



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK /  
ALBANY, NY 12234

**TO:** Audits/Budget and Finance Committee  
**FROM:** Valerie Grey  
**SUBJECT:** Board of Regents Oversight – Financial Accountability  
**DATE:** February 1, 2011  
**STRATEGIC GOAL:** Goal 5  
**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 (Attachment I)

#### **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

The Committee is being presented with 19 audits this month. A summary of the audits is attached. (Attachment I)

Audits are provided as follows:

Office of Audit Services

South Country Central School District ARRA Report

Office of the State Comptroller

Ballston Spa Central School District  
Batavia City School District  
Buffalo City School District  
Coxsackie-Athens Central School District  
Deposit Central School District  
Gowanda Central School District  
Greater Southern Tier BOCES  
Greenburgh-North Castle UFSD Follow-up Audit  
Guilderland Central School District  
LeRoy Central School District  
Mechanicville City School District  
New York State Education Department Accuracy of Graduation and Dropout  
Data in Annual Report Cards for Selected High Schools Follow-up Report  
New York State Education Department Travel Expenses  
Northville Central School District  
Romulus Central School District  
Roscoe Central School District  
Sherburne-Earlville Central School District  
Tioga Central School District

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:

- Summary of Audit Findings Including Audit Abstracts (Attachment I)

**Audit Report Abstracts  
Regents Committee on Audits/Budget and Finance  
February 2011**

Audit	Procurement	Claims Processing	Payroll	Cash	Financial Reporting	Information Technology	Budgeting	Other
<b>Office of Audit Services</b>								
* South Country Central School District (footnote 1)								√
<b>Office of the State Comptroller</b>								
** Ballston Spa Central School District								
Batavia City School District	√			√				
Buffalo City School District						√		
* Cossackie-Athens Central School District (footnote 2)								√
Deposit Central School District			√					
Gowanda Central School District							√	
** Greater Southern Tier BOCES								
Greenburgh-North Castle Union Free School District	√	√					√	
Guilderland Central School District		√						
Le Roy Central School District					√			
Mechanicville City School District	√							
* New York State Education Department - Accuracy of Graduation and Dropout Data in Annual Report Cards for Selected High Schools Follow-up Report (footnote 3)								√
* New York State Education Department - Travel Expenses (footnote 4)								√
Northville Central School District			√					
Romulus Central School District (footnote 5)								√
Roscoe Central School District	√							
** Sherburne-Earlville Central School District								

**Audit Report Abstracts  
Regents Committee on Audits/Budget and Finance  
February 2011**

Audit	Procurement	Claims Processing	Payroll	Cash	Financial Reporting	Information Technology	Budgeting	Other
Tioga Central School District	√							
<b>February 2011</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>5</b>

1. ARRA Funds
2. Online Banking
3. Student Drop-Out Related Data
4. Travel Expenses
5. Medicaid Revenue Enhancement

\*\* 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.

**Audit Report Abstracts**  
**Regents Committee on Audits/Budget and Finance**  
**February 2011**

<b>Office of Audit Services</b>		
<b>Audit</b>	<b>Major Finding(s)</b>	<b>Recommendation/Response</b>
<p><b>South Country Central School District</b>  <b>ARRA Audit</b>  <b>ARRA-0510-14</b>  <b>10th Judicial District</b></p>	<p>The District had only submitted one claim for reimbursement of ARRA-ESF. The claim was for \$2,354,171, however, the District's accounting records at that time only supported \$1,779,594 of that amount. Employee fringe benefit costs of \$574,577 had yet to be entered into the accounting system.</p> <p>Further, the District has not submitted claims for ARRA-IDEA or for ARRA-Title I, and only one claim for ARRA-ESF. The result is that the District has not received reimbursement of \$596,829 for expenditures for ARRA-IDEA and ARRA-Title I, and \$2,253,089 for ARRA-ESF.</p> <p>In terms of the financial control system, the various costs that make up the ARRA-ESF claim submitted by the District were accounted for in the General Fund, but were not all posted or directly charged to the ESF expenditure codes.</p> <p>Personnel activity reports did not account for the total activity for which each employee was compensated, and the number of jobs saved and positions created that were reported by the District was not consistent with supporting documentation. The District also did not have a process in place for ensuring compliance with federal requirements for minimizing time elapsed between receipt and disbursement of funds and remitting interest earned on funds in excess of \$100 annually.</p>	<p><b>7 recommendations</b></p> <p>The recommendations focused primarily on strengthening the policies and procedures regarding grant costs, supporting documentation, and ESF codes for claims.</p> <p><i>The District agreed with the recommendations and has indicated that they will implement corrective action.</i></p>

**Audit Report Abstracts**  
**Regents Committee on Audits/Budget and Finance**  
**February 2011**

<b>Office of the State Comptroller</b>		
<b>Audit</b>	<b>Major Finding(s)</b>	<b>Recommendation/Response</b>
<b>Ballston Spa Central School District</b> <b>Cost Saving Practices and Procedures</b> <b>2010M-176</b> <b>4th Judicial District</b>	<p>The District has implemented practices and procedures to aid them in identifying and realizing cost savings related to energy consumption and special education. The District has continually facilitated meetings with key officials to discuss potential cost savings. In addition, throughout the budget process, the board of education, the superintendent, assistant superintendents, principals and department heads met regularly to discuss potential areas of cost savings.</p>	<p>There were no recommendations.</p>
<b>Batavia City School District</b> <b>Internal Controls Over the Safeguarding of Scrap Material and the Receipt of Sale Proceeds</b> <b>P1-10-29</b> <b>8th Judicial District</b>	<p>The District's internal controls over the collection, safeguarding, and sale of scrap material were not properly designed or operating effectively. The District has not adopted policies, and prior to 2008, had not developed procedures to address these activities. Over \$1,500 in sale proceeds from July 2007 to March 2008 were not recorded or documented. Over \$3,000 in District sale proceeds were also not recorded or documented and there is the possibility that a District vehicle was being used for personal business.</p>	<p><b>3 recommendations</b></p> <p>The recommendations focused primarily on strengthening the policies and procedures regarding the adequate security of scrap materials, ensuring District equipment is not being used inappropriately, and determining whether other undocumented cash transactions have occurred beyond those in the report and consult with counsel for the appropriate action to be taken.</p> <p><i>The District agreed with the recommendations and have indicated that they will implement corrective action.</i></p>

**Audit Report Abstracts**  
**Regents Committee on Audits/Budget and Finance**  
**February 2011**

<p><b>Buffalo City School District</b>  <b>Internal Controls Over Information Technology Assets</b>  <b>2010M-105</b>  <b>8th Judicial District</b></p>	<p>The District has spent over \$227,000 for software tools in an attempt to implement viable inventory controls, however, they have failed to use those tools properly. As a result, the District has not gotten any discernible benefit from this \$227,000 and, therefore, do not have assurances that their inventory system adequately controls the significant investment in IT resources.</p>	<p><b>4 recommendations</b></p> <p>The recommendations focused on strengthening the policies and procedures regarding the IT purchasing process, inventory management software, asset tracking software, and reporting missing laptops.</p> <p><i>The District agreed with the recommendations and has indicated that they will implement corrective action.</i></p>
<p><b>Coxsackie-Athens Central School District</b>  <b>Internal Controls Over Online Banking</b>  <b>2010M-172</b>  <b>3rd Judicial District</b></p>	<p>The District does not have the proper formal written policies and procedures over online banking in place to adequately safeguard the money routinely transferred between bank accounts. Thirty electronic transfers totaling \$6,964,818 were reviewed to determine whether they were appropriate, properly recorded, and deposited in a receiving District bank account in a timely manner. The 30 transfers were traced from the disbursing District bank account to deposit in the receiving bank account. While there were no inappropriate transfers or untimely deposits found, the lack of comprehensive policies and procedures has allowed numerous control deficiencies to exist in the areas of bank agreements, dedicated computers, Internet usage, and online banking access.</p>	<p><b>6 recommendations</b></p> <p>The report's recommendations focused primarily on strengthening the policies and procedures regarding bank agreements, internet usage, and online banking sessions.</p> <p><i>The District agreed with the recommendations and has indicated that they plan to implement corrective action.</i></p>

**Audit Report Abstracts**  
**Regents Committee on Audits/Budget and Finance**  
**February 2011**

<p><b>Deposit Central School District</b>  <b>Health Insurance Buyout Incentive</b>  <b>2010M-115</b>  <b>6th Judicial District</b></p>	<p>The District paid more than \$83,000 in health insurance premiums in 2009-10 for seven employees and it is projected they will spend approximately \$88,000 in 2010-11 to provide health insurance to cover these same employees.</p> <p>If the District offered a health insurance buyout incentive of \$2,500 to the six employees eligible for family coverage and \$1,250 to the one employee eligible for single coverage, it could have saved approximately \$67,000 in 2009-10 and could potentially save approximately \$72,000 in 2010-11.</p>	<p><b>1 recommendation</b></p> <p>It is recommended that the District work with employee collective bargaining units to implement an employee health insurance buyout incentive program to help control rising health insurance costs.</p> <p><i>The District agreed with the recommendation and has agreed to implement corrective action.</i></p>
<p><b>Gowanda Central School District</b>  <b>Financial Condition and Transportation Costs</b>  <b>2010M-112</b>  <b>8th Judicial District</b></p>	<p>The board of education did not adequately monitor its budget process and fund balance. Consequently, the District has accumulated more than \$1.6 million in excess funds that should be used to benefit taxpayers by paying one-time expenditures, funding necessary reserves, reducing debt, and/or reducing the tax levy, in accordance with applicable statutory requirements.</p> <p>The board and District officials did not make reasonable budgetary estimates or ensure that the funding of reserve funds was transparent to taxpayers. Even though approximately \$5.5 million of unreserved fund balance was appropriated to reduce the tax levy for the five fiscal years 2005-06 through 2009-10, the District generated more than \$2.4 million in operating surpluses over this time period. The fund balance appropriated was not used as budgeted.</p> <p>Further, District officials do not analyze the transportation program for the purpose of identifying inefficient practices or</p>	<p><b>9 recommendations</b></p> <p>The recommendations focused on strengthening the policies regarding realistic appropriation estimates, adequate documentation, the use of the surplus fund, and transportation cost procedures.</p> <p><i>The District agreed with the recommendations and have indicated that they will implement corrective action.</i></p>



**Audit Report Abstracts**  
**Regents Committee on Audits/Budget and Finance**  
**February 2011**

	improvement opportunities.	
<b>Greater Southern Tier BOCES Employee Health Insurance Cost Reduction Strategies 2010M-157 6th Judicial District</b>	In July 2010, th BOCES implemented a new health care plan that includes a wellness program and a prescription drug formula, which emphasizes the use of generic prescription drugs. The estimated cost savings from implementing the new health care plan for 2010-11 for the BOCES' portion of the premium payment is over \$2.6 million.	There were no recommendations.
<b>Greenburgh-North Castle Union Free School District Internal Controls Over Selected Financial Activities Follow-up 2009M-95-F 9th Judicial District</b>	<p>An audit was issued in August 2009 identifying certain conditions and opportunities for District management's review and consideration. The District was then revisited in April 2010 to review the District's progress in implementing the 11 recommendations contained in the initial report.</p> <p>Of the 11 district audit recommendations included in the report, five recommendations were implemented, one recommendation was partially implemented, and five recommendations were not implemented.</p>	<p>The recommendations that were not implemented were those pertaining to the treasurer's monthly and quarterly reports, the claims audit process, procuring professional services, requests for proposals, and the audit committee.</p> <p>The remainder of the recommendations have been implemented.</p>
<b>Guilderland Central School District Claims Processing 2010M-182 3rd Judicial District</b>	<p>There were deficiencies in the design of the District's internal controls over claims processing. The board of education has not passed a resolution authorizing the payment of claims prior to audit and approval by the claims auditor. The claims auditor does not report to the board on a regular basis. Instead, the claims auditor contacts the board only if there is a particular reason or problem.</p> <p>Twenty-two deficient claims were found out of the 80 that were reviewed. Claims were deficient because one could not</p>	<p><b>4 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures regarding claims reporting, the treasurer's duties, properly itemized claims, and hand-drawn checks.</p> <p><i>The District agreed with the</i></p>

**Audit Report Abstracts**  
**Regents Committee on Audits/Budget and Finance**  
**February 2011**

	be located, they were not processed in a timely manner, or the documentation was not sufficient.	<i>recommendations and has agreed to implement corrective action.</i>
<b>LeRoy Central School District Financial Management 2010M-161 8th Judicial District</b>	The District has accumulated more than \$2 million and the board of education has not adopted a comprehensive financial management policy and did not prepare reasonable budgets for the four-year period 2006-07 through 2009-10. District officials overestimated appropriations and underestimated revenues by a total of \$6.5 million over this period, even though data was often available to develop more accurate budget estimates. As a result of these practices, the District generated operating surpluses totaling more than \$4 million. District officials used the majority of the annual surpluses to fund reserves. As of June 30, 2010, balances in the District's general fund reserves totaled \$2.4 million. District officials were unable to provide adequate justification for the establishment and funding for these reserves, and did not properly use the reserve funds.	<b>7 recommendations</b>  The recommendations focused on strengthening the policies and procedures regarding financial management policies, revenue and appropriate estimates, the surplus fund balance, the unemployment insurance reserve, and reserve funds.  <i>The District agreed with the recommendations and has agreed to implement corrective action.</i>
<b>Mechanicville City School District School Bus Procurement and Transportation State Aid 2010M-138 4th Judicial District</b>	District officials did not seek approval from the Department after leasing 12 buses in 2006 and two 2 buses in 2008. As a result, the District did not receive over \$443,000 in Transportation State Aid. High turnover in the position of business manager likely led to this oversight.  There was no indication that District management evaluated and compared the various costs of leasing versus purchasing prior to leasing school buses. The cost of leasing and the cost of purchasing were compared for 14 buses, and it was determined that if the District had purchased the buses, they could have saved \$316,000.	<b>5 recommendations</b>  The recommendations focused on strengthening the policies and procedures regarding leasing and purchasing buses, and the bidding process.  <i>The District agreed with the recommendations and has agreed to implement corrective action.</i>

**Audit Report Abstracts**  
**Regents Committee on Audits/Budget and Finance**  
**February 2011**

	<p>District officials also delayed the bidding process on a bus lease, providing its existing vendor with prior knowledge of that upcoming bidding process. As a result, the existing vendor had an unfair advantage in the subsequent procurement. When the bidding was held, the District received two bids and selected the higher bid (by \$17,800) from the existing vendor because the other vendor could not supply the buses by the stated delivery date.</p>	
<p><b>New York State Education Department Accuracy of Graduation and Dropout Data in Annual Report Cards for Selected High Schools Follow-up Report 2010-F-34</b></p>	<p>The original audit determined if report cards issued by the Department showing selected high school graduation and dropout-related data were accurate. The second objective was to determine if the Department has sufficient controls in place to ensure schools provided accurate information for the report cards.</p> <p>The initial report which was issued in March 2009, contained seven recommendations. Six of the seven recommendations have since been implemented and one recommendation was partially implemented.</p>	<p>The recommendation that was partially implemented was for the Department to follow-up with schools to resolve the discrepancies, and to update the Student Information and Repository System as appropriate.</p> <p>The remainder of the recommendations have been fully implemented.</p>
<p><b>New York State Education Department Travel Expenses 2009-0348</b></p>	<p>The designation of an official station for one traveler from the Department was not made in accordance with State rules and regulations, and, as a result, this employee incurred more than \$24,000 in travel expenses over a one-year period.</p> <p>There were also instances where Department policies pertaining to vehicle rentals and meal expenses were not consistent with State regulations.</p>	<p><b>2 recommendations</b></p> <p>It is recommended that the Department designate official stations in accordance with State travel regulations, and that the Department ensures that travel policies are consistent with State regulations as well.</p> <p><i>The Department agreed with the</i></p>

**Audit Report Abstracts**  
**Regents Committee on Audits/Budget and Finance**  
**February 2011**

		<i>recommendation pertaining to travel policies, and disagreed with the recommendation regarding the designation of official stations. The Department maintained that the employee's official station designation is cost-effective. The Department reassigned this employee to a different position and stated that the travel associated with her new duties are expected to decrease significantly.</i>
<b>Northville Central School District</b> <b>Internal Controls Over Payroll and Employee Benefits</b> <b>2010M-194</b> <b>4th Judicial District</b>	<p>The board of education did not clearly document the authorization for the salaries of the claims auditor, business manager, and treasurer by resolution or employment contract.</p> <p>Additionally, the business manager's contribution toward his District-provided health insurance coverage was not consistent with the board's policy for this class of employees; however, the board did not adopt a resolution to that effect.</p> <p>Finally, the board did not establish the work hours or the duration of time for which the tax collector position was to be in effect and did not approve leave benefits for that position. As a result, the individual serving as tax collector received leave benefits that may not have been as the board intended.</p>	<p><b>5 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures regarding the claims auditor and treasurer's duties, and the establishment of work house and leave benefits.</p> <p>The District agreed with the recommendations and has indicated that they will implement corrective action.</p>
<b>Romulus Central School District</b> <b>Internal Controls Over Medicaid Reimbursement</b>	<p>The District lacked written Medicaid policies and procedures to define the responsibilities for collecting data and documentation, submitting and reconciling claims, and monitoring the reimbursement process during the 2008-09 fiscal year. Further, while the claims processing vendor</p>	<p><b>3 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures regarding</p>

**Audit Report Abstracts**  
**Regents Committee on Audits/Budget and Finance**  
**February 2011**

<p><b>2010M-143</b>  <b>7th Judicial District</b></p>	<p>provided the claims reports and reconciled the claims submitted against those approved for payment by the Office of the Medicaid Inspector General (OMIG), District officials did not follow up on denied claims and did not reconcile the claims approved for payment by OMIG with the Medicaid reimbursements received. As a result, the District did not claim and receive \$41,080 in potential Medicaid reimbursements for IEP-related services during the 2008-09 year.</p>	<p>IEP-related claims, reconciling proper claim amounts, and compliance with the new Medicaid requirements.</p> <p><i>The District agreed with the recommendations and has indicated that they plan to implement corrective action.</i></p>
<p><b>Roscoe Central School District</b>  <b>Transportation Contact</b>  <b>2010M-154</b>  <b>3rd Judicial District</b></p>	<p>District officials have not solicited bids or used RFPs for transportation services since July 1992. For the past 18 years, District officials extended the contract annually as it expired. However, District officials were generally unfamiliar with the terms of the contract and never updated it to reflect changing conditions.</p> <p>A consultant verified the District's contract and found it to be reasonable, however, the District could have a contract that was not beneficial for the District because they did not periodically use an RFP process and because they were not aware of the terms of the existing contract.</p>	<p><b>3 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures regarding RFP's and competitive bidding.</p> <p><i>The District agreed with the recommendations and has indicated that they plan to implement corrective action.</i></p>
<p><b>Sherburne-Earlville Central School District</b>  <b>Internal Controls Over Purchasing</b>  <b>2010M-180</b>  <b>6th Judicial District</b></p>	<p>Overall, it was found that the District had established adequate internal controls over purchasing and that these controls were working effectively.</p>	<p>There were no recommendations.</p>
<p><b>Tioga Central School District</b>  <b>Cost Savings</b>  <b>2010M-130</b></p>	<p>The District could achieve potential cost savings by using the Tioga building only, while still maintaining class sizes for all Kindergarten to Grade 4 classes at an average of 21 students per class. By closing the Nichols building, the District could</p>	<p><b>3 recommendations</b></p> <p>The recommendations focused on strengthening the policies and</p>

**Audit Report Abstracts**  
**Regents Committee on Audits/Budget and Finance**  
**February 2011**

<p><b>6th Judicial District</b></p>	<p>achieve annual cost savings of approximately \$491,813. The District also could receive revenue of \$1.44 million if it sold the Nichols building for the 2009 assessed value. In addition, the District's annual cost savings would increase to approximately \$513,948 if it sold the building because they would no longer have to pay for heating and electricity to maintain the building.</p> <p>The District could also achieve a net benefit of \$305,250 over five years by hiring a licensed speech language pathologist to provide speech therapy services. If the District hired an occupational therapist instead of a third-party provider, they could save \$89,000 over five years.</p>	<p>procedures regarding building expenses and special education services.</p> <p><i>The District agreed with the recommendations and indicated that they will implement corrective action.</i></p>
-------------------------------------	--	--