



Canajoharie Central School District

Financial Condition and Extra-Classroom Activity Fund

Report of Examination

Period Covered:

July 1, 2014 – August 31, 2015

2015M-339



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 Canajoharie Central School District, entitled Financial Condition and Extra-Classroom Activity Fund. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Canajoharie Central School District (District) is governed by the Board of Education (Board) which is composed of five 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.

Scope and Objectives

The objectives of our audit were to determine if the Board adopted realistic budgets and properly managed fund balance and reserves and if District officials properly managed extra-classroom activity funds for the period July 1, 2014 through August 31, 2015. We extended our scope period back to July 1, 2012 to examine the District's budgets and management of fund balance and reserves. Our audit addressed the following related questions:

- Does the Board adopt realistic budgets and properly manage the District's fund balance and reserves?
- Did District officials properly account for extra-classroom activity fund collections and disbursements?

Audit Results

The Board did not adopt realistic budgets and effectively manage the District's fund balance. The 2012-13, 2013-14 and 2014-15 adopted budgets overestimated appropriations by a total of \$3.2 million (5 percent) over these years. Additionally, the District's retirement contribution reserve was overfunded by more than \$445,000 (33 percent) as of June 30, 2015. The District's unrestricted fund balance has been in excess of the limits established by New York State Real Property Tax Law, ranging from 6.9 percent to 8.3 percent of the ensuing year's appropriations. However, when adding back the excess reserves, the District's recalculated unrestricted fund balance for these three years was in excess of the statutory limit, ranging from approximately 10 to 13 percent. As a result, District officials missed the opportunity to use its reserves to finance operations and the tax levy was higher than necessary.

District officials need to improve their process to effectively account for extra-classroom activity fund collections and disbursements. District officials did not maintain adequate records to document 22 extra-classroom activity fund collections totaling \$11,990. Student treasurers did not prepare and retain adequate records to document all collections. Duplicate press-numbered receipts or sales reports were not remitted to the central treasurer and adequate profit and loss statements showing fundraising

profitability were not completed. Additionally, District officials did not collect and remit \$1,382 of sales tax to the New York State Department of Taxation and Finance as required. Finally, student treasurers did not maintain independent ledgers documenting collections and disbursements. As a result, there is an increased risk that extra-classroom activity money could be lost or misused.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Introduction

Background

The Canajoharie Central School District (District) is located in the Towns of Canajoharie, Charleston, Minden, Mohawk, Palatine and Root in Montgomery County and the Towns of Carlisle and Sharon in Schoharie County. The District is governed by the Board of Education, which is composed of five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates three schools with approximately 985 students and 160 employees. The District's budgeted appropriations for the 2015-16 fiscal year are approximately \$21 million, funded primarily with State aid and real property taxes. During the audit period, the District's extra-classroom activity fund recorded \$193,396 in receipts and \$181,227 in disbursements.

Objectives

The objectives of our audit were to determine if the Board adopted realistic budgets and properly managed fund balance and reserves and if District officials properly managed extra-classroom activity funds. Our audit addressed the following related questions:

- Does the Board adopt realistic budgets and properly manage the District's fund balance and reserves?
- Did District officials properly account for extra-classroom activity fund collections and disbursements?

Scope and Methodology

We examined the District's management of the activity fund for the period July 1, 2014 through August 31, 2015. We extended our scope period back to July 1, 2012 to review the District's budgeting practices and management of reserves and fund balance.

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 B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgement, as it was not our intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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.

Financial Condition

The Board is responsible for making sound financial decisions that are in the best interests of the District, the students it serves and the taxpayers who fund the District's programs and operations. To meet this responsibility, the Board should adopt realistic budgets that include appropriations that are necessary for District operations and ensure that the real property tax levy is not greater than necessary. Fund balance represents resources remaining from prior fiscal years. A district may retain a portion of fund balance but must do so within the limits established by New York State Real Property Tax Law. Currently, the amount of fund balance that a school district can retain may not be more than 4 percent of the ensuing fiscal year's budget. Additionally reserves may be established for a variety of future purposes and used to accumulate funds to finance those purposes. However, funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

The Board did not adopt realistic budgets and effectively manage the District's fund balance. The District's 2012-13, 2013-14 and 2014-15 adopted budgets overestimated appropriations by a total of \$3.2 million (5 percent) over these years. Additionally, the District's retirement contribution reserve was overfunded by more than \$445,000 (33 percent) as of June 30, 2015. The District's fund balance has been in excess of the 4 percent statutory limit, ranging from 6.9 percent to 8.3 percent of the ensuing year's appropriations. However, when adding back the excess reserves, the District's recalculated unrestricted fund balance for these three years was in excess of the statutory limit, ranging from approximately 10 to 13 percent. As a result, District officials missed the opportunity to use its reserves to finance operations and the tax levy was higher than necessary.

Budgeting

The Board is responsible for preparing and adopting reasonable budgets based on prior years' operating results, past revenue and expenditure trends, anticipated future needs and other relevant information. Because the budgeting process ultimately determines the District's tax levy, accurate estimates are imperative to help ensure real property taxes levied are not greater than necessary.

The Board appropriated \$913,514 of fund balance in 2012-13, \$996,350 in 2013-14 and \$984,566 in 2014-15 to finance operations.

As a result, the Board planned to incur operating deficits¹ in each of these years. The budgets for these three years contained reasonable revenue estimates, which varied from actual revenues by less than 1 percent each year. However, we compared the District’s appropriations for the 2012-13, 2013-14 and 2014-15 with actual expenditures and found that District officials overestimated the total amounts budgeted by approximately \$3.2 million (5 percent) over this time, as shown in Figure 1. As a result, the District did not use any of the fund balance that was appropriated for 2012-13 and 2013-14 and instead realized operating surpluses in these two years. Furthermore, in 2014-15 the District realized a \$168,047 operating deficit which was \$816,519 smaller than provided for in the budget.

Figure 1: Overestimated Appropriations

Fiscal Year	Appropriations	Expenditures	Variance	Percentage
2012-13	\$19,279,887	\$17,906,653	\$1,373,234	7%
2013-14	\$19,767,113	\$18,734,288	\$1,032,825	5%
2014-15	\$20,409,405	\$19,629,996	\$779,409	4%
Total	\$59,456,405	\$56,270,937	\$3,185,468	5%

The Superintendent and Director of Finance and Accounting told us that they were aware that certain appropriations were overestimated and that they adopted budgets with conservative estimates to protect the District from unforeseen events. It is understandable for District officials to be conservative when making budgetary estimates, and we acknowledge that the amount of budget to actual results variances for expenditures was decreasing over the past three years. However the consistent annual positive budgetary variances led the District to not use any of the fund balance it appropriated in 2012-13 and 2013-14 and only a small amount of what it appropriated for 2014-15. District officials could manage finances conservatively by including some flexibility in the budget, keeping a cushion in unassigned fund balance or keeping money in reserves. However, by doing all three the tax levy was higher than necessary.

District officials consistently overestimated certain appropriations in each of the three years as follows:

- Health insurance appropriations for 2012-13 were \$2.6 million and actual expenditures were \$421,753 (16 percent) less than the amounts budgeted. In 2013-14, appropriations were \$2.64 million and actual expenditures were \$402,969 (15 percent) less than the amounts budgeted. In 2014-15, appropriations

¹ A planned operating deficit occurs when the Board adopts a budget in which estimated revenues are less than budget appropriations, with the difference to be funded with appropriated fund balance and reserves.

were \$2.69 million and actual expenditures were \$290,168 (11 percent) less than the amounts budgeted.

- Special education services appropriations provided by the Hamilton-Fulton-Montgomery Board of Cooperative Educational Services for 2012-13 were \$1.15 million and actual expenditures were \$216,420 (19 percent) less than the amounts budgeted. In 2013-14, appropriations were \$1.05 million and actual expenditures were \$262,395 (25 percent) less than the amounts budgeted. In 2014-15, appropriations were \$889,350 and actual expenditures were \$228,004 (26 percent) less than the amounts budgeted.
- Utility² appropriations for 2012-13 were \$515,000 and actual expenditures were \$241,614 (47 percent) less than the amounts budgeted. In 2013-14, appropriations were \$515,000 and actual expenditures were \$252,315 (49 percent) less than the amounts budgeted. In 2014-15, appropriations were \$475,000 and actual expenditures were \$165,279 (35 percent) less than the amounts budgeted.
- Employees' retirement appropriations for 2012-13 were \$325,000 and the District expended \$78,796 (24 percent) more than the amount budgeted. In 2013-14, appropriations were \$420,000 and the District expended \$50,993 (12 percent) less than the amounts budgeted. For 2014-15, appropriations were \$495,000 and the District expended \$202,125 (41 percent) less than the amounts appropriated. Furthermore, the District's 2013-14 and 2014-15 employees' retirement appropriations were not reasonable based on expenditure estimates provided to the District by the New York State and Local Retirement System (NYSLRS).

The Board improved its budget estimates in the 2015-16 budget by decreasing appropriations for special education services to \$746,595 and utilities to \$390,000. Additionally, the Board increased the 2015-16 health insurance appropriations to \$2.8 million or by 4 percent, which appeared reasonable based on projected health insurance increases and historic health insurance costs.

Similarly, in its 2015-16 budget the Board increased employee retirement appropriations to \$534,500 (7 percent), which was not reasonable based on the estimates provided by NYSLRS. As a result, it appears unlikely that the District will use the \$922,761 of fund balance appropriated to finance operations in 2015-16. Furthermore,

² Including heat and electricity

the District’s budgetary practices have contributed to the District maintaining an excessive level of fund balance (See Fund Balance and Reserves).

Fund Balance and Reserves

The District may retain a portion of fund balance, but must do so within the limits established by Real Property Tax Law. Currently, the District cannot retain more than 4 percent of the ensuing fiscal year’s budgeted appropriations as unrestricted fund balance. Unrestricted fund balance on hand at fiscal year-end that exceeds the statutory limit should be used to lower real property taxes, increase necessary reserve funds, pay for one-time expenditures or pay down debt. When District officials establish reserve funds for specific purposes, it is important they develop a plan for funding the reserves, determining how much should be accumulated and how and when the funds will be used to finance related costs. In addition, the Board should review the District’s reserves at least annually and include provisions to fund and use reserves in budgets that are voted on by taxpayers to help ensure the amounts reserved are necessary and provide transparency to the taxpayers.

The District retained unrestricted fund balance in excess of the 4 percent allowed from 2012-13 through 2014-15 ranging from 6.9 percent to 8.3 percent, as shown in Figure 2.

Figure 2: Unrestricted Fund Balance at Year End			
	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$4,514,821	\$5,015,744	\$5,216,713
Add: Operating Surplus/(Deficit)	\$500,918	\$200,969	(\$168,047)
Total Ending Fund Balance	\$5,015,739	\$5,216,713	\$5,048,666
Less: Restricted Funds	\$2,351,045	\$2,602,575	\$2,435,799
Less: Appropriated Fund Balance for the Ensuing Year	\$996,350	\$984,566	\$922,761
Less: Encumbrances	\$27,297	\$228,582	\$115,074
Total Unrestricted Fund Balance at Year End	\$1,641,047	\$1,400,990	\$1,575,033
Ensuing Year’s Budgeted Appropriations	\$19,767,113	\$20,409,405	\$21,060,000
Unrestricted Funds as a Percentage of Ensuing Year’s Budget	8.3%	6.9%	7.5%

The District established and the Board adopted a written plan in December 2013 outlining the intended uses, funding levels and sources of funding for the District’s reserve funds. According to the District’s plan, the District may retain up to three years of retirement payments in the retirement contribution reserve. The plan further

states that the value of three years of retirement payments is to be calculated using an estimated annual growth rate equal to the percent difference between the current year retirement expenditures and the ensuing year’s budgetary retirement appropriation.

However, because the District overestimated the retirement appropriation, this calculation resulted in an inflated growth rate and inflated funding level for this reserve. We recalculated an estimated annual growth rate based on the percentage difference between current year expenditures and the projected retirement contribution calculated by NYSLRS. Based on our recalculation, the District overfunded this reserve by \$445,132 (33 percent) as of June 30, 2015.

The District appropriated an average of \$967,800 in fund balance as a financing source in each of the past three years. However, the District only needed \$168,047 of fund balance in 2014-15 to finance operations over the same period. When excess reserve balances were added back, the District’s recalculated unrestricted fund balance exceeded the statutory limit, ranging between 9.6 and 12.7 percent of the ensuing year’s appropriations, as indicated in Figure 3.

Figure 3: Unused Fund Balance			
	2012-13	2013-14	2014-15
Total Unrestricted Funds at Year End	\$1,641,047	\$1,400,990	\$1,575,033
Add: Excess Funds in the Retirement Contributions Reserve	\$877,846	\$777,648	\$445,132
Total Recalculated Unrestricted Funds	\$2,518,893	\$2,178,638	\$2,020,165
Recalculated Unrestricted Funds as a Percentage of Ensuing Year’s Budget Appropriations	12.7%	10.7%	9.6%

Had District officials adopted realistic estimates for expenditures and used the excess reserve balance to finance operations, they could have reduced the amount of unrestricted fund balance while also reducing the annual tax levies and still retained enough reserves and fund balance to provide a cushion against unanticipated events.

Recommendations

The Board should:

1. Adopt budgets with realistic estimates for expenditures to finance operations.
2. Ensure the balance retained in the District’s retirement contribution reserve is reasonable.
3. Reduce excess fund balance to stay within the legal limits.

Extra-Classroom Activity Fund

Generally, money is raised by student activity organizations (clubs) to promote the general welfare, education and morale of all students and finance the normal and appropriate activities of the student body. The Regulations of the Commissioner of Education (Regulations) require the Board to appoint a central treasurer who is responsible for maintaining records of activity fund receipts and disbursements as well as making deposits and disbursements. Each extra-classroom activity club must have a student treasurer and faculty advisor. Student treasurers, with the assistance of faculty advisors, are responsible for maintaining independent ledgers of receipts and disbursements and supporting documentation for receipts and disbursements. Additionally, the District developed and distributed an Extra-classroom Activities Procedures Handbook (Handbook) to all faculty advisors. The Handbook contains procedures and guidance related to the management of the extra-classroom activity fund.

District officials need to improve their process to effectively account for extra-classroom activity fund collections and disbursements. During our audit period, the District's 54 activity accounts had combined cash balances of \$80,317 as of August 31, 2015. District officials did not maintain adequate records to document 22 activity fund collections totaling \$11,990. Student treasurers did not prepare and retain adequate records to document all collections. Duplicate press-numbered receipts or sales reports were not remitted to the central treasurer and adequate profit and loss statements showing fundraising profitability were not completed. Furthermore, District officials did not collect and remit \$1,382 of sales tax as required and student treasurers did not maintain independent ledgers documenting collections and disbursements. As a result of District officials' failure to maintain activity funds in accordance with the Handbook, there is an increased risk that extra-classroom activity money could be lost or misused.

Collections

Students are responsible for collecting money at fundraisers and remitting the collections to the central treasurer for deposit. When collecting money, students should issue duplicate press-numbered receipts or use some other method that would adequately document the source, date, amount and purpose of the collections, such as a daily sales report. When students remit collections to the central treasurer for deposit, student treasurers, with the help of faculty advisors, are required to complete student deposit forms indicating the composition, source, date and amount of collections including the portion to be allocated for sales tax, if applicable.

Student treasurers should remit collections to the central treasurer as soon as possible and provide the central treasurer with adequate documentation to support the collections. Student treasurers are also responsible for retaining copies of all records submitted to the central treasurer and recording all receipt activity in a general ledger. Additionally, students should prepare profit or loss statements for all fundraising activities to analyze the profitability of those activities. The central treasurer should issue duplicate press-numbered receipts to student treasurers to document the transfer of money and should retain all supporting documentation for the collections. Furthermore, it is important that the central treasurer deposit collections intact³ and in a timely manner to reduce the risk of irregularities occurring with the handling of cash collected.

We reviewed 30 collections⁴ totaling \$13,552, which were collected by 16 clubs and remitted to the central treasurer for deposit to determine whether the collections were supported by receipts or some other form of documentation, accurately accounted for in the central treasurer's ledger and deposited intact in a timely manner. We also reviewed the independent records maintained by student treasurers to determine if they were adequate. For collections received from fundraising activities, we reviewed the records to determine whether a profit or loss statement was prepared. We found that all 30 collections were accurately accounted for in the central treasurer's ledger and deposited intact. We also compared the dates recorded on the student deposit forms with the validated deposit slip dates to determine if collections were deposited in a timely manner after being remitted to the central treasurer. Other than minor discrepancies which we discussed with District officials, cash was deposited in a timely manner. However, we found the following discrepancies:

- Adequate supporting documentation was not maintained for 22 collections totaling \$11,990 (e.g., duplicate press-numbered receipts or daily sales reports). Instead, the student treasurers or faculty advisors provided the central treasurer with a student deposit form, along with the collections, which generally included the club name, type and date of the fundraiser and the composition and total of the collections remitted for deposit. For example, collections totaling \$931 for the sale of play tickets were remitted to the central treasurer. The club collecting the funds did not issue duplicate receipts for the ticket sales or maintain other detailed records of ticket sales to document the number and price of tickets sold.

³ Intact means in the same amount and form (cash or check) in which they were received.

⁴ See Appendix B for more information on our sampling methodology.

- The central treasurer did not issue press-numbered receipts to the clubs for any of the collections we reviewed. The central treasurer told us that she did not prepare these receipts because she was not aware that she should do so.
- We could not determine the specific dates that students collected receipts or whether they were remitted to the central treasurer in a timely manner due to a lack of supporting documentation.
- Completed profit or loss statements were not adequately prepared for seven fundraising receipts as required. For example, we reviewed one profit or loss statement that was prepared but it did not contain the cost, number of items and price of the items sold.
- While seven student treasurers maintained independent records, including supporting documentation of the amounts collected, none of the 16 student treasurers maintained independent ledgers.

When the central treasurer and student treasurers do not maintain adequate documentation to support collections, District officials cannot ensure that students are adequately accounting for all collections, remitting them to the central treasurer and the central treasurer is depositing the collections intact in a timely manner. Furthermore, when press-numbered receipts are not issued for collections, there is an increased risk that errors or irregularities could occur and not be detected or corrected in a timely manner.

Sales Tax

A school district is not exempt from the provisions of New York State Sales Tax Law whenever it becomes the vendor of services or property ordinarily sold by private persons. The Handbook specifically outlines the activities that require the collection and remittance of sales tax and is distributed to all faculty advisors. Therefore, each faculty advisor should know which of the activities their organization undertakes are subject to sales tax and take steps to see that all sales tax information is accurately recorded and provided to the central treasurer. The central treasurer maintains records of sales tax separately from club funds until it is filed with the New York State Department of Taxation and Finance on an annual basis.

We reviewed 13 sales transactions totaling \$25,061 that required student treasurers to collect and remit sales tax. For these transactions sales tax totaling \$1,654 should have been collected and remitted. However, sales tax was only collected and remitted for two of these transactions totaling \$272. As a result, the student treasurers did

not collect and remit \$1,382 of sales tax that was required for the remaining 11 transactions. The failure to include, collect and remit sales tax on applicable sales occurred because student treasurers and faculty advisors did not have an adequate understanding of sales tax procedures as outlined in the Handbook.

Cash Disbursements

The central treasurer should disburse money for activities only upon receiving payment orders signed by a student treasurer and faculty advisor. In addition, disbursements should have documentation, such as itemized receipts or invoices, to support the expenditures approved for payment. When payments are made without adequate supporting documentation, District officials cannot ensure that the purchases are made for appropriate purposes.

We reviewed 30 disbursements totaling \$9,360 made from 19 club accounts during our audit period to determine if they were supported by approved payment forms, contained adequate documentation and were for appropriate club activities. Except for minor exceptions that we discussed with District officials, we found the central treasurer maintained adequate documentation to support disbursements and the disbursements were for appropriate purposes. However, we found that cash disbursement ledgers were not maintained by the student treasurers that made these disbursements.

When ledgers and supporting documents are not maintained there is an increased risk that errors or irregularities could occur and remain undetected.

Recommendations

Faculty advisors should:

4. Ensure that the central treasurer receives supporting documentation for all activity fund cash receipts that are remitted to her for deposit and that the student treasurers properly account for all activity fund cash receipts.
5. Ensure that student treasurers complete profit and loss statements in a timely manner to determine the profitability of all fundraising activities.
6. Ensure that student treasurers maintain independent ledgers showing all receipts and disbursements.
7. Ensure that student treasurers include, collect and remit sales tax on applicable sales as required.

The central treasurer should:

8. Issue duplicate press-numbered receipts for all activity fund receipts that are remitted for deposit.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



March 25, 2016

Mr. Jeffrey P. Leonard, Chief Examiner
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801-4396

RE: Canajoharie Central School District
Preliminary Report of Examination, July 1, 2014 – August 31, 2015

Dear Mr. Leonard,

The Board of Education and the Superintendent of Schools of the Canajoharie Central School District are in receipt of the draft copy of your Report of Examination on the Financial Condition and Extra-Classroom Activity Fund for the period beginning July 1, 2014 and ending August 31, 2015 and the recommendations contained therein. Please allow this letter to serve as our written response.

We have reviewed the findings contained in the Draft Audit Report and have given significant consideration to the information contained therein. Upon reviewing this document, please be advised we agree and accept the findings, conclusions, and recommendations made within this Report.

As a public school district entrusted with making sound financial decisions on behalf of our resident taxpayers, we take our fiduciary responsibilities seriously and shall be taking a conservative fiscal approach to remedy the issues of concern as outlined in the Report. Upon further review and analysis, we shall determine a Corrective Action Plan, which shall document how we intend to use the Report to positively improve operations and internal controls, while taking into consideration the ever-increasing constraints upon school districts including, but not limited to, the Property Tax Cap, the Gap Elimination Adjustment, and inequitable State Aid funding.

We appreciate the professionalism of the auditors who worked with the Canajoharie Central School District in making this Report. They were a pleasure to work with throughout the review and feedback process.

Sincerely,

Deborah P. Grimshaw
Superintendent of Schools

Website Address: www.canajoharieschools.org

Superintendent
Deborah P. Grimshaw
136 Scholastic Way
Tel: 518/673-6302
Fax: 518/673-3177

Director of Finance
Leah S. Schaffer
136 Scholastic Way
Tel: 518/673-6340
Fax: 518/673-4131

High School Principal
Rebecca A. Gleason
136 Scholastic Way
Tel: 518/673-6330
Fax: 518/673-3177

Middle School Principal
Mark E. Rauch
25 School District Road
Tel: 518/673-6320
Fax: 518/673-5557

Elementary Principal
Stacy E. Ward
25 School District Road
Tel: 518/673-6310
Fax: 518/673-3887

Dir. of Special Education
Jennifer Schwabrow
136 Scholastic Way
Tel: 518/673-6307
Fax: 518/673-4131

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of the budgeting process.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund for the period July 1, 2012 through August 31, 2015.
- We compared the adopted budgets to the modified budgets and actual operating results and reviewed relevant documentation related to revenues and expenditures to determine if budget estimates were reasonable.
- We tested the reliability of the accounting records by reviewing bank reconciliations and comparing them to the annual financial report filed with the Office of the State Comptroller and to the District's independently audited financial statements.
- We reviewed Board minutes and resolutions to determine whether reserves were properly established. We also reviewed the balances of the reserves for reasonableness and analyzed reserve activity.
- We interviewed District officials and employees and reviewed District policies and various financial records and reports related to the activity fund to gain an understanding of the activity fund.
- We reviewed a sample of 30 collections⁵ remitted to the central treasurer for deposit to determine whether the collections were supported by receipts or some other form of documentation, accurately accounted for in the central treasurer's ledger and deposited intact in a timely manner. We also reviewed these collections to determine if an adequate profit and loss statement was prepared, if applicable.
- We judgmentally selected 15 sales transactions that appeared to require the student treasurers to collect and remit sales tax. We reviewed all 13 of the selected transactions that required sales tax to be collected to determine if amounts remitted were accurate.
- We reviewed a sample of 30 disbursements⁶ made from the activity fund accounts during our audit period to determine if they were supported by approved payment forms and adequate documentation of the purchases and were for appropriate activities.

⁵ We used a computerized random number generator to select 15 collections from student deposit forms and 15 collections from the central treasurer's ledger.

⁶ We used a computerized random number generator to select 30 disbursements from the central treasurer's ledger.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
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