



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

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June 10, 2014

Mr. Van Henri White
Board President
Rochester City School District
131 W. Broad Street
Rochester, NY 14614

Report: SD-1113-06

Dear Mr. White:

I am writing to transmit the final results of our recently completed audit of the Rochester City School District's (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 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 A.

Audit Results

Allowability and Accuracy of Reported Expenditures

For RTTT, districts submit an online budget to the Department for approval. The online budget delineates the anticipated costs by specific itemization of proposed project expenditures. After the budget is approved, districts request funds by submitting a claim (form FS-25, Request for Funds) which may only include actual expenditures to-date and could be up to 90 percent of the approved budget. Once the grant period has ended, districts file a Final Expenditure Report (FER) with the Department to receive the remaining unreimbursed expenditures.

Unallocated Costs

The District claimed \$121,250 for software licenses for the period March 1, 2013 through June 30, 2014. This expenditure was not allocated between the 2012-13 and the 2013-14 school years that benefitted. The District should have claimed \$30,313 for the 2012-13 school year and the remaining \$90,937 to the 2013-14 school year. The District also claimed an additional \$67,500 for software licenses for the period October 1, 2013 through June 30, 2014. Since the period for this expenditure is outside the 2012-13 grant award, it should not have been claimed.

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 \$3,150 in expenditures that should not have been reimbursed through RTTT because they were for NTI conference fees. A breakdown of the claimed amount is as follows:

- \$3,069 of registration fees for an NTI conference held July 9-13, 2012; and
- \$81 of registration fees for an NTI conference held September 12-13, 2012.

Inaccurate Coding of Expenditures

The District's approved budget had \$5,682 for Purchased Services but did not include any amounts for Equipment or BOCES Services. However, the District incurred an expenditure of \$1.1 million for an equipment item and \$3,862 for a BOCES expenditure. The equipment item was claimed in Supplies and Materials and the BOCES cost was claimed in Purchased Services. The District should have submitted an on-line budget amendment to obtain approval from the Department to increase the appropriate budget lines and then report these costs in their appropriate budget categories.

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. The District did not calculate the modified direct cost base correctly by not excluding BOCES Service costs, equipment costs, and contractual amounts greater than \$25,000. 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, \$56,399 is disallowed of the \$121,464 claimed for indirect costs.

Table 2
Indirect Costs

	2012-13
Total Claim	3,404,284
Less: Indirect Claim	(121,464)
Less: BOCES Services	(3,682)
Less: Subcontracts Greater Than \$25,000	(259,050)
Less: Equipment	(1,100,000)
Less: OTPS Disallowance	(161,587)
Adjusted Allowed Direct Cost Base	1,758,501
Restricted Indirect Rate	.037
Indirect Cost Allowed	65,065
Less: Indirect Cost Claimed	(121,464)
Indirect Cost Disallowed	(56,399)

Source: OAS Analysis of Indirect Costs

Compliance with Federal Grant Requirements

We did not find any audit exceptions.

Recommendations

1. Only claim allowable costs.
2. Adequately allocate expenditures according to the time period benefited.
3. File Budget Amendments to request prior approval from the Department for changes that increase any budget category such as Purchased Services, Equipment, BOCES Services, etc. by more than 10 percent or \$1,000, whichever is greater.
4. Claim expenditures in the correct budget category in the FER.
5. Ensure that the modified direct cost base is calculated according to Department guidelines to correctly calculate the indirect costs to be claimed.
6. 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 \$217,986 for disallowed costs for RTTT. Grants Finance will send Form FS-80, Notice of Overpayment to your District confirming the amount overpaid, and provide remittance instructions.

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,

A handwritten signature in black ink, appearing to read "Maria C. Guzman". The signature is fluid and cursive, with the first name being the most prominent.

Maria C. Guzman

Attachment

c: J. King, B. Berlin, S. Cates-Williams, K. Slentz, K. Wagner, D. Juron, J. Delaney, M. Zollo, C. Szuberla, A. Timoney (DOB), J. Dougherty (OSC), B. Vargas (Superintendent)



Every child is a work of art.
Create a masterpiece.

William J. Ansbro
Chief Financial Officer

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June 1, 2014

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

Dear Ms. Guzman:

Thank you for the opportunity to review and comment on the results and recommendations included on the draft audit report for the Rochester City School District's American Recovery and Reinvest Act (ARRA) Race to the Top (RTTT) for the period July 1, 2012 through June 30, 2013.

The audit revealed \$158,437 for software licenses that extended beyond the grant end date of June 30, 2013. We undoubtedly agree that since the period for these expenditures is outside the 2012-2013 grant year, we should have claimed the expenses in the 2013-2014 year.

The audit also discovered \$3,150 paid for Network Team Institute costs where part of the registration was applied towards the cost of food. ARRA does not allow for this type of reimbursement and we agree the cost should be disallowed.

In addition, the audit revealed that we had erroneously claimed the wireless access points as Supplies and Materials instead of Equipment and a BOCES' expenditure was claimed as Purchased Services. The error reduced the modified direct cost rate resulting in a disallowance of indirect cost in the amount of \$56,399.

We certainly agree to all of your recommendations and will be contacting the New York State Department of Education's Grants Finance Office for instruction on how to submit a revised Final Expenditure Report through the ARRA online management portal. The revised report will reflect a disallowance of \$217,986, of which \$158,437 in licensing expenses will be recoded to the 2013-2014 RTTT award. We will also request the remaining \$59,549 be rolled into the 2013-2014 budget.

We sincerely thank your staff for the professionalism and competence displayed during and after the audit. Please contact me at the above contact information if you have any further questions.

Sincerely,


William Ansbro

xc: K. Jacobs
L. Washington
G. Miller