

NORTHPORT-EAST NORTHPORT SCHOOL DISTRICT

External Audit Findings and Recommendations School Year Ending June 2010

CORRECTIVE ACTION PLAN

MANAGEMENT LETTER

STATUS OF PRIOR YEAR COMMENTS

Collateralization of Cash Accounts

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

Current Status – Corrected.

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 prepares a monthly collateralization report. Cash and investments not properly collateralized are reviewed and examined by the District Treasurer. All exceptions and resolutions are included on the District Treasurer's collateralization report. Both the investment report and the collateralization report are approved by the Supervisor of Finance and Accounting, the Assistant Superintendent for Business and the Superintendent of Schools prior to their submission to the Board of Education.

Responsible Party – District Treasurer

Medicare Part D Subsidy

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

Current Status – Corrected.

District's Corrective Action – The District recognizes the importance of properly recording the Medicare Part D subsidy. All monthly health insurance expenditures are now recorded without application of this subsidy. Rather than recording these subsidies as credits to the health insurance appropriation, they are recorded as revenue. It is the responsibility of the Supervisor of Finance and Accounting to prepare a journal entry recording the subsidy as revenue. The journal entry for this transaction is reviewed and

approved by the Assistant Superintendent for Business. Beginning with the 2010-2011 budget, appropriations and revenue are budgeted reflective of this change.

Responsible Parties – Supervisor of Finance and Accounting

Workers' Compensation

Auditor's Comments – During our prior year audit, 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.

Current Status – Corrected.

District's Corrective Action – In accordance with the auditor's recommendation, the District engaged 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 information obtained from the actuarial study was reflected on the June 30, 2010 financial statements.

Responsible Party – Assistant Superintendent for Business

Compensated Absences

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

Current Status – Corrected.

District's Corrective Absence – The Assistant Superintendent for Business is now responsible for calculating and reporting the compensated absences liabilities. All contracts and board policies are reviewed to determine the correct compensation for vacation and/or sick leave benefits. Leave balance reports are prepared by and obtained from the Office of Human Resources. Vacation and/or sick days are converted into compensation benefits. The Compensated Absences Report is sorted by collective bargaining unit, as benefit calculations vary by unit. Employees covered by Board of Education policy, such as confidential clerical, security personnel, etc., are reflected by classification as benefit calculations vary by policy.

Responsible Parties – Office of Human Resources and Assistant Superintendent for Business

Special Aid Fund Expenditure Reports

Auditor's Comments – During our prior 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.

Current Status – Corrected.

District's Corrective Action – In accordance with the auditor's recommendations, grant expenditures per the general ledger are reconciled to the FS-10F reports prior to submission to the New York State Education Department. All FS-10F reports are prepared by the administrator of the grant. They are forwarded to the Assistant Superintendent for Business for review and approval. Expenditures reported on the FS-10F report are reviewed and reconciled to the general ledger by the Assistant Superintendent for Business. Any exceptions are noted and returned to the grant administrator for correction. All FS-10F reports approved by the Assistant Superintendent for Business are forwarded to the Superintendent for signature. Prior to signing the FS-10F report, the Superintendent verifies that the grant administrator and the Assistant Superintendent for Business have initialed and dated the report. Reports are then submitted to the New York State Education Department.

Responsible Parties – Assistant Superintendent for Business

Old Outstanding Checks

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

Current Status – Partially corrected. During our current year audit, we noted that the District followed up on uncleared checks for some bank accounts. However, we noted that the payroll checking account in the Trust and Agency Fund still has some outstanding checks that were more than one year old. We again recommend that the District implement a procedure to follow up on 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. The outstanding check listing for all accounts must be provided to the Supervisor of Finance and Accounting. The outstanding check listing must include the check number, date of check, payee and dollar amount for each check. It will be the responsibility of the Accounting Department, under the supervision of the Supervisor 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. If it is determined that an outstanding check must be voided and a stop payment issued, the Supervisor of Finance and Accounting must notify the District Treasurer in writing. Stop payments are initiated with the bank by the District Treasurer. Checks are voided in the Finance Manager Payroll or Accounting module by either the Payroll or the Accounts Payable Department, respectively only when written authorization is provided to the departments by the Supervisor of Finance and Accounting.

The outstanding payroll checks referenced by the auditors are currently under review by the Supervisor of Finance and Accounting. Employees with an outstanding payroll check have been contacted in writing. Checks are being voided and replaced appropriately.

Responsible Parties – District Treasurer, Supervisor of Finance and Accounting, Payroll and Accounts Payable staff.

Annual Salary Changes

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

Current Status – Partially corrected. During our current year audit, we noted that the District performed the salary roll over process; and had the Accountant, who is independent of the salary input process, reviewed the annual salaries for all employees after the roll over process was complete. However, the review was not completed until September 2010. We recommend that the District implement a procedure to complete the review of roll over process on a timely basis.

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 Department verifies the roll over internally. In order to ensure that the rollover process was done accurately, the Accountant and Supervisor of Finance and Accounting will be responsible for confirming the accuracy of all salaries within seven to ten days after the rollover has been completed. Both the Accountant and the Supervisor of Finance and Accounting are independent of the salary input process. Generation of Finance Manager reports, such as the Contract and Rate Report, will assist in this task. Copies of all documents utilized to verify the roll over salaries must be dated and initialed by the Accountant and Supervisor of Finance and Accounting. The reports shall remain on file. The Payroll Department, in conjunction with the Accountant and the Supervisor of Finance and Accounting, will be responsible for reviewing all agenda items that have been approved by the Board of Education. Any discrepancies must be noted immediately. The Office of Human Resources and the Assistant Superintendent for Business shall be apprised of all discrepancies and subsequent corrections.

Responsible Parties – Supervisor of Finance and Accounting, Accountant and Payroll Department Staff.

School Lunch Fund

Auditor's Comments – During our prior year audit, we 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.

Current Status – Unchanged. We again recommend 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 District Treasurer began recording the School Lunch Fund cash receipts for the months of May 2010 and June 2010 on a daily basis by

building. Cash receipts are recorded in the Finance Manager Accounting System. The District Treasurer has continued to enter the School Lunch Fund cash receipts on a daily basis by building for the 2010-2011 school year. The source documents for input are the daily sales reports prepared by the school lunch staff in each building and the validated bank deposit slips. The School Lunch Director receives the daily sales reports from the buildings. The School Lunch Director has trained the building staff to complete the daily sales reports and reviews them for accuracy and completeness. The daily sales reports also provide the Director of School Lunch with a means to monitor the lunch sales. The School Lunch Department is responsible for providing the daily sales reports to the District Treasurer for input in the cash receipts system. The District Treasurer is responsible for reconciling the bank statements to the general ledger. Each month, the School Lunch Fund bank statements are reconciled to the general ledger. Any discrepancies are reconciled by the District Treasurer at the time the reconciliation is complete.

The Courier is responsible for picking up the daily school lunch receipts at the buildings and transporting them to the bank for deposit. Deposits are prepared by the school lunch staff at the respective buildings. Deposits are secured in night deposit bags to protect the deposit being transferred. To comply with the auditor's recommendation and increase the level of control over the deposits, the District Treasurer and the Supervisor of Finance and Accounting have been directed to prepare a log that the Courier can sign when picking up school lunch deposits at each of the buildings. In addition to the Courier's initials, this log will reflect the dollar amount of the deposit and the unique deposit bag number. At the end of the month each school building will forward the log to the District Treasurer who will be responsible for reconciling the log to the School Lunch Fund cash receipts. The Assistant Superintendent for Business has spoken to the Courier and his Supervisor regarding this additional duty for the Courier. The Courier will begin signing the log as soon as the log being prepared by the District Treasurer and Supervisor of Finance and Accounting has been completed and approved.

Responsible Parties – District Treasurer, Supervisor of Finance and Accounting, School Lunch Director, Courier

Extraclassroom Activity Funds

Auditor's Comments – During our prior 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.

Current Status – Unchanged. During our current year audit, we also noted that there were clubs with deficit balances. We again 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 District Treasurer and the Assistant Superintendent for Business attended a workshop on recommended procedures for Extraclassroom Activity

Funds. Meetings will be scheduled with each secondary school to review the New York State Education Department's publication entitled *Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds* and impart information reviewed at the workshop. During the 2009-2010 fiscal year, the Assistant Superintendent for Business initiated a meeting with the secondary schools to begin training and provide guidance. Each secondary school submits a monthly 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 New York State Education Department requires that reports be submitted to the Board of Education quarterly. The District will continue to provide monthly reports to ensure accounts are reconciled timely. 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.

Responsible Parties – District Treasurer, Secondary Schools Central Treasurers, Assistant Superintendent for Business

CURRENT YEAR COMMENTS

Cash Receipts

Auditor's Comments – During our current year audit, we noted that the cash receipts and wire transfers are not recorded into the accounting system on a timely basis.

Auditor's Recommendation - We recommend that the District implement a procedure to record the cash receipts and wire transfers into the accounting system on a timely basis.

District's Corrective Action – The District believes that the proper handling of cash and checks is important to the safeguarding of assets. All cash transactions must be recorded timely in the District's accounting system. All cash and checks to be deposited are presented to the Accountant. The Accountant logs in all cash and checks by means of an excel spreadsheet. Checks are endorsed by the Accountant upon receipt. All deposits are accompanied by a transmittal sheet and are presented to the District Treasurer by the Accountant. The District Treasurer is responsible for reviewing the transmittal sheets, preparing the deposit slips and presenting the deposits to the bank for credit to the District's accounts. The validated bank deposit slip is presented to the Accountant by the District Treasurer. The Accountant is responsible for reconciling the validated bank deposit slip to the excel spreadsheet to verify that all cash and checks receipted were deposited. The Accountant initials the validated bank deposit slips before returning them to the District Treasurer. Receipts are coded to the correct revenue account and are promptly input into the District's accounting system by the District Treasurer.

Requests for wire transfers are initiated by the Accounts Payable and Payroll Departments. Transfers are required to fund warrants and payrolls processed by the Accounts Payable and Payroll Departments, respectively. Requests for wire transfers are presented to the District Treasurer. The District Treasurer reviews the request and prepares the wire transfer documents. The wire transfer information is entered into the banking on-line system by the District Treasurer. The wire transfer documents are then

forwarded to the Assistant Superintendent for Business for approval. After the wire transfer documents are approved by the Assistant Superintendent for Business, they are forwarded to the Supervisor of Finance and Accounting. The Supervisor of Finance and Accounting reviews the documents and releases the wire transfer that has been initiated by the District Treasurer in the banking on-line system. A copy of the wire transfer is presented to the Accountant by the District Treasurer. The Accountant will need this information when reviewing the bank statements. It is the responsibility of the Supervisor of Finance and Accounting to enter the wire transfer information into the District's accounting system. Only the District Treasurer and Deputy District Treasurer are authorized to initiate wires in the banking on-line system and only the Supervisor of Finance and Accounting and the Assistant Superintendent for Business are authorized to release wire transfers in the banking on-line system. All wire transfers are categorized as repetitive, meaning they are transfers to the same accounts that are made on an ongoing basis. The date and the amount are the only changes. The template information for a repetitive wire is initiated by the District Treasurer and approved by the Assistant Superintendent for Business.

Bank statements are delivered unopened to the Accountant. The Accountant opens all bank statements and reconciles all deposits and wire transfers to the excel spreadsheet. Any discrepancies are noted and conveyed to the Supervisor of Finance and Accounting and the Assistant Superintendent for Business. After the Accountant has completed a review of the bank statements, they are initialed and forwarded to the District Treasurer for a full reconciliation to the general ledger.

The following time line has been established to ensure that cash receipts and wire transfers are recorded timely in the District's accounting system.

Cash Receipts:

1. Cash receipts are presented to the Accountant by an office or department, such as the Community Services Office or the Music Department.
2. Within twenty-four hours, the deposit must be forwarded to the District Treasurer by the Accountant.
3. Upon receipt of the deposit from the Accountant, the District Treasurer will deposit the receipt(s) at the bank within twenty-four hours.
4. Within five business days of making the deposit, the District Treasurer will enter the cash receipt information in the District's accounting system.

Incoming Wires:

1. The District Treasurer receives notice of all wires from the Town of Huntington and the New York State Education Department.
2. On a daily basis, the District Treasurer reviews all District bank accounts via the banking on-line system.
3. The District Treasurer records all incoming wires in the District's accounting system within two business days of the wire transaction.

Outgoing Wires:

1. All outgoing wires adhere to the above stated procedure regarding approval(s).
2. Within two business days of releasing a wire, the Supervisor of Finance and Accounting will record the wire transaction in the District's accounting system.

Responsible Parties – District Treasurer, Accountant, Supervisor of Finance and Accounting, Assistant Superintendent for Business

Policies and Manuals

Auditor's Comments – During our current year audit, we noted that some of the District's policies are outdated and not comprehensive.

Auditor's Recommendations – We recommend that the District implement a procedure to review and update its policy manual on a regular basis.

District's Corrective Action – The Board of Education has formed a policy committee to address updating its policy manual. The committee meets regularly. The Board of Education will also discuss policy during its Board of Education Public Work Sessions.

Responsible Parties – Board of Education and District Clerk

School Lunch Fund Deficit

Auditor's Comments – The District's school lunch fund incurred an operating loss of approximately \$88,000 and \$69,000 for the years ended June 30, 2010 and 2009, respectively. As of June 30, 2010, the fund balance had a deficit of approximately \$179,000.

Auditor's Recommendation – We recommend that the District review its cafeteria operations in order to minimize or eliminate the operating loss and the deficit. The District may have to consider budgeting for additional subsidy from the general fund to help sustain the school lunch operations.

District Corrective Action – In an effort to address the deficit in the School Lunch Fund, the Board of Education approved an increase in the price of the school lunches for the 2010-2011 school year. The price of lunch for elementary and secondary schools is now \$2.00 and \$2.25, respectively. The Supervisor of Finance and Accounting will provide monthly profit and loss reports to the Assistant Superintendent for Business. The District recognizes that the School Lunch Fund is expected to be self-sufficient; however, the cost of employee benefits, particularly insurance and retirement costs have negatively impacted the program's operating budget. The District increased the subsidy from the general fund to support the School Lunch Fund for the 2010-2011 school year. The increased subsidy will be used for the implementation of a district-wide POS system that will improve controls over cash receipts. The District will recommend that the subsidy not be reduced in the 2011-2012 budget.

Responsible Parties – School Lunch Director, Supervisor of Finance and Accounting and Assistant Superintendent for Business

Old Capital Projects

Auditor's Comments – During the current year audit, we noted the followings: (1) Some capital projects were completed and have unexpended balances; (2) Some capital were completed and have deficit balances; (3) The District has unissued debt related to 2000 and 2003 serial bonds in the amount of \$585,368.

Auditor's Recommendation – We recommend that the District review the completed capital projects with unexpended and deficit balances to determine the disposition of these amounts. In addition, we recommend that the District review the capital projects financed through the 2000 and 2003 serial bonds to determine the disposition of the unissued debt.

District's Corrective Action – The District is presently consulting with the auditors to reconcile the unexpended and deficit capital projects balances and the District's unissued debt. All items will be addressed prior to June 30, 2011.

The District is implementing the following capital projects procedures for its current capital projects. Finance Manager facilitates the recording and tracking of capital projects. Each capital project is assigned appropriation codes that correspond to the New York State Education Department's project number. When the SA-4 is received from the New York State Education Department, the Supervisor of Finance and Accounting enters the budgetary information in the accounting system. The District's architect submits the AIA document and/or invoices to the District. All payment requests are approved by the Superintendent of Buildings and Grounds and the Assistant Superintendent for Business. The Office of the Superintendent of Buildings and Grounds prepares the purchase order. The documents are then forwarded to the Supervisor of Finance and Accounting who is responsible for processing payment to the vendor. Expenditures are recorded and tracked in the accounting system by budget codes that correspond to the NYSED project number. Any change orders are submitted to the District by the architect and approved by the Board of Education. If an approved change order requires an increase in the budgetary appropriation, the Supervisor of Finance and Accounting prepares a budgetary journal entry. Changes to purchase orders are requested by the Office of the Superintendent of Buildings and Grounds. At the completion of each individual project, the unexpended balance will be verified and the balance will be returned to the original source of the funds.

Responsible Parties – Supervisor of Finance and Accounting, Superintendent of Buildings and Grounds and Assistant Superintendent for Business