



**UNITED STATES DEPARTMENT OF EDUCATION**  
**OFFICE OF INSPECTOR GENERAL**

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April 10, 2007

**Control Number**  
**ED-OIG/A02G0007**

Richard P. Mills  
Commissioner of Education  
New York State Education Department  
89 Washington Avenue  
Albany, NY 12234

Dear Commissioner Mills:

This **Final Audit Report**, entitled *Hempstead Union Free School District's (Hempstead) Elementary and Secondary Education Act of 1965, as amended (ESEA),<sup>1</sup> Title I, Part A (Title I) Non-Salary Expenditures*, presents the results of our audit. The purpose of the audit was to determine whether Hempstead's Title I non-salary expenditures were allowable and spent in accordance with applicable laws and regulations. Our review covered the period July 1, 2002, through June 30, 2004.

We provided a draft of this report to the New York State Education Department (NYSED). In its March 29, 2007 response to our draft report, NYSED agreed with our findings and recommendations. In its response, NYSED indicated that most of the recommendations have been implemented. We summarized NYSED's comments after the recommendation sections of the report and included the entire response as an Attachment to the report.

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## **BACKGROUND**

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Hempstead is a school district located in Nassau County, Long Island, New York, serving approximately 7,000 students in 10 schools during our audit period.<sup>2</sup> Hempstead expended a total of approximately \$7.7 million in Title I program funds during the period from July 1, 2002, through June 30, 2004. Of the \$7.7 million, about \$1.8 million was for non-salary expenditures.

The Title I program provides Federal financial assistance through state educational agencies to local educational agencies (LEAs) with high numbers of poor children, to help ensure that all

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<sup>1</sup> The Elementary and Secondary Education Act of 1965 was amended by the No Child Left Behind Act of 2001, enacted January 8, 2002.

<sup>2</sup> There are currently eight schools in Hempstead because one school was closed in 2003 and another in 2004.

children meet challenging state academic content and student academic achievement standards. LEAs target Title I funds to public schools with the highest percentages of children from low-income families. A participating school that is operating a schoolwide program can use funds from Title I, and other Federal education program funds and resources, to upgrade the entire educational program of the school to raise academic achievement for all the students. All 10 of the Hempstead schools operated schoolwide programs.

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## AUDIT RESULTS

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We randomly and judgmentally sampled \$603,375 out of a total \$1,771,708 in Title I non-salary expenditures,<sup>3</sup> for our audit period, and found that Hempstead could not provide adequate support for \$118,040 of non-salary expenses and had \$3,220 of unallowable non-salary expenses. Further, Hempstead failed to track Title I expenditure allocations to each school as required by ESEA. In addition, we noted that Hempstead had significant internal control weaknesses that could adversely affect Hempstead’s ability to administer Federal education funds.

### **FINDING NO. 1 – Hempstead Could Not Provide Adequate Support for \$118,040 of Non-Salary Expenses Charged to Title I.**

Hempstead could not provide adequate support for \$118,040 of the sampled non-salary expenditures charged to Title I. Specifically, we identified the following unsupported expenditures:

<b>Missing Computer Equipment</b>	\$21,425
<b>Purchased Services</b>	30,493
<b>Board of Cooperative Educational Services (BOCES)<sup>4</sup> Expenses</b>	28,697
<b>Supplies and Material</b>	29,009
<b>Journal Entries</b>	5,264
<b>Discrepancies in Reported Expenditures</b>	3,152
<b>Total Unsupported Costs</b>	<b><u>\$118,040</u></b>

#### **Missing Computer Equipment**

Hempstead could not provide support for \$21,425 out of \$143,357 of computer equipment

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<sup>3</sup> The \$603,375 is net of \$693,831 of expenditures and (\$90,456) of journal entries.

<sup>4</sup> Regional BOCES offers services that a single school district would not routinely provide. Services offered included technical support for computer hardware/software and school field trips.

charged to Title I during the 2002-2003 school year. See Table A below.

**Table A. Missing Computer Equipment**

<i>Description</i>	<i>Quantity Missing</i>	<i>Invoice Price Each<sup>5</sup></i>	<i>Unsupported Costs</i>
Dell Optiplex Desktop	20	\$879	\$17,580
Dell Inspiron Laptop	1	\$2,475	2,475
Dell Projector	1	\$1,370	1,370
<b>Total</b>			<b>\$21,425</b>

During the 2002-2003 school year, Hempstead purchased 150 desktop computers, one laptop computer, and one projector, totaling \$143,357, with Title I funds. We conducted a physical inventory at the two schools where Hempstead officials identified the computers were located. We were only able to locate 100 of the 150 desktop computers.

In December 2006, we received documentation from Hempstead stating that after a district-wide search, they located 30 of the 50 missing desktops. Hempstead did not provide any other supporting documentation on the location or the status of the remaining 20 missing desktop computers.<sup>6</sup> The invoiced cost of a desktop computer was \$879; therefore, \$17,580 for desktop computers was unaccounted for.

For the laptop and projector, Hempstead officials indicated that both items were missing, and no documentation was available to show the status of these items. The purchase price of the laptop was \$2,475, and the purchase price of the projector was \$1,370, therefore a total of \$3,845 was unaccounted for.

### **Unsupported Purchased Services Expenses**

Hempstead could not provide adequate supporting documentation for \$30,493 of purchased services charged to Title I. In particular, Hempstead could not provide supporting documents for (1) \$22,258 spent on food and catering for multiple meetings, conferences, and field trips, (2) \$5,230 for a charter bus trip to Walt Disney World in Orlando, FL, under the BOCES JASON Project,<sup>7</sup> (3) \$625 for tote bags distributed in a ceremony, (4) \$1,800 in hotel expenses for a conference without any receipts indicating that the conference attendees actually stayed at the hotel, and (5) \$580 overpaid to a tutoring services company because it did not verify the actual number of students who attended.<sup>8</sup>

<sup>5</sup> The lowest invoice unit price was used for the 20 missing desktop computers.

<sup>6</sup> During the physical inventory of the computers, we learned from the Director of Technology that no inventory system was in place at the district to track computers, see Finding 4, sub-caption, Lack of Computer Inventory Tracking System.

<sup>7</sup> The JASON Project is a program designed to excite and engage middle school students in science and technology through the use of advanced telecommunications and school field trips. It is offered to Hempstead students through BOCES every school year.

<sup>8</sup> The invoice from the tutoring services company showed that Hempstead was billed for 56 students at \$580 each, but according to the tutoring services company report card, only 55 students actually attended tutoring.

According to the current Director of Funded Programs,<sup>9</sup> most of the above expenses were either for parental involvement activities or school fieldtrips. However, supporting documents, such as agendas or attendance records, were not attached; they were either missing or did not exist.

### **Unsupported BOCES Expenses**

Hempstead could not provide support for \$28,697 paid to BOCES for providing services to Hempstead. During the 2003-2004 school year, BOCES charged \$24,044 for a “Verizon Telcom” expense. According to Hempstead officials, this charge was for setting up a conference that connected students and teachers through a video screen under BOCES’ distance learning program. Although we requested attendance records for the conference, Hempstead could not provide the information requested. In addition, Hempstead could not provide school trip attendance records for the \$4,653 it paid BOCES for the rental of 12 buses for school trips in October 2003.

### **Unsupported Supplies and Material Expenses**

Hempstead could not provide adequate supporting documentation for \$29,009 in supplies and material expenses. During our fieldwork, Hempstead could not provide supporting documentation to show if 26,608 composition notebooks, which were purchased for \$36,046, were distributed to the schools. The purchase order (PO) and the invoice indicated these notebooks were sent to the Hempstead Business Office and were received by the same person who approved the PO. In addition, there was no requisition form provided for this purchase.

Subsequent to the exit conference, on December 13, 2006, we received from Hempstead, signed statements from the principals of seven district schools during the 2002-2003 school year, stating that the schools received and distributed 12,250 composition notebooks to students. However, Hempstead did not provide additional supporting documentation for the remaining 16,358 notebooks. As a result, \$20,611 of the \$36,046 notebook purchase was not adequately supported.

Furthermore, Hempstead could not provide agendas, attendance records, or meeting minutes for \$8,398 of food and catering expenses charged to its Title I supplies and material account. The POs indicated \$7,471 of the \$8,398 was for school field day picnics. The remaining \$927 in expenses had no PO or requisition form. The supporting documents, such as agendas or attendance records, were not attached; they were either missing or did not exist. As a result, \$8,398 in food and catering expenses were not adequately supported.

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<sup>9</sup> One of the many responsibilities of the Director of Funded Programs is to ensure expenses are being charged to the appropriate grants.

### **Unsupported Journal Entries**

Based on our review of all 19 journal entries claimed as Title I non-salary on the FS-10-F Reports<sup>10</sup>, net (\$38,375), we found that Hempstead could not provide adequate supporting documentation for \$5,263. For the 2002-2003 school year, we reviewed all 15 non-salary journal entries claimed on the FS-10-F Report, net (\$57,353),<sup>11</sup> and for school year 2003-2004, we reviewed all four non-salary journal entries claimed on the FS-10-F Report, totaling \$18,978.

Hempstead could not provide support for 5 of the 15 journal entries from the 2002-2003 school year totaling \$5,263. Specifically, Hempstead could not (1) provide any documentation for a \$3,435 journal entry for BOCES expenses, (2) provide attendance records or meeting agendas for three journal entries for food and a bus trip totaling \$1,598, and (3) locate a \$230 printer charged to Title I.

### **Discrepancies in Reported Expenditures**

Hempstead charged \$3,152 in unsupported expenses to Title I. Based on our review of Hempstead's 2003-2004 school year FS-10-F Report, we found discrepancies between amounts recorded on the FS-10-F Report and amounts reported in Finance Manager (FM)<sup>12</sup> on four checks. We reviewed these four checks and requested supporting documentation from Hempstead officials. Of the four checks reviewed, three checks were overcharged to Title I by \$4,813 on the FS-10-F Report, and one check was undercharged on the FS-10-F Report by \$2,163. See Table B below.

Further, Hempstead could not provide supporting documentation such as meeting agendas or attendance records for one of the overcharged checks, \$502, paid for catering services for a parental event. As a result, Hempstead charged \$3,152 in unsupported expenses to Title I.

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<sup>10</sup> The FS-10-F Reports are the New York State Final Expenditure Reports submitted by Hempstead.

<sup>11</sup> There were 13 positive journal entries totaling \$10,031 and 2 negative journal entries. One of the negative journal entries (\$67,384) was for balancing Finance Manager for the amount disallowed by NYSED on the FS-10-F Report. Another negative journal entry (\$23,072) was an adjustment to reduce the amount charged to Title I on check 19382. Since this (\$23,072) journal entry was reflected on check 19382, it was not included in the total for the 15 journal entries.

<sup>12</sup> Finance Manager system is Hempstead's financial accounting system.

**Table B. Overcharged Expenses**

A	B	C	D	E
Check No.	Amount Reported on FS-10-F Reports	Check Amount	Amount Overcharged /Undercharged (B-C)	Unsupported Amount
20186	\$47,499	\$49,662	(\$2,163)	(\$2,163)
20417	515	502	13	515
20424	1,800	900	900	900
20456	5,042	1,142	3,900	3,900
<b>Totals</b>	<b><u>\$54,856</u></b>	<b><u>\$52,206</u></b>	<b><u>\$2,650</u></b>	<b><u>\$3,152</u></b>

Pursuant to 34 C.F.R. § 80.32<sup>13</sup> (d) Management requirements . . . (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, 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; and (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 shall be investigated.

According to ESEA § 9306 (a)(5), an applicant [Hempstead] that submitted a plan or application for ESEA programs [Title I] would use such fiscal control and fund accounting procedures as would ensure proper disbursement of, and accounting for, Federal funds paid to the applicant under each such program.

Also, OMB Circular A-87 § C.1.j, states that to be allowable under Federal awards, costs must be adequately documented.

The General Education Provisions Act [20 U.S.C. 1232f (a)](2002), requires each recipient of Federal funds . . . shall keep records which fully disclose the amount and disposition by the recipient of those funds, the total cost of the activity for which the funds are used, the share of that cost provided from other sources, and such other records as will facilitate an effective financial or programmatic audit.

Hempstead did not: (1) have an inventory system in place to track the location or status of district computers, (2) have adequate controls in place for reviewing and ensuring the expenses were supported before making payments, and (3) ensure the amounts claimed on the FS-10-F Reports were accurate before submission to NYSED. As a result, Hempstead charged \$118,040 of unsupported expenses to Title I grants.

<sup>13</sup> Unless otherwise specified, all C.F.R. citations are to the July 1, 2002 volume.

## Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct NYSED to, require Hempstead to —

- 1.1 Provide proper support for the \$118,040 in expenses charged to Title I or return any unsupported amounts with applicable interest to the U.S. Department of Education (ED).
- 1.2 Develop and implement an inventory system to track the location and status of district computers.
- 1.3 Establish and implement adequate internal controls for proper review of payment documentation.
- 1.4 Establish and implement controls to ensure Title I expenses claimed on the FS-10-F Reports are accurate and supported.

## NYSED's Response

NYSED concurred with our finding and recommendations.

## FINDING NO. 2 – Hempstead Charged Unallowable Non-Salary Expenditures To Title I.

From our review of the random and judgmental samples, we found that Hempstead charged \$3,220 of unallowable purchases to the Title I grant. Hempstead charged Title I for \$3,000 for purchases of a T-1 Internet line in school year 2002-2003. As indicated on the PO and invoice, the T-1 Internet line was for the Hempstead business office rather than for the district's schools to benefit the students. According to the Director of Funded Programs, this expense should have been charged to the E-Rate grant.<sup>14</sup>

In addition, one of the journal entries we reviewed was for two POs totaling \$220, one for a conference registration fee and one for the reimbursement of meals for a non-district person. Hempstead claimed the \$220 on the 2003-2004 school year FS-10-F Report, but these POs were canceled and never paid.

Pursuant to OMB Circular A-87 Attachment A § C.1, allowable costs must be necessary and reasonable. Also, Attachment A, § C.3 states that a cost is allocable to a particular cost objective in accordance with the relative benefits received.

Hempstead did not have adequate controls in place for reviewing the expenses claimed on the FS-10-F Reports to ensure that Title I funds were used for their intended purpose. As a result, Hempstead charged \$3,220 in unallowable expenses to Title I grants.

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<sup>14</sup> The E-Rate program was created as part of the Telecommunications Act of 1996 to provide schools with discounts for Internet access and telecommunications infrastructure.

## Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct NYSED to, require Hempstead to —

- 2.1 Return \$3,220 in unallowable expenses, with applicable interest, to ED.
- 2.2 Establish and implement controls to ensure expenses are charged to the appropriate grant.

## NYSED's Response

NYSED concurred with our finding and recommendations.

## FINDING NO. 3 – Hempstead Failed To Track Expenditures By School.

Hempstead budgeted each school's Title I allocation on the District Summary-Eligibility Ranking & Allocation of Funds (District Summary), but it failed to track actual Title I expenditures by school. According to the District Summary that Hempstead submitted to NYSED, each school in the Hempstead district was to receive Title I funds based on the number of low income pupils and the poverty percentage of that school. However, using the account codes Hempstead set up in FM, we could not determine the amount of Title I funds each school received and spent. The account codes Hempstead utilized for Federal funds did not incorporate the facility identification code (location or building code in this case) as suggested by the New York State (NYS) Uniform System of Accounts for School Districts.

According to Hempstead officials, they prepared the budget on a per-school basis, but they did not account for Title I expenditures for each school. Without determining how much each school actually received, we could not determine if Hempstead demonstrated that its schoolwide program in each school reasonably addressed the intent of the program, particularly as it related to the most disadvantaged students.

Per 34 C.F.R. § 76.731, records related to compliance, a state and a subgrantee shall keep records to show its compliance with program requirements.

According to 34 C.F.R. § 200.28, allocation of funds to school attendance areas and schools, (a)(1) an LEA shall allocate funds under this subpart to school attendance areas or schools, identified as eligible and selected to participate under section 1113(a) or (b) of the Act, in rank order on the basis of the total number of children from low-income families in each area or school.

Pursuant to 34 C.F.R. § 76.730, records related to grant funds, a state and a subgrantee shall keep records that fully show:

- (a) The amount of funds under the grant or subgrant;
- (b) How the state or subgrantee uses the funds;
- (c) The total cost of the project;
- (d) The share of that cost provided from other sources; and

(e) Other records to facilitate an effective audit.

Further, according to 34 C.F.R. § 76.702, fiscal control and fund accounting procedures, a state and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.

Hempstead's accounting codes were not structured as recommended by the NYS Uniform System of Accounts for School Districts. Hempstead officials indicated that they were not aware they had to keep track of the Title I fund allocation for each school. As a result, there was no assurance that the Title I funds met the intent and purpose of the program, which was to ensure that the needs of the most disadvantaged students in the poorest schools were met.

### **Recommendations**

We recommend that the Assistant Secretary for Elementary and Secondary Education instruct NYSED to, require Hempstead to —

- 3.1 Develop and implement a system to identify Federal funds on a per-school basis as required.
- 3.2 Ensure staff is provided with guidance and aware of applicable Federal and state regulations.

### **NYSED's Response**

NYSED concurred with our finding and recommendations.

### **FINDING 4 – Hempstead Had Significant Internal Control Weaknesses.**

We found that Hempstead had significant internal control weaknesses that placed ED funds at risk of being misused. Specifically, we identified the following internal control weaknesses:

- Lack of computer inventory tracking system;
- POs created after goods and services were ordered;
- Requisition forms not attached to payment information or missing;
- Requisition forms not approved by the Director of Funded Programs; and
- Requisition forms requested and approved by same person.

#### **Lack of Computer Inventory Tracking System**

Hempstead did not have an inventory system in place to track the location or the status of district computers. We asked Hempstead staff to locate 150 computers, one laptop, and one projector with specific serial numbers. Twenty of the requested computers, the laptop, and the projector could not be located, 100 of the requested computers were located a week later, and 30 of the

requested computers were located 7 months later.<sup>15</sup>

According to Hempstead's "Educational Technology Plan", which was included in the 2002-2003 Consolidated NCLB Application that Hempstead submitted to NYSED, "A system will be developed for monitoring and assessing computer hardware, software, and telecommunications." However, as of May 5, 2006, a system had not been implemented in the district for monitoring computer equipment.

Further, the Hempstead District Policies Manual, states that: (1) "The district's purchasing activity will strive to . . . ensure, through the use of proper internal controls, that loss and/or diversion of district property is prevented;" and (2) "The Board authorizes the Superintendent of Schools, with the assistance of the Purchasing Agent, to establish and maintain an internal control structure to ensure, to the best of their ability, that the district's assets will be safeguarded against loss from unauthorized use or disposition . . ." Without an inventory system to track the status of district computers, and a proper internal control structure, there is a great risk that computers can be misplaced or possibly misappropriated.

### **POs Created After Goods or Services Were Ordered**

Our audit found that many goods and services were ordered without a PO being created before the order date. Forty-seven of 127 transactions (37 percent) in our samples had POs that were created after goods were ordered or services were rendered. Failure to prepare a PO before ordering goods or services could result in ordering goods or services without proper authorization and budgetary control.

Our review of the NYS Comptroller's Audit Report, entitled *Hempstead Union Free School District Internal Controls* issued in September 2005, also indicated that Hempstead's PO system did not operate effectively. In particular, the NYS Comptroller found that 55 of 94 POs tested were confirming orders issued after verbal orders had already been placed with vendors.

Further, according to the Hempstead District Policies Manual, "The Board authorizes the Superintendent of Schools, with the assistance of the Purchasing Agent, to establish and maintain an internal control structure to ensure . . . that transactions will be executed in accordance with the law and district policies and regulations, and recorded properly in the financial records of the district."

### **Requisition Forms Not Attached to Payment Information or Missing**

Our audit found that many transactions from our samples had requisition forms not attached to payment information. One hundred and seven of the 127 transactions (84 percent), did not have requisition forms attached to payment documentation. The requisition forms for 57 of the 127 transactions (45 percent) could not be located. Therefore, we were only able to analyze 70 requisition forms for proper purchase authorization.

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<sup>15</sup> See Finding 1, sub-caption, Missing Computer Equipment, for the monetary finding of the missing computer equipment.

Hempstead staff informed us that most requisition forms were not attached to the payment documentations and filed at an off-site storage facility. We requested copies of these forms, but many could not be located. According to the Hempstead District Policies Manual, “The district’s purchasing activity will strive . . . to maintain an appropriate and comprehensive accounting and reporting system to record and document all purchasing transactions. . . .” Without a requisition form, the goods or services could be ordered by anyone without proper authorization.

### **Requisition Forms Not Approved By the Director of Funded Programs**

Our audit found that many requisition forms were not signed for approval by the Director of Funded Programs. A total of 32 of 70 requisition forms (46 percent) were not approved by the Director of Funded Programs. Requisition forms that were not approved by the Director of Funded Programs revealed that the funds being spent for a specific funded program, such as Title I, were not being monitored sufficiently. As a result, there was no assurance that funds were used for their intended purpose.

### **Requisition Forms Requested and Approved By Same Person**

Our audit found that many requisition forms were requested and approved by the same person, instead of two different individuals. A total of 27 of 70 requisition forms (39 percent) were requested and approved by the same person. If the same person was requesting and approving a requisition form, goods or services could be ordered by that person without proper authorization, and there was no assurance that the goods or services were a proper school district charge.

According to OMB Circular A-133 § \_\_\_. 300, “The auditee shall . . . (b) Maintain 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.”

Further, OMB Circular A-133 Compliance Supplement, Part 6 (March 2004), provides a description of the components of internal control and examples of characteristics common to compliance requirements:

Control Activities are the policies and procedures that help ensure that management’s directives are carried out.

- Operating policies and procedures clearly written and communicated.
- Procedures in place to implement changes in laws, regulations, guidance, and funding agreements affecting Federal awards. . .
- Adequate segregation of duties provided between performance, review, and recordkeeping of a task. . .
- Appropriate level of supervisory review of cash management activities.

Hempstead had weak internal controls because it lacked (1) Board of Education oversight; (2) staff training in financial accountability; and (3) written procedures, detailing specific fiscal control processes that take place within the district (i.e. approving POs, requisition forms, etc.).

Hempstead's lack of a computer inventory tracking system, failure to create POs before goods or services were ordered, failure to attach requisition forms to payment information, lack of approval on many requisition forms, and lack of segregation of duties, led to 20 computers that could not be accounted for, and provided no assurance that funds were used for their intended purpose. These weaknesses in internal controls could lead to the misuse of ED grant funds.

### **Recommendations**

We recommend that the Assistant Secretary for Elementary and Secondary Education

Instruct NYSED to:

4.1 Ensure the Board of Education provides proper oversight on internal controls.

And instruct NYSED to require Hempstead to:

4.2 Provide necessary financial accountability training to personnel handling Federal funds to ensure internal controls are implemented.

4.3 Produce or include in the current District Policies Manual, written procedures for the specific fiscal control processes that take place within the district, and ensure employees follow these procedures.

### **NYSED's Response**

NYSED concurred with our finding and recommendations.

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## **OBJECTIVE, SCOPE, AND METHODOLOGY**

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The audit objective was to determine whether Hempstead's ESEA Title I, Non-Salary Expenditures, for the period, July 1, 2002, through June 30, 2004, were allowable and spent in accordance with applicable laws and regulations.

To accomplish our audit objectives, we:

- Reviewed Hempstead's approved Title I grant applications and related budgets;
- Reviewed applicable laws, regulations, policies and procedures;
- Interviewed various Hempstead, BOCES, and FM officials;
- Reviewed and analyzed the FS-10-F Reports that Hempstead submitted to NYSED for non-salary expenditures charged to Title I during the audit period;
- Reviewed Hempstead's written policy manual and related purchasing documentation to gain an understanding of the purchasing process;
- Reviewed the Independent Public Accountant reports for Hempstead's fiscal years 2003 and 2004;

- Randomly selected 20 disbursements for review, totaling \$122,402, 10 from the 2002-2003 school year, and 10 from the 2003-2004 school year;
- Judgmentally selected and reviewed 19 of the highest disbursements, totaling \$464,492, 9 from the 2002-2003 school year, and 10 from the 2003-2004 school year;
- Reviewed all 19 journal entries claimed on the FS-10-F Reports,<sup>16</sup> net (\$38,375), 15 from the 2002-2003 school year,<sup>17</sup> and 4 from the 2003-2004 school year;
- Reviewed all four disbursements, totaling \$54,856, with dollar discrepancies between the FS-10-F Reports and FM data.

As part of our review we assessed the system of internal controls, policies, procedures, and practices applicable to Hempstead's administration of the Title I non-salary expenditures. Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the internal controls. However, our assessment disclosed significant internal control weaknesses that could adversely affect Hempstead's ability to administer the Title I programs. These weaknesses are fully discussed in the AUDIT RESULTS section of this report.

To ensure the completeness and accuracy of the data, we obtained and extracted from FM, all Title I expenditures for the period, July 1, 2002, through June 30, 2004. We obtained a population of Title I non-salary expenditures claimed on the FS-10-F Reports and sampled these expenditures to arrive at our findings, as described above. Based on these tests, we concluded that the data was sufficiently reliable to support the findings, conclusions and recommendations, and using the data would not lead to an incorrect or inaccurate conclusion.

We performed our fieldwork at Hempstead between February 27, 2006, and May 5, 2006.

We conducted the audit in accordance with generally accepted government auditing standards appropriate to the limited scope of the audit described above.

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## ADMINISTRATIVE MATTERS

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Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials, in accordance with the General Education Provisions Act.

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<sup>16</sup> Hempstead made 29 journal entries to Title I non-salary accounts during our audit period, but only 19 were claimed on the FS-10-F.

<sup>17</sup> Of the 15 journal entries Hempstead claimed in 2002-2003, 13 were positive journal entries totaling \$10,031, two were negative journal entries in the amount of (\$67,384) and (\$23,072).

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:

Kerri L. Briggs  
Acting Assistant Secretary  
Office of Elementary and Secondary Education  
U.S. Department of Education  
Federal Building No. 6, Room 3W315  
400 Maryland Avenue, SW  
Washington, DC 20202

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

**Attachment**



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

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DEPUTY COMMISSIONER FOR OPERATIONS  
AND MANAGEMENT SERVICES  
Tel. (518) 474-2547  
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March 29, 2007

Mr. Daniel P. Schultz  
Regional Inspector General for Audit  
U.S. Department of Education  
Office of Inspector General  
32 Old Slip, 26<sup>th</sup> Floor, Financial Square  
New York, NY 10005

Dear Mr. Schultz:

The following is the New York State Education Department's (NYSED) response to recommendations contained in the draft audit report, Control Number ED-OIG/A02-G0007 for the audit *Hempstead Union Free School District's (Hempstead) Elementary and Secondary Education Act (ESEA) Title I, Part A (Title I) Non-Salary Expenditures*.

We agree with the findings and recommendations contained in the audit report. The District has responded and also indicated agreement with the report, and in most cases has stated the recommendations have been implemented. Our Title I office will immediately request a corrective action plan from the district to ensure the implementation of all recommendations. That corrective action plan will provide a basis for the Department to monitor the status of all recommendations.

**FINDING 1: Hempstead Could Not Provide Adequate Support for \$118,040 of Non-Salary Expenses Charged to Title I.**

We agree with the finding that the District could not provide adequate support for \$118,040 of non-salary expenses charged to Title I.

## Attachment

### RECOMMENDATIONS

**We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education (OESE), instruct NYSED to require Hempstead to:**

- 1.1 Provide proper support for the \$118,040 in expenses charged to Title I or return any unsupported amounts with applicable interest to the U.S. Department of Education (ED).**

We agree with the recommendation. The District confirmed the accuracy of the findings in its response. We will require the return of any unsupported funds to ED.

- 1.2 Develop and implement an inventory system to track the location and status of district computers.**

We agree with the recommendation and will require the District to put an inventory system in place to track the location and status of district computers. We will monitor the actions described in the District's corrective action plan to determine when the recommendation will be implemented.

- 1.3 Establish and implement adequate internal controls for proper review of payment documentation.**

We agree with the recommendation and will require the District to establish and implement internal controls to ensure a proper review of payment documentation. We will monitor the actions described in the District's corrective action plan to determine when the recommendation will be implemented.

- 1.4 Establish and implement controls to ensure Title I expenses claimed on the FS-10-F Reports are accurate and supported.**

We agree with the recommendation and will require the District to establish and implement controls to ensure Title I expenses claimed on the FS-10-F Reports are accurate and supported. We will monitor the actions described in the District's corrective action plan to determine when the recommendation will be implemented.

### **FINDING 2: Hempstead Charged Unallowable Non-Salary Expenditures To Title I.**

We agree with the finding that the District charged unallowable non-salary expenditures to Title I.

## Attachment

### RECOMMENDATIONS

**We recommended that the Assistant Secretary for OESE instruct NYSED to require Hempstead to:**

**2.1 Return \$3,220 in unallowable expenses, with applicable interest, to ED.**

We agree with the recommendation and will require the District to return \$3,220 plus applicable interest to NYSED, and in turn to ED.

**2.3 Establish and implement controls to ensure expenses are charged to the appropriate grant.**

We agree with the recommendation and will require the District to establish and implement controls to ensure expenses are charged to the appropriate grant. We will monitor the actions described in the District's corrective action plan to determine when the recommendation will be implemented.

### **FINDING 3: Hempstead Failed To Track Expenditures By School.**

We agree with the finding that the District failed to track expenditures by school.

### RECOMMENDATIONS

**We recommend that the Assistant Secretary for OESE instruct NYSED to require Hempstead to:**

**3.1 Develop and implement a system to identify Federal funds on a per school basis as required.**

We agree with the recommendation and will require the District to develop a system to identify Federal funds on a per school basis as required. We will monitor the actions described in the District's corrective action plan to determine when the recommendation will be implemented.

**3.2 Ensure staff is provided with guidance and aware of applicable Federal and state regulations.**

We agree with the recommendation and will identify applicable Federal and state regulations to District Officials. We will require the District officials to inform appropriate staff.

**Attachment**

**FINDING 4: Hempstead Had Significant Internal Control Weaknesses.**

We agree with the finding that the District had significant internal control weaknesses.

**RECOMMENDATIONS**

**We recommend that the Assistant Secretary for OESE instruct NYSED to:**

**4.1 Ensure the Board of Education provides proper oversight on internal controls.**

We agree with the recommendation and will require the District to ensure that the Board of Education provides proper oversight on internal controls. We will determine if the Board members are in compliance with Commissioner's regulation regarding required training. If not, we will require compliance.

**We recommend that the Assistant Secretary for OESE instruct NYSED to require Hempstead to:**

**4.2 Provide necessary financial accountability training to personnel handling Federal funds to ensure internal controls are implemented.**

We agree with the recommendation to require the District to provide necessary financial accountability training to personnel handling Federal funds to ensure internal controls are implemented. The Department has sponsored this type of training at regional sites across the state. We will ensure District officials are aware of future training opportunities.

**4.3 Produce or include in the District Policies Manual, written procedures for the specific fiscal control processes that take place within the district, and ensure employees follow these procedures.**

We agree with the recommendation and will require the District to produce or include in the District Policies Manual, written procedures for the specific fiscal control processes that take place within the District, and ensure employees follow these procedures. We will monitor the actions described in the District's corrective action plan to determine when the recommendation will be implemented.

**Attachment**

Department staff are available to provide technical assistance to the District in implementing the audit recommendations. The District's corrective action plan will be monitored to ensure appropriate progress in implementing the recommendations. If you have any questions, please contact Roberto Reyes, New York State Title I Coordinator, at (518) 473-0295.

Sincerely,

/s/  
Theresa E. Savo

c: Commissioner Mills  
Johanna Duncan-Poitier