

RESPONSE TO JUNE 30, 2014 MANAGEMENT LETTER

STATUS OF PRIOR YEAR COMMENTS

Review of Open Purchase Orders

The New York State Uniform System of Accounts (System) provides for the recording of encumbrances. Under encumbrance accounting, purchase orders, contracts and other commitments are recorded as a reservation against budget appropriations so that the funds are available when payment is due. Encumbrances at year end should consist of open purchase orders where the goods or services have not been received by year end.

During our prior year audit, we noted that some encumbrances in the capital projects fund should have been liquidated as the projects were completed.

Current Status – Corrected. During our current year audit, we noted that outstanding encumbrances on completed capital projects were liquidated appropriately.

Extraclassroom Activity Funds

The extraclassroom activity funds are the depository of student money. The New York State Education Department publishes the *Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds*. These guidelines recommend procedures for organizing these activities, controlling receipts and disbursements, as well as recording and reporting transactions.

During our previous audits, we noted the following which have been corrected by the District in the current year:

- Students involvement was evident in all transactions tested
- Club advisors and central treasurer involvement was always present in transactions tested
- The central treasurer at the East Northport Middle School prepares the books and records, and bank reconciliations on a timely basis.

During our prior and current year audits we noted the following:

- There were instances in which receipts and disbursements lacked supporting documentation
- The clubs at each school did not reconcile the balance with the Central Treasurer at each school on a regular basis
- There were clubs with no activity during the year
- There are some clubs with deficit balances

Current Status – Improved. We again recommend that the District continue to monitor the extraclassroom activity funds and provide the appropriate training to ensure compliance with state guidelines.

Management Response and District's Corrective Action –

The District Treasurer continues to monitor the extraclassroom activity funds while providing guidance to the central treasurers and club advisors at the secondary level. All central treasurers have received a copy of the New York State Education Department's publication entitled *Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds*. During the 2012-2013 fiscal year, the District's internal auditors completed a cycle audit of the Extraclassroom Activity Fund and provided the District with several recommendations. The District Treasurer will continue to implement these recommendations during the 2014-2015 school year. Each secondary school submits a quarterly activity report to the District Treasurer. It is the responsibility of the District Treasurer to review these reports for any inconsistencies and questionable items. The District Treasurer will be responsible for visiting each secondary school on a regular basis for the purpose of training staff, reviewing records and working with staff to ensure compliance with New York State Education Department regulations. It will be the responsibility of the District Treasurer to prepare formal procedures for the secondary schools. Central treasurers have been directed to correct any deficit balances. During the 2014-2015 fiscal year, central treasures have been instructed not to approve or generate checks unless the club has sufficient funds. The club advisors have been provided an account reconciliation form that will be completed on a monthly basis by the club treasurer and submitted to the club advisor for review. Upon review by the club advisor, the reconciliation form will be submitted to the central treasurer to verify and confirm the balances.

Responsible Parties – District Treasurer, Central Treasurers, Assistant Principals

School Lunch Fund Deficit

The District's cafeteria operations are accounted for in the school lunch fund. The school lunch fund is expected to be self-sufficient.

The District's school lunch fund has a fund deficit of \$133,266 as of June 30, 2014.

Current Status – Improved. During our current year audit, we noted that although the District saw an operating surplus of \$8,564; it was not enough to eliminate the fund balance deficit. We continue to recommend that the District review its cafeteria operations in order to minimize or eliminate the deficit. The District may have to consider budgeting for additional subsidy from the general fund to help sustain school lunch operations.

Management Response and District's Corrective Action –

The District continues to monitor the revenue and expenditures of the school lunch fund by preparing monthly profit and loss statements and reviewing the Nutri-Kids Point-of-Sale system reports. The District continues to budget a subsidy from the general fund to help sustain the school lunch program. A lunch price increase in the elementary and secondary schools was approved by the Board of Education for the 2014-2015 school year. Lunch prices were increased to \$2.35 (elementary) and \$2.60 (secondary) in accordance with the guidelines set forth in the Healthy Hunger-Free Kids Act of 2010.

Responsible Parties – School Lunch Director

Bank Reconciliations

The District maintains bank accounts at several financial institutions. Reconciliations of the District's bank accounts with the District's books are completed by the treasurer who is independent of the accounting functions. In addition, the bank reconciliations are reviewed by the supervisor of finance and accounting.

During our prior year audit, we noted that the June 2013 bank reconciliations were not reviewed until September 2013. During our current year audit, we noted in our sample of bank reconciliations tested that the March 2014 bank reconciliations had not been reviewed as of June 2014.

Current Status – Unchanged. We again recommend that all bank reconciliations be prepared and reviewed in a timely manner.

Management Response and District's Corrective Action –

The District Treasurer currently prepares the bank reconciliations for review and approval by the Assistant Superintendent for Business. The March 2014 bank reconciliations were reviewed in June 2014 by the Assistant Superintendent for Business and submitted to the Board of Education at the June 16, 2014 board meeting. Past practice had been that the Supervisor of Finance and Accounting reviewed and approved the bank reconciliations. During the 2013-2014 fiscal year the Supervisor of Finance and Accounting resigned and the District was unable to find a successful candidate for the position. With the Board of Education's approval, the District Treasurer's job description was expanded to include many of the job responsibilities formerly held by the Supervisor of Finance and Accounting. The District recently appointed a senior account clerk to assume many of the accounting and cash receipt functions previously completed by the District Treasurer. During the 2014-2015 fiscal year, the senior account clerk will prepare the bank reconciliations and report any bank reconciliation issues directly to the Assistant Superintendent for Business. The Assistant Superintendent for Business will review the bank reconciliations and document the review.

Responsible Parties – Assistant Superintendent for Business, Senior Account Clerk

CURRENT YEAR COMMENTS

Claims Audit

The claims auditing process is an integral part of the District's internal control, assuring that only claims that are proper charges against the District are paid. The claims auditor reports directly to the Board of Education.

During our current year audit, we noted that the claims auditor was not submitting monthly reports to the Board in a regular timely manner.

We recommend that procedures be implemented to ensure that monthly reports are submitted to the Board for their review in a timely manner.

Management Response and District's Corrective Action –

The Claims Auditor will prepare a schedule to reflect a more timely submission of reports to the Board of Education. This schedule will be submitted to the District Clerk who will provide it to the Board of Education.

Responsible Parties – Claims Auditor, District Clerk, Board of Education

Journal Entries

A good internal control system is one that includes a supervisory review of transactions. Journal entries are created within the business office.

During our current year audit, we noted that there are no longer review procedures in place to ensure that only approved journal approved entries have been input into the accounting software and that they were input correctly.

We recommend that an independent after the fact review of all journal entries in the accounting software be performed on a periodic basis.

Management Response and District's Corrective Action –

The District established the following procedure to address this audit recommendation. After the Assistant Superintendent for Business approves a journal entry form, the Accountant will review and enter the journal entry in the *Finance Manager* accounting system. Once a month, the senior account clerk will print the journal entry report from *Finance Manager*. The report will be reviewed to ensure that the journal entry form agrees to the *Finance Manager* report. The senior account clerk will initial the report to indicate his/her review.

Responsible Parties – Assistant Superintendent for Business, Accountant, Senior Account Clerk

Capital Fund Encumbrances

The District uses encumbrances to reserve a portion of budget appropriation for a future expenditure. The use of encumbrances helps control the budget by setting aside funds for commitments the District knows will be paid at a later date, thereby making these funds unavailable for other uses.

During our current year audit, we noted that the District was not creating an encumbrance in the accounting system for Board approved vendor contracts for capital projects until work was performed and payment was due. Not encumbering a contract upon approval increases the risk of the District over committing a capital fund project's budget.

We recommend that the District implement procedures to ensure that all board approved contracts for capital fund projects are encumbered in the accounting system upon approval of the contract.

Management Response and District's Corrective Action –

The District established the following procedure to address this audit recommendation. The senior clerk typist in the Buildings and Grounds Department will submit all new Board approved contracts to the District Treasurer. The District Treasurer will create the account codes and enter the budgets for these capital projects. The senior clerk typist will be provided access to these newly created codes in the *Finance Manager* system by the System Administrator. Once this process is complete, the codes will be provided to the senior clerk typist. At that time the senior clerk typist will encumber the funds for these capital projects in the *Finance Manager* accounting system.

Responsible Parties – Senior Clerk Typist, District Treasurer