

# **NORTHPORT-EAST NORTHPORT SCHOOL DISTRICT**

## **External Audit Findings and Recommendations School Year Ending June 2009**

### **CORRECTIVE ACTION PLAN**

#### **SAS 112 – MATERIAL WEAKNESSES**

##### **1. SPECIAL AID FUND**

###### **A. Summer Program for Students with Disabilities**

**Auditor's Comments** – During our current year audit, we observed that certain receivables relating to programs from several summers remained outstanding. Based on the analysis provided by management, the District wrote off approximately \$210,000 of receivables related to prior years Summer Program for Students with Disabilities as of June 30, 2009.

**Auditor's Recommendation** – We recommend the District establish a procedure to assess the collectability of the receivable from the Summer Program for Students with Disabilities and fund the excess cost through the general fund if necessary.

**District's Corrective Action** - The District was aware of this weakness prior to the audit and is in the process of auditing the prior year's Students with Disabilities Summer Program to ascertain that STAC forms were submitted and payment was made by New York State. The Principal Account Clerk is responsible for preparing a schedule that contains the following information: (1) student name; (2) student placement; (3) cost to educate student, i.e., BOCES, private placement or in-district; (4) reimbursement from New York State, paid in installments; (5) balance remaining after New York State reimbursement, and, therefore, the monetary responsibility of the District and (6) New York State/School District percentage ratio. Payments are received from NYS over several years and will be reconciled by year to the outstanding receivables. The Principal Account Clerk will be responsible for preparing an aging accounts receivable schedule on a quarterly basis. This schedule will be forwarded to the Assistant Superintendent for Business. The District's General Fund appropriation will be reviewed each year during the budget cycle to determine if the amount budgeted is supporting this mandated program.

**Responsible Staff Member** – Assistant Superintendent for Business, Director of Finance and Accounting, Accounting Department Principal Account Clerk.

## **B. Special Education Pre-K Program**

**Auditor's Comments** – During our current year audit, we observed receivables relating to the Pre-K Program for children with special needs. The funding for this program is based upon a rate reconciliation process administered by the New York State Education Department. The program is funded by both the state and Suffolk County.

**Auditor's Recommendation** – We recommend the District establish procedures to assess the collectability for the Pre-K program receivables and fund the excess costs through the general fund if necessary.

**District's Corrective Action** - The District was aware of this weakness prior to the audit and is in the process of auditing the Special Education Pre-K Program. The Business Office, in conjunction with the Office of Special Services, is in contact with NYSED Rate Setting Unit to resolve any open issues and track outstanding receivables accordingly. Schedules are prepared by class section to include the following information: (1) student FTE; (2) staff salaries and benefits and (3) contractual and supply costs. This information will assist in the completion of the ST-3 supplemental schedules that will result in the setting of the rate. The Department of Pupil Services will then bill the County of Suffolk for reimbursement in accordance with the rates. Billing documents and notification of payments will be provided to the Business Office in order to establish the receivable and generate aging accounts receivable schedules.

**Responsible Staff Member** – Assistant Superintendent for Business, Director of Finance and Accounting, Accountant and Department of Pupil Services staff.

## **2. MAINTENANCE OF ACCOUNTING RECORDS**

**Auditor's Comments** – Currently, the District does not prepare all of the adjusting entries to close the books at year end. As a result, we proposed the audit adjustment journal entries that the District accepted and recorded. In addition, the District did not perform the reconciliations on a monthly basis between the bank statement and the general ledger.

**Auditor's Recommendation** – We recommend that the District review this issue and develop procedures that will ensure the completeness of its accounting records. Also, we recommend that the District require that bank reconciliation balances be reconciled to the general ledger on a monthly basis.

**District's Corrective Action** - The District has established guidelines and procedures to be followed by the District Treasurer. The District Treasurer will submit a monthly bank reconciliation report to the Assistant Superintendent for Business and the Director of Finance and Accounting. At the close of every month, the cash book balance reflected on the monthly Treasurer's Report and the monthly bank reconciliation report must reconcile to the Finance Manager General Ledger. A timeline will be established for the District Treasurer and the Director of Finance and Accounting for timely submission of

monthly reports to the Board of Education. The Director of Finance and Accounting is responsible for preparing all journal entries and wire transfer entries during the year and at year-end. The District intends to implement changes for the June 30, 2010 financial statements to include a higher level of staff involvement in the preparation of the statements. The Assistant Superintendent for Business will explore resources for training in this area.

**Responsible Staff Member** – Assistant Superintendent for Business, Director of Finance and Accounting and District Treasurer.

### **3. FIXED ASSETS**

**Auditor's Comments** – During our current year audit, we noted that the District's fixed assets inventory is updated in-house using the Assetmaxx software package. However, the District did not update the fixed assets inventory in the Assetmaxx system on a regular basis, resulting in a significant amount of fixed assets not being reflected on the Assetmaxx reports. We were able to assist the District in adjusting these records so that the balances were properly reflected within the District's financial statements.

**Auditor's Recommendation** – We recommend that the District update the fixed assets inventory within the Assetmaxx program as soon as possible, and perform the reconciliation to the financial statements. Additionally, we recommend that the District develop procedures for updating and reviewing this record for additions, deletions and transfers on a regular basis.

**District's Corrective Action** - The District is in the process of reviewing current procedures to ensure that fixed assets additions, deletions and transfers are recorded in the AssetMaxx system on a regular basis. Training will be provided to the staff member in the Purchasing Department responsible for these entries. The Assistant Superintendent for Business is in the process of reconstructing the capital projects schedule included in the financial statements. Up until June 30, 2005, this schedule was depicted specifically by project. The financial statements dated June 30, 2006, June 30, 2007 and June 30, 2008 reflected this information in a summary format. In order to ensure that all capital projects are properly recorded in the Assetmaxx system, the history of each project will be reconstructed using the June 30, 2005 financial statement schedule as the starting point. The SA-139 state aid reports as well as the project's final cost reports will be retrieved for confirmation of filing and reconciliation to the accounting system information. This reconstructed schedule will provide the District with an accounting of its capital projects and allow for reconciliation to the Assetmaxx system.

**Responsible Staff Member** – Assistant Superintendent for Business, Director of Finance and Accounting, Purchasing Department staff.

#### **4. TRUST AND AGENCY FUND**

**Auditor's Comments** – During our current year audit, we noted that the health insurance withholding liabilities in the trust and agency fund was overstated by approximately \$715,000, resulting in an overstatement of the health insurance expense in the general fund. After the auditor proposed adjusting journal entry, the health insurance expense was properly stated in general fund for the year ended June 30, 2009.

**Auditor's Recommendation** – We recommend that the District review the health insurance liabilities in trust and agency fund on a monthly basis, and transfer the proper amount to the general fund to reduce the health insurance expenses on a timely basis.

**District's Corrective Action** – The District revised its insurance payment process during the 2008-2009 fiscal year. Insurance payments are now processed from the General Fund rather than from the Trust and Agency Fund. Employee health and dental deductions are now transferred from the Trust and Agency Fund to the General Fund. Previous to 2008-2009, the District share of health and dental insurance premiums was transferred from the General Fund to the Trust and Agency Fund. The balance in the Trust and Agency Fund may have resulted from an inaccurate calculation and transfer from the General Fund to the Trust and Agency Fund. The District has recently implemented a procedure whereby monthly insurance reconciliations are to be submitted to the Assistant Superintendent for Business no later than thirty days following the close of each month. Balances in the Trust and Agency Fund will be transferred to the General Fund on a monthly basis. All ten month employees are required to pre-pay the District for their share of health and dental insurance premiums by June 30<sup>th</sup>. The Director of Finance and Accounting shall be responsible for determining the June 30<sup>th</sup> Trust and Agency Fund balance that is reflective of this pre-payment of premiums by the ten month employees. The District intends to prepare an insurance master list, by bargaining unit, that can be utilized in the reconciliation process as well as for budgeting purposes.

**Responsible Staff Member** – Assistant Superintendent for Business, Director of Finance and Accounting and Accounting Department Principal Account Clerk.

## **MANAGEMENT LETTER**

### **1. Collateralization of Cash Accounts**

**Auditor's Comment** – During our current year audit, we noted that the collateralization of cash accounts is not monitored by the District on a regular basis.

**Auditor's Recommendation** – We recommend the District establish a procedure to monitor the collateral on a monthly basis to ensure that it is properly collateralized for each of the financial institutions.

**District's Corrective Action** – The District's investment policy prescribes the method of securing all cash accounts and investments. The policy instructs the District Treasurer to properly collateralize all cash and investments for each depository. Every month the District Treasurer prepares an investment report for the Board of Education. As a supplement to this report, the District Treasurer will now prepare a monthly collateralization report. The collateralization statements received by the District Treasurer will be analyzed to determine that all District cash account balances are collateralized in accordance with Board policy. If an exception should occur, it will be the responsibility of the District Treasurer to assess the effect and report to the Board of Education.

**Responsible Staff Member** – District Treasurer

### **2. Old Outstanding Checks**

**Auditor's Comment** – During our current year audit, we noted that some checking accounts had some outstanding checks that were more than two years old.

**Auditor's Recommendation** – We recommend that the District implement procedures to follow up on uncleared checks that have been outstanding for an extended period of time and dispose of them accordingly.

**District's Corrective Action** – The District Treasurer is responsible for performing the bank reconciliations for all District bank accounts on a monthly basis. A copy of the bank reconciliation for all accounts must be provided to the Director of Finance and Accounting. The bank reconciliation must include a detailed list of outstanding checks. The check number, date of check, payee and dollar amount of each outstanding check must be reflected on the bank reconciliation. It will be the responsibility of the Accounting Department, under the supervision of the Director of Finance and Accounting, to examine the list of outstanding checks. Payees and vendors will be contacted when necessary to determine the reason for the outstanding checks. Although all outstanding checks must be investigated, priority will be given, as follows: (1) outstanding disbursement checks payable to vendors deemed critical, i.e., insurance and tax payments; (2) multiple payroll checks payable to the same employee; (3) either disbursement or payroll checks for significant amounts; and (4) disbursement and payroll

checks outstanding for a period of 90 days. If it is determined that an outstanding check must be written off, the Director of Finance and Accounting must notify the District Treasurer in writing. These checks must also be voided in the Finance Manager Payroll or Accounting module by either the Payroll or the Accounts Payable Department, respectively.

**Responsible Staff Member** – District Treasurer, Director of Finance and Accounting, Accounting, Payroll and Accounts Payable staff.

### **3. Medicare Part D Subsidy**

**Auditor's Comment** – During the current audit, the District received approximately \$362,000 in credits on its health insurance bills representing subsidies from the federal government. Currently, the District recorded these credits as a reduction of health insurance expense. We assisted the District in adjusting their records at year end to properly record the credits.

**Auditor's Recommendation** – We recommend that the District develop procedures to ensure that these credits are recorded properly in the future. These credits should also be taken into account when developing future budgets, as the adjustment will be an increase to an expenditure line with a corresponding increase to a revenue code.

**District's Corrective Action** – The District recognizes the importance of properly recording the Medicare Part D subsidy. All monthly health insurance expenditures shall be recorded without application of the Medicare Part D subsidy. Rather than recording these subsidies as credits to the health insurance appropriation, they shall be recorded as revenue. The 2010-2011 budget will be reflective of this change.

**Responsible Staff Member** – Assistant Superintendent for Business, Director of Finance and Accounting and Accounting Department staff.

### **4. Annual Salary Changes**

**Auditor's Comments** – During the current year audit, it was noted that the Human Resources Department does not keep any documentation that they verified all employees' salaries were rolled over correctly in Finance Manager after the roll over process.

**Auditor's Recommendation** – We recommend that the District implement a procedure whereby an individual independent of the salary input process reviews the annual salaries for all employees after the roll over process is complete to ensure that it was done properly. We also recommend the documentation of that procedure is maintained.

**District's Corrective Action** – The District's Human Resources Department is responsible for setting up new employees in the Finance Manager System. At the beginning of a new fiscal year, the Department rolls over salaries for all employees based upon the current contracts. The Human Resources staff verifies the salary roll over. In

order to ensure that the rollover process was done correctly, the Director of Finance and Accounting and the Accountant will be responsible for confirming the accuracy of all salaries. Generation of reports from the Finance Manager payroll module, such as the *Contract and Rate Report* and the *Verify Contractual Amounts Report*, will assist in this task. During the fiscal year, select employees receive contract salary changes that are approved by the Board of Education. The Payroll Department, in conjunction with the Accountant and the Director of Finance and Accounting, will be responsible for verifying all agenda items throughout the year that have been approved by the Board of Education. In addition to the internal checks and balances, the Claims Auditor selects a sample of each bi-weekly payroll and performs an audit. The results of this audit are provided to the Board of Education in a monthly report. In addition, the Claims Auditor performs an unannounced, on-site payroll check distribution four times per year. Checks and direct deposit stubs are distributed to all employees who must present a valid driver's license and school district ID. After the completion of a check distribution, the Claims Auditor provides the Board of Education with a detailed report. Payroll data is also audited by the Superintendent of Schools, Assistant Superintendent for Business and Director of Finance and Accounting at various times during the year. The sample selected for audit is either five instructional or five non-instructional employees. Employee payroll files are scrutinized for completeness and each employee's salary is verified from gross earnings to deductions to net earnings.

**Responsible Staff Member** – Director of Finance and Accounting, Accountant, Claims Auditor, Human Resources and Payroll Departments Staff.

## **5. Worker's Compensation**

**Auditor's Comments** – We noted that the District is self-insured for workers' compensation claims; however, the District did not obtain the necessary actuarial information needed to meet the reporting requirements.

**Auditor's Recommendations** – We recommend that the District engage an actuary to prepare the information needed for compliance with the disclosure requirements of GASB Statement No. 10 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. The District may also use the information to evaluate the adequacy of funding for workers' compensation expenditures and the workers' compensation reserve.

**District's Corrective Action** – The District has obtained a copy of GASB Statement No. 10 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. GASB 10 requires the District to utilize actuarial methods to estimate liabilities, such as worker's compensation. The District needs to issue an RFP for actuarial services in order to comply with this recommendation.

**Responsible Staff Member** – Assistant Superintendent for Business, Director of Finance and Accounting, Accounting Department

## **6. Compensated Absences**

**Auditor's Comments** – During our current year audit, we noted that the District's calculation for compensated absences liabilities was not correct.

**Auditor's Recommendation** – We recommend the District establish a procedure to review the compensated absences liabilities as part of the year-end close process.

**District's Corrective Action** – The Director of Finance and Accounting is responsible for calculating and reporting the compensated absences liabilities. The Human Resources Department provides the Director of Finance and Accounting with the attendance report for all employees as of June 30<sup>th</sup>. This report reflects the sick and vacation leave balances for all employees receiving these benefits. All contracts and board policies must be referenced to determine the correct compensation for vacation and/or sick leave benefits. An excel spreadsheet is used to reflect all information pertaining to the calculation. The Assistant Superintendent for Business will confirm the calculations of the Director of Finance and Accounting to ensure that the liabilities are recorded correctly. This confirmation will include verification of formulas and a comparison to the prior year's data for unusual variances.

**Responsible Staff Member** – Human Resources Staff, Assistant Superintendent for Business and the Director of Finance and Accounting.

## **7. Special Aid Fund Expenditure Reports**

**Auditor's Comments** – During our current year audit, we noted that the District filed the FS-10F with amounts that were encumbered but never paid. The District is in the process of filing FS-10F amendments to correct the error.

**Auditor's Recommendation** – We recommend that the District reconcile the expenditures per the general ledger to the FS-10F reports prior to submission.

**District's Corrective Action** – In order to prepare the FS-10F report, the Grant Administrator obtains from the Accounting Department all expenditure and revenue reports relating to the grant. The Grant Administrator prepares and initials the FS-10F report. The FS-10F is then forwarded to the Assistant Superintendent for Business for a final confirmation. Once the data on the report has been verified, it is initialed by the Assistant Superintendent for Business. Finally, the FS-10F is forwarded to the Superintendent of Schools for signature and submission to the New York State Education Department.

**Responsible Staff Member** – Assistant Superintendent for Business



## **8. School Lunch Fund**

**Auditor's Comments** – During our current year audit, it was noted the followings: (1) The District records the school lunch revenue on a monthly basis instead of daily; (2) The Courier does not sign off on a log when picking up the daily school lunch deposits at the schools.

**Auditor's Recommendation** – We recommend that the District record daily sales in the general ledger based on the validated deposited slips and/or daily sales reports. At the end of each month, the District needs to reconcile the cash recorded in the general ledger to the sales reports maintained in the School Lunch Department. We also recommend the District implement a procedure where the Courier signs a log sheet documenting the pick up of the daily deposit at each school.

**District's Corrective Action** - The School Lunch Department receives the Daily Report of Cafeteria Operations from each building along with a copy of the bank deposit slip and cash register tapes. The School Lunch Department enters the sales information by building into the Access data base. The daily report is printed from the Access data base and attached to the Daily Report of Cafeteria Operations. The Treasurer enters the School Lunch Fund cash receipts in the Finance Manager Accounting System. The receipts are entered daily and must be detailed by the type of sale; i.e., type A lunch, breakfast, catering, a la carte, etc. The Treasurer verifies the quality and accuracy of all documentation, including the Daily Report of Cafeteria Operations, the Access data base report and the register tapes, before entering the data in Finance Manager. The Treasurer is responsible for reconciling this data to the validated bank deposit slip. Reconciled differences will be posted to the School Lunch Fund General Ledger 'Sales - Overage/Underage' account. The Director of Finance and Accounting will assist the District Treasurer in preparing and processing any required journal entries. Furthermore, the School Lunch Director samples and examines the Daily Report of Cafeteria Operations received from the buildings routinely during the year. The Director visits the cafeterias and food service workers throughout the school year to assess the program and provide training.

The District Courier is responsible for the pickup of the daily deposits at each school building. To ensure that all deposits have been properly collected by the Courier, the District will require that the Courier sign a log sheet documenting the pickup.

**Responsible Staff Member** – District Treasurer, Director of Finance and Accounting, School Lunch Director and Clerk Typist, Courier

## **9. Extraclassroom Activity Funds**

**Auditor's Comments** – During our current year audit, we noted the followings: (1) Students involvement was not evident in all transactions tested; (2) The District did not pay sales tax for all the purchases related to extraclassroom activities; (3) There were instances in which receipts and disbursements lacked supporting documentation; (4) The

clubs at each school did not reconcile the balance with the Central Treasurer at each school on a regular basis: (5) There were clubs with no activity during the year.

**Auditor's Recommendation** – We recommend that the District continue to monitor the extraclassroom activity funds and provide the appropriate training to ensure compliance with state guidelines.

**District's Corrective Action** – The Assistant Superintendent for Business will schedule meetings with each secondary school to discuss the New York State Education Department's publication entitled *Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds*. Each of the items commented upon by the auditors will be discussed. A procedure to reconcile the cash balance of each club to the Central Treasurer's monthly report will be established. The schools are required to submit a monthly activity report to the District Treasurer. Prior to the submission of such reports to the Board of Education, the District Treasurer shall be responsible for resolving any inconsistencies and questionable items.

**Responsible Staff Member** – Assistant Superintendent for Business, District Treasurer, Secondary Schools Central Treasurers and Secondary Schools Assistant Principals.