



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

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August 27, 2014

Ms. Carmen Fariña
Chancellor
New York City Department of Education
52 Chambers Street
New York, NY 10007

Dear Ms. Fariña:

I am writing to transmit the final results of our recently completed audit of the New York City Department of Education's (NYCDOE) 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 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 NYCDOE 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 A.

Audit Results

Allowability and Accuracy of Reported Expenditures

According to OMB Circular A-87 (A-87), costs must be necessary and reasonable; consistent with policies, regulations, and procedures that apply to the award; accorded consistent treatment; and adequately documented in order to be allowable under federal awards. NYCDOE claimed personal service expenditures outside of the grant period. It also did not allocate a cost that benefitted another period, claimed ineligible expenditures, claimed missing equipment, and did not follow its own Internal Control Policy.

Personal Service Expenditures

The NYCDOE payroll system has a 12-month pay schedule that includes both 12-month employees who work and get paid July through June and 10-month employees who work from September through June and are paid in September through August. Salaries should be claimed in the year in which the services were performed.

During our review of the payroll records, we found personal service expenditures totaling \$2,798,072 that should not have been claimed in the grant period. This includes \$2,777,786 paid for 12-month employees, \$10,401 paid for 10-month employees, and \$9,885 paid for 1 non-pedagogue employee all of whom were paid for services performed after the end of the grant period. We also calculated \$1,059,177 charged to the grant for the employee fringe benefits related to the salaries above that is disallowed.

In addition, we found personal service expenditures that were charged to the RTTT grant for 16 employees who, at the end of the grant period, converted from 10-month positions to 12-month positions and who should not have received summer pay based on the 10-month position just vacated. According to NYCDOE officials, when employees convert from 10-month to 12-month positions, the pay for services performed over the summer is vested and not paid out until retirement, separation from NYCDOE, or conversion back to a 10-month position. The personal service expenditures paid in July and August for these employees totaled \$249,580 and related employee benefits totaled an additional \$94,444.

Unallocated Costs

The NYCDOE claimed \$597,359 for software licenses for the period March 15, 2013 through September 15, 2013. This expenditure was not allocated between the 2012-13 and the 2013-14 school years that benefitted. The NYCDOE should have claimed \$348,459 for the 2012-13 school year and the remaining \$248,900 to the 2013-14 school year.

Ineligible Expenditures

Guidance issued by the United States Department of Education commenting on Grantee Frequently Asked Questions related to RTTT states that food may be an allowable cost if it is necessary to accomplish the objectives of the program, and is reasonable in cost. However, it continues to state that meal services at an RTTT-related conference are not considered to be necessary to accomplish the objectives of the program. We found four expenditures that included the purchase of food related costs totaling \$59,439. In addition, we also found that the NYCDOE

purchased a Nintendo Wii with accessories totaling \$203. These items are not necessary or reasonable in nature and are, therefore, disallowed.

Physical Inventory

We conducted a physical inventory of 118 items judgmentally selected from the supplies and materials category within the FER to verify they exist and are being used in the RTTT schools. We were unable to verify the location of 11 items totaling \$5,280 consisting of 2 Macbook Pro laptops (\$1,169 each), 3 Apple iPad 3 (\$479 each), and 6 Canon Powershot cameras (\$1,505).

Indirect Costs Adjustment

The Department has issued guidance to grant recipients as to how to administer grants and claim indirect costs. 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 and excluding disallowed costs, we recalculated the modified direct cost base to determine allowable indirect costs as shown in Table 1 below. Consequently, \$136,518 is disallowed of the \$2,761,192 claimed for indirect costs.

Table 1
Indirect Costs

	2012-13
Total Claim	102,267,570
Less: Indirect Claim	(2,761,192)
Less: Subcontracts Greater Than \$25,000	(13,192,106)
Less: Equipment	(27,025)
Less: Disallowances	(4,266,195)
Adjusted Allowed Direct Cost Base	82,021,052
Restricted Indirect Rate	.032
Indirect Cost Allowed	2,624,674
Less: Indirect Cost Claimed	(2,761,192)
Indirect Cost Disallowed	(136,518)

Source: OAS Analysis of Indirect Costs

Internal Controls

The NYCDOE Internal Controls Policy for RTTT requires that certain records be maintained such as sign-in sheets and agendas for staff development and/or parent involvement activities. We found five events where the sign-in sheets and/or agendas for staff development activities were not maintained.

The NYCDOE Inventory Policy states that a police report should be filed when any inventory items are found to be missing as a result of theft. The NYCDOE failed to report the theft of five

digital cameras prior to proper internal controls being in place to ensure that all inventory is maintained in a secure storage area.

Compliance with Federal Grant Requirements

The scope of work for all RTTT grants states that school-based inquiry teams are required to be in place at every school building. A school-based inquiry team is comprised of teachers, teacher leaders, and administrators who are charged with becoming expert in accessing, understanding, and using data to identify a change in instructional practice (e.g. teaching division of fractions) that will accelerate learning for a specific group of underperforming students. Documentation to support and track the work of school-based inquiry teams was not provided for 1 of the 25 school buildings sampled.

Recommendations

1. Claim personal service expenditures in the period in which the services were provided.
2. Adequately allocate expenditures according to the time period benefited.
3. Only claim allowable costs.
4. Contact the Department's Grants Finance Office for instructions, referencing this report, and submit a revised Final Expenditure Report through the ARRA online management portal reflecting a reduction of \$4,651,613 for disallowed costs for RTTT. Grants Finance will send Form FS-80, Notice of Overpayment to your NYCDOE confirming the amount overpaid, and provide remittance instructions.
5. Conform to the NYCDOE's own Purchasing and Inventory Policies.
6. Ensure that all elements in the RTTT scope of work agreement are supported in each of the school buildings including school-based inquiry teams.

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

Attachment

c: J. King, B. Berlin, S. Cates-Williams, K. Wagner, D. Juron, J. Delaney, M. Zollo, C. Szuberla, A. Timoney (DOB), J. Dougherty (OSC), V. Leung (Chair, Panel for Educational Policy)



THE NEW YORK CITY DEPARTMENT OF EDUCATION
Carmen Fariña Chancellor

Raymond J. Orlando
Chief Financial Officer

August 22, 2014

Maria C. Guzman
Director
Office of Audit Services
The State Education Department
The University of the State of New York
Albany, NY 12234

Re: Audit Report on the New York City Department of Education's Use of American Recovery and Reinvestment Act Race to the Top Grant for the FY12-13 School Year

Dear Ms. Guzman:

This letter will serve as the NYC Department of Education's (DOE) formal response to the draft audit report by the State Education Department's (Department) Office of Audit Services in its audit of DOE's use of American Recovery and Reinvestment Act (ARRA) Race to the Top (RTTT) grant awarded for the July 1, 2012 – June 30, 2013 school year, to be included as an appendix to the Department's final audit report.

The DOE has reviewed the draft report and is in overall agreement with the recommendations contained within. It is important to note that the bulk of the recommendations are not due to unallowable costs, but to timing of the claim deadline, which occurred prior to certain fiscal year-end adjustments. Our responses to each recommendation are as follows:

Recommendation 1. Claim personal service expenditures in the period in which the services were provided.

DOE Response: We agree. The FY13 RTTT claim deadline occurred before the close of the DOE's fiscal year-end adjustments. Of the \$2,798,072 of personal service (PS) expenditures that the Department identified as not belonging to the grant period, \$2,751,737 was for RTTT related services that were performed in FY14 and therefore belong to the FY14 RTTT claim. The FY13 claim was filed prior to the DOE's annual adjustment process in the payroll system that adjusted these PS charges and the associated employee fringe benefit costs to the correct fiscal year. The FY14 RTTT claim will not be filed until the appropriate payroll system journal entries have been posted to ensure that only FY14 RTTT charges are claimed.

Recommendation 2. Adequately allocate expenditures according to the time period benefitted.

DOE Response: We agree. The DOE's purchasing system has controls in place to account for software subscriptions that cross fiscal years. In the specific instance of the software licenses for the period March 15, 2013 through September 15, 2013, the DOE will remove the \$248,900 from the FY13 claim and charge it to the FY14 claim. We will re-issue guidance to employees to remind them to input service dates of software subscriptions.

Recommendation 3. Only claim allowable costs.

DOE Response: We agree. The DOE is removing the \$295,915 in unallowable PS and the related fringe as well as the \$61,177 in unallowable OTPS costs from the amended FY13 RTTT claim. The DOE will take steps to ensure the summer pay of employees that convert to 12 month positions will not be charged to the FY14 RTTT claim. The DOE will re-issue guidance that RTTT expenditures must be educational in nature as well as necessary and reasonable.

Recommendation 4. Contact the Department's Grants Finance Office for instructions, referencing this report, and submits a revised Final Expenditure Report through the ARRA online management portal reflecting a reduction of \$4,651,613 for disallowed costs for RTTT. Grants Finance will send Form FS-80, Notice of Overpayment to your NYCDOE confirming the amount overpaid, and provide remittance instructions.

DOE Response: We agree. The DOE has already contacted the Department's Grants Finance Office to discuss the process to submit a revised Final Expenditure Report through the ARRA online management portal, removing the expenditures indicated in the responses above. As noted, the bulk of the \$4.6 disallowance is not due to unallowable costs, but to timing of the filing of the claim. Grants Finance will send form FS-80 to DOE. Over \$4.1 million will be removed from the submitted FY13 claim. However, the \$4.1M will be included in the FY14 claim (including the related fringe benefits and indirect costs).

Recommendation 5. Conform to the NYCDOE's own Purchasing and Inventory Policies.

DOE Response: We agree. The DOE will reissue guidance on RTTT regarding maintaining documentation related to staff development and parent involvement activities. The Office of School Support and Supervision (OSSS) is working with schools regarding the reporting of missing equipment to the NYPD.

Recommendation 6. Ensure that all elements in the RTTT scope of work agreement are supported in each of the school buildings including school-based inquiry teams.

DOE Response: We agree. One school of the 25 sampled did not submit documentation regarding inquiry teams. This school does have an inquiry team, but they did not retain the appropriate documentation. The OSSS will work with this school and others to make sure they retain appropriate documentation of their school-based inquiry teams and other applicable elements of the RTTT scope of work.

We thank the audit team for the professionalism and cooperation they exhibited throughout the audit.

Sincerely,



Raymond J. Orlando
Chief Financial Officer

C: Danya Labban
Michael Tragale