



James A. Conway
Director
Office of Audit Services
Tel. (518) 473-4516
Fax (518) 473-0259
E-mail: jconway@mail.nysed.gov

October 27, 2010

Mr. Roosevelt Haynes
Board President
Dunkirk City School District
620 Marauder Drive
Dunkirk, NY 14048

Report: ARRA-0710-18

Dear Mr. Haynes:

This letter is our final audit report of the Dunkirk City School District's (District) use of American Recovery and Reinvestment Act (ARRA) funds awarded for the July, 1 2009 – June 30, 2010 school year. The audit was conducted pursuant to the Commissioner of Education's authority under Section 305 of the Education Law. Our audit objectives were to: verify the allowability of amounts expended to-date and the appropriateness of any requests for additional funding, determine if the District has sufficient financial control systems in place to administer ARRA funds, and assess compliance with pertinent federal requirements for the use of federal funds.

Our audit scope was limited to ARRA funding provided through the Education Stabilization Funds (ESF) (also referred to as State Fiscal Stabilization Funds, SFSF), Individual Disabilities Education Act (IDEA 611/619), and Title I of the Elementary and Secondary Education Act. At the time of fieldwork, the District had submitted four claims plus the final expenditure report for ARRA-ESF, three claims for ARRA-IDEA 611 (school age), two claims plus the final expenditure report for ARRA-IDEA 619 (pre-school), and two claims for ARRA-Title I.

To accomplish our objectives, we interviewed District officials; tested transactions; and reviewed District policies/procedures and financial records, which included reports generated by the District's computerized financial database.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The results of this audit have been discussed with District officials and their comments have been considered in preparing this report. The District's response to the draft report is included as Appendix A.

Audit Results

Allowability and Accuracy of Reported Expenditures

After a grant application is approved by the Department, school districts request funds from a particular grant by submitting a claim (form FS-25, Request for Funds). The amount of funds requested at any one time may only include actual expenditures to-date plus, in some cases, anticipated expenditures for the next month. Districts may only use the FS-25 request for funds to claim up to 90% of the approved budget. The remaining ten percent is claimed by filing the final expenditure report. We found that the District claimed more than 90 percent of the approved budget for ARRA-IDEA 619 (preschool).

Financial Control System

Tracking and Recording Expenditures

According to a field memorandum to all Superintendents of Schools issued by Johanna Duncan-Poitier, Senior Deputy Commissioner, State Education Department, on April 10, 2009, "It is important to note that (State Fiscal Stabilization Funds) SFSF expenditures must be accounted for in the General Fund, but identified and tracked separately." Further, in December 24, 2009, the Federal Department of Education issued Guidance for Grantees and Auditors on the State Fiscal Stabilization Fund Program which states that an entity that receives SFSF funds must maintain records that separately track and account for those funds. The District reported actual project cash expenditures to date for ARRA-ESF for salaries and fringe benefits in its claim. However, we found the District had not posted or directly charged the fringe benefits portion of the claim to the ARRA-ESF expenditure codes.

Compliance with Federal Grant Requirements

Section 1512 Reporting

Under Section 1512 of ARRA, recipients of ARRA funds must submit a quarterly report that describes, among other things, how the entity used those funds, including the estimate of the number of jobs created and saved. The quarterly report has two parts, the program narrative, which describes in some detail the use of funds and the reporting summary which indicates the number of jobs created and saved. For ARRA-ESF, the District's original budget application indicated that it will save 15 positions while the supplemental application indicated an additional 6 positions will be saved. However, in the quarterly reporting period ending June 30, 2010, the District reported 15 positions saved instead of 21. Documentation at the District also supports 21 jobs saved.

Cash Management

According to Title 34 of the Code of Federal Regulations Part 80.20(b)(7), procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Further, Part 80.21 paragraph (i) states that grantees and subgrantees shall promptly, but at least

quarterly, remit interest in excess of \$100 per year earned on federal awards advances. We found the District did not have a process for ensuring compliance with federal requirements which includes:

- Minimizing time elapsing between receipt and disbursement of funds; and,
- Remitting interest earned in excess of \$100 annually on federal funds.

However, our analysis of revenue received and expenditures incurred for all federal funds during the 2009-10 school year showed that the District did not earn interest exceeding \$100 for that period.

Recommendations

1. Ensure that all ARRA-ESF costs are posted to the appropriate codes so that the accounting records support what is claimed.
2. Ensure that only 90 percent is claimed using the FS-25 claiming process and that the remaining ten percent is claimed when the final expenditure report is submitted.
3. Ensure that the District correctly reports the number of jobs created/saved in the 1512 quarterly report.
4. Address federal requirements for minimizing time elapsing between receipt and disbursement of funds and remitting interest earned in excess of \$100 annually on federal funds.

Section 170.12 of the Regulations of the Commissioner of Education requires the submission of a Board approved corrective action plan, in response to all the findings, within ninety days of the issuance of this report. The corrective action plan should include the expected date of implementation, where appropriate.

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

Sincerely,

James A. Conway

Enclosure

c: V. Grey, J. King, J. Delaney, B. Porter, C. Szuberla, K. Slentz, M. Lavare, M. Zollo, M. Plotzker, R. Reyes, A. Timoney, J. Dougherty, G. Cerne, R. Guiffreda (DS Erie 2 BOCES)



DUNKIRK CITY SCHOOL DISTRICT

620 Marauder Drive
Dunkirk, New York 14048
Telephone (716) 366-9300
Fax (716) 366-9399

MR. ROOSEVELT HAYNES
President
Board of Education

MR. GARY CERNE
Superintendent

October 15, 2010

James A. Conway
Director - Office of Audit Services
The State Education Department
Albany, New York 12234

Report: ARRA-0710-18

Dear Mr. Conway,

Thank you for the opportunity to comment and respond on the referenced audit report. Regarding the Audit Results highlighted in your letter of October 4, 2010, the District concurs. To address the Recommendations, the following actions were taken:

1. Employee Benefit codes were created prior to the completion of the Audit, and the adjusting journal entries were made to complete the accounting record for 2009-10 ESF funds. Salary codes for ESF were previously in place and remain so. All codes are in place to insure 2010-11 compliance.
- 2, 4. Written procedures for Federal Grants are being developed to address the FS-25 claiming process and Federal requirements for minimizing time elapsed between receipt and disbursement of funds, and the calculation of interest earned on Federal funds. In practice, the 90% rule has been re-emphasized to staff, and a spreadsheet developed to track Federal fund cash vs. General fund advances monthly.
3. Quarterly ARRA reports will be re-checked prior to submission.

The District appreciated the professionalism of the audit staff while on site, your detailed written notice prior to audit allowing us to properly prepare materials for review and the timely completion of the audit with constructive feedback.

If you require further information, please do not hesitate to contact the District.

Very truly yours,

William J. Thiel
Business Manager