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November 24, 2010

Ms. Kim Hentnik  
Board President  
Broadalbin-Perth Central School District  
20 Pine Street  
Broadalbin, NY 12025

Report: ARRA-0710-17

Dear Ms. Hentnik:

This letter is our final audit report of the Broadalbin-Perth 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 two claims for ARRA-ESF, three claims for ARRA-IDEA (school age), two claims for ARRA-IDEA (pre-school), and three claims for 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 response to the draft report is included as Appendix A. See **Auditor's Notes** to clarify the issues raised in the District's response.

## **Audit Results**

### Allowability and Accuracy of Reported Expenditures

After a grant application is approved by the Department, school districts request funds from a particular grant by submitting a claim (form FS-25, Request for Funds). The amount of funds requested at any one time may only include actual expenditures to-date plus, in some cases, anticipated expenditures for the next month. For ARRA-ESF, the request is limited to actual expenditures to-date only. We found that the amount the District claimed for ARRA-ESF was the actual project cash expenditures to date for its salaries. However, the fringe benefits portion of the claims was based on an estimate. Also, the District submitted claims for ARRA-ESF that included cash expenditures anticipated for the next month.

### Financial Control System

Commissioner's Regulations, Section 170.1(f), states that obligations of the district are kept within available appropriations. The District did not establish appropriations for the ARRA-ESF accounts. Since no appropriations were made, budgets for the ARRA-ESF accounts were not tracked and available balances of the fund in the accounting system inaccurately appeared as negatives and went further negative as expenses are incurred and recorded.

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 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 District did not identify, track, and record the employee fringe benefits separately in the ESF cost 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, of which one part is funded by the General Fund, did not account for the total activity for which each employee was compensated 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's original amended budget application indicated that it will save 19.85 positions while the supplemental application indicated an additional 5 positions will be saved. However, in the quarterly reporting period ending June 30, 2010, the District reported 19.85 positions saved instead of 24.85. Documentation at the District also supports 24.85 jobs saved.

For the ARRA-IDEA 611 quarterly report ending June 30, 2010, the District reported two positions saved both in the program narrative and in the reporting summary when the District actually funded 2.715.

We also noted that the District reported zero jobs funded for ARRA-IDEA 611 in the March 31, 2010 quarterly report despite reporting one job saved in the prior quarter and two in the subsequent quarter.

### *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. For ARRA-ESF, only claim costs that were actually incurred. Do not include estimates or amounts anticipated for the next month.
2. Ensure that all ARRA-ESF costs are posted to the appropriate codes.
3. Ensure that the personnel activity reports for employees who work on multiple cost objectives, one of which is a federal grant, other than ARRA-ESF, account for the entire activities for which employees are compensated.
4. Verify that the number of jobs created/saved in the 1512 quarterly report is supported by documentation and reflects the actual number of jobs funded.
5. 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 audit finding.

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

Sincerely,

James A. Conway

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, S. Tomlinson, M. Vivacqua (Interim District Superintendent Hamilton-Fulton-Montgomery BOCES)



**Broadalbin-Perth Central School District**

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

October 15, 2010

Mr. Conway –

Please accept the comments below as the official response of the Broadalbin-Perth Central School District as it relates to the recent audit of the District's use of American Recovery and Reinvestment Act (ARRA) funds awarded for the July 1, 2009 – June 30, 2010 school year. The Broadalbin-Perth Board of Education and District leadership are appreciative of the time and effort afforded us by the New York State Education Department in this matter. The District has chosen to respond to each recommendation as stated in the audit report, as we believe there are varying degrees of validity to each. It is also the District's belief that the sometimes-irrelevant minutiae detailed in these recommendations provides significant justification that Broadalbin-Perth Central School District has generally done an exemplary job in handling the recording and reporting of all expenditures and funding requests covered by ARRA programs. In additional support of that claim, when the District completed its ARRA-ESF monitoring visitation prior to this audit, the SED representative who visited asked for the District's ARRA jobs saved worksheet to use as an example of commendable work in this area. A copy of that worksheet is attached. With that, we ask that you consider the responses that follow:

See  
Auditor's  
Note 1

**Recommendation #1:** For ARRA-ESF, only claim costs that were actually incurred. Do not include estimates or amounts anticipated for the next month.

- **District Response:** The auditors specifically mention a line item on the FS-25 that the District consistently filled out regarding anticipated expenditures (line 4). I have attached the District's March 2010 submission of this document for your review. You will notice that there is a key on this FS-25 worksheet stating that all fields highlighted in green are required fields. So let it be understood that the District has been cited for following the specific directions on the FS-25 itself. The District was obviously fully aware that ARRA-ESF is a reimbursement based funding stream, but felt that if a field was required, that it should be properly filled out for submission. It is also important to note here that the auditor claimed that the District's entries into this field was a citable problem because the SED employee that reviewed the FS-25's had to "cross the

See  
Auditor's  
Note 2

*"Together we make a difference."*

number out and write a zero," which caused them undue labor. In regard to the inclusion of estimates in the claim for funding reimbursement, the District believes the auditor's citation here is equally illogical. The auditor claims that ERS and TRS costs should not be estimated and that actual figures should have been submitted. It is important to understand that for ERS and TRS benefits, a school district pays their ERS and TRS responsibilities based on prior year salaries. Therefore, in order to most accurately portray proper retirement cost expenditure for any "saved job", a best estimate of that year's actual incurred cost for ERS and TRS payments must be used, otherwise the District is incorrectly relating prior year salary for benefits and current year salary for all other compensation. The District again refers SED to the "jobs saved" worksheet attached.

**Recommendation #2:** Ensure that all ARRA-ESF costs are posted to the appropriate codes.

- **District Response:** This recommendation is in regard to the District delaying the transfer of line item appropriations from regular salary object codes to ARRA salary object codes. The District purposefully delayed the appropriation transfers to the end of the fiscal year so that the transfers would be wholly accurate, and not estimated. However, the District, has agreed to make an initial appropriation into the ARRA-specific object codes for the 2010-2011 school year. There is one significant objection that the District must make in this area however. Under the paragraph entitled "Financial Control System" on the report, the audit report states, "The District did not identify, track, and record the employee fringe benefits separately in ESF codes." While again, it is a valid statement to say that the District delayed appropriations transfers necessarily accounted for through journal entries, to say that the District failed to track these separately is a blatant untruth.

See  
Auditor's  
Note 3

**Recommendation #3:** Ensure that the personnel activity reports for employees who work on multiple cost objectives, one of which is a Federal grant, other than ARRA-ESF, account for the entire activities for which employees are compensated.

- **District Response:** In meeting with the auditors and the District's Title I coordinator, this recommendation, in actuality, was that a column on the personnel activity report be created which simply denotes the funding stream for the remainder of that employees FTE status, although this information has no bearing whatsoever on the adequacy of required reporting and/or documentation mandatory for receipt of Federal or State funding. The existing personnel activity reports for both Title I and IDEA programs otherwise provide information in excess of all State and Federal requirements. Regardless of its lack of a direct relationship to grant-funded activity, the District has agreed to make this small addition to its personnel activity reports.

See  
Auditor's  
Note 4

**Recommendation #4:** Verify that the number of jobs created/saved in the 1512 quarterly report is supported by documentation and reflects the actual number of jobs funded.

- **District Response:** The District made a typographical error when adjusting from regular ESF reporting to reporting for both regular ESF and ARRA spin-up. The District recognized and acknowledged this error, although there was no manner in which to correct it through the SED business portal. The recommendation claims that the report must be supported by documentation. The District's "jobs saved" worksheet has been lauded by representatives of the New York State Education Department as an excellent example of proper documentation.

See  
Auditor's  
Note 5

**Recommendation #5:** 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.

- **District Response:** According to an interest computation report run out of the Finance Manager software, which is also included with this response, the District showed significant evidence that there was to be no interest remitted to any Federal agency, especially as ARRA-ESF is reimbursement only and all cost were born prior to receiving any Federal aid. This is acknowledged by the auditor in the report, but yet still appears as a recommendation. As for the recommendation here regarding minimizing time between receipt and disbursement of funds, the District views this citation as wholly unfounded, as evidenced by the lack of supporting documentation in the audit report, and offers no additional response.

See  
Auditor's  
Note 6

**Recommendation #6:** Prepare a school-by-school listing of educational expenditures from State and local funds for the 2008-2009 school year.

- **District Response:** The auditor in this case provided the District with information regarding a requirement to provide this listing. The District has never received prior notice of this requirement from any Federal or State agency, including SED, and as of this time there has still been no formal guidance offered. The District finds this recommendation one that is improper to list as a finding, as no prior process information or guidance has been offered to the Superintendent of Schools from SED regarding this requirement.

See  
Auditor's  
Note 7

The Broadalbin-Perth Central School District appreciates the opportunity to respond to the ARRA audit as performed by the New York State Education Department. If further comment or clarification is necessary, please contact me at your convenience. Thank you.



Marco Zumbolo, Business Administrator

## Auditor's Notes

1. The American Recovery and Reinvestment Act funds were approved and are expended with an expectation of unprecedented transparency and accountability. This audit represents an effort to meet that expectation. While the District may view the recommendations as sometimes-irrelevant minutia, we view them as necessary to fully comply with federal and State requirements.
2. The District response acknowledges that it was fully aware that ARRA-ESF was a reimbursement based funding stream. Yet the District on more than one occasion submitted with the Superintendent's signature, claimed costs it was not entitled to by including anticipated costs for the next month. In addition, the auditor did not make a statement that this was citable because an SED employee had to cross it out. With regards to the inclusion of estimates in the claim for reimbursement, as mentioned above, the ARRA-ESF is an actual expense reimbursement-only funding stream.
3. The District states that it did not want to estimate the appropriation for ARRA-ESF. The District was aware of the funding level and was able to make the appropriation using an actual figure and not an estimate. The District objects to the finding pertaining to the failure to track employee fringe benefits separately in ARRA-ESF codes. At the beginning of fieldwork, there was no employee fringe benefits charged to ARRA-ESF. As a result of the audit, the Business Administrator posted actual fringe benefits to ARRA-ESF on the last day of field work in order to comply with verbal recommendations from the auditor.
4. The federal Office of Management and Budget Circular A-87 clearly states that personnel activity reports for employees who work on multiple cost objectives, must account for the total activity for which the employee is compensated. This has a direct bearing on the adequacy of federal required reporting.
5. The error that the District made was not including the additional jobs funded by the ESF spin-up and not due to typographical error.
6. The federal cash management requirement has long been a requirement but has gained increased emphasis since ARRA. The District needs to have a written procedure in place that demonstrates its compliance with the cash management requirements, i.e. minimizing of the time elapsing between receipt and disbursement of funds and calculation of interest earned on all federal awards and remitting to the federal government interest earned in excess of \$100. The District did not have such process and therefore was cited. The interest computation report provided by the District showed that no interest was earned for the time period the calculation was made and was appropriately mentioned in the audit. However, the District is required to do this on at least a quarterly basis and not just because it was requested by an audit.
7. Although the Business Administrator told the auditors that the District had not prepared the school-by-school listing of educational expenditures from State and local funds for the 2008-09 school year, and that he was unaware of the requirement, the District had in fact already submitted this required report to the Department. As such, any mention of the finding and recommendation has been removed from the report.