



OSC Audit Findings ASBO FMAA – May 2020

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- We are a full service Accounting and Auditing firm with offices in Rochester, Elmira, and Canandaigua, New York
- We provide services to over 80 school districts and BOCES throughout Western New York, Central New York, and the Finger Lakes region

Agenda

- Preparing for an OSC Audit
- Recent Comptroller's Reports

Goals of this Presentation

- Present information on the state audit process
- Review findings and recommendations from recent New York Office of the State Comptroller's (OSC) Reports

Office of the State Comptroller (OSC)

A State Agency which:

- Among other responsibilities, audits local governments and school districts
- Reports on findings and provides recommendations
- Provides Local Management Guides – *very helpful*
- Helps set the agenda for financial practices of school districts
- Website: www.osc.state.ny.us

Understanding the Audit Process

- Research and Information Gathering – letter sent to district informing district about the audit and requesting information
- Entrance Conference – meet to discuss audit
- Preliminary Audit Survey – audit team reviews information before major audit effort begins
- Fieldwork Phase – usually largest amount of time
- Preliminary Audit Findings – discuss findings and conclusions with local government management

Understanding the Audit Process – Cont.

- Exit Conference – draft copy of report sent to government along with instructions on responding. The exit conference provides local officials the opportunity to clarify issues that are to be included in the final audit report.
- Local Official Response – within 30 days of the transmittal of the draft report the local government should formally respond. This will not be considered the corrective action plan.

Understanding the Audit Process – Cont.

- Final OSC report includes the local government's response and the OSC comments on the local government's response
- Board of Education approved Corrective Action Plan required

Number of OSC School Audits

- 2013 91
- 2014 133
- 2015 118
- 2016 360
- 2017 87
- 2018 130
- 2019 149
- 2020 32 (as of April 1)

Recent Comptroller's Reports

- Topics to be discussed:
 - Financial Condition
 - IT
 - Food Services
 - Purchasing
 - Other areas

Financial Condition Reviews

- Most frequent subject of reports
- Generally find fault with budget practices that result in large budget variances
- Many reports criticize size of reserves
- Many note district has excess “unassigned fund balance” – 4% limit

Audit No: 2018M-260

Financial Condition

- **Summary:**
- The Board did not reasonably estimate certain general fund appropriations in the annual budget each year we reviewed. We compared budgeted revenues and appropriations to actual revenues and expenditures for 2013-14 through 2017-18 and found that while revenue estimates were generally reasonable, certain appropriations were overestimated each year... and found that the **Board and District officials did not reasonably estimate appropriations for three line items, Board of Cooperative Educational Services (BOCES) special education, health insurance, and social security** each year by cumulative totals of approximately \$6.45 million. We also reviewed the 2018-19 budget and found that, except for BOCES special education, the Board and officials continued these budget practices which resulted in property taxes being higher than needed. By not estimating certain appropriations conservatively, the Board created annual operating surpluses, resulting in the accumulation of significant fund balance. However, the District's tax levy has remained fairly consistent over the last five years, in spite of the consistent surpluses.

Audit No: 2019M-53

Financial Management

- **Summary:**
- District officials circumvented the statutory limit on surplus fund balance by making more than \$12 million in unbudgeted year-end transfers to capital projects and reserves, overstating encumbrances by \$827,000 and not using \$5.3 million in appropriated fund balance as a funding source. We compared appropriations and estimated revenues with actual operating results for 2015-16 through 2017-18 and found that the total budget variance was more than \$5 million each year. Revenues were annually underestimated by an average of \$2.7 million (2.8 percent). Appropriations were overestimated by an average of \$3.1 million (3 percent) each year. Because the Board included unrealistic estimates in its budget, the District generated operating surpluses each year, ranging from \$988,000 to \$1.8 million. By underestimating revenue and overestimating appropriations, the Board gave taxpayers the impression that it needed to both increase taxes and use appropriated fund balance and reserves to close projected budget gaps. The tax certiorari and unemployment insurance reserves were overfunded by \$2.86 million as of June 30, 2018. The Board increased real property taxes by \$2.6 million over the last three years despite having sufficient funds to finance the District's increased costs.

Audit No: 2019M-38

Financial Management

- **Summary:**
- The Board adopted budgets that conservatively estimated revenues and appropriations the last three fiscal years, which resulted in unplanned operating surpluses totaling \$4,652,365 instead of planned deficits. Due to the unplanned operating surpluses, appropriated fund balance totaling \$3,670,000 was not used. Over the past three completed fiscal years, the District reported surplus fund balance that ranged from 3.4 percent to 4 percent of the ensuing year's appropriations, which is within the 4 percent limit allowed by Real Property Tax Law (RPTL). However, when unused appropriated fund balance is added back, surplus fund balance exceeded the statutory limit by as much as seven percentage points. Because the Board did not enforce the 2015 reserve policy, District officials transferred money to reserves from operating surpluses at the end of each fiscal year to stay within the 4 percent limit. As of June 30, 2018, the District reported \$11,263,676 in 10 reserves. Our review of the reserves' activities determined the employee benefits accrued liability reserve was overfunded by \$3.1 million. In addition, the workers' compensation, unemployment and repair reserves may not be needed because District officials have not used the reserves to fund related expenditures during the past three years. Also, the capital reserves are not being used properly. Finally, District officials did not develop comprehensive written multiyear financial or capital plans.

OSC Recommendations:

- The Board should:
 - 1. Develop realistic budgets with reasonably estimated appropriations based on historical or other known trends.
 - 2. Review the practice of appropriating fund balance and discontinue using it when it is not needed or used to fund District operations.
 - 3. Use surplus funds as a financing source to benefit District residents for:
 - Funding one-time expenditures
 - Funding needed reserves
 - Reducing District property taxes.
 - 4. Ensure that tax certiorari cases are reviewed to identify the District's actual liability and make sure that old cases are followed-up on.

Recommendations – Cont.

- The Board should:
 - 5. Review all reserves and determine if the balances are necessary, reasonable and in compliance with statutory requirements.
 - 6. Ensure that all money expended from reserve funds is used for the purposes for which the funds were established, or as otherwise provided by law.

IT Reviews

- Lack of acceptable use policies
- IT awareness training
- Monitor use of internet
- Timely removal of access from network and applications

Audit No: 2019M-14

Information Technology

- **Summary:**
- During our audit period, the District did not provide any information technology (IT) security awareness training. The Technology Coordinator told us that the District relied on BOCES to provide updates and information related to IT environments and cybersecurity. However, during our audit period, the District did not use the BOCES web-based IT security awareness training resources. We also found evidence that some employees did not comply with the District's acceptable use policy. We reviewed the web browsing history on 15 computers and found significant personal Internet use on three computers. This included personal shopping and email use, social media use, web searches for travel and other Internet browsing of a personal nature.

Audit No: 2019M-13

Information Technology

- **Summary:**
- We found evidence that some employees did not comply with the acceptable use policy. We reviewed the Internet browsing histories on 10 employee computers and found evidence of inappropriate personal use on six computers. All six employees' job duties included routinely accessing personal, private and sensitive information (PPSI). As a result, their personal Internet use unnecessarily exposed this information to being compromised. In addition, during our review of the 184 enabled employee network accounts, we found that two belonged to former employees, one of whom had left District employment in 2017. We also found 11 generic accounts that the technology coordinator told us were unnecessary. Finally, the District did not provide users with information technology security awareness training to help ensure they understood security measures to protect PPSI.

Audit No: 2018M-169

Information Technology

- **Summary:**
- The Board and District officials have not adopted adequate security policies and procedures to safeguard IT assets. Specifically, the Board has not adopted IT security policies addressing data classification and regulations addressing the protection of personal, private and sensitive information (PPSI). Further, the Board has not adopted policies addressing password management, wireless security, remote access, online banking, user account management and access rights, sanitation and disposal of IT equipment, backup and disaster recovery. In addition, District officials did not provide IT security awareness training for employees. Furthermore, the District's disaster recovery plan was inadequate because it did not designate alternate work locations and IT equipment or identify staff responsible for restoring critical applications and systems listed in the plan. In addition, the plan did not provide details on how often the plan should be tested or updated.

Recommendations

- The Board should:
 - 1. Adopt comprehensive IT security policies addressing password management, protection of personal, private, sensitive information, wireless technology, remote access, data classification, mobile computing and storage devices, sanitation and disposal of electronic media, user accounts and access rights, online banking and data backups.
 - 2. Update the acceptable use policies to include consequences for violating the policy and provisions for IT security awareness training.
 - 3. Periodically review and update all IT policies and procedures to reflect changes in technology and the District's computing environment and stipulate who is responsible for monitoring all IT policies.
 - 4. Develop and adopt a comprehensive disaster recovery plan, including backup procedures and offsite storage.
 - 5. Develop a formalized IT replacement plan.

Recommendations – Cont.

- District officials should:
 - 6. Implement a process for monitoring Internet use and enforcing the acceptable use policies.
 - 7. Provide periodic IT security awareness training to all personnel who use IT resources, including the importance of appropriate use.

Food Services

- Operating Deficits
- Allocation of Benefit Costs
- Purchasing Options
- Controls over Cash Receipts

Audit No: 2019M-114

Cafeteria Operations

- **Summary:**
- The District reported cafeteria related health insurance expenditures of \$43,746 in 2015-16, \$115,724 in 2016-17 and \$148,426 in 2017-18 in the general fund. The misallocation of health insurance expenditures have masked the actual operating deficits in the cafeteria fund and made it appear the cafeteria fund was not receiving an indirect transfer from the general fund. Further, if the cafeteria fund's operations were properly accounted for, the District would have depleted the cafeteria fund balance during 2016-17 and currently have a negative fund balance of \$393,551. In addition, no one at the District calculated the cost or revenue-per-meal equivalent (ME). Finally, although District officials selected their cafeteria vendors after advertising for competitive bids, District officials could have saved over \$21,000 by purchasing milk through a different vendor.

Audit No: 2019M-19

School Lunch Operations

- **Summary:**
- Over the last three years, the school lunch fund incurred operating deficits totaling over \$151,500, excluding transfers from the general fund totaling \$166,000. Furthermore, because of interfund loans, the school lunch fund owed the general fund almost \$376,000 as of June 30, 2018, which is unlikely to be paid back. As of June 30, 2018, unrestricted, unappropriated fund balance was approximately (\$330,800). From 2015-16 through 2017-18, the cost-per-ME (meal equivalent) increased over 4 percent while revenue-per-ME increased 11 percent, excluding transfers from the general fund; however, the costs continue to exceed the revenues by 27 cents per ME as of 2017-18. We also prepared a meals per labor hour (MPLH) analysis for each cafeteria for 2017-18 and found the high school's MPLH was within industry standards while the elementary school's MPLH was below industry standards. We also compared milk purchased through the Capital Region BOCES cooperative bid for three months and found that the District could have saved almost \$2,000 in those three months if the purchases were made through the Office of General Services (OGS) cooperative bid. We commend District officials for identifying opportunities to increase revenues while simultaneously increasing participation and sales. However, without doing periodic analyses of school lunch fund operations and ensuring officials are obtaining the best price for food and supplies, the school lunch fund's current level of reliance on general fund subsidies will continue.

Audit No: 2019M-26

Cafeteria Operations

- **Summary:**
- The school lunch fund had operating deficits averaging \$67,000 from 2015-16 through 2017-18 and has been relying on subsidies from the general fund to support operations. Even with these subsidies, which were an average of \$84,000, deficits occurred in two of those years. For the 2018-19 year, we project the fund will have another deficit totaling approximately \$71,400. We calculated the cost to produce a meal was \$8.80, while the revenue received per meal was \$3.18, not including subsidies from the general fund. Therefore, the District is losing over \$5 per meal. We compared the District's average daily participation (ADP) for breakfast and lunch to all other schools in Delaware County. We found that the District had the lowest ADP for breakfast and second lowest ADP for lunch. Furthermore, internal controls over cafeteria cash receipts could be improved.

Audit No: 2018M-244

Cafeteria Collections

- **Summary:**
- District officials did not establish adequate controls over cafeteria collections. The Board did not adopt written cash receipt policies, cash receipt duties were not properly segregated and the Cafeteria Manager did not adequately oversee the cash receipt function. As a result, one cafeteria employee, the head cashier, had almost complete control over cafeteria cash receipts without adequate oversight. Cashiers perform daily cash counts and prepare daily collection reports that must be manually entered into the point of sales (POS) system to ensure that recorded POS activity matches manually counted collections. These cash counts were not always recorded in the system. We identified 43 collections totaling \$7,200 that were not properly recorded in the system but were collected and deposited. The Manager told us that employees may have forgotten to enter these collections into the system at the end of the day. Although we did not identify any theft or loss of cafeteria collections, by not establishing proper procedures to safeguard cafeteria collections, there is an increased risk that collections could be lost, stolen or misappropriated without detection.

Recommendations

- District officials should:
 - 1. Periodically complete cost-per-ME and MPLH analyses and use them to explore methods to increase revenues and decrease expenditures to allow the fund to reduce its reliance on the general fund.
 - 2. Ensure the District is obtaining the best prices when making purchases.

Recommendations - Cont.

- The Treasurer should:
 - 1. Account for all cafeteria related expenditures in the cafeteria fund.
- District officials should:
 - 2. Include an appropriation to transfer money from the general fund to the cafeteria fund in the proposed budget subject to voter approval if they intend for the general fund to continue subsidizing cafeteria fund operations.
 - 3. Periodically calculate and monitor cost- and revenue-per-ME, and explore methods to decrease expenditures and increase revenues.
- The food service supervisor should:
 - 4. Review OGS cooperative bids on a regular basis to ensure all cafeteria food and supplies are purchased in the most economical manner.

Recommendations – Cont.

- The Board should:
 - 1. Adopt written policies and develop procedures for collecting and accounting for cafeteria receipts to address properly segregating duties.
- The Cafeteria Manager should:
 - 2. Ensure all cafeteria collections are properly recorded in the POS system by reconciling POS system records, and other documents such as individual cashier's cash counting sheets, with deposits.
 - 3. Secure cafeteria collections until deposited.
 - 4. Review the head cashier's work, especially adjustments and voided transactions to ensure cafeteria receipts are properly deposited and recorded.
- The Business Manager should:
 - 5. Ensure business office staff review and reconcile cafeteria collections deposited using source documents, such as POS system records or daily cash count sheets, to ensure all cash receipts are accounted for, deposited and recorded.

Purchasing

- Professional Services
- Credit Cards
- Procedures when not competitively bid

Audit No: 2019M-156

Professional Services

- **Summary:**
- District officials did not always solicit competition by issuing requests for proposals (RFPs) when procuring professional services as required by the procurement policy. We reviewed the claims for 16 professional service providers who were paid more than \$1.4 million during our audit period. We found that contracts for 10 providers paid in excess of \$1 million were awarded without the benefit of competition. The payments for these services, approved by the claims auditor, did not include evidence that the required competitive method was followed. As a result, District officials did not obtain these services through a competitive process in accordance with the Board-adopted procurement policy. District officials did not enter into written agreements with four professional service providers we reviewed (the architect, behavioral analyst, engineer, and private investigator) who were paid a total \$325,880 during our audit period. Additionally, the Board did not adopt a resolution authorizing these service providers to perform services for the District. As a result, the claims for these services did not include the basis for compensation or define the scope of services provided.

Audit No: 2019M-139

Professional Services

- **Summary:**
- District officials did not always seek competition for professional services in accordance with the adopted policy. We identified 75 professional service providers who were paid a total of \$3.5 million during our audit period. We selected and reviewed the contracts of 12 professional service providers who were paid a total of \$2.5 million. District officials did not seek competition for services from four of these 12 professional service providers who were paid a total of \$740,600. Their services included engineering, occupational therapy, medical care for a student in transit and legal services.

Audit No: 2019M-80

Credit Card Expenditures

- **Summary:**
- School officials did not establish effective procedures that ensured credit card claims were properly supported and credit cards used appropriately. The School authorized the Operations Director, Executive Director, the two Business Managers and the Academic Director to use school credit cards. School officials made credit card purchases totaling \$496,970 during the audit period. We reviewed 641 credit card transactions totaling \$216,882, of which 119 transactions totaling \$36,329 (17 percent) were approved for payment without receipts to support the charge. Another 39 transactions totaling \$25,342 (12 percent) had receipts that were not itemized. The Board also approved 27 meal purchases, totaling \$5,790, for payment without adequate supporting documentation.

Audit No: 2019M-105

Purchasing

- **Summary:**
- We found District officials did not establish or implement any formal purchasing procedures for goods and services not required to be competitively bid. Additionally, because the Board did not annually review the policy as required, it did not ensure compliance with the policy. We reviewed 60 purchases made during our audit period totaling \$182,014 to determine whether District officials sought competition for purchases that were over \$1,000 but below bidding thresholds. We found 32 purchases (53 percent) totaling \$115,089 were made without evidence that officials sought competition to obtain the lowest price. For the other 28 purchases reviewed, we determined District officials sought competition for five of the purchases totaling \$15,861, 10 purchases totaling \$31,001 were made from vendors that were sole source providers and 13 purchases totaling \$20,063 consisted of various items with costs below the \$1,000 threshold that we applied for determining whether the District sought competition.

Recommendations

- The Board should:
 - 1. Annually review the District's purchasing policy and procedures and update them as necessary.
 - 2. Ensure District officials develop written purchasing procedures for procuring goods and services below bidding thresholds and distribute them to the appropriate personnel.
- The purchasing agent should:
 - 3. Maintain adequate documentation to support that competitive purchasing practices are used by employees when procuring goods and services below bidding thresholds.

Recommendations – Cont.

- The Board should:
 - 1. Ensure that officials know the credit card procedures, and monitor and enforce compliance.
 - 2. Ensure that all credit card charges are adequately supported and necessary before approving payments.
 - 3. Establish policies and procedures that provide guidelines for conference registration, travel and meal expenditures.

Recommendations – Cont.

- School officials should:
 - 4. Ensure that sufficient supporting documentation is attached to each credit card bill that is submitted to the Board for approval.
 - 5. Ensure that credit card users include a list of individuals participating in meals, along with itemized receipts and documentation of the purpose of the meal expenditure.

OSC Reports on other Areas

- Fuel monitoring
- Staff attendance, Leave Accruals and Separation Payments
- Extraclassroom Activities

If Time Allows:

- The next few slides relate to Financial Management, and will only be discussed if time allows

Action Items – to be considered

- Have a multi year (2-3 year) financial plan which includes planned fund balance and the use of reserves
- Have a formal Reserve Plan
- Be **transparent**
- Consider tightening the budget (by removing excess contingencies), and appropriating less fund balance– need to determine how to reserve or use unassigned fund balance that is not appropriated
- Focus on **ACTUAL** results – is the district operating at annual surpluses or annual deficits?

Reasonable Budget Variances

- **Audit No:** 2017M-280
- **Summary:**
- Although the District's unassigned fund balance exceeded the statutory limit from 2014-15 through 2016-17, unassigned fund balance as a percentage of ensuing year's appropriations decreased by 2 percentage points (from 6.9 to 4.9 percent). **District officials adopted reasonable budgets over these years (with average revenue variances of less than 3.7 percent and average expenditure variances of less than 6.4 percent)**, which included appropriated and subsequent use of fund balance. From 2014-15 through 2016-17, District officials used unassigned fund balance totaling \$1.3 million. As a result, the amount of unassigned fund balance that exceeded the statutory limit declined significantly during each of these years (from 2.9 to .9 percentage points). In addition, the District's real property tax levy has remained relatively stable during these years. Finally, the debt service fund, employee benefit accrued liability reserve (EBALR) and retirement contribution reserve were not used as budgeted and overfunded by \$5.7 million as of June 30, 2017.

Reserve Plan

- In this financial environment it is critical that districts closely manage the use of fund balance
- Use consistent terminology
- Keep funds flexible- having unassigned fund balance is more flexible than a fully funded EBALR reserve
- Develop a plan for use of reserves, and “use” these reserves— replenish if funds available

Reserve Plan

- A “Reserve Plan” could include:
 - Creation – date and copy of resolution or voter approval
 - Purpose - a general description
 - Funding Method
 - Use of Reserve
 - Funding Level – consider minimum and maximums (should be reasonable)
 - Annual activity – document year by year

Transparency

- Builds credibility with the public
- Discuss Total Fund Balance in Public
 - Many districts consider the assigned fund balance as “fund balance” and only present this amount. A full disclosure would include an analysis of the reserves, amount appropriated for subsequent year budget, etc.
- Publish annual financial statements on the district website. (Required by law)
- Develop and publish a “Reserve Plan”

Transparency

- Inform the public that the budget contains estimates and contingencies and that if the district is fortunate enough to not spend the entire budget then the BOE will determine the best use of the unused funds. This usually will be by appropriating these funds to reduce subsequent year's taxes and to maintain programs.

Consider a statement such as:

“An annual budget contains estimates of revenues and expenditures and the actual financial results will differ from the budget. In addition, as recommended by OSC, there are contingencies built into the budgeted expenditures. In the event that any surplus funds are available at the end of the fiscal year, the Board of Education will determine the best use of these funds in accordance with policy #####, which may include using these funds to reduce taxes, maintain programs, and/or fund reserves.”

Questions???

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