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March 11, 2011

Mr. Rob Ainslie  
Board President  
Ithaca City School District  
400 Lake Street  
Ithaca, NY 14850

Report: ARRA-1010-23

Dear Mr. Ainslie:

This letter is our final report of the Ithaca City 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 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 claims for all of their approved ARRA-ESF, ARRA-IDEA 611/619, and ARRA-Title I funding.

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.

## **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) (FS-25)]. 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, Districts may only use the FS-25 to claim up to 90 percent of the approved budget provided that the claim is limited to actual expenditures to-date only. The remaining 10 percent is claimed by filing the Final Expenditure Report. When the District submitted an FS-25 for ARRA-ESF on July 23, 2010, it claimed 100 percent of the approved budget or \$4,245,967; however, as of that date, only \$4,174,995 of actual expenditures could be supported. The residual amount of \$70,972 represented amounts that had been encumbered but had not yet been spent and therefore, should not have been claimed. Based on that claim, the District was reimbursed up to the limit allowed as Department payment controls prevented the 90 percent threshold from being exceeded.

### 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 all of its ARRA-ESF accounts. Since there was no appropriations made, budgets for these ARRA-ESF accounts were not tracked and available balances of the fund in the accounting system inaccurately appeared as negatives.

### Compliance with Federal Grant Requirements

#### *Time and Effort Requirements*

OMB Circular A-87 (A-87) requires salaries of employees who are charged to federal grants be supported by periodic certifications or personnel activity reports. Salaries of employees who work on multiple activities or cost objectives (multiple funding streams) must be supported by personnel activity reports. These personnel activity reports must be prepared at least monthly and coincide with one or more pay periods; reflect an after-the-fact distribution of the actual activity of the employee; account for a full FTE; and be signed by the employee. 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, did not coincide with payroll, and did not reflect an after-the-fact distribution as required by A-87. In addition, one employee did not have any personnel activity reports and another employee did not have all the required personnel activity reports.

As a result of this audit, the District announced its intentions to implement a new personnel activity reporting system using its accounting system. As payroll expenditures are generated, personnel activity reports will also be generated and provided to applicable District employees.

### *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 in excess of \$100 earned on federal awards advances. 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 in excess of \$100 annually on federal funds.

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, when submitting an FS-25, claim only costs that have actually been incurred.
2. Ensure that only 90 percent is claimed using the FS-25 claiming process and that the remaining 10 percent is claimed when the final expenditure report is submitted.
3. Establish appropriations for all ARRA-ESF accounts.
4. Ensure that the personnel activity reports for employees, who work on more than one federal grant account for their full FTE, are prepared monthly coinciding with one or more pay periods, and reflect an after-the-fact distribution of the actual activity of the employee.
5. Address federal requirements for minimizing time elapsing between receipt and disbursement of funds and remitting interest in excess of \$100 annually earned on federal funds.

Section 170.12 of the Regulations of the Commissioner of Education requires the submission of a Board approved corrective action plan, in response to all the findings, within ninety days of the issuance of this report. The corrective action plan should include the expected date of implementation, where appropriate.

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, L. Brown, E. O'Donnell(Tompkins-Seneca-Tioga DS)



## ITHACA CITY SCHOOL DISTRICT

400 Lake Street, P.O. Box 549, Ithaca, New York 14851-0549

***Luvelle Brown, Ed. D***  
*Superintendent of Schools*

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March 8, 2011

James A. Conway, Director  
NYS Education Department  
Office of Audit Services  
89 Washington Avenue, Room 524 EB  
Albany, NY 12234

Dear Mr. Conway,

I would like to take this opportunity to express my appreciation for the time your staff spent auditing the Ithaca City School District's use of American Recovery and Reinvestment Act (ARRA) funds awarded for the July 1, 2009 – June 30, 2010 school year. Throughout the process, your staff was professional and helpful.

As a follow up to the audit, I would like to provide the following response to all recommendations made:

1. For ARRA-ESF, when submitting an FS-25, claim only costs that have actually been incurred.  
**Response:** The District has in place a process to determine the correct costs and will submit only those costs for reimbursement.
2. Ensure that only 90 percent is claimed using the FS-25 claiming process and that the remaining 10 percent is claimed when the final expenditure report is submitted.  
**Response:** The District has in place a process to determine the correct costs associated with the FS-25 and the final expenditure report and will submit only those costs for reimbursement.
3. Establish appropriations for all ARRA-ESF accounts.  
**Response:** All accounts have been established and will be monitored appropriately.

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4. Ensure that the personnel activity reports for employees, who work on more than one federal grant account for their full FTE, are prepared monthly coinciding with one or more pay periods, and reflect an after-the-fact distribution of the actual activity of the employee.

See  
Auditor's  
Note 1

**Response:** The District has established a monthly process to obtain monthly activity reports that accurately reflect the employees full FTE.

5. Address federal requirements for minimizing time elapsing between receipt and disbursement of funds and remitting interest in excess of \$100 annually earned on federal funds.

See  
Auditor's  
Note 2

**Response:** An excel spreadsheet has been developed for this purpose.

Once again, I would like to thank you and your staff for the professional assistance provided to the Ithaca City School District.

Sincerely,



Dr. Luvelle Brown

## Auditor's Notes

**Finding #4:** It should be noted that personnel activity reports should reflect an after-the-fact distribution of the actual activity of the employee.

**Finding #5:** The District should also develop procedures to guide staff to ensure compliance to minimize the time elapsing between receipt and disbursement of federal funds and to remit interest earned in excess of \$100 annually.