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August 15, 2011

Mr. Michael LaFurney
Board President
Hannibal Central School District
928 Cayuga Street
Hannibal, NY 13074

Report: ARRA-0411-29

Dear Mr. LaFurney:

This letter is our final report of the Hannibal 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 claims and/or final expenditure reports 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. See **Auditor's Notes** to clarify the issues raised in the District's response.

Audit Results

Allowability and Accuracy of Reported Expenditures

OMB Circular A-87 (A-87) requires that all charges to federal grants be reasonable and adequately documented. We found that the District appropriately charged 55 percent of an employee's salary to ARRA-IDEA 611 for their related efforts to that program. However, the District charged 78 percent this individual's fringe benefits to ARRA-IDEA 611 resulting in \$3,676 being overcharged.

Financial Control System

Education Law, Section 1718 requires that no district shall incur a liability in excess of the amount appropriated. We found that the District did not establish sufficient appropriations for the ARRA-ESF accounts. The District had an approved budget of \$877,022 for ARRA-ESF, but the District only appropriated \$544,556. Consequently, available balances for ARRA-ESF in the District's accounting system inaccurately appeared as negative \$332,466.

Compliance with Federal Grant Requirements

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. Employees whose salaries are paid from one federal funding stream must have their time certified at least semiannually by the employee or supervisory official with first hand knowledge of the work performed by the employee. 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 worked on multiple cost objectives did not account for the total activities for which each employee was compensated and in many instances did not reflect an after the fact account of the employees' activities as required by A-87. Some did not note the date that they were signed. One employee did not have any personnel activity reports and another employee's personnel activity reports were not prepared monthly as required.

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 the number of jobs retained. For the period ending June 30, 2010, the District did not submit any quarterly reports for its ARRA grants.

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-IDEA 611, submit a revised FS-10F long form reflecting a reduction of \$3,676 for disallowed costs. The revised FS10-F long form accompanied by a copy of this report or transmittal letter identifying this audit as the reason for the revision should be submitted within 30 days to:

The State Education Department
Grants Finance, Room 510W EB
Albany, NY 12234

Grants Finance will review the revised FS 10-F long form and send Form FS-80 Notice of Overpayment to your District, confirming the amount overpaid and providing remittance instructions.

2. Ensure that all appropriations are consistent with approved budgets.
3. Ensure that the personnel activity reports for employees who work on multiple cost objectives where at least one is a federal account for their full activity for which employees are compensated, reflect an after the fact account of the employees' activities, and note the dates they are signed. Also, ensure that personnel activity reports are prepared for each employee who is paid from multiple cost objectives where at least one is federal and that they are prepared monthly.
4. Ensure that the District submits a quarterly report for each quarter as required under Section 1512.
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: Commissioner King, S. Cates-Williams, J. Delaney, B. Porter, C. Szuberla, K. Slentz, M. Lavare, M. Zollo, R. Reyes, A. Timoney, J. Dougherty, E. Backus, J. Camerino (Oswego County BOCES DS)

Board of Education:

K. Michael LaFurney, President
Erin E. Hess, Vice-President
Donna J. Ingersoll
Madeline A. Pittorf
Linda Warrick
Mireille L. Watts
Dale H. Young



928 Cayuga Street
Hannibal, New York 13074

Edmund P. Backus
Superintendent of Schools

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August 8, 2011

NYSED
James A. Conway
Office of Audit Services

Dear Director Conway,

The Hannibal Central School District was subject to an audit by the New York State Commissioner of Education's authority from July 1, 2009 to June 30, 2010. The focus 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.

The draft report was released June 29, 2011 and an exit conference was held on May 18, 2011. Please accept this letter as the District's combined audit response letter and Corrective Action Plan. This response will be presented to the Board of Education at their next meeting on September 14, 2011.

See
Auditor's
Note 1

Audit Recommendation 1: For ARRA-IDEA 611, submit a revised FS-10F long form reflecting a reduction of \$3,676 for disallowed costs.

Implementation Plan of Action: The District will submit a revised FS10-F long form accompanied by a copy of the report identifying this audit as the reason for the revision.

Implementation Date: September 1, 2011

Person Responsible for Implementation: Business Administrator

Audit Recommendation 2: Ensure that all appropriations are consistent with approved budgets.

Implementation Plan of Action: The District will make sure when there are adjustments mid-year with NYSED, they will make sure their budget is also adjusted.

Implementation Date: Throughout the year—as needed.

Person Responsible for Implementation: The Business Administrator

Audit Recommendation 3: Ensure that the personnel activity reports for employees who work on multiple cost objectives where at least one is a federal account for their full activity for which employees are compensated, reflect an after the fact account of the employees' activities, and note the dates they

are signed. Also, ensure that personnel activity reports are prepared for each employee who is paid from multiple cost objectives where at least one is federal and that they are prepared monthly.

Implementation Plan of Action: The District currently collects personnel activity reports from all employees who are paid with partially or fully from Federal funds. All documents were given to the audit team during their discovery/audit.

See
Auditor's
Note 2

Implementation Date: Continuous

Person Responsible for Implementation: The Business Administrator

Audit Recommendation 4: Ensure that the District submits a quarterly report for each quarter as required under Section 1512.

Implementation Plan of Action: The District will develop a calendar and make note of the dates that certification is due by.

Implementation Date: August 8, 2011

Person Responsible for Implementation: The Superintendent of Schools

Audit Recommendation 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.

Implementation Plan of Action: The District is aware of the federal requirements and did not earn interest exceeding \$100 for that period. The current practice is we submit FS-25 after the funds are expended and include cash expenditures anticipated during the next month. We receive the funds well after the following month anticipated expenditures are expended. The interest earned in the federal funds is actually generated from funds borrowed from the General fund while we are waiting for federal payments.

See
Auditor's
Note 3

Implementation Date: Continuous

Person Responsible for Implementation: The Business Administrator

Again, we wish to thank the auditors who conducted the audit in a professional and positive manner, and we appreciate the opportunity to engage in a dialogue about ways to improve the quality of the District's fiscal management.

Very truly yours,



Edmund P. Backus
Interim Superintendent of Schools

Auditor's Notes
Hannibal CSD ARRA Audit

1. The Board should consider the additional notes as part of its corrective action plan. Before we consider any document to be a corrective action plan, it must be approved by the Board. Please provide evidence that the corrective action plan has been Board approved after your scheduled meeting on September 14, 2011.
2. The District's response should note that personnel activity reports for employees who work on multiple cost objectives account for the total activities for which each employee is compensated, reflect an after-the-fact distribution of the activities of the employee, and note the date that they were signed. In addition, the District should ensure that personnel activity reports are prepared monthly for each employee who is paid from multiple cost objectives where at least one is federal.
3. The District should develop specific procedures to minimize the time elapsing between receipt and disbursement of federal funds and a procedure to at least quarterly calculate interest earned and remit the excess of \$100 annually to be in compliance with federal requirements.