



Mary Taylor, CPA

Auditor of State

MANAGEMENT LETTER

Stow-Munroe Falls City School District
Summit County
4350 Allen Road
Stow, Ohio 44224

To the Board of Education:

We have audited the financial statements of Stow-Munroe Falls City School District, Summit County, (the District) in accordance with *Government Auditing Standards*, as of and for the year ended June 30, 2010, and have issued our report thereon dated January 7, 2011.

Government Auditing Standards require us to report significant internal control deficiencies, fraud, and illegal acts (including noncompliance with laws and regulations), and also abuse and noncompliance with contracts and grant agreements that could directly and materially affect the determination of financial statement amounts. We have issued the required report dated January 7, 2011, for the year ended June 30, 2010.

Office of Management and Budget Circular A-133 requires that we report all material (and certain immaterial) instances of noncompliance, significant deficiencies, and material weaknesses in internal control related to major federal financial assistance programs. We have issued the required report dated January 7, 2011, for the year ended June 30, 2010.

We are also submitting the following comments for your consideration regarding the District's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. These comments reflect matters that do not require inclusion in the reports *Government Auditing Standards* or Office of Management and Budget Circular A-133 require. Nevertheless, these comments represent matters for which we believe improvements in compliance or internal controls or operational efficiencies might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing these recommendations. However, these comments reflect our continuing desire to assist your District. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

Noncompliance Findings

- 2 C.F.R. Section 180.300** requires when a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity is not suspended, debarred or otherwise excluded. "Covered transactions" include those procurement contracts for goods and services awarded under a grant or cooperative agreement that are expected to equal or exceeded \$25,000. **34 C.F.R. Section 80.35** further states grantees and sub-grantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

Noncompliance Finding (Continued)

1. 2 C.F.R. Section 180.300 (Continued)

The District did not verify vendors, to whom \$25,000 or more of Title I Part A Grant, ARRA-State Fiscal Stabilization Fund, or ARRA-Special Education Grants funds were paid, were not suspended or debarred or otherwise excluded. The auditors performed the search of the Excluded Parties List System and verified the vendors were not suspended, debarred or otherwise excluded. The District should perform a search of all vendors receiving payments in excess of \$25,000 on the Excluded Parties List System, which is available online at www.epls.gov, and maintain documentation of the search.

2. 2 C.F.R. 225, Appendix A, Section C. (1.)(a) requires for a cost to be allowable under Federal awards, the cost must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

The District charged the ARRA Title I grant for all professional development costs associated with implementing the International Baccalaureate program at one of its elementary schools. Because the School is a targeted assistance building for Title I, only the costs for individuals who directly provide targeted assistance to Title I eligible students are allowable. As a result, professional development costs associated with other individuals charged to the grant during fiscal year 2010 totaling \$7,029 were determined to be unallowable. Additionally, professional development costs for the International Baccalaureate program charged to the grant during fiscal year 2011 may also be unallowable. Therefore, the District should review these to determine if an adjustment is necessary. The District should ensure all Title I grant expenditures are for materials and/or services which are directly related to providing the required targeted assistance.

Recommendation

Reserve for Encumbrances

Grant coordinators inform the Treasurer's office when purchase orders associated with grant programs are able to be closed and/or cancelled. Because this generally occurs after fiscal year end, purchase orders included in the District's fiscal year end open purchase order report do not always represent true encumbrances at year end. As a result, the District's year-end Reserve for Encumbrances was overstated by \$104,085.

The Treasurer's office should work with the grant coordinators to review all open purchase orders at fiscal year-end to ensure only active purchase orders remain open after year end and the amounts of those purchase orders are reasonable. Additionally, the Treasurer should ensure the GAAP conversion team is aware of the District's process in determining reserve for encumbrance amounts.

We intend this report for the information and use of the Board of Education, and management.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive style with a large initial "M".

Mary Taylor, CPA
Auditor of State

January 7, 2011