
Audit Report

Wyandanch Union Free School District

For the Period

September 1, 1999 through August 30, 2004

SD-0307-3

June 27, 2008

**The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234**





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

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June 27, 2008

Bishop Michael V. Talbert
Board President
Wyandanch Union Free School District
1445 Straight Path
Wyandanch, NY 11798-3997

Dear Bishop Talbert:

The following is our final audit report (SD-0307-3) on the Wyandanch Union Free School District for the period September 1, 1999 through August 30, 2004. The audit was conducted pursuant to Education Law Section 305 and the Board of Regents/State Education Department Strategic Plan – Goal #5 which states: “Resources under our care will be used or maintained in the public interest.”

Ninety days from the issuance of this report, District officials will be asked to submit a corrective action plan as a result of this audit. This required report must specifically address what actions have been taken on each audit recommendation.

I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

James A. Conway

Enclosure

c: Commissioner Mills, T. Savo, J. Duncan-Poitier, B. Porter, J. Delaney, M. DiVirgilio, C. Szuberla, R. Reyes, J. Viola, A. Timoney (DOB), J. Dougherty (OSC), S. Roberts, J. Mapes (Interim District Superintendent)

Executive Summary

Background and Scope of the Audit

The Wyandanch Union Free School District (District) is a high need urban-suburban school district located in Suffolk County. The District received a total of \$6.6 million in Title I and Title II funding for the period September 1, 1999 through August 30, 2004. Title I and Title II are federal programs designed to support state and local school reform efforts tied to challenging State academic standards. They reinforce and strengthen efforts to improve teaching and learning for students farthest from meeting State standards.

The U.S. Department of Education's (ED) Office of Inspector General (OIG) conducted an audit of the District's Title I and Title II program funding. Their audit initially focused on the allowability of non-salary expenditures. However, OIG auditors found that both salary and non-salary expenditures were inadequately supported. As a result of this audit, the Assistant Secretary for Elementary and Secondary Education issued a program determination letter requiring the New York State Education Department (SED) to conduct a follow-up audit.

SED's Office of Audit Services conducted the follow-up audit of the District's Title I and II programs. The focus of the audit was to review the District's documentation to substantiate the \$6.6 million in Title I and Title II salary and non-salary expenditures for the period September 1, 1999 through August 30, 2004 and determine compliance with corrective actions required by the ED related to both fiscal controls and policies and procedures.

Audit Results

We found that the District could not adequately substantiate \$252,221 in salary and salary related expenditures, and \$33,465 in non-salary related expenditures that were charged to Title I and Title II programs for the period September 1, 1999 through August 31, 2004. As a result, the District should refund the amount to SED. The disallowance resulted from:

- Inadequate documentation to support \$201,792 in salary expenditures for five teachers.
- Ancillary charges associated with unsupported salary expenditures. The charges were for social security, health insurance, teachers' retirement, and indirect costs; they amounted to \$9,865, \$29,411, \$1,537, and \$9,616, respectively.
- Ineligible non-salary expenditures in the amount of \$33,465.

In addition, we found that the District has not complied with the majority of corrective actions required by ED.

Comments of Wyandanch Officials

District officials' comments about the findings were considered in preparing this report. The District did not respond in writing to the draft report.

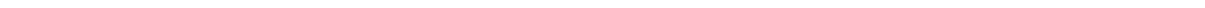


Table of Contents

INTRODUCTION	1
BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	2
AUDIT RESULTS.....	3
COMMENTS OF WYANDANCH OFFICIALS.....	3
SALARY AND SALARY-RELATED EXPENDITURES	4
LACK OF PAYROLL CERTIFICATION	4
UNSUPPORTED SALARIES	5
UNSUPPORTED SALARY-RELATED EXPENDITURES.....	6
RECOMMENDATIONS	6
NON-SALARY EXPENDITURES	8
UNSUPPORTED EXPENDITURES	8
RECOMMENDATIONS	10
INTERNAL CONTROLS.....	11
INTERNAL CONTROL WEAKNESSES AND LACK OF POLICIES AND PROCEDURES	11
RECOMMENDATION	13

Auditors Note

Appendix A – Contributors to the Report

Introduction

Background

The Wyandanch Union Free School District (District) is a suburban school district located in Suffolk County. During the 2005-06 school year, the District served 2,036 students and spent approximately \$50.7 million. During the same school year, 67 percent of the District's students were eligible for free and reduced lunch programs and 44 percent of high school students graduated.

The Federal Title I Part A (Title I) of the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001, provides grant funding to support state and local school reform efforts to improve teaching and learning for students farthest from meeting State standards. Schools with poverty rates above 40 percent, such as Wyandanch, may use Title I funds to operate a "schoolwide program." A schoolwide program is a comprehensive reform strategy to improve the academic achievement of all students in the school particularly the lowest-achieving students. Wyandanch expended a total of over \$6.1 million in Title I funds during the project funding years 1999-2000 through 2003-04.

Title II programs provide assistance to increase student academic achievement through strategies such as improving teacher and principal quality; professional development; utilizing technology in elementary and secondary schools; and hiring additional highly qualified teachers as a means of reducing class sizes. Wyandanch expended \$487,743 in Title II funds during the project funding years 1999-2000 through 2003-04.

In September 2005, the U.S. Department of Education's (ED) Office of Inspector General (OIG) issued an audit report stating that District records for \$6.6 million in Title I and Title II expenditures, for the period September 1, 1999 through August 31, 2004, were unauditible. The audit also reported that material differences existed between amounts recorded in the District's financial system and claims submitted to the New York State Education Department

(SED) on expenditure reports¹. In addition, internal controls regarding the administration of Title I and Title II funds were weak. The audit's recommendations focused on the provision of proper support for the \$6.6 million in claims, improving the District's financial system, and establishing/implementing internal controls relating to proper oversight of financial transactions. The Assistant Secretary for Elementary and Secondary Education of the ED issued a program determination letter indicating the actions that SED needed to take to address the findings in the audit report.

Objectives, Scope, and Methodology

The Office of Audit Services (OAS) undertook this audit to comply with the program determination letter of the Assistant Secretary for Elementary and Secondary Education of the ED. The objectives of the audit were to determine if:

- support exists for the \$6.6 million in salary and non-salary related charges during project funding periods September 1, 1999 to August 31, 2004; and
- the District has complied with the corrective actions required by ED related to fiscal controls and policies and procedures.

To accomplish our objectives, we reviewed applicable laws, regulations, and District policies; and examined personnel files and expenditure documentation. We also compared the final expenditure reports submitted to SED with the information in the District's financial system.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Our audit included examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records, and applying other procedures considered necessary. We believe that our audit provides a reasonable basis for our findings and recommendations.

¹ See Auditors Note.

Audit Results

We found that the District could not adequately substantiate \$252,221 in salary and salary-related expenditures, and \$33,465 in non-salary expenditures that were charged to the Title I and Title II programs for project funding periods September 1, 1999 through August 31, 2004. As a result, the District should refund the amount to SED. The disallowance resulted from the following:

- inadequate documentation to support \$201,792 in salary expenditures for five teachers;
- ancillary charges associated with unsupported salary expenditures. The charges were for social security, health insurance, teachers retirement, and indirect costs; they amounted to \$9,865, \$29,411, \$1,537, and \$9,616, respectively;
- ineligible non-salary expenditures in the amount of \$33,465.

In addition, we found that the District has not fully complied with the corrective actions required by the program determination letter. It has only complied with the corrective action related to Board member training. The District could not provide updated policies and/or procedures addressing internal controls related to segregation of duties; oversight of cash payments; review of payment documentation; bank statement and financial report review; and changes in laws, regulations, guidance, and funding agreements affecting ED grants.

The findings and improvement opportunities are addressed in more detail in the following sections of the report.

Comments of Wyandanch Officials

District officials' comments about the findings were considered in preparing the report. The District did not respond in writing to the draft report.

Salary and Salary-Related Expenditures

Salary and salary-related expenditures typically account for the majority of expenditures funded through federal grants to school districts. The Office of Management and Budget (OMB) Circular A-87 Cost Principles (A-87) defines allowable costs for federally funded grants. A-87 establishes criteria for charging salary and salary-related costs to a federal grant program. In addition, SED's Guide to Grants Administration and Implementation Resources (Guide) reinforces the requirements of A-87. Further, the Guide states that grantees must maintain records that describe the duties and pay of each grant-funded position.

The District did not comply with the requirements for grant reporting in the areas of payroll certification and documentation that employee activities were related to grant programs. As a result, the District was not entitled to \$201,792 in salary costs and \$50,429 in related indirect and employee benefit costs.

Lack of Payroll Certification

According to A-87, employees spending 100 percent of their time conducting grant program activities may be paid 100 percent from grant funds. Periodic certifications must be prepared at least semi-annually and signed by the employee or supervisor having first hand knowledge of the work performed. Employees should only receive partial payment from grant funds in accordance with actual time spent on grant activities. Grantees may charge the grant program only for the number of days, or percentage of time, an employee worked on the grant program. Each locality must maintain documentation, or a substitute system, to support time and effort for each employee paid with project funds.

The District does not prepare payroll certifications and could not support the allocation of some employees time charged to the grant.

Unsupported Salaries

Final expenditure reports (FS-10-F) submitted to SED for project funding periods September 1, 1999 to August 31, 2004, show the District charged 151 professional and support salaries, amounting to \$4,603,085, to Title I and Title II. Using the FS-10-F for each grant year, we selected a sample of 42 charges, which included 33 Title I professional and support salary charges amounting to \$1,128,844 and nine Title II professional and support salary charges amounting to \$138,099.

Since the District does not prepare payroll certifications, we reviewed each employee's personnel file and looked for documentation, such as teaching assignments and observation reports, to determine if support exists to justify the charges to the grants.

Our review of personnel files for the 42 sampled professional and support salaries charged to Title I and Title II grants during project funding years 1999-2004 showed that five do not contain adequate support for the staff salary charges; specifically:

- Two personnel files do not contain sufficient documentation to demonstrate the teacher's specific job duties and responsibilities. Moreover, there was no evidence that the duties they performed during the fiscal year their salaries were charged to Title I could be attributed to the grant. One teacher worked as a special education teaching aide at the high school. The other teacher has a Special Education Certificate in her file and a commendation letter from the principal for a specific event during which her stated role was the Literacy Collaborative Coordinator. Although the latter could be allowable under Title I, it was not clear as to when she held the position and if she worked on other programs. No other documentation to describe her job duties was available. Salary charges for the two teachers amounted to \$69,438.
- Three personnel files do not contain support to substantiate the teacher's Title II salary charges for teacher improvement or class size reduction. Their files show that one of the teachers taught kindergarten, another taught first grade, and the third taught

reading/language arts/writing. Salary charges for the three teachers amounted to \$132,354. According to District officials, their salaries were charged to implement the class size reduction program. However, instead of hiring additional teachers, the District retained teachers who would have been laid off and shifted the cost from non-federal funding (charged in the prior year) to Title II. The District did not provide any programmatic or fiscal documentation to show that teaching positions were eliminated due to budget cuts or reduction in State or local funds.

Unsupported Salary-Related Expenditures

Indirect costs represent the expenses of doing business that are not readily identified with a particular grant, contract, project function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs. Fringe benefits are allowable grant expenditures that may only be claimed for personnel who are directly working on the grant project. They are chargeable for the portion of salaries expended using grant funds.

The District charged Title I and Title II \$9,616 in indirect costs and \$40,813 for employee benefits related to the unsupported salaries discussed above; employee benefit amounts charged are as follows:

Disallowed Employee Benefits
For Project Funding Periods
2001-02 through 2003-04

Social Security	\$ 9,865
Health Insurance	29,411
Teachers Retirement	1,537
Total	\$ 40,813

Source: FS-10-F

Recommendations

The District lacks supporting documentation to substantiate the validity of \$252,221 in Title I and Title II professional and support salaries, employee benefits, and indirect costs. Without such support, we could not determine if the District's use of Title I and Title II funds was appropriate and in accordance with cost principles established by OMB. By requiring District personnel to prepare and maintain

supporting documentation for Title I and Title II professional and support salary charges, District personnel can justify that expenditures charged to such grants are appropriate.

1. Prepare payroll certifications and maintain supporting documentation to substantiate all professional and support salary charges to grant funds.
2. Return the \$252,221 in unsupported Title I and Title II professional and support salaries, employee benefits, and indirect costs to the SED.

Non-Salary Expenditures

Districts must have adequate accounting and reporting systems in place to ensure that accurate, timely, and complete grant financial records are maintained and disclosed in required reports to the board and SED. Expenditure documentation must be adequate to support charges to the grant and to demonstrate adherence to the terms and conditions of the grant.

The District's expenditure documentation did not support the applicability and/or eligibility under the provisions of the grant.

Unsupported Expenditures

A-87 defines direct costs as those that can be identified specifically with a particular final cost objective. Cost of materials acquired, consumed, or expended are typical direct costs chargeable to federal awards.

To be allowable under federal grant awards, costs must be necessary and reasonable; consistent with policies, regulations, and procedures that apply to the award; accorded consistent treatment; and adequately documented. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. In addition, any cost allocable to a particular federal grant award or cost objective may not be charged to other federal awards to overcome fund deficiencies or for other reasons.

School districts must maintain adequate documentation to support charges to federal grants, demonstrate adherence to the terms and conditions of the grant, and performance of the approved activities.

Title I funds are used to provide additional academic support and learning opportunities to help low achieving children master challenging curricula and meet state standards in core academic subjects. Schools operating a schoolwide program use Title I funds to upgrade the instructional program for the entire school. Title II program funding should be used to pay costs associated

with the improvement of teacher and principal quality, or to purchase technology aimed at improving student academic achievement in elementary and secondary schools.

The FS-10-F reports for project funding years 1999-2004 show that the District charged 180 non-salary expenditures, amounting to \$591,481, to Title I and Title II. Using the FS-10-F for each grant year, we selected a sample of 63 expenditures amounting to \$365,035. To determine if adequate support exists to substantiate these charges, we reviewed voucher documentation for each sampled charge.

Our voucher review of the 63 sampled non-salary expenditures charged to Title I and Title II during the 1999-2004 project funding years showed that 19 expenditures, amounting to \$33,465, were unsupported either because documentation was insufficient to determine grant applicability, or they were documented but were not allowable under the provisions of the two grants. Specifically:

- Sixteen Title I expenditures amounting to \$31,285, which represent ten percent of the total Title I dollar amount sampled (\$313,837), are unsupported or unallowable. Examples include reimbursement for hotel, meal, conference registration, and taxi expenses; video purchases in which the nature and purpose of the purchase is undocumented; unidentified professional journal purchases; kite, glider, and necklace purchases; and transportation expenses resulting from an after-the-fact rate increase for a bus trip.
- Three Title II expenditures amounting to \$2,180, which represent four percent of the total Title II dollar amount sampled (\$51,198), are not allowable under the grant. These expenditures include “earth day” paraphernalia and book purchases for students, not for staff development; purchases of lapel pins and a clock; and biology classroom supplies for students.

In total, District personnel charged \$33,465 in ineligible expenditures to Title I and Title II. By preparing and maintaining support for all Title I and Title II non-salary expenditures, District personnel would provide assurance that they are utilizing Title I and Title II funds in accordance with their intended purpose.

Recommendations

3. Return the \$33,465 in questionable Title I and Title II non-salary expenditures to the SED.
4. Prepare and maintain supporting documentation to substantiate Title I and Title II applicability for all non-salary grant expenditures.

Internal Controls

Title 34 part 80.20 of the Code of Federal Regulations requires grantees to have a proper financial management system in place in order to receive a grant and expend the funds from the grant. One element of a sound financial management system is internal controls. These controls must include all methods adopted by a grantee to safeguard its assets; comply with management policies, grant terms and conditions; and provide reliability of accounting information data.

Internal controls are a combination of attitudes, policies, and efforts of the people within an organization working together to achieve the organization's objectives and mission. A strong system of internal controls benefits all aspects of an organization's operations; it improves the reliability of organizational operations, provides confidence that an organization is using funds and resources efficiently and effectively, and provides assurance that assets and resources are well protected and managed. Controls should be well documented and up-to-date, as they provide employees with guidance on proper behavior, job expectations, and how to attain organizational objectives and goals. Typically, an organization's management is responsible for making sure this system of internal controls has been developed, implemented, and communicated throughout the organization.

The District does not have policies and procedures related to key financial activities, federal grant management, and hiring practices.

Internal Control Weaknesses and Lack of Policies and Procedures

Clearly written policies and procedures that address significant activities and unique issues, employee responsibilities, limits to authority, performance standards, control procedures and reporting relationships enhance an organization's internal control.

Education Law §1709 requires that the board of education establish policies and procedures for district operations. The policies and procedures should address all of the district's major functions and clearly define roles and

responsibilities. District officials should ensure that policies and procedures are disseminated to the appropriate staff. Policies become official when they are presented and approved by the board. Procedures stem from the policies and provide day-to-day guidance on operations.

The OIG audit reported internal control weaknesses due to the following:

1. Lack of segregation of duties of one employee who is responsible for recording and disbursing federal funds.
2. Lack of periodic reconciliations and cash management oversight.
3. Obsolete policy manual and failure to follow the policy manual.
4. Inadequate oversight by the Board of Education in hiring employees.

As a result of the above findings, the Assistant Secretary for Elementary and Secondary Education required corrective actions to:

- Establish and implement adequate internal controls for the segregation of duties, oversight of cash payments, and proper review of payment documentation.
- Ensure that all bank statements and financial reports are reviewed for accuracy prior to submission to the Board.
- Update the policy manual to reflect the changes in laws, regulations, guidance, and funding agreements affecting ED grants, and ensure the policy manual is implemented.
- Provide necessary management accountability training to all Board members and adhering to laws and regulations related to hiring experienced candidates to fill vacant positions.

On three occasions, OAS requested policies and/or procedures regarding oversight of cash payments, review of payment documentation, segregation of duties, and bank statement and financial report review processes prior to submission to the District's Board. District officials did not provide us with the requested documents. They did send the Table of Contents of the Policy Manual and a copy of the policy on Expenditures and Fiscal Accounting and

Reporting. However, these policies do not address the corrective actions required. District officials also sent certificates of attendance to the required training on fiscal oversight for Board members.

The lack of adequate policies and procedures pertaining to the oversight of cash payments, review of payment documentation, segregation of duties, and bank statement/financial report review increases the risk of grant mismanagement by District personnel.

Recommendation

5. Develop and disseminate policies and procedures that address:
 - internal controls for the segregation of duties, oversight of cash payments, proper review of payment documentation;
 - bank statement/financial report review processes prior to submission to the Board;
 - changes in laws, regulations, guidance, and funding agreements affecting ED grants; and
 - legal requirements related to hiring practices.

AUDITORS NOTE

¹To address this finding, we performed a reconciliation of every Title I and Title II charge (for grant project years 1999-2004) reported to SED on each year's FS-10-F to the District's financial system. We found that the majority of charges reported are reconcilable to the District's financial system. Of the 331 charges claimed on the District's FS-10-Fs, we were able to reconcile 307 (90 percent). For 21 of the charges that we could not reconcile, the reported amounts were less than the amounts on the District's financial system. For the three remaining charges that had greater amounts reported on the FS-10-Fs, two were sampled during testing.

Contributors to the Report
Wyandanch Union Free School District

- Maria C. Guzman, CPA, Audit Manager
- Andy Fischler, Associate Auditor
- Lynn Humiston, Senior Auditor