
Audit Report

Watertown City School District
Education Stabilization Fund Audit
for the Period
March 13, 2020 through September 30, 2022

ESF-0823-01

April 26, 2024

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

New York State Education Department
Office of Audit Services
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Albany, New York 12234
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April 26, 2024

Dr. Larry Schmiegel
Watertown City School District
1351 Washington Street
Watertown, NY 13601

Dear Dr. Schmiegel:

Enclosed is the draft audit report (ESF-0823-01) corresponding to our audit of Watertown City School District. The objective of this audit was to determine if Education Stabilization Funds (ESF) received under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) were spent in accordance with award requirements and federal regulations. This audit was conducted pursuant to Section 305 of the Education Law and the scope of the audit covered the period March 13, 2020 through September 30, 2022.

Within 90 days of the issuance of this report, we request school officials provide a written corrective action plan to the Office of Audit Services which details the specific steps that were taken by the Watertown City School District to implement the recommendations in the audit report.

We appreciate the cooperation and courtesies extended to NYSED staff during the audit. If you have any questions or require additional information, please contact Zubair Khan, Auditor-in-Charge (Zubair.Khan@nysed.gov).

Sincerely,

James Kampf
Director, Office of Audit Services

Attachments

cc: Betty A. Rosa, Commissioner
Sharon Cates-Williams, Executive Deputy Commissioner
Jason Harmon, Deputy Commissioner P-12 Operations
Theresa Billington, Assistant Commissioner, Office of Accountability
Erica Meaker, Director, Office of ESSA-Funded Programs

Executive Summary

Objectives

To determine if the Watertown City School District (District) Education Stabilization Fund (ESF) expenditures were reasonable, necessary, and allocable under the CARES Act and to assess their compliance with all applicable federal, state, and local laws and regulations. The audit covered the period from March 13, 2020 through September 30, 2022.

Background

On March 27, 2020, Congress passed, and the President signed into law, the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act created an Education Stabilization Fund (ESF) to prevent, prepare for and respond to the coronavirus. The Watertown City School District was awarded \$2,020,795 in ESSER funds and \$342,490 in GEER funds.

Key Findings

For the audit period March 13, 2020 through September 30, 2022, we found:

1. The District's internal controls did not provide sufficient assurances that the charges to the federal grant were accurate, allowable, and properly allocated.
2. The District does not maintain standard operating procedures for day-to-day operations of payroll processing, procurement, and asset management/ inventory.
3. The District did not ensure that purchases were procured in accordance with Uniform Guidance 2 CFR §200.324(a) by completing a cost or price analysis prior to their procurement of the items.
4. The District lacked internal controls to ensure the necessary documentation required was maintained for all purchases made.
5. District officials did not properly monitor and account for the fixed assets that we tested and maintained incomplete and inaccurate records. Additionally, the District's fixed asset policy did not require them to maintain certain records listed in 2 CFR §200.313(d), nor did it require district officials to conduct periodic inventory reconciliations of its fixed assets.

Key Recommendations

We recommend the District:

1. Ensure personal service contracts procured using federal funds are fully executed prior to the start date of the contract period.
2. Develop detailed standard operating procedures, including but not limited to:
 - a. Processing payroll;
 - b. Processing procurements; and
 - c. Maintaining and accounting for fixed assets/inventory.
3. Review its current procurement policy and update it as appropriate to ensure a cost or price analysis is completed prior to the procurement of the items.

4. Review its current procurement policy and update it as appropriate to ensure that all necessary documentation is maintained.
5. Review and update the fixed asset policy to require a physical inventory at least once every two years. Furthermore, the District should review and update this fixed asset policy to ensure staff maintain a complete, accurate and up-to-date fixed asset inventory in compliance with 2 CFR §200.313(d) - *Management Requirements*.

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Introduction

Background

The Watertown City School District (the “School District”) is considered a small city school district and is located in the City of Watertown near the center of Jefferson County in the northern sector of New York State. The District has land area of approximately 30 square miles, serves an estimated population of 30,000 residents, and includes all of the City and portions of the Towns of LeRay, Pamela, Rutland, and Watertown. In accordance with the District’s mission statement, the District is committed to building a caring culture that fosters lifelong learners and responsible citizens.

The District is governed by the laws of New York State and operates under a locally-elected Board of Education (Board) consisting of seven members elected at-large for staggered five-year terms. The Board is the policymaking body of the District. The President and the Vice President of the Board are elected by the Board members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The duties of the administrative officers of the District are to implement the policies of the Board and oversee the operation of the school system. The District is staffed by approximately 850 full-time and part-time employees who provide services to approximately 4,000 students and other community members. The District currently operates five elementary schools (K-4), one intermediate school (5-6), one middle school (7-8), and one high school (9-12).

CARES Act

On March 27, 2020, Congress passed, and the President signed into law, the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act created an Education Stabilization Fund (ESF) to prevent, prepare for and respond to the coronavirus, under which New York State has received:

- \$1.037 billion in Elementary and Secondary School Emergency Relief (ESSER) funds to support the ability of local educational agencies (LEAs), including charter schools that are LEAs, with emergency relief funds to address the impact that Novel Coronavirus Disease 2019 (COVID-19) has had, and continues to have, on elementary and secondary schools across the nation; and
- \$164.2 million in Governor’s Emergency Education Relief (GEER) funds for the purpose of providing educational agencies with emergency assistance to address the impact of COVID-19.

The Watertown City School District was awarded \$2,020,795 in ESSER funds and \$342,490 in GEER funds, respectively. The District used these funds for summer learning programs to close learning gaps for the neediest students due to the pandemic, mental health services and supports, supplies and materials to ensure the health and safety of

students and staff, and educational technology supplies and resources to maintain continuity of learning for students and teachers.

Objectives, Scope, and Methodology

The Office of Audit Services conducted an audit to determine if the Watertown City School District Education Stabilization Fund (ESF) expenditures were reasonable, necessary, and allocable under the CARES Act and to assess their compliance with all applicable federal, state, and local laws and regulations. The audit covered the period from March 13, 2020 through September 30, 2022.

To accomplish our objectives, we interviewed school officials, assessed financial controls, reviewed policies and procedures for procurement, processing revenues, expenditures, and payroll, examined documentation provided by school officials to support the financial transactions, reviewed relevant laws, and interviewed staff.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), with the sole exception of an external peer review. Those procedures 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. In addition, GAGAS requires a review performed by a team of external peers, independent of the audit organization, at least once every three years. Due to recent changes in personnel and budget constraints, an external peer review was not conducted. We anticipate that an external peer review will be performed in the near future and believe that the lack of an external audit peer review has had no material effect on the assurances provided.

Audit Findings and Recommendations

1. Non-Public School Contracts

Students who attend a non-public school within a district's geographical boundaries are eligible to receive equitable services under the CARES Act programs. Watertown City School District provided equitable services under the CARES Act to three parochial schools within its boundaries.

In accordance with the Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* 2 CFR §200.430(i) - *Standards for Documentation of Personnel Expenses*, "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- Be incorporated into the official records of the non-Federal entity;
- Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities..."

We examined 19 personal service contracts for the three parochial schools reported on the FS-10-F, *Final Expenditure Report* and noted:

1. 13 invoices failed to report the hours worked for the period being paid as required by the contract with the parochial schools.
2. 14 of the contracts were signed after the commencement period in the contract.

The District's internal controls did not provide sufficient assurances that the charges to the federal grant were accurate, allowable, and properly allocated.

Without sufficient internal controls to document charges to federal grants, the District cannot provide assurances that the charges to federal grants are accurate, allowable, and properly allocated.

Recommendation 1:

We recommend that District officials ensure personal service contracts procured using federal funds are fully executed prior to the start date of the contract period.

2. Standard Operating Procedures (SOPs)

The Board is responsible for designing internal controls that help safeguard the District's resources and to ensure they are used economically, and efficiently. An adequate system of internal controls includes clear policies and procedures that promote effective operations, the prudent use of resources, and the adherence to applicable laws and regulations.

In accordance with Uniform Guidance 2 CFR §200.303(a) - *Internal Controls*, "The non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "*Standards for Internal Control in the Federal Government*" issued by the Comptroller General of the United States or the "*Internal Control Integrated Framework*", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."

One way to improve internal control efficiency is through the use of standard operating procedures (SOPs). SOPs provide a step-by-step guide detailing approved procedures for certain tasks within an organization. The use of SOPs improves an organization's internal controls by mitigating the risk of human error and non-compliance with approved procedures.

We noted the District does not maintain standard operating procedures for day-to-day operations of payroll processing, procurements, and asset management/inventory. Maintaining SOPs in these areas would assist in the development and training of new employees, help ensure the District's operations are unaffected by potential staff turnover, and ensure tasks are performed efficiently.

Without written policies and procedures, employee roles, responsibilities and duties may be unclear and not properly followed, resulting in confusion, misunderstanding and errors.

Recommendation 2:

We recommend that District officials develop detailed standard operating procedures, including but not limited to:

1. Processing payroll;
2. Processing procurements; and
3. Maintaining and accounting for fixed assets/inventory.

3. Supplies & Materials – Cost Analysis

Districts are required to adopt written policies and procedures governing all purchases over goods and services. An effective procurement policy ensures that officials seek competition and purchase goods and services of desired quantity and quality at the lowest cost, particularly if federal funds are used.

In accordance with Uniform Guidance 2 CFR §200.324(a) - *Contract Cost and Price*, “The Non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the non-Federal entity must make independent estimates before receiving bids or proposals.”

We examined 15 transactions reported on the FS-10-F, *Final Expenditure Report* for compliance with the District’s policies and procedures and noted four (4) lacked evidence of competition and cost analysis.

The District did not ensure that purchases were procured in accordance with Uniform Guidance 2 CFR §200.324(a) by completing a cost or price analysis prior to their procurement of the items.

When the District is not ensuring competition is solicited and properly documented, the District cannot provide assurance that goods and services are purchased in the most prudent and economical manner.

Recommendation 3:

We recommend the District review its current procurement policy and update it as appropriate to ensure a cost or price analysis is completed prior to the procurement of the items.

4. Supplies and Materials - Documentation

Districts have the responsibility to accurately record and maintain proper documentation for all purchases of goods and services.

In accordance with Uniform Guidance 2 CFR §200.318(i) - *General Procurement Standards*, "The Non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: Rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

We examined 15 procurement transactions reported on the FS-10-F, *Final Expenditure Report* for compliance with the District's policies and procedures and noted one (1) instance in which only 16 out of 17 serial numbers were provided for Smart TVs in our sample. However, the serial numbers were not listed on the purchase order and therefore, we were unable to confirm if the serial numbers provided were part of that specific purchase order.

The District lacked internal controls to ensure the necessary documentation required was maintained for all purchases made.

When the District is not ensuring purchases are properly documented, the District cannot provide assurance that items have been fully accounted for upon delivery.

Recommendation 4:

We recommend the District review its current procurement policy and update it as appropriate to ensure that all necessary documentation is maintained.

5. Asset Management and Inventory

School District officials routinely purchase supplies and equipment, and therefore, should have established policies and procedures on how inventory will be maintained and when the physical inventory will be completed.

In accordance with Uniform Guidance 2 CFR §200.313(d) - *Management Requirements*, "Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

1. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
2. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
3. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.
4. Adequate maintenance procedures must be developed to keep the property in good condition.
5. If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

In accordance with the District's *Accounting of Fixed Assets, Inventory and Tracking Policy (4607 Fiscal Management)*, "A property record will be maintained for each asset and will contain, where possible, the following information:

- a. Date of acquisition;
- b. Description;
- c. Cost or value;
- d. Location;
- e. Asset type;
- f. Estimated useful life;
- g. Replacement cost;
- h. Current value;
- i. Salvage value;
- j. Date and method of disposition;
- k. Responsible official"

We examined 15 inventory items (i.e., 11 laptops, 2 interactive screens and 2 iPads) reported on the FS-10-F, *Final Expenditure Report* and noted the following:

- 15 inventory items did not have the acquisition date listed, cost listed, property source funding listed, title holder listed or federal award used to purchase the property.
- Six (6) inventory items in our sample could not be traced to the inventory file provided by the district.

Furthermore, there was no evidence to suggest an inventory reconciliation was completed within the last two years.

District officials did not properly monitor and account for the fixed assets that we tested and maintained incomplete and inaccurate records. Additionally, the District's fixed asset policy did not require them to maintain certain records listed in 2 CFR §200.313(d), nor did it require district officials to conduct periodic inventory reconciliations of its fixed assets.

By not complying with Uniform Guidance or their own fixed asset policy, the District has an increased risk that their fixed assets could be lost, stolen, or misused. Even with a physical inventory performed, the missing information on the District's Asset Inventory Report prevents staff from specifically identifying each asset. Therefore, officials cannot ensure that all assets purchased remain in the District's custody.

Recommendation 5:

We recommend the District:

1. Review and update the fixed asset policy to require a physical inventory at least once every two years.
2. Review and update the fixed asset policy to ensure staff maintain a complete, accurate and up-to-date fixed asset inventory in compliance with 2 CFR §200.313(d) - *Management Requirements*.

Contributors to the Report

- James Kampf, Director of Audit Services
- Jeanne Day, Audit Manager
- Zubair Khan, Auditor-in-Charge
- Jorel Johnson, Staff Auditor
- Valli Ragavan, Staff Auditor

DR. LARRY C. SCHMIEGEL
Superintendent of Schools

LYNN S. GAFFNEY
Assistant Superintendent for Instruction

TINA M. LANE
Assistant Superintendent for
Personnel and Student Services

SALLY SWITZER
Interim Business Official

JENNA J. RITZ
Treasurer



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NYS Office of Audit Services
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Albany, NY 12234

4/2/24

Jeanne Day, Audit Manager:

In reviewing the specific audit items which were cited in the ESF/ CARES Act grants for the period of time March 13, 2020 through September 30, 2022 there are some comments regarding the findings. As you are aware, all of the key players involved in administering the spending of those funds are no longer employed at Watertown CSD. However, in the spirit of welcoming all assistance and recommendations the following is a response of the audit document findings.


1. Non-Public School Contracts While some of the monthly invoices submitted for reimbursement did not include hours worked, as specified in the contract, the contracts did specify that they were to be paid on a per diem basis, not on an hourly basis. When the supervisor of the parochial schools signs off on the monthly invoice, they were confirming that the work was completed. A deficiency citation in the audit does seem a bit harsh, but your comments will be taken under advisement moving forward in adjusting the claim form appropriately. **SED Comment #1**

Not sure why the parochial school contracts were signed after the commencement of the contract period. That will be remedied in the future.

2. Standard Operating Procedures (SOP's) As indicated previously, all of the key players in the administration of the funds are no longer here. Even prior to receiving your CARE/ESF audit findings, the need for training of the district officials in the proper procedures for the processing of payroll, the procurement of goods and services, and the maintaining of fixed assets inventory had been acknowledged as an area the new administration is most interested in improving.
3. Supplies and Materials Cost Analysis The district processed a number of purchase orders through CDW and Presentation Concepts, which used the OGS pricing, so the district did not go out and secure multiple quotes. **SED Comment #2**
4. Supplies and Materials- Documentation The technology items are typically be delivered to the Massey Street facility for the tagging of equipment items by the IT Department. One order was sent directly to the parochial school by mistake so those items were not initially tagged.
5. Asset Management and Inventory The Audit cited serial numbers missing on some electronic equipment. The IT department now has photos of the serial number for the items in question. **SED Comment #3**

General Observations Most of the issues cited in the audit consisted of the items the district purchased or paid for on behalf of the parochial schools. The paperwork process for securing goods and services to the Parochial School will be reviewed and corrected moving forward.

Sincerely,


Sally A. Switzer
Interim Business Manager

SED Comments to Audit Response

1. We reviewed the signed contracts between the parochial school and the Watertown City School District to determine if the District provided equitable services to non-public schools within their geographic borders and properly documented the expense for the services.

While the contracts may have specified that certain invoices were to be paid on a per diem basis, they also specified the invoice should show the hours worked the previous two weeks. The District should verify that contracts paid with federal funds conform to the requirements in 2 CFR 200.430(i).

2. Even when utilizing vendors under State contract through the NYS Office of General Services, the District is still responsible to ensure they are being charged the correct rate or price negotiated under the State contract, particularly if federal funds are used. Best practice would be to include a copy of the OGS award document and rate/pricing information as part of the procurement package.
3. The District provided pictures of the serial numbers for the Smart TVs in our sample after the closing conference. There was a total of 17 Smart TVs in our sample, and the District provided pictures for 16 of them. One (1) serial number was not provided. For the 16 serial numbers provided, we were unable to confirm if they were part of the purchase order in our sample because the serial numbers were not listed on the purchase order.