



Skaneateles Central School District Records and Reports

Report of Examination

Period Covered:

July 1, 2013 – December 31, 2014

2015M-154



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2015

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 district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Skaneateles Central School District, entitled Records and Reports. 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 New York State 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 Skaneateles School District (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 District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

Scope and Objective

The objective of our audit was to examine the District's financial records and reports for the period July 1, 2013 through December 31, 2014. Our audit addressed the following related question:

- Were adequate records and reports maintained for the Board to appropriately manage the District's finances?

Audit Results

Our audit found numerous errors and unresolved discrepancies in the District's records, which resulted in inaccurate and misleading reports. Business Office staff did not consistently provide monthly bank reconciliation reports to the Board and did not reconcile the records to the bank statements for the first five months of the 2014-15 fiscal year. This occurred because certain revenues had not been recorded and cash balances were not current for most of the operating funds. The District's adjusted bank balance for all bank accounts as of December 31, 2014 – halfway into the fiscal year – exceeded the general ledger cash total by \$5.9 million, primarily because the previous year's ending cash balance was not carried forward and \$4.1 million in deposited receipts was not recorded.

The District also routinely relied on "reconciling items"¹ to adjust either the bank or book balance. This practice perpetuated errors that should have been identified and resolved. For example, as of December 2014, the accounts payable checking account was understated, and both the school lunch and general funds' interfund loan records were inaccurate due to an erroneous bank transfer that was not properly rectified.

¹ Reconciling items are transactions that have not yet been recorded by the bank (e.g., outstanding checks) and transactions processed by the bank but not yet recorded in the District's books (e.g., earned interest or fees). Reconciling items are legitimately used to temporarily adjust bank or book balances but should be removed once the transactions are realized and properly accounted for.

Our review of the accounting records also found unrecorded revenues and unexplained adjusting journal entries. For example, about \$4.1 million in receipts in the bank as of December 2014 had not been recorded as of March 2015. Further, three journal entries collectively increased the general ledger cash balance as of June 30, 2014 by nearly \$1.6 million, with no documentation to show proper authorization or the need for these adjustments. Because all cash receipts were not recorded at the time of collection and various journal entries did not have documented authorization, combined with insufficient bank reconciliations, there is an increased risk of errors and irregularities, and the Board does not have the reliable and up-to-date information it needs for monitoring and managing the District's finances.

Additionally, the District's monthly cash reports were not provided on a consistent monthly basis, did not specify the source of receipts and combined receipts and disbursements for some operating funds instead of showing them for individual funds. Further, the budget status reports that the Treasurer provided to the Board covered general fund expenditures but not revenues and did not include any other funds' activities (school lunch, special aid, capital projects). Therefore, the Board does not have enough information to know whether each fund may have exceeded its budget or received less revenues than expected. The lack of complete, accurate and timely financial reports impedes the Board's ability to carry out its fiscal oversight responsibility.

Finally, District officials did not ensure that interfund loans were repaid by the end of the fiscal year in which they were advanced. Reported interfund loans include a \$400,000 error that must be corrected to reflect the actual balance due from the debt service fund. Furthermore, the District did not maintain separate records for each capital project fund, and we determined that the general fund will need to transfer about \$204,000 to the capital projects fund to eliminate the uncollectible debt from four inactive capital projects. As a result of these deficiencies, the general fund is unlikely to receive about \$600,000 (29 percent) of its interfund loan receivables and has been denied the use of this available cash for operating purposes.

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 are initiating corrective action.

Introduction

Background

The Skaneateles Central School District (District) is located in the Towns of Sennett, Niles and Owasco in Cayuga County and the Towns of Skaneateles, Marcellus and Spafford in Onondaga County. The District is governed by the Board of Education (Board), which is composed of 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 and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. The Business Office is responsible for the accounting and bookkeeping functions, including preparing and providing periodic financial reports to the Superintendent and the Board. Its staff consists of a Business Manager, an Assistant Business Manager, a Treasurer, an accounts payable clerk and an account clerk.

There are four schools in operation within the District, with approximately 1,420 students and 250 employees. The District's budgeted expenditures for the 2014-15 fiscal year were approximately \$30 million, which were funded primarily with State aid and real property taxes.

Objective

The objective of our audit was to examine the District's financial records and reports. Our audit addressed the following related question:

- Were adequate records and reports maintained for the Board to appropriately manage the District's finances?

Scope and Methodology

We examined the District's financial records and reports for the period July 1, 2013 through December 31, 2014.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 are initiating 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.

Records and Reports

The Board is responsible for managing and overseeing the District's overall fiscal affairs and safeguarding its resources. The Business Office staff must maintain accurate accounting records and provide timely financial reports to the Board so it can effectively carry out its fiscal oversight responsibility. This financial information is necessary for District officials and the Board to develop budgets, monitor the District's fiscal affairs, effectively manage and safeguard cash and ensure the timely repayment of interfund loans.

Adequate records and reports were not maintained to enable the Board to appropriately manage the District's finances. The Treasurer did not provide the Board with accurately completed bank reconciliations, monthly cash reports, up-to-date quarterly budget status reports and balance sheets in a timely manner. The Business Office did not always record revenues in a timely manner, and we found significant errors in the District's bank reconciliations, in addition to unsupported journal entries and uncorrected errors that perpetuated discrepancies in the accounting system. Additionally, the District did not repay interfund loans by year end, and certain funds were unable to repay interfund loans. Without accurate financial records and reports, the Board's ability to oversee the District's finances is diminished.

Bank Reconciliations

A reconciliation system is essential for maintaining control over cash. District officials should ensure that monthly bank statement balances are reconciled with the accounting records to help verify that all cash receipt and disbursement transactions are captured and properly recorded. Bank reconciliations show and explain the differences between the bank's records of cash accounts and the District's accounting records. Any differences found during the reconciliation process must be promptly documented and resolved to ensure that financial activities are accounted for in a timely manner. The Board should review bank reconciliations to monitor the District's cash position.

The Treasurer, along with the Assistant Business Manager, prepares a bank reconciliation report² that compares adjusted bank balances to the general ledger. The Board reviews and approves this report, when provided, during its monthly meetings. However, the reconciliation

² The Treasurer and Assistant Business Manager complete individual bank reconciliations for each bank account, which are then combined and provided to the Board as the bank reconciliation report. The bank reconciliation report shows beginning bank balance, current month bank activity, ending bank balance, outstanding items in total and the resultant adjusted bank balance, followed by the general ledger balance.

reports were not provided to the Board in a timely manner, and some of them were inaccurate and had either incorrect or unsupported reconciling items. For example, the Treasurer provided reports for December 2012 through March 2013 at the July 2013 Board meetings³ and for April through June 2013 at the August 2013 meeting. As of December 2014, the last bank reconciliation report was for June 2014 activity, provided at the September 2014 Board meeting. No reports were provided to the Board for July through November 2014, the first five months of the 2014-15 fiscal year. The Assistant Business Manager told us she and the Treasurer were unable to reconcile those months because not all transactions were recorded, such as bank interest, bank account transfers and other revenues, and because she had not rolled forward the previous year's ending cash balances in the general ledger to the current year for all funds. At the time of our audit, the cash balances were rolled forward for the general fund cash accounts but not for any of the other funds (trust and agency, special aid, debt service, capital projects, school lunch and expendable trust).

We examined the Treasurer's June 30, 2014 bank reconciliation report and found that the adjusted bank balances on the report did not agree with the District's general ledger cash balances. The report showed a general ledger cash balance of \$4,467,043, which was \$242,057 less than the District's actual general ledger balance of \$4,709,100. The Assistant Business Manager told us that, because she could not reconcile certain bank accounts to the general ledger accounts, she entered the adjusted bank balance amount as the general ledger cash balance on the bank reconciliation report to make the balances agree and to provide the Board with a completed bank reconciliation report. The practice of artificially reconciling these balances defeats the purpose of a reconciliation report and results in misleading information; instead, District personnel should identify the causes of the discrepancies and take corrective action.

We also compared the District's adjusted bank balance for all bank accounts to the total of the District's general ledger cash accounts as of December 31, 2014. The adjusted bank balance totaled approximately \$18.4 million,⁴ while the District's cash according to the general ledger totaled \$12.5 million, a difference of \$5.9 million. This occurred, in part, because \$1.6 million of the District's beginning cash balance was not carried forward in the accounting system, even though the District was six months into its fiscal year. The Assistant Business Manager also told us that not all revenues had been recorded in the accounting system, including about \$4.1

³ There were two Board meetings in July 2013.

⁴ We calculated the December 31, 2014 adjusted bank balances by adjusting the ending bank statements balances for outstanding checks. We found no pending deposits in transit for this period.

million in receipts that were received in the bank but not recorded in the general ledger. For example, \$3,112,028 in proceeds from bond anticipation notes and \$966,932 in aid revenues were in the bank as of December 2014, but were not recorded as of March 2015. Even after accounting for these items, there was a \$165,563 unexplained difference (the adjusted bank balance was higher than the adjusted general ledger cash balance).

A bank reconciliation accounts for any “reconciling items,” which are transactions that have not yet been recorded by the bank (e.g., outstanding checks) and transactions processed by the bank but not yet recorded in the District’s books (e.g., earned interest or fees). We observed numerous reconciling items on the individual bank account reconciliations. For example, the June 2014 trust account bank reconciliation had 31 reconciling items that were used to adjust either the bank balance or the book balance. In addition to outstanding checks, we saw reconciling items on various bank reconciliations with vague descriptions such as “error” and others with no description. Further, reconciling items were carried forward on the bank reconciliations for several months because Business Office staff did not take timely action to correct identified errors, or errors were corrected but the reconciling items were not removed, perpetuating inaccuracies in the records. For example:

- Two reconciling items totaling \$310,000 were included on the June and December 2014 bank reconciliations of the accounts payable checking account, which reduced the adjusted bank balance. The Assistant Business Manager did not provide evidence that these were valid reconciling items and told us that more cash was inadvertently transferred from the general fund to the accounts payable checking bank account than was recorded in the general ledger. Without documentation, we were unable to verify this, but such a scenario would require a reconciling item to make the adjusted bank account balance equal the cash recorded in the general ledger. Instead of correcting this error by transferring the extra cash back to the general fund bank account, however, the Assistant Business Manager continued to account for the excess amount as a reconciling item on the bank reconciliations for over one year.⁵ In such an instance, the same reconciling amount should have been reflected in the general fund bank account as an increase to its bank statement cash. However, we found no such reconciling item for the same amounts on any of the general fund bank account reconciliations in June or December 2014.

⁵ There were two reconciling items (\$300,000 and \$10,000). The Assistant Business Manager told us that the \$300,000 error was made in October 2013 and was not sure when the \$10,000 error occurred.

- A reconciling item of \$39,171 was included on the June and December 2014 reconciliation reports for the accounts payable checking account, which increased the adjusted bank balance. The Assistant Business Manager told us this reconciling item related to a supplemental payroll from December 2012 and involved money for employee investment accounts that was accidentally transferred to the payroll checking account instead of to the accounts payable checking account. Therefore, this reconciling item was initially necessary to make the adjusted bank account balance equal the cash recorded in the general ledger. The Assistant Business Manager showed us a bank transfer made on September 12, 2013 showing that \$39,171 was withdrawn from the payroll checking account and transferred to the accounts payable checking account to correct the error; however, the \$39,171 remained as a reconciling item on the June and December 2014 reconciliations, causing the adjusted bank account balance (accounts payable) to be overstated.
- An \$18,983 reconciling item was listed on the June 2014 reconciliation for the school lunch savings bank account.⁶ This reconciling item may have been necessary; however, it stems from a bank transfer error made a year earlier. The District made an \$18,983 bank transfer to the school lunch fund on June 24, 2013 but erroneously transferred it from the general fund bank account instead of from the lockbox bank account.⁷ This would have no effect on the school lunch bank account reconciliation, since it received cash in the same amount as was recorded, but would cause a discrepancy in the general fund bank reconciliation. To correct this error, the District made a journal entry at June 30, 2013 to record the funds advanced to the school lunch fund from the general fund, showing that it should be returned. This entry included an \$18,983 increase to school lunch cash on the general ledger, even though no additional cash was deposited. Additionally, it caused an inaccurate receivable in the general fund and an inaccurate payable in the school lunch fund. On July 1, 2013, Business Office personnel transferred the \$18,983 from the lockbox bank account to the general fund bank account, which would have corrected the initial discrepancy in the general fund reconciliation, but did not make a corresponding

⁶ District officials had not completed a December 2014 bank reconciliation for the school lunch savings account at the time of our audit testing.

⁷ The District uses one bank account to receive State aid payments, referred to as its lockbox bank account. When funds are deposited in the lockbox bank account, no accounting entry is immediately made. When the District transfers funds to an operating fund bank account, the revenue is recorded in that account.

accounting entry to reverse the June 30, 2013 journal entry. As a result, the general ledger had incorrect cash balances for both the general and school lunch funds, in addition to the inaccurate general fund receivable and school lunch fund payable. Furthermore, apparent attempts to correct general ledger cash balances did not correct the error. An entry on June 30, 2014 “to correct cash postings” included an \$18,983 increase to the general fund cash account; however, there was no corresponding entry for the school lunch fund cash account or to the interfund receivable and payable in both funds. These ongoing errors compounded a relatively minor initial error that remained uncorrected more than a year later.

Without accurate bank reconciliations completed on a monthly basis, District officials do not have assurance that the accounting records are correct or that moneys are accounted for properly. In addition, the Board lacks the necessary information to monitor the District’s cash position and make informed financial decisions.

Records

It is essential that complete and accurate accounting records are maintained to properly account for and report the District’s financial condition and activities. Without adequate accounting records, it is difficult for the Superintendent and the Board to evaluate the District’s financial activities, and the District’s true financial condition may be obscured. Our review of the accounting records found unrecorded revenues and unexplained adjusting journal entries.

We examined receipts and disbursements⁸ for the month of December 2014 to determine whether the detailed accounting records were accurate. The disbursements were properly recorded; however, \$743 in school lunch receipts and \$204 in agency fund receipts was deposited in the bank but not recorded in the accounting records. The Treasurer told us she routinely has a reconciling item on the school lunch bank reconciliation because certain online payments received by the District are not included on the school lunch revenue reports received from the school lunch manager. On the most recently completed bank reconciliation (June 30, 2014), the Treasurer included a reconciling item of \$5,847, representing cumulative unrecorded school lunch receipts. Further, eight general fund receipts totaling \$13,944 were received December 5, 2014 but not deposited in the bank until a month later, on January 7, 2015. When all cash receipts are not recorded at the time of collection and bank deposits are not made in a timely manner, there is an increased risk that money could be lost or stolen.

⁸ See Appendix B for our audit methodology.

We also examined five journal entries that adjusted cash by a total of \$1,834,047 on June 30, 2014. Two entries totaling \$269,437 were for routine payroll transactions which appeared reasonable. The Assistant Business Manager told us the other three entries were related to an accounts receivable software problem. She told us that the District began using the accounts receivable module during the 2013-14 fiscal year, but it caused account errors because it was installed incorrectly, and that District employees did not receive training for it. However, the Assistant Business Manager did not provide sufficient evidence or examples of the errors caused, so we could not determine the effect on the records.

The three journal entries included both increases and decreases to various cash accounts with the following descriptions: “Book transfers to TA for insurances,” “To correct cash postings” and “To book AR.Health.Dental adjustment per reconciliation.” Collectively, these entries increased overall cash on the books by \$1,564,610 and adjusted other accounts including agency liabilities, interfund loans and accounts receivable. The Assistant Business Manager provided a list of some account activity but no explanation of why these journal entries were required. In addition, we found no documented supervisory approval of the journal entries by the Business Manager. Therefore, District officials cannot be sure that the transactions are valid. Also, without documented authorization of journal entries, there is an increased risk that errors or irregularities could occur without being detected and corrected.

Interim Reports

The Treasurer must prepare and provide timely financial reports to the Board for carrying out its fiscal oversight responsibility. These include monthly cash reports and quarterly⁹ budget status reports for each fund, in addition to monthly bank reconciliation reports. Monthly cash reports must include the following for each fund: cash balance at the beginning of the month, receipts by source during the month, total disbursements during the month, cash on hand at the end of the month and reconciliation with bank statements. Budget status reports should show the original budget, any authorized amendments, actual transactions to date¹⁰ (revenues, expenditures and encumbrances listed by account code) and the variances between the amended budget and actual revenues and expenditures. Balance sheets, although not required, are a useful tool to provide the Board with information about assets and liabilities in each fund, such as receivables and payables. Board members should review these interim financial reports to monitor the District’s financial activities.

⁹ Budget status reports are required quarterly but should be prepared more frequently (monthly) if budget transfers have been made since the last report.

¹⁰ Since capital projects generally span more than one year, budget status reports are typically based on project-to-date activity.

The District's cash report is essentially a summary of the bank reconciliation and does not identify the source of the receipts during the month. Further, it shows the same adjusted bank balance figures as the bank reconciliation report, which, given the numerous errors in the bank reconciliations, makes the cash report inaccurate. It also combines many receipts and disbursements for the general, special aid, agency and school lunch funds instead of showing those amounts by fund. Finally, the Treasurer does not provide this report to the Board on a consistent, monthly basis but at the same intervals as the bank reconciliation reports.

Additionally, the Treasurer provides the Board with budget status reports for general fund expenditures but not for general fund revenues or for any other funds' activities (school lunch, special aid or capital projects). Without these reports, the Board does not have adequate information to determine whether expenditures are within budgeted amounts or whether any revenues are less than expected. Furthermore, because not all revenues are recorded in a timely manner, the budget status reports for revenues will not be up to date.

Although the Board received audited financial statements annually, it did not receive interim balance sheets for monitoring the District's assets and liabilities, such as interfund loan balances. The lack of complete, accurate and timely financial reports impedes the Board's ability to carry out its fiscal oversight responsibility.

Interfund Loans

School districts' accounting systems are organized and operated on a fund basis. Each fund is defined as a fiscal and accounting entity which has been segregated for the purpose of carrying on specific activities (e.g., general, special revenue, capital projects, debt service, school lunch, agency and trust). Districts may temporarily advance (loan) moneys from one fund to another. Interfund loans are intended to address temporary cash flow needs of operating funds and are, in effect, short-term borrowing arrangements which should not be routinely relied on to finance operations. Repayment of the borrowed cash should be made as soon as money is available but no later than the close of the fiscal year in which the loan was made. School districts should consider each fund's ability to repay such interfund loans. If a fund is not able to repay, the amount that is not expected to be repaid should be reported as a transfer¹¹ from the loaning fund to the receiving fund, eliminating the loan.

District officials have no process in place to routinely evaluate interfund loans and repay the loans as soon as money becomes available. The District does not repay interfund loans by year end, and

¹¹ Districts must ensure sufficient appropriations are available before making interfund transfer expenditures.

in some cases, certain funds are unable to repay interfund loans. We also found a \$400,000 error in the interfund loan between the general and debt service funds. As a result, the general fund is unlikely to recover about \$600,000 in loans receivable. As of June 30, 2014, the District reported the following net¹² interfund loan balances:

Table 1: Net Interfund Loans as of June 30, 2014		
Fund	Net Interfund Loan Receivable	Net Interfund Loan Payable
General ^a	\$2,108,639	
Trust and Agency	\$137,345	
Special Aid		\$1,059,968
Debt Service		\$649,884
Capital Project		\$400,786
School Lunch ^a		\$132,283
Expendable Trust ^b		\$3,063
Totals	\$2,245,984	\$2,245,984
^a \$18,983 of the reported interfund loan between the school lunch fund and the general fund is inaccurate (erroneously recorded as a receivable in the general fund and a payable in the school lunch fund). ^b This fund has sufficient cash on hand to repay its loan.		

The special aid and debt service funds have sufficient balances for repaying their interfund loans, and the capital project fund can eliminate the uncollectible portion of its loan with a transfer of funds from the general fund. The school lunch fund, however, will need to receive transfers from the general fund on a regular basis over several years to eliminate its loan while maintaining enough cash for operations.

Special Aid Fund – The District’s accounting records show \$719,979 cash as of June 30, 2014. Therefore, the District had funds available to repay a significant portion of its interfund loan. In addition, the accounting records reflect a \$339,989 receivable from other governments.¹³ When this additional money comes in, the special aid fund will have sufficient cash to repay the general fund.

Debt Service Fund – The District’s accounting records show a deficit fund balance of \$158,548 with \$491,336 in cash as of June 30, 2014. We determined that the reported deficit was the result of an accounting error made in the 2012-13 fiscal year, which has not yet been corrected. The Assistant Business Manager told us she inadvertently recorded a \$400,000 transfer from the debt service fund to the general fund. When the Treasurer records interfund transfers, cash is not always immediately moved between bank accounts. Therefore, an interfund loan was established to account for the amount due to the general fund. Because of this error, the general fund’s loan receivable and the

¹² Most funds had both an interfund loan receivable and an interfund loan payable.

¹³ Special aid funds typically receive grants to fund certain programs; however, districts may have program expenditures before they receive the grant money. The District’s general fund advanced money to cover these expenditures.

debt service fund's loan payable should both be lower by that amount, and the debt service fund has sufficient cash on hand to repay the remaining balance due. When the accounting error is corrected,¹⁴ it will result in a \$400,000 reduction to the general fund balance. The debt service fund balance will increase by that amount and will no longer be in a deficit position.

Capital Project Fund – At fiscal year ending June 30, 2014, the accounting records show a fund balance deficit of \$1,079,754 with \$1,763 in cash. Capital project fund balance deficits can occur when projects span multiple years and the revenues are received after the expenditures are made, and the general fund will sometimes advance money until revenues are received. However, when projects are complete, any residual balances (either deficits or surpluses) should be properly disposed of. Therefore, the District must keep separate accounting records for each project.

The Treasurer does not maintain complete individual capital project records,¹⁵ but the 2014 audited financial statements show the ending fund balance of each project. According to the Assistant Business Manager, four of the projects with deficit fund balances totaling \$204,020 are no longer active and will not have any additional revenues or expenditures. Based on our review of available information, \$204,020 of the \$400,786 net interfund loan payable in the capital projects fund relates to these projects. Since these projects are in a deficit position and cannot repay the loan, the District will likely need to transfer \$204,020 from the general fund to the capital projects fund in order to eliminate the uncollectible portion of the loan.

School Lunch Fund – At June 30, 2014, the District reported a \$132,283 interfund loan payable, which we found to be overstated by \$18,983,¹⁶ leaving a balance due of \$113,300. The accounting records show a deficit fund balance of \$81,517 with \$26,660 in cash, and we found cash was overstated by \$18,983, leaving \$7,677 in cash. Interfund loans were necessary because the school lunch fund had operating deficits each of the past three years (\$11,411 in 2011-12, \$32,849 in 2012-13 and \$47,603 in 2013-14). As a result of its weak financial position, the school lunch fund did not have sufficient cash available to repay \$105,623¹⁷ of the adjusted interfund loan amount that was outstanding at the close of the 2013-14 fiscal

¹⁴ This correction should be reported as a prior-period adjustment to reverse the unintended interfund transfer.

¹⁵ The District has separate revenue and expenditure account codes for each project but does not keep track of capital project fund assets and liabilities on an individual project basis (cash, interfund loans receivable, accounts payable, interfund loans payable and bond anticipation notes, or BANs, payable).

¹⁶ As described in the section entitled Bank Reconciliations

¹⁷ Interfund payable of \$113,300 less \$7,677 cash available for repayment

year. The District's 2014-15 general fund budget includes a \$75,000 interfund transfer which the Assistant Business Manager told us is a transfer to the school lunch fund. However, this amount will not be sufficient to repay the entire interfund loan, and if the fund incurs continued operating deficits, much of the transfer will be needed to finance 2014-15 school lunch fund operations. The Assistant Business Manager told us the District intends to make similar transfers from the general fund to the school lunch fund in future years, which will help eliminate the remaining interfund loan over time.

Because of the issues identified among these operating funds, the general fund is unlikely to receive about \$600,000 (29 percent) of its interfund loan receivable.¹⁸ The Assistant Business Manager told us she did not update (repay) the interfund loans for the 2013-14 year or the prior year due to a lack of time. Therefore, the general fund was unable to use available cash for operating purposes. In addition, if outstanding interfund loans remain uncollectible, the general fund's financial position could potentially be weakened.

Recommendations

The Board should:

1. Ensure that it receives monthly bank reconciliation reports and monthly/quarterly financial reports and use these reports to monitor the District's financial activity and identify any problems that need to be addressed.
2. Ensure that Business Office personnel are adequately trained to use the District's financial accounting system.

The Business Manager, Assistant Business Manager, Treasurer or appropriate Business Office designee should:

3. Reconcile all bank account cash balances to general ledger cash account balances on a monthly basis and promptly investigate and resolve any discrepancies.
4. Discontinue carrying cumulative reconciling items for unrecorded transactions, and work with the school lunch manager to ensure all receipts are captured on the revenue reports so they can be properly entered into the accounting records.
5. Ensure all revenues are recorded when they are received and are promptly deposited.

¹⁸ The general fund ended the 2013-14 fiscal year with an unassigned fund balance of approximately \$1.1 million.

6. Ensure that journal entries have supporting descriptions and documentation to clearly state the purpose of any adjustments.
7. Make the necessary correcting entries to resolve the interfund loan accounting error between the general and debt service funds.
8. Maintain separate accounting records for each individual capital project.
9. Transfer funds from the general fund to the capital project fund to reduce the portion of the interfund loan that is unlikely to be repaid.
10. Develop a process to routinely evaluate and repay interfund loans when money becomes available or by fiscal year-end.

The Treasurer should:

11. Prepare and submit the required monthly and quarterly financial reports (including bank reconciliations, cash reports and complete budget status reports for all funds) to the Board.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Skaneateles Central School District

Nationally Recognized For Excellence

55 East Street

Skaneateles, New York 13152

Kenneth G. Slentz
Superintendent of Schools
(315) 291-2221

Douglas Tomandl
*Assistant Superintendent of
Business and Finance*
(315) 291-2221
Fax (315) 685-0347

October 7, 2015

This is a response to the draft audit report conducted by the New York State Comptroller's Office for the Skaneateles Central School District. The period covered by the examination report is July 1, 2013 – December 31, 2014.

On behalf of the school board and community, we would like to thank the staff at the New York State Comptroller's Office for taking the time to review, analyze and suggest ways to improve our financial operations in the district. Prior to the New York State Comptroller coming to the district, the District had identified the majority of the issues cited and reported these issues to the Board in the fall of 2014. Since that time, we have already rectified some issues such as reconciling cash to our general ledger, via inputting beginning balances and cash receipts which nullified the \$5.9M discrepancy, and have plans in place to rectify the remaining issues. These plans are noted below and will be addressed in detail in the upcoming corrective action. We are constantly looking at ways to develop and improve our practices and will use this Draft Report as a tool to improve.

The district is in general agreement with the findings included in the Draft Report, and we are pleased to see that there is no evidence of fraud or deliberate wrongdoing. We will continue to work to implement procedures that align with Commissioner's Regulations and the policies set by the Board of Education that will be detailed in our Corrective Action Plan.

Bank Reconciliations/Treasurer's Reports:

During the period of time this Draft Report focuses on, there was a tremendous amount of turnover in the central office administration and staff as well as with our fiscal procedures. The Superintendent, Business Official, Director of Pupil Personnel Services, Treasurer, Deputy Treasurer, Payroll Clerk, Secretary to the Superintendent, and District Clerk were all positions of changeover during the time period noted. The district also changed banks due to policy changes of existing banks, changed external audit firms at the conclusion of the 2013-2014 school year, and began implementation of additional components of our financial software package. The time needed for adjustment in each of these cases played a significant role in the failure to provide reports in a timely fashion to the Board of Education. To date, the Board of Education has received all bank reconciliations and reports through May 31, 2015 and additional reports and bank reconciliations will be provided at the October 20, 2015 Board of Education meeting that will bring them current through August 31, 2015. The district is fully prepared to be 100% current by November 2015 and to maintain these practices with new staffing alignment, a more fully integrated software solution, and an improved system of internal checks and balances.

Skaneateles High School
Gregory Santoro
(315) 291-2231

Skaneateles Middle School
Gary Gerst
(315) 291-2241

State Street Intermediate School
Stephen R. Widrick
(315) 291-2261

Belle H. Waterman Primary School
Stephen R. Widrick
(315) 291-2351

Records:

The accounting records in the district were completed and accurate; however, we agree that sometimes items were not recorded in a timely fashion, due again to the amount of changes taking place in the central office. For instance, some deposits would be recorded prior to actually being taken to the bank and vice versa. We acknowledge that this should be done in a more timely fashion.

Journal entries are done to correct accounting mistakes. When correcting entries were done, the original journal entries that were approved with original documentation were provided to the examiner. While the District believes that the original entries are the supporting documentation for the correcting entries thereby serving as the backup records for the adjustment, we will be mindful of the examiner's comments and review them with our external auditor to see if there are ways in which we can improve our practices

Interfund Loans:

School districts from time-to-time will borrow between funds for short-term needs. We agree that these loans should be repaid to the correct funds and district officials are working with the Board of Education to repay the interfund loan to the Debt Service Fund from General Fund. The Board of Education is well aware of the operating deficit in the School Lunch Fund as has planned to support the School Lunch Fund with an interfund transfer on an annual basis until the School Lunch Fund can become self-sufficient. Regarding capital projects, the district is currently taking steps to maintain individual records for each project to ensure proper accounting.

Treasurer's Operations:

The board and administration have the utmost respect for and confidence in the treasurer and her integrity. We understand that stronger internal controls and safeguards need to be developed and our policies, new staffing alignment, and improved software utilization (which includes improved training and technical support) will foster this. A number of changes have already been implemented with the assistance of the Regional Information Center technical assistance staff (at Onondaga-Cortland-Madison BOCES) and the new external auditors. We have taken additional steps in improving the structure and operations in the central office and have already seen improvement in our efficiency as proven by the reports and records that have been provided to the board since the conclusion of the field work that took place to prepare this Draft Report. While it is our belief that the majority of all findings in this report were due to the significant changes experienced in the office, we are confident that steps we will outline in our corrective action plan will bring any concerns with operations to a close.

On behalf of the Board of Education, we remain
Sincerely yours,

(Kenneth G. Slentz
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the District's financial records and reports for the period July 1, 2013 through December 31, 2014. To accomplish our audit objective and obtain valid audit evidence, our procedures included the following steps:

- We interviewed and observed appropriate District officials and employees to learn about the procedures to create records and produce reports.
- We compared the June 2014 balance sheet reports to the June 2014 bank reconciliation report approved by the Board and noted any differences.
- We compared the cash reported on the balance sheet reports to the adjusted bank balances (adjusted for outstanding checks and deposits in transit) as of December 31, 2014.
- We judgmentally selected 15 reconciling items listed on the June or December 2014 bank reconciliations. We selected bank accounts that had a large number of reconciling items and selected our sample to include a variety of descriptions. We made inquiries and reviewed related documentation to determine whether they were legitimate reconciling items.
- We traced one month (December 2014) of cash receipts totaling \$85,766 from the manual receipts log to the bank deposits, general ledger cash account and subsidiary accounts. We traced the remaining deposits from the bank statement to the financial records to verify they were recorded (all deposits for the month totaled \$464,683). For the same month, we also traced credits to cash in the accounting system totaling \$5,354,744 to the supporting payrolls, approved warrants and journal entries to determine if the transactions were approved. We selected our sample month because the expected number of errors would likely be typical of any other month.
- We reviewed five adjusting journal entries dated June 30, 2014, the end of the 2013-14 fiscal year. We asked District officials to provide explanations and documentation to determine whether they were appropriate. We judgmentally selected these journal entries to review year-end adjustments to cash and selected our sample to include significant dollar amounts.
- We reviewed Board meeting minutes and related Board packets to determine how frequently the Treasurer provided financial reports to the Board.
- We reviewed the June 30, 2014 interfund loan balances, interviewed District officials and reviewed financial reports to determine whether the funds could repay the loans.
- We reviewed the June 30, 2014 annual financial reports and interviewed District officials to determine whether the District maintained individual capital project records for each project.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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