



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: March 28, 2019
AUTHORIZATION(S): *Margellen Eis*

SUMMARY

Issues for Discussion

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

1. Completed Audits (Attachments I & II).

Reason 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. Completed Audits

The Committee is being presented with seven audits this month (Attachments I & II). All seven audits were issued by the Office of the New York State Comptroller:

Office of the New York State Comptroller

Bolton Central School District
Deposit Central School District
Hoosic Valley Central School District
Johnsburg Central School District
Lewiston-Porter Central School District
School Districts of North Syracuse and West Seneca
SED - Association to Benefit Children

Recommendation

No action required for audit initiatives and presentation of audits.

Timetable for Implementation

N/A

The following materials are attached:

- Summary of Audit Findings including Audit Abstracts (Attachments I and II)

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

Newly Presented Audits

The Department's Office of Audit Services summarized the seven audits that are being presented to the Committee this month which were conducted by the Office of the New York State Comptroller (OSC). Six audits were of school districts and one was of a special education service provider.

The findings were in the areas of budgeting/financial reporting, extra-classroom activities, payroll and leave accruals, energy management, 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.

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

Audit	Budgeting/Financial Reporting	Extra-Classroom Activities	Payroll/Leave Accruals	Energy Management	Reimbursable Cost Manual
Bolton Central School District	x				
Deposit Central School District	x				
Hoosic Valley Central School District	x				
Johnsburg Central School District		x			
Lewiston-Porter Central School District			x		
School Districts of North Syracuse and West Seneca				x	
SED - Association to Benefit Children					x
April 2019 Totals:	3	1	1	1	1

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Summary of Current and Prior Audit Findings

	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018	January 2019	February 2019	March 2019	April 2019	Total
Banking	0	0	0	0	0	0	0	0	0	0
Budgeting/Financial Reporting	5	3	4	6	5	3	2	4	3	35
Capital Assets	0	0	0	0	0	0	0	1	0	1
Capital Construction	0	0	0	0	0	0	0	0	0	0
Cash	0	1	0	0	0	0	0	0	0	1
Charter School Management/Tuition	0	0	0	0	0	0	0	0	0	0
Claims Processing	1	0	1	1	2	2	3	2	0	12
Conflict of Interest	0	0	0	0	0	0	0	0	0	0
Data Reliability (Graduation, Attendance, etc.)	0	0	0	0	0	0	0	0	0	0
Extra classroom Activity Fund	2	0	0	0	1	0	0	1	1	5
Fuel Accountability/Energy Management	0	0	0	0	0	0	0	0	1	1
Grant Reporting Compliance	0	0	0	0	0	0	0	0	0	0
Information Technology	1	1	1	0	1	3	2	1	0	10
Internal Controls	0	0	0	0	0	0	0	0	0	0
Medicaid Revenues	0	0	0	0	0	0	0	1	0	1
Payroll/Leave Accruals	2	0	0	2	4	1	0	2	1	12
Procurement	1	0	3	0	0	4	1	4	0	13
Reimbursable Cost Manual Compliance	1	1	0	0	1	2	2	10	1	18
Tuition Assistance Program (TAP)	0	0	0	0	0	0	0	0	0	0
Other	4	3	0	2	1	0	0	0	0	10
Total:	17	9	9	11	15	15	10	26	7	119

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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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New York State Office of the State Comptroller		
Audit	Major Finding (s)	Recommendation/Response
<p>Bolton Central School District</p> <p>Fund Balance Management 2018M-249</p> <p>4th Judicial District</p>	<p>District officials did not effectively manage general fund balance. The annual budgeted appropriations were over estimated by 13 percent. Unrestricted unappropriated fund balance at the end of 2017-18 was \$2.7 million exceeding the 4 percent statutory limit by almost 25 percent. In addition, the unemployment insurance reserve was overfunded, and the retirement contribution reserve was not being used as intended.</p>	<p style="text-align: center;">5 recommendations</p> <p>It was recommended that District officials adopt annual budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations based on historical trends or other relevant information; Reduce unrestricted fund balance to within the statutory limit and use surplus funds in a manner more beneficial to taxpayers; and to review and reduce reserve balances to reasonable levels in accordance with applicable statutes.</p> <p>District officials generally agreed with the recommendations and have initiated, or indicated they planned to initiate corrective action.</p>
<p>Deposit Central School District</p> <p>Financial Condition 2018M-204</p> <p>6th Judicial District</p>	<p>District officials have implemented measures to contain costs in the general fund. However, they have not implemented plans to improve operating results in the cafeteria fund which has had three successive operating deficits in each of the last three fiscal years ranging from about \$5,200 to \$77,000.</p>	<p style="text-align: center;">2 recommendations</p> <p>It was recommended that the Board continue to examine the cost-effectiveness of providing special education classes and offer programs in-house when it is cost-effective to do so; and that District officials examine ways to gain more control over menu options to increase participation and cafeteria revenues, including ways to make breakfast more accessible to students.</p> <p>District officials generally agreed with the recommendations and have initiated, or indicated they planned to initiate corrective action.</p>

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<p>Hoosic Valley Central School District</p> <p>Financial Management 2018M-238</p> <p>3rd and 4th Judicial District</p>	<p>District officials overestimated appropriations by an average of \$2.1 million or 11.3 percent annually with a cumulative total of more than \$6.3 million from 2015-16 through 2017-18. In addition, four reserves were over funded. The District's recalculated unrestricted fund balance ranged between 8.7 and 11.1 percent of ensuring years' appropriations.</p>	<p style="text-align: center;">6 recommendations</p> <p>District officials should develop realistic appropriations and only appropriate fund balance that will be used to fund operations. Use surplus funds in a manner that benefits District taxpayers, such as funding one-time expenditures and/or necessary reserves and reducing property taxes. Review all reserves to determine whether balances are necessary and reasonable and use excess amounts in accordance with applicable statutes and in a manner that benefits taxpayers.</p> <p>District officials generally agreed with the recommendations and indicated they planned to take corrective action.</p>
<p>Johnsburg Central School District</p> <p>Extra-Classroom Activity Funds 2018M-150</p> <p>4th Judicial District</p>	<p>Collections, cash advances, and disbursements relating to the extra-classroom activity funds were not supported by adequate documentation. These exceptions include: collections totaling \$26,598 for 10 fundraising activities, 10 cash advances totaling \$19,997, and seven disbursements totaling \$14,189.</p>	<p style="text-align: center;">11 recommendations</p> <p>District officials should ensure student treasurers maintain adequate documentation to support collections; monitor the status of cash advances and prepare reconciliations to ensure funds spent are supported by adequate documentation and for appropriate purposes; and prepare check disbursements only after receiving proper authorization and supporting documentation</p> <p>District officials generally agreed with the recommendations and have initiated, or indicated they planned to initiate, corrective action.</p>
<p>Lewiston-Porter Central School District</p> <p>Payroll 2018M-246</p>	<p>The District generally paid employees' accurately. However, time sheets were not always approved; overtime was not consistently tracked or properly approved; and seven employees were not properly paid stipends for credit hours earned from graduate</p>	<p style="text-align: center;">7 recommendations</p> <p>District officials should ensure that time sheets, including overtime hours, are properly approved by the appropriate supervisor; consult with legal counsel and take appropriate action to recover any overpayments; and ensure that stipends, including credit hours earned, are proper and supported.</p>

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<p>8th Judicial District</p>	<p>courses and various continuing education courses taken.</p>	<p>District officials generally agreed with the recommendations and have initiated, or indicated they planned to initiate, corrective action.</p>
<p>School Districts of North Syracuse and West Seneca</p> <p>Procurement of Electricity Natural Gas Through Aggregators 2018MS-5</p> <p>5th and 6th Judicial Districts</p>	<p>This was an audit of multiple local governments including two school districts.</p> <p>District officials in the North Syracuse School District did not adequately evaluate procurement options or make benchmark comparisons to ensure they received the lowest prices for electricity and natural gas. This resulted in spending more for electricity and natural gas.</p> <p>West Seneca CSD officials regularly monitored and compared their electric costs to local utility company's cost and ensured that the District was procuring electricity at the lowest price.</p>	<p style="text-align: center;">1 recommendation</p> <p>District officials should evaluate procurement options and compare them to potential benchmark rates to help ensure the lowest possible prices are procured for electricity and natural gas.</p> <p>District officials generally agreed with the recommendations and have initiated, or indicated they planned to initiate, corrective action.</p>
<p>State Education Department</p> <p>Association to Benefit Children 2017-S-28</p> <p>1st Judicial District</p>	<p>The audit identified \$263,196 in ineligible costs that Association to Benefit Children reported on its Consolidated Fiscal Report (CFR) and recommend such costs be disallowed for the fiscal year June 30, 2014. These ineligible costs included \$164,004 in personal service costs, \$13,696 in other than personal service costs, and \$85,496 in depreciation expenses.</p>	<p style="text-align: center;">3 recommendations</p> <p>The recommendations focused on the State Education Department (SED) reviewing the recommended disallowances and make the appropriate adjustments to the costs reported on the CFR and tuition reimbursement rates, and that SED work with the preschool officials to help ensure their compliance with the provisions in the Manual for reimbursement.</p> <p>The Department agreed with the recommendations and will review and adjust as noted in the report and recover any</p>

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		overpayments as appropriate, along with providing technical assistance to the provider.
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