



Waterford-Halfmoon Union Free School District

2019/2020 Audit Results

Required Communications with Those Charged With Governance

Audit Report

Report on Internal Control Over Financial Reporting and Compliance in Accordance with *Government Auditing Standards*

Financial Statement Highlights

Financial Statement Footnote Highlights

Management Letter

Extraclassroom Activity Fund



Required Communications – AUC 260 Letter

- Qualitative Aspects of Accounting Practices
 - Management is responsible for the selection and use of appropriate accounting policies, which are described in Note 1 to the financial statements
 - No new accounting policies were adopted and the application of existing policies was not changed during 2019-2020
- Significant Accounting Estimates
 - Accounting estimates are an integral part of the financial statements
 - The most sensitive estimates affecting the financial statements were managements estimates of the
 - depreciable lives of property and equipment
 - compensated absences
 - other postemployment benefits and related deferred outflows/inflows
 - net pension asset/liability and related deferred outflows/inflows
- Difficulties Encountered in Performing the Audit
 - We encountered no difficulties in dealing with management in performing and completing our audit



Required Communications – AUC 260 Letter

- Corrected and Uncorrected Misstatements
 - Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to management
 - Management corrected all such misstatements
- Disagreements with Management
 - We had no disagreements with management during the course of our audit
- Management Representations
 - We have requested certain representations from management that were included in the management representation letter
- Management Consultations with Other Independent Accountants
 - To our knowledge, there were no consultations with other accountants
- Other Audit Findings or Issues
 - We generally discuss a variety of matters with management during the year prior to our retention as the Entities' auditors. These discussions occurred in the normal course of business.
- Required Supplementary Information and Supplemental Schedules



Audit Report – pgs. 1-3

- Report on the Financial Statements
 - We have audited the financial statements of the governmental activities and each major fund at Waterford-Halfmoon Union Free School District and the related notes to the financial statements
- Management’s Responsibility
 - Preparation and fair presentation of the financial statements
 - Design, implementation and maintenance of internal control
- Auditor’s Responsibility
 - Express an opinion on the financial statements based on our audit
 - Conduct audit in accordance with generally accepted auditing standards and *Government Auditing Standards*
 - Perform procedures to obtain evidence about the amounts and disclosures in the financial statements based on judgement and risk assessment
 - Consider internal control, but not for the purpose of expressing an opinion on internal controls
 - Evaluate accounting policies and estimates used by management
- Unmodified Opinion
- Correction of an Error – Note 5
- Required Supplementary Information and Supplemental Schedules



Report on Internal Control Over Financial Reporting and Compliance in Accordance with *Government Auditing Standards* – pages E1-E5

- Internal Control Over Financial Reporting
 - In the course of our audit we considered the District’s internal controls to determine the audit procedures most appropriate in the circumstances to express our opinions on the financial statements, but not to express an opinion on the effectiveness of the District’s internal control.
 - A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
 - Based on our considerations, given the limitations noted above, we did identify a deficiencies in internal control that we deem to be a material weakness and significant deficiencies.
- Compliance and Other Matters
 - Our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Material Weakness – pg. E1 – E5

2020-001 Year-end Accounting

Criteria: To accurately present the financial position of the District, general ledger accounts should be reconciled and monitored throughout the year by management. The accuracy of financial data is crucial to the budget process.

Condition: Multiple journal entries were necessary to reflect accurate year end balances of revenue, assets, reserves, expenditures and liabilities.

Cause: Errors were made throughout the year that were not identified during the year end closing process. Additionally, unforeseen implications of COVID-19 limited the Business Managers availability to perform detailed reviews prior to the start of the audit.

Context: Financial data could be inaccurate throughout the year without a monthly formal closing or reconciliation process. Balances provided initially were inaccurate and multiple versions of reports had to be reviewed and compared to originally provided information to ensure all significant changes were adequately considered. It should be noted that once the Business Manager was able to perform a detailed review the information provided was more complete and accurate.

Material Weakness – pg. E1 – E5

2020-001 Year-end Accounting

Effect: There were many adjustments made by the District as a result of audit procedures and inquiries resulting in different instances of trial balance, appropriation status and revenue status reports. This also caused a delay in the performance of audit procedures as procedures could not be performed until the District finished their reconciliations and review.

Recommendation: A formal monthly reconciliation process should be implemented to identify and correct errors in a timelier fashion. The monthly reconciliation as well as the formal year end closing process should be reviewed closely and timely by the Business Manager. Due to the business office employees being new to their positions and responsibilities the District may also want to consider providing those employees with school district accounting training to assist them in their new roles.

Views of responsible officials and planned corrective actions: The District has instituted a process whereby the Treasurer performs monthly reconciliations of various aspects of the accounting records and reviews them with the Business Manager for accuracy and completeness on a monthly basis. The Business Manager will continue providing on-the-job training to all Business Office staff and will evaluate further training opportunities.

Significant Deficiency – pg. E1 – E5

2020-002

Segregation of Duties

Criteria: The District should strive to have adequate segregation of the authorization, safekeeping and record keeping responsibilities. If adequate segregation is not possible, there should be compensating controls in place.

Condition: nVision permissions and other various controls were reviewed and determined to be inadequate. It was noted that the Financial Support Specialist has significant access in nVision including creating and editing employees, creating journal entries, processing payroll and creating and printing checks. Further, it was noted that there are some compensating controls to address the access to the accounting software, such as journal entry review, however not enough to address the concern of software access.

Cause: The business office has limited employees and compensating controls were not properly put into place or evidence of those controls were lacking.

Significant Deficiency – pg. E1 – E5

2020-002

Segregation of Duties

Context: Inadequate segregation of duties creates risks and opportunities for misappropriation of assets or fraudulent financial reporting. As noted above, compensating controls are present but are not documented sufficiently to determine their adequacy or effectiveness.

Effect: Unauthorized or unsupported payroll transactions or journal entries could be processed without the proper review and approval.

Recommendation: While we understand that complete segregation of duties is not always feasible in governments of similar size to the District, there are compensating controls that can be implemented to help reduce the risk of material misstatement of the financial statements due to clerical errors or misappropriation of assets. The District should review all access to nVision and any other software used to ensure access is properly restricted. If access cannot be restricted, the District should implement compensating controls. For example, management could implement a process in which a payroll change report could be reviewed periodically to ensure any changes made to payroll are reviewed, authorized, and supported. As an alternative your Claims Auditor could review your payroll and agree to supporting documentation.

Views of responsible officials and planned corrective actions: The District instituted additional controls in 2019-20, including a digital review and approval of all journal entries before they were posted to the accounting records. To further mitigate this weakness, the District will delegate software access responsibilities to an individual outside of the Business Office.

Significant Deficiency – pg. E1 – E5

2020-003

Timesheet Review

Criteria: All manual or electronic timesheets should to be reviewed for accuracy and approved by an appropriate individual that is not part of the payroll process.

Condition: There are three distinct types of employees that could have manual timesheets: custodial, bus drivers and teacher aides. The custodial timesheets are being reviewed by the Director of Facilities and Operations, however, he does not document his review on said timesheets. The bus driver timesheets are being reviewed by the Business Manager, however she also does not document her review. Lastly, regarding the teacher aide timesheets communication was unclear whether any review was taking place, however no review was documented.

Cause: The business office has limited employees and the review of timesheets was not enforced or documented properly.

Context: Payroll is the largest expenditure of the District and subject to various laws and union agreements. Proper review and approval is important to ensure the District is in compliance with those laws and union contracts.



Significant Deficiency – pg. E1 – E5

2020-003

Timesheet Review

Effect: Unauthorized, improper or incorrect payroll transactions could be processed without the proper review.

Recommendation: We recommend that the supervisory individual of each department review their department's timesheets to ensure accuracy and completeness and document their approval of time worked. It is also our understanding that there are electronic time clocks being used, however they are not consistently being reconciled to the manual time sheets and the electronic function to import the time into nVision to process the payroll is not currently being utilized.

Views of responsible officials and planned corrective actions: The District is instituting a process whereby all-time records will be reviewed and approved in the District's electronic timekeeping system.



Material Noncompliance – pg. E1 – E5

2020-004 Compliance with New York State Real Property Tax Law.

Statement of Condition: The unassigned fund balance of the general fund exceeded 4% of the 20/21 general fund budget by \$1,136,631.

Criteria: NYS Real Property Tax Law 1318 limits the amount of unassigned fund balance a District can have to no more than 4% of the general fund budget for the ensuing fiscal year.

Cause: The cumulative effect of expenditures being significantly under budget and excess fund balance.

Effect of Condition: The District was not in compliance with Real Property Tax Law.

Context: As part of audit procedures compliance with the NYS Real Property Tax Law 1318 limits is reviewed.



Material Noncompliance – pg. E1 – E5

2020-004

Compliance with New York State Real Property Tax Law.

Recommendation: The District should develop a plan regarding how to address and use the excess in future years.

Views of responsible officials and planned corrective actions: The District acknowledges that its unrestricted fund balance exceeds the NYS limit. However, the District feels that in light of the fiscal uncertainties now faced by all NYS schools, maintaining such fund balance is fiscally prudent. In 2020-21 the District anticipates using additional fund balance to finance unbudgeted costs related to reopening under COVID-19 circumstances. Additionally, if NYS proceeds with reducing State aid to school districts, the District will appropriate this fund balance in an effort to maintain services at current levels, if at all possible. Such actions will minimize the taxpayer impact of COVID-19 spending and potential State aid reductions.



Material Noncompliance – pg. E1 – E5

2020-004

Compliance with New York State Real Property Tax Law.

Recommendation: The District should develop a plan regarding how to address and use the excess in future years.

Views of responsible officials and planned corrective actions: The District acknowledges that its unrestricted fund balance exceeds the NYS limit. However, the District feels that in light of the fiscal uncertainties now faced by all NYS schools, maintaining such fund balance is fiscally prudent. In 2020-21 the District anticipates using additional fund balance to finance unbudgeted costs related to reopening under COVID-19 circumstances. Additionally, if NYS proceeds with reducing State aid to school districts, the District will appropriate this fund balance in an effort to maintain services at current levels, if at all possible. Such actions will minimize the taxpayer impact of COVID-19 spending and potential State aid reductions.



Material Noncompliance – pg. E1 – E5

2020-005 Compliance with General Municipal Law

Statement of Condition: The reserve for employee benefit accrued liability exceeds the compensated absences balance at June 30, 2020 by \$507,746.

Criteria: General Municipal Law 6p limits the amount included in the reserve for employee benefit accrued liability to no more than the amount accrued in the compensated absences long-term liability account.

Cause: The District has historically had excess amounts in their reserve.

Effect of Condition: The District was not in compliance with General Municipal Law.

Context: As part of audit procedures compliance with the General Municipal Law 6p limits is reviewed.

Recommendation: The District should continue to use the reserve balance to the extent allowed each year and work towards reducing the balance to be in compliance.

Views of responsible officials and planned corrective actions: The District reduced the balance in the EBALR significantly in 2019-20 by using it to fund a retirement incentive. Additionally, the District plans to use the EBALR reserve to fund any and all retirement payments for leave accruals in 2020-21 and future years. The District will continue to do so until the EBALR reserve balance does not exceed the total compensated absence liability.

Financial Statement Highlights

Full Accrual or Entity-Wide Financial Statements pgs B1 and B2

- Statement of Net Position and Statement of Activities and Changes in Net Position
 - Net Deficit of (\$3.3mm)
 - OPEB \$23.7mm
 - PPA of (\$849k)

Modified Accrual Financial Statements pgs B3 and B4

- Balance Sheet – Governmental Funds and Statement of Revenues, Expenditures and Change in Fund Equity – Governmental Funds
 - Accounts Payable
 - Deferred Inflows of Resources
 - General Fund (\$3.1m)
 - School Lunch (\$108k)
 - Special Aid \$0
 - Debt Service (\$29k)
 - Capital Projects (\$669k)



Equity Classification – Note 1. M.

Restricted fund equity includes the following:

General Fund:	
Employee Benefit Accrued Liability	\$ 935,243
Retirement Contributions - ERS	437,895
Retirement Contributions - TRS	119,517
Tax Certiorari	82,839
Capital Reserve	<u>33,641</u>
Total General Fund	1,609,135
Debt Service Fund	<u>525,703</u>
Total Restricted Funds	<u>\$ 2,134,838</u>



Equity Classification – Note 2. B. II.Judgments and Claims

There are tax settlements due and payable at various times. The amount noted above is due and payable in August of 2021 and the District is evaluating how to fund the liability. Additionally, \$3,270,825 was due and payable in November of 2020, the amount is included in the accounts payable line on both the balance sheet and statement of net position and was funded through use of the tax certiorari reserve.



Equity Classification – Note 5.

PRIOR PERIOD ADJUSTMENTS

During the year ended June 30, 2020, the District identified items recorded in prior years that were recorded incorrectly. As a result, a prior period adjustment was recorded in the general fund of \$189,486 increasing beginning of year fund equity. The prior period adjustment was a result of \$2,276 related to a unrecorded receivable, \$25,447 recorded as a transfer to the capital fund that were not expended, \$9,270 of a receivable was not collectable, \$1,249 of expenditures that were not recorded and \$172,282 in the trust and agency fund were funds of the District and not funds held as an agent. In the capital projects fund a prior period adjustment of \$25,447 was recorded decreasing beginning year fund equity due to transfers from the general fund that were not expended. On the district-wide statement of activities and changes in net position, in addition to the items noted above, a prior period adjustment of \$1,013,916 was recorded decreasing beginning of year fund equity due to projects which had been completed in prior years and should have been depreciated upon being put into service.



Contingency – Note 7.

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19, a respiratory disease, to be a pandemic. It is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future operations. The District's operations are heavily dependent on real property taxes and state aid. Additionally, access to grants, funding and contracts from federal, state, and local governments may decrease or may not be available depending on appropriations. The outbreak will likely have a continued material adverse impact on the economy and cost of education. In August 2020, the Governor signed legislation that provides financial flexibility to school districts as a result of the pandemic. The full impact of the COVID-19 outbreak continues to evolve as of the date these financial statements were available to be issued.



Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – pgs. C1 and C2

Budget to Actual

- Revenue \$127k over budget 0.6% (1.1% over in PY)
- Expenditures \$1.9mm under budget 7.9% (8.1% under in PY)
 - Central Services
 - Teaching – Regular School
 - Teaching – Special Education
 - Employee Benefits



Management Letter – Other Comments

Capital Reserve

Finding

The District has a capital reserve totaling \$32,932 that was established prior to any of the current business office employees and there is no documentation that supports the funding approval. Per Education Law 3651, if the voters determined the original purpose for which a reserve fund has been established is no longer desirable, the school authorities must liquidate the fund in a manner described within the law.

Recommendation

We recommend that the District research this capital reserve account and determine whether or not they are allowed to retain the balance or if they need to transfer the funds to an unassigned fund balance account.

Emergency Lighting Project

Finding

We noted the SED Project number 0004-24 labeled “Emergency Lighting Project” is carrying \$246,501 in unspent funds with no expenditures in the current year.

Recommendation

We recommend that the District determine whether or not the project is still ongoing and transfer the excess back to the general fund if the project is complete.

Extraclassroom Activity Fund – Audit Report

- Report on the Financial Statement
 - We have audited the financial statement of the extraclassroom activity fund and the related note to the financial statement
- Management’s Responsibility
 - Preparation and fair presentation of the financial statements in conformity with the cash basis of accounting
 - Design, implementation and maintenance of internal control
- Auditor’s Responsibility
 - Express an opinion on the financial statement based on our audit
 - Conduct audit in accordance with generally accepted auditing standards
 - Perform procedures to obtain evidence about the amounts and disclosures in the financial statement based on judgement and risk assessment
 - Consider internal control, but not for the purpose of expressing and opinion on internal control
 - Evaluate accounting policies and estimates used by management
- Unmodified Opinion
- Basis of Accounting – Cash Basis



Extraclassroom Activity Fund – Summary of Findings

GENERAL

Finding

During our audit procedures, we noted that there were 2 out of 16 instances tested for receipts and 5 out of 24 instances tested for disbursements where student ledgers did not have the transaction listed in the ledger.

Finding

Through our audit procedures we noted that no budgetary estimates of necessary receipts and disbursements of each club were made and documented.

CASH RECEIPTS

Finding

The Extraclassroom Activity Clubs receive funds from a variety of sources, including donations, ticket sales, field trips, event admissions and product sales. However, controls over these receipts are limited.



Extraclassroom Activity Fund – Summary of Findings

CASH DISBURSEMENTS

Finding

During our audit, we noted one instance in which supporting documentation to corroborate the disbursement request, such as an invoice or receipt, was not provided.

SEGREGATION OF DUTIES

Finding

During our procedures, we noted that the authority to spend funds, and the custody of the funds lies with the same individual. There is a reconciliation of ledger balances twice a year between the Club and the Central Treasurer, however the Central Treasurer's involvement is not sufficient as a compensating control.

INACTIVE CLUB LISTING

Finding

Our audit procedures identified that Global Travel Club has been inactive for more than two years and still carries a cash balance.

Extraclassroom Activity Fund – Summary of Findings

TIMELINESS OF DEPOSITS

Finding

During our procedures, we noted that 10 out of the 16 cash receipts tested were not deposited in the bank within the reasonable amount of time. NYSED guidance indicates 5 days as a reasonable amount of time.



Thank You!

