
Audit Report

East Ramap● Central School● District

for the Period●

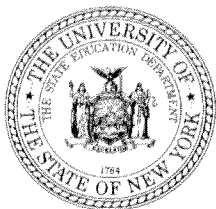
July 1, 2010 through June 30, 2015

SD-0516-01

December 27, 2016

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





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

Thalia J. Melendez, Director of Audit Services
New York State Education Department
Office of Audit Services
89 Washington Avenue, EB 524
Albany, New York 12234
Thalia.Melendez@nysed.gov
518 473-4516

December 27, 2016

Mr. Yehuda Weissmandl
Board President
East Ramapo Central School District
105 South Madison Avenue
Spring Valley, NY 10977

Dear Mr. Weissmandl:

I have enclosed the final report (SD-0516-01) for our audit of the East Ramapo Central School District's school lunch fund for the period July 1, 2010 through June 30, 2015. The audit was conducted pursuant to Section 215 of the Education Law.

Ninety days from the issuance of this report, you will be asked to submit a report on actions taken as a result of this report. This required report will be in the form of a recommendation-implementation plan and it must specifically address what action has been taken on each recommendation.

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

Sincerely,

Thalia J. Melendez

Attachments

c: M. Elia, E. Berlin, S. Cates-Williams, B. Cechnicki, R. Rider, T. Walters, C. Coughlin, J. Conroy (DOB), J. Dougherty (OSC), D. Wortham (Superintendent), C. Jordan (DS Rockland BOCES)

Executive Summary

Background and Scope of the Audit

The East Ramapo Central School District (District), located in Rockland County, New York, is an urban/suburban school district that serves over 8,900 public school students in 14 schools and 20,000 students in 80 non-public schools. In regards to the public school students, 80 percent are eligible for free and reduced lunches. These students are from various countries and socio-economic backgrounds. East Ramapo is designated by the New York State Education Department as a High Needs/Low Resource school district, and is committed to meet the multiple needs of its students. The District is governed by a nine-member elected Board of Education.

The Office of Audit Services conducted an audit of the school lunch fund at the District. We examined financial records and documentation to support the \$21.54 million expended by the District's school lunch fund for the period of July 1, 2010 through June 30, 2015. This was a performance audit and our objectives were to verify the District has sufficient control systems in place to oversee the school lunch fund, the District has correctly recorded and accounted for school lunch fund revenues, and expenditures from the District's school lunch fund are both accurately documented and allowable.

Audit Results

The audit found that East Ramapo has many of the necessary controls in place to administer its school lunch fund adequately, including the correct recording and accounting of school lunch fund revenues. However, we found \$724,616 in non-salary expenditures that should not have been charged to the school lunch fund for the period July 1, 2010 through June 30, 2015. The disallowances and other issues identified by the audit are as follows:

- The District charged the school lunch fund \$662,523 for 25 expenditures that were both capital in nature and did not receive prior approval from the awarding agency, the New York State Education Department (Department).
- The District charged the school lunch fund \$11,587 for four expenditures that should have been paid through other funding sources.
- The District did not have documentation to support \$50,506 of expenditures charged to the school lunch fund. The majority of these expenditures were for utilities.
- The District charged the school lunch fund \$374,715 for 25 general purpose equipment expenditures, but did not request or receive prior approval from the Department.
- Payroll certifications and personnel activity reports were not prepared for employees paid from the school lunch fund.

Comments of School Officials

District officials' comments about the findings and conclusions were considered in preparing this report. Their response to the draft report is included as Appendix B.

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Introduction

Background

The East Ramapo Central School District (District), located in Rockland County, New York, is an urban/suburban school district that serves over 8,900 public school students in 14 schools and 20,000 students in 80 non-public schools. In regards to the public school students, 80 percent are eligible for free and reduced lunches. These students are from various countries and socio-economic backgrounds. East Ramapo is designated by the New York State Education Department as a High Needs/Low Resource school district, and is committed to meet the multiple needs of its students. The District is governed by a nine-member elected Board of Education.

Objectives, Scope, and Methodology

The Office of Audit Services conducted an audit of the school lunch fund at the District. We examined financial records and documentation to support the \$21.54 million expended by the District's school lunch fund for the period of July 1, 2010 through June 30, 2015. This was a performance audit and our objectives were to verify the District has sufficient control systems in place to oversee the school lunch fund, the District has correctly recorded and accounted for school lunch fund revenues, and expenditures from the District's school lunch fund are both accurately documented and allowable.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed New York State Education Department (Department) and District management and staff; examined records and supporting documentation; and reviewed the District's audited financial statements.

We conducted our compliance audit in accordance with modified Generally Accepted Government Auditing Standards (GAGAS). GAGAS 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 evidence obtained provides a reasonable basis for our

findings and conclusions based on our audit objectives. In addition, GAGAS requires a review performed by a team of external peers, independent of the audit organization, at least every three years. Because of recent changes in administrative personnel, however, an external peer review was inadvertently not conducted. An internal “Red Book” review pursuant to the International Standards for the Professional Practice of Internal Auditing Standards was conducted. It is contemplated that both an updated internal review and external peer review will be performed within the next year. We feel that not having an external audit peer review has had no material effect on the assurances provided.

Comments of School Officials

District officials' comments about the findings were considered in preparing this report. Their response to the draft report is included as Appendix B.

Non-Salary Expenditures

The federal government's Office of Management and Budget's Circular A-87 (A-87) states that under federal grant awards, costs must be necessary and reasonable; consistent with policies, regulations, and procedures that apply to the award; accorded with consistent treatment; and be adequately documented.

In addition, A-87 requires school districts to maintain adequate documentation to support charges to federal grants, demonstrate adherence to the terms and conditions of the grant, and performance of the approved activities.

Based on the \$19.25 million reported by the District in non-salary expenditures for the school lunch fund, we selected a sample of expenditures amounting to \$5.4 million and found that 87 percent of the sampled expenditures were accurately accounted for and allowable. However, we identified \$724,616 in expenditures or 13 percent of the sampled expenditures that should not have been reimbursed through school lunch funding because they were not approved or were undocumented. We also found \$374,715 or 7 percent of the sampled expenditures were for general purpose equipment items such as ovens that require Departmental approval, but did not receive it.

Unapproved

A-87 defines a capital expenditure as that which is for the acquisition cost of capital assets (equipment, buildings, land), or as an expenditure to make improvements to capital assets that materially increases their value or useful life. Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency. Education Law 3651 allows for the creation of a capital reserve to fund capital projects; however, the establishment of and the spending from require approval by the District's voters.

The District charged the school lunch fund \$662,523 for 25 expenditures that were both capital in nature and did not receive prior approval from the Department, which serves as the awarding agency. The expenditures were for the following:

- Asbestos and demolition - \$312,941
- Miscellaneous building rehabilitation - \$125,169
- Roofing - \$70,975
- Carpentry - \$54,808
- Masonry - \$31,800
- Lumber - \$27,918
- Plumbing - \$20,094
- Spray foam insulation - \$11,721
- Heating units - \$7,097

District officials did not seek voter approval for the creation of a capital reserve fund to improve capital assets associated with the District's food service operation. In addition, District officials also neglected to obtain prior approval from the Department to charge the school lunch fund for improvements to these capital assets. As a result, the District overcharged the school lunch fund by \$662,523.

Erroneous Payments

Part three of the District's July 2009 lease with Congregation Bais Malka defines who is responsible for repairs. All routine repairs are to be paid for by the tenant and all major and/or structural repairs are to be paid by the District.

A-87 states that purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges are referred to as credits. To the extent that such credits received by a governmental unit relate to allowable costs, they should be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

District officials did not comply with the terms of its lease agreement with Congregation Bais Malka causing them to pay for a \$1,800 freezer repair for which they were not responsible. In addition, \$8,899 and \$888 was charged for damaged/lost food due to Hurricane Sandy and power outages, respectively. District officials did not seek

indemnification through insurance or FEMA for the food loss or reimbursement from Congregation Bais Malka for the freezer repair and consequently the District overcharged the school lunch fund by \$11,587.

Inadequately Documented

For costs to be allowable, A-87 requires that they be necessary and reasonable for proper and efficient performance and administration of federal awards, and that they be adequately documented. Also, Schedule D1-Cost Responsibility Detail Sheet from the District's 2009-14 contract with its Food Service Management Company, Whitsons School Nutrition Corporation (Whitsons), shows that paper and cleaning supplies are the responsibility of Whitsons.

The District did not have documentation to support \$50,506 of expenditures charged to the school lunch fund, including:

- District personnel only providing part of the original bills for \$44,522 in charges to a calculator/computer center and for heating oil, electric, gas, phone, and garbage removal.
- District officials did not inform Whitsons about money owed to them for \$4,616 of paper purchased on their behalf and therefore did not seek reimbursement.
- District personnel did not document the location, type of materials stored, and reason for renting \$1,368 of storage units and therefore the purpose and location of these items could not be not be determined.

As a direct result, the District overcharged the school lunch fund by \$50,506.

General Purpose Equipment

A-87 defines general purpose equipment as that equipment, which is not limited to research, medical, scientific or other technical activities. Capital expenditures for general purpose equipment, buildings, and land are not allowable as direct charges, except where approved in advance by the awarding agency.

The District charged the school lunch fund for 25 general purpose equipment expenditures, amounting to \$374,715,

but neglected to obtain prior approval from the Department. We were able to locate all of the items we selected for inventory testing and determined that all of the items were being used for the District's school lunch fund. As such, there is not a monetary disallowance for these items.

Recommendations

1. Establish communications with the Department's Child Nutrition Unit and reference this report to obtain instructions for repaying the \$724,616 that was overbilled.
2. Ensure that adequate supporting documentation is maintained for all expenditures charged to the school lunch fund.
3. Ensure that all purchased items have received advanced approval from the Department when charging capital and general equipment expenditures to the school lunch fund or if not charged to the school lunch fund, establish a voter approved capital reserve.

Compliance – Time and Effort Requirements

A-87 requires salaries of employees who are charged to federal grants be supported by periodic certifications or personnel activity reports (PARs). This requirement applies to all federal grants including those in the child nutrition cluster.

The requirement states where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

In addition, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by PARs or equivalent documentation which must meet the following standards; they must account for the total activity for which each employee is compensated, they must be prepared at least monthly coinciding with one or more pay periods, and they must be signed by the employee.

We selected 3 employees from 2010-11, 36 employees from 2011-12, 54 employees from 2012-13, 6 employees from 2013-14, and 4 employees from 2014-15, from the District's school lunch fund *Payroll Activity/Verification Reports* to determine if personal service costs were supported with periodic certifications or PARs. We found that periodic certifications and PARs were not prepared for any of the sampled employees because the District chose not have a process in place to certify time and effort for employees funded through the school lunch fund. As such, the District's personal service costs for the school lunch fund were not supported with periodic certifications or PARs.

Recommendation

4. Ensure periodic certifications or PARs are maintained for all employees who are compensated through a federal grant.

Internal Controls – Contract not Signed by District

The New York State Office of the Comptroller defines internal controls as a combination of attitudes, policies, procedures and efforts of the people within an organization working together to achieve its objectives and mission. A strong system of internal controls benefits all aspects of operations; it improves the reliability of organizational operations, provides confidence that an organization is using funds and resources efficiently and effectively, and provides assurance that assets and resources are well protected and managed.

Sound internal controls call for districts to enter into contractual or lease agreements with service providers or landlords before services are delivered or space is occupied. This helps assure that proper authorization and approvals were obtained prior to commencement of contract. Further, the contract or lease should be documented and should clearly stipulate the services to be provided or space occupied; a timeframe for the delivery of services or space to be occupied; the cost of providing the services or space; and the timing and method of payment.

District Policy 6410 Authorized Signatures gives the Board the authority to designate the District Clerk, Superintendent of Schools, District Treasurer and President of the Board to sign contracts, documents, papers, agreements, writings and other instruments in writing that are authorized by the Board or required by law to be executed. If the President of the Board can't sign any of the above documents, the Vice President of the Board is authorized to sign in his place.

During our review of supporting documentation for the OTPS expenditure sample, we found an expenditure of \$90,574 for the purchase of a walk in refrigerator and freezer; however, the *Standard Form of Agreement Between Owner and Contractor (Agreement)* was only signed by the Contractor. The Agreement was dated August 21, 2012 and the District Board Minutes from August 21, 2012 show that the Board approved and authorized the Board President and the Superintendent of Schools to sign the Agreement; however, it was never signed by the District. Though Board Approval was granted to sign the Agreement, the Board President and the Superintendent of Schools neglected to

sign the Agreement. If issues arose with the Agreement, the District may not have been able to seek timely recourse, and unexpected legal fees may have been incurred.

Recommendation

5. Ensure all contracts entered into by the District with external parties are signed and dated before the commencement of services or the receipt of goods.

Contributors to the Report
East Ramapo Central School District

- Andrew Fischler, Audit Manager
- Patrick Orton, Auditor-in-Charge
- Murthy Vemparalla, Senior Auditor



EAST RAMAPO CENTRAL SCHOOL DISTRICT

Appendix B

SUPERINTENDENT OF SCHOOLS
105 South Madison Avenue, Spring Valley, NY 10977
Telephone: (845) 577-6011
Facsimile: (845) 577-6168

"A Unified Community Educating the Whole Child"

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DR. DEBORAH L. WORTHAM
Superintendent of Schools

December 23, 2016

Thalia J. Melendez
Director
Office of Audit Services
NYS Education Department
89 Washington Avenue, EB 524
Albany, NY 12234

Dear Ms. Melendez:

The East Ramapo Central School District has reviewed the November 18, 2016 School Lunch Draft Audit Report performed by the New York State Education Department (NYSED) Office of Audit Services. It has given serious consideration to the audit comments and recommendations. For each audit recommendation listed on the report please find the following:

1. Audit Comment/Recommendation

The District charged the school lunch fund \$724,616 in non-salary expenditures that should not have been charged to the school lunch fund for the period of July 1, 2010 through June 30, 2015.

Response

The District is in contact with the NYSED Child Nutrition Unit to arrange for a multi-year schedule of repayment of the abovementioned amount. Internal controls have been strengthened to avoid any similar case of inadequate charges to the school lunch fund. The District will also maintain complete supporting information on all expenditures charged to the school lunch fund including utility invoices.

2. Audit Comment/Recommendation

Payroll certifications and personnel activity reports were not prepared for employees paid from the school lunch fund.

Response

The District has now instituted periodic certifications and PARs for employees funded through the school lunch fund.

3. Audit Comment/Recommendation

Ensure all contracts entered into by the District with external parties are signed and dated before the commencement of services or the receipt of goods.

Response

The District has implemented a procedure through which all contracts are reviewed prior to execution and are properly signed and dated in accordance with this Audit's recommendation. Please note that this was not done in the prior administration and it is a process which has been corrected.

In concluding, I would like to thank all audit staff involved in this process for their professionalism and knowledge.

Sincerely,

A handwritten signature in black ink that reads "Deborah L. Wortham". The signature is written in a cursive, slightly slanted style.

Dr. Deborah L. Wortham