Audit Report

Migrant Education Program – Diversity Project

For the Period

September 1, 2004 through August 31, 2006

FW-1007-3

December 3, 2008

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

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

James A. Conway
Director
Office of Audit Services
Tel. (518) 473-4516
Fax (518) 473-0259
E-mail: jconway@mail.nysed.gov

December 3, 2008

Dr. Leif S. Hartmark, Operations Manager
The Research Foundation of the State University of New York at Oneonta
108 Ravine Parkway
Oneonta, NY 13820

Dear Dr. Hartmark:

The following is our final report (FW-1007-3) on the Research Foundation's Migrant Education Program - Diversity Project for the period September 1, 2004 through August 30, 2006. The audit was conducted pursuant to Section 305 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

Ninety days from the issuance of this report, Research Foundation officials will be asked to submit a report on actions taken as a result of this review. I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

James A. Conway

Enclosure
c: T. Savo, J. Duncan-Poitier, R. Reyes, T. Foreman, R. Mason, D. Miller, B. G. Mathewson, A. Timoney (DOB), B. Mason (OSC)

Executive Summary

Background and Scope of the Audit

The Migrant Education Program (MEP) is a federal Title I program that supports education for migratory children. In the 2004-05 and 2005-06 program years, Title I provided $366,724 in grant funding to the Research Foundation of the State University of New York (Foundation) to operate a program called the Diversity Project (Project).The Project provided support services to numerous migrant education outreach programs around the State. During the same period, the Project received income from registration fees charged to participants at several retreats in New York, as well as additional revenues from a contract with North Carolina State University (NCSU) that required Project personnel to provide training to NCSU employees in North Carolina.

In light of these facts, the U.S. Department of Education's Office of Migrant Education (OME) became concerned about how Project staff, who are paid with Title I funding, were allocating their time. As a result, OME requested that the New York State Education Department (Department) conduct a review to determine if the Foundation appropriately expended federal MEP funds.

The Department's Office of Audit Services conducted an audit of the Foundation's MEP expenditures. The focus of the audit was to review documentation to substantiate the $366,724 in Title I salary and non-salary expenditures for the period September 1, 2004 through August 31, 2006.

Audit Results

We found that the Foundation could not adequately substantiate $17,432 in salary and salary related expenditures and $1,622 in non-salary related expenditures that were charged to Title I for the 2004-05 and 2005-06 program years. As a result, the Foundation should refund the amount to the Department. The disallowance resulted from:

- Inadequate documentation to support $16,141 in salary and fringe benefit expenditures for three Project staff.
- Ineligible non-salary expenditures in the amount of $1,502.
- Indirect costs associated with the above disallowances, amounting to $1,291 for salary expenditures and $120 for non-salary expenditures.

Comments of Research Foundation Officials

Research Foundation officials' comments about the findings were considered in preparing this report. Their formal response is included as Appendix B. In response to the audit, Research Foundation officials agreed with the recommendations.

Table of Contents

Introduction

Background

The Federal Title I Part C (Title I) of the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001, provides grant funding to support educational programs for migratory children. The United States Department of Education (ED) awards Migrant Education Program (MEP) grants to State Educational Agencies (SEA) for the provision of educational programs and support services for migrant children so they can meet state academic achievement standards. ED administers these grants through its Office of Migrant Education (OME). The SEA can then make sub-grants to Local Educational Agencies, public agencies, or nonprofit organizations that provide MEP services to eligible individuals.

In the 2004-05 and 2005-06 program years, the New York State Education Department (Department) awarded MEP grants to the Research Foundation of the State University of New York (Foundation) in the amount of $881,135. A portion of this grant, $366,724, was used to conduct the work and services of the Diversity Project (Project). The purpose of the Project was to provide support for agencies and schools serving migrant farmworkers. Support services included the provision of diversity education, establishing diversity councils and workgroups, training and professional development, strategic planning, meeting facilitation, and technical assistance.

A component of the Project was a program called Opening Doors, which consisted of three-day retreats that focused on increasing diversity awareness. Opening Doors generated revenue from registration fees charged to attendees of the retreat. Moreover, the Project also contracted with North Carolina State University to provide an Opening Doors retreat and training.

Concerns regarding the Opening Doors program receiving grant monies, generating revenue, and its personnel providing out-of-state services, resulted in OME requesting the Department to conduct a review of the Project to determine if the Foundation appropriately expended federal MEP funds.

Objectives, Scope, and Methodology

The Department's Office of Audit Services (OAS) undertook this audit to comply with OME's request to conduct a review of the Project expenditures. The objectives of our audit were to determine if:

- income generated from Opening Doors was accounted for appropriately; and
- support existed for the $366,724 in salary and non-salary related charges during the 2004-05 and 2005-06 program years.

To accomplish our objectives, we reviewed applicable regulations and grant agreements; and examined employee certifications, time and effort reports, and expenditure documentation.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Our audit included examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records, and applying other procedures considered necessary. We believe that our audit provides a reasonable basis for our findings and recommendations.

Audit Results

We found that income generated from Opening Doors sessions was accounted for properly; however, Project personnel could not adequately substantiate $17,432 in salary and salary-related expenditures, and $1,622 in non-salary expenditures that were charged to Title I project funding in the 2004-05 and 2005-06 program years. The disallowance resulted from the following:

- inadequate documentation to support $16,141 in salary and fringe benefit expenditures for three Project employees;
- ineligible non-salary expenditures in the amount of $1,502; and

- indirect costs associated with the salary and non-salary expenditures amounting to $1,291 and $120, respectively.

As a result, the Foundation should refund a total amount of $19,054 to the Department.

In addition, we found that Project personnel did not consistently prepare expenditure justifications and/or purchase requisitions prior to making purchases or when requesting reimbursement for services.

The findings and improvement opportunities are addressed in more detail in the following sections of the report.

Comments of Research Foundation Officials

Research Foundation officials' comments about the findings were considered in preparing this report. Their formal response is included as Appendix B. In response to the audit, Research Foundation officials agreed with the recommendations.

Accounting for Opening Doors Program Income

The Department's *Guide to Grants Administration and Implementation Resources* (Guide) states that if a grantee earns program income, it must be used to reduce the amount of the grant award and help to pay for current grant expenditures. The Guide further states that if a grantee wishes to earn program income and use it toward the grant without decreasing the amount of grant funds received, the grantee must seek approval from the Department. If approved, the grantee may add the earned income to their program budget without decreasing their grant award. The Project generated income during the 2004-05 and 2005-06 program years and did not decrease their program budget in the amount of income; however, Project personnel received Department approval prior to doing so.

One of the Project's grant funded programs, Opening Doors, is a three-day retreat that is held two to four times a year throughout the State. Opening Doors aims to increase diversity awareness, encourage dialogue related to cultural and other differences, develop ways to facilitate change, and build alliances and networks. In the 2004-05 and 2005-06 program years, Project personnel charged for attendance at Opening Doors, which resulted in $33,492 in revenue that was deposited into an income account. Project personnel did not decrease the grant award in the amount of the program income.

In October 2004, the Project's Diversity Coordinator received permission from a Department official to provide fee for service programming and reinvest the money back into programming. We examined Opening Doors income account activity for program years 2004-05 and 2005-06 and found that the account was initiated shortly after Department permission was obtained. Our review of account activity showed that income and expenditures were associated with Opening Doors program activities and we did not identify any irregular transactions.

Salary and Salary-Related Expenditures

Salary and salary-related expenditures typically account for the majority of expenditures funded through federal grants. The Office of Management and Budget Circular A-21 (Circular A-21) defines allowable costs for federally funded grants for educational institutions. It also establishes criteria for charging salary and salary-related costs to a federal grant program. Further, it discusses the apportionment of employees' salaries and wages chargeable to more than one cost objective. The Guide reinforces the requirements of Circular A-21 and states that grantees must maintain records that describe the duties and pay of each grant-funded position.

Project personnel did not comply with the requirement for pro-rating their salaries and fringe benefits between Title I and non-Title I programs. As a result, Project personnel inappropriately charged $16,141 in salary and fringe benefit costs and $1,291 in indirect costs to Title I.

Unsupported Salaries

Circular A-21 states that the compensation of employees for time devoted and identified specifically for performing grant related program activities is a direct cost. Compensation for personal services covers salaries, wages, and fringe benefits paid by the institution for services of employees rendered during the period of performance under sponsored agreements. These costs are allowable to the extent work performed directly on sponsored agreements is supported. In addition, the apportionment of employees salaries and wages, which are chargeable to more than one sponsored agreement or other cost objective, must be accomplished by methods which produce an equitable distribution of charges for their activities. If a cost benefits two or more projects, the cost should be allocated to the projects based on the proportional benefit, or any other reasonable basis.

The Guide states that approved grant funding may be used to pay for all or part of salaries and fringe benefits of personnel working on a grant project and that records must be maintained to describe the duties and pay of each grant-funded position. Employees spending 100 percent of their time conducting grant program activities may be paid 100 percent from grant funds. Other employees, who spend only part of their time conducting grant program activities, may be paid partially from grant funds, according to the time actually spent on grant activities. Grantees may charge the grant program only for the actual number of days worked and the actual percentage of time worked on the grant program based on time and effort documentation or a substitute system.

Project personnel charged 172 salary payments amounting to $196,202, and 49 fringe benefit payments amounting to $67,016 to Title I during program years 2004-05 and 2005-06. We sampled employee time reports to determine if support existed for Project employees' salary charges.

We found that Project employees charged 100 percent of their time to the MEP grant even though they spent time providing services out of state as part of a contractual agreement (Contract) with North Carolina State University. As a result, Title I paid for services that were not included in the Project's grant agreement.

To determine the amount of salary and fringe benefit payments that the Project should not have charged to Title I, we identified instances when Project personnel worked on non-grant related services and calculated the associated salary and fringe benefit accruals. For each program year, we found the following:

- **Funding year 2004-05**
  Two Project employees performed non-grant related services for one week. Based on the employees' salaries for the year, and using the applicable fringe benefit rate, we calculated $2,095 of charges that should not have been charged to Title I.

- **Funding year 2005-06**
  Three Project employees performed non-grant related services for one to five weeks and provided an additional 78 hours of mentoring as a follow-up to the initial service provision. Based on the employees' salaries for the year, and using the applicable fringe benefit rate, we calculated $14,046 of charges that should not have been charged to Title I.

Unsupported Salary-Related Expenditures

Indirect costs represent the expenses of doing business that are not readily identified with a particular grant, contract, project function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs. The Foundation was reimbursed at an indirect cost rate of 8 percent by the Title I grant. Therefore, indirect cost charges related to the salary and fringe benefit payments that the Project charged to Title I for non-Title I services amounted to $1,291.

The lack of apportionment of Project employees' salaries and fringe benefits between Title I and the Contract resulted in $17,432 of Title I charges that should have been charged to the Contract. By requiring Project personnel to pro-rate their time between Title I and non-Title I service provision, the Foundation's charges to each program will be more appropriate and accurate.

Recommendations

1. Apportion Project personnel salary, fringe benefit, and indirect cost expenses to the appropriate program when performing Title I and non-Title I related services.

2. Return the $17,432 in unsupported Title I salaries, employee benefits, and indirect costs to the Department.

Non-Salary Expenditures

To be allowable under federal awards, costs must be reasonable and allocable to sponsored agreements under the principles and methods provided in Circular A-21; they must be given consistent treatment through application of generally accepted accounting principles and they must conform to limitations and/or exclusions set forth in the agreement. In addition, Circular A-21 establishes specific criteria for charging non-salary costs to a federal grant program.

The result of our voucher review of sampled non-salary expenditures indicated that the Project's expenditure documentation did not provide support for certain expenditures' Title I applicability and/or eligibility under the provisions of the grant. Furthermore, we also observed internal control weaknesses in the area of purchasing and payment.

Unsupported Expenditures

According to Circular A-21 costs should be necessary for the operation and/or performance of the agreement, chargeable or assignable in accordance with relative benefits received, incurred solely to advance the work under the agreement, and in proportions that can be approximated through use of reasonable methods. The recipient of the award is responsible for ensuring that costs charged are allowable, allocable, and reasonable under cost principles. In addition, the recipient of the award must ensure that adequate documentation exists to support charges to the grant, and to demonstrate adherence to the terms and conditions of the grant and performance of approved activities. Furthermore, Circular A-21 states that goods or services for personal use of the institution's employees are unallowable.

Finally, grantees must have a proper financial management system in place to receive and expend grant funding. One element of a sound financial management system is internal controls. The New York State Comptroller's *Standards for Internal Control in New York State Government* identifies policies and procedures as critical components to daily operations of an organization. It further states that management should clearly document its approval requirements and ensure that employees obtain approvals in all situations warranted. Management should ensure that the conditions and terms of authorizations are clearly documented and communicated, and that significant transactions are approved and executed only by those with appropriate authority to do so.

The Project charged 477 non-salary expenditures (excluding facilities and administration costs), amounting to $76,789, to Title I during program years 2004-05 and 2005-06. We sampled 108 of these charges amounting to $35,966; our sample included campus, general, building, and equipment services charges; a miscellaneous charge; and expenditures for postage, publishing, and supplies. To determine if adequate support existed to substantiate these charges, we reviewed voucher documentation for each sampled charge.

Our voucher review of the 108 sampled non-salary expenditures charged to Title I during the 2004-05 and 2005-06 program years showed that 7 expenditures, amounting to $1,502, were unsubstantiated because either documentation was insufficient to determine grant applicability, or they were not allowable under federal grant cost principles. Specifically:

- The Title I grant was used to reimburse a Project employee for home office internet and telephone service. Expenditure documentation for $718 of these expenditures did not include adequate justifications to substantiate the charges. Formal requests and approvals for reimbursement of these charges were not observed during our review of voucher documentation.

- Teleconference expenditures were charged to Title I; however, two of the teleconferences, costing $110, included participants from North Carolina associated with the Contract, but connection charges were not segregated and charged to the Contract. In addition, formal meeting agendas and/or minutes were not prepared to document the purpose of, and discussions that took place at, the meetings. The Project's Diversity Coordinator submitted after-the-fact explanations, in lieu of meeting minutes and formal agendas, of what took place during the teleconferences.

- A computer monitor, leather chair, and bookcase for a Project employee's home office were charged to Title I. Purchase requisitions supporting $674 of the expenditures did not include adequate justifications to support the Title I charges. Formal justifications and accompanying approvals for reimbursement of these charges were not observed during our review of voucher documentation.

In total, Project personnel charged $1,502 in unallowable expenditures to Title I. At an indirect cost rate of 8 percent, the indirect cost associated with the unallowable expenditures is $120, bringing the total to $1,622. By preparing and maintaining support for all Title I non-salary expenditures, Project personnel would provide assurance that they are utilizing Title I funds in accordance with their intended purpose.

Finally, we identified deficiencies in internal control during our audit. These included insufficient documentation concerning reimbursement policies and the inconsistent use of purchase requisitions. For instance, it is standard practice to reimburse Project personnel for 30 percent of their cell phone bills; however, policies and procedures regarding the provision of cell phone reimbursements to employees are informal. In addition, we did not observe expenditure justifications and/or approvals with voucher documentation for expenditures on goods and services used for both personal and Project related business, and some of the sampled expenditures were not initiated by a purchase requisition (e.g., no prior authorization).

Recommendations

3. Return the $1,622 in questionable Title I non-salary expenditures to the Department.

4. Develop policies and procedures pertaining to the allowability, review, and approval of expenditures for goods or services that can be used for both Project and personal use (e.g., cell phone reimbursements).

5. Prepare and maintain supporting documentation to substantiate Title I applicability for all non-salary grant expenditures.

Contributors to the Report
Migrant Education Program-Diversity Project

- Maria C. Guzman, CPA, Audit Manager
- Andrew B. Fischler, Associate Auditor
- Thomas P. Holland, Auditor

College Foundation Treasurer
200 Netzer Administration Building
SUNY College at Oneonta
Oneonta, New York 13820-4015
Treasurer: (607) 436-2081 Assistant Treasurer: (607) 436-2576
Fax: (607) 436-2597

November 19, 2008

James A. Conway
Director
Office of Audit Services
The State Education Department
Albany, New York 12234

Dear Mr. Conway:

I appreciate the opportunity for a campus response to the results and recommendations made in the October 6, 2008 Draft Report (FW-1007-3) for the audit of the Migrant Education Program's Diversity Project for the period September 1, 2004 through August 30, 2006. After a thorough review of the draft report and a re-examination of our records, we respectfully submit the following campus response.

Sincerely,

Leif S. Hartmark

Leif S. Hartmark, Ph.D.
Operations Manager

cc: Mr. Don Miller, Research Foundation of SUNY
Mr. Robert Mason, Research Foundation of SUNY
Mr. Andrew Fischler, NYS Education Department
Mr. Tom Holland, NYS Education Department
Dr. Steven Perry, VP for Student Development
Mr. Todd Foreman, SUNY College at Oneonta
Ms. Kim Muller, SUNY College at Oneonta
Ms. Betty Garcia Mathewson

Attachment

The SED Office of Audit Services Recommendations

1. Apportion Project personnel salary, fringe benefit, and indirect cost expenses to the appropriate cost objective when performing Title I and non-Title I related services.

Campus Response:
See campus response to recommendation 4 below.

2. Return the $17,432 in unsupported Title I salaries, employee benefits, and indirect costs to the Department.

Campus Response:
Agreed. We will be contacting the appropriate State Education department officials regarding the repayment of costs noted in the audit report.

3. Return the $1,622 in questionable Title I non-salary expenditures to the Department.

Campus Response:
Agreed. We will be contacting the appropriate State Education department officials regarding the repayment of costs noted in the audit report.

4. Develop policies and procedures pertaining to the allowability, review, and approval of expenditures for goods and services that can be used for both Project and personal use (e.g., cell phone reimbursements).

Campus Response:
We agree. The College at Oneonta is in the process of developing a policy regarding the review, allowability, and approval of expenditures for goods and services that can be used for both project and personal use.

5. Prepare and maintain supporting documentation to substantiate Title I applicability for all non-salary grant expenditures.

Campus Response:
We agree. The College at Oneonta has reviewed and revised procedures to assure that documentation substantiating Title I applicability for all non-salary grant expenditures will be maintained.