



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:** December 9, 2013  
**AUTHORIZATION(S):** *J. B. G. G.*  
SUMMARY

**Issues for Discussion**

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

1. Completed Audits including the Report of the Internal Audit Workgroup (Attachments I & II)
2. New York State Tuition Assistance Program (Attachment 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. Completed Audits including the Report of the Internal Audit Workgroup  
The Committee is being presented with 13 audits this month. (Attachments I & II)

Audits are provided as follows:

Office of the State Comptroller

Albany Community Charter School  
Dowling College TAP Audit  
Elba Central School District  
Health Sciences Charter School  
King Center Charter School  
Mahopac Central School District  
Mercy College TAP Audit  
Oyster Bay-East Norwich Central School District  
Plaza College TAP Audit  
Red Hook Central School District  
Roxbury Central School District  
Selected Employee Travel Expenses  
Tuckahoe Common School District

2. New York State Tuition Assistance Program

The Committee will be briefed on the Tuition Assistance Program and the role of the Department in implementing corrective actions related to OSC audits.

**Recommendation**

No action required for audit initiatives and presentation of audits.

**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)
- New York State Tuition Assistance Program (Attachment III)

**Regents Committee on Audits/Budget and Finance  
December 2013  
Review of Audits Presented  
Department's Internal Audit Workgroup**

Newly Presented Audits

We reviewed the 13 audits that are being presented to the Committee this month. All of the audits were issued by the Office of the State Comptroller (OSC). Six of the audits were of school districts, three of charter schools, one was of a State Education Department function and three were of colleges.

The findings were in the areas of procurement, financial reporting, budgeting, payroll, capital assets, claims processing, cash and tuition assistance program.

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.

The Department's Internal Audit Workgroup reviewed all the audits and identified the three audits pertaining to the administration of the Tuition Assistance Program of three colleges to bring to the Committee's attention for informational purposes. Department staff will brief the Committee on these audits including corrective actions.

**Audit of the Tuition Assistance Program at Dowling College**

**Audit of the Tuition Assistance Program at Mercy College**

**Audit of the Tuition Assistance Program at Plaza College**

**December 2013**  
**Regents Audits/Budget and Finance Committee Meeting**  
**Summary of Audits Requiring Specific Attention**

<b>Audit Summary</b>	<b>Recommendation/Response</b>
<p><b>Audit of the Tuition Assistance Program (TAP) at Dowling College</b></p> <ul style="list-style-type: none"> <li>• OSC Audit.</li> <li>• \$191,020 audit disallowance or 2.3% of total award for the 3-year period ending June 30, 2011.</li> <li>• Disallowance due to students not meeting full-time attendance requirement, not in good academic standing, awards not credited to students accounts and students not matriculated.</li> </ul>	<p>The recommendation to the Department focused on ensuring the College's compliance with TAP requirements. The audit also recommended that Higher Education Services Corporation recover the amount of disallowance plus interest from the College.</p>
<p><b>Audit of the Tuition Assistance Program (TAP) at Mercy College</b></p> <ul style="list-style-type: none"> <li>• OSC Audit.</li> <li>• \$25,011 audit disallowance or .11% of total award for the 3-year period ending June 30, 2011.</li> <li>• Disallowance due to students not meeting full-time attendance requirement, not in good academic standing, and not matriculated.</li> </ul>	<p>The recommendation to the Department focused on ensuring the College's compliance with TAP requirements. The audit also recommended that Higher Education Services Corporation recover the amount of disallowance plus interest from the College.</p>
<p><b>Audit of the Tuition Assistance Program (TAP) at Plaza College</b></p> <ul style="list-style-type: none"> <li>• OSC Audit.</li> <li>• \$549,316 audit disallowance or 5.8% of total award for the 3-year</li> </ul>	<p>The recommendation to the Department focused on ensuring the College's compliance with TAP requirements. The audit also recommended that Higher Education Services Corporation recover the amount of disallowance plus interest from the College.</p>

<p>period ending June 30, 2009.</p> <ul style="list-style-type: none"><li>• Disallowance due to students not meeting full-time attendance requirement, not in good academic standing, and not meeting accelerated TAP requirements.</li></ul>	
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## December Regents Audits/Budget and Finance Committee Meeting Summary of Audit Findings

Audit	Procurement	Capital Assets	Claims Processing	Payroll	Cash	Financial Reporting	Budgeting	Tuition Assistance Program (TAP)	Other
<b>Office of the State Comptroller</b>									
* Albany Community Charter School (footnote 1)	√								√
Elba Central School District						√	√		
Health Sciences Charter School	√								
King Center Charter School	√								
** Mahopac Central School District									
Oyster Bay-East Norwich Central School District				√					
Red Hook Central School District	√	√	√		√				
Roxbury Central School District						√	√		
* State Education Department (Selected Employee Travel Expenses) (footnote 2)									√
State Education Department and Higher Education Services Corporation (Audit of the Tuition Assistance Program at Dowling College)								√	
State Education Department and Higher Education Services Corporation (Audit of the Tuition Assistance Program at Mercy College)								√	
State Education Department and Higher Education Services Corporation (Audit of the Tuition Assistance Program at Plaza College)								√	
Tuckahoe Common School District	√								
<b>December 2013</b>	<b>5</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>2</b>

- 1 Building lease agreements and contracts
- 2 Employee travel expenses
- \*\* 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 school district auditees reminding them of the requirement to submit a corrective action plan.

Office of the State Comptroller		
Audit	Major Finding(s)	Recommendation/Response
<b>Albany Community Charter School Financial Operations 2013M-185 3rd Judicial District</b>	<p>The audit found no evidence that the Board had fulfilled its fiduciary responsibility to the School by ensuring that it fully evaluated the choice of its site selection for the elementary school or middle school. In addition, School officials could have saved money if they purchased the elementary school by issuing a bond instead of continuing to lease the building. Depending on the year purchased and using interest rates from 5 to 7 percent for the debt, the audit calculated that the School could have saved from about \$207,000 to \$2.3 million by issuing debt and purchasing the elementary school rather than leasing it. If the interest rate on the debt exceeded approximately 7.31 percent, it would not be profitable for the School to purchase the building. However, considering interest rates for the past 5 years, it is likely that the School would have been able to issue a bond with a lower interest rate.</p> <p>On May 26, 2011, the Board approved a compact contract between the School and a not-for-profit foundation (Foundation). The contract states that the Foundation will provide the School with access to legal and financial assistance, technical support, and advocacy at State and local levels. The fee for these services was 1 percent of pupil revenue from the prior academic year. On April 18, 2013, the Board approved a revised compact contract with the Foundation that supersedes the prior compact contract. The revised contract increases the fee from 1 percent for the 2012-13 school year to 1.5 percent for the following year, and 2 percent for the final year of the contract. With the increase in the fee percentage and the expected growth of the number of students over the next two years as the School expands to</p>	<p><b>4 recommendations</b></p> <p>The report's recommendations focused primarily on strengthening policies and procedures regarding building lease agreements and contracts.</p> <p><i>School officials generally agreed with the findings in the report. However, all decisions made by the Trustees of the Board were carefully thought through and considered, exercising their best business judgments.</i></p>

	include middle school grade levels, the fee that the School pays the Foundation is expected to increase three times the 2011-12 school year payment. The fee structure of a percentage of pupil revenue does not appear to be reasonable as the services being provided do not have any bearing on the number of students at the School, nor the State Education Department Charter School Tuition rate.	
<b>Elba Central School District Financial Condition 2013M-240 8th Judicial District</b>	From the 2008-09 to 2012-13 fiscal years, District officials consistently over-estimated expenditures by a total of \$5.5 million. These budgeting practices generated approximately \$2.2 million in operating surpluses, which caused unexpended surplus funds to exceed statutory limits in each of the past five years. For example, as of June 30, 2013, unexpended surplus funds exceeded statutory limits by \$949,184. Although District officials appropriated on average \$413,000 in each of the last five fiscal years to reduce the tax levy, the Board over-estimated expenditures by an average of \$1.1 million annually, thus negating any benefit the appropriation of fund balance would have in reducing fund balance or the property tax levy. District officials also used some of the annual operating surpluses to fund six reserves that, as of June 30, 2013, totaled \$2.1 million. Four of the six reserves appear to be over-funded.	<b>4 recommendations</b>  The report's recommendations focused primarily on strengthening policies and procedures budgeting and funding of reserves.  <i>The District officials generally agreed with the report findings, and have indicated that they plan to initiate corrective action as soon as possible.</i>
<b>Health Sciences Charter School Procurement 2013M-211 8th Judicial District</b>	The Board did not ensure that all contracts for goods and services were properly awarded. The audit also found that the more stringent controls outlined in the charter agreement are not being followed and other purchasing weaknesses have not been addressed in either the charter agreement or the procurement policy. Board oversight is undermined when School officials do not consistently complete the required documents when making purchases and service contractors are permitted to obtain quotes and select vendors on the School's behalf. As a result of these weaknesses, the Board	<b>6 recommendations</b>  The report's recommendations focused primarily on strengthening policies and procedures regarding purchasing.  <i>School officials generally agreed with the recommendations and have indicated that they plan to</i>

	cannot be certain that the School is receiving the appropriate quantity and quality of goods and services at the lowest cost, and payments are made in accordance with contractual provisions.	<i>initiate corrective action.</i>
<b>King Center Charter School Purchasing 2013M-215 8th Judicial District</b>	The audit found that the School's purchasing policy does not provide appropriate guidance as to when written or verbal price quotes should be obtained and when items must be competitively bid. The policy also does not address threshold amounts under which approval can be made by management, versus large purchases that would require Board approval. Additionally, although the policy requires the use of purchase orders, School officials are not routinely using them to initiate the acquisition of goods and/or services. These weaknesses in the purchasing process expose the School to the risk of poor purchasing decisions, which may result in the School paying more for goods and services than necessary.	<b>4 recommendations</b>  The report's recommendations focused primarily on strengthening policies and procedures regarding purchasing.  <i>School officials generally agreed with the recommendations and have indicated that they plan to initiate corrective action.</i>
<b>Mahopac Central School District Financial Condition 2013M-302 9th Judicial District</b>	District officials developed reasonable budgets and managed fund balance responsibly in accordance with statute. They have taken appropriate action to manage the District's financial condition.	There are no recommendations in this report.
<b>Oyster Bay-East Norwich Central School District Employee Leave Accruals 2013M-253 10th Judicial District</b>	A sample of ten District employees out of 236 with the highest accumulated unused leave balances were tested to determine if unused accrued leave balances were carried forward and appropriately reclassified according to applicable collective bargaining agreement. Except for minor discrepancies, the District properly accounted for employee leave accruals and made payments in accordance with collective bargaining agreements and employment contracts.	<b>1 recommendation</b>  The report's recommendation focused primarily on strengthening policies and procedures regarding employee leave accruals.  <i>District officials generally agreed with the recommendation and have indicated that they plan to continue to monitor the employee accruals.</i>

<p><b>Red Hook Central School District Internal Controls Over Selected Financial Activities - Follow up 2007M-66-F 9th Judicial District</b></p>	<p>An audit of the District's internal controls to assess the financial operations was conducted and a report issued in July 2007. A follow-up review was conducted in August 1, 2013 which showed the District has made substantial progress in addressing the recommendations identified in the initial report. Of the 13 audit recommendations, 7 were implemented, 3 were partially implemented and 3 were not implemented. The three recommendations that were not implemented relate to lack of written authorization from the Business Administrator to the Treasurer before making interfund transfers; the appointment of a claims auditor who is not involved in other business functions of the District; and the lack of periodic analytical review of fuel inventory records by the Board or internal auditor.</p>	<p>There are no new recommendations.</p>
<p><b>Roxbury Central School District Financial Condition 2013M-207 6th Judicial District</b></p>	<p>The Board and District officials believed they were effectively managing the District's fund balance. However, the adopted budgets continually included overestimated expenditures. Although the actual results of the District's operations were reasonably close to the budgeted estimates each year, the cumulative effect of these variances generated over \$2.4 million in operating surpluses for the fiscal years ending in 2008 to 2012. To reduce the year-end fund balances to under the 4 percent limit, District officials had to transfer moneys to the District's reserves, which now total \$4 million. Some of these reserve balances are questionable as to the amounts required for their stated purposes.</p>	<p><b>2 recommendations</b></p> <p>The report's recommendations focused primarily on strengthening policies and procedures regarding budgeting and reserve balances.</p> <p><i>The District officials generally agreed with the recommendations, and have indicated that they plan to initiate corrective action.</i></p>
<p><b>State Education Department Selected Employee Travel Expenses 2012-S-97</b></p>	<p>The audit found the travel expenses for two of the three Department employees selected for audit adhered to State travel rules and regulations. However, the travel expenses for one employee implicated the Internal Revenue Service "tax home" rules for 2009 and are taxable as income. As a result, the travel reimbursements made to the employee were reported to the taxing authorities and an amended W-2 was</p>	<p><b>1 recommendation</b></p> <p>It is recommended that the Department work with the Comptroller's Division of Payroll, Accounting, and Revenue Services to take any additional necessary</p>

	<p>issued. The travel expenses for 2010 may also trigger the Internal Revenue Service “tax home” rules and may be taxable as income. If so, the travel reimbursements made to the employee may have to be reported to the taxing authorities and an amended W-2 issued.</p>	<p>corrective action related to the potential taxable status of employee travel expenses.</p>
<p><b>State Education Department and Higher Education Services Corporation (HESC) Audit of the Tuition Assistance Program at Dowling College 2012-T-2 10th Judicial District</b></p>	<p><b>\$191,020 disallowance or 2.3% of total award for the period</b></p> <p>A random sample of 125 TAP certifications made during the three-year period ended June 30, 2011, was selected to determine whether only eligible students were certified for TAP by Dowling College (Dowling) officials. The audit determined that Dowling was overpaid \$191,020 as a result of inappropriate TAP certifications made on behalf of ineligible students.</p> <p>The audit disallowed six payments, totaling \$12,332, for a variety of reasons, including payments for students who did not meet the full-time attendance requirement, and/or students who were not in good academic standing. The projection of these six awards to the school’s TAP payment population for our three-year review period results in a total disallowance of \$183,611. The audit also disallowed six awards totaling \$7,409 made on behalf of certain sampled students outside of the three-year scope period.</p>	<p><b>2 recommendations</b></p> <p>It is recommended that HESC recover \$191,020, plus applicable interest, from Dowling for its incorrect TAP certifications, and to ensure that Dowling officials comply with requirements relating to the certification of enrolled and attending students, and the crediting of awards cited in the report.</p> <p>It is recommended that the Department ensure Dowling officials comply with Department requirements relating to matriculation, full-time attendance, award distribution, and good academic standing cited in the report.</p>
<p><b>State Education Department and Higher Education Services Corporation (HESC) Audit of the Tuition Assistance Program at Mercy College</b></p>	<p><b>\$25,011 disallowance or .11% of total award for the period</b></p> <p>Based on the preliminary sample of certification transactions, the audit determined that Mercy College’s (Mercy) certification procedures were appropriately designed and were substantially complied with during the audit period. The audit concluded that there is a low risk that a significant number of</p>	<p><b>2 recommendations</b></p> <p>It is recommended that HESC recover \$25,011, plus applicable interest, from Mercy for its incorrect TAP certifications, and to ensure that Mercy officials comply with</p>

<p><b>2012-T-3 9th Judicial District</b></p>	<p>students certified by Mercy for TAP were not eligible for awards. However, tests did disclose 14 awards totaling \$25,011 that school officials certified in error.</p>	<p>requirements relating to the certification of enrolled and attending students, and the crediting of awards cited in the report.</p> <p>It is recommended that the Department ensure Mercy officials comply with Department requirements relating to matriculation, full-time attendance, and good academic standing cited in the report.</p>
<p><b>State Education Department and Higher Education Services Corporation (HESC) Audit of the Tuition Assistance Program at Plaza College 2011-T-2</b></p>	<p><b>\$549,316 disallowance or 5.8% of total award for the period</b></p> <p>The audit determined that Plaza College (Plaza) was overpaid \$549,316, as a result of school officials incorrectly certifying certain students as eligible for Tuition Assistance Program (TAP) awards. The accuracy of the school's certifications for the three-year period ended June 30, 2009, was tested by reviewing a sample of 200 randomly selected awards.</p> <p>From the sample, 17 payments totaling \$38,220 were disallowed for a variety of reasons, including payments for students who did not meet the full-time attendance requirement and who were not in good academic standing. The projection of these 17 awards to the school's TAP payment population for the three-year period results in an audit disallowance of \$527,645. The audit also disallowed 12 awards totaling \$21,671 from outside the three-year period.</p>	<p><b>2 recommendations</b></p> <p>It is recommended that HESC recover \$549,316, plus applicable interest, from Plaza for its incorrect TAP certifications, and to ensure that Plaza officials comply with requirements relating to the certification of enrolled and attending students, and the crediting of awards cited in the report.</p> <p>It is recommended that the Department ensure Plaza officials comply with Department requirements relating to full-time attendance, meeting of accelerated TAP requirements, and good academic standing cited in the</p>

		report.
<b>Tuckahoe Common School District Purchasing 2013M-158 10th Judicial District</b>	District staff did not always follow the competitive bidding guidelines as required by Government Municipal Law (GML), or the District's purchasing policy, for purchases required to be bid, or those that were required to be purchased by obtaining verbal or written quotes. District personnel also did not comply with the District's purchasing policy by seeking competition when procuring the services of professional service providers. In addition, the Board did not follow its own purchasing policy by approving vendors for use outside of the competitive process. Finally, the Board also does not always enter into written agreements with professional service providers.	<p><b>5 recommendations</b></p> <p>The report's recommendations focused primarily on strengthening the policies and procedures regarding procurement.</p> <p><i>District officials generally agreed with the findings and have initiated corrective action.</i></p>

**Regents Audits/Budget and Finance Committee Meeting  
New York State Tuition Assistance Program (TAP)**

The New York State Tuition Assistance Program (TAP) helps eligible New York residents pay tuition at approved schools in New York State. TAP is the largest of the student grant and scholarship programs administered by the Higher Education Services Corporation. Depending on the academic year in which a student begins study, an annual TAP award can be up to \$5,000.

To be eligible for TAP, a student must:

- Be a United States citizen or eligible noncitizen
- Be a legal resident of New York State
- Study at an approved postsecondary institution in New York State (NYS)
- Have graduated from high school in the United States, earned a GED, or passed a federally approved "Ability to Benefit" test as defined by the Commissioner of the State Education Department
- Be enrolled as a full-time student taking 12 or more credits (applicable toward your degree program) per semester
- Be matriculated in an approved program of study and be in good academic standing
- Have declared a major no later than within 30 days from end of the add/drop period:
  - in the first term of your sophomore year in an approved two-year program;  
or
  - in the first term of your junior year in an approved four-year program
- Meet good academic standing requirements
- Be charged at least \$200 tuition per year
- Not be in default on any State or federal student loan or on any repayment of state awards.
- Meet income eligibility limitations

Specifics on eligibility for students and programs of study are prescribed in the Regulations of the Commissioner of Education.

**The Role of the State Education Department, regarding the administration of TAP and addressing the findings from the State Comptroller's Audits:**

- Interpretation of Commissioner's Regulation (NYCRR, Title 8, Chapter II, Subpart I, Part 145) and ensure compliance.
- The Office of Higher Education has a website that provides information on Student Financial Aid and TAP:  
<http://www.highered.nysed.gov/kiap/finaid/TuitionAssistanceandFinancialAid.html>

- The Department coordinates an Inter-Agency Task Force on TAP, which includes representatives from:

Office of the State Comptroller (OSC)  
 Higher Education Services Corporation (HESC)  
 Division of the Budget  
 State University of New York  
 City University of New York  
 New York State Financial Aid Administrators Association (NYSFAAA)  
 Commission on Independent Colleges and Universities (CICU)  
 Association of Proprietary Colleges (APC)

The Task Force provides trainings and technical assistance in collaboration with HESC, OSC and NYSFAAA. The trainings focus on the requirements of the Commissioners Regulations related to TAP awards and specific topics on major findings in OSC audits resulting in disallowances.

### **Tuition Assistance Program 2012 – 2013 Audit Findings**

<b>Reason for Disallowance</b>	<b>Number of Occurrences</b>	<b>Law</b>
Students Not in Good Academic Standing	86	Section 665(6)
Students Not in Full-Time Attendance	83	Section 661
Students Not Matriculated	46	Section 661
Awards Not Credited to the Students' Accounts	19	Section 2205.3(e)(1)(iii)
Students Not in an Approved Program	11	Section 661.4(a)
Students Not Meeting Residency Requirements	9	Section 661
Student Not Attending	3	Section 661
Students Not Meeting Accelerated TAP Requirements	3	Section 665(2)(c)
Student with Over Certified Tuition	2	Section 2205.3(b)
Student Not Meeting Citizenship Requirements	1	Section 661