



Bolivar-Richburg Central School District

Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2011 — December 31, 2012

2013M-92



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objectives	5
Scope and Methodology	5
Comments of District Officials and Corrective Action	6
FINANCIAL CONDITION	7
Budgeting and Fund Balance	8
Reserves	9
Recommendations	11
EXTRA-CLASSROOM ACTIVITIES	12
Student Ledgers	12
Cash Disbursements	13
Cash Receipts	14
Recommendations	16
APPENDIX A Response From District Officials	17
APPENDIX B Audit Methodology and Standards	22
APPENDIX C How to Obtain Additional Copies of the Report	24
APPENDIX D Local Regional Office Listing	25

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Bolivar-Richburg Central School District entitled Internal Controls Over Selected Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Bolivar-Richburg Central School District (District) is located in the Towns of Alma, Bolivar, Clarksville, Cuba, Friendship, Genesee and Wirt, in Allegany County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Business Administrator is responsible for accounting for all District funds and preparing financial reports for the Board. There are two schools in operation within the District, with approximately 800 students and 150 employees. The District's budgeted general fund expenditures for the 2012-13 fiscal year are approximately \$17 million, which are funded primarily with State aid and real property taxes.

Scope and Objectives

The objectives of our audit were to evaluate the District's financial condition and determine if District officials established effective internal controls over selected financial activities for the period July 1, 2011, to December 31, 2012. We extended our review of certain budgetary practices to begin July 1, 2007. Our audit addressed the following related questions:

- Did the Board adopt structurally balanced budgets, and properly plan for and use reserve funds?
- Are internal controls over extra-classroom activities appropriately designed and operating effectively?

Audit Results

From fiscal years 2007-08 through 2011-12, District officials have consistently over-estimated expenditures by a total of \$7.1 million and increased the tax levy by 23 percent. These budgeting practices generated approximately \$2.1 million in operating surpluses, which caused the unexpended surplus fund balance¹ to exceed statutory limitations for the past five years. For example, as of June

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

30, 2012, the unexpended surplus fund balance exceeded statutory limits by approximately \$350,000. In addition, we question the District's need to maintain over \$5.8 million in reserves.

Extra-classroom activity moneys were not maintained in accordance with District policy and Regulations. We found significant weaknesses, including failure to appoint a faculty auditor, as required, and an unauthorized individual making adjustments and entries to student ledgers. Additionally, we reviewed 48 cash disbursements totaling approximately \$41,000 and found exceptions with all 48 disbursements. We also reviewed all 297 cash receipts recorded in the student treasurers' ledgers, totaling approximately \$155,000, and found discrepancies with 212 receipts totaling \$95,126. Because of these deficiencies, District officials do not have assurance that these moneys have been properly accounted for.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our findings and indicated that they planned to initiate corrective action.

Introduction

Background

The Bolivar-Richburg Central School District (District) is located in the Towns of Alma, Bolivar, Clarksville, Cuba, Friendship, Genesee and Wirt, in Allegany County. The District is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Business Administrator is responsible for accounting for all District funds and preparing financial reports for the Board. She is assisted in these duties by an account clerk and the District Treasurer (Treasurer).

There are two schools in operation within the District, with approximately 800 students and 150 employees. The District's budgeted general fund expenditures for the 2012-13 fiscal year are approximately \$17 million, which are funded primarily with State aid and real property taxes.

Objectives

The objectives of our audit were to evaluate the District's financial condition and determine if District officials established effective internal controls over selected financial activities. Our audit addressed the following related questions:

- Did the Board adopt structurally balanced budgets, and properly plan for and use reserve funds?
- Are internal controls over extra-classroom activities appropriately designed and operating effectively?

Scope and Methodology

We evaluated the District's financial condition and reviewed internal controls over extra classroom activities for the period July 1, 2011, to December 31, 2012. We extended our review of certain budgetary practices to begin July 1, 2007.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our findings and indicated that they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3) (c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Financial Condition

A school district's financial condition is a factor in determining its ability to fund public educational services for students within the district. The responsibility for accurate and effective financial planning rests with the Board, the Superintendent and the Business Administrator. Fund balance represents the cumulative residual resources from prior fiscal years that can, and in some cases must, be used to lower property taxes for the ensuing fiscal year. A district may retain a portion of fund balance, referred to as unexpended surplus funds,² but must do so within the legal limits established by Real Property Tax Law. A district can also legally set aside and reserve portions of fund balance to finance future costs for a variety of specified objects or purposes. The Board and District officials are responsible for adopting annual budgets that contain realistic estimates of appropriations and the resources available to fund them, and ensuring that fund balance does not exceed the amount allowed by law.

From the 2007-08 through the 2011-12 fiscal years, District officials have consistently over-estimated expenses by a total of \$7.1 million and increased the tax levy by 23 percent. These budgeting practices generated approximately \$2.1 million in operating surpluses, which caused unexpended surplus funds to exceed statutory limits in each of the past five years, ending June 30, 2012. For example, as of June 30, 2012, unexpended surplus funds exceeded statutory limits by approximately \$350,000. Although District officials appropriated approximately \$500,000 in each of the last five fiscal years to reduce the tax levy, the Board over-estimated expenditures by between \$1 million and \$2 million annually,³ thus negating any benefit the appropriation of fund balance would have in reducing fund balance or the property tax levy. District officials also used some of the annual operating surpluses to fund seven reserves that, as of June 30, 2012, totaled \$7.9 million. We question the necessity for setting aside \$4

² The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

³ Revenues were under-estimated by between \$200,000 and \$700,000 annually.

million in a capital reserve for future projects and transportation vehicle purchases. Further, three of the seven reserves were apparently over-funded by more than \$1.8 million.

Budgeting and Fund Balance

The Board and District management are responsible for accurately estimating expenditures, revenues and fund balance that will be available at fiscal year-end to reduce the ensuing year's tax levy. Accurate estimates help ensure that the levy of real property taxes is not greater than necessary.

The estimation of fund balance is an integral part of the budget process. Unexpended fund balance represents uncommitted funds. The portion of the unexpended fund balance that is used to help finance the next fiscal year's budget is referred to as appropriated unexpended surplus fund balance and the remaining portion, which can be used for cash flow purposes and unanticipated expenditures, is unexpended surplus fund balance. Real Property Tax Law currently limits unexpended surplus fund balance to no more than 4 percent of the ensuing fiscal year's budget. Any surplus fund balance over this percentage should be used for non-recurring expenditures or to reduce the upcoming fiscal year's tax levy.

We compared the District's budgeted expenditures with actual results of operations for fiscal years 2007-08 through 2011-12 and found that the District consistently over-estimated expenditures totaling approximately \$7.1 million, as shown in Table 1. The majority of the over-estimations were for instructional salaries (\$1.9 million), employee benefits (\$2.9 million) and debt service (\$2.0 million). District officials had information, such as negotiated contracts and loan agreements that, had they consulted when preparing the budget, would have assisted them in preparing more accurate estimates.

Fiscal Year	Budgeted Expenditures	Actual Expenditures	Difference
2007-08	\$18,156,200	\$ 16,923,102	\$1,233,098
2008-09	\$18,559,400	\$ 16,882,957	\$1,676,443
2009-10	\$17,840,700	\$ 15,850,346	\$1,990,354
2010-11	\$17,215,369	\$ 16,161,470	\$1,053,899
2011-12	\$16,765,604	\$ 15,591,523	\$1,174,081
Totals	\$88,537,273	\$81,409,398	\$7,127,875

Due to the District's practice of significantly over-estimating expenditures, it has experienced operating surpluses totaling approximately \$2.1 million during this time, as shown in Table 2.

Table 2: Results of Operations					
	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Beginning Fund Balance	\$7,169,309	\$6,886,024	\$8,282,635	\$9,168,827	\$9,296,874
Revenues	\$16,951,781	\$17,804,515	\$16,736,538	\$16,288,557	\$15,770,181
Expenditures	\$16,923,102	\$16,882,957	\$15,850,346	\$16,161,470	\$15,591,523
Operating Surplus/(Deficit)	\$28,679	\$921,558	\$886,192	\$127,087	\$178,658
Prior Period Adjustment — Increase/(Decrease) in Fund Equity	(\$311,964)	\$475,053	\$0	\$960	\$1,048
Year-End Fund Balance	\$6,886,024	\$8,282,635	\$9,168,827	\$9,296,874	\$9,476,580
Less: Unexpended Surplus Appropriated for the Next Fiscal Year	\$500,000	\$500,000	\$493,070	\$750,000	\$500,000
Less: Restricted Fund Balance	\$5,674,086	\$5,751,409	\$6,206,238	\$7,361,572	\$7,938,047
Unexpended Surplus Fund Balance at Year End	\$711,938	\$2,031,226	\$2,469,519	\$1,185,302	\$1,038,533

Although approximately \$500,000 or more was appropriated to fund the next year's expenditures in each of the last five fiscal years, the operating surpluses offset any benefit the appropriation of fund balance would have in reducing fund balance. In addition, the Board increased the tax levy from \$2.2 million in 2007-08 to \$2.7 million in 2011-12, an increase of about 23 percent.

The District's last four independent audit reports contained a finding related to the District's unexpended surplus fund balance being in excess of the statutory limit. Budgeting practices which produce operating surpluses, and maintain fund balances that exceed the amount allowed by law, result in real property tax levies that are greater than necessary to fund operations.

Reserves

Reserves may be established by the Board in accordance with applicable laws. Moneys set aside in reserves must be used only in compliance with statutory provisions which determine how reserves are established and how they may be funded, expended, and discontinued. Generally, school districts are not limited as to how much money can be held in reserves. However, reserve balances must be reasonable. Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations. The Board is responsible for developing a formal plan

for the use of its reserves, including how and when disbursements should be made, and for ensuring that appropriate documentation is maintained to account for and monitor reserve activity and balances.

As of June 30, 2012, the District had seven reserve funds with balances totaling \$7.9 million. We question the necessity for setting aside \$4 million in a capital reserve for future projects and transportation vehicle purchases. Further, three of the seven reserves were apparently over-funded by more than \$1.8 million.

Capital Reserve — Education Law authorizes the District to establish a capital reserve to finance any object or purpose for which bonds may be issued. As of June 30, 2012, the balance in this reserve was \$4.5 million, of which \$900,000⁴ was designated as a Transportation Vehicle Reserve (TVR).

In May 2011, District voters approved the creation of the TVR with a maximum funding limit of \$1 million. While no moneys have been expended from this reserve to date, the Business Administrator indicated the District plans to use \$117,000 in reserve funds to purchase a bus during the 2012-13 fiscal year. The District's multiyear plan for the TVR includes an annual replenishment of the reserve and does not allow the balance to drop below \$400,000 for the next 10 years. We question the need for the funding levels maintained in this reserve.

While the District had a multiyear plan for the TVR, it did not have a plan for the remaining \$3.6 million balance in the capital reserve. Reserve funds should not merely be used a means to store excess fund balance. The Board should balance the intent for accumulating moneys for future identified needs with the obligation to ensure taxpayers are not overburdened.

Insurance Reserve — This type of reserve is authorized to fund certain uninsured losses, claims, actions or judgments for which the District is authorized or required to purchase insurance coverage. The District's insurance reserve has reported a balance of \$1,275,008 since prior to the 2007-08 school year. The District has not used this reserve to pay for any losses, claims, actions or judgments. Moreover, this reserve is not used to self-insure for any specific risks and current insurance coverage appears adequate to cover losses. The Board has not documented the need for this reserve.

Property Loss Reserve — Education Law authorizes school districts to establish and maintain reserves, not to exceed 3 percent of the annual budget, to cover property loss and liability claims. The primary purpose of a property loss reserve is to provide the ability

⁴ The TVR was funded by the transfer of unexpended surplus fund balance.

to “self-insure” for all or portions of claims that would typically be covered by insurance, to result in a reduction in insurance costs. As of June 30, 2012, the amount in this reserve was \$498,504. Officials indicated this reserve was in place prior to the merger in 1994 and the Board has no documented plan for these funds. No property loss claims were paid from this reserve and District insurance policies appear to provide adequate coverage.

Unemployment Insurance Reserve — General Municipal Law authorizes the establishment of this type of reserve to reimburse the State Unemployment Insurance Fund for payments made to claimants. This reserve had a reported balance as of June 30, 2012, of \$209,633, which is larger than necessary. While the District incurred unemployment costs totaling \$36,565 from 2007-08 through 2011-12, these expenditures were generally budgeted⁵ for and paid out of the general fund as routine operating costs. However, District officials told us they did not include an appropriation for unemployment costs in the 2012-13 budget, and plan to use the reserve to fund expenditures including the \$19,574 incurred through January 7, 2013. If unemployment costs continue to average approximately \$20,000 per year, the reserve would last for nearly 10 years. We question the need to reserve funds for this purpose for this length of time.

By maintaining excessive and/or unnecessary reserves – combined with ongoing budgeting practices that generate repeated surpluses – the Board and District officials have withheld significant funds from productive use, levied unnecessarily high taxes and compromised the transparency of District finances to the taxpayers.

Recommendations

1. The Board and District officials should develop realistic expenditure and fund balance estimates for the annual budget.
2. The Board and District officials should review reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.
3. District officials should include both the funding and use of all reserves in their adopted budget plan each year to provide increased transparency to District voters.
4. District officials should develop a plan for the use of the excess unexpended surplus fund balance and the excess amounts in reserve funds in a manner that benefits District taxpayers. Such uses could include, but are not limited to: paying off debt, financing one-time expenditures and reducing District property taxes.

⁵ Appropriations were not included in the budget for unemployment expenditures of \$1,120 for 2007-08 and \$761 for 2011-12.

Extra-Classroom Activities

The Regulations of the Commissioner of Education (Regulations) require each school district's Board of Education to adopt policies and procedures for the safeguarding, accounting, and auditing of all moneys received and derived from extra-classroom activities. The Regulations require the Board to appoint a central treasurer to maintain extra-classroom activity receipts and disbursements and a faculty auditor to oversee the management of the extra-classroom activity funds. In 2005, the Board adopted policies and procedures governing activity funds.

Generally, extra-classroom activity funds are generated by student organizations. Students raise and spend these funds to promote their general welfare, education, and morale and to finance appropriate extracurricular activities. The District has 21 accounts in the extra-classroom activity fund that reported approximately \$155,000 in receipts and \$145,000 in disbursements during our audit period. The cash balance totaled approximately \$52,000 as of December 31, 2012.

We found that these moneys were not maintained in accordance with the Regulations or Board requirements. According to the adopted policies and procedures, the Superintendent's secretary is the central treasurer. However, the District Treasurer is performing these duties. We also found that the monthly reports received by the Board included only a combined cash total of the checking account, not individual club balances, as required, and failed to include over \$29,000 held in a certificate of deposit. Further, a faculty auditor was not appointed to oversee the management of these moneys in accordance with the Regulations.

Also, while the Business Administrator indicated that she reviews completed bank reconciliations, check request forms and funds prepared for deposit, we question if these steps alone effectively mitigate the risk created by not complying with the Board-adopted Regulations. In fact, four of the five student ledgers we reviewed did not comply with Regulations, all 48 disbursements reviewed totaling approximately \$41,000 had one or more deficiency, and 212 receipts reviewed totaling \$95,126 had one or more deficiency. Because of these deficiencies, District officials do not have assurance that these moneys have been properly accounted for.

Student Ledgers

According to District policies and procedures, the student treasurer of each activity shall maintain a ledger – in a form prescribed by District officials – that identifies all receipts and disbursements and indicates a daily running balance. It is important for the faculty

advisor to guide the student treasurer in posting his/her account ledger and periodically check the account balances. In addition, the student treasurer's ledger must periodically be compared to the central treasurer's ledger for accuracy, and any discrepancies must be investigated. District policies and procedures require the central treasurer (the Superintendent's secretary), to prepare and remit to the student treasurer a monthly Activity Reconciliation Report used to verify the accuracy of the records maintained by both individuals.

We found that the District Treasurer, not the Superintendent's secretary, maintains the activity fund records and reconciles balances between her records and those kept by the student treasurer approximately twice per year,⁶ not monthly. She does not provide the reconciliation report to the student treasurer, as required.

We randomly selected and reviewed student ledgers for five activities for the 2011-12 and 2012-13 school years to determine if the student treasurers maintained ledgers identifying all receipts and disbursements and included a running balance that agreed with the District Treasurer's ledger.

Only one of the five student treasurers' ledgers we reviewed complied with these requirements. Four ledgers contained evidence that the District Treasurer made adjustments to revenues and expense items and changes to entries made by the student treasurer. She stated that if a small amount/number of mistakes was present, such as the student treasurers forgot to enter a deposit or a payment, or recorded an incorrect amount, she would enter that information or make the adjustment in the ledger for them. However, these entries should only be made by the student treasurer and verified by the faculty advisor. Allowing the District Treasurer to make entries in student records significantly weakens internal controls and is not in compliance with policies and procedures adopted by the Board. This also significantly diminishes the educational benefit derived from the students identifying the errors and making adjustments to ensure the accuracy of their ledgers.

Cash Disbursements

A good system of internal controls provides that activity funds be disbursed only for purchases that are supported by sufficient documentation and for appropriate purposes. Current District policies and procedures require that once an invoice or receipt is received, a payment order form is prepared, in duplicate, and is signed and approved by the student treasurer, faculty advisor, and the chief faculty counselor (usually the school principal). Additionally, each payment order form must have the class/club account balance listed

⁶ This reconciliation normally takes place at the end of the school year and again over Christmas break.

before it can be approved to ensure adequate funds are available for the requested purchase.

We randomly selected and reviewed 48 disbursements totaling approximately \$41,000 that were paid from the activity fund accounts to determine if they had sufficient supporting documentation, had the required signatures needed for disbursement, listed current account balances and were for appropriate student activities. We found that all disbursements had one or more deficiency, as detailed below.

- All 48 disbursements failed to include account balances ensuring adequate funds were available prior to the approval for payment.
- Eight of the disbursements, totaling approximately \$5,400, failed to include the student treasurer's signature on the payment order attesting to the purpose of the disbursement, as required.

We also judgmentally reviewed 17 disbursements made to class advisors totaling \$5,400 to determine if they had sufficient supporting documentation, had the required signatures needed for disbursement, listed current account balances, and were for appropriate student activities and found that all disbursements had one or more discrepancies, as follows.

- All 17 disbursements failed to include account balances ensuring adequate funds were available prior to the approval for payment.
- Five of the disbursements totaling approximately \$1,000 had no supporting documentation/invoices attached to support that the reimbursements were for appropriate expenditures.
- Four of the disbursements totaling approximately \$1,700 failed to include the student treasurer's signature on the payment order attesting to the purpose of the disbursement.

Due to the lack of proper documentation, District officials cannot ensure that all disbursements were for appropriate student activities and funds were available prior to disbursement.

Cash Receipts

A good system of internal controls over cash receipts ensures that the District adequately supervises individuals who handle money and that duplicate press-numbered receipts are issued sequentially for all cash collections. Additionally, it is critical that cash receipts

are deposited intact⁷ to reduce the risk of fraud and concealment. Current District policies and procedures require that the student treasurer counts and completes a Recap of Receipts form for each deposit made. This form requires the student treasurer's signature and the faculty advisor's signature indicating that he/she confirmed the student treasurer's calculations. Also required is the Business Office employee's signature to indicate he/she received the deposit from the student treasurer and confirmed the count and, finally, the central treasurer's signature to confirm the receipt of funds awaiting deposit. A copy of the completed form and the deposit receipt is required to be returned to the student treasurer.

We reviewed all 297 cash receipts recorded in the student treasurers' ledgers during our audit period, totaling approximately \$155,000, against supporting documentation maintained by the Business Office. We attempted to determine if press-numbered duplicate receipts were issued when money changed hands, if each entry had a corresponding completed Recap of Receipts form and if the corresponding deposits were made intact. We found discrepancies with 212 receipts totaling \$95,126, as detailed below. Some receipts contained more than one discrepancy.

- A properly signed Recap of Receipts form did not support the deposit made for 65 cash receipt entries totaling \$43,500: 35 did not have the required form at all and 30 lacked one or more of the required signatures on the forms.
- Deposits were not made intact for 167 entries totaling approximately \$59,000. Instead of depositing funds exactly as received from each student treasurer, Business Office staff would combine receipts received from various club activities and deposit them together.
- A Treasurer's receipt was not present for 40 entries totaling approximately \$45,000.

We also found that, while the accounting software used for recording transactions by the Business Office printed a Treasurer's receipt each time a deposit was entered, Business Office staff did not give copies of these receipts to the student treasurer. Also, Business Office staff did not issue individual receipts for each deposit delivered to the Business Office, but instead issued one receipt for the overall deposit amount for the day. The District Treasurer confirmed that she does not issue receipts to individual clubs for money received. She indicated that

⁷ In the same amount and form (cash or check) in which they were received.

she will use the Recap of Receipts form instead. Although this form could serve as a receipt when money changes hands, it is not press-numbered to provide accountability and the money is not counted in front of the person remitting the money to the Business Office. As a result, District officials have no assurance that all moneys collected by the extra-classroom activities are properly recorded and deposited.

When the same person who is primarily responsible for keeping the District's activity fund records and issuing reports of this activity is also allowed to adjust student ledger records, issue receipts for collections and prepare deposits, there is an increased risk that fraud and concealment could occur and remain undetected. Unless the Board increases its oversight and District officials perform fund management duties in accordance with Regulations, the District's policies and procedures and good business practices, there is an increased chance that errors and irregularities could occur and remain undetected and that activity fund moneys could be lost or misused.

Recommendations

5. The Board and District officials should ensure that activity funds are maintained in accordance with District policy and the Regulations.
6. The Board should appoint a faculty auditor to oversee the management of activity fund moneys in accordance with requirements in the Regulations.
7. District officials should require proper documentation to support disbursements and to verify funds are available prior to disbursement.
8. District officials should issue press-numbered duplicate receipts whenever cash changes hands to provide a trail of accountability.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

As part of their response, District officials included a schedule for using the funds in the capital reserve to purchase buses. We did not include this schedule in the final report because the District's response contained sufficient information. District officials also submitted a letter from an attorney regarding his opinion on the property loss and insurance reserves. As this letter was addressed to the District and not a part of our audit, we did not include it as a part of the final report. The District's response contains sufficient information summarizing this letter.



Bolivar-Richburg Central School District

"The foundation of every nation is the education of its youth" ~ Diogenes

July 15, 2013

Mr. Robert Meller
Chief Examiner
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Meller:

The purpose of this correspondence is to acknowledge that the Bolivar-Richburg Central School District has received a draft copy of the audit conducted by the New York State Comptroller's Office. We would like to thank the Comptroller's Office for its recommendations on the issues identified throughout the examination of our Internal Controls Over the Selected Financial Operations of the District.

The District's response to the two audit findings related to the financial condition of the District and Extra-Classroom Activities are outlined below.

Recommendations on the Financial Condition of the District:

Recommendation:

The Board and District officials should develop realistic expenditures and fund balance estimates for the annual budget.

District's Response:

The Board of Education and Administration will make every reasonable attempt to construct more accurate budgets. While this is a practice which has been followed in the past, we will continue to focus our efforts to build a budget that is reflective of our actual expenses. Please understand that many of our expenses continue to be unpredictable or fluctuate dramatically during the 18-month period of time in which we start constructing a budget, to the time when we are done incurring expenses for that budget. One example of this has to do with the funding of personnel paid through grants. The District has a significant number of employees whose salaries are paid through grant funding. Unfortunately the District does not receive notification of what grant funds are available until after the final budget has been constructed and voted on. As a result, the District must account for some of those unaccounted for salaries in their general fund budget in order to maintain the positions in the event grant funding was to decrease. The salaries and benefits of these grant funded positions can result in additional fund balance being available at year end, unless the amount of money in the grants decreases significantly.

Middle/High School (6-12)
100 School Street
Bolivar, NY 14715
Telephone: 585-928-2561
Fax: 585-928-1368

Elementary School (K-5)
P.O. Box 158, Main Street
Richburg, NY 14774
Telephone: 585-928-1380
Fax: 585-928-2362

Pre-Kindergarten School
422 Main Street
Bolivar, NY 14715
Telephone: 585-928-1919
Fax: 585-928-2159

As the audit report indicated, when additional fund balance was incurred at year end, the District oftentimes put those funds into established reserve accounts. The District feels this was a financially responsible decision to make. By placing these funds in previously established reserves, the District is in a more financially stable position as it moves forward. Over the course of the past five years the District has used a significant portion of this Unappropriated Fund Balance to save teaching positions and maintain academic and extra-curricular programming for our students. Had these additional funds not been available, the District would have had to make significant reductions.

Recommendation:

The Board and District officials should review reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.

District's Response:

Both Board and District officials believe the balances in reserves established by the District are reasonable. A majority of the reserves cited in the audit report were created and funded prior to the merger of the two Districts, and have been administered for their legally intended purpose.

In regard to the Unemployment Reserve, the District incurred almost \$40,000 in expense for the 2012-2013 school year. In the event the District maintains this level of unemployment claims moving forward, this reserve would be liquidated within five years. Given these statistics, we believe this reserve is appropriately funded.

The Capital Reserve is re-established every ten years by the voters of the Bolivar-Richburg Central School District for the purpose of funding any capital expenditures which the District would typically borrow funds to pay for. The District is currently in the process of adopting a Five Year Building Plan which includes the replacement of the Astroturf on the soccer and baseball fields. The Capital reserve will be used to fund these projects.

The Transportation Vehicle Reserve was approved by the voters to be funded up to \$1 million. Based on the District's current analysis, this reserve will be liquidated at the end of the 2015-2016 school year provided we need to continue to replace our fleet of buses as predicted. (See attached schedule)

As for the Property Loss Reserve and the Insurance Reserve, the District consulted its attorney on these reserves prior to the Comptroller's audit. The attorney was asked to opine whether or not these reserves were over funded. Our attorney's opinion states that these reserves are reasonable and in compliance with statutory requirements. (See attached letter)

Recommendation:

District officials should include both the funding and use of all reserves in their adopted budget plan each year to provide increased transparency to District voters.

District's Response:

The District currently lists reserves it uses in its Revenue Budget Booklet that is provided to the taxpayers each year prior to the budget vote. However, the District will be establishing a more in-depth plan for the use of its reserves and will have the Board adopt this plan each year.

Recommendation:

District Officials should develop a plan for the use of the excess unexpended surplus fund balance and the excess amounts in reserve funds in a manner that benefits District taxpayers.

District's Response :

The District will continue to monitor its excess unexpended surplus fund balance and the amounts in our reserves. At the time of this writing, the District projects very little excess funds at the close of the 2012-2013 school year, with the projected Unappropriated Fund Balance being at or around 4.8%.

Recommendations on the Extra-Classroom Activities of the District:

Recommendation:

The Board and District officials should ensure that activity funds are maintained in accordance with District policy and the Regulations.

District's Response:

The Board and Administration acknowledges that District policies and regulations have not been updated in several years and need to be more closely followed and reflective of the procedures actually taking place. The District is in the process of developing a procedures manual to guide advisors in the proper administration of Extra Classroom Activities. Although internal control weaknesses were acknowledged in this audit, we would like to point out that no fraud or misuse of assets was identified in the audit sample reviewed by the Comptroller's auditors.

Recommendation:

The Board should appoint a faculty auditor to oversee the management of activity fund moneys in accordance with requirements in the Regulations.

District's Response:

The District acknowledges this weakness and is working at evaluating this position.

Recommendation:

District officials should require proper documentation to support disbursements and to verify funds are available prior to disbursement.

District's Response:

Although District officials always verify that funds are available before disbursements are approved, our documents did not indicate this. The District has reformatted its documents to better reflect the procedures that are followed and the funds that are available.

Recommendation:

District officials should issue press-numbered duplicate receipts whenever cash changes hands to provide a trail of accountability.

District's Response:

District officials have implemented this recommendation.

The Bolivar-Richburg Central School District would like to thank the New York State Comptroller's Office for their high level of professionalism and the thorough work done while conducting their review of our District.

Sincerely,

John R. Marshall
Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology. During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial condition and extra-classroom activities for further audit testing. To accomplish our objectives, we performed the following procedures.

For Financial Condition:

- We interviewed District officials to obtain an understanding of the District's internal controls over financial condition, budgeting, use of reserve funds, and the District's processes and procedures for submitting for transportation aid.
- We compared budgets with actual results for the five fiscal years 2007-08 through 2011-12, to assess whether the budgets were realistic and supported.
- We reviewed Board minutes, accounting records, audited financial statements, applicable statutes, and activity within the reserves to determine if reserves were properly established, funded and used.
- We evaluated the methods used to fund the reserves, as well as the level of fund balance remaining as unreserved and unappropriated in the general fund, to determine whether the District complied with applicable statutes.
- We examined tax levies and tax levy increases from 2007-08 through 2011-12.
- We reviewed the last five years of financial information submitted to the Office of the State Comptroller.

For Extra-Classroom Activities:

- We reviewed all District policies relating to extra-classroom activities.
- We interviewed the central treasurer, Superintendent, faculty advisors and the Business Administrator.

- We reviewed transactions and extra-classroom activity fund records such as the central treasurer’s ledger, student ledgers, payment order forms, canceled checks, bank statements, validated deposit slips, student activity deposit forms and payment request forms to determine the effectiveness of internal controls over extra-classroom activity fund functions and any associated effects of deficiencies in those controls.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313