrative Support Office and Office of Audit Services, resulting in no action taken against the LEA for noncompliance.

**Department's Corrective Action:** The State Aid Office updated their internal controls procedure to ensure timely communication of annual MOE calculations and results to respective program offices to ensure LEAs not meeting requirements have the amount of their allocation appropriately reduced.

**Regents Committee on Audits/Budget and Finance  
January 2019  
Review of Audits Presented  
Department's Internal Audit Workgroup**

Newly Presented Audits

The Department's Office of Audit Services summarized the fifteen audits that are being presented to the Committee this month, one of which was issued by the New York City Office of the Comptroller and the rest by the Office of the New York State Comptroller (OSC). Nine audits were of school districts; two were of special education services providers; and one was of a charter school, a community college, the New York City Department of Education, and the State Education Department.

The findings were in the areas of claims processing, financial reporting, information technology, payroll/leave accruals, procurement, 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.

All the audits were reviewed internally, and none have been identified to bring to the Committee's attention.

**January 2019 Regents Audits/Budget and Finance Committee Meeting  
Summary of Audit Findings**

Audit	Claims Processing	Financial Reporting	Information Technology	Payroll/Leave Accruals	Procurement	Reimbursable Cost Manual Compliance
Bank Street College of Education						√
Bedford Central School District			√			
Byron-Bergen Central School District					√	
Canton Central School District	√					
Edinburg Common School District		√				
Finn Academy: An Elmira Charter School			√			
Fort Plain Central School District	√					
Greenburgh-North Castle Union Free School District		√				
Hadley-Luzerne Central School District		√				
Kinderwise Learning Associates, LLC						√
Lake George Central School District					√	
New York City Department of Education					√	
Pocantico Hills Central School District					√	
State Education Department			√			
Ulster County Community College				√		
January 2019	2	3	3	1	4	2

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**Summary of Current and Prior Audit Findings**

	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018	January 2019	Running Total
Banking	0	0	0	0	0	0	0	0
Budgeting/Financial Reporting	2	5	3	4	6	5	3	28
Capital Assets	0	0	0	0	0	0	0	0
Capital Construction	0	0	0	0	0	0	0	0
Cash	0	0	1	0	0	0	0	1
Charter School Management/Tuition	0	0	0	0	0	0	0	0
Claims Processing	0	1	0	1	1	2	2	7
Conflict of Interest	0	0	0	0	0	0	0	0
Data Reliability (Graduation, Attendance, etc.)	0	0	0	0	0	0	0	0
Extra classroom Activity Fund	0	2	0	0	0	1	0	3
Fuel Accountability/Energy Management	1	0	0	0	0	0	0	1
Grant Reporting Compliance	0	0	0	0	0	0	0	0
Information Technology	1	1	1	1	0	1	3	8
Internal Controls	0	0	0	0	0	0	0	0
Payroll/Leave Accruals	0	2	0	0	2	4	1	9
Procurement	0	1	0	3	0	0	4	8
Reimbursable Cost Manual Compliance	0	1	1	0	0	1	2	5
Tuition Assistance Program (TAP)	0	0	0	0	0	0	0	0
Other	1	4	3	0	2	1	0	11
<b>Total</b>	<b>5</b>	<b>17</b>	<b>9</b>	<b>9</b>	<b>11</b>	<b>15</b>	<b>15</b>	<b>81</b>

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**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**– 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.



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**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.

**Internal Controls** – includes findings related to one of the five internal control components – Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

**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.

**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.

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<b>New York City Office of the Comptroller</b>		
<b>Audit</b>	<b>Major Finding(s)</b>	<b>Recommendation/Response</b>
<p><b>New York City Department of Education</b></p> <p>Audit Report on the Department of Education's Travel and Conference Expenses            FN17-102A</p> <p>1<sup>st</sup>, 2<sup>nd</sup>, 11<sup>th</sup>, 12<sup>th</sup>, and 13<sup>th</sup> Judicial District</p>	<p>The Department of Education (DOE) did not fully comply with its Standard Operating Procedures Manual (SOP) or the applicable Comptroller's directives for travel and conference expenses. Of the 136 sampled payments, 104 totaling \$986,598 (93 percent of the \$1,060,056 sampled amount), were not fully compliant with DOE's SOPs and/or the applicable Comptroller's Directives. In addition, DOE incorrectly recorded and reported travel expenses causing travel expenses to be overstated by \$3 million dollars for the fiscal year 2017.</p>	<p style="text-align: center;"><b>16 recommendations</b></p> <p>Recommendations focused on recouping overcharges paid to vendors; ensuring invoices are matched to contracts before payment, proper justification for staff travel is made, required approvals for meals, lodging, and conference attendance are obtained prior to travel, and that supporting documentation is properly maintained and available if needed; exploring the use of free or low-cost contracted facilities within in the City for meetings and staff retreats; and soliciting the required number of bids or quotes in advance to get the best prices for goods and services.</p> <p>DOE agreed with the recommendations and have indicated that they planned to take corrective action</p>
<b>Office of the State Comptroller</b>		
<b>Audit</b>	<b>Major Finding(s)</b>	<b>Recommendation/Response</b>
<p><b>Bank Street College of Education</b></p> <p>Compliance with the Reimbursable Cost Manual 2017-S-5</p> <p>1<sup>st</sup> Judicial District</p>	<p><b>\$585,047 adjustment (25.4% of \$2.3 million reported in reimbursable costs on the CFR)</b></p> <p>Bank Street reported \$585,047 in costs that did not comply with the Reimbursable Cost Manual's requirements for reimbursement on its Consolidated Fiscal Reports (CFR). These costs included \$331,175 in personal service costs, \$246,707 in administrative overhead costs, and \$165 in other than personal service costs.</p>	<p style="text-align: center;"><b>3 recommendations</b></p> <p>Recommendations focused on the State Education Department (SED) reviewing disallowances and making the appropriate adjustments to Bank Street's CFR and tuition reimbursement rates; and Bank Street ensuring that costs reported on future CFRs comply with SED's reimbursement requirements.</p> <p>SED officials agreed with the recommendations plan to take corrective action; however, Bank Street officials generally disagreed with the recommendations.</p>

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<p><b>Bedford Central School District</b></p> <p>Information Technology 2018M-164</p> <p>9<sup>th</sup> Judicial District</p>	<p>Access to the financial application was not properly segregated, online banking users had excessive permissions, and employees accessed websites that did not comply with the internet use policy.</p>	<p style="text-align: center;"><b>9 recommendations</b></p> <p>Recommendations focused on ensuring that user access to the financial application is properly segregated; limiting online banking access so users cannot control all phases of a transaction; and reviewing/adjusting web filtering software.</p> <p>District officials generally agreed with the recommendations and indicated they planned to initiate corrective action.</p>
<p><b>Byron-Bergen Central School District</b></p> <p>Procurement 2018M-157</p> <p>7<sup>th</sup> and 8<sup>th</sup> Judicial Districts</p>	<p>Purchases were made without obtaining or documenting price quotes as required by the purchasing policy.</p>	<p style="text-align: center;"><b>2 recommendations</b></p> <p>Recommendations focused on obtaining the number of competitive quotes as required by the purchasing policy.</p> <p>District officials generally agreed with the recommendations and indicated they planned to initiate corrective action.</p>
<p><b>Canton Central School District</b></p> <p>Claims Audit Process 2018M-186</p> <p>4<sup>th</sup> Judicial District</p>	<p>The claims auditor did not review supporting documentation for \$8.1 million in health insurance claims, nor did they audit/approve scholarships paid amounting to \$9,485.</p>	<p style="text-align: center;"><b>2 recommendations</b></p> <p>Recommendations focused on the claims auditor reviewing supporting documentation for all health insurance claims; and auditing/approving all scholarship payments to ensure they meet trust requirements.</p> <p>District officials agreed with the findings and indicated they plan to initiate corrective action.</p>

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<p><b>Edinburg Common School District</b></p> <p>Tax Collection 2016M-233</p> <p>4<sup>th</sup> Judicial District</p>	<p>The Tax Collector remitted cash collections that were short and did not maintain sufficient records to identify why the discrepancy existed, recorded cash payments for taxes due after the date penalties would be assessed but did not record or remit the associated penalties, and accepted payments made by check after the date penalties would be assessed but did not record payment of the penalties.</p>	<p style="text-align: center;"><b>6 recommendations</b></p> <p>Recommendations focused on oversight of the tax collection process; ensuring penalties are enforced, collected and recorded; reconciling records of collections with deposits; ensuring collections are made intact; and remitting/maintaining accurate accounting records and supporting documentation for all tax collections.</p> <p>District officials agreed with the findings and have implemented corrective action.</p>
<p><b>Finn Academy: An Elmira Charter School</b></p> <p>Information Technology 2018M-141</p> <p>6<sup>th</sup> Judicial District</p>	<p>Adequate information technology (IT) policies and procedures were not developed, IT security awareness training has not been provided to employees, and a disaster recovery plan has not been developed.</p>	<p style="text-align: center;"><b>9 recommendations</b></p> <p>Recommendations focused on adopting written IT policies and procedures; providing periodic IT security awareness training; and developing a disaster recovery plan.</p> <p>School officials disagreed with certain aspects of the findings and recommendations, but indicated they planned to initiate corrective action.</p>
<p><b>Fort Plain Central School District</b></p> <p>Claims Audit Process 2018M-50</p> <p>4<sup>th</sup> and 5<sup>th</sup> Judicial Districts</p>	<p>No findings were identified, claims were appropriate, adequately documented, properly audited, and approved prior to payment in a timely manner.</p>	<p>There were no recommendations.</p>

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<p><b>Greenburgh-North Castle Union Free School District</b></p> <p>Financial Management 2018M-108</p> <p>9<sup>th</sup> Judicial District</p>	<p>Budget transfers were not performed, resulting in appropriations exceeding budgeted line items averaging \$3.2 million over a five-year period. In addition, budget status reports were not provided to the Board as required by law.</p>	<p style="text-align: center;"><b>4 recommendations</b></p> <p>Recommendations focused on monitoring the budget to ensure expenditures do not exceed revenues; performing budget transfers after appropriate Board approval; and providing the Board with budget status reports.</p> <p>Officials agreed with the recommendations and indicated they plan to initiate corrective action.</p>
<p><b>Hadley-Luzerne Central School District</b></p> <p>Financial Management 2018M-103</p> <p>4<sup>th</sup> Judicial District</p>	<p>Appropriations were overestimated by an average of approximately \$1.9 million annually from 2014-17, which resulted in the unrestricted fund balance exceeding statutory limitations. In addition, reserve plans were not prepared/submitted annually, and reserves were overfunded.</p>	<p style="text-align: center;"><b>5 recommendations</b></p> <p>Recommendations focused on adopting budgets that include realistic expenditure estimates; developing a plan to use excess unrestricted fund balance in the general fund; reviewing reserves to determine if amounts are necessary and reasonable; and ensuring a plan for reserves is prepared and submitted in accordance with District policy.</p> <p>Officials generally agreed with the recommendations.</p>
<p><b>Kinderwise Learning Associates, LLC</b></p> <p>Compliance with the Reimbursable Cost Manual 2018-S-21</p> <p>9<sup>th</sup> Judicial District</p>	<p><b>\$1,946 adjustment (.12% of \$1.65 million reported in reimbursable costs on the CFR)</b></p> <p>Kinderwise reported \$1,946 in costs that did not comply with the Reimbursable Cost Manual's requirements for reimbursement on its Consolidated Fiscal Reports (CFR). These costs included \$1,454 in other than personal service costs and \$492 in personal service costs.</p>	<p style="text-align: center;"><b>3 recommendations</b></p> <p>Recommendations focused on the State Education Department (SED) reviewing disallowances and making the appropriate adjustments to Kinderwise's CFR and tuition reimbursement rates; and Kinderwise ensuring that costs reported on annual CFRs comply with SED's reimbursement requirements.</p> <p>SED and Kinderwise officials agreed with the recommendations and plan to take corrective action.</p>

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<p><b>Lake George Central School District</b></p> <p>Purchasing 2018M-167</p> <p>4<sup>th</sup> Judicial District</p>	<p>Documentation showing competition for 28 purchases totaling nearly \$152,000 was lacking, and procedures for seeking competition when purchasing goods/services not required to be competitively bid have not been developed or implemented.</p>	<p style="text-align: center;"><b>4 recommendations</b></p> <p>Recommendations focused on maintaining evidence to document competition was sought based on established requirements; and ensuring that adequate procedures are developed and distributed to appropriate employees and officials.</p> <p>District officials agreed with the recommendations and have initiated or indicated they planned to initiate corrective action.</p>
<p><b>Pocantico Hills Central School District</b></p> <p>Procurement 2018M-187</p> <p>9<sup>th</sup> Judicial District</p>	<p>No findings were identified, the District has established adequate procedures to procure goods and services not subject to competitive bidding.</p>	<p>There are no recommendations.</p>
<p><b>State Education Department</b></p> <p>Security Over Critical Information Systems</p> <p>2018-F-17</p>	<p>Policies and procedures addressing all aspects of information security have not been adopted and the disaster recovery plan has not been updated and tested. In addition, three of the five confidential recommendations relating to technical controls over critical systems have not been implemented.</p>	<p style="text-align: center;"><b>2 recommendations</b></p> <p>The recommendations focused on adopting and adhering to policies and procedures that address all aspects of information security; updating and testing the Disaster Recovery Plan at least annually; and strengthening technical controls over critical systems.</p> <p>SED's Chief Information Security Officer (CISO) position was vacant for 1.5 years. A new CISO was hired and started on December 27, 2018. The new CISO will oversee and facilitate the implementation of the recommendations.</p>
<p><b>Ulster County Community College</b></p> <p>Retiree Health Insurance and Payroll 2018M-123</p> <p>3<sup>rd</sup> Judicial District</p>	<p>Retiree health insurance billings were not properly accounted for, continued eligibility of retirees was not ensured, premiums for two deceased individuals were paid, payroll duties were not segregated, and supervisory reviews were not performed.</p>	<p style="text-align: center;"><b>4 recommendations</b></p> <p>Recommendations focused on performing comparisons to determine the status of retiree health insurance accounts; recovering premiums paid for deceased enrollees; segregating duties within the payroll process; and ensuring payroll registers are certified.</p> <p>College officials agreed with the recommendations and indicated they have initiated corrective action.</p>