

MADISON CENTRAL SCHOOL DISTRICT
REPORT TO THE BOARD OF EDUCATION

Year Ended June 30, 2021

4 Associate Drive
Oneonta, New York 13820
Phone: (607) 432-8700
Fax: (607) 432-5122
www.mmscpas.com



Deborah L. Mostert, CPA
Anthony T. Manzanero, CPA
Mary E. Manzanero, CPA
David E. Brownell, CPA

October 13, 2021

Board of Education
Madison Central School District
Madison, New York

Dear Members of the Board:

We are pleased to present the results of our audit of the financial statements of Madison Central School District for the year ended June 30, 2021.

Our plan for the 2021 audit included a commitment to understand and deliver on management's expectations. Our approach to the audit was designed to combine a historical perspective with a focus on Madison Central School District's current and emerging financial issues.

This report to the Board of Education summarizes our audit process, the scope of our engagement, the reports issued, and various observations related to Madison Central School District. The document also reviews the Board of Education's communications required by our professional standards, as well as current accounting issues that have or will affect the Madison Central School District.

The completion of this year's audit was accomplished through the effective support and the assistance of the Madison Central School District's finance and administrative personnel. As always, we strive to continually improve the quality of our audit services.

We appreciate the opportunity to serve you. If you have questions or comments, please call us at (607) 432-8700.

Sincerely,

Mostert, Manzanero & Scott, LLP

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SUMMARY OF WHAT WE AGREED TO DO

Our Approach

As communicated with management and the Board of Education in our planning letter dated June 1, 2021, our audit plan represented an approach responsive to the assessment of risk of the District. Specifically, we designed our audit to:

- Issue an opinion on the financial statements for the year ended June 30, 2021;
- Issue an Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*;
- Issue an Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance;
- Report on the Schedule of Expenditures of Federal Awards required by the Uniform Guidance;
- Assist with the preparation of the Schedule of Expenditures of Federal Awards and Schedule of Audit Findings;
- Issue a management letter to the Board of Education and management; and
- Apply certain limited procedures, without issuing an opinion, on the Management's Discussion and Analysis (MD&A).

Areas of Audit Emphasis

The principal areas of audit emphasis were as follows:

Governmental Fund Financial Statements (Modified Accrual Basis):

- Segregation of cash accounts
- Reconciliation of interfund balances and activities
- Federal and state receivables and related revenue
- Property tax revenue
- Payroll and related expenses
- BOCES expenses
- Capital project obligations and related expenses
- Fund balance reserves
- Implementation of GASB No. 84 – Fiduciary Activities

Fiduciary Fund Statements (Accrual Basis):

- Classification and presentation of trust and agency funds

Government Wide Financial Statements (Accrual Basis):

- Classification of assets and liabilities – Current and noncurrent
- Capitalization of capital assets
- Allocation of depreciation expense
- Accrued expenses and related expenses
- Current and long-term debt and related expenses
- Elimination of interfund balances and activity
- GASB No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pension

Other Areas of Audit Emphasis

- Reconciliation statements (from Fund statements to Government Wide statements)
- Compliance with laws and regulations
- Information submitted in the MD&A report
- Audit risk assessment
- Related party transactions
- Evaluation of ongoing concern
- Single audit internal control and compliance testing

This year the District had over \$750,000 in Federal award expenditures and was required by Uniform Guidance to have a single audit performed.

REQUIRED COMMUNICATIONS

To the Board of Education of
Madison Central School District
Madison, New York

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison Central School District (the “District”) for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 1, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As noted in Note 1V, the District adopted GASB Statement No. 84 – Fiduciary Activities and GASB Statement No. 90 – Accounting and Financial Reporting for Majority Equity Interest.

GASB Statement No. 84 – Fiduciary Activities changed how and where the District records extra-classroom activity funds (ECA) and payroll related withholdings.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District’s financial statement were:

Management’s estimate of the liability for other post employment benefits is based on data provided to an actuary. We have evaluated the information provided by management in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of the liability for New York State Teachers’ Retirement System, the liability of the New York State Employees’ Retirement System and the deferred inflows and outflows are based on data provided to an actuary. We have evaluated the information provided by management in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of liability for compensated absences is based on management's estimated realization percentage of the actual unused personal and sick days at year-end. We evaluated the key factors and assumptions used to develop the liability for compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For the purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 13, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors'. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis and Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget (Non-GAAP Basis) – and Actual – General Fund, Schedule of Changes in Total OPEB Liability and Related Ratios, Schedule of District's Proportionate Share of Net Pension Liability (Assets), and Schedule of District's Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Change from Adopted Budget to Final Budget and the Real Property Tax Limit, Schedule of Project Expenditures – Capital Fund, and Schedule of Investment in Capital Assets, Net of Related Debt, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Board of Education and management of Madison Central School District is not intended to be, and should not be, used by anyone other than these specified parties.

Mistert, Manzanero & Scott, LLP

Oneonta, New York
October 13, 2021

MANAGEMENT LETTER

To the Board of Education
Madison Central School District
Madison, New York

In planning and performing our audit of the financial statements of the governmental activities, each major fund and aggregate remaining fund information of Madison Central School District (the "District") as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be material weakness.

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. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in internal control to be material weakness: 2021-001

2021-001 Capital Asset Accounting

Criteria: GASB No 34 requires governments to present detailed information in the notes to the financial statements about the government's capital assets reported in the government-wide statement of net position. This includes the beginning balance, increases (capital acquisitions), decreases (sales or other dispositions), ending balance, and depreciation. This requires the government to track this information in the appropriate detail and to make sure all capital assets that should be accounted are accounted for.

Condition: In fiscal year ending June 30, 2021, the District replaced its capital asset accounting software. During our audit, we found that the beginning capital asset balance from the new software did not agree to the prior year capital asset ending balance in the old software by a net total of \$288,631. When taking on such a large project (moving hundreds of capital asset records with varying costs and depreciations to a new capital assets software program), the District should have an internal control procedure or process along with oversight to make sure that the capital assets from the existing software program agree with the capital assets within the new software program. A detailed reconciliation should be performed to determine any differences. This process should be undertaken before external auditors arrive.

Cause: This resulted in a \$288,631 difference between the year-end balance in the CBIZ (old) software and the opening balance in the AMP (new) software. As well as uncertainty as to the correct amount of current fiscal year depreciation and ending net capital assets.

Effect or Potential Effect: The opening capital asset balance did not agree with the prior year ending balance. As a result, the District recorded a \$288,631 decreasing restatement adjustment to beginning of year net assets on the Statement of Activities and Changes in Net Position.

Recommendation: We recommend that the District review its internal control procedures and processes over the accounting and tracking of capital assets. Additionally, the District should perform a thorough detailed reconciliation of capital assets, comparing the June 30, 2020 detailed ending capital assets from the CBIZ (old) software to the beginning detailed capital asset balance from the AMP (new) software to determine what the variances are.

Management Response: The District will review the reports provided by the two different software systems and balance the capital assets to the correct beginning balance. The process should be complete by December 30, 2021.

Other Comment/Best Practice

Unassigned Fund Balance in Relation to Code Section 1318

Condition: At June 30, 2021, the unassigned fund balance of \$1,450,576 was \$1,003,297 in excess of the allowable amount under Section 1318 of the New York State Real Property Tax Law.

Criteria: The District is allowed, under New York State Real Property Tax Law (Code Section 1318), to retain up to 4% of the succeeding year's budget in unassigned fund balance.

Cause and Effect: This led the District to have an 12.97% level of unassigned fund balance to be non-compliant with Code Section 1318 which is designed to ensure that the tax levy for real property taxes is not greater than necessary.

Recommendation: We recommend that the District continue monitoring unassigned fund balance and reserves throughout the year and during budgeting to determine appropriate levels for both short-term and long-term planning purposes.

Payroll

During our examination of payroll records, we noted that some employee direct deposit authorizations were not in the employee files. We recommend that employee direct deposit authorizations be kept in employee files. The District should review their policies and procedures to determine that all employee files are kept current.

Extra-Classroom Activities

Bank Expenses

During the audit, we noted that there is an account for bank expense that is used to post bank charges (charges for ordering new checks). The activity in this account should be closed at fiscal yearend and allocated to all extra-classroom funds in a reasonable manner.

This communication is intended solely for the information and use of management, the Board of Education, applicable federal agencies and others within the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Mostert, Manzanero & Scott, LLP

Oneonta, New York
October 13, 2021