



**U.S. Department of Education
Office of Inspector General**



American Recovery and Reinvestment Act of 2009

New York State Local Educational Agencies Systems of Internal Control Over American Recovery and Reinvestment Act Funds

Audit Report



ED-OIG/A02J0009

February 2010



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

February 17, 2010

Dr. David Milton Steiner
Commissioner of Education
New York State Education Department
89 Washington Avenue
Albany, NY 12234

Timothy J. Gilchrist
Senior Advisor to the Governor for Infrastructure and Transportation
New York State Economic Recovery and Reinvestment Cabinet
Executive Chamber
State Capitol
Albany, NY 12224

Dear Dr. Steiner and Mr. Gilchrist:

This **final audit report** presents the results of our review of the designed systems of local educational agency-level internal control over American Recovery and Reinvestment Act funds in New York.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on this audit:

Thelma Meléndez de Santa Ana, Ph.D
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Ave S.W. LBJ, 3W315
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It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within **30 days** would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,
/s/

Daniel P. Schultz
Regional Inspector General for Audit

Abbreviations/Acronyms Used in This Report

ARRA	American Recovery and Reinvestment Act of 2009
C.F.R.	Code of Federal Regulations
ED	U.S. Department of Education
Harborfields	Harborfields Central School District
IDEA	Individuals with Disabilities Education Act Part B
Kiryas Joel	Kiryas Joel Union Free School District
LEA	Local Educational Agency
NYCDOE	New York City Department of Education
NYS	New York State
NYSED	New York State Education Department
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OMB	Office of Management and Budget
SAM	School Allocation Memorandums
SFSF	State Fiscal Stabilization Fund
Title I	Title I Part A of the Elementary and Secondary Education Act

New York State Local Educational Agencies Systems of Internal Control Over ARRA Funds

Control Number ED-OIG/A02J0009

PURPOSE

The American Recovery and Reinvestment Act of 2009 (ARRA) places a heavy emphasis on accountability and transparency, and in doing so, increases the responsibilities of the agencies that are impacted by ARRA. Overall, the U.S. Department of Education (ED) is responsible for ensuring that education-related ARRA funds reach intended recipients and achieve intended results. This includes effectively implementing and controlling funds at the Federal level, effectively ensuring that recipients understand requirements and have proper controls in place over the administration and reporting of ARRA funds, and promptly identifying and mitigating instances of fraud, waste, and abuse of the funds.

The purpose of our review was to determine whether agencies charged with responsibility for overseeing ARRA funds have designed systems of internal control that are sufficient to provide reasonable assurance of compliance with applicable laws, regulations, and guidance. Proper internal controls are essential for ensuring that ARRA funds are administered properly and used in ways that coincide with the intent of ARRA. This report provides the results of the reviews we conducted at three selected New York local educational agencies (LEAs), the New York City Department of Education (NYCDOE), the Kiryas Joel Union Free School District (Kiryas Joel), and the Harborfields Central School District (Harborfields). We focused our review on the design of controls over data quality, cash management, and use of funds at each selected LEA. These controls are a key aspect in the proper administration of ARRA funds for Title I Part A of the Elementary and Secondary Education Act (Title I), Individuals with Disabilities Education Act Part B (IDEA),¹ and the State Fiscal Stabilization Fund (SFSF).

RESULTS

Our review consisted of an assessment of the designed systems of internal control planned for ARRA funds at each selected LEA. At the three LEAs, those systems consisted of internal controls established prior to the passage of ARRA with some modifications. Since ARRA is in its early stages, the LEAs were still in the process of planning for implementation. Therefore, we reviewed the designed systems of LEA controls planned for ARRA funds at the time of our fieldwork.²

The LEAs we reviewed were making efforts to ensure the proper administration of ARRA funds. For instance, NYCDOE, Kiryas Joel, and Harborfields planned to use existing systems to account for and track ARRA funds but planned to use separate accounting codes to distinguish Title I, IDEA, and SFSF ARRA funding in their accounting systems. NYCDOE, Kiryas Joel, and Harborfields use automated accounting systems. The LEAs also planned to use ARRA funding mostly for salary related expenditures.

¹ IDEA includes only Grants to States.

² We conducted our fieldwork from June 11, 2009, through August 19, 2009.

Based on our assessment, we concluded that NYCDOE and Harborfields had designed systems of internal control that were generally sufficient to provide reasonable assurance that ARRA funds are administered in compliance with applicable laws, regulations, and guidance. However, additional steps should be taken to further strengthen the controls over data quality, cash management, and use of funds. Although NYCDOE and Harborfields had implemented certain procedures in anticipation of meeting ARRA reporting requirements, they should establish additional data quality processes and controls to ensure their readiness in collecting and reporting data in order to comply with all ARRA reporting requirements. We also noted that the two LEAs need to incorporate in their written policies and procedures the internal controls covering areas related to cash management and use of funds. Our conclusions and findings pertaining to NYCDOE and Harborfields are presented under PART 1 and PART 2, respectively, of this report section.

We concluded that Kiryas Joel's designed systems of internal control were not adequate to provide reasonable assurance that ARRA funds are administered in compliance with applicable laws, regulations, and guidance. Kiryas Joel had insufficient controls in many areas related to data quality, cash management, and use of funds. Specifically, Kiryas Joel lacked adequate internal controls to ensure compliance with ARRA reporting requirements. We noted that Kiryas Joel lacked adequate controls in safeguarding payroll checks. We also found that Kiryas Joel did not have sufficient controls to minimize the risk of funds being improperly disbursed. Particularly, we found that Kiryas Joel's accounting software, ██████████, did not have adequate controls to prevent the use of duplicate check numbers for payroll and non-payroll expenses. This may be a more pervasive statewide issue because ██████████ is used by more than 300 LEAs across New York, as noted in the Other Matters section of this report. Also, Kiryas Joel's written policy manual did not reflect current procedures that were followed by its employees. Our conclusions and findings pertaining to Kiryas Joel are presented under PART 3 of this report section. Because of the material weaknesses identified at Kiryas Joel, OIG determined that an audit of this LEA is warranted.

Given that much of the ARRA funding had not yet reached the States and localities, at the time of our fieldwork, we could not validate nor test the accuracy of the statements made by officials regarding their accounting and tracking systems.

We provided the preliminary copy of our final report for review and comment to the New York State Education Department (NYSED) and the New York State (NYS) Governor's Office on December 9, 2009. The NYS Governor's Office did not provide comments. In NYSED's comments dated December 23, 2009, NYSED did not specifically concur or disagree with our findings, but stated it was prepared to implement all of our recommendations. NYSED's comments, which also included separate comments from the three LEAs, are summarized at the end of each finding. The entire narrative of its comments is included as Attachment 1 to this report.

PART 1: NYCDOE SYSTEM OF INTERNAL CONTROL OVER ARRA FUNDS

NYCDOE has taken certain steps toward ensuring the proper administration of ARRA funds. NYCDOE indicated that it intended to use its ARRA funds for employee salaries. NYCDOE planned to use existing accounting systems to account for and track ARRA funds by setting up separate accounting codes for Title I, IDEA, and SFSF funding. Additionally, NYCDOE schools used the Galaxy budgeting system to schedule budgeted expenditures for ARRA allocations. The majority of NYCDOE's budget is allocated to schools directly by NYCDOE's Division of Budget Operations and Review and is based on the allocation formula. School Allocation Memorandums (SAM) used to communicate specific information on school ARRA allocations and applicable requirements were provided to the schools and were available online at the NYCDOE Web site.

In addition, Galaxy had built-in filter rules for each allocation category to help control how funds were used. This enabled NYCDOE to limit the types of expenditures that schools could schedule to a specified allocation category based on policy and funding mandates. To assist school principals, NYCDOE developed a Galaxy Survey Tool that included a list of reasons to accommodate correct scheduling of ARRA funds.

Furthermore, NYCDOE indicated that it planned that ARRA funds would not be used for purchases made with purchase cards and imprest funds.³ NYCDOE indicated that it added controls to its accounting systems that prevented ARRA funds from being used to pay for purchases coded as purchase cards transactions.

FINDING NO. 1: NYCDOE Lacked Progress in Establishing Processes to Ensure Compliance with ARRA Reporting Requirements

NYCDOE had implemented certain procedures in anticipation of meeting ARRA § 1512 reporting requirements. NYCDOE created separate accounting codes for tracking ARRA funds in its accounting systems and a methodology for estimating the number of jobs saved or created. However, at the time of our fieldwork, NYCDOE had not made sufficient progress in establishing processes and controls to ensure its readiness in collecting and reporting accurate and complete data to ensure compliance with all ARRA reporting requirements. Specifically, NYCDOE planned to use its existing systems and procedures, without modification, to collect, compile, and report the data required under ARRA. However, according to both NYCDOE and NYSED officials, NYCDOE had a long history of late submissions of its FS-10, FS-25, and FS-10F forms to NYSED.⁴ Because NYCDOE did not plan to modify its existing systems and procedures for reporting, NYCDOE may not consistently meet ARRA reporting requirements in a timely manner.

In addition, at the time of our fieldwork, NYCDOE officials stated that NYSED had not provided sufficient guidance to NYCDOE regarding the reporting requirements for ARRA.

³ Purchase cards and imprest funds are the methods used by NYCDOE for small purchase transactions.

⁴ The NYSED form FS-10 (Proposed Budget for a Federal or State Project) is used by LEAs to propose a budget for a specific Federal or State project. The form FS-25 (Request for Funds for a Federal or State Project) is used by the LEAs to request cash drawdown of up to 90 percent of the approved budget for expenditures already made and/or anticipated cash needs for the next reporting period. The form FS-10F (Final Expenditure Report for a Federal or State Project) is used by LEAs to report all reimbursable expenditures made by the LEA for an approved grant.

Also, because NYSED was still in the process of developing controls to collect, review, and report ARRA data to ensure they were accurate and complete, it could not provide complete guidance to its LEAs. Therefore, NYCDOE was still unaware of its responsibilities with regard to ARRA reporting requirements and did not develop processes to collect and report all required ARRA data.

According to the Office of Management and Budget's (OMB) reporting guidance, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, issued on June 22, 2009, the subrecipients are to (1) initiate appropriate data collection and reporting procedures to ensure that Section 1512 reporting requirements are met in a timely and effective manner; (2) implement internal control measures as appropriate to ensure accurate and complete information; and (3) review subrecipient information for material omissions and/or significant reporting errors, and make appropriate and timely corrections.

During the October 19, 2009, preliminary exit conference, NYCDOE officials stated that NYCDOE submitted the required ARRA data on time to meet the September 2009 quarterly ARRA reporting requirement. NYCDOE indicated that it did not need to modify its systems to comply with ARRA reporting requirements because it had all required data readily available through its current systems. However, NYCDOE did not provide any additional information or documentation to show that it had developed and implemented controls to verify the accuracy and completeness of reported data before and after submission. In addition, in its comments to the OIG report entitled *New York State System of Internal Control Over American Recovery and Reinvestment Act Funds*, ED-OIG/A02J0006, NYSED indicated that it was in the process of assessing the results of its initial submission of ARRA reporting data. Therefore, at this time, we cannot determine the accuracy and completeness of the data submitted by NYCDOE.

The weaknesses we noted above indicated that NYCDOE's system to collect and report ARRA data may place NYCDOE at risk of being unable to submit the required ARRA data accurately and timely.

Recommendations

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education (OESE) require NYSED to work with NYCDOE to—

- 1.1 Determine and implement additional measures that are needed to mitigate the risk of NYCDOE's noncompliance with ARRA reporting requirements.

NYSED Comments

NYSED indicated it had continuously shared updated ARRA guidance with all LEAs through various memos, workshops, and online sessions. Furthermore, it provided direction on how to gather information on jobs created/saved and the application process for the Education Stabilization Fund. NYSED stated that it built a web-based data collection tool, which went into effect on September 21, 2009. NYSED also stated it was prepared to implement all of the report recommendations. This would be done through the enhanced monitoring/auditing that NYSED indicated it initiated to meet the requirements of ARRA and its review of the corrective action plans submitted by each LEA.

NYCDOE Comments

NYCDOE agreed with OIG's conclusion that NYCDOE's systems of internal control were generally sufficient to provide reasonable assurance that ARRA funds would be administered in compliance with applicable laws, regulations, and guidance. However, NYCDOE disagreed with the areas of concern noted by OIG. NYCDOE stated that OIG did not consider NYCDOE's preparations throughout the spring and summer of 2009 to assess and implement enhancement to its existing systems and procedures. NYCDOE stated that during the summer of 2009, it retained KPMG LLP to perform a comprehensive readiness assessment of NYCDOE's existing systems, controls, and proposed ARRA enhancements. Based on the assessment and recommendations from KPMG LLP, NYCDOE had designed and implemented significant enhancements to its systems, internal controls, and procedures to assure its compliance with the ARRA reporting requirements. Specifically, NYCDOE indicated that it designed and implemented new survey tools in its Galaxy budgeting system to facilitate the correct scheduling of ARRA funds by school officials and capture information to ensure ARRA-Title I funds were budgeted to supplement, not supplant, the programs. NYCDOE also indicated that it communicated restrictions on the use of ARRA funds and the requirement to effectively document all ARRA expenditures to all schools and field support offices.

NYCDOE also disputed that it was at risk of being unable to submit accurate and timely data because (1) it had submitted the first quarterly report on time, and (2) in consultation with New York City and NYSED officials, KPMG LLP, and Ernst & Young LLP, it had established thorough procedures for quality assurance, monitoring, and internal auditing of ARRA expenditures and reporting. In addition, NYCDOE provided a document describing the procedures its contractor, Ernst & Young LLP, had performed for the first quarterly report and planned to perform for future ARRA § 1512 reporting.

NYCDOE also stated that it was concerned with OIG's assertion that it could not determine the accuracy and completeness of data submitted by NYCDOE and that NYCDOE may be at risk of not being able to submit the required ARRA data accurately and timely. NYCDOE further stated that it strongly objected to these statements because OIG did not engage in interviews, perform a review, or conduct testing on the accuracy and completeness of the data.

NYCDOE indicated that its late submissions of expenditure reports in the past were primarily related to unliquidated encumbrances and it had since developed an internal report to facilitate more timely liquidation of open encumbrances. NYCDOE also contested the statement that late submissions of expenditure reports to NYSED would impact NYCDOE's or NYSED's ability to fully comply with ARRA reporting. NYCDOE stated NYSED reports ARRA expenditures only after it disburses the funds to LEAs and if it does not submit expenditure reports for funds from NYSED, NYSED would not have expenditure information to report for NYCDOE, as funds would not have been disbursed.

OIG Response

We were unable to determine whether NYSED's web-based data collection tool is sufficient to address the reporting requirements of ARRA because it was not available during the time of our fieldwork. NYSED should work with NYCDOE to implement procedures to ensure that

NYCDOE submits accurate and complete data timely and in full compliance with all ARRA reporting requirements.

We recognized that NYCDOE had continued its efforts to meet the ARRA § 1512 reporting requirements and that it had submitted data for the first quarterly report timely. During the entrance conference, we explained the objective of our audit including our focus on data quality. We also indicated that we did not plan to conduct testing during this phase of the audit because NYCDOE was not yet in receipt of significant ARRA funds for testing. We conducted interviews with various NYCDOE officials, including the Executive Director of Grants and the Chief Administrator for Finance, where we asked whether NYCDOE had planned to modify its systems or implement additional controls to ensure its compliance with the ARRA reporting requirements including accurate and complete data. However, the responsible NYCDOE officials stated, during these interviews, that NYCDOE did not plan to modify its systems or develop additional controls to ensure the accuracy and completeness of ARRA data.

NYCDOE had not communicated or provided documentation during our fieldwork or our October 19, 2009, preliminary exit conference that it had (1) made enhancements to its systems, internal controls, and procedures based on the assessments and recommendations from KPMG LLP and Ernst & Young LLP, and (2) established thorough procedures for quality assurance, monitoring and internal auditing of ARRA expenditures, and reporting to ensure its compliance with ARRA reporting requirements. During the preliminary exit conference, OIG inquired again whether NYCDOE had modified its systems or developed additional controls to ensure the data submitted were accurate and complete. NYCDOE officials repeatedly stated that the systems did not require modifications and that NYCDOE did not need additional controls because all required information was readily available. NYCDOE pointed out that the only thing it was lacking was guidance from NYSED. NYCDOE did not take advantage of the opportunity at the time of the preliminary exit to provide additional documentation to show how it planned to ensure its data were accurate and reliable.

NYCDOE's Auditor General informed OIG during a teleconference held on December 17, 2009, after the distribution of the preliminary copy of the final report, that KPMG LLP conducted monitoring for the first quarterly report while Ernst & Young LLP performed an integrity review of the § 1512 report and transaction testing. OIG provided NYCDOE another opportunity to provide additional documentation to support that the work completed for ensuring the accuracy and completeness of the data, was actually performed. However, NYCDOE did not provide additional supporting documentation.

In its response, NYCDOE did provide an outline describing the procedures that its contractor, Ernst & Young LLP, (1) had performed for the first quarterly report and (2) planned to perform for future ARRA § 1512 reporting. However, we could not validate the work performed by Ernst & Young LLP because NYCDOE provided only an outline describing the procedures completed without any supporting source documentation. In addition, we could not determine whether the procedures described in the response were part of NYCDOE's policies and procedures or created specifically for the response to OIG's report. NYCDOE did not provide documentation supporting the results of the outlined procedures regarding its § 1512 reporting or evidence that the procedures were performed.

We understand that NYSED, as a prime recipient of the ARRA funds, reports the expenditure amounts only after it disburses the funds to its LEAs. However, the disbursement of those funds was based on FS-25 and FS-10F forms submitted by LEAs to claim reimbursements. Given the heavy emphasis ARRA places on transparency and accountability, if NYCDOE does not submit its claims for funds to NYSED on a regular and timely basis (advancing its own funds at the time of expenditure, instead of using ARRA funds at the time of the ARRA expenditure), NYSED ARRA reporting for expenditure information may not be transparent. Since NYCDOE did not provide documentation supporting the results of the review performed on the accuracy and completeness of the data or any evidence that it actually performed the review, there is no assurance the data submitted for its § 1512 reporting were accurate and complete. Therefore, we cannot determine the accuracy and completeness of the data submitted by NYCDOE at this time.

FINDING NO. 2: NYCDOE Lacked Certain Written Policies and Procedures for Cash Management and Use of Funds

NYCDOE lacked adequate written policies and procedures in the areas of cash management and use of funds. Specifically, NYCDOE's written policies and procedures did not include steps that require: (1) reconciliation for the receipt and disbursement of grant funds be completed on a timely basis; (2) reconciliation for the receipt and disbursement of grant funds be reviewed by an appropriate NYCDOE official; and (3) contract monitoring be performed to ensure goods and services were received and performed, respectively.

When we examined NYCDOE's Standard Operating Procedures for General School Funds and Cash Transactions, and Other Than Personal Service Purchases, we could not locate specific steps to ensure the controls listed above were carried out. NYCDOE's Department of Revenue Operations officials provided us with a verbal explanation of how the claim and cash drawdown process works at NYCDOE for Federal grants, along with how Federal grant deposits are accounted for at NYCDOE. However, the NYCDOE officials stated that written policies and procedures did not exist for these areas.

For contract monitoring, NYCDOE's Office of Special Education Initiatives officials provided us with a verbal explanation of how the Related Service Providers contracts were monitored by the NYCDOE Division of Financial Operations and the Integrated Service Centers. However, NYCDOE officials stated that written policies and procedures did not exist for the processes described.

According to OMB Circular A-133 Compliance Supplement (March 2009), Part 6—Internal Control, control activities are the policies and procedures that help ensure that management's directives are carried out. Control activities should include (1) operating policies and procedures clearly written and communicated, (2) management prohibition against intervention or overriding established controls, and (3) adequate segregation of duties provided between performance, review, and recordkeeping of a task.

Also, according to the NYS Comptroller's *Standards for Internal Control in New York State Government*, Part II: Five Components of Internal Control, "Documentation of policies and procedures is critical to the daily operations of an organization. These documents set forth the fundamental framework and the underlying methods and processes all employees rely on to do their jobs."

Without adequate written policies and procedures to clearly communicate required processes, the staff may not have sufficient guidance to carry out the day to day operations to ensure proper administration of ARRA funds.

Recommendations

We recommend that the Assistant Secretary for OESE require NYSED to work with NYCDOE to take immediate actions to implement policies and procedures to ensure—

- 2.1 Reconciliations for the receipt and disbursement of grant funds are completed and monitored properly and timely; and
- 2.2 Contracts are monitored to ensure goods and services are received and performed properly and timely.

NYSED Comments

NYSED provided no specific comments for this finding. However, NYSED stated that, overall, it was prepared to implement all of the recommendations in the report.

NYCDOE Comments

For Recommendation 2.1, NYCDOE stated that its Department of Revenue Operations provided a verbal explanation of how the claim and cash drawdown process for Federal grants works and how they account for Federal grant deposits. NYCDOE further noted that OIG's concern was that these procedures were not in writing. NYCDOE stated they provided OIG with a copy of these written policies and procedures in October 2009, which were developed during the summer of 2009. NYCDOE further stated that they continue to develop and distribute written policies and procedures on the use of ARRA funds through School Allocation Memoranda and various PowerPoint presentations available through the Principals' Portal. Furthermore, NYCDOE stated it maintains a Reimbursable Handbook detailing the requirements of its reimbursable Federal grant funds.

For Recommendation 2.2, NYCDOE agreed to document its general contract management and monitoring policies and procedures separate from the contract themselves. NYCDOE stated that its Office of Special Education Initiatives provided a verbal explanation of how the Related Service Providers contracts were monitored. NYCDOE further noted OIG's concern was that these procedures were not in writing. NYCDOE also stated that the contracts executed with the vendors include reports and documentation that the service provider is required to submit to NYCDOE officials for contract monitoring and/or audits.

OIG Response

NYCDOE provided us written policies and procedures for the claims and cash drawdown process in October 2009. However, it was the written policies and procedures it had developed in August 2008, not during the summer of 2009. NYCDOE did not provide us with the written policies and procedures it had developed during the summer of 2009. The written policies and procedures provided to us were not sufficient to address our finding and Recommendation 2.1.

The written policies and procedures provided to us in October 2009, titled *DOE Standard Operating Procedure for Formula Grants*, did not contain steps to ensure reconciliations for the receipt and disbursement of grant funds were completed on a timely basis and monitored and approved by the appropriate NYCDOE officials.

NYCDOE's proposed corrective action to document its general contract management and monitoring policies and procedures appears to be appropriate. However, we were unable to determine whether the documented procedures sufficiently addressed our concerns since we have not been provided a copy of the new written procedures.

PART 2: HARBORFIELDS SYSTEM OF INTERNAL CONTROL OVER ARRA FUNDS

Harborfields has taken certain steps to ensure the proper administration of ARRA funds. Harborfields planned to use existing systems to account for and track ARRA funds and set up separate accounting codes for IDEA and SFSF ARRA funding in its accounting system. In addition, Harborfields used the results of assessments of its policies and procedures performed by its internal auditor to improve its internal controls. Specifically, it recently implemented many new procedures based on recommendations from the internal assessments of payroll and purchasing processes to ensure proper segregation of duties. In addition, Harborfields began using the Requisition Manager module in its accounting system software, Finance Manager. Therefore, all purchase orders were created and approved electronically. The claims auditor no longer prepared them manually, making the process more efficient.

FINDING NO. 3: Harborfields Lacked Progress in Establishing Processes to Ensure Compliance with ARRA Reporting Requirements

Harborfields had implemented certain procedures in anticipation of meeting ARRA § 1512 reporting requirements. Harborfields planned to create separate accounting codes for tracking ARRA funds in its accounting system and had created a methodology for estimating the number of jobs saved or created. However, at the time of our fieldwork, Harborfields had not made sufficient progress in establishing processes and controls to collect, review, and report data in order to meet all ARRA reporting requirements. Harborfields planned to use the existing systems and procedures for inputting, processing, and reporting ARRA IDEA and SFSF funds. Harborfields did not plan to implement additional procedures for collecting and reviewing ARRA data before submitting to NYSED. Harborfields officials also indicated that the district has not received sufficient guidance from NYSED as to how and what to report for ARRA funds.

According to OMB reporting guidance, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, issued on June 22, 2009, the subrecipients are to (1) initiate appropriate data collection and reporting procedures to ensure that Section 1512 reporting requirements are met in a timely and effective manner; (2) implement internal control measures as appropriate to ensure accurate and complete information; and (3) review subrecipient information for material omissions and/or significant reporting errors, and make appropriate and timely corrections.

Harborfields did not plan to modify its procedures to collect, compile, and report data under ARRA because Harborfields officials stated that they needed more guidance on ARRA § 1512 reporting requirements. Also, NYSED still had not developed processes and controls to collect, review, and report ARRA data so that it could provide additional guidance to Harborfields. As a result, Harborfields may not have a system in place to collect and report accurate and complete data to meet ARRA reporting requirements.

Although Harborfields submitted the required ARRA data on time to meet the September 2009 quarterly ARRA reporting requirement, during the October 28, 2009, preliminary exit conference, Harborfields officials stated that they did not develop additional measures to verify the accuracy and completeness of the data submitted. In addition, in its comments to the OIG report entitled *New York State System of Internal Control Over American Recovery and Reinvestment Act Funds*, ED-OIG/A02J0006, NYSED indicated that it was in the process of

assessing the results of its initial submission of ARRA reporting data. Therefore, at this time, we cannot determine the accuracy and completeness of the data submitted by Harborfields.

Recommendations

We recommend that the Assistant Secretary for OESE require NYSED to work with Harborfields to—

- 3.1 Determine and implement additional measures that are needed to mitigate the risk of Harborfields' noncompliance with ARRA reporting requirements.

NYSED Comments

NYSED indicated that it had continuously shared ARRA guidance with all LEAs through various memos, workshops, and online sessions. Furthermore, it provided direction on how to gather information on jobs created/saved and the application process for the Education Stabilization Fund. Finally, NYSED built a web-based data collection tool, which went into effect on September 21, 2009. NYSED also stated it was prepared to implement all of the report recommendations. This would be done through the enhanced monitoring/auditing that NYSED indicated it initiated to meet the requirements of ARRA and its review of the corrective action plans submitted by each LEA.

Harborfields Comments

For Recommendation 3.1, Harborfields stated that it adopted and implemented NYSED's framework of reporting for school districts based on updated guidance that was issued since the time of our fieldwork. Therefore, Harborfields believed it met the filing requirements incorporated within NYSED's reporting system.

OIG Response

We were unable to determine whether NYSED's web-based data collection tool is sufficient to address the reporting requirements of ARRA because it was not available during the time of our fieldwork. In addition, Harborfields did not indicate procedures that it implemented or plans to implement to verify the accuracy and completeness of the data submitted. NYSED should work with Harborfields to implement procedures to ensure that Harborfields submits accurate and complete data timely and in full compliance with all ARRA reporting requirements.

FINDING NO. 4: Harborfields Lacked Certain Written Policies and Procedures for Cash Management and Use of Funds

Harborfields did not have written policies and procedures for some areas of cash management and use of ARRA IDEA and SFSF funds. Specifically, Harborfields did not have written procedures for minimizing the time lapse between receipt and disbursement of Federal funds, for remitting excess interest earned on Federal cash advances, and for the monitoring of receipts of Federal funds. Additionally, Harborfields did not have written policies and procedures for its records management system and for reviewing vendors' past performance prior to awarding a contract.

Lack of Written Policies and Procedures for Cash Management

Harborfields did not have written procedures to minimize the time lapse between the receipt and disbursement of Federal funds. Harborfields deposited its Federal funds into interest bearing accounts. According to Harborfields officials, Harborfields did not request Federal cash advances. Harborfields should have received a Federal cash advance for its first payment after NYSED approved its application. According to Harborfields, the first payments were usually received late in the fall, after funds were expended. However, Harborfields did not have a written policy that would prevent it from requesting Federal cash advances.

In addition, Harborfields did not have written procedures to ensure that it remitted excess interest earned on Federal cash advances to ED. Harborfields officials were not aware of the Federal requirements to remit interest in excess of \$100 earned on Federal funds.

Harborfields did not have written procedures that required monitoring of Federal funds received by Harborfields. According to a Harborfields official, the treasurer was responsible for receiving funds, preparing a receipt, and transferring the funds to the appropriate Federal fund accounts. When the treasurer was informed of the wire transfer of funds to Harborfields' account, the details of the transfer identifying the source of funds were determined and a receipt was generated. A copy of the receipt was sent to the appropriate person responsible for the grant and the funds were transferred into the grant account. However, these procedures were not included in Harborfields' Board of Education Policy Manual.

Lack of Written Policies and Procedures for Use of Funds

Harborfields did not have written policies and procedures that clearly documented its internal controls for records management. Harborfields had an agreement with Western Suffolk Board of Cooperative Educational Services to store prior years' hardcopy documents on microfilm. The records from the most recent years were kept in the Business Office or in the building's basement, in a separate storage room, and retrieved by a custodian when requested by the Business Office staff. In addition, Harborfields' Board of Education appointed a records management officer and records access officer but the Board of Education Policy Manual did not include policies and procedures for organizing, storing, retrieving, or safeguarding Harborfields' financial records.

Harborfields did not have written policies and procedures for reviewing contractors' past performance prior to the awarding of a contract. According to a Harborfields official, the staff responsible for the program area reviewed past performance of the vendors because they were more familiar with the history of prior dealings. However, a written policy that required the review of past performance was not included in Harborfields' written procurement policies and procedures.

According to 34 Code of Federal Regulations (C.F.R.) § 80.21(i), "grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses."

According to OMB Circular A-133 §____. 300, "The auditee shall . . . [m]aintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal

awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

According to OMB Circular A-133 Compliance Supplement (March 2009), Part 6–Internal Control, control activities are the policies and procedures that help ensure that management’s directives are carried out. Control activities should include (1) operating policies and procedures clearly written and communicated and (2) procedures in place to implement changes in laws, regulations, guidance, and funding agreements affecting Federal awards.

Additionally, according to New York State Comptroller’s *Standards for Internal Control in New York State Government*, Part II: Five Components of Internal Control, “Documentation of policies and procedures is critical to the daily operations of an organization. These documents set forth the fundamental framework and the underlying methods and processes all employees rely on to do their jobs.”

According to Harborfields, a policy to minimize the time lapse between receiving and disbursing Federal funds was not needed because Harborfields did not request cash advancements. Harborfields’ lack of formal written policies and procedures could result in Harborfields earning excess interest on Federal funds. In addition, Harborfields was not aware of the Federal requirement to remit excess interest earned on Federal funds. Because Harborfields was unaware of the Federal requirement to do so, it was at risk of failing to remit excess interest to ED.

Although Harborfields officials stated that the staff performed the procedures, the Harborfields’ Board of Education Policy Manual lacked written policies and procedures regarding its records management system, monitoring of receipts, and review of a vendor’s past performance prior to awarding a contract. Harborfields relied on the experience and training of its staff to perform the procedures. Without clear and comprehensive written policies and procedures, there is an increased risk that Federal funds, specifically ARRA funds, will not be administered properly.

Recommendations

We recommend that the Assistant Secretary for OESE require NYSED to work with Harborfields to implement written policies and procedures to—

- 4.1 Minimize the time lapse between the receipt and disbursement of Federal funds;
- 4.2 Remit excess interest earned on Federal funds to ED;
- 4.3 Require the monitoring of receipt of Federal funds;
- 4.4 Ensure that the records management system is maintained; and
- 4.5 Ensure that contractors’ past performances are reviewed and documented prior to the awarding of a contract.

NYSED Comments

NYSED provided no specific comments for this finding. However, NYSED stated that, overall, it was prepared to implement all of the recommendations in the report.

Harborfields Comments

For Recommendations 4.1, 4.2, and 4.3, Harborfields indicated that it will develop additional procedures to (1) emulate practices by which Federal funds are received, assigned, and disbursed, (2) monitor interest earned on Federal funds, and (3) ensure Federal funds are used in accordance with the laws, regulations, and provisions of the Federal program through which the funds were granted.

For Recommendations 4.4 and 4.5, Harborfields stated that it currently follows the regulations set by NYSED's Policy 1120 and its purchasing policy, which incorporated the General Municipal and Education Laws to ensure the district is operating efficiently and economically. However, Harborfields stated it would (1) create a companion regulation to outline the processes used for maintenance and retrieval of the district's financial records and (2) expand its current policy to document the appropriate review of vendor's performance.

OIG Response

Harborfields' proposed corrective actions appear to be appropriate. However, we were unable to determine whether the new written procedures sufficiently address our concerns because it was not available during the time of our fieldwork. Therefore, NYSED should work with Harborfields to develop and implement these new proposed written policies and procedures.

PART 3: KIRYAS JOEL SYSTEM OF INTERNAL CONTROL OVER ARRA FUNDS

Kiryas Joel has taken certain steps toward ensuring the proper administration of ARRA funds. Kiryas Joel planned to use existing systems to account for and track ARRA funds. It also planned to set up separate accounting codes for ARRA Title I, IDEA, and SFSF funding in its accounting system. At the time of our fieldwork, a separate code had already been set up for IDEA ARRA. In addition, Kiryas Joel planned to forgo the option of using purchase cards to pay for ARRA expenditures. Kiryas Joel also used a Request for Expenditure form to ensure that the request and approval of purchases were properly documented. In addition, during an interim briefing held on October 29, 2009, Kiryas Joel officials were receptive to implementing many of our recommendations.

FINDING NO. 5: Kiryas Joel Lacked Adequate Controls to Ensure Compliance with ARRA Reporting Requirements

Kiryas Joel did not have sufficient controls over its accounting system to ensure compliance with ARRA § 1512 reporting requirements. Specifically, Kiryas Joel did not have adequate controls in place to limit access to its financial accounting system, [REDACTED]. Kiryas Joel did not ensure that its staff was properly approved for the appropriate access level corresponding to their job responsibilities. Kiryas Joel also had not made sufficient progress in establishing processes and controls to collect, review, and report data in order to comply with all ARRA reporting requirements. In addition, Kiryas Joel did not provide training on a regular basis and did not maintain a user manual for [REDACTED].

Kiryas Joel Lacked Adequate Controls Over System Access That Were Needed to Ensure Compliance with ARRA Reporting Requirements

Kiryas Joel did not have adequate controls in place to ensure that access to its financial accounting system, [REDACTED], was limited to the appropriate access level corresponding to employees' job responsibilities. Specifically, Kiryas Joel did not document or track the requests and approvals for system access or any changes to the system access. Kiryas Joel officials stated that the superintendent verbally approved requests for access or any changes to the access levels before the computer technician made the changes. Although Kiryas Joel indicated that the system maintained a history of access level changes, there was no documentation to verify that Kiryas Joel had determined the changes were within the employees' job responsibilities and properly approved by the superintendent.

The current levels of system access had not been updated to reflect changes to employees' job responsibilities. This allowed system users to access or modify financial data to which they should not have had access. Kiryas Joel's fiscal year (FY) 2007 and FY 2008 Single Audit reports cited a lack of segregation of duties because the same individual who entered the cash receipts into [REDACTED] also performed reconciliations to the bank records. In Kiryas Joel's corrective action plans for these findings, Kiryas Joel indicated that it adopted a policy and implemented procedures to segregate the duties of logging, receipting, and reconciling cash receipts. We were also informed that this individual was no longer posting cash receipts to [REDACTED]. However, the system access list we received showed that this individual still had full access to the cash receipt section in [REDACTED] for posting cash receipts to the system. Further, this individual also had full access to the cash disbursement and the journal entry sections.

According to OMB Circular A-133 Compliance Supplement (March 2009), Part 6–Internal Control, control activities are the policies and procedures that help ensure that management’s directives are carried out. Control activities should include (1) operating policies and procedures clearly written and communicated; (2) adequate segregation of duties provided between performance, review, and recordkeeping of a task; and (3) computer and program controls such as data entry controls (e.g., edit checks), access controls, and computer general controls and security controls.

Also, per OMB reporting guidance, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, issued on June 22, 2009, the subrecipients are to implement internal control measures as appropriate to ensure accurate and complete information.

Kiryas Joel lacked a system security policy to prevent its employees from gaining unauthorized access to the district’s financial information through [REDACTED]. Therefore, Kiryas Joel did not have adequate controls over system access to ensure the quality of ARRA reporting data. Without the proper controls for approving, monitoring, and tracking access to its accounting system, unauthorized users could access and modify financial data. This may result in the misuse of ARRA funds and reporting of inaccurate data. During our October 29, 2009, interim briefing, Kiryas Joel indicated that it recognized the need to improve its controls over access to [REDACTED]. Specifically, Kiryas Joel provided us with the Request for System Access form it developed as a result of our recommendation. The form identified the appropriate level of access for a specified employee and required approval from the superintendent and the treasurer. Kiryas Joel indicated that it would maintain these forms for each employee.

Kiryas Joel Lacked Adequate Progress in Establishing Processes and Controls That Were Needed to Ensure Compliance with ARRA Reporting Requirements

Kiryas Joel planned to create separate accounting codes for tracking ARRA funds in its accounting system in anticipation of meeting ARRA reporting requirements. However, at the time of our fieldwork, Kiryas Joel had not made sufficient progress in establishing processes and controls to ensure its readiness in collecting and reporting accurate and complete data to meet all ARRA reporting requirements. Specifically, Kiryas Joel planned to use its existing procedures and did not plan to develop additional controls to collect, review, and report required ARRA data.

In addition, Kiryas Joel had a history of weak controls over the accuracy of financial reporting. Kiryas Joel officials stated that the FS-10F form was manually filled out by the deputy superintendent using reports generated from [REDACTED] and approved by the superintendent. Single Audits for FYs 2007 and 2008 reported that FS-10F forms for five grant programs did not agree with Kiryas Joel’s general ledger. In its corrective action plan for FY 2008, Kiryas Joel indicated that the FS-10F forms in question were in conformance with the general ledger and were filed after reconciliation with the general ledger. As a result, Kiryas Joel did not develop any additional controls to ensure accurate and complete reporting.

OMB Circular A-133 Compliance Supplement (March 2009), Part 6–Internal Control, states that the objectives of internal controls pertaining to compliance requirements for Federal programs include transactions being properly recorded and accounted for to permit the preparation of reliable financial statements and Federal reports.

Also, according to OMB reporting guidance, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, issued on June 22, 2009, subrecipients are to (1) initiate appropriate data collection and reporting procedures to ensure that Section 1512 reporting requirements are met in a timely and effective manner; and (2) implement internal control measures as appropriate to ensure accurate and complete information.

Kiryas Joel did not establish adequate processes and controls to collect, review, and report accurate and complete data to meet the ARRA reporting requirements because Kiryas Joel officials stated they believed that (1) they had sufficient controls in place over the reporting of its financial data, and (2) they needed more guidance on ARRA reporting requirements from NYSED on how to collect, review, and report other ARRA data elements. Without a system in place to collect, review, and report all ARRA data, Kiryas Joel may not be ready to collect and report accurate and reliable data for all ARRA reporting requirements.

During our interim briefing on October 29, 2009, Kiryas Joel officials stated that they had submitted the required ARRA data on time and met the first quarterly ARRA reporting requirement in September 2009. Furthermore, Kiryas Joel indicated that based on guidance it received from NYSED, it did not need to modify its systems to comply with the ARRA reporting requirements. Subsequent to our October 29, 2009, preliminary exit, Kiryas Joel provided us with additional documentation indicating that it developed additional controls to verify the accuracy and completeness of the FS-10F submission to the State. However, these new procedures would not fully address its lack of verification procedures for the data required under ARRA § 1512. In addition, in its comments to the OIG report entitled *New York State System of Internal Control Over American Recovery and Reinvestment Act Funds, ED-OIG/A02J0006*, NYSED indicated that it was in the process of assessing the results of its initial submission of ARRA reporting data. Therefore, at the time of our review, we could not determine the accuracy and completeness of the data submitted by Kiryas Joel.

Kiryas Joel Had Insufficient Training and Lacked a User Manual for [REDACTED]

Kiryas Joel did not provide training on the usage of its accounting software [REDACTED] to ensure adequate competency of its employees and did not maintain a user manual for [REDACTED]. During interviews with Kiryas Joel officials, we learned that the district employees with access to [REDACTED] did not receive training on a regular basis. In addition, Kiryas Joel did not maintain a user manual that would guide the employees through fiscal operations and the usage of the software. For example, when we asked for a summary report showing checks generated on a particular day, the responsible Kiryas Joel official stated that he was unaware as to whether such an option existed within the system. Furthermore, there was no [REDACTED] user manual available to the employees to clarify whether this option was available or not. Very often, district employees relied on the [REDACTED] helpline to resolve systematic issues.

According to OMB A-133 Compliance Supplement (March 2009), Part 6–Internal Control, control environment sets the tone of the organization influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. The control environment should include the management’s commitment to compliance ensures that staff receive adequate training to perform their duties and the management’s support of adequate information and reporting systems.

In addition, per NYS Comptroller's *Standards for Internal Control in New York State Government*, Part II: Five Components of Internal Control:

Control activities are tools - both manual and automated - that help identify, prevent or reduce the risks that can impede accomplishment of the organization's objectives. Management should establish control activities that are effective and efficient.

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Documentation of policies and procedures is critical to the daily operations of an organization. These documents set forth the fundamental framework and the underlying methods and processes all employees rely on to do their jobs. They provide specific direction to and help form the basis for decisions made every day by employees. Without this framework of understanding by employees, conflict can occur, poor decisions can be made and serious harm can be done to the organization's reputation. Further, the efficiency and effectiveness of operations can be adversely affected.

During our interim briefing on October 29, 2009, Kiryas Joel indicated that its employees had sufficient access to training through the [REDACTED] helpline and its monthly newsletters. However, Kiryas Joel did not have written policies and procedures to require that employees receive necessary training to perform their jobs on a regular basis and that the software manual be made available to them to perform their duties. Without regular training, employees did not have sufficient guidance and knowledge of the software capabilities and features to carry out day to day operations needed to administer ARRA funds properly. As a result, Kiryas Joel may be at risk of processing and reporting inaccurate ARRA data.

Recommendations

We recommend that the Assistant Secretary for OESE require NYSED to ensure that Kiryas Joel—

- 5.1 Implements the system security policy controls to approve, monitor, and track access to its accounting system and ensure that the level of system access coincides with employees' positions and responsibilities;
- 5.2 Determines and implements additional measures that are needed to mitigate the risk of Kiryas Joel's noncompliance with ARRA reporting requirements; and
- 5.3 Provides adequate training to its employees, including updates on policies and procedures, programs, and software, on a regular basis.

NYSED Comments

NYSED indicated that it has continuously shared ARRA guidance with all LEAs through various memos, workshops, and online sessions. Furthermore, it provided direction on how to gather information on jobs created/saved and the application process for the Education Stabilization

Fund. Finally, NYSED built a web-based data collection tool, which went into effect on September 21, 2009. NYSED also stated it was prepared to implement all of the report recommendations. This would be done through the enhanced monitoring/auditing that NYSED indicated it initiated to meet the requirements of ARRA and its review of the corrective action plans submitted by each LEA.

Kiryas Joel Comments

Kiryas Joel indicated that Recommendation 5.1 had already been implemented. Kiryas Joel implemented the use of a Request for System Access form to ensure its employees' access levels were appropriate. Kiryas Joel also stated that it will revise access levels of those employees whose responsibilities have and/or will change. Furthermore, it stated that sufficient access rights will be granted upon approval from the Superintendent and Treasurer. Kiryas Joel also noted that the level of access of the employee referenced in the OIG report had been modified to "read only" status.

For Recommendation 5.2, Kiryas Joel stated that further guidance from NYSED is needed on the collection and reporting of ARRA data.

For Recommendation 5.3, Kiryas Joel stated that it will formalize its ongoing training process for all of its central office employees by addressing professional development needs during the Superintendent's Conference Days programming. Kiryas Joel also pointed out that it obtained User Manuals for all modules of the [REDACTED] and informed its employees of its availability. Kiryas Joel noted that new employees receive on-site training from [REDACTED] and will be provided with access to the [REDACTED] helpline. Additionally, they receive a monthly newsletter from [REDACTED].

OIG Response

Kiryas Joel's proposed corrective actions appear to be appropriate and if implemented properly, these procedures would appear to address our recommendations. NYSED should work with Kiryas Joel to fully implement procedures ensuring that Kiryas Joel submits accurate and complete data timely and in full compliance with all ARRA reporting requirements.

FINDING NO. 6: Kiryas Joel Lacked Adequate Controls Over its Payroll Check Process to Ensure that ARRA Funds Are Safeguarded

Kiryas Joel lacked adequate controls to safeguard payroll checks. Kiryas Joel did not have procedures to track and verify the total number and dollar amount of payroll checks processed, printed, and distributed to ensure that the payroll checks were safeguarded against unauthorized use. Based on our observation and interviews, the total number and dollar amount of payroll checks processed through [REDACTED] were not verified to the total number and dollar amount of checks printed. Additionally, Kiryas Joel officials indicated that employees were not required to sign to acknowledge receipt of payroll checks and pay stubs when checks were distributed.

According to OMB Circular A-133 §___ . 300, "The auditee shall . . . [m]aintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal

awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

OMB Circular A-133 Compliance Supplement (March 2009), Part 6–Internal Control, states that the objectives of internal controls pertaining to compliance requirements for Federal programs include transactions being properly recorded and accounted for to maintain accountability over assets and funds and other assets being safeguarded against loss from unauthorized use or disposition.

Kiryas Joel did not have adequate controls over its payroll check process to ensure that ARRA funds were properly safeguarded because (1) according to Kiryas Joel officials, the tracking of payroll check distribution was not needed given the small size of the school district, and (2) it did not have a policy to require reconciliation between the number and dollar amount of checks processed and printed. Without adequate controls such as verifying the total number and the total dollar amount of payroll checks processed and printed, and a tracking mechanism for the distribution of physical checks, Kiryas Joel is at risk of misusing and misplacing payroll checks. Furthermore, because one of the guiding principles of ARRA is that the funds should be spent quickly, it significantly increases the risk of checks being misplaced or stolen.

During our interim briefing on October 29, 2009, Kiryas Joel acknowledged the need to improve controls over the distribution of payroll checks. Specifically, based on our recommendation, Kiryas Joel developed a Receipt of Payroll form and indicated that it would require each employee to confirm receipt of payroll checks and pay stubs by signing the payroll run report. The Receipt of Payroll form requires a building representative’s signature verifying the number of checks received for that payroll period.

Recommendations

We recommend that the Assistant Secretary for OESE require NYSED to ensure that Kiryas Joel—

- 6.1 Implements the newly developed procedures to verify payroll checks processed and printed are reconciled and the distribution of payroll checks is properly tracked and accounted for.

NYSED Comments

NYSED provided no specific comments for this finding. However, NYSED stated that, overall, it was prepared to implement all of the recommendations in the report.

Kiryas Joel Comments

For Recommendation 6.1, Kiryas Joel stated that it had developed and implemented new procedures to confirm proper receipt of payroll checks. Specifically, it created two forms to document the payroll check distribution. The building representatives would sign one form to confirm the receipt of payroll checks to be disbursed. The second form would be for documenting the employee’s receipt of the actual check or check stub. Furthermore, the

Treasurer would ensure that the number of checks issued and the dollar amount to be disbursed are consistent with the Payroll Register prior to signing the checks.

OIG Response

Kiryas Joel's proposed corrective actions appear to be appropriate and if implemented properly, these procedures would appear to address our recommendation. However, further testing of the additional controls might be needed to ensure compliance.

FINDING NO. 7: Kiryas Joel Lacked Sufficient Controls Over Disbursement Process to Ensure that ARRA Funds Are Safeguarded

Kiryas Joel did not have sufficient controls to minimize the risk of funds being improperly disbursed. Through our observation and interviews, we learned that [REDACTED]⁵ did not contain the necessary controls to prevent the use of duplicate check numbers when checks were generated for both payroll and non-payroll expenses. We observed that the same check number could be used for payments to two different payees in [REDACTED]. However, all bank check stock were pre-numbered and could not be changed. During the interim briefing held on October 29, 2009, Kiryas Joel indicated its accounts payable clerk attempted to close the application after we finished our site visit. He stated that he discovered that [REDACTED] prevented him from posting the duplicate check. Kiryas Joel stated that it believed this control would sufficiently address OIG's concerns. However, we noted that the system control would not prevent the duplicate check number from being printed regardless of whether it could be posted. The duplicated check could then be cancelled out of the system, leaving no record of it having been printed.

Given the above situations, there is a great risk that [REDACTED]'s disbursement process could result in discrepancies in books and bank records and in reconciling the bank statement. In addition, Kiryas Joel's internal claims auditor only examined and signed off on the disbursement schedule prior to the checks being generated, and, therefore, would not be able to identify whether there was a discrepancy in payee, amount, and check number.

According to 34 C.F.R. § 76.702, "A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds."

According to OMB Circular A-133 § __. 300, "The auditee shall . . . [m]aintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts . . ."

In addition, according to OMB Circular A-133 Compliance Supplement (March 2009), Part 6—Internal Control, control activities are the policies and procedures that help ensure that management's directives are carried out. Control activities should include (1) operating policies and procedures clearly written and communicated; (2) management prohibition against intervention or overriding established controls; (3) adequate segregation of duties provided between performance, review, and recordkeeping of a task; and (4) computer and program

⁵ According to [REDACTED]'s Web site, there were over 300 school districts in NYS that used its system. For more information on this issue refer to the Other Matters section.

controls such as data entry controls (e.g., edit checks), reviews of input and output data, and computer general controls and security controls.

Kiryas Joel indicated that it did not have sufficient controls over its disbursement process because it was not aware of the accounting system control deficiency. Without proper controls over the disbursement process, the same check number could be used for multiple disbursements without being detected by Kiryas Joel's existing controls, and it could also cause discrepancies in Kiryas Joel's financial records, which may not be reconcilable. As a result, ARRA funds may not be safeguarded from misuse, and the required ARRA data may not be accurate and timely. Also, ARRA data may not properly reflect the expenditures related to ARRA funds. Because our work did not involve testing of transactions, there could be additional weaknesses with the accounting system controls we did not identify. Subsequent to our October 29, 2009, preliminary exit, Kiryas Joel provided us with additional documentation indicating that it developed additional controls, using an Excel formula, to ensure that the same check number is not used more than once. Kiryas Joel indicated that these new procedures would be included in its policy manual. If properly implemented, the steps described in its new policy may address OIG's concerns.

Recommendations

We recommend that the Assistant Secretary for OESE require NYSED to ensure that Kiryas Joel—

- 7.1 Implements the check verification procedure controls over the disbursement of funds to prevent the same check number from being used for payment to different payees; and
- 7.2 Determines whether other control deficiencies exist in the [REDACTED] accounting system and develops controls to compensate the system control deficiencies.

NYSED Comments

NYSED provided no specific comments for this finding. However, NYSED stated that, overall, it was prepared to implement all of the recommendations in the report.

Kiryas Joel Comments

For Recommendation 7.1, Kiryas Joel stated that it has a number of compensating controls addressing the use of duplicate check numbers, including reconciliation reports identifying duplicate checks. Kiryas Joel further indicated that the use of pre-numbered checks will diminish the risk of fraud or error.

For Recommendation 7.2, Kiryas Joel stated that it contacted the software administrator, [REDACTED], seeking its response regarding the issue of the duplicate check numbers. Based on Kiryas Joel's inquiry, [REDACTED] agreed to implement a check verification control, eliminating the possibility of duplicate check numbers by a software update in January 2010.

OIG Response

Kiryas Joel's proposed corrective actions appear to be appropriate and if implemented properly, these procedures would appear to address our recommendations. However, further testing of the additional controls might be needed to ensure compliance.

FINDING NO. 8: Kiryas Joel Did Not Update its Policy Manual to Reflect Current Procedures

Kiryas Joel's written policy manual did not reflect the procedures currently followed. Based on our interviews with Kiryas Joel officials, we learned that the purchasing and the cash receipt procedures were not consistent with the procedures described in Kiryas Joel's policy manual. Kiryas Joel's current purchasing procedure required the signed Request for Expenditure forms be reviewed by the purchasing agent to ensure compliance with the bidding requirements and State contract availability before the purchasing assistant placed the order and created the encumbrance in [REDACTED]. However, the policy manual indicated that the purchasing assistant created the encumbrance before the purchasing agent verified that the vendors met the bidding requirements and State contract availability.

During the interviews with Kiryas Joel officials, we found that in the current cash receipts process the front desk clerks manually recorded checks received through the mail in a notebook. Subsequently, the superintendent's executive assistant prepared the deposit slip for the accounts payable clerk to deposit at the bank and post to the accounting system, [REDACTED]. The superintendent's executive assistant also prepared the bank reconciliation. However, the procedures described in Kiryas Joel's policy manual were different. The manual stated that the executive assistant, not the front desk clerks, records the cash receipts manually in a log, then the clerks prepare the deposit slip.

Further, in its corrective action plan to the FY 2008 Single Audit finding citing lack of segregation of duties for cash receipts, Kiryas Joel indicated that it adopted a policy and implemented procedures to segregate the duties of logging, receipting, and reconciling the books for cash receipts. However, the cash receipt procedure in the policy manual still did not clearly communicate assigned employee responsibilities to show that the individual who entered the cash receipt to the books was not the same individual who reconciled the books to the bank.

According to OMB Circular A-133 § __. 300, "The auditee shall . . . [m]aintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

According to OMB Circular A-133 Compliance Supplement (March 2009), Part 6–Internal Control, control activities are the policies and procedures that help ensure that management's directives are carried out. Control activities should include (1) operating policies and procedures clearly written and communicated, and (2) procedures in place to implement changes in laws, regulations, guidance, and funding agreements affecting Federal awards.

Also, according to NYS Comptroller's *Standards for Internal Control in New York State Government*, Part II: Five Components of Internal Control:

Documentation of policies and procedures is critical to the daily operations of an organization. These documents set forth the fundamental framework and the underlying methods and processes all employees rely on to do their jobs.

.

Separation of duties is the division of key tasks and responsibilities among various employees and sub-units of an organization. By separating key tasks and responsibilities - such as receiving, recording, depositing, securing and reconciling assets - management can reduce the risk of error, waste, or wrongful acts . . . In cases where tasks cannot be effectively separated, management can substitute increased supervision as an alternative control activity that can help prevent or reduce these risks.

Kiryas Joel had not amended its policy manual to comply with its corrective action plan to ensure that staff performed their duties in accordance with updated guidelines. Without an updated policy manual clearly communicating the practices implemented by Kiryas Joel, the staff would not have sufficient guidance to properly carry out their job responsibilities to properly administer ARRA funds. During our interim briefing on October 29, 2009, Kiryas Joel indicated that it would revise its written policies and procedures based on our recommendations.

Recommendations

We recommend that the Assistant Secretary for OESE require NYSED to ensure that Kiryas Joel—

- 8.1 Updates its written policy manual to reflect compliance with the corrective actions it stated it would implement to resolve the internal control issues cited in its Single Audit reports.

NYSED Comments

NYSED provided no specific comments for this finding. However, NYSED stated that, overall, it was prepared to implement all of the recommendations in the report.

Kiryas Joel Comments

For Recommendation 8.1, Kiryas Joel stated that it had amended its policy and procedures for purchasing and cash receipts. In addition, Kiryas Joel indicated that these procedures were fully implemented.

OIG Response

Kiryas Joel's proposed corrective actions appear to be appropriate and if implemented properly these procedures would appear to address our recommendation. However, further testing of the additional controls might be needed to ensure compliance.

OTHER MATTERS

As noted in Finding No. 7, entitled *Kiryas Joel Lacked Sufficient Controls Over Disbursement Process to Ensure that ARRA Funds Are Safeguarded*, we found that Kiryas Joel's accounting software, [REDACTED], did not have adequate controls to prevent the use of duplicate check numbers when checks were generated for both payroll and non-payroll expenses. The same check number could be used for payments to two different payees in [REDACTED]. In addition, according to [REDACTED]'s Web site, this software is used by more than 300 LEAs throughout NYS. Because of the extensive use of [REDACTED], the problems with this system could be a more pervasive State-wide issue--especially if compensating controls are not implemented by LEAs using the system. We suggest that NYSED advise the LEAs across the NYS using [REDACTED] about the system's deficiency.

NYSED Comments

NYSED provided no specific comments for this issue. However, NYSED stated that, overall, it was prepared to implement all of the recommendations in the report.

OIG Response

We are pleased that NYSED stated that it was prepared to implement all of the recommendations in the report. In addition, we believe that NYSED should follow our suggestion to advise the LEAs across the NYS using [REDACTED] about the system's deficiency.

BACKGROUND

According to the Grant Award Notifications, NYSED was the prime recipient of Title I and IDEA funds received through ARRA.⁶ The NYS Governor’s Office was the prime recipient of SFSF funds. Title I and IDEA grant funds are administered by NYSED for NYS. NYSED was allocated \$1.666 billion for Title I and IDEA through ARRA (see Table 1). On April 1, 2009, ED made available 50 percent of the funds for New York’s Title I and IDEA authorized through ARRA. New York appropriated ARRA funding for Title I and IDEA over the 2009-2010 and 2010-2011 school years. As of September 10, 2009, NYSED had not drawn down any funds.

Table 1. ARRA Allocations to NYSED	
	Total Allocated (in millions)
Title I	\$907
IDEA	759
Total	\$1,666

The NYS Governor’s Office was allocated another \$3 billion for SFSF (see Table 2). Of the \$3 billion, 81.8 percent of its allocation was awarded under the Education Stabilization funds and the remaining 18.2 percent was awarded under the Government Services Fund. NYS’s Application for Initial Funding Under the SFSF Program was approved on May 11, 2009. Within 2 weeks of this approval, ED made available 67 percent of the New York’s total SFSF allocation. As of September 10, 2009, NYS had drawn down \$49,900,000 in SFSF Education Stabilization funds.

Table 2. ARRA Allocations to NYS Governor’s Office	
	Total Allocated (in millions)
Education Stabilization	\$2,469
Government Services	549
Total SFSF	\$3,018

NYCDOE, Kiryas Joel, and Harborfields were subrecipients of Title I, IDEA, and the Education Stabilization portion of the SFSF funds received through ARRA.⁷ In order to receive the funds, the LEAs were required to submit grant applications to NYSED requesting the funds. Upon approval of the LEA applications, NYSED would make the Title I, IDEA, and SFSF Education Stabilization funds available for disbursement to the LEAs. For the 2009-2010 school year, NYCDOE was allocated more than \$1.292 billion for Title I, IDEA, and SFSF Education Stabilization funds through ARRA, Kiryas Joel more than \$5.26 million, and Harborfields about \$1.92 million (see Table 3).

⁶ NYSED administers Vocational Rehabilitation funds at the State level. The LEAs did not participate in Vocational Rehabilitation program, and, therefore, were not awarded any of these funds. We reviewed controls at NYSED related to Vocational Rehabilitation as part of our State-level work.

⁷ Education Stabilization portion of the SFSF funds to be used to restore the level of State support for elementary and secondary education in FY 2010 will be administered through NYSED.

	NYCDOE	Kiryas Joel	Harborfields⁸
Title I	\$707,991,789	\$4,560,564	\$ 0
IDEA	158,301,679	539,542	389,157
SFSF Education Stabilization	426,188,549	160,756	1,528,924
Total	\$1,292,482,017	\$5,260,862	\$1,918,081

SCOPE AND METHODOLOGY

Our review consisted of an assessment of the designed system of internal controls that NYCDOE, Kiryas Joel, and Harborfields planned, at the time of our field work, to use in administering funds received under ARRA for the Title I, IDEA, and SFSF programs. For the SFSF program, we focused our review on the SFSF funds to be administered by NYSED. We reviewed the LEA-level controls related to data quality, cash management, and use of funds.

Our review was limited to assessing the design of the internal controls. Given that much of the ARRA funding had not yet reached the States and localities, we could not validate nor test the accuracy of the statements made by officials regarding their accounting and tracking systems. Also, during and subsequent to our fieldwork, the LEAs were continuing the process of designing and implementing internal controls for administering ARRA funds. Thus, the plans and processes reviewed during our audit may be modified or not implemented as designed. Also, since neither NYSED nor the NYS Governor’s Office had disbursed ARRA funds at the time of our review, we may not have been aware of unique factors related to the administration of ARRA funds during our assessment of the design of internal controls.

To achieve our audit objective, we judgmentally selected NYCDOE, Kiryas Joel, and Harborfields to include in our review of NYS LEA-level systems of internal control over ARRA funds. Using 2008-2009 school year data we combined Title I, Parts A and D, and IDEA information for 820 NYS LEAs. We then stratified the LEA-data into three strata—large, medium, and small—based on specific amounts. The large stratum consisted of one LEA that received funding greater than \$100 million. The medium stratum consisted of 198 LEAs that received funding between \$1 million and \$99.99 million. The small stratum consisted of 621 LEAs that received funding between \$0 and \$999,999. We judgmentally selected from the large stratum NYCDOE, from the medium stratum Kiryas Joel, and from the small stratum Harborfields. In our selection, we considered information received from NYSED, ED OIG Investigation Services, the ED OIG Hotline, and Single Audit reports.

⁸ NYSED did not allocate any Title I ARRA funds to Harborfields for the 2009-2010 school year. Harborfields did receive \$125,758 of regular Title I funds.

To gain an understanding and assess the designed system of ARRA internal controls that NYCDOE, Kiryas Joel, and Harborfields planned at the time of our work, we:

- Reviewed prior Single Audit reports;⁹
- Identified ARRA funds allocated to NYCDOE, Kiryas Joel, and Harborfields for Title I, IDEA, and SFSF;
- Interviewed NYCDOE, Kiryas Joel, and Harborfields officials regarding controls for data quality, cash management, and use of funds for Title I, IDEA, and SFSF;
- Observed certain processes and operations at one selected NYCDOE school, Kiryas Joel, and Harborfields;
- Obtained and reviewed NYCDOE's, Kiryas Joel's, and Harborfields' available written policies and procedures related to data quality, cash management, and use of funds for Title I, IDEA, and SFSF;
- Obtained and reviewed FY 2007 and FY 2008 Internal Audits of Schools of NYCDOE; and
- Obtained and reviewed Harborfields' Internal Audit Reports on Personnel and Payroll Processing, and Procurement and Claims Processing.

We conducted our work at NYCDOE, Kiryas Joel, and Harborfields. We discussed the results of our review and recommendations with NYCDOE on October 19, 2009; with Kiryas Joel on October 29, 2009; and with Harborfields on October 28, 2009.

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.

⁹ We reviewed the Government Accountability Office, the New York Office of the State Comptroller, the New York State Office of Inspector General, and NYSED's Office of Audit Services Web sites and found no reports issued pertaining to our review of NYS LEAs Systems of Internal Control Over ARRA funds.

Attachment 1



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

DEPUTY COMMISSIONER FOR OPERATIONS
AND MANAGEMENT SERVICES
Tel. (518) 474-2547
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E-mail: tsavo@mail.nysed.gov

December 23, 2009

Mr. Daniel Schultz
Regional Inspector General
U.S. Department of Education
32 Old Slip – 26th Floor
New York, NY 10005

Dear Mr. Schultz:

I am writing in response to the preliminary final audit report on *New York State Local Educational Agencies Systems of Internal Control Over American Recovery and Reinvestment Act Funds (ED-OIG/A02J0009)*.

General Comments

We have processes in place to ensure LEAs fully comply with the recommendations contained in this audit. Two of the three districts visited as part of the OIG audit have been identified on our ARRA external risk assessment; as such, they will be subject to enhanced monitoring or auditing. In addition, Section 170.12 of the Regulations of the Commissioner of Education requires each school district superintendent to prepare and file with the Commissioner a corrective action plan. The New York State Education Department (NYSED) will ensure these three districts submit a corrective action plan related to this audit report and will follow-up on implementation.

As you know, reporting requirements were being developed at the same time the Department and LEAs were preparing for ARRA reporting. From our perspective, the comments that cause the most concern in the report are those that link the lack of systems to collect and report data to the risk of inaccurate data. As discussed below, NYSED was providing guidance as we received it.

Specific Comments on Findings

Finding No. 1 - The report indicates New York City Department of Education (NYCDOE) has a long history of being late in submitting fiscal forms to NYSED. Please note we have seen significant improvement in the timeliness of reporting over the last several years.

Findings No. 1, 3, and 5 - The report discusses the adequacy of guidance received from NYSED regarding ARRA reporting. As you know, the federal Office of Management and Budget released reporting templates, data definitions, and guidance on job estimates in August 2009. The U.S. Department of Education (ED) released additional guidance on job estimates in September 2009. As soon as the Department received information, guidance was provided to the LEAs.

NYSED officials shared updated guidance on ARRA requirements, including warning school districts that they would need to report job estimates, in guidance memos released on February 27, March 9, March 31, April 1, April 2, April 10, April 22, June 3, June 23, and June 29, 2009. A NYSED official met with 630 school officials at the New York State Association of School Business Officials summer workshop on July 11, 2009 and shared the guidance that was available at that time.

In addition, NYSED built a web-based data collection tool to collect information that was not available from other NYSED systems. This tool gathered information on jobs saved and created for the Education Stabilization Fund application. The tool was expanded to collect data required for Recovery Act reporting and this aspect was put in production on September 21, 2009. Reports were requested from ARRA sub-recipients by October 1, 2009, a deadline which was extended to October 6, 2009. NYSED officials prepared step-by-step instructions for reporting and presented a webcast describing the reporting process on September 18, 2009. Online question and answer sessions were conducted from September 22 through September 25, 2009. Staff were available by phone and email and fielded hundreds of questions daily. Approximately 3,500 persons accessed the online sessions.

Response to Recommendations

We will await the ED's final determination; however, we are prepared to implement all of the recommendations. We believe this can be accomplished through our enhanced monitoring/auditing that we have initiated to meet the accountability and transparency requirements of ARRA, as well as our review of the corrective action plans submitted by each LEA.

I have enclosed responses from the three LEAs referenced in the audit. If you have any questions or would like to discuss our response, please contact James Conway at (518) 473-4516.

Sincerely,

/s/

Theresa E. Savo

Enclosures

c: Timothy Gilchrist
Duffy Palmer
Commissioner David Steiner
John King
James Conway
Charles Szuberla



**Department of
Education**

Joel I. Klein
Chancellor

Brian Fleischer
Auditor General

December 22, 2009

Theresa E. Savo
Deputy Commissioner for Operations
New York State Education Department
State Education Building
Albany, New York 12234

Re: ED-OIG/A02J0009

Dear Deputy Commissioner Savo:

This letter constitutes the New York City Department of Education's (NYCDOE) response to the United States Department of Education Office of Inspector General's (ED-OIG) December 2009 draft report entitled *New York State Local Educational Agencies Systems of Internal Control Over American Recovery and Reinvestment Act Funds (ED-OIG/A02J0009)* (Report).

We are pleased that the ED-OIG has concluded that NYCDOE had designed systems of control generally sufficient to provide reasonable assurance that American Recovery and Reinvestment Act (ARRA) funds would be administered in compliance with applicable laws, regulations and guidance.

However, we are very concerned that the ED-OIG's Report, which is based entirely on field work conducted in the spring and summer of 2009, prior to the start of the 2009-2010 school year, prior to the issuance of key guidance from the United States Department of Education (ED) and the United States Office of Management and Budget (OMB) on the expectations and methodology for ARRA Section 1512 reporting, and well prior to the October 1, 2009 deadline for submitting data in accordance with ARRA Section 1512 reporting requirements, presents to the public an incomplete and inaccurate picture of the NYCDOE's robust system of internal controls to assure compliance in the NYCDOE's administration and reporting of ARRA funds, as well as to identify and mitigate instances of fraud, waste and abuse. The Report also fails to reflect the NYCDOE's extensive preparations throughout the spring and summer to assess its existing systems and procedures and to develop and implement significant enhancements to those systems and procedures to assure compliance with ARRA requirements for both

fund administration and reporting, as well as to effectively identify and mitigate instances of error, fraud, waste and abuse.

Response to Finding No. I:

NYCDOE's Robust Existing Systems and Procedures Were Significantly Enhanced to Assure Compliance with ARRA Expenditure and Reporting Requirements.

In describing the NYCDOE's system of internal controls over ARRA funds, the Report highlights some of the key steps that the NYCDOE had, as of the summer, already set in place for the coming school year to assure compliance with ARRA expenditure and reporting requirements. Accordingly, we are perplexed that the Report subsequently states that the "NYCDOE planned to use its existing systems and procedures, without modification, to collect, compile and report on the data required under ARRA." In fact, the NYCDOE, in coordination with New York State Education Department (NYSED) and State and City budget officials, and based on assessments and recommendations from two independent accounting firms, KPMG and Ernst & Young, designed and implemented significant enhancements to the NYCDOE's already robust system of internal controls.

As noted in the Report, the NYCDOE created distinct accounting codes for each grant under which the NYCDOE anticipated receiving any ARRA funds, including, but not limited to, ARRA grants under Title I, IDEA and SFSF. However, the Report does not explain the degree of transparency, in the form of detailed data at both the enterprise and transactional levels in the budgeting, encumbrance and expenditure of ARRA funds, which results from such accounting, thereby allowing the NYCDOE to effectively and efficiently pull any and all data required for ARRA reporting.

Moreover, beyond establishing distinct account codes for the ARRA grants, the NYCDOE enhanced its existing systems and processes in several other ways to assure that it could effectively assess and demonstrate the accuracy of its reported data and document its compliance with all grant requirements. In summer 2009, the independent accounting firm of KPMG was retained by New York City to perform a comprehensive readiness assessment of the NYCDOE's existing systems, controls and proposed ARRA enhancements. KPMG issued its findings and recommendations for modifications and additional enhancements, and the NYCDOE detailed its plans to implement those recommendations to address the risks that had been flagged. Informed by this readiness assessment and the available federal and state ARRA guidance, the NYCDOE set up filter rules in its Galaxy budgeting system to control how ARRA grant funds could be budgeted, and blocks in its FAMIS accounting system to control how ARRA grant funds could be encumbered and spent. For example, schools were required to budget ARRA-SFSF only on teachers, and were required to budget ARRA-IDEA funds only for collaborative team-teaching classrooms, and limited other-than-personal-service (OTPS) spending of ARRA-Title I funds to specific contracted vendors who signed a contract addendum with the NYCDOE committing them to provide all data required for ARRA reporting and maintain all records required to demonstrate ARRA and grant compliance.

Schools were also precluded from making any ARRA expenditures with purchasing cards.

Then, the NYCDOE communicated the restrictions on the use of and the requirements for the effective documentation of all ARRA funds to all schools and to the field support offices that work directly with the schools on compliance, operational and fiscal matters. These communications included the School Allocation Memoranda noted in the Report, as well as an ARRA Internal Controls PowerPoint presentation distributed to all schools through our Principals' Portal. Additionally, the NYCDOE designed and implemented new survey tools in its Galaxy budgeting system that facilitated the schools' correct scheduling of ARRA funds and captured information to assure that ARRA-Title I funds were budgeted to supplement, not supplant, the programs that the schools would have provided in the absence of those funds.

The Report Erroneously Makes Assumptions About NYCDOE's Capacity for Timely ARRA Reporting Based on Prior Findings Relating to the Submission of Budget and Expenditure Forms.

The Report erroneously links past instances of late submissions by NYCDOE of certain expenditure reports with ARRA reporting, as the issues that resulted in the former will have no impact on the latter. Moreover, the Report repeats the faulty assertion, refuted in detail above, that the NYCDOE planned no modifications to its systems and procedures to justify the linkage. As described above and below, NYCDOE has significantly enhanced its systems, procedures and other internal controls to facilitate timely and accurate ARRA reporting.

The NYCDOE's prior year late submissions of FS-10, FS-25 and FS-10F forms to NYSED, cited in the Report, primarily relate to a specific issue, namely, encumbrances with vendors not liquidated prior to claiming deadlines. That issue was raised with NYSED before the deadlines, and NYSED expressed a preference that NYCDOE submit the affected reports late rather than submit an incomplete claim only to amend it after the encumbrance liquidations. NYCDOE has since developed an internal report to facilitate more timely liquidation of open encumbrances.

However, even if this issue of delayed encumbrance liquidations were to recur, it would not impact NYCDOE's or NYSED's ability to comply fully with ARRA Section 1512 reporting deadlines, as evidenced most clearly by the NYCDOE's timely submission of its first quarter ARRA reporting data. The reason there is no basis to link the two issues is that NYSED, as the prime recipient of the ARRA grant funds, is reporting the expenditure of ARRA funds only *after* they have been disbursed to LEAs, and those funds are only being disbursed to LEAs *after* those LEAs have submitted their claims and associated expenditure reports and those claims have been reviewed and approved by NYSED. Accordingly, if the NYCDOE were to be late in its submission of expenditure reports in support of ARRA claims, there would be no disbursement of ARRA funds to report. And the expenditure data for NYSED's ARRA reporting is therefore drawn from

NYSED's own accounting systems; it has requested no expenditure data from its sub-recipient LEAs for the purpose of ARRA reporting.

NYCDOE Received the Guidance It Needed from ED and NYSED to Meet ARRA Reporting Requirements and Timely Submitted All Required Data.

The Report correctly notes that the NYCDOE had not, *as of the time of the ED-OIG's fieldwork in June and July 2009*, received sufficient guidance on precisely what data it would need to report, to whom, and in what format, to enable it to complete its preparations for ARRA reporting, particularly with respect to reporting its estimate of jobs saved or created because of the availability of ARRA funds. However, by creating distinct accounting codes for each ARRA grant source, NYCDOE assured that it would be able to draw any data from its budgeting, payroll and accounting systems that might ultimately be required for ARRA reporting. When NYCDOE received the final guidance it needed from ED and NYSED in September 2009, it was fully prepared to draw, organize and submit all required data on time to meet the October 1, 2009 quarterly ARRA reporting deadline.

Throughout July, August and September 2009, NYCDOE held conference calls with NYSED at least once per week to discuss both agencies' ongoing preparations for ARRA administration and reporting, to identify requirements and procedures about which clarifying guidance was still needed, and to coordinate on the development of the reporting tools and processes that would be used for the NYSED's collection, review and reporting of all required ARRA data. In September 2009, NYSED informed its LEAs that expenditure data for ARRA reporting would be based on claims paid by NYSED to the LEAs. Later that month, NYSED rolled-out its newly-designed online reporting tool for LEAs to submit all data required for ARRA reporting and held a webcast to train LEAs precisely what data was required and how it was to be submitted.

Also in September 2009, ED issued *Clarifying Guidance on American Reinvestment and Recovery Act of 2009, Reporting on Jobs Creation Estimates by Recipients*, which ultimately provided the basis for the methodology that the NYCDOE used to calculate its jobs saved estimate. To further ensure that NYCDOE's methodology comported with the federal guidance, a conference call was held in September 2009 with representatives from NYCDOE, NYSED and ED to discuss the NYCDOE's methodology and the basis therefore. ED representatives agreed that the proposed methodology was consonant with the guidance, but noted that the NYSED, as prime recipient, was responsible for determining the methodology its subrecipients may or must use for ARRA jobs reporting. NYCDOE subsequently submitted its proposed methodology to NYSED in writing, and that methodology was approved by NYSED prior to the reporting deadline.

Accordingly, NYCDOE was fully prepared to meet and did meet the deadline for submission of its ARRA data for first quarter reporting, and is fully prepared to meet the deadlines for all future quarters.

NYCDOE Established Thorough Procedures for Quality Assurance, Monitoring and Internal Auditing of ARRA Expenditures and Reporting.

In October 2009, the ED-OIG provided NYCDOE with two findings sheets and held a preliminary exit conference with NYCDOE officials to discuss those preliminary draft findings. The ED-OIG had presented its finding that there was a risk NYCDOE would not be able to submit its required ARRA data on time. NYCDOE informed the ED-OIG team that it had, in fact, met the data submission deadline for first quarter reporting. In reviewing the ED-OIG's draft report issued a month and a half later, NYCDOE was distressed to find that while the ED-OIG acknowledged the timely submission, it somehow felt the need to diminish the NYCDOE's timely data submission by asserting that the ED-OIG "cannot determine the accuracy and completeness of the data submitted by NYCDOE" and that NYCDOE may be "at risk of being unable to submit the required ARRA data accurately and timely".

Since the ED-OIG's engaged in no interviews and performed no reviews or testing on the question of the accuracy and completeness of the data submitted by NYCDOE, we strongly object to the ED-OIG's inclusion of such baseless statements in a public document.

In fact, the NYCDOE, in consultation with City and State officials, KPMG and Ernst & Young, established thorough procedures for quality assurance, monitoring and internal auditing of ARRA expenditures and reporting. Those procedures included (i) the KPMG Readiness Assessment, (ii) a "dry run" conducted by the NYC Mayor's Office of Operations for submission and quality review of the data that would be required for ARRA reporting in which all City agencies, including NYCDOE participated, (iii) a requirement that any budget modifications or journal entries during the course of the school year involving ARRA funds be reviewed and pre-approved by NYCDOE fiscal and operational support officials trained in the ARRA and underlying ARRA grant requirements; (iv) ongoing internal auditing by the Office of Auditor General, in coordination with the NYCDOE's audit partner Ernst & Young, of the jobs estimates and other data submitted for ARRA reporting, and compliance testing of central and school-level personal service and OTPS transactions in each ARRA grant category covering every quarter of the two-year ARRA grant period.¹

Response to Finding No. 2:

NYCDOE Has Robust Policies and Procedures for Cash Management and Use of Funds That Now Are Committed to Writing.

The Report notes that NYCDOE's Department of Revenue Operations provided a verbal explanation of how the claim and cash drawdown process for Federal grants works, as well as how NYCDOE accounts for Federal grant deposits, but does not note what the ED-OIG auditors stated at the preliminary exit conference, which is that they concluded

¹ A summary of the quality assurance procedures performed by the Office of Auditor General and Ernst & Young, LLP is annexed to this letter.

the policies and procedures described were fully satisfactory, and that their only concern was that they had not been captured in a written document. In fact, NYCDOE independently in the summer of 2009 had written up those policies and procedures, and NYCDOE provided the ED-IG with a copy of the written SOP in October 2009. Additionally, the NYCDOE developed and distributed clear written policies and procedures on the use of ARRA funds, in the form of the School Allocation Memoranda noted in the Report, as well as an ARRA Internal Controls PowerPoint presentation distributed to all schools through our Principals' Portal. The NYCDOE has also issued School Allocation Memoranda for the specific federal grants (i.e., Title I, IDEA) under which it expects to allocate ARRA funds to schools, and maintains a Reimbursable Handbook outlining requirements impacting the use of its federal reimbursable grant funds, including Title I and IDEA.

NYCDOE Has Robust Policies and Procedures for Contract Monitoring That Are Written Into Its Contracts with Service Providers.

The Report notes that NYCDOE's Office of Special Education Initiatives provided a verbal explanation of how the Related Service Providers contracts were monitored, but does not note what the ED-OIG auditors stated at the preliminary exit conference, which is that they concluded the monitoring described was fully satisfactory, and that their only concern was that they had not been captured in a written document. In fact, the reports and documentation that our service providers are required to either submit to the NYCDOE officials responsible for contract monitoring or maintain for on-site monitoring and/or audits, are laid out in writing in the contracts executed with those vendors. However, in view of the ED-OIG's recommendations, NYCDOE agrees to document, separately from the contracts themselves, its general contract management and monitoring policies and procedures.

Sincerely,

/s/

Brian Fleischer
Auditor General

Encl.

cc: James Conway
Deborah Cunningham
Charles Szuberla
Photeine Anagnostopoulos
Michael Best
Alison Avera
Mary Coffey

**New York City Department of Education
American Recovery and Reinvestment Act of 2009
Quality Assurance Procedures on Section 1512 Reporting**

The Department of Education of the City of New York (the Department) through the Office of the Auditor General (OAG) contracted Ernst and Young LLP (the Contractor) to perform quarterly procedures to support the Department in its implementation and compliance with the American Recovery and Reinvestment Act of 2009 (ARRA or Recovery Act).

Procedures for ARRA Compliance and Reporting in the First Quarter:

In relation to the Department's first quarter reporting to the New York State Education Department (NYSED), the Contractor and OAG performed procedures to obtain an understanding of and validate the Department's methodology for calculating the full-time equivalent (FTE) positions retained and created due to ARRA funding. Procedures also included validating the accuracy and completeness of basic data elements reported for each ARRA grant awarded to the Department. Procedures took into account quality assurance standards of the Department, OAG and the Contractor.

A summary of the procedures performed is outlined below.

FTE Positions Retained and Created:

The Department reviewed all guidance issued to date by the federal Office of Management and Budget (USOMB) and United States Department of Education (USDOE) on FTE calculation and reporting. The Department confirmed its understanding of the guidance during a conference call held with representatives from the USDOE, the NYSED, the New York State Governor's Office, the New York City Office of Management and Budget (NYCOMB) and the New York City Mayor's Office of Operations (Ops). Recognizing that the education community is different from other agencies receiving ARRA funds, the group agreed that the Department would select an FTE calculation methodology that would result in a realistic representation of the actual impact of ARRA dollars. The Department drafted and issued to NYSED its proposed calculation methodology for reporting the number of jobs retained and created and, consequently obtained written approval on the methodology from NYSED.

As required by Section 1512(c)(3)(D) of the Recovery Act, the Department calculated and reported 14,728 jobs retained and 93 jobs created due to ARRA funding for the first ARRA reporting quarter.

Per the NYSED-approved methodology, the number of FTE positions retained reflects the school-based instructional staff that the Department would have laid off before the start of the 2009-2010 school year as a result of an announced \$700 million cut in State education aid for NYCDOE in Fiscal Year 2010. Based on the forecasted budget shortfall in State funding, the Department had to plan its Preliminary Budget and project estimates of necessary layoffs. According to civil service law and collective bargaining agreements, if savings are to be achieved by layoffs, then those laid-off must be the most junior employees whom are usually the lowest paid. Thus, the Department calculated its FTE positions retained by dividing the average salary of the most junior employee into the ARRA dollars it had been allocated.

To validate the Department's FTE positions retained calculation, the Contractor worked with Department management to understand and document the Department's processes and procedures for complying with ARRA requirements and tested the underlying assumptions of the Department's FTE calculation. The Contractor traced the ARRA dollar allocations used in the calculation to supporting documentation (i.e., the OMB Financial

Plan). The Contractor also electronically tested the Department's calculation of the average salary of the most junior employee by tracing employee salary and years of service information to supporting HR and payroll systems.

The underlying premise of the jobs created calculation is that all positions funded by ARRA are considered jobs created, unless they are included in the jobs retained calculation. The Contractor validated that the reported number of FTE positions created was calculated in accordance with federal guidance by tracing the full-time employee hours to the supporting HR and payroll system. Additionally, the Contractor confirmed that the ARRA dollar allocation used in the jobs created calculation was not included in the jobs retained calculation. The Contractor also tested the mathematical accuracy of the calculation by verifying that each factor of the calculation was supported by adequate documentation and traceable to source documentation and systems. Further, the Contractor confirmed that split-funded positions and vendor calculations (if any) were properly calculated and included.

Basic Data Elements:

The Department reviewed the data elements to be reported as required by ARRA. It consulted with appropriate individuals as necessary to clarify any ambiguity in directives and/or uncertainty in the data to report. Further, it complied with New York City's (NYC) quality control process undertaken on all agencies to mitigate material omissions and reporting errors.

The Contractor, together with the OAG, identified basic data elements from the list of data elements required to be reported under ARRA. Basic data elements are those that will remain consistent through each quarterly reporting, such as DUNS numbers, addresses, congressional district, etc. The Contractor reviewed the data elements required to be reported per federal, state and city guidance. It then verified that the basic data elements reported to NYSED and NYC were complete as per the guidance. Further, the Contractor verified the accuracy of the basic data elements and that these were supported by adequate documentation.

Procedures for ARRA Compliance and Reporting in All Quarters:

The Contractor has worked with Department management to understand and document, in narrative and flowchart format, the Department's processes and procedures for complying with ARRA requirements. In addition, the Contractor will perform quarterly procedures to validate the Department's reporting of key data elements for each ARRA awarded to the Department, including the total funds received and spent or obligated, and the related job impact. These procedures will include tests of data integrity and transactional trail as follows:

- Perform test check to validate the accuracy and completeness of total ARRA funds recorded as received in the Department's systems and that school allocations were in accordance with the intent of the ARRA award.
- Perform test check to validate the accuracy of the Department's quarterly full-time equivalent jobs retained and/or created number in accordance with the methodology approved by the New York State education Department, including consideration for split-funded positions charged to ARRA funding sources and applicable vendors' jobs created data .
- Perform procedures for a selection of schools and Personnel Services and Other Than Personnel Service expenditure transactions to validate:
 - Compliance with the intent of the ARRA funds awarded to the Department

- Adequate records were maintained in compliance with the regulatory requirements for the ARRA award
 - Documentation supports selected transactions, including evidence of goods/services received
 - Selected transactions were supported by appropriate documentation and were approved
 - Expenditures meet the supplement not supplant requirement for Title I expenditures (as applicable)
 - Equipment purchased with ARRA funds physically exists, is safeguarded and properly documented in Department records
 - Adherence to time and effort requirements as per OMB Circular A-87
 - Unallowable direct costs to programs were not paid with ARRA funds.
- Perform test check to validate that ARRA funds were only used to pay vendors that were in the Department's ARRA approved vendor listing.
 - Perform data analytics to verify that total ARRA claims received plus total claims outstanding (requested but not yet received) and total claims to be requested does not exceed the budgeted ARRA award amount.
 - Perform test check to validate the accuracy and completeness of all required data elements against supporting documentation including, but not limited to the following data elements:
 - Amount of (sub) award
 - Total (sub) award funds disbursed
 - Number of jobs created
 - Number of sub-awards to individuals (applicable for SFSF – Government Services only)
 - Total number vendors who received awards of less than \$25,000/award
 - Total dollar value of awards less than \$25,000 awarded to vendors.
 - Total Federal ARRA infrastructure expenditure, if applicable
 - Name and compensation of highly compensated officers, if applicable
 - Perform test check of journal entries involving a change in ARRA funding source to validate that the related expense was allowable per ARRA grant guidelines and/or meets the grant intent.
 - Perform test check to validate that indirect costs were incurred in accordance with indirect cost guidelines.



KIRYAS JOEL UNION FREE SCHOOL DISTRICT

48 Bakertown Road, Suite 401 • Monroe, NY 10950 • (845) 782-2300 / Fax (845) 782-4176

JOEL PETLIN
Superintendent of Schools

JOSEPH HARTMAN
District Treasurer

JOSHUA KAMENSKY
Deputy Superintendent

December 16, 2009

Ms. Theresa Savo
Deputy Commissioner for Operations and Management Services
New York State Education Department
2M West Education Building
Albany, NY 12234

Re: Federal Audit Report

Dear Ms. Savo,

I have reviewed the preliminary copy of the USDOE-OIG audit report of internal controls over AARA Funds (control number ED-OIG/A02J0009) dated December 2009. Thank you for giving me the opportunity to respond to the findings concerning the Kiryas Joel School District.

At the outset, let me acknowledge the thoroughness and professionalism of the Federal auditors who reviewed our systems. Though we strongly dispute their ultimate conclusion, we appreciate their guidance and assistance in improving our controls. As noted throughout the report, we have already implemented many of the recommendations, even prior to the conclusion of their review.

Finding No. 5 Controls

a) System Access

As stated in the report, at the October 29, 2009 exit conference, we presented the auditors with a Request for System Access form which identifies the appropriate level of access for each employee, as authorized by both the Superintendent and the Treasurer. These forms are maintained for each employee with system access and the network server has already been secured by the Administrator consistent with the authorization. The access of the

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employee referenced in the OIG Report has been modified to “read only” status, and our revised procedure assures that when an employees’ responsibilities change the corresponding access level is changed accordingly. Recommendation 5.1 has therefore already been implemented.

b) Establishing Processes

The report states concerns with our lack of establishment of additional procedures for the collection and reporting of AARA data. I note that the identical concern was reported for the other two school districts included in the audit report. I concur with the reported comments of NYCDOE and Harborfields and await guidance from NYSED on the additional reporting measures described in Recommendation 5.2.

c) Training

The report fails to note that at the October 29, 2009 exit conference, auditors were shown copies of the [REDACTED] User Manuals for each of the software modules in use. All employees that use the software are aware that the user manuals are kept in binders in the District Office and are available to them at any time. All new employees receive on-site training from [REDACTED] and receive the monthly [REDACTED] newsletter describing the system updates. Additional assistance is provided to each employee by [REDACTED] staff via their helpline on an as-needed basis. Finally, the School District will formalize the on-going training process for all central business office staff by addressing their professional development needs in the Superintendent’s Conference Days programming. We believe that these procedures represent an appropriate systematic training program sufficient to meet the training requirements listed at Recommendation 5.3.

Finding No. 6 Payroll Process

As noted at the exit conference on October 29, 2009, the School District has developed and implemented procedures to confirm that payroll checks are properly received by all employees. Two forms have been created to document the distribution of checks. One form is signed by a building representative in order to confirm their receipt of payroll checks for distribution. The second form is signed by each employee to confirm the receipt of their own check or check stub (if direct deposit of salary). In addition, prior to affixing his signature, the Treasurer confirms that the total number of checks issued and the total dollar amount of payroll is consistent with the Payroll Register report. As such, all payroll checks are properly accounted for, in compliance with Recommendation 6.1.

Ms. Theresa Savo
December 16, 2009
Page 3

Finding No.7 Disbursement Process

It has been alleged that a control deficiency exists in our accounting software, created by [REDACTED] Inc. At the exit conference on October 29, 2009, we pointed to a number of compensating controls that address the concern for duplicate check numbers. We pointed out our procedures to reconcile reports that would reveal if a duplication occurred. Our use of pre-numbered checks further diminishes the risk of fraud or error.

Nevertheless, because this alleged deficiency has statewide implications (see "Other Matters", page 18) for all districts using [REDACTED] software, we contacted the company for their response. As confirmed in the attached letter dated December 15, 2009, [REDACTED] has agreed to implement a check verification control, eliminating the possibility of duplicate check numbers, in their next software update which will be available in January 2010. With these changes, both Recommendation 7.1 and 7.2 will be fully implemented.

Finding No. 8 Policies and Procedures

Purchasing and cash receipt procedures have been appropriately amended and have been included in the Policy Manual. These procedures were likewise implemented prior to our October 29, 2009 exit conference, consistent with Recommendation 8.1.

In conclusion, of the 7 Recommendations contained in the Audit Report, 3 issues have been completely addressed and the remaining 4 will be implemented within the next 60 days. In light of this, I respectfully request that a) the findings be corrected to reflect our progress in these areas and cooperation in improving our control systems, b) the OIG follow-up audit referred to on Page 2 be limited to confirming that the above noted controls are indeed in-place, and c) these comments be included in any publication of the final audit report.

Thank you for your consideration.

Sincerely,

/s/

Joel Petlin
Superintendent

Cc: Board of Education



Harborfields Central School District

2 OLDFIELD ROAD • GREENLAWN, NEW YORK 11740-1200
(631) 754-5320 Ext. 321 • FAX (631) 261-0068

Frank J. Carasiti
Superintendent of Schools

December 23, 2009

Theresa Savo
Deputy Commissioner for
Operations & Management Services
2 M West Education Building
Albany, New York 12234

Dear Ms. Savo:

Attached you will find the response of the Harborfields Central School District regarding the U.S. Department of Education, Office of Inspector General Audit Report of December 2009.

Sincerely,

/s/

Frank J. Carasiti
Superintendent of Schools

FJC/jtp
c: Board of Education

FINDING NO. 3: Harborfields Lacked Progress in Establishing Processes to Ensure Compliance with ARRA Reporting Requirements

Recommendations:

We recommend that the Assistant Secretary for OESE require NYSED to work with Harborfields to—

3.1 Determine and implement additional measures that are needed to mitigate the risk of Harborfields' noncompliance with ARRA reporting requirements.

Since the time of the fieldwork, NYSED has provided some guidance regarding the reporting requirements of ARRA. A reporting method developed by the state made available the framework of reporting for school districts. Harborfields has followed direction given by NYSED and the initial report filed by Harborfields met the filing requirements incorporated within the state's reporting system.

FINDING NO. 4: Harborfields Lacked Certain Written Policies and Procedures for Cash Management and Use of Funds

Recommendations

We recommend that the Assistant Secretary for OESE require NYSED to work with Harborfields to implement written policies and procedures to—

- 4.1 Minimize the time lapse between the receipt and disbursement of Federal funds;
The district will develop and codify procedures to emulate current practices by which Federal funds are received, assigned and disbursed.
- 4.2 Remit excess interest earned on Federal funds to ED;
Harborfields will create procedures to monitor the receipt and use of Federal monies to ensure that interest earned on Federal funds is examined. The procedure will assure that interest in excess of one hundred dollars is remitted to the education department in accordance with regulation (C.F.R.) § 80.21(i).
- 4.3 Require the monitoring of receipt of Federal funds;
Policy will be formed to follow the district's practice to ensure that Federal funds are used in accordance with the laws, regulations and provisions of the Federal program under which the funds are granted.
- 4.4 Ensure that the records management system is maintained; and
The district currently follows the regulations promulgated by the state commissioner of education as set forth in policy 1120. A companion regulation will be produced to outline the processes used for the maintenance and retrieval of the district's financial records.

4.5 Ensure that contractors' past performances are reviewed and documented prior to the awarding of a contract.

Purchasing policy of the school district incorporates both General Municipal Law and Education Law to assure that the district operates both efficiently and economically. Regardless of the funding source the district's policy is applied. An expansion of the current policy to document that appropriate review of each vendor's performance is undertaken will be included and communicated to affected staff.

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