



New York State Comptroller
THOMAS P. DiNAPOLI

Oversight of Smart Schools Bond Act Funds

State Education Department

Report 2019-S-13 | June 2020

Spotlight on Education



Audit Highlights

Objective

To determine whether the State Education Department (Department) is monitoring the use of Smart Schools Bond Act funds to ensure that school districts have appropriately utilized them for their intended purpose. The audit covers the period April 1, 2015 through August 27, 2019.

About the Program

The Smart Schools Bond Act (Act) was approved by New York State voters in November 2014, authorizing the issuance of up to \$2 billion in bonds to finance improvements to educational technology and infrastructure for students throughout the State. Under the Act, school districts were allocated a portion of the \$2 billion based on the percentage of selected school aid they received. Districts must develop a Smart Schools Investment Plan (Plan) that details how they propose to use the funds. Each Plan must be approved by the Smart Schools Review Board (Review Board), composed of the Chancellor of the State University of New York, the Director of the Budget, and the Department's Commissioner or their representatives. Once Plans are approved by the Review Board, districts may begin to submit requests for reimbursement of expenses related to purchases or projects in their approved Plans. As of June 2019, the Department had approved 655 Plans with projects valued at \$1.3 billion, and districts had been reimbursed a total of \$255 million.

Key Findings

- While the Department has implemented a detailed upfront process for collecting and reviewing districts' Plans, we identified risks with how it reimburses claims submitted in connection with approved Plans. Specifically, the Department does not collect detailed supporting information necessary to ensure that expenses were actually incurred, were for approved projects or items, and complied with the other requirements for reimbursement.
- The ten districts we sampled utilized Act funds for their intended purposes according to their approved Plans and maintained the supporting documentation for the expenditures we reviewed. However, we identified one district that was reimbursed a total of \$549,749 for expenses incurred as part of contracts initiated prior to Review Board approval of its Plan. One invoice was dated five months before the Plan was approved by the Review Board.
- The Department's Plan approval process is lengthy, taking an average of 290 days, which can affect districts' ability to undertake projects.

Key Recommendations

- Re-evaluate the risk of not obtaining documentation to support district expenditures prior to reimbursement.

-
- Evaluate opportunities to streamline the application review process for both applicants and reviewers in an effort to shorten time to approval.



Office of the New York State Comptroller Division of State Government Accountability

June 10, 2020

Ms. Shannon Tahoe
Interim Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Dear Ms. Tahoe:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Oversight of Smart Schools Bond Act Funds*. This audit was performed pursuant 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.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Division of State Government Accountability

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Glossary of Terms

Term	Description	Identifier
Act	Smart Schools Bond Act	<i>Act</i>
Department	State Education Department	<i>Auditee</i>
Implementation Guidance	Smart Schools Bond Act Implementation Guidance	<i>Key Term</i>
Plan	Smart Schools Investment Plan	<i>Key Term</i>
Review Board	Smart Schools Review Board	<i>Board</i>

Background

The Smart Schools Bond Act (Act) was approved by New York State voters in November 2014, authorizing the issuance of up to \$2 billion in bonds to finance improvements to educational technology and infrastructure for students throughout the State. Specifically, the Act funds projects in four categories:

- Installation of high-speed broadband or wireless Internet connectivity in schools and communities;
- Acquisition of learning technology such as interactive whiteboards, laptops, and tablets;
- Installation of high-tech security features such as video surveillance, emergency notification systems, and physical controls in school buildings; and
- Construction, enhancement, and modernization of educational facilities to accommodate pre-kindergarten programs and provide instructional space to replace classroom trailers.

Under the Act, school districts were allocated a portion of the \$2 billion based on the percentage of selected school aid they received in the 2013-14 school year. As a result, district allocations varied widely across the State. The five largest districts (New York City, Buffalo, Rochester, Syracuse, and Yonkers) were allocated a combined total of \$937 million (47 percent of available funds). Allocations for the remaining districts ranged between \$27,700 and \$21 million.

The actual reimbursement of allocated funds is the culmination of a lengthy process. The details of the Act are outlined in the Smart Schools Bond Act Implementation Guidance (Implementation Guidance), which states districts must first develop a Smart Schools Investment Plan (Plan) and submit it for review via the State Education Department's (Department) online business portal. The Plans must detail how the districts propose to use Act funds and provide specifics about items to be purchased, including descriptions, prices, and quantities.

Department staff review submitted Plans for completeness and follow up with districts on anything that needs further explanation. Department staff also coordinate with other agencies represented on the Smart Schools Review Board (Review Board) and act as a liaison between those agencies and the districts to obtain additional information and to ensure proposed expenditures meet the Act requirements. Where districts propose using Act funds for certain capital projects or facilities, Plans also undergo a preliminary review by the Department's Facilities Planning Bureau.

After the Department and other agencies review the Plans, they are submitted to the Review Board for formal approval. According to the Act, each Plan must be approved by the Review Board, which is composed of the Chancellor of the State University of New York, the Director of the Budget, and the Department's Commissioner or their representatives. Once Plans are approved by the Review Board, districts may begin to submit requests for reimbursement for expenses related to purchases or projects in their approved Plans.

The Department is responsible for reviewing and reimbursing claims submitted by the districts. As with Plan submissions, districts submit claims for reimbursement to the Department via its online business portal. The Department compares reimbursement requests with the approved Plans and either approves them or performs additional review before releasing the funds to districts. There are no specific deadlines for submitting Plans because Act funds do not expire. Additionally, districts may submit multiple Plans and reimbursement claims on an ongoing basis as they spend Act funds. The following table summarizes key Act statistics as of June 2019.

Key Smart Schools Bond Act Statistics as of June 2019	
Number of Plans submitted via online portal	753
Number of Review Board meetings held	12
Number of Plans approved	655
Number of districts with approved Plans	474
Value of approved Plans	\$1.3 billion
Amount reimbursed	\$255 million

Audit Findings and Recommendations

In general, the Department has focused its oversight efforts on implementing a detailed upfront process for collecting and reviewing districts' Plans. However, we identified risks with how the Department reimburses claims submitted in connection with approved Plans. Specifically, the Department does not collect the information necessary to ensure that expenses were actually incurred, were for approved projects or items, and complied with other requirements for reimbursement. Instead, the Department relies on attestations from district officials. Despite this risk, we found that the districts in our review generally utilized funds for their intended purposes according to their approved Plans. In addition, we confirmed a sample of items (such as laptops, tablets, and smartboards) purchased with Act funds at nine districts had actually been purchased. We also observed completed work associated with capital projects related to security upgrades at one district. During our discussions with officials at the ten sampled districts, officials expressed frustration with the length of time it took to obtain Plan approval from the Review Board. Our analysis of Department data showed that it took an average of 9½ months for Plans to be approved. In some cases, this led to delayed projects or changes in the prices of certain items proposed for purchase.

Department Oversight

According to the Implementation Guidance, the Department is responsible for reviewing Plans submitted by districts and also for reviewing and approving districts' reimbursement claims for the projects associated with those approved Plans. In general, the Department has focused its oversight efforts on implementing a detailed upfront process for collecting and reviewing districts' Plans. However, there are risks associated with how it reimburses district claims. To standardize Plans, the Department developed a template, which districts are required to complete and submit electronically through the Department's business portal. The Department's review and approval of the Plans also includes coordinating with other agencies represented on the Review Board, acting as a liaison between those agencies and the districts to follow up on questions, and obtaining additional information to ensure all proposed projects meet the Act's requirements.

After Plans are approved, districts incur expenses and submit reimbursement claims to the Department for payment. Department staff perform basic reviews of these reimbursement claims to confirm they relate to the approved Plans. The reviews include the use of certain automated controls. For example, one control flags item quantities or prices that deviate by a certain threshold from those approved in a district's Plan. Department staff can review these flagged items in more detail.

Notably, the Department does not require districts to submit any documentation to support their reimbursement claims. Instead, the Department relies on district officials to attest that requests for reimbursement are for legitimate, allowable expenditures. Consequently, the Department does not have documentation from districts to ensure the expenditures they reimburse were actually made, match the amount of reimbursement sought, or complied with other requirements, such as when approved expenditures can be incurred.

According to guidance on the Department's website, districts may not bid, contract, or spend any Act funds before their Plan is approved. During our review, we identified one district that was reimbursed a total of \$549,749 for expenses incurred as part of contracts initiated prior to Review Board approval of its Plan. One invoice was dated five months before the Plan was approved by the Review Board. Yet, because the Department generally does not collect or review any supporting documentation prior to reimbursing districts for their expenditures, Department staff cannot determine the extent to which districts are entering into contracts or incurring expenditures prior to Plan approval. We determined the contracts and expenditures were for items or projects included in the districts' Plans that were ultimately approved. However, based on the Department's guidance, we question whether reimbursements totaling \$549,749 should have been made to the district.

Otherwise, and despite the lack of documentation to support expenditures reimbursed by the Department, we determined the districts in our sample utilized Act funds for their intended purposes according to their approved Plans. Further, the districts had supporting documentation for the expenditures we reviewed. We also confirmed over 7,600 items such as laptops, tablets, and smartboards purchased with Act funds at nine districts had actually been purchased and observed completed work associated with capital projects related to security upgrades at one district. In addition, none of the districts were reimbursed for more than their allocations under the Act or the amounts approved in their Plans.

Department officials stated they discussed the issue of requiring supporting documentation, but concluded the added administrative burden for both districts and Department staff outweighed any potential benefit to reducing risk. Department officials also pointed to a lack of sufficient staffing to review any documentation had they made this a requirement. Further, districts have a vested interest in completing initiatives identified in their Plans. District officials we met with noted that initiatives included in their Plans were often part of their larger, district-wide technology plans, and were projects that they were planning to complete anyway. The Act funds served to offset the costs of some of those projects.

Time to Plan Approval

As previously noted, the Department has chosen to focus its resources on implementing a detailed upfront review of the Plans to ensure they meet Act requirements. While it is important for control purposes to ensure that Plans contain projects that are allowable under the Act and provide sufficient detail, it is also essential that the process not significantly delay the utilization of Act funds for the benefit of districts and their stakeholders.

Officials at eight of ten districts we met with during our audit cited frustration with the length of time it took to obtain required Review Board approval of Plans. As of June 2019, the Department's tracking data for 655 Plans shows the average time from initial Department review to Review Board approval was 290 days, or about 9½ months. The step from initial Department review to the Review Board review phase alone accounted for 90 percent (260 days) of this time.

The Implementation Guidance does not establish time frames for Plan approval. Yet it does require a certain level of information and detail to be captured in the Plans. This includes details on how the districts propose to use the funds they have been allocated under the Act as well as specifics about items to be purchased, including descriptions, prices, and quantities. Additionally, district officials must certify that they performed certain steps to engage stakeholders prior to submitting the Plan. These steps include posting a draft version of the Plan on the district website for 30 days, holding a public hearing on the Plan, and obtaining school board approval of the final Plan to be submitted.

It is important to ensure Plans contain projects that are allowable under the Act and provide sufficient detail. However, four of ten districts we met with reported having Plans returned to correct relatively minor spelling or calculation errors. District officials reported early versions of the Plan required them to manually calculate the total costs of items using the quantity and price and carry those figures throughout the Plan. Any updates, such as changes to the price of an item that affected the total cost, that were not carried through to all the necessary locations in the Plan resulted in an error and in the application being returned, consuming both time and district resources. The Department has since made improvements in its online Plan template to calculate these items, thereby reducing such errors.

Ultimately, the Department's lengthy Plan approval process can affect districts' ability to undertake projects. In at least one case, the delays left a district without adequate security surveillance equipment. According to officials at that district, the prolonged approval process for its high-tech

security project resulted in the need to update equipment and prices for the project. This, in turn, led to further delays. In the interim, the district was forced to rely on old equipment that did not always work correctly, leaving the district without security footage it needed.

Department officials acknowledged the approval process has been lengthy and can lead to delays in project implementation. However, Department officials stated that they are limited by their resources, the level of Plan details required by statute, and the need to ensure State resources are effectively used. Department officials also stated that Plan approval was delayed during the creation and implementation of their new Plan template, which resulted from changes to the Act.

Recommendations

- 1.** Re-evaluate the risk of not obtaining documentation to support district expenditures prior to reimbursement.
- 2.** Evaluate opportunities to streamline the application review process for both applicants and reviewers in an effort to shorten time to approval.

Audit Scope, Objective, and Methodology

We audited the Department's oversight of Smart Schools Bond Act funds during the period April 1, 2015 through August 27, 2019. The objective of our audit was to determine if the Department is monitoring the use of Act funds to ensure that school districts have appropriately utilized them for their intended purpose.

To accomplish our audit objective, we reviewed relevant State laws and Implementation Guidance for the Act. We also assessed the Department's internal controls as they related to oversight of Act funds. We interviewed Department personnel to obtain an understanding of the processes for reviewing district Plans and reimbursing claims. Additionally, we obtained and analyzed relevant data used to track Plans submitted by the districts to determine how long Plan approvals take. To assess district purchases made with Act funds, we selected a judgmental sample of ten school districts (Buffalo City School District, Elmont Union Free School District, Liverpool Central School District, Middletown Central School District, Niagara Falls City School District, North Syracuse Central School District, Oxford Academy and Central School District, Port Jervis Central School District, Rochester City School District, and South Lewis Central School District). The factors for selection included geographic location and size, type of projects proposed, and whether the district had been reimbursed for expenditures. The districts in our sample had approved Plans totaling \$93 million and had been reimbursed \$60.0 million as of June 2019. Further, we excluded New York City. In addition, we excluded capital projects related to construction, enhancement, and modernization of educational facilities to accommodate pre-kindergarten programs and provide instructional space to replace classroom trailers allowed under the Act. These types of projects undergo additional approval through the Department's Facilities Planning Bureau. We previously completed an audit of the Facilities Planning Bureau (Report [2018-S-2](#)) and consequently did not include projects that would cause us to revisit their processes. We met with officials from the sampled districts and reviewed documentation for all purchases and capital projects made with Act funds to confirm they were supported and in line with the approved Plans. We also confirmed a judgmental sample of purchases had actually been made and projects completed at the districts in our sample. The factors for sampled purchases included whether the item was physically observable (e.g., computer, switch), the geographic location of the items according to district inventories, and the number of items at a particular location in relation to the overall district inventory. Our testing results only apply to the ten districts sampled and cannot be projected.

Statutory Requirements

Authority

The audit was performed pursuant 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 conducted our 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 objective. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions we made based on our audit objective.

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

We provided a draft copy of this report to SED officials for their review and formal comment. We considered their comments in preparing this report and have included them in their entirety at the end of it. SED officials generally agreed with the audit recommendations and indicated the actions they will take to address them.

Within 180 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of Education 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 if the recommendations were not implemented, the reasons why.

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
O: 518.473-4706
F: 518.474-5392

March 6, 2020

Brian Krawiecki
Audit Supervisor
Office of the State Comptroller
110 State Street, 11th Floor
Albany, NY 12236

Dear Mr. Krawiecki:

SED Responses

The New York State Education Department (NYSED) is appreciative of the opportunity to provide these comments to the Office of the State Comptroller (OSC) for its audit of NYSED's portion of the Smart Schools Bond Act program. Throughout the audit process, we have been grateful for the thoughtful questions asked by the OSC who worked on the review, and we are pleased to be able to provide additional clarification here.

Recommendations

1) Re-evaluate the risk of not obtaining documentation to support district expenditures prior to reimbursement.

The provision of staffing resources to implement, not one, but three separate programs, (the \$2 billion core program, a \$5 million technology appropriation provided for special education schools and a supplemental \$25 million enhancement to the amounts available for loans of classroom devices to nonpublic schoolchildren) would certainly have made each stage of the implementation proceed more smoothly. This work was all performed with no authorization for additional permanent full-time equivalent staff, so as good managers of public resources, we have, from the beginning, been very mindful to design a process that maximized our ability to work efficiently.

In order to maximize the effectiveness of the small team, we have relied upon school district superintendent certifications that the purchases for which reimbursement requests were submitted were made as reported. As NYSED staff informed your team at the opening conference for this audit, this practice is consistent with NYSED's practice of accepting superintendent certifications for numerous key state reporting functions. It is not feasible for NYSED to change this practice, since it would require a significant, and unlikely to occur, increase in our net staffing allocations. However, we would welcome the provision of the substantial additional staff resources necessary to collect and review documentation to support district expenditures.

School district superintendents are responsible professionals entrusted with the nurturing and care of the children of the state and the operations of large and complex public organizations. Their employment is also conditioned upon the NYSED certification which they are required to hold. As your review of Smart Schools expenditures discovered, the trust has not been misplaced. Our school districts and their leaders demonstrated to you that they had made the expenditures for which they claimed reimbursement.

2) Evaluate opportunities to streamline the application review process for both applicants and reviewers to shorten time to approval.

NYSED conducts a careful and detailed review to ensure that items proposed in districts' Smart Schools Investment Plans (SSIPs) are consistent with the requirements of state and federal law, regulation and guidance. The nature of the work makes this time-intensive, and that is unlikely to change. However, throughout the implementation of the Smart Schools Bond Act, we have attempted to design a review process that ensures that state resources are well-managed, and which makes optimal use of our limited staffing. This desire for continuous improvement reflects our approach to the project from the beginning.

Throughout the course of the program, we have either improved our process gradually, as we identified the 'sticking points' or taken the opportunity provided by changes in the Smart Schools statute to make a major overhaul to our Business Portal software. In addition to implementing the revisions to the law, the overhaul directly addressed some of the points that had been challenges for districts as they developed their plans. We strongly agree that the review process should be quick, but we must also fulfill our responsibility to the state's taxpayers to ensure that the reimbursement costs are bondable under the legislation. We commit to continuing our efforts to improve our processes, while still fulfilling our obligations to the state's taxpayers to ensure that purchases made with Smart Schools funds are eligible for the (lower cost) tax-exempt bonding that was the intent of the Governor, legislature and those voters who approved the statewide bond referendum.

Your truly,



Sharon Cates-Williams
Deputy Commissioner

c: Christina Coughlin
James Kampf
Jeanne Day
Heidi Nark

Contributors to Report

Executive Team

Tina Kim - *Deputy Comptroller*

Ken Shulman - *Assistant Comptroller*

Audit Team

Stephen Goss, CIA, CGFM - *Audit Director*

Mark Ren, CISA - *Audit Director*

Ed Durocher, CIA - *Audit Manager*

Brian Krawiecki, CIA - *Audit Supervisor*

Jonathan Julca - *Examiner-in-Charge*

Molly Kramm - *Senior Examiner*

Rupert Wilmot-Dunbar - *Senior Examiner*

Andrea Majot - *Senior Editor*

Contact Information

(518) 474-3271

StateGovernmentAccountability@osc.ny.gov

Office of the New York State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236



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