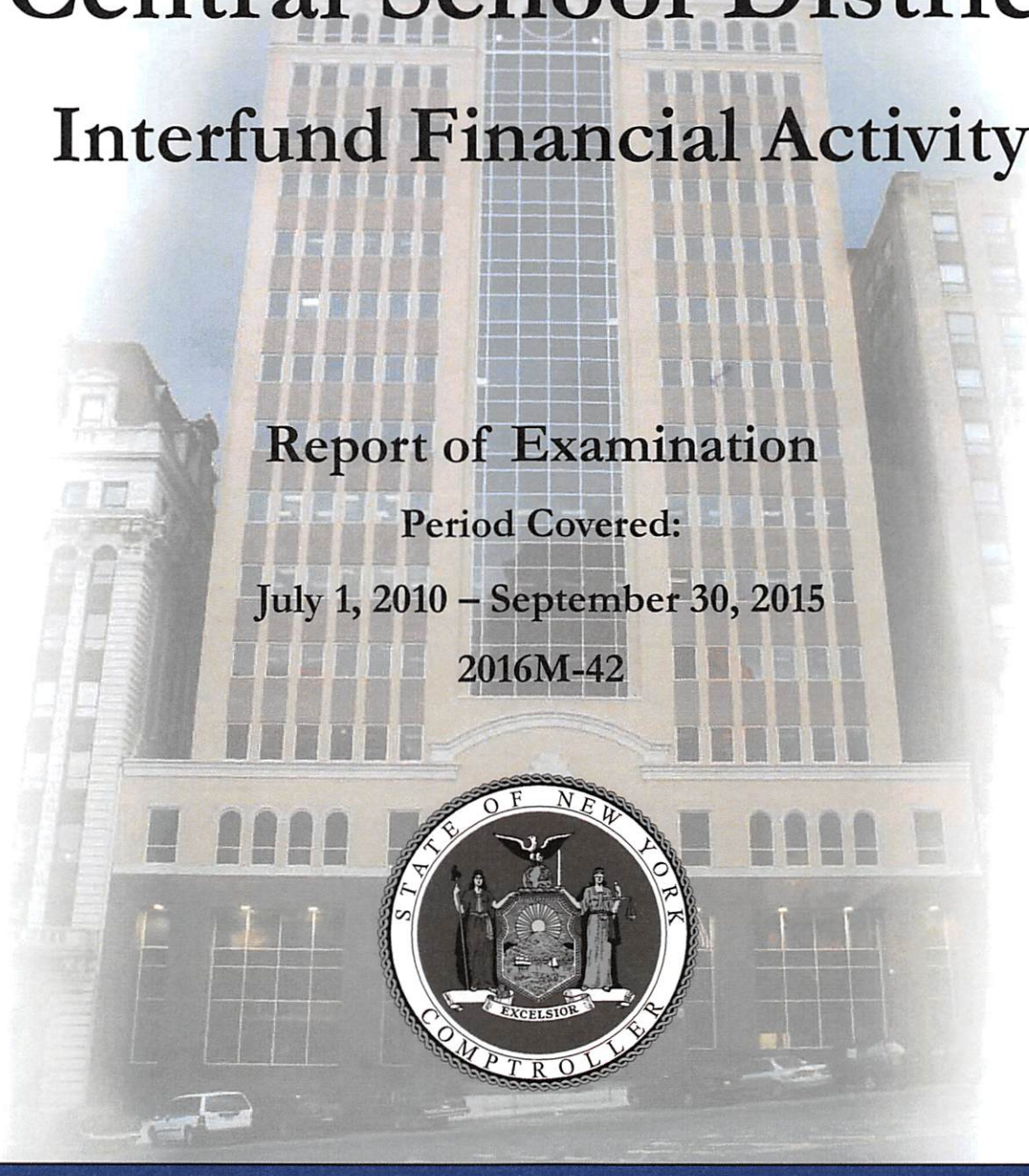
OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Grand Island Central School District

Interfund Financial Activity



Report of Examination

Period Covered:

July 1, 2010 – September 30, 2015

2016M-42

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

May 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 Grand Island Central School District, entitled Interfund Financial Activity. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

Introduction

Background

The Grand Island Central School District (District) is located in the Town of Grand Island in Erie 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 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 Assistant Superintendent of Business and Finance (Assistant Superintendent) oversees several employees and their respective day-to-day record keeping and financial duties in the District's business office, including the District Treasurer (Treasurer) who posts accounting entries. The current Assistant Superintendent began employment with the District on January 5, 2015.[1]

The District operates five schools with approximately 2,980 students and 530 employees. The District's budgeted appropriations for the 2015-16 fiscal year totaled $58.1 million, funded primarily with State aid, real property taxes, sales tax and grants.

Objective

The objective of our audit was to evaluate the interfund financial activity between the general, capital projects and special aid funds. Our audit addressed the following related question:

- Have District officials ensured that the general ledger accurately reflects the District's financial position?

Scope and Methodology

We examined the District's financial records and reports for the period July 1, 2010 through September 30, 2015. We extended our scope back to June 30, 2004 to analyze certain interfund activity.

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.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our findings and indicated they would address the recommendations. Appendix B includes our comments on issues raised in the District's response letter.

[1] The majority of the outstanding interfund activity occurred prior to the current Assistant Superintendent's employment.

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 Assistant Superintendent is responsible for ensuring that a complete, accurate and up-to-date general ledger is maintained for each fund to provide a snapshot of the fund's financial position at any point in time. The general ledger should accurately reflect fund assets, liabilities and fund balance. The Assistant Superintendent should periodically review each fund's general ledger accounts to determine if the balances are accurate, complete and up-to-date and to 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.

The District may temporarily advance cash from one fund to another fund. 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 debtor fund does not have enough cash to repay the loan, it could impact the financial condition of the fund that loaned the cash. When interfund loan balances remain outstanding for greater than one year, this may imply a permanent transfer to the receiving fund and, if that is the case, should be recognized as such.

The Assistant Superintendent did not ensure that each fund's general ledger accounts was accurate, complete and up-to-date. As a result, District officials cannot be assured that the District's financial position is accurately stated. The District's general ledger contained interfund loan balances that totaled more than $16 million among different funds as of June 30, 2014. We found interfund loan balances have been carried over from year to year on the general ledger since at least 2010-11[2] in the capital projects and special grant funds. It is difficult to assess whether a fund's financial condition is improving or deteriorating when general ledger accounts are not correct and up-to-date.

Although the District's external auditors (auditors) rendered an unqualified opinion on the District's financial statements, their management letters included significant findings with recommended corrective action regarding interfund loan activity since 2010-11. The auditors recommended that a formal reconciliation be prepared,

[2] The beginning of our audit scope. However, the majority of the balance of interfund activity existed prior to our audit period.

interfund borrowings be liquidated and amounts due between funds settled as amounts become available. Further, the auditors recommended that all interfund activity be reconciled on a monthly basis. While the District's response to the auditors' recommendations generally indicated that it would take corrective action, it does not appear that the District took appropriate corrective action.

We identified unreconciled interfund activity containing accounting errors that affected the District's Expanding our Children's Education and Learning[3] (EXCEL) Project, which was approved in 2006 and completed in 2010. Despite submitting the final project report to the New York State Education Department (SED) in June 2011, as of the end of our audit fieldwork, the District still had not reconciled the project's revenues and expenditures or the related interfund activity between the general and capital projects funds. Compounding this problem was an accounting error of $112,000 from expenditures erroneously being attributed to a capital project. If this entry is corrected, the capital projects fund would need to transfer $112,000 more to the debt reserve to be restricted to retire the related debt on this project.[4]

We also identified outstanding interfund activity between the general and capital projects funds totaling approximately $750,000. This amount related to bus purchases in 2010, 2011 and 2012 that District officials had properly authorized bond resolutions for prior to "temporarily" advancing general fund money to the capital projects fund to cover the interim expenditures. However, after the bond proceeds were issued, the District did not resolve the interfund activity even though cash was available to do so. As a result, District officials contributed to the overall high amount of unresolved interfund activity by not performing a timely review and reconciliation once the funds were made available from which to repay the fund that advanced the cash. Consequently, the general fund's cash position was $750,000 lower than it should have been.

District officials also made adjusting journal entries that were unsupported, untimely or could not be explained by District officials or the auditors. There were two entries totaling $1.1 million recorded

[3] To qualify for EXCEL funding, a project must have expenditures equal to or greater than 75 percent of the total project costs and qualify under one of the five approved categories (a physical capacity expansion project, an energy project, an accessibility project, a health and safety project or an education technology project). A maximum of 25 percent for other expenditures, including site work, will be permitted. Projects that do not meet this criteria can be approved but will not be eligible for EXCEL funding.

[4] The District currently improperly maintains its debt reserve in the general fund. This mandatory reserve must be recorded in the debt service fund.

in the capital projects fund as being due to the general fund as of June 30, 2014.[5] This balance resulted from two adjusting entries relating to expenditures for a transportation facility project which was approved by the voters on December 18, 2012. One entry was to be effective for June 30, 2014; however, it was not posted until we brought this to the Treasurer's attention during our audit fieldwork, more than a year later.[6]

District officials cannot explain the purpose of these two entries and their amounts. Moreover, neither the District nor its auditors could provide sufficient support or adequately explain the amounts for these entries. Consequently, the general fund's assets and the capital projects fund's liabilities may each be overstated by $1.1 million. This could potentially affect the cash position in both funds when the project is finished and all associated interfund activity is reconciled. As of the conclusion of our audit fieldwork in September 2015, this project was still open and active.

We also examined the unresolved interfund activity in the special aid fund as of June 30, 2014. The District reported 94 active special aid grant projects and reported expenditures totaling more than $1.4 million, 42 of which had significant unresolved interfund activity. These 42 grant projects had balances either due to, due from or both from the general fund as of June 30, 2014, with the special aid fund owing $1.7 million to the general fund and being owed $3.1 million from the general fund. The most aged unresolved interfund activity (due to general fund) of approximately $3,000 dated back to 2004.

The District relies on its auditors to provide the general ledger balances by fund when they issue the District's audited financial statements. District officials were largely unable to answer our questions related to the interfund activity we examined and needed to contact their auditors repeatedly to explain the accounting transactions. This lack of understanding accounting principles is the main cause of these accounting deficiencies that have materially impacted all three funds. By not maintaining accurate and timely accounting records, District officials cannot, at any given point in time, readily determine the District's actual financial position to make sound management decisions.

During our audit fieldwork, the interfund activity balances for 2014-15 were continuously changing and not finalized by the end of our on-

[5] One of these two entries was prepared by the auditors ($503,734) and the other was prepared by the District ($628,265).

[6] The report generated on June 17, 2015 did not show this entry while a subsequent report generated on September 11, 2015 did.

site audit fieldwork on September 30, 2015. On December 29, 2015, we contacted the District to follow up on the status of the interfund activity as of June 30, 2015. The District reported to SED interfund loan balances that totaled $3.6 million as of June 30, 2015, apparently addressing $12.4 million of outstanding interfund activity since June 30, 2014. We commend the District for its proactive response to our on-site findings and recommendations.

Recommendations

The Board and District officials should:

1. Continue to review the interfund loan balances thoroughly by ensuring to:

   - Analyze the composition of the balances and identify which capital projects or special aid grants they pertain to.

   - Review and reconcile the revenues, expenditures, cash and interfund activity of each related capital project and special aid grant.

   - Make permanent transfers to the respective receiving funds, with Board approval if needed, when completed capital projects or special grants have no cash remaining to resolve the interfund loans.

2. Ensure interfund activity balances are reconciled at least annually and repay or resolve interfund loan balances in a timely manner so loan balances are not carried over unnecessarily from year to year.

3. Ensure journal entries (including entries recommended by the auditors) are understood, supported and posted timely and accurately to the general ledger.

4. Ensure the Treasurer and other business office staff refer to publications available online from our Office, including the *Accounting and Reporting Manual for School Districts*, among others, to be effective in performing their job duties.

5. Ensure that the Assistant Superintendent periodically reviews each fund's general ledger accounts to ensure they are accurate, complete and up-to-date.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Grand Island Central School District
District Office

Administration

Teresa Lawrence, Ph.D.
Superintendent of Schools

Karen Cuddy-Miller
Assistant Superintendent for Curriculum and Instruction

Robert McDow
Assistant Superintendent of School Business and Finance

Cheryl M. Cardone
Director Pupil Personnel Services

Board of Educatic

Lisa Pyc
President

Susan Marston
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Karen Carroll
Richard D'Agostin
Joy LaMarca
Donna Tomkins

May 3, 2016

Office of the State Comptroller
Division of Local Government and School Accountability
Attn: Mr. Jeffrey D. Mazula, Chief Examiner
295 Main Street, Suite 1032
Buffalo NY 14203-2510

Dear Mr. Mazula:

We are in receipt of the draft audit from the State Comptroller's Office of the Grand Island Central School District for the period of July 1, 2010 – September 30, 2015. On behalf of the Board of Education, Administration, Faculty and Staff, we would like to thank the Comptroller's office for their professionalism and courtesy in conducting their audit. The District welcomes the feedback provided by the Comptroller's Office and appreciates the opportunity to strengthen our practices as a result of the reflection on that feedback.

The District is pleased that the draft report does not suggest any fraud or misappropriation with respect to the District's general business operations. The Comptroller's audit represents a review of the fiscal operations, practices and procedures. The District has been responsive to suggestions made throughout the process. For example, staff has attended professional development training and timelines have been established to prevent interfund balances from being carried over for multiple fiscal years.

The report, which ranges from 2004 – 2015, contains several conclusions regarding the maintenance, accuracy and reliability of the general ledger within each fund account. The Comptroller is correct in stating, "The Assistant Superintendent is responsible for ensuring that a complete, accurate and up-to-date general ledger is maintained for each fund to provide a snapshot of the fund's financial position at any point in time". The current Assistant Superintendent has only been in his position since January of 2015 and the audit commenced on May 27, 2015. At the beginning of the Comptroller's audit, the Comptroller estimated a total of $16 million in interfund loan balances dating from 2011 to June of 2014. At the conclusion of their audit this amount had been reduced by over 75% to $3.6 million.

See Note 1 Page 11

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The District is committed to correcting past practices and will continue to actively and aggressively look to ensure interfund fund activity balances are reconciled on an annual basis going forward. The District does feel however that subjective opinion statements made by the Comptroller's auditors in the report are misleading and inappropriate. The District will continue to concentrate on the recommendations received from the Comptroller.

See Note 2 Page 11

The District will continue with its corrective action plan by following the audit's recommendation to reduce the amount of interfund balances between fund accounts at year end.

The Grand Island School District thanks the Comptroller for the opportunity to review and respond to these recommendations and will continue to be fiscally prudent in the best interest of its taxpayers.

Sincerely,

Teresa Lawrence, Ph.D.
Superintendent of Schools

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We examined the District's financial records and reports for the period July 1, 2010 through September 30, 2015. We extended our scope back to June 30, 2004 to analyze certain interfund activity.

Note 2

It is unclear which statements District officials are referring to. However, as noted in Appendix C, we conducted this audit in accordance with generally accepted government auditing standards. 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.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the interfund financial activity between the general, capital projects and special aid funds for the period July 1, 2010 through September 30, 2015. We extended our scope back to June 30, 2004 to analyze certain interfund activity. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials to obtain an understanding of the District's recording of certain financial activity.

- We analyzed interfund loan balances in the general, capital projects and special aid funds to gain an understanding of interfund activity and assess whether the District is in compliance with statutory requirements.

- We analyzed the composition of interfund loan balances as of June 30, 2014 in the capital projects fund and further evaluated capital projects associated with those interfund loan balances to verify whether those interfund loan balances were supported.

- We examined the composition of interfund loan balances as of June 30, 2014 in the special aid fund and further summarized the status of numerous grants associated with those interfund loan balances.

- We contacted District officials on December 29, 2015, subsequent to the completion of on-site audit fieldwork, to determine if outstanding interfund activity balances had been addressed.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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APPENDIX E

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Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
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Grand Island Central School District

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August 15, 2016

Office of the State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th Floor
Albany, New York 12236

Unit Name: **Division of Local Government and School Accountability**

Audit Report Title: **Interfund Financial Activity**

Audit Report Number: **2016M-42**

Dear Mr. DiNapoli:

The Grand Island Central School District would like to acknowledge the recommendations contained in the New York State Comptroller's Report to further strengthen interfund financial activity. We are always interested in identifying ways to improve our practices and procedures so we can continue to ensure responsible stewardship.

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations.

For each recommendation, the Board and District Officials should:

1. **Audit Recommendation:**
   Continue to review the interfund loan balances thoroughly by ensuring to:
   - Analyze the composition of the balances and identify which capital projects or special aid grants they pertain to.
   - Review and reconcile the revenues, expenditures, cash and interfund activity of each related capital project and special aid grant.
   - Make permanent transfers to the respective receiving funds, with Board approval if needed, when completed capital projects or special grants have no cash remaining to resolve the interfund loans.

   Implementation Plan of Action(s):
   All interfund loan balances have been thoroughly reviewed, analyzed and will be reconciled on a monthly basis by the District Treasurer. Upon review by the Treasurer, all transfers will then be signed off by the Assistant Superintendent of School Business and Finance for accuracy and completeness.

   Implementation Date:
   May 2016

   Person Responsible for Implementation:
   Assistant Superintendent of School Business and Finance, District Treasurer

2. **Audit Recommendation:**
Ensure interfund activity balances are reconciled at least annually and repay or resolve interfund loan balances in a timely manner so loan balances are not carried over unnecessarily from year to year.

Implementation Plan of Action(s):
All interfund loan balances will be closed out by the end of the year end audit if the loan was paid off during the fiscal year. All other interfund loan balances/accounts will be reconciled yearly and will not be carried over unless the loan is still in the repayment period.

Implementation Date:
Immediately

Person Responsible for Implementation:
Assistant Superintendent of School Business and Finance, District Treasurer

3. **Audit Recommendation:**
Ensure journal entries (including entries recommended by the auditors) are understood, supported and posted timely and accurately to the general ledger.

Implementation Plan of Action(s):
All journal entries will be (including entries recommended by the auditors) understood, supported, posted timely and accurately to the general ledger in the future. The District Treasurer will be given support by the Assistant Superintendent of School Business and Finance and sent to the appropriate training to gain the knowledge needed to post the journal entries on a timely and yearly basis.

Implementation Date:
Immediately

Person Responsible for Implementation:
Assistant Superintendent of School Business and Finance, District Treasurer

4. **Audit Recommendation:**
Ensure the Treasurer and other business office staff refer to publications available online from our Office, including the *Accounting and Reporting Manual for School Districts*, among others, to be effective in performing their job duties.

Implementation Plan of Action(s):
The entire Finance department will attend the appropriate training to be more effective in performing their jobs. All online publications, Accounting and Reporting Manuals for Schools Districts and other forms of training deemed necessary will be referenced in helping to increase the aptitude of the finance department staff.

Implementation Date:
May 2016

Person Responsible for Implementation:
Board of Education, Superintendent of Schools and Assistant Superintendent of School Business and Finance

5. **Audit Recommendation:**
Ensure that the Assistant Superintendent of School Business and Finance periodically reviews each fund's general ledger accounts to ensure they are accurate, complete and up-to-date.

Implementation Plan of Action(s):
All general fund ledger accounts, interfund loan balances and appropriate journal entries will be reviewed by the Assistant Superintendent of School Business and Finance. To ensure for accuracy and completeness, all accounting activity will be reviewed on a quarterly basis with the District Treasurer to prevent general ledger accounts from being carried over to the next fiscal year unless fiscally necessary.

Implementation Date:
Immediately

Person Responsible for Implementation:
Assistant Superintendent of School Business and Finance

Respectfully Submitted,

Lisa Pyc, President
Grand Island Board of Education

Dr. Brian Graham, Superintendent of Schools
Grand Island Central Schools

C: NYS Education Department
Office of Audit Services