Audit Report

Buffalo City School District
EPE Program

For the Period

July 1, 2014 through June 30, 2015

EPE-0116-01

December 5, 2016

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234

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December 5, 2016

Dr. Barbara Seals Nevergold
Board President
Buffalo Public Schools
712 City Hall
Buffalo, NY 14202

Dear Dr. Seals Nevergold:

Enclosed is the final report (EPE-01169-01) for the audit of the Buffalo City School District Employment Preparation Education program, for the period July 1, 2014 through June 30, 2015. The audit was conducted pursuant to Section 305 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

Ninety days from the issuance of this report, District officials will be asked to submit a report on actions taken as a result of this review. This required report will be in the format of a recommendation implementation plan and it must specifically address what actions have been taken on each recommendation.

I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

Thalia J. Melendez

Enclosure
c: M. Elia, E. Berlin, S. Cates-Williams, K. Smith, B. Cechnicki, C. Coughlin, K. Cash (Superintendent), J. Conroy (DOB), J. Dougherty, D. Mauricio, G. Pritchard, L. Leopold, R. Thompson

Executive Summary

Background and Scope of the Audit

In 1984, the New York State Legislature enacted the Employment Preparation Education (EPE) program to provide State aid to public schools to support adult education programs. This enabled districts to obtain funding to provide educational programs to adults leading to a high school diploma or equivalency diploma. Eligible students must be 21 years of age or older and without a high school diploma or equivalency. Students that have earned a high school diploma or equivalent, but fail to demonstrate basic educational competencies by testing below certain grade levels are also eligible.

The Office of Audit Services conducted an audit of the EPE program at the Buffalo City School District (District). We examined financial records and documentation to support the $6,018,932 received by the District in EPE aid for the period of July 1, 2014 through June 30, 2015. This was a financial audit and our objectives were to verify the accuracy and appropriateness of the reported revenues and expenditures generated by the EPE program.

Audit Results

The District's Office of Adult Education Division (OAED) oversees the EPE program. The staff are knowledgeable about EPE program requirements and have systems and processes in place to collect and report contact hours accurately. Overall, the audit determined that the OAED's EPE program is largely in compliance with EPE regulations. However, the audit found that there are improvement opportunities as noted below.

- Intake attendance records showed blocks of contact hours were claimed for 34 of the 42 students selected in our sample.
- The attendance records also showed five additional students in the sample did not contain documentation noting the actual amount of time spent in intake activities.
- Student folders were not available for four students and three student folders did not contain educational background information.
- The District did not allocate telephone and internet access charges to buildings between EPE and non-EPE eligible students.
- The District accounted for EPE student tuition revenues in a cost center other than one used for EPE.
- The District received $5,444 in excess EPE aid based on the results of expenditure testing and statistical sampling.

Comments of District Officials

District officials' comments about the findings and conclusions were considered in preparing this report. Their response is included as Appendix B.

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Introduction

Background

In 1984, the New York State Legislature enacted the Employment Preparation Education (EPE) program to provide State aid to public schools to support adult education programs. This enabled districts to obtain funding to provide educational programs to adults leading to a high school diploma or equivalency diploma. Eligible students must be 21 years of age or older and without a high school diploma or equivalency. Students that have earned a high school diploma or equivalent, but fail to demonstrate basic educational competencies by testing below certain grade levels are also eligible.

EPE aid generated is based on student contact hours reported in the Adult Student Information System and Technical Support (ASISTS) database and the approved EPE rate. A contact hour is defined as 60 minutes of instruction given by a certified teacher for each student. For example, if a teacher has 10 students in a class for an hour, 10 contact hours would be generated. However, EPE aid generated by the district cannot exceed the amount of expenses incurred in operating the EPE program. Thus, EPE aid cannot be used to fund other district costs.

Audit Scope, Objectives, and Methodology

The New York State Education Department's (Department) Office of Audit Services conducted an audit of the EPE program at the Buffalo City School District (District). We examined financial records and documentation to support the number of contact hours and expenditures claimed for the period July 1, 2014 through June 30, 2015. This was a financial audit and our objectives were to verify the accuracy and appropriateness of the reported revenues and expenditures generated by the EPE program.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed District and Department management and staff; and examined records and supporting documentation and transactions.

We conducted our audit in accordance with modified Generally Accepted Government Auditing Standards (GAGAS). GAGAS

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 evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, GAGAS requires a review performed by a team of external peers, independent of the audit organization, at least every three years. Because of recent changes in administrative personnel, however, an external peer review was inadvertently not conducted. An internal "Red Book" review pursuant to the International Standards for the Professional Practice of Internal Auditing Standards was conducted. It is contemplated that both an updated internal review and external peer review will be performed within the next year. We feel that not having an external audit peer review has had no material effect on the assurances provided.

Comments of District Officials

District officials' comments about the findings and conclusions were considered in preparing this report. Their response is included as Appendix B.

Contact Hours and Student Folders

Districts generate EPE aid by reporting contact hours and student enrollment to the Department. Contact hours are allowable for classroom instruction as well as for intake and assessment. The Commissioner's Regulations (Regulations) and the EPE Manual (Manual) establish requirements for documentation to support the allowability of contact hours.

We selected two statistical samples for projection purposes, one for intake and the other for classroom instruction. We found unsupported contact hours due to blocks of contact hours claimed for intake, undocumented intake activities, and simple miscalculations. We also found that some individual student record forms (ISRFs) were not available and some were not completely filled out. As a result of our analysis, a total of 297 contact hours are unsupported among the intake and classroom instruction samples.

Intake Process

The Manual states that in order to generate EPE state aid, students must go through an intake process that includes standardized assessment, the completion of an ISRF, the development of Education and Employment Preparation Plans (EEP), and any testing as appropriate, to assist the teacher in developing an educational plan for the student. This activity generates EPE aid as long as it is provided by a certified teacher. It is important that each hour spent by the student in the intake process is documented. It is not sufficient to identify a block of time as a standard period (e.g. a 5-hour standard intake assessment block) in recording student's attendance. The evaluation and intake assessment process generally takes from two to six hours depending on the student's needs and the type of program.

Students in intake activities are tested for placement using, either the Best Plus Literacy test, or the Test of Adult Basic Education (TABE). The Best Plus Literacy test is administered to determine the level of English proficiency. The TABE test is a battery of tests that determines the reading and math grade level of students that wish to be placed in a general education degree program.

Our review of intake records found blocks of hours were claimed for 34 of the 42 students selected in our sample for a total of 216 contact hours. The District's process for intake is that most incoming students start the intake process at the same time. Students finish the intake process at various times, but the District recorded the same departure time for some students. We recalculated intake contact hours allowing one contact hour for the Best Plus Literacy test and four contact hours for the TABE test. Using this methodology, we determined the District had support for 136 out of the 216 contact hours claimed for the 34 students for intake. This resulted in 80 unsupported contact hours.

Blocks of contact hours were claimed for students in the intake process because teachers did not follow the Manual by documenting the actual time students spent in intake activities. By claiming blocks of contact hours for the EPE intake process, instead of documenting the actual time, the District does not know the actual amount of intake contact hours that should be claimed.

Intake Contact Hours

For the District to generate EPE state aid, students must go through an intake process that includes standardized assessment, the completion of an ISRF, and the development of an EEP. This activity generates EPE aid as long as it is provided by a certified teacher, and that each hour spent by the student in the intake process is documented.

Our review of intake records found that two teachers did not document the amount of time spent for intake activities for five students resulting in 13.5 unsupported contact hours. We also found a minor calculation error in recording contact hours that resulted in a net gain of .5 contact hours. The above adjustments are summarized in Table 1 below.

Table 1
Sample Results of Intake Contact Hours

Intake Contact Hours	Hours Claimed	Hours Supported	Hours Difference	Dollar Difference
Blocks of Hours	216	136	(80)	($942)
No Sign In/Out	13.5	0	(13.50)	(159)
Calculation Errors	3.0	3.5	.50	6
Total	**232.50**	**139.50**	**(93.00)**	**$1,095**

Missing ISRFs and other documentation was due to student folders being misfiled or mishandled. Differences between hours recorded in ASISTS and hours shown on class attendance rosters were due to human error. Since the District did not maintain some ISRFs and other documentation, some students are not properly documented as being eligible for EPE aid generation. In addition, due to data entry errors the District's claim may be inaccurate.

Classroom Attendance Rosters

In addition to the Regulations and the Manual, the District's Office of Adult Education Division has established procedures to track student contact hours for the EPE program. They state that every student must sign the actual time when they enter and leave class each day on a monthly sign-in sheet, which serves as the support for the contact hours entered in ASISTS.

We requested the sign in/out attendance rosters for the students selected in the sample and found the total number of contact hours was not calculated properly for some students. Of the total 312 contact hours claimed in ASIST for these students, 312.75 contact hours was supported which resulted in a net gain of .75 contact hours.

The District attributed any differences between hours recorded in ASISTS and hours shown on class attendance rosters due to human errors. As a result of these errors, the District's claim is inaccurate.

Student Folders

The Manual states that individual student folders will be easily accessible to students and teachers, and include information concerning registration, attendance, testing, and individual program needs. At a minimum, registration information must

be dated and include the student's name, class attendance including dates and times, the student's date of birth, and the student's diploma status.

We requested student folders including ISRFs to determine diploma status and other eligibility requirements for the students selected in both samples. We found that ISRFs and related documentation were not provided for 4 of the 160 students selected in the sample. The contact hours (204) claimed for those students are unsupported because their eligibility could not be established.

We also found that three ISRFs did not contain educational background information. When the educational background is missing, the eligibility status of the student is not determined. We considered these students to be EPE eligible because, even had they earned a high school diploma or its equivalency, they tested below certain levels.

The missing ISRFs and other documentation were due to student folders being misfiled or mishandled. This resulted in these students not being properly documented as eligible for EPE aid generation.

Recommendations

1. Clearly document the actual amount of time students spend in the intake process so the actual time spent may be claimed.

2. Create a process to verify the accuracy of each other’s work to ensure that student data entered into ASISTS is complete and accurate.

3. Ensure that all student folders contain the required documentation and that they are available for review.

4. Completely fill out the ISRFs including the educational background information for each student.

Expenditures

The Regulations state that EPE program funds may be spent only for personal services, employee benefits, equipment, supplies and materials, contractual services, travel expenses, staff development and training, and other such expenditures approved by the Commissioner. Such expenditures shall be made only for Employment Preparation Education program purposes.

We selected a judgmental sample of 23 other than personal service (OTPS) transactions amounting to $207,625 or 50 percent of the total OTPS costs claimed. We found that the District did not appropriately allocate expenditure costs between EPE eligible and non-EPE eligible students for two vendors. As a result of our reallocation of these costs, $5,444 is disallowed.

Allocating Expenditures

The Manual notes the importance of prorating EPE expenditures because EPE funds can only be spent on the EPE program. The most common instances where prorating is needed are when a program is comprised of both EPE-eligible and non-eligible students and when expenditures are shared between programs.

The District allocated $12,624 for telephone and $7,926 for internet access charges to buildings where EPE services were provided. However, the District did not prorate these two costs between the EPE eligible and non-EPE eligible students within the classrooms at one building.

The District claimed $12,624 in the EPE program for telephone services for the Workforce Training Center, the Herkimer Building, The International Institute, and the Workforce Learning Center. The invoices did not break down amounts charged for each building so we allocated the total amount claimed equally between each building. Students who attended classes in each of the four buildings were entirely EPE eligible with the exception those in of the Workforce Training Center where 26 percent was determined to be EPE-eligible. We found that $3,156 allocated to the Workforce Training Center should

have been allocated based on the percentage of EPE versus non-EPE students. This resulted in $2,335 being disallowed.

The District claimed $7,926 for high speed internet services for the Herkimer Building and the Workforce Training Center. The purchase order included both EPE sites and provided a cost for each building. Therefore, we allocated the cost based on the cost per unit ratio noted in the purchase order. The ratio for the Workforce Training Center is 53 percent and 47 percent for the Herkimer Building. Again, the students who attended classes in the Herkimer building were entirely EPE eligible, but not the students who attended classes in the Workforce Training Center. We determined that $4,201 would have been allocated to the Workforce Training Center if all the students attending classes there were EPE eligible. We reallocated this amount based on the percentage of EPE eligible students (26 percent) to non-EPE eligible students. We determined that the Workforce Training Center should have been allocated $1,092 based on the percentage of EPE versus non-EPE students resulting in $3,109 disallowance.

The District claimed telephone and internet access charges for the Workforce Training Center. They indicated that they were unaware of the very low percentage of EPE eligible students for that particular work site and did not consider allocating the costs. Since these costs were not prorated across EPE and non-EPE eligible students, the District's claim was overstated by $5,444 for telephone and internet access charges.

Tuition Revenues

The Manual states that tuition can be charged to students in EPE programs. It also requires that EPE funds only be spent on EPE program costs. Therefore, revenues received from students in EPE programs for tuition should be accounted for properly by isolating these funds so they may be spent on EPE program costs.

Education Law states that public funds apportioned to a city by the State and all funds raised or collected by a city for school purposes shall be paid into the treasury of the city and be credited to the board of education. The funds received into the treasury shall be kept separate and distinct from any other funds received into the treasury.

We found the District accounted for EPE student tuition revenues in a cost center other than one used for EPE. Tuition revenues were from both EPE and non-EPE students but revenues were not recorded in a way that they could be distinguished as received from EPE versus non-EPE sources. In addition, an appropriation was not set-up in the related expenditure account.

District officials stated that they were unaware of the requirements to account for tuition revenues separately in an EPE related cost center. They also said that the related expenditure account used was for a specific adult education project, but the Board never approved the budget. The combined tuition received from EPE and non-EPE eligible students into one account resulted in funds losing its identity. Since there was no appropriation, available balances appeared with negative balances in the District's accounting system as expenditures were made.

Recommendations

5. Prorate expenditures when they are shared between EPE and non-EPE eligible students or when costs are shared between programs.

6. Account for revenues received in an EPE cost center where they are isolated and can be used to offset EPE costs.

7. Establish approved appropriations in the accounting software before expenditures are made.

Sample Results

Education Law governing EPE does not allow programs to receive more EPE Aid in a fiscal year than expended. Therefore, the Department is required to reduce the following year's EPE Aid by the amount the revenues from all sources that exceed the expenditures in a given year.

The District reported $6,018,932 in total costs for the year and returned $573,851 because the total cost claimed was that much less than the revenues generated by contact hours. We tested 23 expenditure transactions amounting to $207,625, or 50 percent of the total costs claimed, and found $5,444 in disallowed costs.

The total revenue generated ($6,592,783), were due to 572,044 contact hours being reported in ASISTS. These hours are categorized into two reports, one for classroom instruction (563,686) and one for intake activities (8,358). The two detailed reports consisted of 11,501 separate records for classroom instruction and 1,525 separate records for intake activities. We selected statistical samples from each report using the Handbook of Sampling for Auditing and Accounting, 3rd Edition by Herbert Arkin.

We used a sampling error rate of two percent of the claim, a 95 percent confidence level, and the standard deviation of each population that produced sample sizes of 118 records for classroom instruction and 42 records for intake activities. There were 5,114 and 238 contact hours for the 118 classroom and the 42 intake records, respectively, selected in the samples.

Our analysis of the contact hours related to the sample resulted in a disallowance of 93 contact hours, or $1,095 (93 x $11.78). The EPE rate is $11.78. We extrapolated the disallowance of intake contact hours to the total intake population and determined the claim fell between 4,699 and 5,477 contact hours. Taking the total population value of 8,358 and subtracting the highest interval level of 5,477 equals 2,881 contact hours or $33,938 (2,881 x 11.78) in unsupported revenues. No disallowance is due as a result of our contact hour sampling analysis because the expenditure testing results are $5,444 less than the District claimed in expenditures ($6,018,932). The District's EPE revenue was based on reported expenditures which were $573,851 less than revenues

from contact hours, $5,444 in unallocated costs is disallowed, as shown in Table 2 below.

Table 2
Summary of Audit Results

	Total Expenditures Claimed	**Revenue from Contact Hours in ASISTS**
Total Claim	$6,018,932	$6,592,783
Adjustment		573,851
Subtotal	$6,018,932	$6,018,932
Unallowed Costs from Contact Hours		0
Subtotal	$6,018,932	$6,018,932
Unallowed Expenditures	5,444	
Allowable Costs	$6,013,488	$6,018,932
Amount Reimbursed	$6,018,932	$6,018,932
Total Disallowance	**$5,444**	**$0.00**

Recommendations

8. Repay $5,444 in unallowable EPE aid. The Department's State Aid Unit will use the disallowed amount in the final audit report to recover these funds.

Appendix A

Buffalo City School District
Contributors to the Report

- T. Stewart Hubbard III, Audit Manager
- James Schelker, Associate Auditor
- Mark Finlayson, Senior Auditor