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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 8, 2014

Dr. John B. King, Jr.
Commissioner
State Education Department
89 Washington Avenue, Room 125
Albany, NY 12234

Re: Controls Over Cash Advance Accounts
Report 2014-S-11

Dear Commissioner King:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we audited controls over cash advance accounts at the State Education Department (SED) for the period April 1, 2011 through June 12, 2014. The objectives of our audit were to determine whether SED needs all these accounts, and whether the money is properly accounted for and used for appropriate business purposes.

Background

Section 115 of the State Finance Law authorizes the establishment of cash advance accounts, which State agencies may use for petty cash, travel, and other funding needs (e.g., confidential, patient, inmate work release, and resident allowances). Advances are issued from agency appropriations and the cash is transferred from the State Treasury to a local bank account for use by the agency. Cash advance accounts are reimbursed periodically by vouchers audited and approved by the Office of the State Comptroller (OSC) for payment out of the State Treasury. Section 115 describes general criteria for establishing these accounts such as: what they can be used for; that any authorized person who handles these accounts shall be bonded; that all accounts shall be audited by the Comptroller before reimbursement is made to replenish the accounts; and that if the Comptroller at any time determines the cash advance accounts are being used for other than authorized purposes, the Comptroller will direct the responsible party to return the cash advanced to establish the account.

According to OSC's Bureau of State Accounting Operations, SED was authorized to have a cash advance account with a total value of \$300,000 as of March 31, 2012, allocated as follows: \$3,000 for petty cash, \$2,000 for travel, and \$295,000 for "other." The "other" funds are used for "maintenance and transportation" expenses related to SED's Adult Career and Continuing Education Services (ACCES) employment training program for the disabled. SED issues over 3,000 checks every two weeks from its cash advance account to individuals in the ACCES program, and the account is then reimbursed by the State Comptroller. Reimbursements to this account totaled approximately \$14.2 million for the period April 1, 2011 through February 26, 2014.

Results of Audit

Our audit determined the \$300,000 cash advance account is required for SED business purposes; however, SED uses the account almost exclusively for payments related to the ACCES program. Our analysis showed SED infrequently issues any checks for petty cash expenses and no longer writes checks for travel expenses at all. As a result, the allocation of funds does not reflect the true nature of the account's use.

Because the volume of checks flowing through this account is so high, SED officials state they cannot scrutinize every transaction. As a result, the following circumstances occurred:

- Although the New York State Accounting System User Procedures Manual requires all outstanding checks be written off after one year from the date of issuance, the account had 231 outstanding checks totaling almost \$10,000 that were over a year old as of April 30, 2014. SED officials explained that they write off checks every other month, so some checks may wait until they are over a year old to be written off; SED wrote off all but one of these 231 checks in May 2014.
- The March 2014 bank reconciliation included five adjustments totaling over \$4,000. The largest item was a \$3,347 deposit that was never posted to the bank account, dating back to August 8, 2012. After we brought this item to their attention, SED officials stated that they were starting to investigate the issue.
- Our analysis of expenditures also identified circumstances that indicate an increased risk that some funds may not have reached their intended recipients. For example, during the period April 1, 2011 through February 26, 2014, more than 200 checks payable to various recipients were mailed to each of 40 different addresses. These addresses were predominantly rehabilitation centers that were part of the ACCES program. SED officials indicate that some recipients prefer their checks to go to the center rather than to a home address. In total, these addresses accounted for 29,483 checks totaling over \$1.2 million. Our review of 100 randomly selected cancelled checks from this population showed that:
 - Seven checks had no payee endorsement, but were still processed through the center's bank account. Therefore, SED has no assurance that the intended payee received the funds, or that the participant even attended the program for that payment period.
 - Seven checks were written to different, seemingly unrelated recipients at different addresses in New York City boroughs, but were each processed by the same financial institution in Richmond, Virginia. Moreover, five of these checks were deposited into the same bank account.

- Twelve checks were endorsed by the payees, but had no bank stamps or other markings to indicate who processed the checks and where they were processed.

Because SED does not routinely resolve old outstanding items or review paid checks, officials were unaware of the questionable issues we identified during our review. For example, SED only investigates paid checks if it is notified a program participant has not received payment. By not reviewing paid checks on a routine basis, SED has less assurance that the intended payee receives payment and that the transactions are proper. Similarly, without prompt investigation and resolution of outstanding items, potentially improper, or even fraudulent, transactions could go undetected. We provided SED officials with details on the questionable payments we identified for their review and follow-up.

Recommendations

1. Consolidate the petty cash and travel categories into the “other” category and notify OSC to update its records.
2. Promptly investigate and resolve adjustments noted on bank account reconciliations, including the five items on the March 2014 reconciliation.
3. Routinely stop payment and write off all outstanding checks that are over one year old.
4. Periodically review paid checks and investigate unusual circumstances to ensure funds are paid to appropriate payees.

Audit Scope, Objectives, and Methodology

We audited SED’s controls over cash advance accounts for the period April 1, 2011 through June 12, 2014 to determine whether SED needs all these accounts, and whether the money is properly accounted for and used for appropriate business expenses.

To accomplish our objectives, we performed a count of cash on hand; reviewed bank account statements and agency-prepared bank reconciliations; and interviewed SED personnel and administrators to obtain an understanding of internal controls relevant to cash advance accounts. We analyzed the payment data from April 1, 2011 through February 26, 2014 to identify high-risk transactions, including: out-of-state recipients, recipients who were also on State payroll, and multiple recipients at the same physical address. To determine whether these payments were appropriate, we reviewed ACCES case files maintained on SED’s case management system. Because multiple recipients at the same address presented the highest risk of improper payments, we also reviewed 100 randomly selected cancelled checks from this population (for addresses that received over 200 checks each).

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on

our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Reporting Requirements

A draft copy of this report was provided to SED officials for their review and comment. SED officials agreed with our recommendations, and their comments are included at the end of this report.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the State Education Department shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were Walter Irving, Joel Biederman, Dick Gerard, and Rick Canfield.

We wish to thank SED management and staff for the courtesies and cooperation they extended to our auditors during this review.

Sincerely,

John F. Buyce, CPA, CIA, CFE, CGFM
Audit Director

cc: Maria Guzman, SED Audit Director

Agency Comments



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

DEPUTY COMMISSIONER
Office of Performance Improvement and Management Services
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August 27, 2014

Mr. John Buyce
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Dear Mr. Buyce:

The following is the New York State Education Department's (Department) response to the draft audit report (2014-S-11) of the State Education Department Controls Over Cash Advance Accounts.

Recommendation 1: Consolidate the petty cash and travel categories into the "other" category and notify OSC to update its records.

Agreed.

Recommendation 2: Promptly investigate and resolve adjustments noted on bank account reconciliations, including the five items on the March 2014 reconciliation.

Agreed.

Recommendation 3: Routinely stop payment and write off all outstanding checks that are over one year old.

Agreed, SED will continue to stop payment and write off checks that are over one year old.

Recommendation 4: Periodically review paid checks and investigate unusual circumstances to ensure funds are paid to appropriate payees.

SED will meet with the program office to discuss and evaluate options to address the concerns specified in this recommendation.

If you have any questions regarding this response, please contact Andrew Klippel, Director of Financial Administration and Agency Budget Services.

Sincerely,

A handwritten signature in cursive script, appearing to read "S. Cates-Williams", with a long horizontal flourish extending to the right.

Sharon Cates-Williams

c: Commissioner King
Maria Guzman
Andrew Klippel