



# Springville-Griffith Institute Central School District Financial Management

## Report of Examination

Period Covered:

July 1, 2013 — July 31, 2015

2015M-221



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

January 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 Springville-Griffith Institute Central School District, entitled Financial Management. 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

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### EXECUTIVE SUMMARY

The Springville-Griffith Institute Central School District (District) is located in the Towns of Aurora, Boston, Colden, Collins and Sardinia in Erie County and the Towns of Ashford, East Otto and Yorkshire in Cattaraugus 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 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. The District employs a Business Administrator who is responsible for monitoring day-to-day fiscal operations and preparing and monitoring the budget.

The District operates four schools with approximately 1,800 students and 317 employees. The District's budgeted appropriations for the 2014-15 fiscal year totaled \$36.1 million and were funded primarily with State aid, sales tax and real property taxes. General fund appropriations for wages and salaries totaled \$15.7 million.

#### **Scope and Objective**

The objective of our audit was to evaluate the financial operations of the District for the period July 1, 2013 through July 31, 2015. We extended our scope back to the 2009-10 fiscal year to evaluate journal entries that affected reserve fund balances and interfund activity recorded in the federal aid funds. Our audit addressed the following related questions:

- Have District officials ensured that the general ledger accurately reflects the District's financial position?
- Did the Business Office compensate District employees at the correct pay rates and for all time worked?

#### **Audit Results**

We found significant deficiencies in the District's recordkeeping. The ledger balances for interfund loans, reserve fund accounts and capital projects were not accurate, complete and up-to-date.

The Business Administrator did not ensure that reconciliations of interfund activity were sufficient or proper or that the correct entries were made for interfund loans on fund ledgers. As of June 30, 2015, the general ledger showed approximately \$10 million owed to and from all funds, equivalent

to almost 30 percent of the general fund appropriations in the 2014-15 budget. Further, significant unreconciled negative loan balances suggest that interfund activity was not accurately recorded or properly maintained. These balances, if not corrected, could jeopardize the District's financial stability.

Additionally, our examination of the District's six reserve funds, totaling \$2.9 million as of June 30, 2014, found that \$350,000 in funding for two of the reserves was not recorded in the general ledger, and Board-approved use of \$700,000 from the employee benefit accrued liability reserve was also not recorded. Further, District officials were unable to determine which of 10 capital projects, with net cash totaling \$887,507 as of June 30, 2015, had a surplus cash balance or why some projects had negative cash balances. These accounting deficiencies preclude the Board and District officials from obtaining accurate financial information that they need to make informed financial decisions in the District's best interest.

Finally, the District did not always pay employees at the proper pay rate, and payroll was not always adequately supported or calculated. We found instances of employees who were overpaid and others who were underpaid. The Superintendent did not certify the payroll in a timely manner; three of the four payrolls in our sample were certified a month after they were paid. Furthermore, the Business Administrator and the payroll clerk told us that the time sheets being used are out of date. These deficiencies place the District at ongoing risk of payroll errors.

### **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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the District's response letter.

# Introduction

## Background

The Springville-Griffith Institute Central School District (District) is located in the Towns of Aurora, Boston, Colden, Collins and Sardinia in Erie County and the Towns of Ashford, East Otto and Yorkshire in Cattaraugus 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 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. The District employs a Business Administrator who is responsible for monitoring day-to-day fiscal operations and preparing and monitoring the budget.

There are four schools in operation within the District, with approximately 1,800 students and 317 employees. The District's budgeted appropriations for the 2014-15 fiscal year totaled \$36.1 million and were funded primarily with State aid, sales tax and real property taxes.

The District contracts with the Erie 2 Chautauqua-Cattaraugus Board of Cooperative Educational Services (BOCES) to perform financial recordkeeping duties for the District's Business Office. A BOCES employee is responsible for posting transactions and maintaining the accounting records for each fund, under the Business Administrator's supervision.

The District employs a payroll clerk to process the biweekly payroll for all District employees. General fund appropriations for wages and salaries totaled \$15.7 million, which represents nearly half of that fund's budget.

## Objective

The objective of our audit was to evaluate the financial operations of the District. Our audit addressed the following related questions:

- Have District officials ensured that the general ledger accurately reflects the District's financial position?
- Did the Business Office compensate District employees at the correct pay rates and for all time worked?

## Scope and Methodology

We examined the District's financial records and reports for the period July 1, 2013 through July 31, 2015. We extended our scope back to 2009-10 to evaluate journal entries that affected reserve fund balances and interfund activity recorded in the federal aid funds.

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 C 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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the District's response letter.

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.



## General Ledger

The Business Administrator is responsible for ensuring that a complete, accurate and up-to-date general ledger is maintained for each fund. A general ledger is a record of fund assets, liabilities and fund balance and provides a snapshot of a fund's financial position at any point in time.<sup>1</sup> Analyzing how each fund's assets, liabilities and fund equity balances change over time will disclose whether the fund's financial condition is improving or deteriorating. The Business Administrator should periodically review each fund's general ledger accounts to determine if the balances are accurate, complete and up-to-date and ensure that an appropriate adjusting journal entry is recorded to correct any errors. An accurate and complete general ledger will allow District officials and other interested parties to assess the financial condition of each fund.

We reviewed the general ledger accounts for each fund and found that interfund loan balances, reserve fund accounts and capital projects fund balances were not accurate, complete and up-to-date. The Business Administrator indicated he does not periodically review each fund's general ledger but relies on the external auditors to provide ledger balances by fund when they issue the audited financial statements. Without accurate and current ledger account balances, it is difficult to properly assess each fund's financial condition.

In addition, the District had received management letters from its external auditors with the audited financial statements<sup>2</sup> for each fiscal year in our audit period, which included significant findings with recommended corrective action. However, the District did not always take corrective action.

### Interfund Loans

The District may temporarily advance cash from one fund to another. However, General Municipal Law requires that the cash temporarily advanced should be repaid as soon as available but no later than the close of the fiscal year in which the advance was made. It is important to keep accurate and up-to-date records of interfund loans. If the

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<sup>1</sup> The District maintains ledgers for the following funds: general, cafeteria, federal aid, capital projects, trust and agency and debt service.

<sup>2</sup> The external auditors rendered an "unqualified" opinion on the District's financial statements, meaning that the noted issues, while of some concern, did not have a significant impact on the District's financial reporting.



debtor fund does not have enough cash to repay the loan, the financial condition of the fund that loaned the cash could be adversely affected.<sup>3</sup>

The District's general ledgers dated June 30, 2015 included 17 interfund receivable accounts and 16 interfund payable accounts, as indicated in Figure 1:

Figure 1: Interfund Loan Balances as of June 30, 2015					
Assets (Interfund Receivables)			Liabilities (Interfund Payables)		
General Fund					
Due From	Other Funds	\$4,483,751	Due To	Other Funds	\$37,434,516
	Cafeteria	\$94		Cafeteria	\$93,500
	Federal Aid	\$154,082		Federal Aid	\$1,754,808
	Trust and Agency	\$4,323		Trust and Agency	(\$35,482,747)
	Capital Projects	(\$485,591)		Capital Projects	\$188,274
Federal Aid Fund					
Due From	Other Funds	\$1,159,387	Due To	Other Funds	\$1,572,860
	General	\$3,917,250		General	\$3,316,450
	Federal Aid	\$34,385		Federal Aid	\$122,250
				Trust and Agency	\$736,776
Cafeteria Fund					
Due From	Other Funds	\$201,013	Due To	Other Funds	\$113,200
	General	(\$19,813)		Trust and Agency	\$1,343
Capital Projects Fund					
Due From	Other Funds	\$945,883	Due To	Other Funds	\$989,204
	General	\$188,274		General	(\$485,583)
Debt Service Fund					
Due From	Other Funds	\$54,021	Due To	Other Funds	\$16
Trust and Agency Fund					
Due From	Other Funds	\$33,854,342	Due To	Other Funds	(\$32,504)
	General	(\$35,482,352)		General	\$2,869
	Cafeteria	\$1,343			
	Federal Aid	\$1,315,616			
Total Interfund Receivables as of June 30, 2015		\$10,326,009	Total Interfund Payables as of June 30, 2015		\$10,325,233

<sup>3</sup> For example, as of June 30, 2015, the general fund had \$2.3 million in cash available to fund operations, with \$4.2 million in outstanding loans due from other funds (about 180 percent of its available cash) and \$3.9 million owed to other funds (about 170 percent of its available cash). Similarly, the cafeteria fund had \$19,000 in available cash, with about \$181,000 (more than nine times the available cash) due from other funds, and \$114,500 (six times the available cash) due to other funds.

While the net discrepancy between the “Due From” and “Due To” totals was immaterial (amounting to \$776), there were significant deficiencies in the District’s accounting practices that prevented proper reconciliation of individual funds’ interfund loans. As a result, District officials do not have reliable information for assessing and managing the interfund activity.

Unidentified Funds – In 2013-14, the BOCES employee created the ledger accounts identifying the corresponding funds that made and owed the loans. Previously, the District used generic ledger accounts titled “Due from other funds” and “Due to other funds” to book interfund activity without identifying the specific funds that owed or were owed money. Therefore, we were unable to determine the composition of the loans recorded in these accounts (called “Other Funds” in Figure 1). Additionally, the Business Office still uses the nonspecific “due to” and “due from” accounts when it processes the biweekly payroll through the trust and agency fund, payable from the three operating funds (general, cafeteria and federal aid).

While it may be possible to retroactively identify individual loans and recreate a complete, accurate ledger of past interfund activity from source documents, at present the Board does not have reliable, up-to-date information for properly assessing the impact of interfund activity on each fund’s financial condition.

Unreconciled Interfund Loans – The Business Administrator did not ensure that reconciliations of interfund activity were sufficient or proper and did not ensure that the BOCES employee recorded the correct entries for interfund loans on fund ledgers. We found entries for loan cancellations or payments that were recorded in a different account than the originally recorded loan. For example, a loan is recorded in the general fund for amounts owed to the trust and agency fund in the nonspecific “due to” account when payroll is processed. However, when the general fund cash is transferred, the loan reversal is recorded in the “Due to trust and agency” account. Also, certain interfund loans were recorded in the fund ledgers, but cash was never transferred and the Business Office did not make the corresponding journal entries to reverse the recorded loans.

Significant outstanding loan balances have accumulated in the general fund and the trust and agency fund to the point where they have distorted fund ledger balances. The significant negative balances shown in Figure 1 suggest that interfund activity was not accurately recorded or properly maintained.<sup>4</sup> The District’s failure to ensure that

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<sup>4</sup> For perspective, the District’s 2014-15 budgeted appropriations totaled \$36.1 million. According to the District’s general ledger, the general fund owes almost the equivalent amount – \$35.5 million – to the trust and agency fund, and the trust and agency fund is owed about the same amount from the general fund.

interfund loan account balances are resolved makes it difficult to assess each fund's financial position.

Moreover, the Business Administrator did not ensure that interfund loans were liquidated by the close of the fiscal year, as required. For example, State aid related to a capital project was also recorded and deposited in the general fund when it was received in August 2014, which created an interfund loan between the general and capital projects funds. As of June 30, 2015 (the fiscal year end), the general fund still owed the capital projects fund \$673,857.

The external auditors' management letter from the 2012-13 annual audit noted that the interfund loan accounts were out of balance and recommended that they be reconciled monthly. District officials agreed with this finding and indicated they would take corrective action.

At our exit discussion, the Business Administrator provided us with what he indicated were monthly reconciliations of interfund loans completed by the BOCES employee for the 2012-13 fiscal year. However, these were not sufficient as the reconciliations did not agree with the general ledger balances. He also provided what he called reconciliations for the 2013-14 and 2014-15 year-end account balances. However, these were reports generated by the financial software and not actual reconciliations.

## **Reserves**

Reserve funds may be established by the Board, pursuant to various laws, and are used to finance specific expenditures. Generally, funds may be added to or used from reserves with Board approval.

The District reported six reserves totaling approximately \$3 million as of June 30, 2014.<sup>5</sup> Two reserves, the workers' compensation reserve and the unemployment insurance reserve, had general ledger balances lower than those reported on the audited financial statements. The employee benefit accrued liability reserve (EBALR) had a higher general ledger balance than shown on the audited financial statements.

The Board adopted a resolution in August 2012 to add approximately \$350,000 to the workers' compensation and unemployment insurance reserves. However, Business Office officials could not provide documentation showing that a journal entry was prepared or posted to the ledger. Although the external auditors adjusted and reported the higher reserve balances on the audited financial statements for the

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<sup>5</sup> \$350,401 in the workers' compensation reserve, \$357,484 in the retirement contribution reserve, \$332 in the insurance reserve, \$1,325,374 in the EBALR, \$17,061 in the capital reserve and \$909,425 in the unemployment insurance reserve

2011-12 fiscal year, as well as each of the following fiscal years, the District did not post these transactions to the reserve accounts in the general ledger for each year. We asked the Business Administrator, the BOCES employee and the external auditors if an adjusting entry was provided to correct the general ledger, but they were not able to provide such an entry.

The Board also approved a retirement incentive in January 2014, which was funded with approximately \$700,000 from the EBALR.<sup>6</sup> The external auditor provided the BOCES employee with a journal entry, with support, to record the use of the reserve fund cash for the incentive and reported the adjusted reserve balance of \$1,325,374 on the financial statements for the 2013-14 fiscal year. However, no one posted the journal entry to the general ledger to reflect the use of the reserve funds. The BOCES employee was not aware that the required entry had not been made and stated that it was probably an oversight.

## **Capital Projects Fund**

The purpose of a capital projects fund is to account for all financial activity related to the acquisition or construction of major capital assets. District officials should ensure that a separate set of ledgers is maintained for each project. These ledgers should be closed out when a project is complete.

The District is currently accounting for 10 projects in its capital projects fund:<sup>7</sup> five for construction activities at various school facilities and five for new school bus purchases. The District maintains separate ledgers for each project, but general ledger balances, including cash and outstanding debt accounts, were not accurate because the Business Office did not record the correct accounting entries for the issuance and payment of indebtedness or account for bond anticipation notes (BAN) by project. The building projects are complete, and the debt has been retired for at least two of the earlier bus purchases, but the District has not closed out the project ledgers.

As of June 30, 2015, net cash totaling \$887,507 was accounted for in the capital projects fund. This balance consisted of five project cash accounts with negative balances aggregating \$915,134, offset by five project cash accounts and an interest cash account with positive balances aggregating \$1,802,641. District officials were unable to determine which projects had a surplus cash balance or why some projects had net negative cash balances. We estimate that \$139,825 of the \$887,507 in cash was from BAN proceeds remaining after bus purchases, \$691,528 was from bond proceeds remaining at the completion of the facilities construction and \$56,154 was interest

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<sup>6</sup> We did not assess whether this was a proper use of the reserve as it was not part of our audit scope.

<sup>7</sup> The capital projects fund also included a separate ledger for interest earned.

income. Unexpended bond proceeds and related interest income should be transferred to the debt service fund to help finance the related annual debt service costs.

By not maintaining accurate general ledgers, District officials cannot readily determine the District's actual financial position at any given point in time. Therefore, they do not have reliable information for making financial decisions, and the District could potentially be at risk for fiscal stress.

## **Recommendations**

The Business Administrator should:

1. Perform an in-depth review of interfund loans to determine the actual amount owed by each fund and assess the impact that the write-off or liquidation of the outstanding loans will have on the financial position of the District's funds.
2. Ensure that appropriate adjusting journal entries are posted to the ledgers in a timely manner.
3. Regularly review each fund's general ledger to ensure that all account balances present an accurate picture of each fund's financial position at any given point in time.
4. Transfer unexpended bond proceeds and related interest earnings from completed capital projects to the debt service fund and apply these moneys to related debt payments.
5. Attend accounting training periodically offered by the Office of the State Comptroller.
6. Take corrective action in response to the findings in the external auditor's management letter.

## Payroll

Salaries and wages comprise a significant portion of the District's budget. To properly control these costs, District officials should ensure that the payroll is based on contractually authorized pay rates and supported by time records that reflect the actual hours worked. Furthermore, pay rates must be accurately entered into the payroll system and employees should only be paid for such time as authorized by Board-adopted policies, contracts or collective bargaining agreements.

The District did not always pay employees at the proper pay rate and payroll was not always adequately supported or calculated. We reviewed payroll for a sample of 64 employees over four pay periods<sup>8</sup> and found that 11 employees were overpaid by \$3,125 and four employees were underpaid by \$1,629, as follows:

- Two employees were overpaid by \$1,615 because salaries higher than those approved by the Board were entered into the financial system. As of the end of our fieldwork, the District was taking action to recover overpayments to one of the employees, totaling \$1,525.
- Six bus drivers were overpaid by a total of \$1,076 because the District improperly compensated them for a paid holiday. They were also paid for regular and overtime hours which were not supported by time sheets and were paid at an hourly rate higher than the rate approved by the collective bargaining agreements.
- Three clerical employees were overpaid by \$434 due to the improper payment of overtime.
- Two employees were underpaid by a total of \$1,044 because they were paid at an hourly rate which did not include the longevity increment to which they were entitled.
- Two clerical employees were underpaid by a total of \$585 as a result of being paid at a salary step below the rate they were authorized to be paid.

The payroll clerk is responsible for manually entering all time sheet data for hourly employees into the payroll module and then reviewing each employee's payroll amount for accuracy by comparing hours

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<sup>8</sup> See Appendix C for details regarding sampling methodology.

worked as recorded in the system to the totals on time sheets. The payroll clerk also compares gross pay for salaried employees to the previous payroll to ensure there were no changes. An account clerk is responsible for entering new employees and their respective salaries into the payroll system, based on certified Board minutes, approved employment contracts or collective bargaining agreements. The payroll clerk reviews each employee's rate of pay to confirm the accuracy of annual salary increases. The Superintendent is responsible for certifying each payroll. A payroll certification should compare payroll source documents to payrolls to ensure they are based on actual hours or days worked and Board-authorized hourly rates or annual salaries. However, the Superintendent's review consisted of merely reviewing and signing the payroll registers. Further, he did not certify the payroll in a timely manner, with three of the four payrolls in our sample certified a month after they were paid.

The Business Administrator and the payroll clerk indicated that the time sheets currently being used have not been updated in many years and are difficult to read. The Business Administrator also said that the payroll errors occurred because of recent turnover in the payroll clerk position and that the District is piloting an electronic timekeeping system in the Transportation Department which will be implemented District-wide if successful.

Without sufficient oversight of the biweekly payroll preparation, District officials cannot be assured that payroll is accurate. As a result, there is an increased risk that the District could pay employees more or less than they earned.

## **Recommendations**

The Business Administrator should:

7. Ensure that the payroll is based on contractual or Board-approved pay rates and supported by time records that reflect the actual hours worked.

The Board and District officials should:

8. Ensure that the Business Administrator is reviewing payrolls to ensure they are based on contractual or Board-authorized pay rates and supported by time records.
9. Ensure that pay rates are accurately entered into the payroll system.
10. Recover any overpayments and properly pay the individuals cited in this report.



The Superintendent should:

11. Properly certify the payroll in a timely manner.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# SPRINGVILLE-GRIFFITH INSTITUTE CENTRAL SCHOOL DISTRICT

*LINKING TODAY'S LEARNERS TO TOMORROW'S POSSIBILITIES*

307 Newman Street • Springville, New York 14141-1599 • FAX (716) 592-3209

**Mrs. Sylvia Root**  
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December 28, 2015

*By Hand Delivery and Electronic Mail*

Hon. Thomas P. DiNapoli  
New York State Comptroller  
295 Main Street, Room 1050  
Buffalo, New York 14203-2510

Re: Springville-Griffith Institute Central School District

Dear Comptroller DiNapoli:

The following constitutes the Springville-Griffith Institute Central School District's response to the Report of Examination issued by your office which is entitled "*Financial Management*." The Report of Examination covers the District's fiscal operations during the period July 1, 2013 through July 31, 2015.

The District would first like to once again express its appreciation for the professional and courteous manner in which your staff conducted its audit responsibilities.

The District's Board of Education and Administration remains committed to ensuring that the District's financial operations are conducted with the highest level of integrity and that the interests of the District's taxpayers are properly protected.

The District is currently in the process of preparing its Corrective Action Plan to fully address the findings and recommendations in the Report of Examination, and that Plan will be filed within the timeline specified by law. The District does, however, wish to take this opportunity to respond to certain aspects of the Report of Examination, which are as follows:

**1) General Ledger (Report of Examination, pp. 8-12):**

**Interfund Loans**

Springville-Griffith Institute has systematically worked towards resolving most areas of concern within General Ledger processing over the previous fiscal years.

Following receipt of the Draft Report of Examination, the District completed an internal evaluation of the June 30, 2015 Due To/Due From balances to determine the source of the \$776 discrepancy noted on page 9 of the Report, which was characterized as "immaterial" in the Report. Our evaluation revealed that all Due To and Due From accounts were in balance and that data provided in the draft Report with respect to reconciliation of interfund loans was both inaccurate and incomplete. A revised Figure 1 table is provided below to illustrate the District's findings (Please note that bolded figures represent either amended totals from the original

draft report or totals that were not included on the original draft Report). All totals presented are derived from the District's June 30, 2015 audited Trial Balances:

**Figure 1: Interfund Loan Balances as of June 30, 2015**

See  
Note 1  
Page 20

Figure 1: Interfund Loan Balances as of June 30, 2015					
Assets (Interfund Receivables)			Liabilities (Interfund Payables)		
General Fund					
Due From	Other Funds	\$4,545,059	Due To	Other Funds	\$37,434,074
	Cafeteria	\$94		Cafeteria	\$121,490
	Federal Aid	\$163,806		Federal Aid	\$1,785,541
	Trust and Agency	\$4,323		Trust and Agency	\$(35,222,807)
	Capital Projects	\$844,178		Capital Projects	0
Federal Aid Fund					
Due From	Other Funds	\$1,158,217	Due To	Other Funds	\$1,486,837
	General	\$3,971,764		General	\$3,406,818
	Federal Aid	\$34,385		Federal Aid	\$122,250
				Trust and Agency	\$736,776
Cafeteria Fund					
Due From	Other Funds	\$201,013	Due To	Other Funds	\$113,200
	General	\$(19,813)		Trust and Agency	\$1,343
Capital Projects Fund					
Due From	Other Funds	0	Due To	Other Funds	\$989,204
	General	0		General	\$(101,697)
Debt Service Fund					
Due From	Other Funds	\$54,021	Due To	Other Funds	\$61,324
Trust and Agency Fund					
Due From	Other Funds	\$33,853,900	Due To	Other Funds	\$(32,504)
	General	\$(35,222,412)		General	\$2,869
	Cafeteria	\$1,343			
	Federal Aid	\$1,315,616			

<b>Expendable Trust Fund</b>					
<b>Due From</b>	<b>Other Funds</b>		<b>Due To</b>	<b>Other Funds</b>	
		<b>\$(5,060)</b>			<b>\$(5,060)</b>
	Scholarship	<b>\$(9,956)</b>		Scholarship	<b>\$(9,956)</b>
				Trust & Agency	<b>\$776</b>
<b>Total Interfund Receivables as of June 30, 2015</b>		<b>\$10,890,478</b>	<b>Total Interfund Payables as of June 30, 2015</b>		<b>\$10,890,478</b>

#### **Unidentified Funds**

The District is aware of and sensitive to the significant accumulated balances present within some of the interfund loan accounts. District personnel are presently engaged in a project in conjunction with the District's external audit firm to identify as accurately as possible the specific interfund sources of historic balances on the generic interfund loan accounts so that appropriate balances both owed to and due from each fund can be netted down. This project and the resulting adjustment is expected to be fully completed within the 2015-2016 fiscal year.

Additionally, the District's continuing use of generic Due To and Due From accounts within payroll processing results from automated routines imbedded within the [REDACTED] accounting system presently in use by the District. The District team has discussed seeking assistance from the software vendor to reprogram the software in order to utilize specific interfund loan accounts but has not yet elected to do so for a couple of specific reasons. First, this would require the reprogramming of the software at least once, if not numerous times, a year in order to accommodate new grant programs. This is impractical because various grants have differing program dates so no universal program start date would suffice. Secondly, the [REDACTED] software is nearing its end of service date so the District has been evaluating what software platform to utilize in the future. As a result of these two factors District representatives have elected to leave these automated routines as written but will utilize Journal Entries for the 2015-2016 fiscal year and going forward to redirect postings from generic accounts to the specific interfund loan accounts with each payroll processed in order to prevent balances from continuing to accumulate within generic accounts.

#### **Unreconciled Interfund Loans**

One area of significant improvement relates to monitoring and regularly reconciling District Due To and Due From interfund loan accounts. Beginning with the 2013-2014 fiscal year, the District began using specific interfund loan accounts to track the specific source and destination funds within each interfund loan transaction. In addition to utilizing specific interfund loan accounts the District also began a regular monthly practice of reconciling total Due To/Due From balances. This process involved generating both reports for all Due To and Due From Accounts across all funds as well as monthly Trial Balances by fund and comparing all totals. If all figures were in balance it was determined that the District's Due To and Due From accounts were reconciled.

Although this practice met favorably with the District's external audit firm, additional improvements were implemented with the start of the 2015-2016 fiscal year wherein a spreadsheet format was developed to document transaction totals by month for each Due To and Due From account, across all funds. In addition to documenting and reconciling all intermonth transaction totals, the current reconciliation document also provides total to date figures for each interfund loan account, all of which display a full reconciliation between all interfund loan accounts. The District feels that all of the refinements implemented in this process demonstrate an awareness of and sensitivity to the importance of managing the District's Interfund Loan procedures.

#### **Reserves and Capital Projects Fund**

The District has reviewed the comments in the Report with regard to the accounting of the District's reserve funds and capital projects fund, and will undertake the necessary effort to ensure that the District's financial records accurately and appropriately track these funds.

#### **2) Payroll (Report of Examination, pp. 13-14):**



The exceptions noted in the Report with regard to payroll processing include a total net discrepancy of \$1,496 for the 64 employees reviewed. As will be further noted in the District's corrective action plan, turnover in the District's payroll clerk position as well as the implementation of a pilot electronic payroll system, in conjunction with implementation of other controls, will provide the District the opportunity to ensure accurate calculation of payroll going forward.

### **Conclusion**

Once again, the District's Board of Education and Administration wish to express their appreciation for the Comptroller's assistance during this audit, which will no doubt benefit the District and its taxpayers by identifying additional ways to strengthen the District's financial operations. Please let us know if your office has any questions regarding the District's response to the Report of Examination, and the District looks forward to future opportunities to work with the Comptroller's office.

**Springville-Griffith Institute Central School District,**  
**By:**

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Allison Duwe  
President- SGI Board of Education

\_\_\_\_\_  
Sylvia Root  
SGI Interim Superintendent

## **APPENDIX B**

### **OSC COMMENT ON THE DISTRICT'S REPOSE**

#### Note 1

District officials provided this financial information after the exit discussion, and we have not audited this information. As such, we will not be updating Figure 1 in our report, as that information was provided by District officials during our audit.



## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

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

For General Ledger:

- We interviewed District officials and BOCES employees to gain an understanding of the procedures in place for maintaining the District's accounting records.
- We reviewed general ledgers and journal entry reports for balance sheet accounts, specifically for interfund loans, reserve funds and capital projects.
- We compared reserve fund balances, interfund loan balances and capital projects fund account balances from the general ledgers to the annual financial report and audited financial statements and examined discrepancies.

For Payroll:

- We interviewed District officials to gain an understanding of the District's payroll process and reviewed related policies and procedures.
- We judgmentally selected a sample of 64 employees composed of the 10 highest-paid employees from each of the contract groups and the employees who are involved in the payroll process. We also selected two months of payrolls between July 2013 and April 2014, based on our audit scope period and time period of payroll staff turnover.
- We reviewed personnel files for all employees in our sample to determine whether each individual is an actual employee of the District.
- We reviewed individual contracts, collective bargaining agreements and Board minutes to document approved salaries, hourly rates, leave time accruals and usage and other miscellaneous payroll items.
- We reviewed salaries and hourly rates entered in the financial system to determine that data entered is authorized and accurate.
- We reviewed payroll registers and time sheets to determine whether employees were paid for time actually worked at the correct pay rate.

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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