

November 14, 2023

CONFIDENTIAL

The Board of Education
City School District of Mount Vernon
Mount Vernon, New York:

We have completed our audit of the financial statements of the City School District of Mount Vernon (the District) for the year ended June 30, 2023. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. We now present for your consideration our comments and recommendations based upon observations made during our audit.

This report is intended solely for the information and use of the Board of Education, management and others within the District.

Extraclassroom Activity Funds - Uniformed Procedures

Comment - Not all Schools are following the same set of procedures in regards to required reviews and approvals of transactions, bank reconciliation procedures, and preparation of monthly activity reports.

Recommendation - We recommend that each School follow the same set of procedures with a faculty advisor overseeing each location, and one central person located in the Business Office oversee and aiding faculty advisors. Additionally, consideration should be given to having the cash disbursements follow the same procedures as the monthly claims auditing process. Monthly bank reconciliations should follow the same set of procedures for preparation, review and approval. Activity logs should be reconciled to the bank reconciliations on a monthly basis. The District should consider investing in an online small business software to aid in this process and allow for more timely monitoring.

Bank Reconciliations - Old Outstanding Items

Comment - During our review of bank reconciliations, we noted that there were the following transactions and totals included as outstanding reconciling items from the following: \$59,797 from fiscal year 2021 (58 items), \$10,693 from fiscal year 2022 (19 items), \$3,764 of items older than six months, from fiscal year 2023 (10 items).

Recommendation - In order to improve internal control over cash, we recommend that management review these items to determine if a liability still exists, cancel, re-issue payments, or remit the amounts to NYS Unclaimed Funds, as necessary.

Backdating of Disbursements

Comment - During our review of cash disbursements cutoff, we noted that the District backdated checks that were disbursed in the following fiscal year, to reflect a date of June 30, 2023. This practice causes inefficiencies in both the bank reconciliation procedures and establishment of outstanding liabilities. Backdated checks are considered liabilities of the District, as they were not paid prior to year-end, and therefore should be recorded as accounts payable.

Recommendation - We recommend that the District revise procedures in order to ensure these cash transactions are recorded in the proper fiscal year and through the proper accounts.

Previous Recommendations

We reviewed the disposition of recommendations included in the management letter for the year ended June 30, 2022. The following is a summary of the action take by the District with regard to the recommendations.

Special Aid Fund - Old Receivable Balances

Comment - In 2022, it was noted that the District participates in the New York State's (the State) summer program for handicapped pupils. The State funds eighty percent of this program and the remaining balance is funded by the General Fund. The State has mandated that all revenue and expenditures related to this program be accounted for in the Special Aid Fund. During our audit, we noted unpaid, receivable balances from the State of \$299,708 for 2020-2021, \$189,268 for 2019-2020, \$18,556 for 2018-2019, \$5,204 for 2017-2018, \$19,238 for 2016-2017 and \$3,205 for 2013-2014. Additionally, the Empire State Afterschool Program has outstanding receivable balances of \$41,241 in 2019-2020 and \$30,973 in 2018-2019.

Status - In 2023, we noted that the unpaid receivable balances noted above remained outstanding. We inquired of management regarding the collectability of these receivables and were advised that a majority of them were uncollectible and an audit adjustment was proposed to write off the balances for the fiscal years 2019-2020 and prior. Accordingly, this comment is considered resolved.

Special Aid Fund - Unearned Revenue - Over One Year Old

Comment - In 2022, it was noted that unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The Special Aid Fund reported over \$350,000 in unearned revenue dating back several years as follows: \$405 for 2013-2014 grants, \$29,369 for 2016-2017 grants, \$173,494 for 2019-2020 grants, and \$166,499 for 2020-2021 grants. This is an indication that monies received for these various grants exceeded expenditures related to those same grants.

Status - In 2023, there is \$110,110 of unearned revenue dating back several years: \$84,838 for 2021-2022 grants and \$25,272 for prior year grants. We recommend that management continue to monitor and review these grants and determine if they are still eligible to claim expenditures against, or if the grants should be closed out and funds returned to the provider. This comment is repeated from the prior year.

Extraclassroom Activity Funds

Comment - In 2022, the audit of the extraclassroom activities required that supporting documentation be reviewed for the financial activities that occurred throughout the school year at the various schools within the District. The District was unable to provide supporting documentation with respect to activities at the Columbus Elementary School, other than copies of bank statements.

Status - In 2023, we were unable to obtain bank reconciliations and statements for Columbus Elementary School and Benjamin Turner Elementary School, as of June 30, 2023. We also noted that the faculty advisor for Columbus Elementary School did not record any activity in the bank account during the year due to access issues. All activity was left in a lockbox or surrendered to the principal, except for \$300 which could not be located. We recommend that support for all transactions in the extraclassroom accounts be kept on file and be accessible to the Business Office in a timely manner. This comment is repeated from the prior year.

Comment - In 2022, the audit indicated that multiple schools did not have bank reconciliations prepared monthly nor were any prepared as of June 30, 2022 until the audit was underway.

Status - In 2023, we were unable to obtain bank reconciliations and statements for Columbus Elementary School and Benjamin Turner Elementary School as of June 30, 2023. We recommend the development and implementation of strong internal control procedures to help with the timely and monthly preparation of bank reconciliations. We also recommend that bank reconciliations be submitted monthly to the Business Office for review. This comment is repeated from the prior year.

Comment - In 2022, it was noted that each school within the District operating extraclassroom funds should maintain a monthly spreadsheet where receipts and disbursements by club are tracked. At the end of the year, this monthly activity by club should be summarized onto a year-end spreadsheet for audit purposes. The 2022 audit indicated that such monthly and year-end schedules were not maintained throughout the year and were only compiled as the audit process was winding down.

Status - In 2023, we noted that seven of the participating schools did not maintain accurate monthly spreadsheets for tracking the receipts and disbursements. The year-end spreadsheet for these same seven schools did not properly reconcile the activity for all twelve months from the June 30, 2022 balances to the June 30, 2023 balances. Additionally, of the spreadsheets that were prepared, they were prepared at the time of audit fieldwork in October 2023, rather than throughout the year. We recommend that the District instruct the club advisors and treasurers of the need to have this information prepared monthly and then summarized at the end of the year prior to the commencement of the annual audit. These schedules should reconcile to the bank reconciliations on a monthly basis. This comment is repeated from the prior year.

Comment - In 2022, there were twenty-one clubs throughout the District that had no financial activity. State Education Department Regulations provide that the funds of a discontinued activity shall automatically revert to the account of the general student organization or the student council and shall be expended in accordance with that organization's constitution.

Status - In 2023, we noted that there were nineteen clubs throughout the District that had no financial activity. We recommend that a review of these clubs be undertaken to determine their status. Should it be determined that a club is no longer active, the funds should be transferred to the general student organization. This comment is repeated from the prior year.

Miscellaneous Special Revenue Fund - Inactive Accounts

Comment - In 2022, it was noted that the Miscellaneous Special Revenue Fund is used to account for assets held by the District in accordance with grantor or contributor stipulations. During the 2022 audit, it was noted that eight out of the nine accounts in this fund, with aggregate ending balances of approximately \$90,000, had no financial activity for the year other than interest earnings.

Status - In 2023, we noted four of the fourteen accounts in this fund had no financial activity for the year other than interest. We recommend the District review the purposes of these funds and determine the proper disposition of the funds. This comment is repeated from the prior year.

Payroll Tax Filings

Comment - In 2022, it was noted that payroll is the largest expenditure for the District and that there are many mandated filings that the District must do with respect to its payroll related obligations. One of those filings is the quarterly 941 Form that is to be filed with the Internal Revenue Service (IRS). As part of the 2022 audit, these filings were reviewed to determine that were made and that they were made timely. The District was unable to file one quarter within the timeline required by the IRS.

Status - In 2023, it was noted that all the quarterly filings have been appropriately filed with the timeline required by the IRS. Accordingly, this comment is considered resolved.

Journal Entries

Comment - In 2022, it was noted that all journal entries tested did not have evidence of management/supervisory review and approval.

Status - In 2023, we reviewed several journal entries, as well as inquired of management. It was noted that the Assistant Superintendent of Business and Operations or Treasurer does not review and approve all journal entries prior to posting. In order to improve the financial reporting process, we recommend that management begin reviewing and documenting the review and approval of journal entries through the use of signatures on required forms. This comment is repeated from the prior year.

Payroll Change Report

Comment - In 2022, it was noted that the District's payroll software can generate a payroll change report. This allows payroll personnel to see all changes in payroll from the prior pay period. This report would facilitate the review of the payroll to ensure that all changes were proper and appropriately approved. During the 2022 audit, it was noted that this report, nor anything of a similar nature, was generated by the District to track changes to the payroll from pay period to pay period.

Status - In 2023, it was noted that the Assistant Superintendent of Business and Operations and various other personnel run the payroll change reports and confirm all changes on the report were properly approved each pay period. Accordingly, this comment is considered resolved.

Encumbrances

Comment - In 2022, in the District's various funds, encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve applicable budgetary appropriations was utilized. In the 2022 audit the list of outstanding encumbrances at year end was reviewed and it was noted that certain encumbrances were not properly liquidated as the goods/services were received/performed and invoices rendered. In those cases, the encumbrance should be liquidated (reduced) and an accounts payable/expenditure simultaneously be recorded. As a result, the amounts reported as encumbrances in the General and School Lunch funds were overstated while accounts payable/expenditures were understated.

Status - In 2023, it was noted that all encumbrances were appropriately liquidated and converted to accounts payable prior to the commencement of the audit fieldwork. Accordingly, this comment is considered resolved.

Mount Vernon Public Library Real Property Taxes

Comment - In 2022, it was noted that the District is responsible for the billing and collection of real property taxes for the Mount Vernon Public Library (the Library). The amount for the Library is included as a separate line item on the District's property tax bills. The District is required to satisfy the Library's tax warrant before the end of its fiscal year, whether it has collected those taxes or not. (The District is to ultimately be made whole by the City of Mount Vernon each year for uncollected taxes). At June 30, 2022, the unpaid balance due to the Library amounted to \$102,326.

Status - In 2023, it was noted that all amounts related to the Library taxes were properly remitted during the year ended June 30, 2023. Accordingly, this comment is considered resolved.

Federal Aid - Child Nutrition Program

Comment - In 2022 the District received in excess of \$750,000 in federally aided programs, accordingly the auditors were required to perform a compliance audit on a certain portion of these programs to ensure that the federal funds are being expended in accordance with the federal requirements of those programs. For the 2021-2022 fiscal year, one of the programs selected for audit was the child nutrition programs. During the audit, it was noted that for one month of lunch claims and for each month during the year for the snack program claims, the meal counts per the supporting documentation reviewed did not match with what was uploaded to the State Education Department for reimbursement. In total, there was approximately a \$12,000 difference between what was uploaded and the supporting documentation provided.

Status - In 2023, we reviewed the monthly meal submitted for reimbursement and noted that management submitted an adjustment for \$14,813. The adjustment was processed by the State Education Department for reimbursement. There were no other issues noted with amounts submitted for reimbursement in subsequent months. Accordingly, this comment is considered resolved.

Taxes Receivable from the City of Mount Vernon

Comment - In 2022, it was noted that prior to the 2020-2021 fiscal year, the City of Mount Vernon, New York (the City) was responsible for the billing and collection of the District's real property taxes. Initially, any collections by the City were deposited directly into a District bank account. After the 2nd installment due date passed, any collections by the City were deposited into a City bank account. These funds are then be remitted to the District on a monthly basis. By February of the 2nd year after the tax levy, the City was required to make the District "whole", whether it had collected the balance of the taxes or not. Therefore, as of June 30, 2022, the District should have been made whole for uncollected real property taxes through the 2019-2020 school year. However, the District did not receive payment at that time nor through the date of our audit. The District's records reflect that the City still owes the District approximately \$11.7 million from the 2019-2020 and prior fiscal years.

Effective with the 2020-2021 tax year, the District assumed responsibility for the billing and collection of its real property taxes. However, since the District has no authority to lien properties for unpaid taxes, the District would still need to turn over a listing of unpaid taxes for the 2020-2021 tax year to the City for relevy on the City's 2023 tax bills. The City should then make the District whole for the unpaid 2020-2021 school taxes in February 2023. We have ben informed that this process is currently underway. The amount of unpaid taxes related to the 2020-2021 tax year is approximately \$5.9 million.

Without having received these back tax amounts from the City, the District is experiencing cash flow shortages. Furthermore, governmental accounting rules do not allow for the recognition of unpaid real property taxes as revenue until collected. Therefore, the amount that the District should have already received of \$11.7 million noted above negatively impacted its fund balance at June 30, 2022, leaving the District with just \$1.0 million of unassigned fund balance, or less than .4% of its 2022-23 adopted budget.

It was recommended that the District engage in discussions with the City to determine when these unpaid amounts will be remitted to the District.

Status - In 2023, we noted that the District and the City had reached an agreement on the taxes owed from years prior to 2021 for \$11.7 million. The City paid \$2.0 million in June 2023 and an additional \$1.5 million in August 2023, and has agreed to pay \$350,000 per month until the remaining balance is paid off. However, there is still the outstanding interest and penalties on the real property taxes related to this time period, that the City refutes is owed to the District. We recommend the District continue discussions with the City regarding the interest and penalties until an agreement can be reached. This comment is amended from the prior year.

Due to collection issues in the past, the District made the decision to collect real property taxes in-house. The District now collects its own real property taxes for the entire two year time period following the levy, and remits reports, monthly to the City to keep them apprised of the balance for which they should be made whole on. As of June 30, 2023, the amount of real property taxes that the District should have been made whole on amounted to \$4,311,606. We recommend that the District, in conjunction with the discussions regarding the penalties and interest from prior years, have discussions with the City regarding the timing of turnover of outstanding real property taxes and remittance of such real property taxes in order to make the District whole.

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We take this opportunity to thank the staff of the City School District of Mount Vernon for the courtesy and cooperation extended to us during the audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

EFPR Group, CPAs, PLLC

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