



Raquette Lake Union Free School District Monitoring Financial Condition

Report of Examination

Period Covered:

July 1, 2012 – February 29, 2016

2016M-203



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	3
Comments of District Officials and Corrective Action	3
MONITORING FINANCIAL CONDITION	4
Recommendations	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2016

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 Raquette Lake Union Free School District, entitled Monitoring Financial Condition. 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*

Introduction

Background

The Raquette Lake Union Free School District (District) is located in the Towns of Arietta and Long Lake in Hamilton County. The District is governed by the Board of Education (Board), which is composed of five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the Board's direction. The District Clerk (Clerk) served as the bookkeeper and was responsible for maintaining financial records for the District. Effective January 1, 2016, the District signed a cross-contract¹ with Otsego-Northern Catskill Board of Cooperative Educational Services for shared business office services which include bookkeeping.

The District operates no schools but maintains one building as a community center with meeting space, a gymnasium, a fitness room, a playground and an athletic field. The District has four employees, and two students for whom it pays tuition to attend a neighboring school district. Its budgeted appropriations for the 2015-16 fiscal year are \$261,308 which are funded primarily with real property taxes.

During the 2004-05 fiscal year, due to a declining number of students, the District hired an attorney to research reorganization options for the District, including consolidating the District with a neighboring district or paying tuition for its students to attend a neighboring district. The attorney returned an opinion in January 2005 that the best course of action for students and District taxpayers would be to pay tuition for students to attend a neighboring district rather than to consolidate with a neighboring district. As a result, the District closed its school but retained the building to be used as District offices. The District has not performed a consolidation study since the 2004-05 fiscal year. Given that the District has only two students and does not operate any schools, it may be time to look into consolidation again.

Objective

The objective of our audit was to determine if District officials monitored the District's financial condition. Our audit addressed the following related question:

- Did the Board ensure that adequate accounting records and reports were maintained to allow the Board to effectively monitor the District's financial operations?

¹ As part of the District's Cooperative Services Agreement with the Franklin-Essex-Hamilton Board of Cooperative Educational Services

**Scope and
Methodology**

We examined the financial records and reports and analyzed the financial condition of the District for the period July 1, 2012 through February 29, 2016.

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 findings and recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State 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.

Monitoring Financial Condition

The Board is responsible for managing and overseeing the District's overall fiscal affairs and safeguarding its resources. To meet this responsibility, District officials must ensure that complete and accurate accounting records are maintained and timely financial reports are provided to the Board so it can effectively carry out its fiscal oversight responsibility. The District Treasurer (Treasurer) is the custodian of District money and is responsible for preparing periodic budget status reports including the original budget, any authorized amendments, actual transactions to date (revenues and expenditures by account code) and the variances between the amended budget and actual revenues and expenditures. The Clerk, acting as the bookkeeper, was responsible for maintaining financial records for the District. Additionally, school districts are legally allowed to establish reserves and accumulate funds for certain future purposes (for example, capital projects or retirement expenditures).

The Board did not ensure that adequate accounting records and reports were maintained and did not effectively monitor the District's financial operations. The Clerk did not maintain accurate and complete accounting records and the Treasurer did not provide the Board with adequate periodic reports. Furthermore, we recalculated the District's assets, liabilities and fund balance and found unrestricted fund balance deficits for the 2013-14 and 2014-15 fiscal years and budgetary deficits for the 2013-14, 2014-15 and 2015-16 fiscal years. Additionally, the District incurred a cash flow shortage that precluded employees from cashing their paychecks from July 2013 to September 2013. In 2014, the District liquidated two certificates of deposit containing reserve funds and transferred those moneys to the general fund checking account. If the District had not made these transfers, the District would have also experienced cash flow shortages in 2014 and 2015.

Records and Reports – The Clerk did not maintain accurate and complete accounting records and the Board did not receive adequate periodic reports. While the Board received monthly Treasurer's reports that included the month's beginning reconciled bank balances, receipts and disbursements for the month and the reconciled ending bank balances, the reports were not adequate because they did not include monthly budget status reports. As a result, the Board was unable to adequately monitor the amount of revenues received to date or the amount expended from each appropriation to date.

The Clerk used a computerized accounting system to maintain the District's accounting records and was responsible for preparing and filing the annual financial report (ST-3) to the New York State Education Department; however, these records were not accurate. In addition, the Treasurer received and reconciled the monthly bank statements, maintained a manual check register and prepared the monthly Treasurer's report for the Board based on his check register. We reviewed the accounting records and annual financial reports for the 2012-13, 2013-14, and 2014-15 fiscal years and for the period July 1, 2015 through February 29, 2016 and found that revenues, expenditures and balance sheet accounts reported on the financial report did not agree with the accounting records during the period reviewed. For example, the District reported \$77,471 of cash balances in reserves on the 2014-15 financial report, but according to the accounting records, the District had \$150,725 of cash in reserves. Furthermore, while the Treasurer's check register was accurate and complete, this record does not provide an adequate accounting of revenues and expenditures or assets, liabilities and fund balance.

We used source documents to recalculate assets, liabilities and fund balance as of June 30, 2013, 2014 and 2015 and found that the balances did not agree with either the financial report or the accounting records for any of the three years. For example, the Clerk's accounting system showed that the District had assets totaling \$19,580, liabilities totaling \$189 and \$19,391 of fund balance as of June 30, 2015, but the District actually had assets totaling \$96,909, liabilities totaling \$11,973 and \$84,937 of fund balance. Assets were understated because the District did not accurately record cash held for special reserves, and liabilities were understated because the Clerk did not accurately record accounts payable and amounts due to the New York State Employees' Retirement System and the New York State Teachers' Retirement System. The Board President and Treasurer told us they were aware that balance sheet accounts in the accounting system had been inaccurate for many years. However, District officials did not identify the causes of these discrepancies or correct them.

We also recalculated revenues based on the Treasurer's cash receipts journal and traced 20 selected expenditures² to source documents to determine if they were recorded accurately. We found revenues were not accurately recorded in the accounting records or reported in the annual financial reports for 2012-13, 2013-14 or 2014-15. For example, according to the accounting system, the District had revenues totaling \$206,978 in the 2014-15 fiscal year, but we calculated revenues totaling \$197,016. These discrepancies were caused by the

² We judgmentally selected our test sample to include disbursements with varying purposes (claims and payroll) and amounts that were paid throughout our audit period.

Clerk inaccurately recording revenues. For example, in 2014-15 the Treasurer received and deposited \$1,920 of revenues from refunds of prior-year expenditures but the Clerk recorded \$248 for this revenue. Expenditures recorded in the accounting system agreed with source documents – such as canceled check images, claims and payroll registers – but did not agree with the annual financial report.

The lack of accurate accounting records precludes the preparation of meaningful reports for the Board’s use. Without adequate financial reports it is difficult for the Board to evaluate the District’s financial activities, and the District’s true financial condition may be obscured.

Fund Balance – The true financial condition of the District was not evident to the Board due to the lack of accurate accounting records and adequate monthly reports. We interviewed the Board President and Treasurer to determine how the annual budget was prepared and monitored. The President indicated that the Board relied on the Clerk to prepare the tentative budget which the Board used to develop the adopted budget presented to District voters in May each year. The President and Treasurer also stated that the amount of fund balance appropriated to finance operations was determined to ensure that the tax levy complied with the tax cap³ even though District officials could not confirm that enough fund balance was available to appropriate. According to the President, the Board was aware that the computerized accounting records maintained by the Clerk were not accurate and therefore used the Treasurer’s monthly reports to monitor the District’s financial condition. However, because these reports did not contain budget detail, they did not provide the Board with an adequate means of monitoring the District’s budgets.

The Board appropriated more fund balance than was available in each of the last three fiscal years. The Board’s resolutions adopting and authorizing the annual tax warrants indicated that, at the end of 2012-13, 2013-14 and 2014-15, respectively, the District had \$90,883, \$41,596 and \$29,316 of unrestricted funds available to appropriate to fund the ensuing year’s appropriations. However, as of June 30, 2013, the District actually had \$14,805 of unrestricted fund balance to appropriate for the ensuing year and, further, had unrestricted fund balance deficits as of June 30, 2014 and June 30, 2015. As a result, the District had budgetary deficits in the last three fiscal years, as shown in Figure 1.

³ In 2011, the State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap. Under this legislation, the property tax levied annually generally cannot increase by more than 2 percent, or the rate of inflation, whichever is lower, with some exceptions. School districts may override the tax levy limit by presenting to voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60 percent of the votes cast.

Figure 1: Fund Balance

	June 30, 2013	June 30, 2014	June 30, 2015
Total Fund Balance at Year-End	\$104,318	\$80,608	\$84,937
Less: Restricted Fund Balance	\$89,513	\$93,532	\$140,147
Actual Unrestricted Fund Balance	\$14,805	(\$12,924)	(\$55,210)
Less: Budgeted Fund Balance Appropriation for Ensuing Year	\$80,688	\$31,322	\$18,864
Budgetary Deficit for Ensuing Year ^a	(\$65,883)	(\$31,322)	(\$18,864)
^a The budgetary deficit represents the amount of fund balance that the Board budgeted to appropriate but which was not available to appropriate.			

While the District incurred operating deficits in 2012-13 and 2013-14, they were smaller than planned (approximately \$16,000 in 2012-13 and \$24,000 in 2013-14) because the District expended less than it appropriated and, in 2014-15, realized a small operating surplus. The cumulative operating deficit caused the District's total fund balance to decline from \$104,318 as of June 30, 2013 to \$84,937 as of June 30, 2015.

Furthermore, because the Board did not monitor the District's financial condition, the District incurred a cash flow shortage in July 2013 and did not have enough cash for payroll and payment of claims. As a result, District employees voluntarily went without pay and did not cash their paychecks dated July 15, July 31, August 15 and August 31, 2013 until September 2013 when enough real property tax revenue was collected and deposited in District bank accounts to cover the paychecks. Nine checks totaling \$9,309 went uncashed during this 10-week period.

Reserves – The District had four reserve funds⁴ during our audit period: the capital reserve, the excess tax levy reserve, the employee benefit accrued liability reserve (EBALR) and the repair reserve. The District's financial condition was further obscured when, in March 2014, the District liquidated a certificate of deposit that contained \$30,748 and \$31,927 of EBALR and repair reserve funds, respectively, and transferred those moneys to the general fund. The transfer was not Board-approved and is not authorized by General Municipal Law (GML). With certain restrictions, GML allows for the transfer of unexpended or unnecessary EBALR and repair reserve fund balances to other authorized reserve funds, but there is no provision to eliminate the EBALR or repair reserve and transfer the funds to the general fund. Additionally, during the 2012-13 through 2015-16 fiscal years, school districts were allowed to withdraw from

⁴ School districts may establish reserves to finance a variety of objects or purposes but must do so in compliance with statutory requirements.

the EBALR an amount not to exceed the lesser of the dollar value of excess funding in the reserve fund as determined by the Office of the State Comptroller or the amount of the school district's remaining gap elimination adjustment (reduction in State aid) as calculated by the State Commissioner of Education. The District did not request a review of the balance in its EBALR before transferring these funds to the general fund. Had the EBALR and repair reserve money not been improperly comingled with the money in the District's general fund bank account, the District would have again had cash flow shortages from June through August 2014 and from May through August 2015.

Monthly budget status reports and accurate periodic reports of assets, liabilities and fund equity would have enabled the Board to know the District's true financial condition and take action to prevent the cash flow shortage that occurred in 2013, and which would have again occurred in 2014 and 2015 if the District had not transferred reserve fund cash into the District's general fund bank account.

Recommendations

The Board should:

1. Ensure that it receives all required reports, including quarterly budget status reports.

The Board and District officials should:

2. Ensure that accounting records are accurate and up to date and that the financials reported to the State Education Department agree with the accounting records.
3. Use the most accurate estimates of fund balance available when preparing the annual budget.
4. Maintain the EBALR and repair reserve fund money separately from the District's checking or savings accounts so that these reserves are not used to pay operating expenses.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Raquette Lake Union Free School District

115 Route 28, P. O. Box 10
Raquette Lake, NY 13436
(518)354-4733 fax(518)354-4144

September 15, 2016

Attn: [REDACTED]
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

RE: Raquette Lake Union Free School District
Preliminary Report of Examination, July 1, 2012 – February 29, 2016

Dear [REDACTED]

The Board of Education and the Superintendent of Schools of the Raquette Lake Union Free School District are in receipt of the draft copy of your Report of Examination on Monitoring of the Financial Condition of the District for the period beginning July 1, 2012 and ending February 29, 2016 and the recommendations contained therein. Please allow this letter to serve as our written response.

We have reviewed the findings contained in the Draft Audit Report and have given significant consideration to the information contained therein. Upon reviewing this document, please be advised we agree and accept the findings, conclusions, and recommendations made within this Report. The District cannot, however, confirm and thus agree at this time with the calculations of the district's fund balance in Figure 1.

As a public school district entrusted with making sound financial decisions on behalf of our resident taxpayers, we take our fiduciary responsibilities seriously and shall be taking a conservative fiscal approach to remedy the issues of concern as outlined in the Report. Upon further review and analysis, we shall determine a Corrective Action Plan, which shall document how we intend to use the Report to positively improve operations and internal controls, ensure accuracy and efficiency of accounting records, and maintain the District's reserve funds within the parameters of New York State law.

We appreciate the professionalism of the auditors who worked with the Raquette Lake Union Free School District in making this Report. They were a pleasure to work with throughout the review and feedback process.

Sincerely,

Richard Rose
Superintendent of Schools

Board of Education
Elizabeth Forsell, President
James Kammer
Carol Mitchell
Elaine Pohl
Jennifer Temple

Richard G. Rose, Superintendent of Schools
Jennifer Roberts, Board Clerk
Louis Burke, Treasurer
Elizabeth Beckingham, Tax Collector

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of their financial monitoring practices.
- We reviewed the Board meeting minutes and the monthly Treasurer's reports.
- We review the general ledger, trial balances and balance sheets from the computerized accounting system to determine if entries were supported. We compared the balances in the computerized accounting records to the annual financial statements and identified discrepancies.
- We used the Treasurer's check register to recalculate revenues and used reconciled bank balances and records of liabilities to recalculate the District's revenues, assets, liabilities and fund balance.
- We identified all reserves in place during the last three years and requested substantiation from District officials to determine if each reserve was established and maintained properly.

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.

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