



Freed Maxick CPAs, P.C.

Dansville Central School District Review of Budget Process

Internal Audit Report

February 7, 2023

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Dansville Central School District
Audit Committee
337 Main Street
Dansville, New York 14437

Dear Audit Committee:

We have performed an internal audit of the internal controls over the budget process of Dansville Central School District (the District). Our internal audit focused on budget development. Our internal audit was performed during 2022 in accordance with the terms of our engagement letter and the applicable internal audit procedures. Our report contains the following:

- ❖ **Executive Summary** - an overview of the risk factors considered, an overall internal audit rating, and a summary of the key observations.
- ❖ **Observations** - detail related to specific findings noted during the current year testing.

This report contains observations and recommendations for improvement for consideration by the Board of Education, the audit committee, and school district officials.

This report is intended solely for the information and use of the District. It is not intended to be and should not be used by anyone other than these specified parties. The New York State Comptroller's Office (OSC) may be provided with a copy of this report in connection with fulfilling their oversight responsibilities.

We appreciate the cooperation extended to us during this review. If we can be of assistance to you or if you have any questions concerning this report, please contact Kathryn Barrett at (585) 344-1967.

Sincerely,



Freed Maxick, CPAs, PC

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I. EXECUTIVE OVERVIEW

Introduction

We recently completed an internal audit of the District’s internal controls over budgeting and reporting of Dansville Central School District (the District) with the primary objective evaluating budget development, presentation and reporting. This report is intended solely for the information and use of the District and should not be used for any other purpose.

Internal Audit Scope

We completed an internal audit of the District’s process related to budget development, presentation and reporting in accordance with the internal audit plan and planning memo. Our internal audit was performed to:

- ❖ Gain an understanding of the process,
- ❖ Identify the risks and exposures,
- ❖ Assess the impact of such risks on finances of the District or compliance with OSC or other guidelines, and
- ❖ Evaluate the adequacy of internal controls in place to mitigate the identified risks.

Overview of Observations

During the course of our work, we discussed our observations with management. Our detailed observations are described in the detailed issue matrix of this report. A summary of key issues is provided below.

Observation Description	Relative Risk	Resolution Level of Difficulty
1. Unable to verify when the 2021/2022 budget was made available to the public and when the budget notice was mailed.	Low	Low
2. Budget notice was mailed before the budget hearing.	Low	Low
3. Consumer Price Index (CPI) information in 2021/2022 budget newsletter was not accurate.	Low	Low
4. Certain report card information provided by SED was omitted in the 2020/2021 budget newsletter.	Low	Low
5. Certain financial information was not posted on the District's website.	Medium	Low
6. Supporting documentation for current year capital exclusions was not available.	Medium	Low
7. Significant budget transfers were made to correct negative balances.	Medium	Low
8. Actual expenditures were significantly lower than budget.	High	Medium
9. Actual revenues were significantly lower than budget.	High	Medium

- ❖ Relative Risk is an evaluation of the severity of the concern and the potential impact on the operations. Items rated as “High” are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as “Moderate” may also cause operational issues and do not require immediate attention but should be addressed as soon as possible. Items rated as “Low”

could escalate into operational issues but can be addressed through the normal course of conducting business.

- ❖ Resolution Level of Difficulty is an evaluation of the estimated level of difficulty and potential cost to resolve the concern based on our experience. Items rated as “High” are considered to be difficult to resolve and/or will require a significant amount of planning and management involvement/oversight in order to obtain resolution. Items rated as “Moderate” are not as difficult to resolve and/or do not require a significant amount of planning but may be time-consuming to resolve. Items rated as “Low” are items that are not complex and/or do not require significant amounts of planning and time to resolve.

Conclusion

A “Needs Improvement” internal audit rating, as defined below, was assigned following this internal audit based on the identification of the key findings summarized above, as well as other less significant comments that can be addressed by management in the normal course of business.

RATINGS	CONDITIONS
SATISFACTORY	No significant deficiencies exist, while improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall District.
NEEDS IMPROVEMENT	Some improvement needed to bring District to acceptable status but if continues without attention, could lead to further deterioration and an unsatisfactory status.
UNSATISFACTORY	Significant deficiencies exist which could lead to material financial loss or embarrassment to the District.

Internal Audit Approach

To accomplish the scope of this internal audit, we reviewed:

- ❖ Budget newsletters
- ❖ Budget meeting minutes
- ❖ Budget summaries and hearing presentations
- ❖ Property tax caps
- ❖ Revenue, appropriation status, and budget transfer reports
- ❖ OSC executive and legislative budgets, inflation and levy growth factors, and audit reports
- ❖ SED report cards and budgeting guidelines

It should be recognized that budgets are prepared based on available financial and other information available at the time and are conservative in nature to allow for a certain level of unknown contingencies. The budget development process should be in compliance with all budgetary laws and regulations, transparent to all those involved in the process (management and the Board of Education) and be fiduciarily responsible to the taxpayers of the District.

The projection of any evaluation of the budgetary process to future periods is subject to the risk that the process may become inadequate because of changes in conditions, and that the process may improve or deteriorate.

Scope and Methodology

During this internal audit we examined the budget development process and the District compliance with budgetary laws and regulations. More information on the procedures performed to evaluate the process and compliance with budgetary laws and regulations is included in Appendix A of this report.

Comments of District Officials and Corrective Action

The results of our internal audit and observations have been discussed with District officials and their comments, which appear in this report, have been considered in preparing this report.

Management has responded to our observations in this report. It is the Audit Committee's responsibility to review, accept, and monitor the implementation of the corrective action plan. For guidance in preparing the corrective action plan, Management may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

II. DETAILED OBSERVATIONS AND RECOMMENDATIONS - BUDGETING

Observation	Recommendation	Management Response
1. Unable to verify when the 2021/2022 budget was made available to the public and when the budget notice was mailed.		
<p>While reviewing the budget process for the fiscal year ended June 30, 2022, we noted there was no evidence of when the budget was actually made available to the public and when the budget notice was actually mailed.</p>	<p>We recommend the District retain evidence of when the budget was made available to the public and when the budget notice was mailed (i.e. a copy of the newspaper notice.)</p>	<p>Corrective Action: The District Clerk has entered a calendar record to document that the 2023/2024 budget has been made available to the public. The District Clerk has also maintained an electronic record of confirmations that the budget has been delivered to required locations. This will become standard practice for the District Office moving forward.</p> <p>Responsible Party: District Clerk, Margaret Mistretta Target Date: May 2023</p>
2. Budget notice was mailed before the budget hearing.		
<p>While reviewing the budget process for the fiscal year ended June 30, 2022, we noted the budget calendar indicated the budget notice was to be mailed before the budget hearing.</p>	<p>We recommend the District follow SED budgeting guidelines which indicate the budget notice be mailed after the budget hearing, but no later than 6 days before the budget vote.</p>	<p>Corrective Action: This item was corrected on the adopted 2022/2023 Budget Development Calendar in November 2021. In May 2022, the Budget Notice was mailed after the budget hearing, but no later than 6 days before the budget vote for fiscal years 2022/2023.</p> <p>Responsible Party: Superintendent, Paul Alioto Target Date: May 2022</p>

Observation	Recommendation	Management Response
3. Consumer Price Index (CPI) information in 2021/2022 budget newsletter was not accurate.		
<p>While reviewing the annual report card included in the 2021/2022 budget newsletter, we noted the CPI for 2021/2022 did not agree to the OSC inflation factor. In addition, we noted the description for this line item was "Change in Consumer Price Index," instead of "Consumer Price Index". Furthermore, we noted the Percent Change was not calculated correctly.</p>	<p>If the District continues to include CPI information in the budget newsletters, we recommend the District utilize OSC's inflation factor, use the description "Consumer Price Index," and calculate the percent change correctly. CPI information is not required to be included in the annual report card.</p>	<p>Corrective Action: This item has been corrected as of May 2022 for the 2022/2023 fiscal year. The percent "Change in Consumer Price Index" was removed from the tax report card.</p> <p>Responsible Party: School Business Manager, Joanne Greene</p> <p>Target Date: May 2022</p>
4. Certain report card information provided by SED was omitted in the 2020/2021 budget newsletter.		
<p>While reviewing the annual report card included in the 2020/2021 budget newsletter, we noted the Percent Change for the "Total Proposed School Year Tax Levy" and the "Public School Enrollment PreK-12" was omitted.</p>	<p>We recommend the District include the Percent Change for the "Total Proposed School Year Tax Levy" and the "Public School Enrollment PreK-12," consistent with the information included in SED's annual report card for the District.</p>	<p>Corrective Action: This item has been corrected as of May 2022 for the 2022/2023 fiscal year. The District included the percent change for the "Total Proposed School Year Tax Levy" and the "Public School Enrollment PreK-12," consistent with the information included in SED's annual report card for the District.</p> <p>Responsible Party: School Business Manager, Joanne Greene</p> <p>Target Date: May 2022</p>

Observation	Recommendation	Management Response
5. Certain financial information was not posted on the District's website.		
<p>New York State laws, Chapter 514 of the Laws of 2016, require certain information to be posted to district websites to help enhance the public's access to basic information. While reviewing the budget newsletters, we noted the 2020/2021 and 2022/2023 budget newsletters did not appear to be posted on the District's website. We also could not locate other financial information on the District's website, such as: external audit reports, final annual budgets, budget-to-actual reports, internal audit reports, and a multiyear financial plan.</p>	<p>We recommend the District post the required financial information to the District's website in a transparent and comprehensive manner, in accordance with New York State laws Chapter 514 of the Laws of 2016. We recommend the District post their original and final annual budgets, multiyear financial plan, budget-to-actual reports, external audit reports and corrective action plans, OSC audit reports and corrective action plans, and internal audit reports and corrective action plans.</p>	<p>Corrective Action: This item was corrected as of May 2022. The District created a tab on its website called "Budget" and posted budget newsletters for each school year from 2017/2018 through 2023/2024. Additionally, the District posted external audit reports and corrective action plans on its website for each school year from 2018/2019 through 2021/2022. The District will add the appropriate financial statements to the website on an annual basis.</p> <p>Responsible Party: School Business Official/Deputy Superintendent, Thomas Frazier</p> <p>Target Date: May 2023</p>
6. Supporting documentation for current year capital exclusions was not available.		
<p>While reviewing the tax cap for the 2020/2021 and 2021/2022 fiscal years, we were unable to review and verify calculations of current year capital exclusions due to the lack of supporting documentation.</p>	<p>We recommend the District retain capital exclusion supporting documentation. This information is also subject to audit by the OSC.</p>	<p>Corrective Action: This has been corrected for the 2022/2023 fiscal year.</p> <p>Responsible Party: School Business Manager, Joanne Greene</p> <p>Target Date: May 2022</p>

Observation	Recommendation	Management Response
7. Significant budget transfers were made to correct negative balances.		
<p>While reviewing the budget transfers for 2019/2020 and 2020/2021 fiscal years, we noted \$1.3M and \$0.2M in budget transfers, respectively, relating to correcting negative balances.</p>	<p>We recommend the District consider establishing controls in the District's financial management system that would prohibit expenditure of funds when sufficient appropriations are not available. In such cases, management would need to process a budget transfer before such requisitions or expenditure can be processed.</p>	<p>Corrective Action: The District will continue to refine the annual budget and work toward an improved budget that requires fewer transfers. The District will process budget transfers before expenditures are made whenever possible. This is more challenging with payroll because transfers are more challenging to predict in a short timeframe.</p> <p>Responsible Party: School Business Manager, Joanne Greene and School Business Official/Deputy Superintendent, Thomas Frazier</p> <p>Target Date: Ongoing</p>
8. Actual expenditures were significantly lower than budget.		
<p>While comparing the original appropriation budget to the final modified appropriation budget for the 2019/2020 and 2020/2021 fiscal years, we noted the District was conservative in budgeting expenditures. Total actual expenditures were lower than budget by \$3.3M and 10%, and \$3.9M and 12%, respectively.</p>	<p>We recommend the District carefully evaluate District needs and relevant expenditure history in development of the budget. As documented in OSC audits of other school districts, districts should develop and adopt budgets based on reasonable estimates.</p>	<p>Corrective Action: This has been corrected for the 2023/2024 fiscal year. The District carefully reviewed relevant expenditure history during budget development process and adopted a budget based on reasonable estimates.</p> <p>Responsible Party: Superintendent, Paul Alioto and School Business Official/Deputy Superintendent, Thomas Frazier</p> <p>Target Date: April 2023</p>

Observation	Recommendation	Management Response
9. Actual revenues were significantly lower than budget.		
<p>While comparing the revenue budget for the 2020/2021 and 2021/2022 fiscal years to actual revenues for the previous two fiscal years, we noted the District budgeted revenues were significantly less than actual revenues for the previous two fiscal years. Total actual revenues for the previous two fiscal years were lower than the revenue budget for the subsequent fiscal year by \$3.1M and 10%, and \$5.1M and 16%, respectively.</p>	<p>We recommend the District review historical revenue trends and state aid projections when developing its revenue budget. As documented in OSC audits of other school districts, districts should develop and adopt budgets based on reasonable estimates.</p>	<p>Corrective Action: This has been corrected for the 2023/2024 fiscal year. The District carefully reviewed historical revenue trends and state aid projections during the budget development process and adopted a budget based on reasonable estimates.</p> <p>Responsible Party: Superintendent, Paul Alioto and School Business Official/Deputy Superintendent, Thomas Frazier</p> <p>Target Date: April 2023</p>

APPENDIX A

INTERNAL AUDIT METHODOLOGY

To accomplish our internal audit objective, we performed a risk assessment of the internal controls in order to design our internal audit to focus on areas of higher risk. Our risk assessment included evaluations of the following areas: accounting systems, centralized and decentralized cash receipts, grant administration, state aid, purchasing and cash disbursements, payroll, employee benefits and paid time off, fuel depot, and fixed assets.

During the risk assessment, we interviewed appropriate District officials and reviewed pertinent documents such as District policies and procedures manuals and financial records and reports. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our risk assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct, identified for internal audit those areas most at risk. The Audit Committee selected budgeting for further audit testing.

We obtained an understanding of the District's controls and procedures for collection of data to support the process of budget development. We reviewed budget newsletters, meeting minutes, budget summaries and presentations, property tax caps, financial management system reports, OSC budgets, inflation and levy growth factors, and audit reports, and SED report cards and budgeting guidelines.

Our internal audit methodology requires that we understand the District's management process and those laws, rules and regulations that are relevant to the District's operations included in the scope of our internal audit. We believe that the procedures performed provide a reasonable basis for the findings, observations and recommendations contained in this report.

APPENDIX B**INTERNAL AUDIT PROCEDURES PERFORMED**

We performed the procedures enumerated below, which were agreed to by the Audit Committee of the District. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures performed are summarized as follows:

1. We reviewed the budget process for the fiscal year ended June 30, 2022. We verified the public hearing was conducted within the timeframe required under Education Law. We were unable to verify if budget notices were published within the timeframe required under Education Law.
2. For the fiscal years ended June 30, 2021 and 2022, we reviewed the budget presented to the voters in the budget newsletter and verified it contained the following information:
 - Administrative budget
 - Program budget
 - Capital budget
 - Contingent budget information
 - Annual report card prepared by NYS Education department
3. For the 2020/2021 and 2021/2022 fiscal years, we reviewed the tax cap prepared by the District.

We verified the information contained in the calculation of the tax cap for the 2020/2021 and 2021/2022 fiscal years to documentation provided by the District, including:

- Total taxes levied in the prior year
- Tax cap reserves, if any
- Estimate of PILOTs receivable from the previous year
- Estimate of PILOTs receivable for the current year (ensuring the amount is reasonable in comparison to the actual PILOT revenue from the prior year or estimates of PILOTs revenue received from the local IDA)
- Prior year capital exclusions

We were unable to verify the calculation of current year capital exclusions including budgeted debt service payments and capital expenditures less aid to be received on related capital expenditures (based on aid runs available at the time).

4. For the 2019/2020 and 2020/2021 fiscal years, we reviewed budget to actual reports and all budget transfers and amendments for reasonableness.
5. For the 2020/2021 and 2021/2022 fiscal years, we reviewed the following:
 - A. Client provided budget summaries and budget hearing presentations.
 - B. We compared the proposed expenditure budget to actual expenditures for the previous two fiscal years. For variances in excess of 10%, we verified the variance was consistent with the major budget objectives, changes in programs or services provided above.

- C. For the 2019/2020 and 2020/2021 fiscal years, we compared the original appropriation budget to the final modified appropriation budget. For any variances in excess of 10%, within the budgeted line item and 1% of the total budget, we obtained an explanation of the variance.
- D. We compared the proposed revenue budget (excluding property taxes and state aid) to actual revenues for the previous two fiscal years. For any variances in excess of 10%, within the budgeted line item and .1% of the total budget, we obtained an explanation of the variance or reviewed for reasonableness.
- E. We compared the amount budgeted for property taxes to the tax cap calculation prepared by the District and ensured the amount did not exceed the maximum amount permitted.
- F. We compared the amount budgeted for state aid to the executive budget provided by the State.
- G. We compared the amount of fund balance appropriated for the fiscal year to the fund balance available upon review of the previous year's financial statements.
- H. We made inquiries of the District about the budget and budget process and reviewed budget hearing presentations by the Superintendent to the Board of Education.