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December 31, 2010

Mr. Victor Correa
Board President
South Country Central School District
189 North Dunton Avenue
East Patchogue, NY 11772

Report: ARRA-0510-14

Dear Mr. Correa:

This letter is our final report of the South Country Central School District's (District) use of American Recovery and Reinvestment Act (ARRA) funds awarded for the July 1, 2009 – June 30, 2010 school year. The audit was conducted pursuant to the Commissioner of Education's authority under Section 305 of the Education Law. Our audit objectives were to: verify the allowability of amounts expended to-date and the appropriateness of any requests for additional funding; determine if the District has sufficient financial control systems in place to administer ARRA funds; and assess compliance with pertinent federal requirements for the use of federal funds.

Our audit scope was limited to ARRA funding provided through the Education Stabilization Funds (ESF) (also referred to as State Fiscal Stabilization Funds, SFSF), Individual Disabilities Education Act (IDEA 611/619), and Title I of the Elementary and Secondary Education Act. At the time of fieldwork, the District had submitted one claim for ARRA-ESF and none for ARRA-IDEA 611 (school age), ARRA-IDEA 619 (pre-school), or ARRA-Title I.

To accomplish our objectives, we interviewed District officials; tested transactions; and reviewed District policies/procedures and financial records, which included reports generated by the District's computerized financial database.

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.

The results of this audit have been discussed with District officials and their comments have been considered in preparing this report. The District's corrective action plan to the draft report is included as Appendix A. Our comments on the District's corrective action plan are included as **Auditor's Notes** in Appendix B.

Audit Results

Allowability and Accuracy of Reported Expenditures

Expenditure Allowability

Districts must submit a budget (FS-10) detailing proposed expenditures for each grant for approval by the Department. In our audit of other than personal service costs, we found that the District charged ARRA-IDEA 611 \$4,771 for an elliptical machine and a recumbent bike. These costs were not included in the budget (FS-10) or any amendments approved by the Department. We also found that the District reimbursed an employee for travel costs that included county occupancy tax for a hotel room in New York State. Districts are tax exempt and should not pay or reimburse employees for sales tax in New York State.

Documentation of Expenditures

OMB Circular A-87 requires that school districts maintain adequate documentation to support charges to federal grants. At the time of field work, the District had only submitted one claim for reimbursement of ARRA-ESF. The claim was for \$2,354,171; however the District's accounting records at that time only supported \$1,779,594 of that amount. Employee fringe benefit costs of \$574,577 had yet to be entered in the accounting system

Unsubmitted Claims

At the time of field work, the week of July 12, 2010, the District had not submitted claims (FS-25s) for ARRA-IDEA or for ARRA-Title I, and only one claim for ARRA-ESF. The result is that the District has not received reimbursement of \$596,829 for expenditures for ARRA-IDEA and ARRA-Title I, and \$2,253,089 for ARRA-ESF.

Financial Control System

Tracking and Recording Expenditures

According to a field memorandum to all Superintendents of Schools issued by Johanna Duncan-Poitier, Senior Deputy Commissioner, State Education Department, on April 10, 2009, "It is important to note that (State Fiscal Stabilization Funds) SFSF expenditures must be accounted for in the General Fund, but identified and tracked separately." Further, on December 24, 2009, the Federal Department of Education issued Guidance for Grantees and Auditors on the State Fiscal Stabilization Fund Program which states that an entity that receives SFSF funds must maintain records that separately track and account for those funds. The various costs that make up the ARRA-ESF claim (form FS-25) submitted by the District were accounted for in the General Fund, but were not all posted or directly charged to the ESF expenditure codes.

Compliance with Federal Grant Requirements

Time and Effort Requirements

OMB Circular A-87 requires salaries of employees who are charged to federal grants be supported by periodic certifications or personnel activity reports. This requirement applies to all federal grants including ARRA, but does not apply to ARRA-ESF. The District had a process in place to certify time and efforts for employees. However, the personnel activity reports for employees who work on multiple cost objectives did not account for the total activity for which each employee was compensated by specifically listing each funding source and the percentage amount of efforts as required by A-87.

Section 1512 Reporting

Under Section 1512 of ARRA, recipients of ARRA funds must submit a quarterly report that describes, among other things, how the entity used those funds, including the estimate of the number of jobs created and saved. The quarterly report has two parts, the program narrative, which describes in some detail the use of funds and the reporting summary which indicates the number of jobs created and saved. For ARRA-ESF, the District reported that 78 jobs were saved for the period ending June 30, 2010; however, supporting documentation indicates that 62¹ positions were saved.

For the ARRA-IDEA 611 quarterly report ending June 30, 2010, the District reported three positions created both in the program narrative and in the reporting summary, but the District actually funded .3 according to supporting documentation.

Cash Management

According to Title 34 of the Code of Federal Regulations Part 80.20(b)(7), procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Further, Part 80.21 paragraph (i) states that grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the federal agency. We found the District did not have a process for ensuring compliance with federal requirements which includes:

- Minimizing time elapsing between receipt and disbursement of funds; and,
- Remitting interest earned on federal funds in excess of \$100 annually.

However, our analysis of revenue received and expenditures incurred for all federal funds during the 2009-10 school year showed that the District did not earn interest exceeding \$100 for that period.

Recommendations

1. Charge grants for costs that are approved and allowable.
2. Ensure that claims are supported by accounting records and that the records are up-to-date.

¹ We determined that 54 jobs were saved upon further review of supporting documentation provided by the District instead of the 62 originally stated in our report.

3. Submit claims timely throughout the fiscal year to reimburse the general fund for expenditures incurred.
4. For ARRA-ESF, ensure that the costs claimed are posted to the ESF cost codes.
5. Ensure that the personnel activity reports for employees who work on multiple cost objectives other than ARRA-ESF, account for the entire activities for which employees are compensated by listing each funding source and percentage amount of efforts.
6. Report the number of jobs created/saved in the 1512 quarterly report as reflected by the supporting documentation of the actual number of jobs funded.
7. Address federal requirements for minimizing time elapsing between receipt and disbursement of funds and remitting interest earned on federal funds in excess of \$100 annually.

Section 170.12 of the Regulations of the Commissioner of Education requires the submission of a corrective action plan, approved by the Board, with response to any finding. We have received and accepted your Board approved corrective action plan to the draft report for the findings and recommendations of this audit.

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

Sincerely,

James A. Conway

Enclosure

c: V. Grey, J. King, J. Delaney, B. Porter, C. Szuberla, K. Slentz, M. Lavare, M. Zollo, M. Plotzker, R. Reyes, A. Timoney, J. Dougherty, J. Cipp, G. Bixhorn (DS E. Suffolk BOCES)

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South Country Central School District

Town of Brookhaven – County of Suffolk

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CORRECTIVE ACTION PLAN **REPORT: ARRA-0510-14**

Allowability and Accuracy of Reported Expenditures

Expenditure Allowability

Districts must submit a budget (FS-10) detailing proposed expenditures for each grant for approval by the Department. In our audit of other than personal service costs, we found that the District charged ARRA-IDEA 611 \$4,771 for an elliptical machine and a recumbent bike. These costs were not included in the budget (FS-10) or any amendments approved by the Department. We also found that the District reimbursed an employee for travel costs that included county occupancy tax for a hotel room in New York State. Districts are tax exempt and should not pay or reimburse employees for sales tax in New York State.

Management's Response

Both the Director and the Assistant Director of Student Support Services met with representatives of the Office of Audit Services to discuss an expenditure that had been made for a recumbent bike and an elliptical machine. The District employees explained the importance of having these pieces of equipment in place to meet the Individual Education Plan for students assigned to adaptive physical education classes. The leader of the audit team recommended that the Director submit an amendment to the State Education Department for the equipment. The amendment was submitted on July 19, 2010, which reduced the original funding allocations that were set aside for travel expenses and BOCES services as expenditures did not meet anticipated funds (see attached). During the current school year, all grants are being reviewed by both the Director of Student Support Services and the Business Office to ensure that the grants are accurate.

The Director of Student Support Services attended a special education conference in Albany, New York. While attending the conference he stayed at the Desmond Hotel. The Director informed the hotel that he was a school district employee that is a governmental sub-division and is tax exempt. As a result, the employee was not charged sales tax. However, a county fee totaling \$18.00 was added to the bill by the hotel. The Director submitted the hotel invoice for reimbursement and was paid after the claim was reviewed by the District's Claims Auditors.

Documentation of Expenditures

OMB Circular A-87 requires that school districts maintain adequate documentation to support charges to federal grants. At the time of field work, the District had only submitted one claim for reimbursement of ARRA-ESF. The claim was for \$2,354,171; however the District's accounting records at that time only supported \$1,779,594 of that amount. Employee fringe benefit costs of \$574,577 had yet to be entered in the accounting system.

Management's Response

The District had submitted one claim during the fiscal year to reimburse the general fund for expenditures incurred. There were key personnel changes at the Central Administrative level during the second half of the fiscal year that led to no other claims being filed. In the current year, the Business Office will be submitting claims to reimburse the general fund on a quarterly basis.

The Business Office worked with the District's Treasurer and its accountant in the preparation of financial statements for the closing of the fiscal year 2009-2010. During this process adjusting journal entries were made in the financial management system which included the expenditures for fringe benefits for those employees whose positions were being supported by the ARRA Education Stabilization Funds. As a result, the year-end financial management system's records were corrected. In the current year, the ARRA Education Stabilization Funds are being used solely for personal services costs.

Unsubmitted Claims

At the time of field work, the week of July 12th, the District had not submitted claims (FS-25s) for ARRA IDEA or for ARRA Title I, and only one claim for ESF. The result is that the District has not received reimbursement of \$596,829 for expenditures for ARRA IDEA and ARRA Title I, and \$2,253,089 for ESF.

Management's Response

As was previously mentioned, the District had submitted one claim during the fiscal year to reimburse the general fund for expenditures incurred. There were key personnel changes at the Central Administrative level during the second half of the fiscal year that led to no other claims being filed. In the current year the Business Office will be submitting claims to reimburse the general fund on a quarterly basis.

Financial Control System

Tracking and Recording Expenditures

According to a field memorandum to all Superintendents of Schools issued by Johanna Duncan-Poitier, Senior Deputy Commissioner, State Education Department, on April 10, 2009, "It is important to note that (State Fiscal Stabilization Funds) SFSF expenditures must be accounted for in the General Fund, but identified and tracked separately." Further, in December 24, 2009, the Federal Department of Education issued Guidance for Grantees and Auditors on the State Fiscal Stabilization Fund Program which states that an entity that receives SFSF funds must maintain records that separately track and account for those funds. The various costs that make up the ARRA-ESF claim (form FS-25) submitted by the District were accounted for in the General Fund, but were not all posted or directly charged to the ESF expenditure codes.

Management's Response

The Business Office worked with the Treasurer and accountant in the preparation of financial statements for the closing of the fiscal year 2009-2010. During this process adjusting journal entries were made in the financial management system which maintains records that separately track and account for those funds. The various costs were directly charged to the appropriate Education Stabilization Fund expenditure codes. These actions ensure that the District's financial management system is in compliance with the Federal Grant requirements.

See Auditor's Note 1

Compliance with Federal Grant Requirements

Time and Effort Requirements

OMB Circular A-87 requires salaries of employees who are charged to federal grants be supported by periodic certifications or personnel activity reports. This requirement applies to all federal grants including ARRA, but does not apply to ARRA-ESF. The District had a process in place to certify time and efforts for employees. However, the personnel activity reports for employees who work on multiple cost objectives did not account for the total activity for which each employee was compensated by specifically listing each funding source and the percentage amount of efforts as required by A-87.

Management's Response

The Business Office has implemented a process to certify the time and efforts for employees whose positions are supported by the ARRA Education Stabilization Funds. Each employee who is supported by ARRA Education Stabilization Fund has completed a source document that identifies their compensation as being either fully funded by the grant or a combination of the grant and the balance being paid from the General Fund. The document includes a percentage amount for each of the funding sources. These actions will ensure that the District is in compliance with the federal grant requirements.

Section 1512 Reporting

Under Section 1512 of ARRA, recipients of ARRA funds must submit a quarterly report that describes, among other things, how the entity used those funds, including the estimate of the number of jobs created and saved. The quarterly report has two parts, the program narrative, which describes in some detail the use of funds and the reporting summary which indicates the number of jobs created and saved. For ARRA-ESF, the District reported 78 jobs saved for the period ending June 30, 2010; however, supporting documentation indicates that 62 positions were saved.

For the ARRA-IDEA 611 quarterly report ending June 30, 2010, the District reported three positions created both in the program narrative and in the reporting summary, but the District actually funded .3 according to supporting documentation.

Management's Response

The Business Office met with representatives of the Office of Audit Services and provided documentation that substantiated that 62 positions were saved by the ARRA Education Stabilization Funds. In the initial quarterly report of the current fiscal year, the Business Office provided an updated program narrative stating the ARRA Education Stabilization Funds in the amount of \$1,828,860 will serve of afford the District the ability to preserve approximately 31.5 instructional positions and support staff. Without this money, the District would have had no option except to implement a draconian reduction of staff.

The Business Office met with the Director of Student Support Services and substantiated that in the initial quarterly report of the current fiscal year, 5.0 positions were able to be created by the ARRA-IDEA 611 funds. The positions will be: speech therapist, bilingual teacher, special education teacher and two teaching assistants.

See Auditor's Note 2

Cash Management

According to Title 34 of the Code of Federal Regulations Part 80.20(b)(7), procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Further, Part 80.21 paragraph (i) states that grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the federal agency. We found the District did not have a process for ensuring compliance with federal requirements which includes:

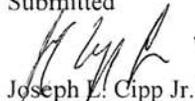
- *Minimizing time elapsing between receipt and disbursement of funds; and,*
- *Remitting interest earned on federal funds in excess of \$100 annually.*

However, our analysis of revenue received and expenditures incurred for all federal funds during the 2009-10 school year showed that the District did not earn interest exceeding \$100 for that period.

Management's Response

The Business Office will be submitting claims to reimburse the general fund on a quarterly basis, which will minimize the time elapsing between receipt and disbursement of federal funds. Additionally, the Business Office and the District Treasurer have established procedures that calculate the interest earned on Federal Funds to ensure that any interest earned in excess of \$100 annually will be remitted to the Federal Government. Both of the abovementioned steps will ensure that the District is in compliance with federal grant requirements.

Submitted


Joseph L. Cipp Jr. Superintendent of Schools

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South Country Central School District

TOWN OF BROOKHAVEN - COUNTY OF SUFFOLK

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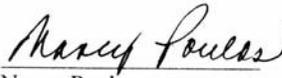
SUPERINTENDENT OF SCHOOLS
Joseph L. Cipp, Jr.

December 13, 2010

Re: *Corrective Action Plan ARRA Education Stabilization Funds*

At a Workshop Meeting of the Board of Education of the South Country Central School District, Town of Brookhaven, County of Suffolk, on the 8th day of December, 2010, a motion was made by Marian McKenna, seconded by Michelle Cavaleri, with Julio Morales *absent for vote*, and carried unanimously to approve the following resolution:

RESOLVED, that upon the recommendation of the Superintendent of Schools, the Board of Education accepts the Corrective Action Plan for the ARRA Education Stabilization Funds audit for the fiscal year ending June 30, 2010 and directs its filing with the Commissioner of Education pursuant to Section 170.2R of the Commissioner's Regulations.


Nancy Poulos
District Clerk

Auditor's Notes

1. It must be remembered that SFSP are to be tracked separately throughout the year and that journal entries at the end of the year to separately track these funds are not sufficient.
2. It should be noted that the District must report the best estimate possible of jobs funded.