



City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



FINANCIAL AUDIT

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on the New York City
School Construction Authority's
Administration of Its
"Other Funds Account"

FM17-064A

January 17, 2018

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

January 17, 2018

To the Residents of the City of New York:

My office has audited the New York City School Construction Authority (SCA) to determine whether the SCA properly administered its Other Funds Account in accordance with applicable laws, rules and regulations. We audit authorities such as the SCA as a means of increasing accountability and ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

This audit found that the SCA lacked sufficient internal controls over the administration of the Other Funds Account and that as a result, the financial records related to that account were inconsistent and inaccurate. These control deficiencies could impair the SCA's ability to make decisions on the appropriate use and allocation of the funds. In addition, the audit found that the SCA did not consistently follow the investment requirements of the Public Authorities Law and that as a result, it maintained in excess of \$100 million in a checking account that earned minimal interest, which could have been invested at a higher rate of return.

The audit made multiple recommendations, including that the SCA implement controls to ensure that it accurately and consistently record the funding source classifications and use designations (dedicated or discretionary) of the money deposited into the Other Funds Account in all of the SCA's financial records, and that the SCA deposit money maintained in the Other Funds Account not needed for immediate use into an investment account, in accordance with the General Municipal Law.

The results of the audit have been discussed with SCA officials and their comments have been considered in preparing this report. Their complete written response is attached to this report.

If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Audit Report on the New York City School Construction Authority's Administration of Its "Other Funds Account"

FM17-064A

EXECUTIVE SUMMARY

The School Construction Authority (SCA) is a public benefit corporation established in 1988 by the New York State Legislature under the New York State Public Authorities Law and is responsible for the design, construction, improvement, rehabilitation and repair of the New York City (City) public schools.¹ The SCA's operations are primarily funded by budget appropriations made by the City through its capital budget process under the direction of the City Office of Management and Budget.

In addition, pursuant to Public Authorities Law §§1725-1748, the SCA is authorized to apply for and/or accept any gifts, grants, loans, property, financial aid, or other aid in any form from any instrumentality of the federal government, New York State, and the City or from any other source, provided that the SCA expends such funds for purposes specified in the Public Authorities Law. The SCA periodically receives additional funds from sources other than the City's capital budget appropriations. To maintain these funds, the SCA established a miscellaneous account, known as the "Other Funds Account."²

The Public Authorities Law provides that funds maintained by the SCA that do not need to be immediately expended, should be invested in accordance with §11 of the General Municipal Law, without regard to the source of those funds. The SCA must comply with all applicable internal controls and accountability directives issued by the Office of the Comptroller.

The objective of this audit was to determine if the SCA properly administered its Other Funds Account in accordance with applicable laws, rules and regulations.

Audit Findings and Conclusions

The audit found that the SCA lacked sufficient internal controls over the administration of the Other Funds Account and that as a result, the financial records related to that account, which held in

¹ Public Authorities Law, Article 8, Title 6, §§1725 et seq., the New York City School Construction Authority Act.

² Prior to 2016, the Other Funds Account was referred to by the SCA as the Miscellaneous Checking Account.

excess of \$100 million during our audit period, were inconsistent and inaccurate. These control deficiencies could impair the SCA's ability to make decisions on the appropriate use and allocation of the funds. In addition, the audit found that the SCA did not consistently follow the investment requirements of the Public Authorities Law and that as a result, it maintained in excess of \$100 million in a checking account that earned minimal interest, which could have been invested at a higher rate of return.

Audit Recommendations

The SCA should:

1. Implement controls to ensure that it accurately and consistently records the funding source classifications and use designations (dedicated or discretionary) of Other Funds Account funds in all of the SCA's financial records. Such controls should include:
 - a. Use of a comprehensive automated and reliable accounting system capable of consistently tracking all of the funds allocated to it, including funds utilized from both the Other Funds Account and its City capital budget funded account;
 - b. Use of a comprehensive automated reliable accounting system to create financial and other reports in order to ensure consistent and accurate information, including identification of the funding source categories;
 - c. Documentation of the basis for the changes in fund categories and ensure accuracy and consistency in the identification of funding sources in all Other Funds Account's financial records and related reports;
 - d. Monthly reviews by supervisory personnel of cash sub-ledgers, and general ledger to ensure that data is accurate, complete, consistent and adequately supported;
 - e. Accurate reporting of information in the Other Funds Account quarterly reports to ensure the funding source categories and funding designations are appropriate and consistently reported.
2. Deposit of the funds maintained in the Other Funds Account not needed for immediate use in an investment account in accordance with the General Municipal Law.

SCA Response

In its response, the SCA agreed with the audit's recommendations and stated that it had begun to implement most of the recommendations prior to the commencement of the City Comptroller's audit based on reports it received from the SCA Office of Inspector General and Ernst & Young. In addition, the SCA disagreed with some of the audit's findings, which are discussed in the relevant sections of this report. However, after a careful review, we found that the SCA's arguments provide no basis to alter the audit's findings and conclusions.

AUDIT REPORT

Background

The SCA is a public benefit corporation, established in 1988 through the New York State Legislature's enactment of the New York City School Construction Authority Act, codified at Article 8, Title 6, §§1725–1752 of the Public Authorities Law. The SCA is responsible for the design, construction, improvement, rehabilitation and repair of the New York City public schools. To carry out its mission, the SCA must procure and enter into contracts with construction companies, manage and oversee contractor performance, make contract payments, ensure the proper reconciliation of payments and accurately report them in the SCA's financial books and records.

The SCA's operations are funded by budget appropriations made by the City through the City's capital budget process under the direction of the New York City Office of Management and Budget. City appropriations are made annually based on a Five-Year Capital Plan developed by the New York City Department of Education (DOE).³ These capital funds are maintained in two accounts that were the subject of the Comptroller's *Audit Report on the School Construction Authority's Management and Oversight of its Contract Payment Process* (Audit # FM15-116A).

The SCA operates pursuant to the requirements of the Public Authorities Law which, among other things, establish the budgetary process for funding the SCA. The Public Authorities Law also authorizes the SCA to apply for and/or accept any gifts, grants, loans, property, financial aid, or other aid in any form, from any instrumentality of the federal government, New York State, and New York City or from any other sources, provided that the SCA expends such funds for the purposes specified in the Public Authorities Law. The Public Authorities Law provides that SCA funds that do not need to be immediately expended should be invested in accordance with §11 of the General Municipal Law, without regard to the source of those funds.⁴ The SCA is also required to comply with all applicable internal controls and accountability directives issued by the Office of the Comptroller.

To maintain the funds that the SCA receives from sources other than the City's capital budget appropriations, it has established a miscellaneous account, currently known as the Other Funds Account. Monies deposited into the Other Funds Account include federal and State funds, transfers from other City agencies for use on specific projects, insurance proceeds, and a wide variety of other receipts. Between 2007 and 2014, the Other Funds Account balance grew from \$20 million to \$133 million. As of June 30, 2016, the balance was \$104 million. The following chart illustrates the growth of the Other Funds Account over the last 10 years, as reported by the SCA.

³ For Fiscal Years 2015 and 2016, the SCA reported operating revenue from the City in the amounts of \$2.7 billion and \$2.6 billion, respectively.

⁴ The governing board of any local government or, if the governing board so delegates, the chief financial officer or other officer having custody of the moneys may temporarily invest moneys not required for immediate expenditure. General Municipal Law §11.

Chart

Other Funds Account Balances from FY 2007 to FY 2016



In 2008, the SCA updated established policy and operating guidelines that govern the receipt and disbursement of funds into and out of the Other Funds Account. According to these updated guidelines, funds that are deposited into the Other Funds Account are classified within four funding source categories described in detail below. In addition, those funds are also classified by their permissible use designations as either “dedicated” or “discretionary.” Dedicated funds are defined as funds restricted to specific projects in progress or to offset operating expenditures of similar nature. Discretionary funds are defined as funds that are not dedicated to a specific use. While the classification of the source of funds should not change, the designation of funds as dedicated or discretionary may change over time based on changed circumstances.

In addition, the 2008 guidelines stated that “[t]he Accounting Manager, in conjunction with the Comptroller and Vice President of Finance are responsible for classifying the funds as dedicated or discretionary.” While the 2008 guidelines indicated that responsibility for decisions about how to expend the funds maintained in the Other Funds Account rested with the President of the SCA and the Vice President of Finance, according to a report by the SCA Office of the Inspector General dated January 2016, decisions about how to expend the funds maintained in the Other Funds Account rested largely with the staff of the SCA’s Finance Department.

In April 2016, the SCA updated the 2008 operating guidelines and added additional policies and procedures intended to ensure adequate oversight and monitoring of the Other Funds Account, including the establishment of the Other Funds Account Advisory Committee. The Advisory Committee is made up of the SCA’s personnel and includes the Vice President of Finance and

Information Technology, the Vice President of Capital Planning, and the Executive Vice President and General Counsel. Its function is to review the Other Funds Account quarterly reports and approve recommendations regarding the use of discretionary funds to be presented to the SCA President and Chief Executive Officer for approval. In addition, the 2016 updates made changes to the quarterly reports presentation to enhance the ability of the Other Funds Account Advisory Committee to make informed decisions regarding the use of the Other Funds Account.⁵

The table below shows the balances of the Other Funds Account as of June 30, 2016, broken down by the four fund categories.

Table

Other Funds Account's Dedicated
and Discretionary Fund Balances as
of June 30, 2016

Funding Source Categories	Designation		Total
	Dedicated	Discretionary	
(1) Insurance Recoveries and Other Reimbursements	\$32,886,307	\$1,655,452	\$34,541,759
(2) Litigations and Settlements	7,707,935	5,275,562	12,983,497
(3) Funds Received from Outside Sources (Other Than NYC)	53,098,492	2,221,904	55,320,396
(4) Interest Income	-	1,226,106	1,226,106
Total	\$93,692,734	\$10,379,023	\$104,071,757

The first category of funds (totaling \$34.5 million), Insurance Recoveries and Other Reimbursements, includes: (a) insurance proceeds such as funds received for fire and flood damage, workers' compensation, theft, and payments from sureties; (b) contractor refunds, including returned deposits and the recovery of overpayments; (c) reimbursements from the SCA employees for personal telephone usage, postage, EZ-Passes, and lost identification cards; and (d) fees from subpoenas and Freedom of Information Law requests.

The second category of funds (totaling \$12.9 million), Litigations and Settlements, includes money recovered as a result of investigations by the SCA Office of Inspector General and as a result of audits. In addition, it includes recoveries obtained as a result of judgments or settlements in litigation brought against contractors or consultants by the SCA Legal Department and the New York City Law Department.

The third category of funds (totaling \$55.3 million), Funds Received From Outside Sources (Other Than NYC), includes: (a) funds from agreements such as Memoranda of Understanding, funding agreements, and leases with entities other than the City of New York; (b) grants from the New

⁵ Quarterly reports are prepared internally and used as management tools to assess account activities and make decisions over the use of the Other Funds Account. The reports contain five exhibits: (1) Dedicated and Discretionary Funds Status Report Summary; (2) Dedicated and Discretionary Funds Distribution; (3) Funds Activity Report; (4) Source and Use of Funds Monitoring Report; and (5) Discretionary Funds Listing and Recommendations.

York State Assembly; and (c) funds received from DOE for non-capital work performed by the SCA on behalf of DOE.⁶

The fourth category of funds (totaling \$1.2 million), Interest Income, includes interest on funds invested in United States Treasury Bills, and interest earned on bank account(s).

Objective

The objective of this audit was to determine if the New York City School Construction Authority properly administered its Other Funds Account in accordance with applicable laws, rules and regulations.

Scope and Methodology Statement

We conducted this performance 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. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covers the period from July 1, 2014, to June 30, 2016 (Fiscal Years 2015 and 2016). Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with SCA officials during and at the conclusion of this audit. A preliminary draft report was sent to the SCA and discussed at an exit conference held on May 12, 2017. At the exit conference, SCA officials provided additional information regarding certain issues that were considered in connection with the preparation of this draft report. On October 25, 2017, we submitted a draft report to the SCA with a request for comments. We received a written response from the SCA on November 9, 2017. In its response, the SCA agreed with the audit's recommendations and stated that it had begun to implement most of the recommendations prior to the commencement of the audit based on reports it received from the SCA Office of Inspector General and Ernst & Young. In addition, the SCA took issue with some of the audit findings.

The full text of the SCA's response is included as an addendum to this report.

⁶ According to SCA officials, "[w]hile DOE would be considered a City source, these particular funds are received in order to perform unplanned or emergency work on behalf of the DOE. These funds do not flow through the City's Capital Budget and are not capitalized upon completion."

FINDINGS

The audit found that the SCA lacked sufficient internal controls over the administration of the Other Funds Account and that as a result, the financial records related to that account were inconsistent and inaccurate. These control deficiencies could impair the SCA's ability to make decisions on the appropriate use and allocation of the funds. In addition, the audit found that the SCA did not consistently follow the investment requirements of the Public Authorities Law and that, as a result, it maintained in excess of \$100 million in a checking account that earned minimal interest, which could have been invested at a higher rate of return.

These issues are discussed in detail in the following sections of this report.

The SCA Lacked Sufficient Internal Controls over the Administration of Its Other Funds Account

Our audit found that the SCA failed to maintain sufficient internal controls over the Other Funds Account. Specifically, the SCA did not appropriately utilize its general ledger to report and monitor the Other Funds Account activities and did not maintain the proper financial controls. In addition, the SCA did not follow its own procedures for the classification, recording, and reporting of revenue and expenditures in the Other Funds Account.

Although existing policies and procedures require the SCA to maintain monthly cash receipts and cash disbursement transaction worksheets (referred to as cash subsidiary ledgers or sub-ledgers), it is the general ledger that provides the comprehensive accounting information necessary for proper financial controls. However, we found that the SCA could not completely reconcile its general ledger with the cash sub-ledgers by funding source categories, at least in part, because the general ledger did not record sufficient funding source information for the Other Funds Account to enable such a reconciliation. In addition, our review of the sub-ledgers for FY 2015 found that the funding source categories were not included. Although the sub-ledgers included this information in FY 2016, we found that information unreliable and inconsistent with the quarterly reports. Given these internal control deficiencies, we could not determine whether the balances in the different funding source categories were accurately reported.

According to New York Public Authorities Law §1736,

[t]he Authority shall develop procedures to ensure that it operates at all times within the amounts payable to it pursuant to this section, *after taking into account funds available to the authority for such purpose from sources other than the city.* [Emphasis added.]

Although the SCA developed procedures for administering the Other Funds Account, those procedures were not sufficient to ensure proper accountability and transparency when classifying and reporting the funds. As a result, as described in detail below, the SCA was not able to be assured that it accurately identified and reported "funds available to the authority . . . from sources other than the city."

SCA Response:

"Although the SCA agrees that reporting improvements were required (see SCA's response in 'Recommendations'), the SCA does not agree that it failed to maintain

sufficient internal controls over the OFA [Other Funds Account] by not appropriately utilizing its general ledger. The general ledger is not intended to record OFA transactions because it does not allow for the level of detail required for the maintenance and reporting of the OFA transactions. Therefore, information was maintained in sub-ledgers. To automate and improve the maintenance, reporting and monitoring of the OFA transactions, SCA identified and implemented the Oracle Accounts Receivable module, an integrated solution to SCA's existing Oracle Financial system. This solution was underway and communicated to the City Comptroller at the entrance conference. Additionally, monthly reconciliations were performed between the sub-ledger and general ledger to ensure completeness and accuracy of the funds recorded, all in accordance with SCA processes.

[. . .] The generation of the quarterly reports is not a direct rollup of the cash receipts and disbursement sub-ledgers. The production of the quarterly reports is a manual effort that involves other exhibits and schedules to cross-walk between the sub-ledgers and the quarterly reports for accurate presentation of the allocation of the funds. These exhibits and schedules were provided to the City Comptroller to explain the manner in which the sub-ledgers are used to produce the quarterly reports. The City Comptroller disregarded these exhibits and schedules in their finding.”

Auditor Comment:

The SCA's position that sufficient internal controls were maintained even though the general ledger did not contain sufficient information to fully reconcile it with cash sub-ledgers is incorrect. An effective system of internal control requires that management produce reliable accounting records. Since the SCA's general ledger did not capture all of the relevant information and the amounts in the manual reconciliations could not be traced to the balances in the individual Other Funds Account fund classifications, the information reported in the SCA's records was not reliable. Further, while we are glad that the SCA is implementing changes in its reporting system, those changes were not fully implemented during our audit period and so we were not able to confirm that the changes effectively addressed the internal controls weaknesses discussed in the report.

Moreover, notwithstanding the additional exhibits and schedules supplied by the SCA in an effort to reconcile its sub-ledgers with its quarterly reports, it did not provide us with sufficient documentation and explanations to support the crosswalk between the two sets of records. Further, our subsequent review of the sub-ledgers and the quarterly reports found that inconsistencies remained unresolved.

Information Contained in the General Ledger Was Insufficient to Enable the SCA to Properly Track Funds Maintained in the Other Funds Account

The SCA did not maintain information in its general ledger that would enable it to ensure the proper and prompt tracking of all the funds available to it from sources other than its annual budget allocation from the City.⁷ As a result, the SCA risked improperly allocating and reporting the activities of the funds in the Other Funds Account.

⁷ See the Office of the Comptroller's *Audit Report on the School Construction Authority's Management and Oversight over Its Contract Payment Process* (Audit # FM15-116A), dated June 21, 2016.

The SCA uses the Oracle Financial System (Oracle) to maintain its general ledger. However, while Oracle's general ledger contains features that would allow it to identify the Other Funds Account's funding source categories, the SCA did not utilize these features. Further, our audit found that the SCA did not include the funding source categories in its manually created sub-ledgers for FY 2015. Instead, the SCA only reflected that information in the Other Funds Account quarterly reports. Although, as described in detail below, identification of the funding source categories was added to the sub-ledgers in FY 2016, we found that the source category information in those sub-ledgers was inconsistent with the information in the quarterly reports.

The inconsistencies we found resulted, in part, from the fact that the SCA recorded numerous changes in the funding source categories and use designations in its quarterly reports that it did not reflect in its manually created subsidiary ledgers or in its Oracle-based general ledger. Further, the SCA did not maintain proper documentation to substantiate those changes and the necessary evidence of proper authorizations for the changes.

SCA Response:

"[. . .] [T]he general ledger is not intended to record Other Funds Account transactions because it does not allow for the level of detail required for the maintenance and reporting of the OFA transactions. The information, therefore, was maintained in sub-ledgers in the form of spreadsheets. The SCA believes sufficient internal controls were in place to ensure all funds were accurately and completely captured and recorded to the sub-ledgers.

[. . .] The generation of the quarterly reports is not a direct rollup of the cash receipts and disbursement sub-ledgers. The production of the quarterly reports is a manual effort that involves other exhibits and schedules to cross-walk between the sub-ledgers and the quarterly reports for accurate presentation of the allocation of the funds. These exhibits and schedules were provided to the City Comptroller to explain the manner in which the sub-ledgers are used to produce the quarterly reports. The City Comptroller disregarded these exhibits and schedules in their finding. Although the SCA believes that internal controls were sufficient, the SCA agrees with the recommendations to automate the current manual and complex process ensuring consistency and accuracy in reporting. As noted previously, implementation of the Oracle Accounts Receivable module was in progress at the commencement of the City Comptroller's audit. Additionally, the SCA is continuing to streamline the quarterly reporting process."

Auditor Comment:

The SCA's response that the Other Funds Account general ledger "does not allow for the level of detail required for the maintenance and reporting of the OFA transactions," does not address our central finding that the Oracle system had features that, had the SCA chosen to utilize them, would have allowed for reporting the level of detail that was found missing during the audit, such as "Funding Source" and "Funding Source Description." However, as noted, the SCA did not utilize these features. Consequently, the SCA had to rely on additional exhibits and schedules and a manual process in its attempts to reconcile the funding source categories in its financial records. As previously discussed, we found those to be inadequate; the SCA was unable to provide us with a relevant explanation and necessary documentation to support the crosswalk between the sub-ledgers and the quarterly reports for each project. Further, our subsequent review of the sub-ledgers and the quarterly reports found that these inconsistencies remained unresolved.

Had the SCA utilized the additional Oracle reporting features in the general ledger, it would have increased the likelihood that the money maintained in the Other Funds Account would be properly and promptly tracked. While the SCA states that such an implementation was “in progress” at the time of the audit, we were not able to substantiate that the implementation was effective since it had not yet been fully executed.

The SCA Failed to Consistently and Accurately Classify Funds and Reconcile Its Cash Sub-Ledgers to the Quarterly Report

As noted, the SCA manually creates and maintains its monthly cash sub-ledgers and uses those as the basis for preparation of the Other Funds Account quarterly reports. These quarterly reports are relied on by the SCA for its determinations of how to manage and spend the funds retained in the Other Funds Account. Therefore, it is essential that the quarterly reports accurately reflect, track, and identify the sources and permissible uses of the funds maintained in the Other Funds Account. However, for FY 2015, we were unable to trace the information in the sub-ledgers to the quarterly reports because the sub-ledgers did not include the funding source categories of the Other Funds Account. Although in FY 2016, the SCA modified its sub-ledgers to include this information, our audit found inconsistencies in the funding categories and use designations reported between those sub-ledgers and the quarterly reports.

Specifically, our review of the FY 2016 quarterly reports found inconsistencies between the sub-ledgers and the quarterly reports for three of the four quarters reviewed. We also found that most of the funding source categories recorded in these three quarterly reports could not be traced to their respective monthly cash sub-ledgers. Included in the discrepancies we found was a total difference of \$8.1 million in the funding source categories identified in the monthly cash sub-ledgers and those identified in the quarterly reports for the fourth quarter of 2016. Although the SCA explained that it later adjusted the quarterly reports so that they would be accurate, a subsequent review found that the errors remained in the monthly sub-ledgers. Consequently, the SCA failed to ensure the accuracy, consistency and completeness of the funds information presented in its sub-ledgers.

Our review further revealed that the SCA repeatedly changed the source categories of its funds in its Other Funds Account quarterly reports. Since time and circumstances would not change the character of the source of the funds, the changes we noted appear to have resulted from errors made in assigning source categories in the first place. The frequency in which these changes were made indicates a lack of adequate controls. Without adequate controls to properly assign the funding source categories, the SCA could not reasonably ensure funds were accurately and consistently classified.

Further, we found that the SCA did not make the correct adjustments of misclassified funding sources in the quarterly reports in a timely manner. For example, our review found that five cash receipt transactions, totaling \$2 million, were improperly classified as funds from category 1 (Insurance Recovery and Other Reimbursements) in the first quarter of FY 2015 and subsequently reclassified as category 2 (Litigations and Settlements) and category 3 (Funds Received from Outside Sources) in the second quarter of FY 2016. In addition, we found no documentation in the SCA’s records to support the reasons for the changes or that proper approvals were given.

Our audit also found inaccuracies and inconsistencies in balances of the individual projects presented in consecutive quarterly reports. In particular, we were not able to reconcile a cumulative discrepancy of \$1.7 million between the ending balance of 11 projects in the second

quarterly report and the beginning balance of the same 11 projects in the third quarterly report issued for FY 2015. When asked for an explanation, the SCA did not provide any information to justify the discrepancy. Additionally, our recalculations of the total amounts identified in the FY 2016 third quarterly report found that the SCA omitted six projects, totaling approximately \$2.8 million from the report.

SCA Response:

“[. . .] The City Comptroller disregarded the SCA's explanations and simply aggregated the funding source categories in the sub-ledgers. This methodology was incorrect because it did not follow the crosswalk methodology used by the SCA to produce the quarterly report. As a result, the City Comptroller incorrectly concluded that there was an \$8.1 million funding source discrepancy. The City Comptroller further stated, ‘Although the SCA explained that it later adjusted the quarterly reports so that they would be accurate, a subsequent review found that the errors remained in the monthly sub-ledgers.’ [page 8] The SCA does not understand this statement because the SCA only became aware of the \$8.1 million finding in the final draft report and, therefore, did not have any discussions with the City Comptroller at the exit conference. The SCA agrees with the recommendation to automate the current manual and complex process involved in producing the quarterly report for consistency and accuracy in reporting. The SCA is continuing to streamline the quarterly reporting process.

[. . .] The finding by the City Comptroller that there was \$2.0 million of improperly classified funds in the first quarter of FY 2015 was due to corrections made by the SCA in the second quarter of FY 2016. The correction of the \$2.0 million was identified by the SCA as part of the thorough review and reconciliation undertaken throughout calendar year 2015.

The finding by the City Comptroller that there was a \$1.7 million discrepancy between the ending balance in the second quarterly report and the beginning balance in the third quarterly report issued for FY 2015 was also due to corrections made by the SCA in the third quarter of FY 2015. The discrepancy of the \$1.7 million was identified by the SCA as part of the thorough review and reconciliation undertaken throughout calendar year 2015. The \$1.7 million, corrected in March 31, 2015, were adjustments that offset one another resulting in a net impact of \$24,985 on the March 31, 2015 quarterly report. The SCA agrees that corrections should have been made in a more timely manner and in mid-FY 2016 implemented a monthly review of the cash sub-ledgers to ensure the accuracy of the funding source categories and designations.”

Auditor Comment:

The SCA's response that it “only became aware of the \$8.1 million finding in the final draft report” is incorrect. We met with SCA officials multiple times to discuss the discrepancies between the cash sub-ledgers and the quarterly reports, including the \$8.1 million cited in the report which was reflected in a spreadsheet we presented to SCA officials in January 2017. In addition, we also provided details of these discrepancies to SCA officials after our May 12, 2017 exit conference in an e-mail sent on May 16, 2017. However, the SCA never provided us with an adequate explanation and necessary documentation to support its crosswalk methodology between the sub-ledgers and the quarterly reports. As noted in the audit report, our subsequent review of the sub-ledgers and the quarterly reports found that these inconsistencies remained unresolved.

Furthermore, although the SCA claims that the \$2 million in improperly classified funds were identified and corrected, we could not substantiate this claim because the \$2 million correction identified by the SCA was neither documented nor corrected during the audit period. A timely correction would have allowed the Other Funds Account Advisory Committee to make more informed decisions on what funds were available and how they should be allocated.

In addition, the \$1.7 million correction identified by the SCA was neither documented nor timely corrected during the audit. Although the schedule that the SCA provided to us identified the net amount of \$24,985, that information was not sufficient for us to trace the corrections to individual projects or determine why the discrepancies existed.

The SCA Failed to Ensure Accurate Identification of Funding Source Categories That Are Necessary for the Proper Use of the Money in the Other Funds Account

As noted, the Other Funds Account quarterly reports are relied on by the SCA for its determinations of how to manage and spend the funds retained in the Other Funds Account. However, the inconsistencies and inaccuracies in the information contained in the sub-ledgers and the quarterly reports call into question the ability of the SCA to rely on this information to make reasonable and appropriate decisions about the management and expenditure of the money maintained in the Other Funds Account. While the use designations (dedicated or discretionary) could change over time due to changed circumstances related to funding of specific projects and other matters, there is little apparent basis for changing the funding source categories of those funds absent an error having been made in the first instance. Accordingly, adequate controls would minimize errors and require clear documentation of the basis and authority for any changes to be made. However, the SCA made repeated changes to the funding source categories without providing supporting details to explain why the changes were made and whether the appropriate approvals were given.

Without accurate and complete financial records, the SCA's ability to determine the amount of funds available to it from sources other than the City is limited, as is its ability to determine whether those amounts were properly taken into account when reporting its budgetary needs to the City in connection with DOE's Five-Year Capital Plan. The Public Authorities Law §1736 requires that the SCA must operate "at all times within the amounts payable to it pursuant to this section, *after taking into account funds available to the authority for such purpose from sources other than the city.*" [Emphasis added.] Thus, these reporting deficiencies impact the SCA's ability to properly allocate funds in accordance with the Public Authorities Law. In addition, they reduce the transparency of the financial information that the SCA reports to the City.

SCA Response:

"The SCA began a thorough review of the OFA in 2015. As a result of the Ernst & Young audit, the SCA identified and implemented the Oracle Accounts Receivable module, an integrated solution to SCA's existing Oracle Financial system, with enhanced capability to maintain funds received. Implementation of this solution was already in progress and this was communicated to the City Comptroller during the entrance conference. Information in the OFA has been, and continues to be, taken into account when developing the New York City Department of Education's Five Year Capital Plan."

Auditor Comment:

While the SCA stated that its implementation of the Oracle Accounts Receivable module was already “in progress” at the time we commenced the audit, our subsequent audit found that the identification of source categories was still not reflected in the Oracle financial system during the audit scope period, which ended on June 30, 2016. Therefore, we cannot substantiate that the SCA has implemented and is properly utilizing a system that captures funding source categories and designations through its Oracle Accounts Receivable module.

The SCA Did Not Consistently Follow the Investment Requirements of the Public Authorities Law

The SCA failed to invest over \$100 million available in the Other Funds Account in accordance with Public Authorities Law § 1741 and General Municipal Law §11, which likely decreased the amount of return it would have had on those funds. Section 1741 of the Public Authorities Law provides that any moneys on deposit in the accounts of the SCA that are not required for immediate expenditure “shall be invested in obligations in which a municipality may be authorized to invest” in accordance with Section 11 of the General Municipal Law, which in turn authorizes specific types of temporary investments for such moneys. However, our review found that for at least two years, i.e., FY 2016 and FY 2017, the SCA maintained \$104 million in an interest-bearing checking account earning only minimal interest. Our review of the Other Funds Account investment records found that the SCA closed out its last investment account and deposited the funds in a checking account at the end of April 2015. As of May 2017, the end of our audit field work, the SCA had not yet reinvested those funds. By maintaining a significant amount of cash in a checking account, not only did the SCA fail to comply with the investment requirements of the Public Authorities Law, but also lost the opportunity to generate additional investment income on these funds.

RECOMMENDATIONS

The SCA should:

1. Implement controls to ensure that it accurately and consistently records the funding source classifications and use designations (dedicated or discretionary) of Other Funds Account funds in all of the SCA's financial records. Such controls should include:

- a. Use of a comprehensive automated and reliable accounting system capable of consistently tracking all of the funds allocated to it, including funds utilized from both the Other Funds Account and its City capital budget funded account;

SCA Response: "The SCA agrees with this recommendation. Based on findings from the SCA internal control review by Ernst & Young, the SCA began researching potential software solutions during first quarter of 2016 and selected and began to implement the Oracle Accounts Receivable module in June, 2016 (prior to the City Comptroller's entrance conference). The system went live in May, 2017."

Auditor Comment: Although the SCA agrees with the recommendation and stated that the system went live in May 2017, we were unable to verify that these modules were implemented and effectively utilized because May 2017 was outside of our audit period.

- b. Use of a comprehensive automated reliable accounting system to create financial and other reports in order to ensure consistent and accurate information, including identification of the funding source categories;

SCA Response: "The SCA agrees with this recommendation and, through the Oracle Accounts Receivable module, has already implemented the capability to capture funding source categories. The Oracle Accounts Receivable module in conjunction with the SCA's existing Oracle financial system provides for enhanced reporting."

- c. Documentation of the basis for the changes in fund categories and ensure accuracy and consistency in the identification of funding sources in all Other Funds Account's financial records and related reports;

SCA Response: "The SCA agrees with this recommendation and it has already been implemented. See responses to recommendation 1a and 1b above."

- d. Monthly reviews by supervisory personnel of cash sub-ledgers, and general ledger to ensure that data is accurate, complete, consistent and adequately supported;

SCA Response: "The SCA agrees with this recommendation. As was already the practice during the period covered by the City Comptroller's audit, the SCA will continue to perform reconciliations between the cash sub-ledgers and general ledger ensuring completeness, accuracy, and consistency of the data captured between the two ledgers. Monthly reviews of the cash sub-ledgers began in mid-FY2016 and have been performed on a monthly basis since that time."

Auditor Comment: Although the SCA agrees with the recommendation and states that reconciliations between cash sub-ledgers and the general ledger was already in progress, our review found the cash sub-ledgers were not updated to reflect the amounts in the quarterly reports. Rather, the cash sub-ledger amounts did not reconcile against the quarterly report amounts when sorted by funding source

categories. Additionally, we were unable to verify whether the cash sub-ledger reconciles against the general ledger because the SCA did not utilize the funding source columns in its general ledger.

- e. Accurate reporting of information in the Other Funds Account quarterly reports to ensure the funding source categories and funding designations are appropriate and consistently reported.

SCA Response: “The SCA agrees with this recommendation. Through the Oracle Accounts Receivable module, the SCA has already implemented the capability to capture funding source categories and designations. The SCA is continuing to streamline the quarterly reporting process.”

- 2. Deposit of the funds maintained in the Other Funds Account not needed for immediate use in an investment account in accordance with the General Municipal Law.

SCA Response: “The SCA agrees with this recommendation and re-established its investment account in June, 2017.”

DETAILED SCOPE AND METHODOLOGY

We conducted this performance 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. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covers the period from July 1, 2014 to June 30, 2016. To achieve our objective, we reviewed the New York School Construction Authority Act–Public Authorities Law, Article 8, Title 6, General Municipal Law §11 related to Investments, the Five-Year Capital Plans, Certified Financial Statements and Management Letters, and Comptroller’s Directive #1, *Principles of Internal Control*.

To gain an understanding of the SCA’s Other Funds Account, we reviewed the related cash receipts sub-ledgers, cash disbursement sub-ledgers, bank statements, investment transaction reports, the Other Funds Account’s quarterly reporting packages, Advisory Committee meeting minutes and decision papers, and operating guidelines for the Other Funds Account. To gain an understanding of the controls in place, we conducted walk-throughs of the cash handling process, Oracle financial database processes, how the Other Funds Account takes into consideration the capital plans, and interviewed the SCA officials. We documented our understanding through written narratives. We also analyzed reports from the SCA Office of Inspector General and the report on internal controls performed by the public accounting firm, Ernst & Young, LLP, regarding the Other Funds Account, to identify any potential risk of error or fraud.

To conduct our testing, we judgmentally selected two separate months in each of the years in scope based on the SCA’s cash receipts sub-ledgers and cash disbursement sub-ledgers. We took interest in months with funding that pertained to Hurricane Sandy, highest total dollar amounts, and the highest variation of funding source categories for review. Of the two months selected in each year, one month was based on cash receipts sub-ledgers and the other on cash disbursement sub-ledgers. To obtain reasonable assurance that this data was reliable, we compared these data sets to the bank statements and reconciliations for the corresponding months. Additionally, we tested these same cash sub-ledgers against quarterly reports generated by the SCA. We tested both the classification of all details in the reports provided and the bottom line reconciliations.

To determine whether the SCA’s controls over the Other Funds Account were operating effectively, we reviewed each transaction in the months selected above for authorization, approvals, and proper backup. We reviewed the SCA’s list of authorized signatories and compared the signatures to those on the checks and examined the checks for dual signatures. We reviewed bank reconciliations for accuracy and determined whether they were signed by a preparer and approved by the supervisor or an authorized individual. We also reviewed the SCA collateral letter from their bank to determine whether the account had proper insurance over the Federal Deposit Insurance Corporation covered amount.

The results of the above tests, while not statistically projected to their respective populations, provide a reasonable basis for us to assess the SCA’s administration of the Other Funds Account in accordance with applicable rules and regulations.



Lorraine Grillo
President & CEO
lgrillo@nycsca.org

November 9, 2017

Ms. Marjorie Landa
Deputy Comptroller for Audit
Municipal Building
1 Centre Street, Room 1100
New York, NY 10007

Dear Ms. Landa:

We have reviewed your draft document titled "Audit Report on the School Construction Authority's Administration of Its Other Funds Account" dated October 25, 2017 and have attached a document containing our comments and responses to the recommendations.

If you have any questions, please feel free to call Marianne Egri, Vice-President of Finance & IT, at 718-472-8012.

Sincerely,

A handwritten signature in black ink that reads "Lorraine Grillo". The signature is written in a cursive style.

Lorraine Grillo
President & CEO
New York City School Construction Authority

RECOMMENDATIONS

SCA Statement:

Prior to the commencement of the City Comptroller's Office audit, the SCA had identified opportunities for improvement with respect to the management and oversight of its Other Funds Account ("OFA"). The SCA Office of Inspector General ("OIG") began its review of the OFA in February, 2015, and concomitantly, the Finance Department also commenced an evaluation of the OFA. The SCA also requested Ernst & Young, the SCA's internal auditors, to perform an internal control review of the OFA in 2015. As a result of the SCA's review, the OIG study, and the Ernst & Young recommendations, the SCA identified opportunities to improve operations and oversight of the OFA and began implementing those solutions as early as January, 2016. By the time the City Comptroller began its OFA audit in August, 2016, the SCA had already implemented, or was in the process of addressing, the recommendations proposed by the SCA OIG and Ernst & Young. Shortly after the OFA audit entrance conference, the City Comptroller received the OIG study and Ernst & Young audit. Notwithstanding the audits that the SCA had previously commissioned and the enhanced internal controls that were implemented, the City Comptroller chose to embark on its own audit of this same account.

As indicated below, the SCA agrees with, and has implemented, the recommendations below that had previously been made by the OIG and Ernst & Young prior to the commencement of the City Comptroller's audit.

Audit Recommendations:

The SCA should:

1. Implement controls to ensure that it accurately and consistently records the funding source classifications and use designations (dedicated or discretionary) of Other Funds Account funds in all of the SCA's financial records. Such controls should include:
 - a. Use of a comprehensive automated and reliable accounting system capable of consistently tracking all of the funds allocated to it, including funds utilized from both the OFA and its City capital budget funded account;

SCA Response:

The SCA agrees with this recommendation. Based on findings from the SCA internal control review by Ernst & Young, the SCA began researching potential software solutions during first quarter of 2016 and selected and began to implement the Oracle Accounts Receivable module in June, 2016 (prior to the City Comptroller's entrance conference). The system went live in May, 2017.

- b. Use of a comprehensive automated reliable accounting system to create financial and other reports in order to ensure consistent and accurate information, including identification of the funding sources categories;

SCA Response:

The SCA agrees with this recommendation and, through the Oracle Accounts Receivable module, has already implemented the capability to capture funding source categories. The Oracle Accounts Receivable module in conjunction with the SCA's existing Oracle financial system provides for enhanced reporting.

- c. Documentation of the basis for the changes in fund categories and ensure accuracy and consistency in the identification of funding sources in all OFA's financial records and related reports;

SCA Response:

The SCA agrees with this recommendation and it has already been implemented. See responses to recommendation 1a and 1b above.

- d. Monthly reviews by supervisory personnel of cash sub-ledgers, and general ledger to ensure that data is accurate, complete, consistent and adequately supported;

SCA Response:

The SCA agrees with this recommendation. As was already the practice during the period covered by the City Comptroller's audit, the SCA will continue to perform reconciliations between the cash sub-ledgers and general ledger ensuring completeness, accuracy, and consistency of the data captured between the two ledgers. Monthly reviews of the cash sub-ledgers began in mid-FY2016 and have been performed on a monthly basis since that time.

- e. Accurate reporting of information in the OFA quarterly reports to ensure the funding source categories and funding designations are appropriate and consistently reported.

SCA Response:

The SCA agrees with this recommendation. Through the Oracle Accounts Receivable module, the SCA has already implemented the capability to capture funding source categories and designations. The SCA is continuing to streamline the quarterly reporting process.

- 2. Deposit of the funds maintained in the OFA not needed for immediate use in an investment account in accordance with the General Municipal Law.

SCA Response:

The SCA agrees with this recommendation and re-established its investment account in June, 2017.

AUDIT REPORT

Background Section [page 3]:

City Comptroller States:

“Between 2007 and 2014, the Other Funds Account balance grew from \$20 million to \$133 million. As of June 30, 2016, the balance was \$104 million.”

SCA Response:

Most significantly, the growth of the OFA between fiscal years 2013 and 2014 was attributable to reimbursements for Hurricane Sandy projects. The growth of the OFA from fiscal year 2007 through 2013 was attributable to reimbursements for projects that the SCA performed for the Port Authority and Developer Agreements. Considering the unique nature of these facts, they should be incorporated in the report. Of the \$104 million, ninety percent (90%) of the balance is being used on specific projects. The balance of this account at any particular point in time is dependent on the timing of the payments made on these projects.

FINDINGS

The SCA Lacked Sufficient Internal Controls over the Administration of Its Other Funds Account [page 7]:

City Comptroller States:

“the SCA failed to maintain sufficient internal controls over the Other Funds Account. Specifically the SCA did not appropriately utilize its general ledger to report and monitor the Other Funds Account activities and did not maintain the proper financial controls”.

SCA Response:

Although the SCA agrees that reporting improvements were required (see SCA’s response in “Recommendations”), the SCA does not agree that it failed to maintain sufficient internal controls over the OFA by not appropriately utilizing its general ledger. The general ledger is not intended to record OFA transactions because it does not allow for the level of detail required for the maintenance and reporting of the OFA transactions. Therefore, information was maintained in sub-ledgers. To automate and improve the maintenance, reporting and monitoring of the OFA transactions, SCA identified and implemented the Oracle Accounts Receivable module, an integrated solution to SCA’s existing Oracle Financial system. This solution was underway and communicated to the City Comptroller at the entrance conference. Additionally, monthly reconciliations were performed between the sub-ledger and general ledger to ensure completeness and accuracy of the funds recorded, all in accordance with SCA processes.

City Comptroller States:

“In addition, the SCA did not follow its own procedures for the classification, recording, and reporting of revenue and expenditures in the Other Funds Account”...“our review of the sub-ledgers for FY 2015 found that the funding source categories were not included. Although the sub-ledgers included this information in FY 2016, we found that information unreliable and inconsistent with the quarterly reports”.

SCA Response:

SCA procedure provides the definition of funding source categories and assigns a number to each funding source category relating to cash receipts. In FY 2015, the cash receipts funding source categories were presented in narrative form in the cash receipts sub-ledgers. In fiscal year 2016, as part of management’s effort to improve OFA reporting, the SCA added numeric funding source categories in addition to the narrative to the FY 2016 cash receipts sub-ledgers. The generation of the quarterly reports is not a direct rollup of the cash receipts and disbursement sub-ledgers. The production of the quarterly reports is a manual effort that involves other exhibits and schedules to cross-walk between the sub-ledgers and the quarterly reports for accurate presentation of the allocation of the funds. These exhibits and schedules were provided to the City Comptroller to explain the manner in which the sub-ledgers are used to produce the quarterly reports. The City Comptroller disregarded these exhibits and schedules in their finding. Although the SCA believes that internal controls were sufficient, the SCA agrees with the recommendations to automate the current manual and complex process ensuring consistency and accuracy in reporting. As noted previously, implementation of the Oracle Accounts Receivable module was in

progress at the commencement of the City Comptroller's audit. Additionally, the SCA is continuing to streamline the quarterly reporting process.

Information Contained in the General Ledger Was Insufficient to Enable the SCA to Properly Track Funds Maintained in the Other Funds Account [page 8]:

City Comptroller States:

"The SCA did not maintain information in its general ledger that would enable it to ensure the proper and prompt tracking of all the funds available to it from sources other than its annual budget allocation from the City. However, while Oracle's general ledger contains features that would allow it to identify the Other Funds Account's funding source categories, the SCA did not utilize these features".

SCA Response:

As discussed above, the general ledger is not intended to record Other Funds Account transactions because it does not allow for the level of detail required for the maintenance and reporting of the OFA transactions. The information, therefore, was maintained in sub-ledgers in the form of spreadsheets. The SCA believes sufficient internal controls were in place to ensure all funds were accurately and completely captured and recorded to the sub-ledgers. To automate and improve the maintenance, reporting, and monitoring of the OFA transactions, SCA identified and implemented the Oracle Accounts Receivable module, an integrated solution to SCA's existing Oracle Financial system. The Oracle Accounts Receivable module implementation was in progress and communicated to the City Comptroller during the entrance conference.

City Comptroller States:

"...our audit found that SCA did not include the funding source categories in its manually created sub-ledgers for FY 2015. Instead, the SCA only reflected that information in the Other Funds Account quarterly reports. Although, as described in detail below, identification of the funding source categories was added to the sub-ledgers in FY 2016, we found that the source category information in those sub-ledgers was inconsistent with the information in the quarterly reports."

SCA Response:

SCA procedure provides the definition of funding source categories and assigns a number to each funding source category. In FY 2015, the cash receipts funding source categories were presented in narrative form in the cash receipts sub-ledgers. In fiscal year 2016, as part management's effort to improve OFA reporting, the SCA added numerical funding source categories in addition to the narrative to the FY 2016 cash receipts sub-ledgers. The generation of the quarterly reports is not a direct rollup of the cash receipts and disbursement sub-ledgers. The production of the quarterly reports is a manual effort that involves other exhibits and schedules to cross-walk between the sub-ledgers and the quarterly reports for accurate presentation of the allocation of the funds. These exhibits and schedules were provided to the City Comptroller to explain the manner in which the sub-ledgers are used to produce the quarterly reports. The City Comptroller disregarded these exhibits and schedules in their finding. Although the SCA believes that internal controls were sufficient, the SCA agrees with the recommendations to automate the current manual and complex process ensuring consistency and accuracy in reporting. As noted previously, implementation of the Oracle Accounts Receivable module was in progress at the

commencement of the City Comptroller's audit. Additionally, the SCA is continuing to streamline the quarterly reporting process.

The SCA Failed to Consistently and Accurately Classify Funds and Reconcile Its Cash Sub-Ledgers to the Quarterly Report [page 8]:

City Comptroller States:

"Specifically, our review of the FY 2016 quarterly reports found inconsistencies between the sub-ledgers and the quarterly reports for three of the four quarters reviewed. We also found that most of the funding source categories recorded in these three quarterly reports could not be traced to their respective monthly cash sub-ledgers. Included in the discrepancies we found was a total difference of \$8.1 million in the funding source categories identified in the monthly cash sub-ledgers and those identified in the quarterly reports for the fourth quarter of 2016." [page 8]

SCA Response:

As noted previously, the quarterly reports are not a direct rollup of the cash receipts and disbursement sub-ledgers. The production of the quarterly reports is a manual effort which involves other exhibits and schedules to cross walk between the sub-ledgers and the quarterly reports for presentation of the OFA funds. These exhibits and schedules were provided to the City Comptroller to explain the manner in which the sub-ledgers are used to produce the quarterly reports. The City Comptroller disregarded the SCA's explanations and simply aggregated the funding source categories in the sub-ledgers. This methodology was incorrect because it did not follow the crosswalk methodology used by the SCA to produce the quarterly report. As a result, the City Comptroller incorrectly concluded that there was an \$8.1 million funding source discrepancy. The City Comptroller further stated, *"Although the SCA explained that it later adjusted the quarterly reports so that they would be accurate, a subsequent review found that the errors remained in the monthly sub-ledgers."* [page 8] The SCA does not understand this statement because the SCA only became aware of the \$8.1 million finding in the final draft report and, therefore, did not have any discussions with the City Comptroller at the exit conference. The SCA agrees with the recommendation to automate the current manual and complex process involved in producing the quarterly report for consistency and accuracy in reporting. The SCA is continuing to streamline the quarterly reporting process.

City Comptroller States:

"...we found that the SCA did not make the correct adjustments of misclassified funding sources in the quarterly reports in a timely manner. For example, our review found that five cash receipt transactions, totaling \$2 million, were improperly classified as funds from category 1 (Insurance Recovery and Other Reimbursements) in the first quarter of FY 2015 and subsequently reclassified as category 2 (Litigations and Settlements) and category 3 (Funds Received from Outside Sources) in the second quarter of FY 2016." "Our audit also found inaccuracies and inconsistencies in balances of the individual projects presented in consecutive quarterly reports. In particular, we were not able to reconcile a cumulative discrepancy of \$1.7 million between the ending balance of 11 projects in the second quarterly report and the beginning balance of the same 11 projects in the third quarterly report issued for FY 2015. When asked for an explanation, the SCA did not provide any information to justify the discrepancy". [page 9]

SCA Response:

The finding by the City Comptroller that there was \$2.0 million of improperly classified funds in the first quarter of FY 2015 was due to corrections made by the SCA in the second quarter of FY 2016. The correction of the \$2.0 million was identified by the SCA as part of the thorough review and reconciliation undertaken throughout calendar year 2015.

The finding by the City Comptroller that there was a \$1.7 million discrepancy between the ending balance in the second quarterly report and the beginning balance in the third quarterly report issued for FY 2015 was also due to corrections made by the SCA in the third quarter of FY 2015. The discrepancy of the \$1.7 million was identified by the SCA as part of the thorough review and reconciliation undertaken throughout calendar year 2015. The \$1.7 million, corrected in March 31, 2015, were adjustments that offset one another resulting in a net impact of \$24,985 on the March 31, 2015 quarterly report. The SCA agrees that corrections should have been made in a more timely manner and in mid-FY 2016 implemented a monthly review of the cash sub-ledgers to ensure the accuracy of the funding source categories and designations.

City Comptroller States:

"...our recalculations of the total amounts identified in FY 2016 third quarterly report found that the SCA omitted six projects, totaling approximately \$2.8 million from the report". [page 9]

SCA Response:

The funds associated with these projects were not omitted. They were moved from one section of the report to another to reflect the use of the funds and were reflected in the third quarter balance ending March 31, 2016. The supporting documentation and explanation were provided to the City Comptroller.

The SCA Failed to Ensure Accurate Identification of Funding Source Categories That are Necessary for the Proper Use of the Money in the Other Funds Account [page 9]

SCA Response:

The SCA began a thorough review of the OFA in 2015. As a result of the Ernst & Young audit, the SCA identified and implemented the Oracle Accounts Receivable module, an integrated solution to SCA's existing Oracle Financial system, with enhanced capability to maintain funds received. Implementation of this solution was already in progress and this was communicated to the City Comptroller during the entrance conference. Information in the OFA has been, and continues to be, taken into account when developing the New York City Department of Education's Five Year Capital Plan.