

SILVER CREEK CENTRAL SCHOOL DISTRICT

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
October 12, 2021**

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To the Board of Education of the
Silver Creek Central School District:

In planning and performing our audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Silver Creek 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, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

100 Corporate Parkway
Suite 200
Amherst, New York 14226
p (716) 250-6600
f (716) 250-6605

www.bonadio.com

SILVER CREEK CENTRAL SCHOOL DISTRICT

COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

OCTOBER 12, 2021

OTHER MATTERS FOR THE CONSIDERATION OF MANAGEMENT

1. NEW YORK STATE REAL PROPERTY TAX LAW §1318

Observation

During the audit we observed that the General Fund's unassigned fund balance was greater than the New York State Real Property Tax Law §1318 limit. According to the law, the District's general fund unassigned fund balance is not to exceed 4% of the subsequent year's budget. On June 30, 2021, the District's General Fund unassigned fund balance was 31.36% of the subsequent year's approved budget causing the District to not be in compliance with New York State Real Property Tax Law §1318.

Recommendation

We understand that at the time the budget was prepared, there was much uncertainty resulting from effects of the COVID-19 pandemic. The District budgeted for a "normal" school year, as it was not known whether the pandemic would continue to limit District operations and activities. As the District was not certain they would ever receive the 20% of state aid that had been withheld during the 2019-20 school year, they budgeted to use fund balance to cover this shortfall. Ultimately, this state aid was received, and the District's operations were at a reduced capacity due to pandemic restrictions and a remote/hybrid school year. As a result, there were unanticipated revenues earned coupled with cost savings, which led to the District's fund balance coming in higher than they had anticipated.

We understand the District has been reviewing their 5-year plan to assess the needs of the District and to align the expenditures with revenues. We continue to recommend that the District monitor the appropriate categories of fund balance in order to comply with New York State Real Property Tax Law §1318.

Management Response

This district has been faced with many difficult decisions with respect to budget development. The unpredictable economic climate during the last two years and the notice that up to 20% of the District state aid was going to be withheld during the 2020-2021 school year forced the District to be prepared to continue operating and educating without a great deal of funding. We have prepared each budget guided by two fundamental principles. The first is the sustainment of educational programs for our District's children. The second is that a budget must be sustainable over time. The district is aware that the unrestricted fund balance is over the statutory limit. The District currently has a 10-year plan for the use of reserves and unassigned fund balance to balance the budget to state and local revenue sources. This plan will be revisited, adjusted and enhanced to accelerate the use of unrestricted fund balance.

Additionally, the District has worked to strategically restore staffing and programming losses experienced during the GEA years that is sustainable to the District. The District will now be working to strategically address the gaps placed on our education system as a result of the pandemic that will have a long term impact on our programming, as well as, social-emotional development of our students AND staff. While there is some federal funding available on the short-term level, the District will be revisiting the five and ten year plans of budgeting and reserve usage to properly re-align expenditures and revenues with the educational needs of Silver Creek CSD.

2. MONTHLY REVIEW OF TREASURER'S REPORTS

Observations

Through our discussions surrounding the District's internal controls, we noted that the BOCES' Central Business Office (CBO) prepares monthly bank reconciliations and Treasurer's Reports for the District. These are reviewed by the School Business Administrator and presented at monthly Board of Education meetings.

Currently, there is no formal sign off on the bank reconciliations or Treasurer's Reports to indicate that they have been reviewed. During our audit procedures, while requesting a report of cash receipts in September 2021, it was noted that due to staffing challenges at the CBO, receipts were not being entered on a timely basis from July 2021 through September 2021. From this, we can ascertain that bank reconciliations and Treasurer's reports were also not being completed or reviewed on a timely basis.

Recommendation

We recommend that the District enhances its current procedure for reviewing monthly Treasurer's Reports and bank reconciliations performed by the CBO to ensure that this review is documented. We also recommend that the process in place ensures that information is received from the CBO and reviewed on a timely basis.

Management Response

The District's current procedure for reviewing monthly Treasurer's Reports and bank reconciliations performed by the CBO includes a schedule of when reports are due to the Business Administrator for review and confirmation before submitting to the District Clerk for receipt by the Board of Education. The submittal of these reports is all electronic via email at this time. The District will develop an additional sign off sheet as further back up documentation of review of financials. This schedule has not been adhered to by the CBO and has had to be changed and updated several times, as the result. The District is currently working to staff within the District to eliminate the need to rely on the CBO for such services.