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March 21, 2011

Mr. Kevin Thompson
Board President
Schalmont Central School District
4 Sabre Drive
Schenectady, NY 12306

Report: ARRA-0111-24

Dear Mr. Thompson:

This letter is our final report of the Schalmont 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 ARRA funding provided through the Education Stabilization Funds (ESF) (also referred to as State Fiscal Stabilization Funds, SFSF) and the Individual Disabilities Education Act (IDEA 611/619). At the time of fieldwork, the District had submitted claims and final expenditure reports for all of their approved ARRA-ESF and ARRA-IDEA 611/619 funding.

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

Expenditure Allowability

School districts are exempt from the payment of sales tax under Section 1116 (a) (1) of the New York State Tax Law. The State Education Department's (Department) Fiscal Guidelines for Federal and State Grants prohibits reimbursement of sales tax to tax exempt organizations. Furthermore, OMB Circular A-87 (A-87) requires that school districts maintain adequate documentation to support charges to federal grants. We found that the District charged ARRA-IDEA 611 funds for \$2,426.18 for sales tax paid on the purchase of computers.

Submission of Claims

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) (FS-25)]. 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 all grants, Districts may only use the FS-25 to claim up to 90 percent of the approved budget. The remaining 10 percent is claimed by filing a final expenditure report.

The District claimed 100 percent of the approved ARRA-IDEA 619 budget through the submission of FS-25's certified by the District on February 11 and April 21, 2010. Although the District claimed the full budget amount, they were only reimbursed for 90 percent because Department payment controls prevented the 90 percent threshold from being exceeded.

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.

On February 11, 2010, the District submitted a FS-25 claim for ARRA-ESF. However, the District did not start charging ESF cost codes directly for these expenditures until March 19, 2010, when a series of manual budget transfers were made to move the expenditures from the non-ARRA portion of the District's general fund. Although the account codes were not yet established, we don't believe the February 11 claim exceeded ARRA personal service costs incurred at that time.

Compliance with Federal Grant Requirements

Time and Effort Requirements

A-87 requires salaries of employees who are charged to federal grants be supported by periodic certifications or personnel activity reports. Employees whose salaries are paid from one federal funding stream must have their time certified at least semiannually by the employee or supervisory official with first hand knowledge of the work performed by the employee.

The District did not have the required time certifications for four of the five employees paid solely with ARRA-IDEA Section 611 funding.

Salaries of employees who work on multiple activities or cost objectives (multiple funding streams) must be supported by personnel activity reports. These personnel activity reports must be prepared at least monthly and coincide with one or more pay periods; reflect an after-the-fact distribution of the actual activity of the employee; account for a full FTE; and be signed by the employee.

For one of the two District employees being paid in part from ARRA funds, personnel activity reports were not prepared at least monthly to coincide with one or more pay periods as only one report was prepared. Furthermore, that report did not account for the entire activity for which the employee was compensated and was not after the fact as required by A-87. For the other District employee being paid in part from ARRA funds, the District did not have any personnel activity reports.

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 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. Submit a revised FS-10F long form reflecting a reduction of \$2,426.18 for un-allowed costs. The revised FS10-F accompanied by a copy of this report or transmittal letter identifying this audit as the reason for the revision should be submitted within 30 days to:

The State Education Department
Grants Finance, Room 510W EB
Albany, NY 12234

Grants Finance will review the revised FS 10-F long form and send Form FS-80 Notice of Overpayment to your District, confirming the amount overpaid and providing remittance instructions.

2. Ensure that only 90 percent is claimed using the FS-25 claiming process and that the remaining 10 percent is claimed when the final expenditure report is submitted.
3. Ensure that ARRA-ESF expenditures and revenues continue to be accounted for separately in the general fund.
4. Ensure that the periodic certifications for employees whose salaries are charged to only one federal grant are prepared at least semiannually by the employee or supervisory official with first-hand knowledge of the work performed by the employee.
5. Ensure that the personnel activity reports for employees, who work on more than one federal grant account for their full FTE, are prepared monthly coinciding with one or more pay periods, and reflect an after-the-fact distribution of the actual activity of the employee.
6. Address federal requirements for minimizing time elapsing between receipt and disbursement of funds and remitting interest in excess of \$100 annually earned 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

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, V. Kelsey, C. Dedrick (Capital Region BOCES DS)



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March 18, 2011

James A. Conway
Director
Office of Audit Services
NYSED
Albany, NY 12234

Dear Mr. Conway:

I previously commented on your ARRA Audit letter of February 11 transmitting your staff's draft audit results, in a memo to you on February 17 questioning a finding. That finding was withdrawn.

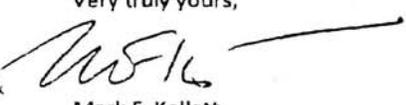
Your auditor has asked for another letter from us.

Let me address your findings/recommendations in order:

1. We are preparing a FS-10F reflecting \$2,426.18 adjustment for sales tax embedded in a computer state contract quotation which has since been refunded
2. We are ensuring compliance with items 2-5.
3. We will continue to claim Federal funding on a reimbursement basis so that we are not earning interest on federal funds.

We appreciate your team's efforts at monitoring fiscal management in our schools

Very truly yours,



Mark F. Kellett
Business Administrator
Board of Education Clerk