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June 25, 2014

Ms. Linda Knapp  
Board President  
Enlarged City School District of Middletown  
223 Wisner Avenue  
Middletown, NY 10940

Report: SD-0314-10

Dear Ms. Knapp:

I am writing to transmit the final results of our recently completed audit of the Enlarged City School District of Middletown's (District) use of the American Recovery and Reinvestment Act (ARRA) Race to the Top (RTTT) grant awarded for the July, 1 2012 – June 30, 2013 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 and accuracy of amounts reported in the Final Expenditure Report in the ARRA Reporting System and to assess compliance with pertinent federal requirements for the use of these funds.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed District and State Education Department (Department) management and staff; and examined records and supporting documentation.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other procedures considered necessary. It also includes assessing the estimates, judgments, and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions, and recommendations.

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

#### *Procurement Controls*

Districts purchase thousands of products and services each year. A district's purchasing process should ensure maximum value is received for each dollar spent and helps protect against

misuse of taxpayer dollars. As part of an effective control system, the use of purchase orders helps ensure that purchases are authorized and budget appropriations are available before making commitments. A purchase order also serves as the source document for claims for payment from the district.

In our audit of other than personal service costs, we found that the District made seven expenditures totaling \$26,378 without the use of purchase orders.

Confirming purchase orders result when purchase orders are prepared after goods have already been ordered from the vendor. The use of confirming purchase orders can cause districts to bypass the entire purchasing process. This can lead to an over expenditure of appropriations or committing a district to purchases that are not necessary or reasonable for district operations. It is good business practice for districts to avoid using confirming purchase orders, except for emergencies and then only upon approval of the purchasing agent.

We found that the District made six non-emergency expenditures totaling \$17,939 using confirming purchase orders where the purchase order dates were after services were provided and/or after invoice date.

#### Compliance with Federal Grant Requirements

We did not find any audit exceptions.

#### **Recommendations**

1. Ensure that expenditures of District funds are authorized through properly executed purchase orders.
2. Limit the use of confirming purchase orders to emergency purchases only.

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,



Maria C. Guzman

#### Attachment

c: J. King, B. Berlin, S. Cates-Williams, K. Wagner, D. Juron, J. Delaney, M. Zollo, C. Szuberla, A. Timoney (DOB), J. Dougherty (OSC), K. Eastwood (Superintendent), W. Hecht (D.S. Orange-Ulster BOCES)

ELIZABETH MCKEAN  
Assistant Superintendent  
for Administration  
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*Our people making the difference.*



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June 23, 2014

The NY State Education Department  
The University of the State of NY  
Office of Audit Services  
Albany, NY 12234  
Attn: Ms. Maria C. Guzman, Director

Dear Ms. Guzman:

The District wants to thank the Office of Audit Services for their work and thorough review of the ARRA Race to the Top grant.

The District will be implementing continued review and training for all staff involved with the procurement request and procurement process to ensure that all purchase orders in non-emergency procurement situations are completed in advance of the procurement of services.

We were pleased that there were no audit exceptions with regard to compliance with Federal Grant Requirements.

If you have any questions, please feel free to contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Elizabeth McKean".

Elizabeth McKean  
Assistant Superintendent for Administration

EM:ihw