



# Norwich City School District

## Financial Condition and Cafeteria Operations

### Report of Examination

Period Covered:

July 1, 2012 – January 22, 2014

2014M-143



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

August 2014

Dear District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of school 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Norwich City School District, entitled Financial Condition and Cafeteria Operations. 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 General Municipal Law.

This audit's results and recommendations are resources for school 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

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# EXECUTIVE SUMMARY

The Norwich City School District (District) is located in Chenango County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and education affairs, including budget development. The Superintendent of Schools 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's Deputy Superintendent plays a key role in the budget development process and the daily administration of the Business Office.

The District operates four schools with approximately 1,950 students. The District's budgeted appropriations for the 2013-14 fiscal year were \$38 million, which were funded primarily with State aid and real property taxes.

### **Scope and Objectives**

The objectives of our audit were to assess the District's financial condition and examine the internal controls over cafeteria operations for the period July 1, 2012 through January 22, 2014. To analyze the District's financial condition and budgeting trends, we extended our audit scope period back to July 1, 2008. Our audit addressed the following related questions:

- Did the Board and District officials properly manage the District's financial condition?
- Did District officials ensure that cafeteria receipts were properly recorded, collected and deposited and inventory was properly accounted for?

### **Audit Results**

The Board and District officials did not properly manage the financial condition of the general and school lunch funds. The general fund had deficits in the last three years while the school lunch fund had deficits in the last two years. We also project the general and school lunch funds to end the 2013-14 fiscal year with deficits of \$1.8 million and \$89,000, respectively. The District consistently appropriated fund balance and used a portion of the appropriated amount in the last three fiscal years. Additionally, officials are not developing reasonable budgets because they consistently overestimated budgeted appropriations and revenues in both the general and school lunch funds. In the long term, the general fund could become financially stressed due to recurring operating deficits, potential litigation, potential buy back of retirement, improper payments being made from the employee benefit accrued liability reserve and loans to the school lunch fund that are unlikely to be paid back to general fund.

District officials did not properly oversee cafeteria operations. They did not ensure that the school lunch receipts were properly recorded, collected and deposited and that inventory was properly accounted for. The Food Service Director was recording approximately 10 additional free meals per day which totaled over 750 meals from September 2013 through February 2014 in the school lunch computer system because he felt the District was entitled to them. These additional free meals could be improperly inflating the school lunch participation figures. Therefore, the District could be claiming reimbursements to which it is not entitled. In addition, unpaid student and adult account balances totaled over \$36,000 from September 2012 through February 2014. The Food Service Director made adjustments reducing account balances by \$9,200 without approval. Additionally, there were 552 voids totaling \$1,500 made by food service employees that were not reviewed or approved. We also found discrepancies between the amounts deposited and the amounts recorded in the school lunch software. Although the amounts were immaterial, no one was following up with them.

The Food Service Director does not maintain a perpetual inventory system. Although physical inventory counts are done monthly for food and supply purchasing purposes, they are not accurate. All of these weaknesses in the school lunch fund operations are allowed to occur because the cashiers and the Food Service Director performed their duties with little to no oversight, which increases the risk that receipts will not be properly recorded and deposited and that inventory will 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 that they plan to take corrective action.

# Introduction

## Background

The Norwich City School District (District) is located in Chenango County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and education affairs, including budget development. 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's Deputy Superintendent plays a key role in the budget development process and the daily administration of the Business Office. The Food Service Director is responsible for overseeing the operations of the District's food service program, including collecting and accounting for cafeteria receipts.

The District operates four schools with approximately 1,950 students. The District's budgeted appropriations for the 2013-14 fiscal year were \$38 million, which were funded primarily with State aid and real property taxes. The District operates a cafeteria in each of its four schools. The school lunch fund reported sales revenue totaling \$281,800 for the 2012-13 school year.

## Objectives

The objectives of our audit were to assess the District's financial condition and examine the internal controls over cafeteria operations. Our audit addressed the following related questions:

- Did Board and District officials properly manage the District's financial condition?
- Did the District officials ensure that cafeteria receipts were properly recorded, collected and deposited and that inventory was properly accounted for?

## Scope and Methodology

We examined the District's budgeting practices and internal controls over cafeteria operations for the period July 1, 2012 through January 22, 2014. To analyze the District's financial condition and budgeting trends, we extended our audit scope period back to July 1, 2008.

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 is included in Appendix B 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 recommendations and indicated that they plan to take corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 this plan available for public review in the District Clerk's office.

## Financial Condition

A school district's financial condition is a determining factor in its ability to provide educational services to students. The responsibility for accurate and effective financial planning rests with the Board, the Superintendent, the Deputy Superintendent and the Food Service Director. Sound budgeting practices, including the use of historical trends, coupled with prudent fund balance management ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. District officials should not balance the budget by relying on one-time revenues, such as appropriated fund balance, which could deplete the fund balance to an unhealthy level. Districts may retain a portion of fund balance, referred to as unrestricted fund balance, within the limits established by Real Property Tax Law.

Moreover, the school lunch fund should be self-sufficient. For example, budgeted revenues should cover its budgeted appropriations. The District should have a reasonable plan in which subsidies are not required to operate the school lunch fund and interfund loans can be repaid. To further assist the school lunch fund in being self-sufficient, District officials should analyze operations to identify efficiencies, such as comparing the cost per meal to the meal price in order to set appropriate prices.

The Board and District officials did not properly manage the financial condition of general and school lunch funds. The general fund had deficits in the last three years while the school lunch fund had deficits in the last two years. We also project the general and school lunch funds to end the 2013-14 fiscal year with deficits of \$1.8 million and \$89,000, respectively. The District consistently appropriated fund balance and used a portion of the appropriated amount in the last three fiscal years. The general fund could become financially stressed due to the recurring operating deficits, potential litigation, potential buy back of retirement services, improper payments being made from the employee benefit accrued liability reserve, subsidies to the school lunch fund and loans to the school lunch fund that are unlikely to be paid back to general fund.

General Fund – The general fund incurred operating deficits in the last three years. We project that for 2013-14 the District will also have a deficit of more than \$1.8 million. During this period, the Board and Deputy Superintendent consistently appropriated fund balance. They are also projected to use all of the appropriated fund balance, \$1,729,573 in the 2013-14 fiscal year, which will further reduce the District's unrestricted fund balance.

**Table 1: Results of Operations**

	2010-11	2011-12	2012-13	2013-14 <sup>b</sup>	Totals
Revenues <sup>a</sup>	\$34,338,652	\$33,499,555	\$35,127,617	\$36,057,566	<b>\$139,023,390</b>
Expenditures	\$34,805,476	\$35,519,949	\$35,688,337	\$37,919,782	<b>\$ 143,933,544</b>
Operating Surplus/(Deficit)	\$(466,824)	\$(2,020,394)	\$(560,720)	\$(1,862,216)	<b>\$(4,910,154)</b>
Appropriated Fund Balance	\$1,199,039	\$1,729,573	\$1,729,573	\$1,729,573	<b>\$6,387,758</b>
Fund Balance Used	\$(466,824)	\$(2,020,394)	\$(560,720)	\$(1,862,216)	<b>\$(4,910,154)</b>
Unrestricted Fund Balance	\$6,225,688	\$5,244,284	\$4,517,251	\$4,384,608	

<sup>a</sup> This included the State Aid Gap Elimination Adjustments for 2010-11, 2011-12, 2012-13 and 2013-14 of \$1,250,719 (adjusted for additional moneys received for American Recovery and Reinvestment Act of 2009) \$2,394,704, \$1,796,028 and \$1,210,851 respectively.

<sup>b</sup> Projected figures calculated during fieldwork. As of the exit conference, more up-to-date information was not available.

Due to the lack of proper financial management, the unrestricted fund balance has decreased in recent years, indicating potential fiscal stress if this trend is allowed to continue.

In addition to the unrestricted fund balance of \$4.5 million at the end of the 2012-13 fiscal year, there is \$1.2 million in the capital fund remaining from capital projects that have been completed. Because the District has no plan to use this money, this may increase the unrestricted general fund balance and would leave the District with ample fund balance. However, there are also factors that will negatively impact the unrestricted fund balance by more than \$800,000. These factors include potential litigation, buy back of retirement services for a mandatory employee, improper payments from the employee benefit accrued liability reserve, interfund loans to the school lunch fund that are unlikely to be paid back, subsidies to the school lunch fund and the current year projected operating deficit.

More importantly, the current trends in revenues and expenditures will negatively impact the District's future financial condition if allowed to continue. Actual expenditures are outpacing actual revenues. On average, revenues have remained relatively flat while expenditures are increasing 2 percent annually. If expenditures continue at this rate, unrestricted fund balance will be depleted in just a few years, absent additional revenues.

Moreover, the Board and Deputy Superintendent were not properly budgeting general fund revenues and expenditures because they were not basing the budgets on previous years' actual results. District officials told us they used prior years' actual revenues and actual expenditures when developing budgets. However, each year, the Board adopted budgets that were well above the prior year's actual activity for both revenues and expenditures. For example, District officials budgeted revenues higher than the actual revenues received

in the prior fiscal years. The general fund’s budgeted revenues exceeded actual revenues from the prior year by \$5.7 million for the last four fiscal years and exceed actual revenues from current year by \$4.3 million for the last three fiscal years.

**Table 2: Budgeted vs. Actual Revenues**

Fiscal Year	Budgeted Revenues	Actual Revenues	Budget-to-Actual Differences
2010-11	\$35,891,154	\$34,338,651	\$(1,552,503)
2011-12	\$35,360,620	\$33,499,555	\$(1,861,065)
2012-13	\$36,051,782	\$35,127,617	\$(924,165)
2013-14	\$36,950,018	\$36,057,566 <sup>a</sup>	\$(892,452)
<b>Totals</b>	<b>\$144,253,574</b>	<b>\$139,023,389</b>	<b>\$(5,230,185)</b>

<sup>a</sup> As of the exit conference, more up-to-date information was not available.

Although the District received \$4.3 million less revenue than planned, this shortfall was largely offset by overbudgeting for expenditures by \$6 million for the same period. As a result, fund balance declined by \$1.7 instead of by \$4.3 million.

School Lunch Fund – District officials are not preparing the school lunch fund budget based on prior year activity. The school lunch fund’s expenditures exceeded revenues an average of 9 percent per year for the last two years, resulting in operating deficits totaling over \$120,150. The fund is projected to have a deficit of approximately \$89,000 at the end of the 2013-14 fiscal year.

Furthermore, District officials have not analyzed cafeteria operations to identify possible efficiencies to ensure that the school lunch fund is self-sufficient. For example, the food service cost per meal has been increasing. Based on reported financial information from 10 neighboring districts,<sup>1</sup> the District had the third highest cost per meal. In addition, the Food Service Director does not perform a per meal cost analysis to ensure that the meal pricing is adequate to ensure a self-sufficient fund.

Due to the lack of proper financial management, the school lunch fund balance has declined by 95 percent over last three fiscal years. We project a negative fund balance of over \$80,700 at the end of the 2013-14 fiscal year. Additionally, the school lunch fund owes the general fund over \$174,000, which it will not be able to pay back. District officials told us that they intend to subsidize the school lunch

<sup>1</sup> We selected 10 neighboring districts in Chenango, Broome, Cortland, Madison, Otsego and Delaware counties with the closest populations (five above and five below) to that of the District.

fund with transfers from the general fund. However, this could lead to fiscal stress for the general fund.

## **Recommendations**

The Board and District officials should:

1. Closely monitor the level of unrestricted fund balance and reduce reliance on fund balance as a financing source and
2. Develop revenue and appropriations estimates that are realistic and based upon all information available, including historical trends and actual revenues and expenditures, at the time the budget is developed.
3. The Deputy Superintendent and the Food Service Director should analyze cafeteria operations to identify any potential efficiencies that will help to ensure that the school lunch fund becomes self-sufficient.

## Cafeteria Operations

The Board and the Food Service Director are responsible for designing policies and procedures over cafeteria operations to ensure that the District receives the proper amount of revenue from cafeteria sales. Such controls include policies and procedures for collecting, verifying and depositing cash receipts and segregating these duties. Each employee must be properly identified as accountable for their specific cash management process activities. The Board should adopt policies detailing procedures to be followed for unpaid student and adult accounts. Additionally, someone not involved in the day-to-day operations should be approving adjustments and voids to accounts to ensure that they are accurate and supported. The Food Service Director should maintain an accurate perpetual<sup>2</sup> record of school lunch consumable inventories of food and supplies, which should be periodically reviewed and compared to the physical inventory counts performed by the cafeteria managers. Cafeteria consumables are easy targets for theft and misuse and monitoring inventory may help to mitigate these risks.

District officials did not provide sufficient oversight of cafeteria operations and, therefore, school lunch receipts were not properly recorded, collected and deposited and inventory was not properly accounted for. The Food Service Director was inappropriately adding 10 free meals per day to the record of meals to increase participation figures. We identified unpaid balances of \$36,600 for meals provided. Transactions were voided without being reviewed or approved. Bank deposit amounts did not always agree with the District's records and no one followed up on the discrepancies. As a result, there is no assurance that all cafeteria receipts are being recorded, collected and deposited.

In addition, the Food Service Director did not maintain a perpetual inventory record. Although a monthly inventory was performed, it was not accurate. Finally, over the past three fiscal years, although the price of food did not increase, the cost to provide meals increased significantly, which could be an indication that inventory supplies were wasted or misused.

Additional Meals Recorded – The Food Service Director recorded approximately 10 additional free meals per day, totaling over 750 meals from September 2013 through February 2014, in the school lunch computer system. While a small number of these may be legitimate,<sup>3</sup>

<sup>2</sup> Perpetual inventory records are detail records that are continually updated as items are added or removed from supply.

<sup>3</sup> Legitimate reasons for adding additional free meals could include new students who have not yet set up an account.

all of the 211 additional free meals we sampled were unsupported. The Food Service Director provided us with potential reasons such as entitlement to these meals due to problems with the software crashing on occasion, resulting in the loss of previously recorded meals. However, he did not provide us with specific documentation to support the sampled additional free meals. These extra meals caused the school lunch participation figures to be inflated as well as the claiming of reimbursements to which the District is not entitled. We have referred the issues of unsupported claims for reimbursements and falsification of business records to our Investigations Division.

Unpaid Amounts – As of February 7, 2014, the unpaid balances for student accounts totaled \$35,800 and the unpaid balances for adult accounts totaled \$800 for meals provided and not paid for since September 2012.<sup>4</sup> After we identified the amounts owed, the Deputy Superintendent took steps to collect the amounts owed, bringing the total amount owed by adults to approximately \$250.<sup>5</sup> While the District has an obligation to provide a meal to the students, the Board has no policy in place to enforce payment. The Food Service Director made adjustments throughout the 2013-14 fiscal year reducing the account balances by almost \$9,200. We reviewed 28 of these adjustments totaling almost \$4,900. We found 23 adjustments totaling over \$4,400 were for students that were eligible for free or reduced meals for the current year. The Food Service Director told us these adjustments were made to avoid the possible embarrassment to students now classified as free or reduced. Further, it is likely that these students would not have the means to repay past due amounts. While the Food Service Director provided support when we asked, no one approved these adjustments as they occurred.

Voided Transactions – The Food Service Director and cashiers are able to enter voids. There were 557 voids totaling over \$1,500 from September 2013 through January 2014. We tested 12 voids totaling \$23, which all had adequate reasons to support them. However, no one reviews and approves these to ensure they are proper and supported. Although our review verified that these voids were supported, the lack of oversight by the cafeteria managers and Food Service Director increases the risk that errors or irregularities could occur without detection. For example, voided transactions can be used to cover misappropriations of cash receipts or entry errors.

Deposit Records – We tested 40 deposits totaling more than \$11,000, of the more than 700 deposits made during a typical school year,

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<sup>4</sup> As of March 31, 2014, there are 1081 delinquent student balances totaling over \$36,300.

<sup>5</sup> The Deputy Superintendent collected some money for delinquent student accounts. However, the amount owed by students has increased.

and found 30 discrepancies totaling \$22 between the amount being deposited per the bank and what was collected per the school lunch software (per the daily cash sheet report). Although these discrepancies were immaterial, the Food Service Director was not following up with these differences and, therefore, would not detect moneys potentially stolen. Also, during other testing we found additional daily revenue reports, generated by the cafeteria managers from the software system, where transactions were not being fully or properly recorded. These reports are generated for the Food Service Director to reconcile the daily receipts. The Food Service Director told us this was a result of the software system crashing. Again, these differences were minimal. However, the risk remains that money could be stolen and go undetected because the transaction was not recorded.

Inventory – The Food Service Director was not maintaining a perpetual inventory record.<sup>6</sup> Although the cafeteria managers and Food Service Director performed monthly physical inventory counts,<sup>7</sup> the records were not accurate. Based on our testing of the monthly physical inventory counts at the end of February 2014, including the total amount purchased and delivered within March, we found, without accounting for usage, that there was more food than recorded on the inventory records. For example, the February 28, 2014 inventory indicated 1.67 cases of garbanzo beans. In March, 12 additional cases were purchased for a total of 13.67 cases. However, at the end of March, we counted 27.8 cases of garbanzo beans.

The District's aggregate purchases and Federal surplus food received have increased while the average daily participation (ADP)<sup>8</sup> has decreased, thereby causing an increase in the cost per meal.

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<sup>6</sup> Perpetual inventory records are detail records that are continually updated as items are added or removed from supply.

<sup>7</sup> Monthly physical inventory counts were performed to aid in food and supply ordering.

<sup>8</sup> Average Daily Participation is the average number of meals served each day to students, as reported to SED.

<b>Table 3: Cost of Food Per ADP</b>			
	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Breakfast ADP	465.0	487.5	505.0
Lunch ADP	1,245.4	1,161.1	1,050.9
<b>Total ADP</b>	<b>1,710.4</b>	<b>1,648.6</b>	<b>1,555.9</b>
Student Enrollment	2,057	1,948	1,885
Food Purchases (reported to SED)	\$321,156	\$373,125	\$403,594
Federal Surplus Food (reported to SED) <sup>a</sup>	\$577,909	\$574,072	\$571,802
<b>Total Cost for Food</b>	<b>\$899,065</b>	<b>\$947,197</b>	<b>\$975,396</b>
Cost of Food per ADP	\$525.65	\$574.55	\$626.90

<sup>a</sup> Value of the Federal food received for costing purposes

We reviewed a sample of 10 items' unit costs<sup>9</sup> and found no significant increases in cost during the three fiscal years. Without significant unit cost increases, this trend points toward an increasing average volume of food used per meal or a loss of food inventory through waste or theft. Together with the understated inventory used for food purchases, the risk of waste, abuse or wrongdoing is heightened significantly. To illustrate, if the fiscal year 2012-13 cost of food per meal was at the average of the two prior years (\$550.10), applied to the 2012-13 ADP (1555.9), the total food cost would have been approximately \$855,900, or \$120,000 less than the \$975,396 than was reported.

All of these weaknesses in the cafeteria operations occurred because the cashiers, managers and the Food Service Director performed their duties with little to no oversight. Even though the cafeteria managers provide limited oversight, we observed one manager's password written down to be used by the cashiers to perform his duties, which offsets the intent of the oversight.

The failure to provide oversight over the recording, collecting and depositing of cafeteria receipts and lack of controls over inventory increases the risk that receipts will not be properly recorded and deposited and that inventory will be absconded or misused.

## Recommendations

4. The Food Service Director should only record actual meals served, and, if adjustments are required, complete records should be maintained supporting the adjustment.
5. The Board should adopt policies detailing procedures to be followed for unpaid student and adult accounts.

<sup>9</sup> The items we sampled were chocolate milk, peanut butter wheat sandwiches, spring water, tomatoes, cereal, soft baked pretzels, ice cream bars, corn dog pancakes, cheddar cheese and peaches.

6. The Board should establish a policy to ensure that someone not involved in the day-to-day operations approves adjustments and voids to accounts to ensure that they are accurate and supported.
7. The Food Service Director should adopt procedures for daily cash register reconciliation and investigate any overages and shortages. Overage and shortage amounts should be routinely analyzed and any unusual patterns investigated.
8. The Food Service Director should maintain accurate perpetual inventory records and periodically reconcile them to physical inventories. Any differences should be promptly investigated and resolved.
9. District officials should implement better mitigating controls to provide oversight of the Food Service Director and other cafeteria staff and ensure that staff (especially managers) are not sharing passwords.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# *THE NORWICH CITY SCHOOL DISTRICT*

Gerard O'Sullivan, Superintendent  
Robert Wightman, Deputy Superintendent  
89 Midland Drive, Norwich, NY 13815  
(607) 334-1600 ext. 5503 Fax (607) 336-8652  
[gosullivan@norwichcsd.org](mailto:gosullivan@norwichcsd.org)

July 14, 2014

H. Todd Eames, Chief Examiner  
Binghamton Regional Office  
State Office Building – Suite 1702  
44 Hawley Street  
Binghamton, NY 13901

Dear Mr. Eames:

Please accept this letter as the Norwich City School District's response to your audit report of the District's Financial Condition and Cafeteria Operations.

We are appreciative of the time and effort of the Comptroller's staff and their recommendations to improve.

Upon receipt of the report's final version, the District will prepare and file any necessary corrective action plan to address any recommendations.

Sincerely,

Gerard O'Sullivan  
Superintendent

gos/mlor

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed District officials, tested selected records and examined pertinent documents for the period July 1, 2012 through January 22, 2014. To analyze the District's financial condition and budgeting, we extended our audit scope period back to July 1, 2008. Our examination included the following:

- We interviewed District officials and reviewed Board minutes to gain an understanding of the budgeting process for both the general and school lunch funds, including the rationale for determining the amount of unrestricted fund balance available for appropriation and the procedures for monitoring and controlling the budget.
- We interviewed District officials about the potential amount of current litigation and plans for the capital fund balance and to gain an understanding of the school lunch fund's cash receipt and inventory processes and procedures.
- We calculated the results of operations over the last three fiscal years for both the general and school lunch funds by comparing actual revenues and expenditures, including appropriated surplus funds where applicable.
- We compared the general and school lunch funds' estimated revenues and budgeted appropriations with actual revenues and expenditures for fiscal years 2010-11 through 2012-13 and also with the prior year actual revenues and expenditures for fiscal years 2007-08 through 2012-13 to determine if the District's budget estimates were reasonable.
- We projected 2013-14 fiscal year results of operations and ending fund balance for both the general and school lunch funds by comparing prior year-to-date results and current year-to-date results.
- We reviewed payments made from the EBALR to determine if they were properly paid from that reserve account.
- We documented the interfund loan balances in each fund and determined if balances were being carried forward. We also projected the likelihood of balances being paid back and calculated the effect on the general fund balance if the amounts due could not be paid back.
- We calculated the total effect on the general fund balance for 2013-14 fiscal year of the potential litigation, the projected results of operations, the improper payment out of the EBALR account and the interfund loan owed by the school lunch fund.
- We calculated the average decrease and increase in the District's general fund's actual revenues and expenditures from 2010-11 through 2012-13 to project out future year results.

- We documented the total number of recorded free, reduced and paid meals for breakfast and lunch in the “open students” account by month and school from September 2013 through February 2014. We calculated the Federal reimbursement that would have been received by the District for the free lunches recorded within this account. We reviewed the daily free lunch transactions for October 2013 recorded to this account and could not find adequate support.
- We reviewed the delinquent school lunch accounts for students and adults as of February 7, 2014. We documented the total number and amount and followed up on accounts with balances over \$100. We also reviewed the detail of purchases to ensure students and adults with delinquent accounts were not being allowed to purchase snacks.
- We reviewed the Account Balance Adjustment report and the Voided Transaction Report and documented the total number and dollar amount of adjustments and voids made from September 2013 through January 2014. We followed up on 28 adjustments and 12 voided transactions to verify that they were supported, proper, reviewed and approved. For the Account Balance Adjustment report, we selected all adjustments over \$100 as well as any accounts related to cafeteria workers and the highest adult account adjustment. For voided transactions, we chose a sample selection of void transactions to review for each of the schools based on the following void reasons: duplicate entry, student changed his/her mind and incorrect student.
  - o For the high school, we skipped the first register line because the void transaction listing was small. For the second register line, we selected the first transaction that was a void for student changed his/her mind. For the third register line, we selected the first transaction that was a void for duplicate entry. For the fourth register line, we selected the first transaction that was a void for incorrect student.
  - o For the middle school, Perry Browne school and Stanford school, we selected the first void transaction for each of the void reasons.
- We traced cash receipts from daily cash sheets from the cafeteria software for the weeks of April 22, 2013 and December 16, 2013 to deposit reports from the cafeteria software, deposit slips and bank statements to ensure that the amounts were being deposited timely and intact. For May 2013 and November 2013, we traced the bank deposits from the bank statement to the monthly revenue report from the cafeteria software to ensure that all deposits agreed with what was recorded.
- We reviewed beginning inventory reports for March 2014 and food purchase delivery sheets and attempted to perform an inventory count to verify that all purchases were accounted for and that inventory counts were accurate.
- We reviewed a sample of food item purchases from 2010-11 through 2013-14 to determine if costs of products were increasing, decreasing or remaining at the same.

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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