



James A. Conway
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October 27, 2010

Mr. Joseph W. McHeffey
Board President
Center Moriches Union Free School District
529 Main Street
Center Moriches, NY 11934

Report: ARRA-0510-16

Dear Mr. McHeffey:

This letter is our final audit report of the Center Moriches Union Free 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 seven claims for ARRA-ESF and incurred charges for ARRA IDEA 611/619 and ARRA Title I, but had not submitted claims.

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

We did not find any audit exceptions.

Financial Control System

Education Law, Section 1718 requires that no board of education shall incur a district liability in excess of the amount appropriated by a district meeting unless such board is specially authorized by law to incur such liability. The District did not establish an appropriation for the ARRA-ESF accounts. Since there was no appropriation made, budgets for the ARRA-ESF accounts were not tracked and available balances of the fund in the accounting system inaccurately appeared as negatives. In addition, the District did not enter payroll expenditures as they occurred. They were entered periodically or at month's end.

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. 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 did not account for the full FTE of employees being paid from both IDEA 611 and ESF funding. In addition, payroll certifications were not prepared monthly and did not coincide with payroll.

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 per year 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.

In addition, we were unable to determine if the District exceeded the \$100 threshold for interest earned during 2009-10 because the District did not provide us with a daily account of revenue received and expenditures incurred for all federal funds despite numerous requests. If the District is unable to provide the calculation of interest earned on federal funds, we will advise the Department's Grants Finance Office to put the District on a reimbursement-only status and to cease providing initial

20 percent payment on approved grants. Only claim for reimbursement of expenditures incurred will be processed in the future.

Recommendations

1. Establish appropriations for all ARRA-ESF accounts.
2. Ensure that the personnel activity reports for employees, who work on more than one federal grant account for their full FTE, are prepared monthly, and coincide with one or more pay periods.
3. 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.
4. Prepare a report showing daily balances and interest earned on all federal funds for fiscal year 2009-10. Interest earned in excess of \$100 per year, if applicable, should be returned via check, with a cover letter to:

U.S. Department of Education
P.O. Box 979053
St. Louis, MO 63197-9000

In the cover letter, please indicate that the remittance is for “interest earned on Federal funds” and should include the DUNS number.

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

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, R. Stewart, G. Bixhorn (DS Eastern Suffolk)

Center Moriches Union Free School District

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Deputy Superintendent
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Diane M. Smith
Treasurer

October 1, 2010

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

Dear Mr. Conway:

We are writing in response to the recently completed audit of the Center Moriches Union Free School District's (District) use of American Recovery and Reinvestment Act (ARRA) funds awarded for the July, 1 2009 through June 30, 2010 school year. The District found the audit process to be very thorough and well thought out. The individuals representing the Comptroller's office were very professional in their dealings with the staff of the District.

The District has reviewed your recommendations as a result of the audit and responds as follows:

1. Establish appropriations for all ARRA-ESF funds.

Corrective Action: The District has established both appropriations and respective appropriation accounts for all ARRA-ESF funds including salary and benefit accounts.

2. Ensure that the personnel activity reports for employees, who work on more than one federal grant account for their full FTE, are prepared monthly, and coincide with one or more pays.

Corrective Action: The District has established procedures to ensure that the personnel activity reports for employees who work on more than one federal grant account for and include their full FTE on the personnel activity report and that the reports are prepared on a monthly basis which coincide with the District's payroll cycle.

3. 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.

Corrective Action: The District has and will continue to apply for, receive and disburse the funds of ARRA-ESF funds in a timely manner. While the District has each year supported and loaned the funding of those appropriations included in the federal grants in anticipating receiving the funds of said federal grants, the District is aware of the federal requirements for any interest earned on federal funds in excess of \$100 annually.

4. Prepare a report showing daily balances and interest earned on all federal funds for fiscal year 2009-10.

Corrective Action: The District has provided a report which includes the monies received and any interest earned which is attached. While the District understands that a daily report is requested, the District does not have the manpower or resources to prepare a report on a daily basis when in fact there is little activity for the receipt of money and any respective interest. The District believes that the attached report demonstrates and reflects if any interest has been earned on any federal funds.

See
Auditor's
Note 1

5. Submit supporting documentation for the \$47,088 charged to Title I ARRA.

Corrective Action: The District has attached the supporting documentation for the \$47,088 charged to Title I ARRA and has faxed it to the Office of Audit Services, attention Andrew Fischer, at 518-473-0259.

See
Auditor's
Note 2

Again, we thank you for your efforts. Please be assured that the District is moving forward to continue to proactively assess our operations. If you should have any questions or require additional information, please do not hesitate to contact me.

Sincerely,



Russell Stewart
Superintendent of Schools

cc: Board of Education
Carol M. Perkins, School Business Official



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

Grants Finance
Room 510W, Education Building
Tel. (518) 474-4815
Fax (518) 488-4899
<http://www.oms.nysed.gov/cafe/>

Final Expenditure Reports/FS-10Fs for American Recovery & Reinvestment Act (ARRA)-Funded Grants

The attached Final Expenditure Report/FS-10F Short Form is being returned to your district without action because the FS-10F Long Form is required for this project. As explained in previous guidance¹, the FS-10F Long Form must be used for all grants funded by ARRA, except for the Education Stabilization Fund projects². Expenditures for the Education Stabilization Fund will be reported using other alternative procedures.³

Please complete the FS-10F Long Form required for this project and submit it to the Grants Finance Office. Copies of this form may be accessed on the Grants Finance website (<http://www.oms.nysed.gov/cafe/forms/>). Although the form is available in different formats, we recommend the MS Excel version which has a number of helpful features.

If you have questions or require further assistance, please contact Grants Finance by sending an e-mail to grantsweb@mail.nysed.gov.

*Called Julissa Barnett on 9/17/10 to ensure that FS10F's had been received. Was informed that Title I ARRA & Title II A were outstanding
Resubmitted FS10F for Title I ARRA (Long Form) on 9/20/10 exactly the same as the one attached which was stamped in by Grants Finance on 7/26/10*

¹ Please review the news item dated 06/14/10 on our website <http://www.oms.nysed.gov/cafe/> for more information.

² Education Stabilization Fund projects may be easily distinguished by their project numbers that will be in the form of 5000-10-xxxx.

³ For more information on the Education Stabilization Fund, please visit the State Education Department's ARRA website: <http://usny.nysed.gov/arra/>

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
 Grants Finance, Rm. 510W EB
 Albany, New York 12234

**FINAL EXPENDITURE REPORT FOR A
 FEDERAL OR STATE PROJECT
 FS-10-F Long Form (12/09)**

= Required Field

Local Agency Information	
Funding Source:	Title I - ARRA
Report Prepared By:	John W. Allen
Agency Name:	Center Moriches UFSD
Mailing Address:	529 Main Street
	Street
	Center Moriches New York 11934
	City State Zip Code
Telephone # of Report Preparer:	(631)878-0052 X131
County:	Suffolk
E-mail Address:	jallen@cmschools.org

- INSTRUCTIONS**
- For State grants, final expenditure reports are generally due within 30 days after the grant's end date. Reports for federal projects are generally due within 90 days after the grant's end date. See the Grant Award Notice to verify the due date. However, the Department program office may impose an earlier due date.
 - Agencies should use the FS-10-F Short Form unless directed otherwise in the grant application/RFP or by Department staff.
 - Agencies must maintain complete and accurate records and may be requested to provide additional detail to support reported expenditures.
 - All encumbrances must have taken place within the grant's approved funding dates, which can be found on the FS-10 or FS-20 budget form and on the Grant Award Notice.
 - The Chief Administrator's Certification on the Final Summary page must be signed by the agency's Chief Administrative Officer or properly authorized designee.
 - Submit one report with original signature and one copy directly to Grants Finance, New York State Education Department, Room 510W EB, Albany, NY 12234.
 - For special legislative projects, submit one report with original signature and two copies, along with a final program narrative report.
 - For additional information, please refer to Fiscal Guidelines for Federal and State Grants at <http://www.oms.nysed.gov/cafe/guidance/>.

PURCHASED SERVICES WITH BOCES			
Subtotal - Code 49			\$47,088
Encumbrance Date	Name of BOCES	Check or Journal Entry #	Amount Expended
6/10/10	Eastern Suffolk BOCES	60504	\$11,051
6/15/10	Eastern Suffolk BOCES	60624	\$837
6/30/10	Eastern Suffolk BOCES	JE - 15	\$35,200

Auditor's Note 1

School districts have the responsibility to clearly demonstrate the amount of interest earned on federal funds or the lack thereof. It is not sufficient to provide some basis for approximations. As such, we will advise the Grant's Finance Office to put the District on a reimbursement-only status.

Auditor's Note 2

We received the supporting documentation for the \$47,088 Title I ARRA expenditure. Accordingly, we are removing the related finding and recommendation for our report.