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March 8, 2010

Mr. Wayne Rogers
Board President
Malone Central School District
42 Huskie Lane
Malone, NY 12953

Report: ARRA-1109-09

Dear Mr. Rogers:

This letter is our final audit report of the Malone Central 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 the Educational Stabilization Funds (ESF) for the period July 1, 2009 through June 30, 2010. At the time of fieldwork, the District had submitted only one claim for ARRA-ESF.

To accomplish our objectives, we interviewed appropriate District officials, performed limited tests of transactions, and reviewed documents. These documents included the claim form submitted to the State Education Department (Department), certain District policies and procedures, and financial records including 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. For ARRA-ESF, the request is limited to actual expenditures to-date only. The District included in its claim an amount of \$100,000 for anticipated expenditures for the following month.

Financial Control System

We did not find any audit exceptions.

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 the number of jobs retained. For the reporting period ending September 2009, the District reported 25 jobs saved for ARRA-ESF. Based on the supporting documentation, the District actually funded 24 jobs with ARRA-ESF.

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 earned on advances to the Federal agency. We found the District was unaware of these requirements and 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 on federal funds in excess of \$100 annually.

However, our analysis of revenue received and expenditures incurred for all federal funds during a 5-month period (July – November 2009) showed ending deficit balances which have been covered by transfers from the general fund. Accordingly, we concluded that the District did not earn interest exceeding \$100 during the 5-month period.

Recommendations

1. Submit Request for Funds (FS-25) claims consistent with the guidelines issued by the Department by not including future anticipated expenditures for ARRA - ESF.
2. Verify that the number of jobs created/saved reconciles with the supporting documentation prior to submission of quarterly reports.
3. Address federal requirements including:
 - Minimizing time elapsing between receipt and disbursement of funds; and,
 - Remitting interest earned on federal funds in excess of \$100 annually.

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 this audit.

Sincerely,

James A. Conway

Enclosure

c: J. King, T. Savo, J. Delaney, B. Porter, C. Szuberla, M. Lavare, A. Timoney, J. Dougherty, W. Walbridge, S. Shafer

TIMOTHY P. WHIPPLE
Business Administrator

CINDY L. BROOKS
District Clerk

CYNTHIA A. REYOME
District Treasurer

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WAYNE ROGERS
Board President

February 9, 2010

Mr. James A. Conway, Director
Office of Audit Services
The State Education Department
Room 524 EB
89 Washington Avenue
Albany, NY 12234

RE: Response to ARRA Audit Results and Recommendations

Dear Mr. Conway:

On behalf of the Malone Central School District, I would like to respond formally to the audit findings and recommendations that were offered to our district recently as a result of your office's review of American Recovery and Reimbursement Act (ARRA) funds during the 2009-10 school year. We were extremely pleased with the results of the audit, as I believe they show our staff was in compliance with the main aspects of the Educational Stabilization Funds, especially in light of large amounts of information and federal/state guidance that we were left to interpret.

Based on the three recommendations you have offered, please accept our response to each audit result below:

1. The District has noted that for ARRA-ESF funds, we can only request funds to cover actual expenditures to date. Anticipated expenditures would not be eligible for payment.
2. The District unintentionally reported 25 jobs saved for ARRA-ESF during the period ending September 2009, when in fact only 24 jobs had actually been saved. The District corrected this reporting mistake when it certified jobs saved for period ending December 2009.
3. The District has noted the Federal requirement that would require a district to remit interest earned on advances to the U.S. Treasury. However, as you pointed out in your audit, the District was not out of compliance with

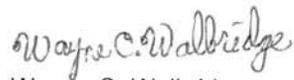


the regulation because we did not earn interest exceeding \$100 during the 5-month period.

I would like to thank you and your staff for the opportunity to respond to these minor findings, and we appreciate the role you play in ensuring our district has interpreted, followed and implemented all state and federal regulations with respect to ARRA Educational Stabilization Funds.

If you have other questions or are in need of further documentation, please do not hesitate to contact Mr. Timothy P. Whipple, Business Administrator.

Sincerely,

A handwritten signature in cursive script that reads "Wayne C. Walbridge".

Wayne C. Walbridge
Superintendent

WCW/clb