



Raquette Lake Union Free School District

Business Office Operations

2023M-151 | April 2024

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Report Highlights

Raquette Lake Union Free School District

Audit Objective

Determine whether the Raquette Lake Union Free School District (District) Board of Education (Board) and District officials provided effective oversight of the Business Office operations.

Key Findings

The Board and District officials did not provide effective oversight of the Business Office operations. Specifically, the Board did not:

- Ensure the required 2021-22 annual financial report was filed.
- Obtain adequate written agreements with the third-party providing accounting and reporting services that specified the roles and responsibilities of the District and the third-party provider.
- Implement controls to safeguard the Treasurer's signature on disbursement checks and monitor the third-party online access to the District's bank accounts.

Key Recommendations

- Ensure that the required annual financial reports are filed in a timely manner.
- Ensure that written agreements appropriately assign roles and responsibilities.
- Safeguard the Treasurer's signature and monitor online banking access.

District officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

Audit Period

July 1, 2021 – July, 31, 2023

Background

The District is located in the Towns of Arietta and Long Lake in Hamilton County. The elected five-member Board is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of the School is the chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The District signed a contract with Franklin-Essex-Hamilton BOCES (BOCES) for shared Business Office services, which include bookkeeping, maintaining accounting records, preparing payroll and filing required government forms.

The District has four employees and pays tuition for students to attend a neighboring school district.

The District maintains one building as a community center.

Quick Facts

2023-24 Students	10
2023-24 Appropriations	\$405,733

Business Office Operations

How Should a School District Provide Oversight of the Business Office?

School districts may outsource their accounting recording and reporting functions to a third-party provider and may do so by utilizing a BOCES central business office. If a school district does outsource its accounting and reporting function, it is still the district's responsibility to ensure that all of the accounting functions and reporting requirements have been satisfied. As such, the school district should develop and implement procedures to oversee the business office operations performed by the third-party. For example, periodic reports should be provided by the third-party to the school district to allow school officials to monitor financial operations.

Districts that contract with a third-party provider to outsource their accounting and reporting duties must ensure that written agreements are in place which specify the roles and responsibilities of the service organization and the district. These written agreements should define the contractual relationship and responsibilities between the service organization and the district and include services provided, when and how services are provided, and the cost. The agreement with the third-party provider should also stipulate which party is responsible for filing required reports. For example, the district must file an annual financial report (ST3) within 60 days of the close of a fiscal year with the New York State Education Department (SED). However, the board remains responsible for ensuring the required annual report is filed in a timely manner and made accessible to the public through the district's website or annually published in the district's designated newspaper.

The district should ensure only authorized district staff with banking responsibilities have access to district bank accounts, and monitor bank account activity to ensure online transactions are accurate and for valid district purposes.

Not all accounting functions may be outsourced to a third-party. For example, the district should provide controls over the treasurer's signature. If a third-party prepares checks for disbursement (e.g., a BOCES), the checks should be returned to the treasurer for the signature process.

The District's Contract with BOCES Did Not Identify Roles and Responsibilities for Business Office Functions

For fiscal years 2021-22 through 2023-24, the District's contracts with BOCES did not identify the District's or BOCES' roles and responsibilities. The contracts identified the yearly cost of the shared services (Figure 1) but did not specify the services to be provided by BOCES or timelines when the services and related reports should be completed.

Neither the District officials nor BOCES staff could provide any documentation which specified either party's responsibilities for the shared service Business Office. District officials indicated the services to be provided by BOCES were Business

Office functions such as payroll, accounting and purchasing services. District officials relied on BOCES to provide the following reports monthly to the District: summary of payroll, schedule of bills for approval, warrant and bank reconciliations. The District Clerk prints an appropriations status report, revenue status report and trial balance once BOCES notifies them that the records are complete and ready to be presented to the Board. The absence of adequate contracts and a lack of consistent communication between the District and BOCES likely contributed to monthly financial reports not being provided in a timely manner to District officials and Board members. Despite District officials' attempts to get more timely information, the Superintendent said that the financial reports were often not provided to the District Clerk to distribute to the Board until an hour before Board meetings, limiting the time available to the Board to assess operations and make timely decisions.

Figure 1: BOCES Shared Services Contract Costs

School Year	BOCES Shared Services Contract Costs
2021-22	\$14,804
2022-23	\$14,381
2023-24	\$15,397

The District’s Annual Financial Reports Were Not Filed In a Timely Manner

The District’s ST3 for fiscal year 2021-22, which was required to be filed with SED within 60 days of the close of the fiscal year (June 30, 2022), was not filed by the District or BOCES until October 18, 2023, or 412 days late. BOCES also filed the District’s 2022-23 ST3 on October 18, 2023, or 49 days late. The District’s contract with BOCES (for the years 2021-22 through 2023-24) did not identify the District’s or BOCES’ roles and responsibilities. Neither the District nor BOCES could provide any documentation which specified either party’s responsibilities for the Business Office, including filing the financial information with SED. The Board President told us that the Board was not advised that the 2021-22 ST3 was not filed. However, District officials are responsible for filing the required financial information. When financial information is not filed with SED, the District may not benefit from opportunities to receive State aid. In addition, the lack of an annual report prevents the Board and other interested parties from effectively monitoring and understanding the District’s annual financial operations.

The District Allowed BOCES Employees to Disburse District Funds Without Any Review or Approval

The District allowed BOCES employees to disburse District funds by giving them access to the Treasurer’s electronic signature and to online bank accounts. The District did not implement any controls to safeguard the Treasurer’s signature. BOCES personnel electronically signed and mailed checks without review and verification by the Treasurer or any District personnel. Without an adequate review of

supporting documentation prior to the distribution of checks, the risk is increased that a disbursement could be processed, signed and mailed for an unauthorized District purpose. The Treasurer reviews the canceled check images provided in the bank statements when performing the monthly bank reconciliations. However, performing such reviews after checks have been cashed is not an effective procedure, and if District cash is lost through an unauthorized check disbursement, it may not be recoverable. District officials allowed BOCES access to electronic signatures and online banking because they did not consider the risks of third-party access to the District's bank accounts. To address the risk that a check disbursement could be processed for an unauthorized District purpose, we reviewed 20 disbursements totaling \$163,135 and determined that all were for a valid District purpose, and were audited and approved by the Board for payment.

The District allows BOCES personnel to perform automated clearing house (ACH) withdrawals from the District's bank accounts to transfer funds for employee payroll direct deposit without any review and approval by District personnel. We determined that online banking access was active for one former employee who was previously employed by BOCES. Furthermore, the BOCES Business Manager II, who is the assistant to the Business Manager, unnecessarily has administrative rights to control online banking access privileges. The District Treasurer also had unnecessary administrative access to online banking but rarely accessed the online banking or reviewed it for unauthorized online transactions. Because District officials did not consider the risks of unauthorized withdrawals, they did not ensure online access rights to bank accounts were restricted to the individuals whose job duties require online banking access, which included the Treasurer and the BOCES Business Manager II. In addition, a District staff member did not compare total employee net pay per pay period to the online ACH withdrawals to ensure they were accurate.

We reviewed four months (eight pay periods) and compared the online bank withdrawal to the pay period net pay. We determined that all eight ACH withdrawals agreed to the net pay recorded in the accounting payroll records. However, not reviewing ACH withdrawals could result in inaccurate payments being undetected or District funds being used for unapproved or unauthorized purposes.

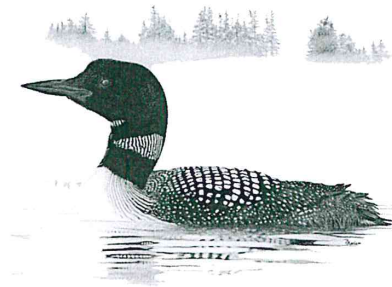
What Do We Recommend?

The Board should:

1. Ensure written agreements for accounting and reporting services provided by BOCES are developed and clearly identify the District's and BOCES' roles and responsibilities. They should include what services will be provided, when and how services will be provided and the related cost.
2. File annual financial reports in a timely manner.
3. Assign a District official to monitor online banking access and transactions to ensure that only authorized individuals with District job duties have access, and online transactions are accurate and for a valid District purpose.
4. Provide for appropriate controls to safeguard the Treasurer's check signature.

Appendix A: Response From School District Officials

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Audit Response and Corrective Action Plan

Raquette Lake Union Free School District

Business Office Operations

2023M-151

The Raquette Lake Union Free School District (RLUFSD) agrees with the findings and recommendations found in the draft audit report. RLUFSD appreciates the very positive working relationship that was maintained throughout the audit process. RLUFSD appreciates the notation in the report that all tested items were found to be for valid district purposes. RLUFSD views the audit response and corrective action plan as a mechanism by which we can strengthen our processes and procedures. This correspondence will serve as a combined Audit Response and Corrective Action Plan.

The District's Contract with BOCES did not identify roles and responsibilities for business office functions. The superintendent and FEH BOCES officials met on Thursday, March 6, 2024, to discuss the development of a service description that outlines the specific roles and responsibilities. The document will cover Accounts Payable/Purchasing, Payroll, Business Manager functions including preparation of financial reports. FEH BOCES has provided a description as a follow-up to the meeting for district review. A final service description will be in place for the start of the 2024-25 fiscal year. Person Responsible for Implementation: Stephen Shafer

The district's annual financial reports were not filed in a timely manner.

The ST-3 reports noted as not being filed in a timely manner have now been submitted and accepted by NYSED. The superintendent and FEH BOCES officials met on Thursday, March 6, 2024, to discuss the submission of the ST-3 for the current fiscal year and future fiscal years. FEH BOCES officials noted that there were issues with access credentials which have been resolved. FEH BOCES officials will prepare the ST-3 for submission in a timely manner (August 31 deadline) moving forward and will work with the superintendent to ensure that all necessary information is provided to enable preparation of the report. FEH BOCES will provide monthly financial reports in a timely manner so that they can be included in the packet emailed to board members on the Friday prior to meetings. Piloting of a revised timeline for this purpose is occurring for the March board meeting and will be fine tuned as appropriate. Person Responsible for implementation: Stephen Shafer

The district allowed BOCES employees to disburse district funds without any review and approval.

The superintendent and FEH BOCES officials met on Thursday, March 6, 2024, to discuss the process for disbursement of district funds. The disbursement of district funds includes payroll checks issued every two weeks, accounts payable checks issued once per month and very occasionally an on-demand check. The superintendent approves the processing of payroll based on submitted time sheets. This approval occurs via email to the payroll clerk at FEH BOCES after the superintendent reviews the time sheets. Accounts payable checks are issued after the board of education approves the warrant. While these steps provide authorization for the payments, they do not eliminate the risk posed by a third party having direct access to the treasurer's electronic signature and access to online banking. The following steps are being taken to mitigate the risk:

Board of Education
Aris Bird, President
Christine Widay, Vice President
Elizabeth Noonan
Jennifer Temple
Jennifer Wehrlin

Stephen T. Shafer, Superintendent of Schools
Amanda Prezbindowski, District Clerk
Louis Burke, Treasurer
Elizabeth Forsell, Tax Collector

*Original loon artwork is used by permission of its creator Brent L. Auler
<http://andereexpressions.com>*

-FEH BOCES carries coverage for employee theft in the amount of \$4,000,000 through the NYSIR. RLUFSD is the certificate holder. The current coverage (renewed annually) runs from 7/1/2023-7/1/2024. Given that the coverage is substantially more than the total bank balances ever carried by RLUFSD, the district sees this as substantially reducing the risk of loss.

-The superintendent and treasurer participated in a conference call on March 13, with [REDACTED], Retail Sales Officer at [REDACTED]. The district has a Business Online Services agreement with [REDACTED]. This agreement was established in March of 2016. An updated Business Online Services agreement will be in place for the start of the 2024-25 fiscal year on July 1, 2024. Currently, passwords are changed every three months, a token is required each time a user logs in, and ACH transfers require tokens as authorization. The ACH limit is \$3,000.

-The Treasurer's signature is password protected. The password will be changed every 90 days.

-The actual bank statements will be provided to the Board of Education monthly.

Person Responsible for implementation: Stephen Shafer

Summary

The information and action steps outlined above, when fully implemented, provide an environment where the risk of loss of funds through the actions of the third party are very low. The duties of district and FEH BOCES staff will be fully outlined by July 1, 2024. The timely submission of documents is at the forefront of our thinking and action steps are in progress to ensure that documents and reports are submitted properly and on time. The district appreciates the opportunity to strengthen processes to provide strong fiscal oversight.

Stephen I. Shafer, Superintendent _____ Date

Appendix B: Audit Methodology and Standards

We conducted this audit 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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We reviewed Board meeting minutes and District policies and procedures, and interviewed officials to gain an understanding of the Board's oversight of the Business Office operations and whether the Board obtained adequate contracts with the third-party provider for accounting services.
- We interviewed District and BOCES officials to determine whether the District had adequate processes in place to ensure that annual financial reports were filed in a timely manner.
- We reviewed the monthly financial reports BOCES provided to the Board to determine whether they were received in a timely manner and contained adequate information to allow for informed Board decisions.
- We interviewed District and BOCES officials to determine whether the Treasurer's check signing signature was appropriately applied and safeguarded.
- We interviewed District officials to determine whether the District verified, on a test basis, that source data provided to BOCES was accurately processed.
- We used our professional judgment to select 20 cash disbursements totaling \$163,135 (from a total of \$624,321) which BOCES processed to determine whether they were Board authorized and for a valid District purpose. Our selection included payments for a capital project, the purchase of equipment with grant funds, the purchase from a local department store, and to a contractor for repairs.
- We reviewed the online banking permissions to determine whether online access was limited to individuals with appropriate job duties. We used our professional judgment to select four months of ACH bank withdrawals which are representative for all months of the 2022-23 fiscal year and the only 2023-24 month included in our scope period for payroll direct deposit. These months included July 2022 (first month of fiscal year 2022-23), December 2022 (sixth month of fiscal year 2022-23), June 2023 (last month of fiscal year 2022-23), and July 2023 (first month of fiscal year 2023-24) totaling \$11,979 (from a total of \$80,828) to determine whether these withdrawals agreed to the net payroll recorded in the accounting records.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.ny.gov/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.ny.gov/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.ny.gov/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.ny.gov/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.ny.gov/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.ny.gov/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.ny.gov/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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Contact

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<https://www.osc.ny.gov/local-government>

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