



Frewsburg Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2012 — October 1, 2013

2013M-327



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2014

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 Frewsburg Central School District, entitled Internal Controls Over Selected Financial Activities. 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 Frewsburg Central School District (District) is located in the Towns of Busti, Carroll, Kiantone and Poland in Chautauqua County and the Town of South Valley in Cattaraugus County. The District is governed by an elected seven-member Board of Education (Board), which 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 Manager oversees the operations of the Business Office, which is responsible for processing financial transactions. For the 2012-13 fiscal year, the District reported general fund expenditures of approximately \$14.2 million, which were funded primarily with real property taxes, State aid and grants.

Scope and Objectives

The objectives of our audit were to review internal controls over selected financial activities¹ for the period July 1, 2012 through October 1, 2013. For reserves, we extended our review back through July 1, 2010. Our audit addressed the following related questions:

- Are internal controls over reserve funds appropriately designed and operating effectively?
- Are internal controls over the accounting for leave time for administrative and support staff appropriately designed?
- Did District officials comply with statutory requirements to effectively detect and prevent potential conflicts of interest?

Audit Results

District officials did not adopt policies governing the establishment, use and maintenance of reserve funds and could not demonstrate the reasonableness of reserve balances. As a result, two of the District's reserve funds had balances that totaled \$3.19 million in excess of the amounts needed for authorized purposes, and three of the District's reserve funds had balances that totaled \$1 million that were not supported by a written plan or other documentation validating the amounts retained. Further, while resolutions were in place to establish the employee benefit accrued liability and retirement contribution reserves, these resolutions did not address the rationale for establishing them, the objective for each, the

¹ Our prior audit report dated July 2007 had similar findings concerning leave time and the conflict of interest.

optimal or targeted funding levels and the conditions under which the reserve's assets would be used or replenished. Moreover, there were no Board resolutions establishing the unemployment and insurance reserves. This lack of planning suggests that District officials maintained these reserve balances to reduce the District's unexpended surplus funds closer to the legal limit² and did not perform any analysis or identify future fiscal needs prior to transferring moneys to these reserves. As a result, the Board and District officials have withheld significant funds from productive use, levied unnecessary taxes and compromised the transparency of District finances to the taxpayers.

District officials do not have a comprehensive payroll policy supported by written procedures. As a result, there is no independent review of leave time records. In addition, District officials do not ensure that access rights to the payroll and human resource modules within the computerized accounting system are appropriately limited. Consequently, two employees have the ability to update and edit employee leave time even though they do not regularly need such access. Furthermore, District officials do not regularly review audit trail reports for inappropriate activity. We found discrepancies between timesheets, time request slips and leave accrual records, resulting in approximately \$4,700 in under-deductions and \$1,100 in over-deductions to employee leave time. As a result, there is an increased risk that employees will be provided benefits beyond those intended by the Board. In addition, there is an increased risk that District records will be manipulated and data will be lost or destroyed.

Board President Larry Gauger is employed by an engineering firm that does business with the District. Mr. Gauger formally disclosed his interest in writing and abstained from voting on matters involving the firm. However, it is unclear whether he has directly performed engineering work on District projects. If he was involved with the procurement, preparation or performance of the contract, or if his compensation from the firm was directly affected by the firm's relationship with the District, he would have a prohibited interest in the contract. When District officials conduct business with the District in which they serve, there is a risk that those officials may be improperly enriched. In addition, there was no competitive process for awarding of the contract or rationale documented in the Board minutes indicating why the firm he is employed by was chosen. The use of a competitive process helps ensure that such contracts are awarded under the most advantageous terms and helps avoid any potential appearance of partiality.

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 recommendations and indicated they planned to initiate corrective action.

² Real Property Tax Law currently limits the unexpended surplus fund balance to no more than 4 percent of the ensuing fiscal year's budget.

Introduction

Background

The Frewsburg Central School District (District) is located in the Towns of Busti, Carroll, Kiantone and Poland in Chautauqua County and the Town of South Valley in Cattaraugus County. The District is governed by an elected seven-member Board of Education (Board) which 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 Manager oversees the operations of the Business Office, which is responsible for processing financial transactions.

There are two schools in operation within the District, with approximately 930 students and 150 employees. For the 2012-13 fiscal year, the District reported general fund expenditures of approximately \$14.2 million, which were funded primarily with real property taxes, State aid and grants.

The Board is also responsible for establishing a good internal control environment. Adopting effective policies that guide the overall direction of the District is one way District officials can establish a strong control environment. Included should be policies and procedures concerning the management of reserves, along with ensuring that all sources of revenue are considered to reduce the tax levy, and the recording and reporting of leave time benefits.

Objectives

The objectives of our audit were to review internal controls over selected financial activities. Our audit addressed the following related questions:

- Are internal controls over reserve funds appropriately designed and operating effectively?
- Are internal controls over the accounting for leave time for administrative and support staff appropriately designed?
- Did District officials comply with statutory requirements to effectively detect and prevent potential conflicts of interest?

Scope and Methodology

We examined the District's reserves, administrative and support staff leave time and conflicts of interest for the period July 1, 2012 through October 1, 2013. For reserves, we extended our review back through July 1, 2010.

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 recommendations and indicated 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 this plan available for public review in the District Clerk's office.

Reserves

The Board, Superintendent, and Business Manager are accountable to District taxpayers for the use of District resources, and are responsible for effective financial planning and management of District operations. Sound budgeting provides sufficient funding for needed operations and prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. District officials should adopt policies governing the establishment of reserves to ensure they are used and maintained in the best interest of the taxpayers. Once the Board has addressed those issues any remaining fund balance, exclusive of that allowed by law to be retained to address cash flow and unexpected occurrences,³ should be used to reduce the District's real property tax levy.

District officials did not adopt policies governing reserve funds and could not demonstrate the reasonableness of reserve balances. As a result, two reserves had balances that totaled \$3.19 million in excess of the amounts needed for authorized purposes, and three reserves had balances that totaled \$1 million that were not supported by a written plan or other documentation validating the amounts retained. Further, while resolutions established the employee benefit accrued liability and retirement contribution reserves, they did not address the rationale for establishing them, the objective for each, the optimal funding levels and the conditions under which their assets would be used or replenished. Moreover, there were no resolutions to establish the insurance and unemployment reserves. This lack of planning suggests that District officials maintained these reserve balances to reduce the District's unexpended surplus funds closer to the legal limit⁴ and did not perform any analysis or identify future District fiscal needs prior to transferring moneys to these reserves. As a result, the Board and District officials have withheld significant funds from productive use, levied unnecessary taxes and compromised the transparency of District finances to the taxpayers.

Employee Benefit Accrued Liability Reserve – Pursuant to General Municipal Law (GML), the District has the authority to establish and fund an employee benefit accrued liability reserve (EBALR). An EBALR is authorized by GML to be used only for the cash payment of accrued and unused sick, vacation, and certain other accrued but

³ Unassigned fund balance is used for cash flow purposes and as a hedge against unanticipated expenditures and/or revenue shortfalls.

⁴ Real Property Tax Law currently limits the unexpended surplus fund balance to no more than 4 percent of the ensuing fiscal year's budget. Unexpended surplus fund balance as of June 30, 2013 was 7 percent of the unexpended surplus year's budget.

unused leave time earned by employees and due upon separation from service, as well as expenses related to the administration of the reserve. To be funded from this reserve, the accrued and unliquidated benefits must be due and payable to the employee upon separation from service, as authorized by contract or collective bargaining agreement (CBA). The Board is responsible for ensuring that the balance in the EBALR is appropriate, and the basis of funding is adequately supported by the monetary value of accrued leave time due as cash payments to employees upon separation from service.

The Board established an EBALR in December 2004, by resolution. The EBALR had a reported balance as of June 30, 2013 of \$2.86 million. The District has not used any moneys from this reserve. We found that the EBALR is overfunded by \$2.48 million because the liability calculations that support the balance incorrectly include amounts for obligations that may not be paid for from this type of reserve or include amounts employees were not yet entitled to.

The District's CBAs include grandfathered provisions where employees' unused sick leave balances as of June 30, 2005 are used to determine how many months of health insurance premium payments the District will pay at separation from service. For unused sick leave earned after June 30, 2005, each day is valued at between \$50 and \$125, depending on when it was earned. This amount is used for future health insurance costs. Because health insurance premium payments are not the same as cash payments for the monetary value of the sick leave due and payable upon retirement, they may not be funded from this reserve. Furthermore, the CBAs include the number of years of service employees must reach before being entitled to payouts. The District has incorrectly been including ineligible employees that have an insufficient number of years of District employment to qualify for this benefit. As such, the District should not accrue a liability for them. Also included in the liability calculations are lump sum retirement incentives, which are also not permitted by GML to be funded from this reserve.

We found that the Board approved a \$198,148 transfer to this reserve in August 2011, to fund other post-employment benefits (OPEB). GML does not authorize such costs to be paid from an EBALR.

Debt Reserve – In certain circumstances, moneys must be restricted for debt service in a debt service fund. For example, proceeds from the sale of property must be restricted if the related debt remains outstanding. In addition, unexpended debt proceeds and related interest earnings must be restricted and used to pay debt service on that issue or for related capital expenditures. Districts are not authorized to establish a debt reserve for any other purpose.

As of June 30, 2013, the District reported a debt reserve of \$709,867. The Business Manager stated that these moneys related to a refunding bond issued in 1999, which remains outstanding. Typically, proceeds of the new debt are used to redeem the refinanced debt or placed in an escrow account pending the call date of the refinanced debt. It is unclear how this refunding bond could have resulted in surplus funds that have been set aside but not used for the related debt service. Furthermore, District officials have not made any transfers or debt service payments from this reserve. Rather, all annual debt service costs for the District's various outstanding debts are included in general fund appropriations and taxes are levied to fund them. Funds held appropriately for debt service must be used to retire the related outstanding debts. However, as of the end of fieldwork, the Business Manager could not demonstrate the funds in this reserve were related to the refunding bond issued in 1999 or any of the District's other outstanding debts. Therefore, funds in this reserve should be transferred to the general unassigned fund balance and used for District operations and/or to reduce the tax levy.

Insurance Reserve – The Board is authorized to establish, by resolution, and to fund an insurance reserve for 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 \$600,000 since prior to the 2010-11 fiscal 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. The Board has not documented a plan to indicate the need for this reserve or adopted a resolution for its establishment.

Unemployment Reserve – The Board is authorized to establish, by resolution, and to fund an unemployment reserve to reimburse the State Unemployment Insurance Fund for payments made to claimants. The District's unemployment reserve had a balance as of June 30, 2013 of \$170,935, which is larger than necessary. Although the District incurred unemployment costs totaling approximately \$37,500 for the three fiscal years from 2010-11 through 2012-13, these expenditures were budgeted for and paid out of the general fund as routine operating costs. District officials stated that it was held for staff layoffs but could not demonstrate that this type of action was forthcoming. If unemployment costs continue to average approximately \$12,500 per year, the reserve would last for nearly 14 years, assuming that no appropriation was included in the general fund to finance these costs, as has been the Board's ongoing practice. District officials provided no plan to validate the need to reserve funds for this purpose for this length of time. Furthermore, the Board

has not adopted a resolution for the establishment of this reserve as required by GML.

Retirement Contribution Reserve – GML authorizes the Board to create a retirement contribution reserve for contributions payable to the New York State and Local Employees’ Retirement System. The District cannot use this reserve for contributions related to employees covered by the New York State Teachers’ Retirement System. A portion of the funds in this reserve may be transferred to certain other reserves in accordance with statutory requirements.

As of June 30, 2013, this reserve had a reported balance of \$283,291. Although this reserve was established by resolution, there was no written plan to indicate the rationale for establishing the reserve, the objective of the reserve, the optimal or targeted funding level for the reserve or the conditions under which the reserve’s assets would be used or replenished. The District used approximately \$423,750 from this reserve over the last three years. However, \$209,152 of this amount was used inappropriately to pay for a retirement incentive for the New York State Teachers’ Retirement System in 2011.

By maintaining excessive and/or unnecessary reserves, the Board and District officials have withheld significant funds from productive use, levied unnecessary taxes and compromised the transparency of District finances to the taxpayers.

Recommendations

1. District officials should develop and implement comprehensive policies for establishing and using reserve funds that include optimal or targeted funding levels and the conditions under which the funds will be used or replenished.
2. The Board should consider whether the insurance and unemployment reserves are necessary and if so, adopt resolutions to properly establish them in accordance with statutory requirements.
3. The Board and District officials should review all reserves at least annually to determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.
4. District officials should develop and implement a plan for using the reserve fund surplus balances identified in this report in a manner that benefits District taxpayers and is in compliance with statutory provisions.

Leave Time

Employee wages and benefit costs comprise a significant portion of the District's budget. Employment agreements define working conditions and benefits such as hours to be worked, rates of compensation, amounts and methods of calculating leave time, and eligibility for health insurance and other fringe benefits, including longevity awards and post-employment benefits. District officials must establish controls, including policies and procedures, to prevent and detect errors and irregularities in the District's payroll function. Such policies and procedures should be in writing and describe the process for documenting requests to use leave time and individual responsibilities for maintaining and reviewing leave time records. Key components of such controls should also include limiting the number of employees who can update and edit employee leave time records within the computerized accounting system and the effective management oversight of payroll operations.

The District has established employment terms, including pay rates, separation payments, and leave time, through employment contracts with certain individuals and through collective bargaining agreements with the Frewsburg United School Employees (FUSE) union. Employees can accrue sick leave for which they will receive a benefit at retirement. The District reported nearly \$2.5 million in compensated absences on its balance sheet as of June 30, 2013.

District officials do not have a comprehensive payroll policy supported by written procedures. There is no independent review of leave time records, and two employees have the ability to update and edit employee leave time within the computerized accounting system even though they do not regularly need such access. Furthermore, District officials do not regularly review audit trail reports for inappropriate activity. We found discrepancies between time sheets, time request slips and leave accrual records, resulting in approximately \$4,700 in under-deductions and \$1,100 in over-deductions to employee leave time.⁵ As a result, there is an increased risk that employees will be provided benefits beyond those prescribed in contract by the Board. In addition, there is an increased risk that records will be manipulated and that data will be lost or destroyed.

Leave Records

A good system of accounting for employee leave time (vacation, sick, etc.) includes a policy and procedures for periodic independent reviews to verify that the records for leave time earned and used are accurate. In certain instances, unused leave time can be converted to

⁵ Calculated based on days multiplied by employees' daily rate

cash payments, which represents a considerable monetary benefit for employees. Accurate records are essential to ensure employees only earn and use leave time to which they are entitled.

Generally, a supervisor is responsible for recording on a daily time sheet whether administrative and confidential employees are working or charging leave time. Support staff employees prepare time cards or time sheets indicating whether they worked or the type of leave time charged. In addition, employees prepare leave time request sheets for every absence or request of leave usage. During our audit period, the District's payroll clerk maintained the leave accrual records for all departments. The District has no process in place for someone other than the payroll clerk to review the accuracy of leave usage postings from the time cards/sheets and time request forms to the leave accrual records.

We reviewed 29 employees' leave accrual records for the period July 1, 2012 through June 30, 2013 to verify that the leave usage recorded on time cards/sheets and time request forms was properly deducted from the employees' leave accrual records. We included all administrative and confidential employees leave accrual records along with 15 support staff employees who were eligible for vacation leave.⁶ Leave accrual records for ten of the employees⁷ had 23 discrepancies including: 11 not agreeing with time sheets and time request slips, seven not agreeing with the time sheet and missing a request slip, three having a conflict between the time sheet and the request slip and two having errors on the time sheet. These errors resulted in 18 of the 23 discrepancies associated with having no time recorded as taken on a time request sheet or time card/sheet, three having deductions that were for more leave time than on a time request sheet or time card/sheet, one having less leave time deducted and one being deducted from the wrong person. For the period reviewed, we calculated approximately \$4,700 in under-deductions and \$1,100 in over-deductions to employee leave time. As a result, the District is at risk for providing employee benefits beyond those intended by the Board.

User Access Permissions

It is important that District officials restrict employees' access rights to computer systems, software applications and data based on their day-to-day duties and responsibilities, and that they review audit trail reports to identify any inappropriate activity. Access controls provide reasonable assurance that computer resources are protected from

⁶ Out of the 29 employees selected, five were classified as administrative, nine were classified as confidential and 15 were randomly-selected support staff.

⁷ Of the ten employees, five were classified as administrative and five as confidential.

unauthorized use and modifications. Access controls prevents users from being involved in multiple aspects of financial transactions and ensure that users are restricted from unauthorized areas where they can intentionally or unintentionally lose, destroy or change critical financial data.

District officials do not appropriately limit access to the payroll and human resource modules within the computerized accounting system. As a result, three of the five employees that have access to the accounting software have the ability to update and edit employee leave time even though two of these employees do not regularly need such access. The Business Manager told us that employees are cross-trained to perform the duties of other clerks when they are absent. In addition, District officials do not regularly review audit trail reports for inappropriate activity.

We reviewed audit trail reports for the users with access rights to the leave time function and found no improper activity. However, the failure to limit and monitor user access can result in unauthorized access to sensitive information, manipulation of District records, or the loss or destruction of data.

Recommendations

5. The Board should adopt a comprehensive policy and written procedures as guidance for the employees responsible for the preparation of time records and for employees requesting leave time use.
6. District officials should consider designating someone independent of the leave time process to periodically review leave time records to ensure that accurate and complete records are maintained for all District employees.
7. District officials should review and address the discrepancies identified in this report.
8. District officials should restrict employee access rights to update and edit employee leave time in the payroll and human resource modules to only those employees who need that access based on their day-to-day duties and responsibilities. District officials should also ensure that access rights are promptly changed in the event duties and responsibilities change.
9. District officials should periodically review audit trail reports to identify any inappropriate activity.

Conflict of Interest

GML limits the ability of District officers and employees to enter into contracts in which both their personal financial interests and their public powers and duties conflict. Unless a statutory exception applies, a District officer or employee may not have an interest in any contract with the District of which he or she is an officer or employee, when the officer or employee, individually or as a member of a board, has the power or duty to negotiate, prepare, authorize or approve the contract or authorize or approve payment under the contract; audit bills or claims under the contract; or appoint an officer or employee who has any of the above powers or duties. A District officer or employee has an interest in a contract when he or she receives a direct or indirect monetary or material benefit as a result of a contract of the District that the officer or employee serves.

District officers and employees are also deemed to have an interest in the contracts of their spouse, minor children and dependents (except employment contracts); a firm, partnership or association of which they are a member or employee; and a corporation of which they are an officer, director or employee, or directly or indirectly own or control any stock. As a rule, interests in actual or proposed contracts on the part of a District officer or employee, or his or her spouse, even when not prohibited, must be publicly disclosed in writing to the officer or employee's immediate supervisor and to the Board. The written disclosure to the Board must be made part of and be set forth in the official record of the proceedings of the Board.

Board President, Larry Gauger, is employed by an engineering firm that does business with the District. Mr. Gauger formally disclosed his interest in the firm in writing and abstained from voting on matters involving the firm. We spoke with Mr. Gauger regarding his work with the engineering firm and the contract with the District. It is unclear whether he has directly performed engineering work on District projects. However, if, as a member of the firm, he was involved with the procurement, preparation or performance of the contract, or if his compensation from the firm was directly affected by the firm's relationship with the District, he would have a prohibited interest in the contract. When District officials conduct business with the District in which they serve, there is a risk that those officials may be improperly enriched as a result.

In addition, there was no competitive process for awarding the engineering contract or rationale documented in the Board minutes indicating why the firm he is employed by was chosen. The use of a

request for proposals for professional service contracts helps to ensure that such contracts are awarded under the most advantageous terms and conditions after a competitive process and also helps to avoid any potential appearance of partiality when awarding such contracts.

Recommendations

10. The Board should review the conflicts of interest statutory provisions and ensure that District officials and personnel comply with the requirements.

11. The Board should consider revising its procurement policies and procedures to include the use of requests for proposals for professional service contracts.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

FREWSBURG CENTRAL SCHOOL DISTRICT

26 Institute Street • P.O. Box 690 • Frewsburg, New York 14738
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BOARD OF EDUCATION

Danielle M. O'Connor
Superintendent of Schools

January 23rd, 2014

Chief Examiner
Office of the State Comptroller
295 Main Street
Buffalo, NY 14203-2510

To whom it may concern:

The Frewsburg Central School District Board of Education and Administration would like thank the Comptroller's Office for its continued commitment to helping school districts improve their operational efficiency and effectiveness. Like the Comptroller's office, Frewsburg CSD is committed to improving the Fiscal well being of the District, while complying with relevant statutes and the observance of good business practices. The Board has reviewed the report and has given substantial thought and consideration to the findings. We believe that the audit was done in a fair, thorough and unbiased manner.

Reserve Funds are an important tool which the District utilizes in an effort to finance various future district costs. The District's reserve funds are governed by either the Education Law or the General Municipal Law, and are all legitimate reserves. The audit report indicates that the District does not have policies governing the establishment of reserves. The District would like to make note that neither the Education Law nor the General Municipal Law (both of which govern reserves) require additional Board Policies for the establishment of reserves. Nonetheless, the District acknowledges that additional Board Policies could be beneficial to the overall process of establishing and managing the District reserve funds.

All leave time of unionized District employees is governed by the bargaining agreements between the District and the Teacher Union and between the District and the Non-Instructional Employees' Union. Confidential employees have individual employment contracts with the District. The tracking and management of leave time is done using time cards, timesheets and sign out sheets, which are then entered into the Human Resources system. The District acknowledges the discrepancies found in the audit report, but would like to note that all employees leave time were given in accordance with their respective contracts. The discrepancies noted in the audit stem from paperwork errors in recording. The district will refine its processes of tracking and recording leave time and develop internal controls features which will include review of leave time accruals to safeguard against errors.

The District has a Conflict of Interest Policy which it strictly adheres to. Employees are required to disclose any possible conflicts and sign a Conflict of Interest declaration annually. Additionally, Board Members are also required to submit a Conflict of Interest declaration.

The District values the expertise of the Comptroller’s office and will continue to work with the Comptroller’s office in a joint effort to ensure the short and long term Fiscal Health of the District.

Sincerely

/ Danielle O’Connor
Superintendent of Schools

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 condition, cash receipts and disbursements, payroll, cafeteria operations, transportation and information technology. During our initial assessment, we interviewed appropriate District officials, performed limited tests of transactions, and reviewed pertinent documents such as District policies, 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 objectives and scope by selecting for audit those areas most at risk. We selected reserves, administrative and support staff leave time and conflicts of interest for further audit testing for the period July 1, 2012 through October 1, 2013. For reserves, we extended our review back through July 1, 2010.

To accomplish our objectives, we performed the following procedures:

For reserves:

- We interviewed District officials to gain an understanding of the processes and procedures over the District's financial management.
- We reviewed ST-3 reports submitted by the District to the Office of the State Comptroller to identify unexpended surplus funds, reserve funds, revenues and expenditures. We also compared the amounts reported to the District's audited financial statements, bank statements and general ledgers to verify reliability.
- We compared unexpended surplus funds to the ensuing year's appropriations to determine if the District was within the statutory limit.
- We reviewed Board minutes, resolutions and other documentation to determine that reserve funds were created, funded and expended properly; liabilities were properly recorded; and that transfers to the debt reserve were appropriate.

For leave time:

- We interviewed District officials to gain an understanding of the processes and procedures for recording and requesting leave time and documenting time worked.
- We reviewed contracts and collective bargaining agreements to identify any stipulations and financial impact relating to leave time.

- We selected 29 employees to compare time worked, leave time request sheets and leave time deductions.
- We reviewed user access controls and audit trail reports for the leave time function in the District's accounting software.

For conflicts of interest:

- We interviewed District officials regarding the process used to select an engineer and possible conflicts of interest.
- We reviewed the contract with the engineering firm.
- We scanned Board meeting minutes to determine the process used to select a firm, the rationale and if the Board President abstained from voting regarding the engineering firm he is employed by.

We conducted this performance audit in accordance with 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

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