

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Hudson City School District Grant Administration

Report of Examination

Period Covered:

July 1, 2011 — May 6, 2013

2013M-324



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Hudson City School District, entitled Grant Administration. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Hudson City School District (District) is located in the City of Hudson and the Towns of Claverack, Ghent, Greenport, Livingston, Stockport and Taghkanic in Columbia County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates four schools, with approximately 1,900 students and about 550 employees. The District's budgeted expenditures for the 2012-13 fiscal year were approximately \$41.5 million funded primarily with State aid, real property taxes and miscellaneous revenue. The District received approximately \$2.6 million from 15 State and Federal grants in 2011-12 and District officials estimate that it will receive about the same amount of grant revenue in 2012-13.

Objective

The objective of our audit was to evaluate internal controls over grant administration. Our audit addressed the following related question:

- Did the District comply with the grants' fiscal guidelines?

Scope and Methodology

We examined the District's internal controls over grant administration for the period July 1, 2011 through May 6, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix C of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations Section 170.12 of the Regulations of the Commissioner of Education, a

written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Grant Administration

The Board has the overall responsibility for District operations including establishing systems and procedures for properly managing, accounting for and reporting the District's grant programs. According to the New York State Education Department (SED) *Fiscal Guidelines for Federal and State Aided Grants*, grant funds must operate under the Board's jurisdiction and are subject to the same degree of accountability as all other District expenditures in addition to State and Federal regulations. District officials are responsible for complying with the fiscal guidelines established by the grantors to ensure the proper accounting and disbursing of grant funds. A grant recipient may be required to refund previously received grant money and may also be subject to civil penalties if grant requirements are not met.

District officials need to improve internal controls over grant programs. The District expended more than \$79,400 on grant-related expenditures that either were not approved, not properly supported or not expended for legitimate grant purposes. Further, grant expenditures reported to SED totaling \$127,680 lacked sufficient supporting documentation to substantiate employee benefits, salaries and purchased services. As a result, District officials' oversight of grant programs is substantially diminished and they cannot be certain that grant proceeds were expended for authorized grant purposes.

Disbursements

District officials assigned six employees to administer their grants. Grant administrators are required to approve each grant-related disbursement.¹ In addition to District requirements, grant expenditures must follow grant guidelines requiring that expenditures are properly supported, include properly detailed vendor invoices (when appropriate) and must be for legitimate authorized grant purposes. Guidelines, approved grant applications and grant amendments stipulate which expenditures are authorized for each grant.

District officials did not ensure that all disbursements were made in accordance with grant guidelines and the District's purchasing policies and procedures. For example, grant administrators did not approve all grant-related expenditures or ensure that grant expenditures were properly supported, included properly detailed vendor invoices (when appropriate) and were for legitimate authorized grant purposes.

¹ The District's purchasing policy states that expenditures must be approved by the official "giving rise to the claim," which in this case is the grant administrator.

	Grantor	Grant Amount	Disbursements Reviewed	
			Number	Amount
1	21st Century Community Learning Centers	\$ 469,116	55	\$135,237
2	Title I, Parts A & D	\$ 449,948	17	\$47,173
3	IDEA, Part B, Section 611	\$ 209,593	13	\$71,727
4	Universal Pre-Kindergarten	\$ 54,398	12	\$21,080
5	Title III, Part A, Limited English Proficiency	\$ 17,987	4	\$7,775
	Totals	\$1,201,042	101	\$282,992

Table 1 shows the five District grant programs that we reviewed. We reviewed grant disbursements² to determine if they complied with grant guidelines and District policies. We found 38 of 101 disbursements (some with multiple exceptions) totaling more than \$79,400 did not comply with grant guidelines and District policies.

- Twenty-two disbursements³ totaling approximately \$43,980 were not properly supported with detailed vendor invoices. Invoices were paid⁴ that lacked details specifying the dates and hours for which the District was being charged by the vendor, did not identify the services provided or were not supported by agreements.
- Thirteen disbursements from all five grants totaling approximately \$24,700 were not approved by the grant administrators. These included payments to BOCES, a Pre-Kindergarten provider, a workshop provider and a videographer for off-site student services totaling approximately \$11,180; purchases of computer hardware and software totaling approximately \$7,440; and after-school activity supplies totaling approximately \$6,080.
- Six disbursements⁵ totaling approximately \$10,800 were made for expenditures that were not for legitimate and authorized grant purposes. These included four expenditures for consulting services, conference registration and employer FICA expense that were allocated to the wrong grant; one disbursement for tuition charged to the wrong grant year; and one for printing services for a District-wide newsletter, which was specifically not allowed.

² There were four grant administrators for these five grants.

³ These 22 disbursements were from the following grants: 21st Century Community Learning Centers and Title I, Parts A & D.

⁴ These disbursements were for consulting services, program mailings and offsite programs.

⁵ These six disbursements were from the following grants: 21st Century Community Learning Centers; Title I, Parts A & D; IDEA, Part B, Section 611; and Title III, Part A, Limited English Proficiency.

These discrepancies occurred because grant administrators did not thoroughly review each claim to ensure that these expenditures met the grant guidelines and the District's guidelines and policies. One grant administrator stated that the items purchased were for the District's after-school programs and she was aware of items being purchased, but did not sign off on these purchases indicating their approval as required because of logistics. As a result, the risks are increased that potentially fraudulent and wasteful purchases will not be detected and that future grant revenue could be jeopardized.

Reporting

District officials are required to submit an annual report to SED on form FS-10-F.⁶ This report serves as the basis for District grant fund reimbursement. The disbursement totals listed in the FS-10-F are compared with approved budget category totals to determine final approved grant expenditures. District officials are required to retain all supporting documentation to substantiate grant disbursements and sign a certification indicating that all disbursements are directly attributable to the grant project. The amounts listed for salaries and employee benefits should represent actual time spent by employees on grant-related activities and should be supported by records showing the time spent on such activities. Such records can also help District officials form a reasonable basis upon which to allocate grant-related employee benefits.

District officials did not ensure that the amounts reported to SED on the FS-10-F were accurate and adequately supported. We found discrepancies with the District's 2011-12 report for four of the five grants reviewed.⁷ Overall, the District lacked adequate supporting documentation to substantiate reported disbursements totaling \$127,680.⁸ Generally, all grant expenditures were accounted for in the cash disbursement journals or payroll registers. However, District officials could not provide specific details or documentation to support the amounts reported.

Expenditure Category	Amount
Employee Benefits	\$ 116,161
Salaries	\$ 8,861
Purchased Services*	\$ 2,658
Total	\$ 127,680

*These expenditures were for off-site student services.

⁶ The FS-10-F is a required form listing all final expenditures charged to Federal and State grants reported by the District. Federal grants are processed through SED.

⁷ These exceptions were for the following grants: Title I, Parts A & D; IDEA, Part B, Section 611; Universal Pre-Kindergarten; and Title III, Part A, Limited English Proficiency.

⁸ There were approximately \$1.65 million in total grant disbursements reported to SED.

These discrepancies occurred because the Treasurer used salary and employee benefit estimates instead of the required actual expenditures. She also reported certain employee benefits⁹ based on the amounts included on the approved grant award application. The Treasurer's submitted FS-10-F listed expenditures by category that totaled the grant's entire awarded amount. Later, the District's independent public accountant (IPA) provides journal entries to specifically allocate the grant's share of these costs to agree with the approved grant applications.

However, District officials did not allocate or track employee benefits for each grant by pay period. Therefore, they could not provide specific details or records showing the employees' actual time spent performing grant activities to support the journal entries provided by their IPA. Therefore, District officials cannot be certain that the grants' actual allowable costs were properly reported. As a result, District officials may be jeopardizing their receipt of future grant funding, may have to refund previously received grant money or may be subject to civil penalties.

Recommendations

1. The Board and Superintendent should ensure that grant administrators approve all grant-related disbursements and that such disbursements are made in accordance with the grant requirement guidelines.
2. The Treasurer should ensure that all employees' time spent on grant activities is sufficiently documented, accurately allocated and correctly reported in accordance with grant-funding criteria.

⁹ Workers' compensation insurance, dental insurance and retirement benefits were not specifically tracked in the District's accounting software.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

Hudson City School District

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▶ Home of the Bluehawks ◀

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February 25, 2014

Ms. Tenneh Blamah
Chief Examiner
Local Government and School Accountability
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553-4725

Dear Ms. Blamah,

Thank you for the opportunity to respond to the Hudson City School District Draft Audit Findings for the Audit of Grant Administration for the period covered July 1, 2011 through May 6, 2013. The Hudson City School District wishes to thank the New York State Comptroller's Office and the team of auditors who worked with District officials on this audit. The District takes all of the findings and recommendations seriously and we will continue to strive to ensure that all of our procedures are best practice.

Please be advised that this correspondence will also serve as the Hudson City School District's Corrective Action Plan (CAP). We have reviewed the preliminary draft audit findings related to the Grant Administration Report of Examination of the Hudson City School District audit and offer our response as follows:

Regarding "Disbursements," the District generally agrees with the State of New York Office of the State Comptroller's audit result. However, we would like to acknowledge that during the scope of this audit there was turnover in administrative positions. The disbursements cited in Table 1 were also subject to internal and external audits conducted by outside companies and organizations. During the process of these audits, District officials were never made aware that we were not compliant with grant guidelines or our own purchasing policies and procedures. Although District officials were told that there was no evidence of fraudulent purchases or activity, the report does not make this clear and only cites an increased risk that potentially fraudulent and wasteful purchases will not be detected and future grant revenue could be jeopardized. Nonetheless, we will work to ensure that all grant disbursements are properly reviewed, authorized, expended for legitimate grant purposes, and contain sufficient supporting documentation to constitute a legitimate expenditure.

Generally, the District agrees with the "Reporting" finding from the State of New York Office of the State Comptroller's audit. The District did not track employee benefits by grant pay period; however, the amounts reported and approved by New York State Grants Finance were reviewed by the District's external auditors. The District has maintained a practice of a once a year allocation for benefit reporting which makes up a majority of the amount in "Table 2: Report Discrepancies." In the future, the District will work to allocate benefits based on grant pay periods.

Recommendations

1. The Board and Superintendent should ensure that grant administrators approve all grant-related disbursements and that such disbursements are made in accordance with the grant requirement guidelines.

Response:

The Administration of the Hudson City School District has conducted various meetings with grant administrators to ensure best practices on internal controls over grant reporting and administration. With the renewed focus on grant-related disbursements, the District is confident that we will disburse grant funds that are in accordance with the grant requirement guidelines, properly supported and approved.

2. The Treasurer should ensure that all employees' time spent on grant activities is sufficiently documented, accurately allocated and correctly reported in accordance with grant-funding criteria.

Response:

The Hudson City School District disagrees with the finding that employees' time spent on grant activities is not sufficiently documented. Although it is not maintained by the Treasurer, the Grant Administrator's already require all employees paid out of each respective grant to sign a payroll certification detailing the total time for which they are being paid out of a particular grant. Going forward we will work to allocate expenditures on a pay period basis.

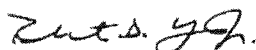
See
Note 1
Page 12

The Hudson City School District once again would like to thank you for bringing these findings to our attention. We will continue to focus our efforts on improvement in the areas noted in the audit report.

Sincerely,
Hudson City School District



Maria J. Suttmeier
Superintendent of Schools



Robert D. Yusko Jr.
School Business Executive

CC: Board of Education, Hudson City School District

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

District officials did not provide payroll certifications to the examiners during our audit fieldwork. Additionally, District officials did not allocate payroll expenditures to the grants based on total actual salaries paid, but rather on the employees' base salaries. Had District officials properly monitored the employees' time allocated to grants, they may have realized that one employee providing grant services was on unpaid status for extensive absences.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the District used State and Federal grant revenue for proper purposes. To achieve our objective and obtain valid audit evidence our procedures included the following:

- We gained an understanding of the grant programs and how they were administered.
- We compiled a list of all grant disbursements from the 2011-12 and 2012-13 disbursement journals. We footed the list and sorted it by grant account code. We then calculated total grant expenditures for each of the 15 grants for each fiscal year and randomly selected five grants to review (three grants with more than \$100,000 in expenditures and two grants with less than \$100,000 in expenditures).
- We selected a sample of grant disbursements¹⁰ from each of these five grants to determine whether the expenditures were properly supported with detailed vendor invoices, approved by the program administrator and for legitimate, authorized grant purposes.
- We tested our sample of grants to determine if final expenditure reports (FS-10-F) were both accurate and complete. In order to accomplish this, we compiled a list of each of the five grants' individual disbursements from the 2011-12 and 2012-13 disbursements journals and payroll reports. We footed each list, sorted by account code and then compared each grant's total disbursements with the amounts reported to SED on the 2011-12 FS-10-F to determine if the amounts reported were accurate and complete.

We conducted this performance audit in accordance with GAGAS. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹⁰ Based on the number of disbursements in each grant, we used a random number generator to select our sample.

APPENDIX D

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