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

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April 27, 2015

Mr. James Sampson
Board President
Buffalo City School District
712 City Hall
Buffalo, NY 14202

Report: SD-0915-03

Dear Mr. Sampson:

I am writing to transmit the final results of our recently completed audit of the Buffalo City School District (District) use of the American Recovery and Reinvestment Act (ARRA) Race to the Top (RTTT) grant awarded for the July, 1 2012 – June 30, 2013 school year. The total amount claimed by the District for this period was $3,087,225. 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 and accuracy of amounts reported in the Final Expenditure Report in the ARRA Reporting System and to assess compliance with pertinent federal requirements for the use of these funds.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed District and State Education Department (Department) management and staff; and examined records and supporting documentation.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other procedures considered necessary. It also includes assessing the estimates, judgments, and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions, and recommendations.

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 B.

Audit Results

Allowability and Accuracy of Reported Expenditures

According to the Office of Management and Budget's Circular A-87 (Cost Principles for State, Local and Indian Tribal Governments) or A-87, in order to be allowable under Federal awards, costs must be adequately documented and be authorized or not prohibited under State or local laws or regulations. We found small discrepancies between amounts paid to employees and supporting documentation as well as registration fees for the Network Team Institute that should not have been claimed in RTTT.

Personal Service Expenditures

According to A-87, grant funds may be used to pay for all or part of the salaries and allowable fringe benefits of personnel who are directly working on the grant project. Records must be maintained to support the salaries and describe the duties of each grant-funded position.

We reviewed a sample of salary related expenditures amounting to $570,180. All of the salaries examined in the sample were appropriately charged to the grant except for $6,411 of payments for extra duty pay that were not adequately supported.

A breakdown of the $6,411 is shown below.

- The District claimed the total of $2,329 for cleaning, operation and maintenance of the heating and cooling systems of a school building used for after-school RTTT training programs. Time records supported $1,640 resulting in a difference of $689.
- The District paid $5,345 for four employees claimed under an administrative budget account. However, time records only supported $628, a difference of $4,717.
- The District claimed $10,891 for eight employees whose pay was coded to two curriculum committee accounts for which they worked. However, the time records provided supported $9,942, a difference of $949.
- The District claimed $916 for nine employees whose pay was coded to a training account for attending professional development. However, the supporting time records only substantiated $860, a difference of $56.

In addition, fringe benefits associated with the disallowed extra duty pay amounted to $1,391.

Network Team Institute Fees

Guidance issued by the Department for reimbursement of Network Team Institute (NTI) costs for professional development states that no federal ARRA funds may be used to pay for the registration fee as a portion will be applied towards the cost of food. The District claimed $2,232 for an NTI conference held July 9-13, 2012. However, this expenditure should not have been reimbursed through RTTT.

Indirect Costs Adjustment

Indirect costs are broadly defined as central administration costs and certain other organization-wide costs that are incurred in connection with a project, but that cannot be readily identified with the project. The total indirect costs generated for a project are calculated by applying the approved indirect cost rate to the modified direct cost base.

The modified direct cost base is calculated by taking all allowable costs, deducting certain costs such as contractual amounts greater than $25,000, amounts claimed for BOCES Services, and amounts claimed for equipment. Using Department guidance, we recalculated the modified direct cost base taking into consideration the amount of disallowance discussed in the preceding sections of this report. Consequently, $391 is disallowed of the $62,730 claimed for indirect costs. See Appendix A for the detail of the calculation.

Procurement Controls

Sound internal controls call for districts to enter into contractual agreements with service providers before goods are procured or services rendered. This helps assure that proper authorization and approvals are obtained prior to the contract commencement. The contract should clearly stipulate the amounts to be paid for the goods or services provided and a timeframe for the deliverables.

During our review of supporting documentation for other-than-personal-service expenditures sample, we found two instances where the District did not approve contracts timely. An expenditure of $363,262 for a formative assessments contract with a term of September 1, 2012 through August 31, 2015 was not ratified until October 31, 2012. The District also claimed $90,053 for the development of a data warehouse for teachers and administrators to be used for data driven decision-making. Services commenced January 10, 2013 but the contract was not ratified until April 23, 2013.

Compliance with 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 (i.e. jobs funded). 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 total number of jobs funded.

The District did not update the program narrative section of the 1512 report for the quarter ending June 30, 2013; it kept the same language used in the report for the quarter ending June 30, 2012. In effect, describing that for both periods, RTTT funds were used for implementing School Improvement Grant programs to turn around the District's lowest achieving schools. However, the 2012-13 RTTT funds were used for Network Teams and teacher and principal evaluation. We did

observe that the reporting summary section of June 30, 2013 report was updated to reflect that quarter's activities.

Lastly, we also found that the District did not submit their 1512 Quarterly Report for the period ending March 31, 2013.

Time and Effort Requirements

A-87 requires salaries of employees who are charged to federal grants be supported by periodic certifications or personnel activity reports (PARs). Employees whose salaries are paid from multiple activities or cost objectives (multiple funding streams) must be supported by PARs. These 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.

We selected 10 employees from a list of those paid from RTTT to determine if personal service costs were supported with payroll certifications or personnel activity reports. Although the District was largely in compliance, we found that the monthly time and effort statements did not cover the full period for which all 10 employees were paid.

Recommendations

1. Only claim allowable costs.

2. Ensure that all salary payments are supported by time records.

3. Contact the Department's RTTT Program Office for instructions, referencing this report, and submit a revised Final Expenditure Report through the ARRA online management portal reflecting a reduction of $10,425 for disallowed costs for RTTT. The Grants Finance Office will send Form FS-80, Notice of Overpayment to your District confirming the amount overpaid, and provide remittance instructions.

4. Ensure service contracts are ratified timely.

5. Submit quarterly reports for each quarter as required under Section 1512 and ensure that the program narrative is updated to reflect the current quarter's activities. Please note however, this is no longer a requirement as of February 1, 2014, making December 31, 2013, the last time recipients will report on the status of their awards.

6. Ensure that time and effort statements reflect the full period for which grant employees have been paid.

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,

Maria C. Guzman

c: B. Berlin, S. Cates-Williams, C. Tangorra, K. Wagner, D. Juron, J. Delaney, M. Zollo, C. Szuberla, J. Conroy (DOB), J. Dougherty (OSC), D. Ogilvie (Superintendent), R. Thompson (Supervisor of Budget and Grants Management), T. Paluch (RTTT Project Administrator)

APPENDIX A

Calculation of Allowable Indirect Costs

	2012-13
Total Claim	$3,087,225
Less: Indirect Claim	(62,730)
Less: Subcontracts Greater Than $25,000	(704,119)
Less: BOCES	(1,500)
Less: Disallowances	(10,034)
Adjusted Allowed Direct Cost Base	2,308,842
Restricted Indirect Rate	.027
Indirect Cost Allowed	62,339
Less: Indirect Cost Claimed	(62,730)
Indirect Cost Disallowed	(391)

Source: OAS Analysis of Indirect Costs

APPENDIX B

Donald A. Ogilvie,
Interim Superintendent

Dr. Genelle Morris,
Assistant Superintendent/CIO

April 20, 2015

Ms. Maria Guzman
New York State Education Department
89 Washington Avenue
Albany, NY 12234

Dear Ms. Guzman:

Buffalo City School District accepts the findings and recommendations that appear in this Draft Audit Report. A revised Final Expenditure Report for the 2012-13 grant year reflecting the $10,425 of disallowed costs was submitted through the ARRA online management portal on April 1, 2015. The following notes address the recommendations in greater detail:

The District's grant management structure is designed to enable the most appropriate program administrators to make informed decisions about programmatically allowable uses of funds. The decisions of those grant managers are overseen by similarly knowledgeable senior-level grant administrators, often approved in coordination with other expert instructional leaders, and strengthened by direction from SED program office staff. District Finance controls are also in place to protect against charging and claiming any fiscally unallowable costs.

All payroll disallowances were based on lack of supporting time records. Such records are now required for the processing of hourly payrolls. Further, the District has worked to strengthen its archiving of time records, which should now be housed in both Finance and Program offices and cross-referenced with their payroll documentation.

Controls now in place are designed to ensure that contracted services do not commence prior to contract ratification, as happened in the case of the two contracts noted in the Draft Report. The Board of Education forecasts needs and strives to ratify contracts well in advance of the time when vendor services will be required. Payment cannot be approved prior to contract ratification.

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District Finance and Program staff coordinate work in order to effect the submission of grant reporting like the Section 1512 quarterly reports, which had both fiscal and programmatic components. Reporting schedules are now kept and monitored by the District Grants Development Department, and both that department and the grant manager are responsible for review of submissions prior to certification or final approval. The processes for generating, distributing, and collecting time and effort statements for full-time work, whether 1.0 FTE or pro-rated, are now designed to capture data for the full period for which grant employees have been paid. This complies with A-87 requirements.

Sincerely,

Genelle Morris

Genelle Morris, Ed.D.
Assistant Superintendent / CIO

Office of Shared Accountability

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