



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

**TO:** Audits/Budget and Finance Committee  
**FROM:** Sharon Cates-Williams  
**SUBJECT:** Board of Regents Oversight Financial Accountability  
**DATE:** August 29, 2012

**AUTHORIZATION(S):**

*John B. G. G.*  
**SUMMARY**

**Issues for Discussion**

Review of recently completed Audits including the Report of the Internal Audit Workgroup (Attachments I & II) (Note that special education audits are addressed separately.)

**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. Completed Audits including the Report of the Internal Audit Workgroup  
The Committee is being presented with 17 audits this month. (Attachments I & II)

Audits are provided as follows:

Office of Audit Services

Charter School for Educational Excellence

Office of the State Comptroller

Aloma D. Johnson Fruit Belt Community Charter School  
Cheektowaga-Sloan Union Free School District  
Community Charter School  
Environmentally Sensitive Cleaning and Maintenance in New York City Public  
Schools Follow-up Report  
Herbert H. Lehman High School  
Hoosick Falls Central School District  
James Madison High School  
Mayfield Central School District  
New Roots Charter School  
Queensbury Union Free School District  
SBI Campus TAP Audit  
South Glens Falls Central School District  
Starpoint Central School District  
Touro College TAP Audit  
Wells Central School District

Office of the New York City Comptroller

Audit Report on the Department of Education's NYC21C Project

**Recommendation**

No action required. For discussion only.

**Timetable for Implementation**

N/A

The following materials are attached:

- Report of the Internal Audit Workgroup (Attachment I)
- Summary of Audit Findings Including Audit Abstracts (Attachment II)

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

Newly Presented Audits

We reviewed the 17 audits that are being presented to the Committee this month. One audit was issued by the Office of Audit Services (OAS), 15 by the Office of the State Comptroller (OSC), and one by the New York City Office of the Comptroller. The audits were of nine school districts including two New York City high schools, four charter schools, two degree-granting college's Tuition Assistance Program (TAP) payments, and two New York City Department of Education initiatives.

The findings were in the areas of procurement, payroll, cash, information technology, extra-classroom activity fund, and conflict of interest.

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.

Of the 17 audits, there are no follow-up actions necessary.

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

Audit	Procurement	Claims Processing	Payroll	Cash	Financial Reporting	Information Technology	Capital Construction	Extracurricular Activity Fund	Conflict of Interest	Tuition Assistance Program (TAP)	Other
<b>Office of Audit Services</b>											
Charter School of Educational Excellence	√			√							
<b>Office of the State Comptroller</b>											
* Aloma D. Johnson Fruit Belt Community Charter School (footnote 1)									√		√
Cheektowaga-Sloan Union Free School District					√						
Community Charter School									√		
Hoosick Falls Central School District				√							
Mayfield Central School District					√						
New Roots Charter School	√										
** New York City Department of Education (2010-F-25)											
New York City Department of Education (2010-N-11)								√			
New York City Department of Education (2011-N-1)								√			
Queensbury Union Free School District						√					
SBI Campus										√	
South Glens Falls Central School District						√					
Starpoint Central School District	√				√		√				
Touro College										√	
Wells Central School District		√									

Audit	Procurement	Claims Processing	Payroll	Cash	Financial Reporting	Information Technology	Capital Construction	Extracurricular Activity Fund	Conflict of Interest	Tuition Assistance Program (TAP)	Other
<b>New York City Office of the Comptroller</b>											
* New York City Department of Education (7A11-116) (footnote 2)											√
<b>September 2012</b>	5	1	0	2	3	2	1	2	2	2	2

- 1 Building Lease
- 2 NYC21C Project
- \*\* 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.

<b>Office of Audit Services</b>		
Audit	Major Finding(s)	Recommendation/Response
<b>Charter School of Educational Excellence For the Period July 1, 2009 – June 30, 2010 CH-0911-01 9th Judicial District</b>	<p>The audit found that in general, the Charter School of Educational Excellence (CSEE) had adequate internal controls and was in compliance with its Charter. However, there were some additional areas that were in need of improvement.</p> <p>The Board of Trustees was not in compliance with all of the Charter provisions by not setting up an escrow account and</p>	<p><b>7 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to board minutes, disclosure of financial interests, journal entries, and supporting documentation.</p>

	<p>by not posting their Annual Report on their website. There is also a lack of transparency with Board minutes and Trustee Disclosures of Financial Interests</p> <p>CSEE did not adequately document journal entries and could not support \$6,159 in federal grant expenses. Internal controls were also weak for incoming checks, petty cash, inventory, and purchasing, and there was no supporting documentation to show that all special education students received their prescribed educational programs.</p>	<p>The School disagreed with three of the findings, and agreed with the remaining four findings. They have agreed to implement corrective action for those findings that were agreed upon.</p>
<b>Office of the State Comptroller</b>		
<b>Audit</b>	<b>Major Finding(s)</b>	<b>Recommendation/Response</b>
<p><b>Aloma D. Johnson Fruit Belt Community Charter School Building Lease 2012M-54 8th Judicial District</b></p>	<p>The Board did not fulfill its fiduciary responsibility to the School by ensuring that it fully evaluated the choice of its school building. In fact, the Board selected a building that was owned by an organization that it had extremely close ties to with no evidence that it is paying market value.</p> <p>The terms of the building lease were not complied with as it appears that the School had been occupying and possibly renovating space that was not included in the lease agreement and without prior Department approval.</p> <p>The terms and conditions of the lease, including the cost of leasehold improvements, directly impacted the School's financial condition, initially resulting in cash flow problems to the School, while also providing a significant financial benefit to the landlord.</p>	<p><b>4 recommendations</b></p> <p>The recommendations focused on strengthening the policies and procedures pertaining to cost analysis for real estate transactions, lease agreement terms, and obtaining comparative market rates to provide assurance that the terms and conditions of the lease agreement are in the best interests of the School.</p> <p><i>School officials agreed with the recommendations and indicated that they will implement corrective action.</i></p>
<p><b>Cheektowaga-Sloan Union Free School District Financial Management 2012M-51 8th Judicial District</b></p>	<p>The Board and District officials have not properly managed fund balance in accordance with statute and the District has accumulated more than \$2.6 million that should be used to benefit taxpayers. District officials consistently overestimated appropriations for the past five years, by an average of \$2.5 million annually.</p>	<p><b>3 recommendations</b></p> <p>The recommendations focused on strengthening policies and procedures pertaining to the usage of the District's surplus fund</p>

	<p>The District had operating surpluses totaling \$2.4 million in four of the last five fiscal years, and did not need to use the majority of the approximately \$3 million of fund balance that the Board consistently appropriated as a funding source in the general fund budgets over the last five completed fiscal years. Despite its budgetary surpluses, the District increased its real property tax levy by approximately \$2.3 million, 18 percent over the prior fiscal year's tax levy.</p>	<p>balance, and the maintenance of unexpended surplus funds.</p> <p><i>District officials disagreed with the recommendations.</i></p>
<p><b>Community Charter School Conflict of Interest Policy 2012M-60 8th Judicial District</b></p>	<p>The former Board President engaged in business transactions with the owner of a construction company to which the School has paid \$2.4 million since 2007. The Board, however, did not follow the School's conflict of interest policy because it did not determine whether this relationship resulted in a conflict of interest as the policy requires.</p> <p>Further, School officials did not use competitive procedures to obtain these construction services, and did not produce a written contract that stated the scope of the work or the basis of payment.</p>	<p><b>4 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to conflict of interest policies.</p> <p><i>School officials agreed with the recommendations and agreed to implement corrective action.</i></p>
<p><b>Hoosick Falls Central School District Electronic Fund Transfers 2012M-71 3rd Judicial District</b></p>	<p>The treasurer initiates each electronic fund transfer, receives the confirmation, records the transaction into the general ledger by hand, and at the end of each month makes general journal entries in the financial management system with the monthly totals. He then reconciles the bank accounts. The only confirmation of electronic fund transfers from the bank to the District during the audit scope was sent electronically via e-mail to the Treasurer. The Business Administrator initialed electronic fund transfer documents, but it could not be determined if the approval was prior to the transfer because they are not dated. 40 electronic fund transfers (totaling \$10.5 million) were reviewed, and the propriety of each transaction was verified. There were no improprieties.</p>	<p><b>2 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to electronic fund transfers, journal entries and bank reconciliations.</p> <p><i>District officials agreed with the recommendations and indicated that they will implement corrective action.</i></p>

	The month end journal entries were not reviewed by the Business Administrator for, on average, a month after the transaction, and bank reconciliations were not reviewed for up to a three month period.	
<b>Mayfield Central School District Financial Condition 2012M-46 4th Judicial District</b>	Although the District had fund balance in excess of the statutory limit for the fiscal years ended June 30, 2007 through June 30, 2009, the Board and District officials have taken appropriate action to reduce the fund balance below this statutory limit for the fiscal years ended June 30, 2010 and June 30, 2011. The Board has accomplished this by establishing reserves, and by using more of the fund balance that it had appropriated, as planned. The District is now facing increasingly difficult financial decisions as State and federal aid is reduced, and expenditures for health insurance and retirement continue to rise. Also, starting this year, the District is required to comply with the 2 percent property tax levy cap. These developing issues will require sound budgeting practices and financial planning in the coming years.	<b>1 recommendation</b>  It is recommended that the District develop a comprehensive long-term financial plan in order to identify potential fiscal difficulties pertaining to revenues and expenditure.  <i>District officials agreed with the recommendation and indicated they will implement corrective action.</i>
<b>New Roots Charter School Enrollment, Billing and Purchasing 2012M-83 6th Judicial District</b>	Two School billings were reviewed, which revealed that the Manager had billed all 17 feeder districts for the proper number of enrolled students. Although it was discovered that some districts (6 in one billing and 7 in the other) were not billed at the correct tuition rates, the amounts by which these districts were under-billed or over-billed were minor.  Six contracts and three purchases totaling approximately \$917,900 did not have proper documentation to show the Board approved six of these nine transactions, totaling approximately \$172,000.	<b>3 recommendations</b>  It was recommended that the School ensure the billings to the feeder districts are reviewed for accuracy, and that all contracts and purchases are approved in accordance with Board policy.  <i>School officials agreed with the findings and recommendations and indicated they planned to initiate corrective action.</i>
<b>New York City Department of Education</b>	Department officials have made progress in correcting the problems identified in the initial report. They have taken action to remove cleaning products from their catalog that did not	There are no recommendations.



<p><b>Environmentally Sensitive Cleaning and Maintenance in New York City Public Schools (Follow-Up) 2010-F-25</b> 1st, 2nd, 11th, 12th, 13th Judicial District</p> <p><b>Contract for Excellence</b></p>	<p>qualify as green products. However, some of the schools visited during the follow-up review continue to store and use cleaning products that are not in compliance with the legislation.</p>	
<p><b>New York City Department of Education Herbert H. Lehman High School: Management of General School Funds 2010-N-11</b> 1st, 2nd, 11th, 12th, 13th Judicial District</p> <p><b>Contract for Excellence</b></p>	<p>General School Funds (GSF) in the amount of \$26,064 were used to pay for items that were not student-related or should have been paid for with the school's regular tax levy funds. Examples include \$9,450 for music equipment, \$9,061 for administrative and other supplies, \$956 for a camera, and \$660 to reimburse students for personal items that were either lost or damaged at school.</p> <p>Lehman officials did not establish an adequate system of accountability over the operations of the school store, the revenues from which were deposited in the GSF account. There were no inventory records and no system (such as a cash register) to record sales. In fact, daily sales were routinely calculated simply by counting the cash on hand at the end of the day.</p> <p>In 2004, the school's former principal made what appears to be an improper deal with a vendor to forgive \$8,046 in charges for photography services at the school prom in exchange for the exclusive 10-year right to similar business. Current school officials had not lived up to these promises and the vendor is now seeking payment.</p>	<p><b>5 recommendations</b></p> <p>It is recommended that the New York City Department of Education (DOE) reimburse the GSF account for all tax levy items that were purchased with student funds. It is also recommended that the DOE improve accountability over school store operations by instituting appropriate financial management practices. Finally, the DOE should investigate the \$8,046 outstanding claim against the school and ensure that all GSF-related bills are paid promptly in the future.</p> <p><i>Department officials generally agreed with our findings and recommendations, although they felt certain expenses which we cited as inappropriate should be considered appropriate. Department officials indicated they</i></p>

		<i>have already taken steps to implement our recommendations.</i>
<p><b>New York City Department of Education James Madison High School: Management of General School Funds 2011-N-1 1st, 2nd, 11th, 12th, 13th Judicial District</b></p> <p><b>Contract for Excellence</b></p>	<p><b>\$3,251 adjustment</b></p> <p>Eighty-nine disbursements totaling \$228,964 were examined and it was determined that \$6,856 in General School Funds (GSF) were used to pay for items that were not student-related or should have been paid for with regular tax levy funds. Of this amount, \$3,251 in salary loans made to teachers has since been repaid by the Department.</p> <p>James Madison officials did not establish an adequate system of accountability over the operations of the school's Gym Store and its faculty café. There were no inventory records and no reliable system to record sales at either location. The Café has a cash register, but there is no tape in it to record sales. Manual records from the Gym Store conflicted with the treasurer's records, evidencing missing receipts, duplications, and improperly voided documents. As a result, it could not be determined whether or not all revenues were properly accounted for.</p> <p>As of February 22, 2011, twenty-five GSF checks totaling \$5,836 were outstanding for periods ranging from 239 to 509 days. Procedures call for uncashed checks to be investigated after 60 days and cancelled after 90 days. School officials told us they were unaware of the requirement to follow up on outstanding payments.</p>	<p><b>5 recommendations</b></p> <p>It is recommended that DOE reimburse the GSF account for the remaining \$3,605 that was disbursed inappropriately. DOE should also improve accountability over Gym Store and Café operations by instituting appropriate financial management practices, and providing appropriate training to James Madison officials.</p> <p><i>Department officials generally agreed with our findings and recommendations, although they felt certain expenses cited should be considered appropriate. Department officials indicated they have already taken steps to implement the recommendations.</i></p>
<p><b>Queensbury Union Free School District Server Virtualization Technology 2012M-10</b></p>	<p>The District currently uses a virtual configuration for most of its server needs. There are 12 physical servers at the District. Of those 12, there are 3 virtual host servers that host 26 different virtual servers (machines). By changing its server set up, the District was able to realize almost \$98,000 in cost</p>	<p><b>1 recommendation</b></p> <p>It is recommended that the Board continue to invest in virtual servers.</p>

<p><b>4th Judicial District</b></p>	<p>savings over its five-year replacement period for its computer resources.</p>	<p><i>The Board agreed with the recommendation and indicated that they will implement corrective action.</i></p>
<p><b>South Glens Falls Central School District Student Access to Information Technology 2011M-278 4th Judicial District</b></p>	<p>Some District computers allowed students to access personal accounts through the internet, including an external instant messaging program for chats with outside contacts. This not only allows students to use District resources and class time for non-educational purposes, but also exposes them to potentially inappropriate or exploitative communications from outside users.</p> <p>Although the District maintains audit logs of students' internet activity and network sessions, these logs are reviewed only on an exception basis when there is a known, suspected, or reported incident.</p>	<p><b>2 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to internet access and user account sessions.</p> <p><i>The District agrees with the recommendations and has indicated that they will implement corrective action.</i></p>
<p><b>Starpoint Central School District Financial Condition and Capital Project 2011M-293 8th Judicial District</b></p>	<p>The District has accumulated more than \$5 million that could be used to benefit taxpayers. As of June 30, 2011, the District overstated certain liabilities by \$1.6 million, over-funded certain reserves by \$1.7 million, and appropriated approximately \$1.7 million of fund balance that is not needed. Had these actions not occurred, the District's unexpended surplus funds would have been \$6.7 million at the end of the 2010-11 fiscal year, representing 15 percent of the ensuing year's appropriations of \$44.9 million. Real property taxes could have been lower as the District, pursuant to statute, is limited to no more than 4 percent of the ensuing fiscal year's appropriations.</p> <p>Further, the District was not transparent in its use of capital project funds and potentially could have spent less on the Excel Capital Project. The District approved almost \$1.7 million in change orders, of which more than \$500,000 were not related to the original scope of the project. The relevance</p>	<p><b>9 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to surplus funds and reserves, and capital project funds.</p> <p><i>District officials agreed with the recommendations and indicated that they will implement corrective action.</i></p>

	<p>of an additional \$400,000 to the project fund could also not be determined, because the scope was not adequately detailed.</p> <p>Finally, more than \$500,000 in equipment and supply purchases were not appropriate, and more than \$265,000 in purchases were not competitively bid as required.</p>	
<p><b>State Education Department and Higher Education Services Corporation Audit of the Tuition Assistance Program at SBI Campus 2011-T-1</b></p>	<p><b>\$538,568 adjustment</b></p> <p>SBI Campus was overpaid \$538,568 because school officials incorrectly certified students as eligible for Tuition Assistance Program (TAP) awards. The accuracy of the School's certifications was reviewed for the three year period ended June 30, 2009, by reviewing a sample of 200 randomly selected awards. From the sample, 37 payments totaling \$40,128 were disallowed for a variety of reasons, including payments for students who were not in good academic standing or who did not meet the requirements for accelerated TAP. Our projection of these awards to the School's payment population for the three year period results in an audit disallowance of \$510,003.</p> <p>Twenty-one awards totaling \$28,565 were also disallowed from outside the three year period.</p>	<p><b>3 recommendations</b></p> <p>It was recommended that the Higher Education Services Corporation (HESC) recover \$538,568, plus applicable interest, from SBI Campus and also that they ensure SBI Campus officials comply with requirements relating to certifying accurate tuition amounts.</p> <p>It was also recommended that the Department ensure SBI Campus officials comply with Department requirements relating to matriculation, full-time attendance, good academic standing, and accelerated TAP payments.</p>
<p><b>Touro College Tuition Assistance Program (TAP) awards. 2012-T-1 1st Judicial District</b></p>	<p><b>\$313,665 adjustment</b></p> <p>Touro was overpaid \$313,665 because school officials incorrectly certified students for TAP. The accuracy was tested of the 29,317 TAP certifications the school was awarded for the three-year period ended June 30, 2006, by reviewing a statistical sample of 200 randomly selected awards. From the statistical sample, five awards were disallowed totaling \$9,293. A statistical projection of these</p>	<p><b>2 recommendations</b></p> <p>It is recommended that HESC recover the \$313,665 plus applicable interest from Touro College for its incorrect TAP certifications.</p> <p>It is recommended to the</p>

	audit disallowances to the entire population, using a 95 percent single-sided confidence level, resulted in an audit disallowance of \$292,302. Ten awards, totaling \$21,363, were also disallowed based on the review of other awards from outside the statistical sample period for the students in the random sample. These awards were not projected to the population. Therefore, it is recommended that HESC recover a total of \$313,665 (\$292,302 and \$21,363), plus applicable interest, from Touro.	Department that they ensure Touro officials comply with the State Education Department requirements relating to matriculation.
<b>Wells Central School District Internal Controls Over Claims Processing 2012M-13 4th Judicial District</b>	<p>The Board did not adequately oversee the claims audit function and did not establish policies and procedures outlining the claims auditor's responsibilities.</p> <p>The Board also did not develop or adopt a job description for the claims auditor position. Although the claims auditor provided a list of claims paid to the Board on a monthly basis, the claims auditor believed she reported directly to the treasurer.</p>	<p><b>2 recommendations</b></p> <p>The report's recommendations focused on strengthening the policies and procedures pertaining to the claims audit function.</p> <p><i>The District agreed with the recommendations and indicated they will implement corrective action.</i></p>
<b>New York City Office of the Comptroller</b>		
<b>Audit</b>	<b>Major Finding(s)</b>	<b>Recommendation/Response</b>
<b>New York City Department of Education Audit Report on the Department of Education's NYC21C Project 7A11-116 1st, 2nd, 11th, 12th, 13th Judicial District Contract for Excellence</b>	<p>The Department of Education (DOE) launched the NYC21C initiative in May 2009. It was created as a research and development project aimed at innovating school practices to better prepare students for college and careers in the 21st century. There were ten NYC21C schools enrolled in the project, including six high schools, one transfer high school, and three middle schools. Eight of these ten schools were first started in school year 2009-10.</p> <p>DOE did not develop measurable outcome criteria to assess the success of the project (e.g. whether students were better prepared for college in the 21st century). Furthermore, the</p>	<p><b>5 recommendations</b></p> <p>The recommendations focused on strengthening the policies and procedures pertaining to DOE's communication with schools for the purpose of 21st century learning; monitoring technology inventory expenditures; and submitting and maintaining proper documentation for NYC21C.</p>

	<p>project was not in existence long enough for the DOE to determine whether the goals of the Plan were successful for the ten NYC21C schools. The ten schools that were included in the NYC21C initiative have been transferred into different initiatives with no clear specific measurable criteria to use in assessing the effectiveness of the NYC21C initiative.</p> <p>Further, DOE did not communicate with the NYC21C schools on a regular basis. DOE also did not have all required documentation for the NYC21C initiative. In addition, DOE provided a list of inventory and expenditures for technology that was obtained by city schools, but did not keep track of the inventory each school received from DOE nor the amount associated with it. Consequently, it could not be determined whether the NYC21C schools met their budgetary allocations.</p>	<p><i>DOE agreed with the recommendations and indicated they will implement corrective action.</i></p>
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