

HERRICKS
UNION FREE SCHOOL DISTRICT
Annual Review and Update to
Initial Risk Assessment Report

June 30, 2019

HERRICKS UNION FREE SCHOOL DISTRICT

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HERRICKS UNION FREE SCHOOL DISTRICT

Background

June 30, 2019

The Board of Education of the Herricks Union Free School District, in response to state legislation and meeting its responsibility to ensure sound fiscal management of the District created the position of Internal Auditor, as well as a policy requiring the appointment of an Audit Committee. The Audit Committee may be made up of a subcommittee of the Board, a committee consisting of both Board and non-Board members; or as a committee of the whole. The Audit Committee of the Herricks Union Free School District, according to the policy, shall consist of the five Board members, as a committee of the whole. For the year ended June 30, 2019, the Committee consisted of:

- Brian Hassan, President
- Juleigh Chin, Vice-President
- Jim Gounaris, Trustee
- Nancy Feinstein, Trustee
- Henry Zanetti, Trustee

Following the establishment of the Audit Committee, an Audit Committee Charter had to be approved and adopted by the Board of Education. This Charter was re-adopted on July 6, 2017.

The Board of Education is ultimately responsible for selecting the Auditor(s) of the District.

The Board of Education re-appointed the firm of *Pappas & Company*, Commack, New York to the position of Internal Auditor.

The Board's established policy (#6680) created the position of Internal Auditor to carry out the following tasks.

- Develop an Annual Risk Assessment of the District's fiscal operations, which shall include but not be limited to:
 1. A review of financial policies and procedures.
 2. The testing and evaluation of District internal controls.
- An annual review and update of such risk assessment; and
- Prepare reports, at least annually or more frequently as the Board may direct, which:
 1. Analyze significant risk assessment findings.
 2. Recommend changes for strengthening controls/ reducing identified risks, and
 3. Suggest a timeframe for implementing such recommendations.

As the Initial Risk Assessment of the District's policies and procedures was performed by our firm and reported to the Board in the *Initial Risk Assessment Report*, this report serves as a review and update to such initial risk assessment.

The assessment of risk is based on the following:

Inherent Risk is the susceptibility of a relevant assertion to a material misstatement, assuming there are no related controls. Inherent risk is greater for some assertions and related account balances, classes of transactions, and disclosures than for others. The assessment of inherent risk is an intuitive process based on the Auditor's knowledge of the client and the related audit area.

Control Risk relates to the effectiveness of the client's internal control. It is the risk that a material misstatement, which could occur in an assertion, will not be prevented or detected on a timely basis by the client's internal control. Control risk is a function of the effectiveness of the design and operation of the client's internal control.

In the chart which follows, we list the areas that we have reviewed, and our assessment of the inherent risk and control risk based in these areas. This assessment represents our initial review, as well as the outcome of any detailed testing of controls performed to date. The initial assessment of control risk is based on interviews and discussions with persons within the District's Business office, Central Administration and the Board of Education and was not based on detailed testing of those controls considered in making our assessment. It is possible that after our detailed testing of the controls, our initial assessment of the control risk in an area may have changed. These changes are the basis of the annual update of the risk assessment required of the District's internal auditor.

HERRICKS UNION FREE SCHOOL DISTRICT

Risk Assessment Chart

June 30, 2019

(H=High, M=Moderate, L=Low)

	<u>Risk</u>			<u>Testing</u>
	<u>Inherent</u>	<u>2017/18 Control</u>	<u>2018/19 Control</u>	
General Policies and Procedures				
Governance Environment	H	M	M	
Control Environment	H	M	M	
Strategic Planning	M	M	M	
Budget Development	H	L	L	C
Budget Administration	M	L	L	C
Accounting and Reporting				
Assessing Financial Condition	M	M	M	
Financial Accounting	H	M	M	
Auditing	H	M	M	
Financial Oversight	H	M	M	
Fund Balance Management	H	L	L	C
Revenue and Cash Management				
Cash Management	H	M	M	
Investment Management	M	M	M	
Petty Cash	L	L	L	
Bank Reconciliations	M	L	L	
Real Property Tax	M	L	L	
State Aid	M	L	L	
Medicaid	M	M	M	
Out of District Tuition	M	L	L	
Use of Facilities	L	H	H	
Donations	M	L	L	
Collection & Posting Receipts	H	M	M	
Purchasing and Accounts Payable				
Purchasing Process	H	M	M	C
Allocation of Expenditures	H	L	L	
Payment Processing	H	M	M	

P=Prior Year's Testing Conducted (2017-18)

C=Current Year's Testing Conducted (2018-19)

Under "General" the testing relates to Fund Balance Projection and Budget Planning

Under "Purchasing" the testing relates to Medicare Reimbursements

HERRICKS UNION FREE SCHOOL DISTRICT

Risk Assessment Chart (Continued)

June 30, 2019

(H=High, M=Moderate, L=Low)

	<u>Risk</u>			<u>Testing</u>
	<u>Inherent</u>	<u>2017/18 Control</u>	<u>2018/19 Control</u>	
Payroll and Personnel				
Payments to Employees	H	M	M	
Allocation of Expenditures	H	M	M	
General Employee Administration	H	M	M	
Hiring/Termination of Employees	H	L	L	
Property, Plant and Equipment				
Acquisition and Disposal	H	L	L	P
Inventory	H	L	L	
Construction Planning	M	M	M	
Construction Monitoring	M	M	M	
Construction Completion	M	M	M	
Extracurricular Activities				
General	H	M	M	
Cash and Cash Receipts	H	M	M	
Expenditures and Purchasing	M	M	M	
School Food Services				
Federal and State Reimbursement	M	L	L	P
Sales Cycle and System	M	M	M	
Inventory and Purchases	M	M	M	
Eligibility Verification	M	L	L	
Information Technologies				
Governance	H	M	M	
Security	H	M	M	
Disaster Recovery	H	M	M	

P=Prior Year's Testing Conducted (2017-18)

C=Current Year's Testing Conducted (2018-19)

Under "General" the testing relates to Fund Balance Projection and Budget Planning

Under "Accounts Payable" the testing relates to Medicare Reimbursements

PRIOR YEAR RECOMMENDATIONS & STATUS:
SCHOOL FOOD SERVICES

During the 2017-18 fiscal year, we were asked to review the area of School Lunch. The last time the School Lunch Operations were reviewed by the Internal Audit position was during the 2010-11 fiscal year. Since this time, the District has introduced a Point of Sale System (POS) and has also experienced additional turnover of staff. This year’s review included but was not limited to the following areas:

- Review of School Lunch Policies
- Profitability
- Inventory
- WebSMARTT (BOCES) Point of Sale Program and Cash Receipting Observations at all locations
- Staffing
- Purchasing
- Compliance

The outcome of the above review is included in the paragraphs that follow, including areas for improvement with associated recommendations.

REVIEW OF SCHOOL LUNCH POLICIES

<u>Policy Number</u>	<u>Description</u>
#5405	Student Wellness
#8505	Charging School Meals (Newly Adopted)
#8520	Free and Reduced-Price Food Services

The Board of Education of the Herricks Union Free School District had developed and adopted a wellness policy on February 15, 2018. This policy, as indicated, is designed to lay out the parameters for *“providing a school environment that promotes and protects children’s health, well-being, and ability to learn by supporting healthy eating and physical activity”*.

The District policy for Wellness not only addresses the need for physical education and health programs but also addresses the need for healthy choices within the school lunch program.

To ensure that the District is meeting the requirements of the wellness policy and to promote continual review and input within this area, a Wellness Committee is typically established to adequately address this policy. The Board of Education designates one person to be responsible for ensuring that the provisions of this policy are carried out in schools throughout the School District. The Board may also designate one person in each building to determine that the wellness activities and action are being implemented at the building level.

The Director of Physical Education/Health and the School Lunch Manager will serve as District Wellness and Nutrition Coordinators and should report annually to the Board of Education on the implementation of this policy. On December 6, 2017 we met with the Interim Lunch Director, Kathy Cassidy and were informed that she had not participated with any Wellness Committee at Herricks. The policy committee was in the process of reviewing Policy #5405 during our testing and adopted said policy on February 15, 2018. We recommend that with the hiring of Shakia Hall, effective January 8, 2018, this position be involved in carrying out this new Board of Education Policy.

Recommendation: It is our recommendation that an active Wellness Committee be formalized to effectively carry out the Wellness Policy recently adopted by the Board of Education and that the Food Service Director attend all Wellness Committee meetings so that she may be provided with valuable feedback from the various topics and discussions covered at these meetings. Members of this committee could include residents of the District and parents of attending students.

Status: Implemented. The first Wellness Committee meeting was held on February 4, 2019.

The Board of Education also adopted a policy entitled Charging of School Meals (adopted on July 6, 2017 and revised on June 13, 2018) which is addressed later within this report.

PROCEDURES MANUAL

There is no formal written procedures manual as it relates to the School Lunch Program.

Formal written procedures are not only helpful in the periodic review and evaluation of an individual's job performance, it is important to provide each employee with an outline of their area of responsibility and specific duties they are expected to perform. The outline, including job description and responsibilities, helps to facilitate training, accountability, expectations, and the hiring process. Development of checklists may be incorporated into this same document which becomes helpful in ensuring completeness, accuracy and the timeliness of job duties and would assist in the required self-review of the lunch program.

Items that should be incorporated into a procedures manual as described above include, but are not limited to, the following:

- Receipt Process
- Order Process
- State Regulations
- WebSMARTT Point of Sale Program

Recommendation: It is our recommendation that a formal written procedures manual be developed for the various jobs within the school lunch department. This procedure manual should be developed using both checklists for the various tasks, as well as a calendar of important dates to ensure all items are not only completed but completed in a timely basis.

Status: Partially Implemented. The District's Director Food Services had begun to address the development of a formal written procedures manual and will continue this process.

PROFITABILITY

One of the areas we were asked to review within this section was the profitability of the School Lunch Program within the Herricks Union Free School District. As the School Lunch Fund is designed to be a self-sustaining operation, it is not only important to ensure that meal prices are enough to cover the costs for providing meals, but it is also extremely important to manage expenditures within the school lunch program itself.

The most efficient way to manage expenditures is utilizing financial data included within financial reports. Analyzing financial reports can provide important information including, but not limited to, the following:

- Patterns or trends
- Significant changes in cost categories
- Deviations from financial goals
- Possible abuse or theft
- Errors in transactions or coding

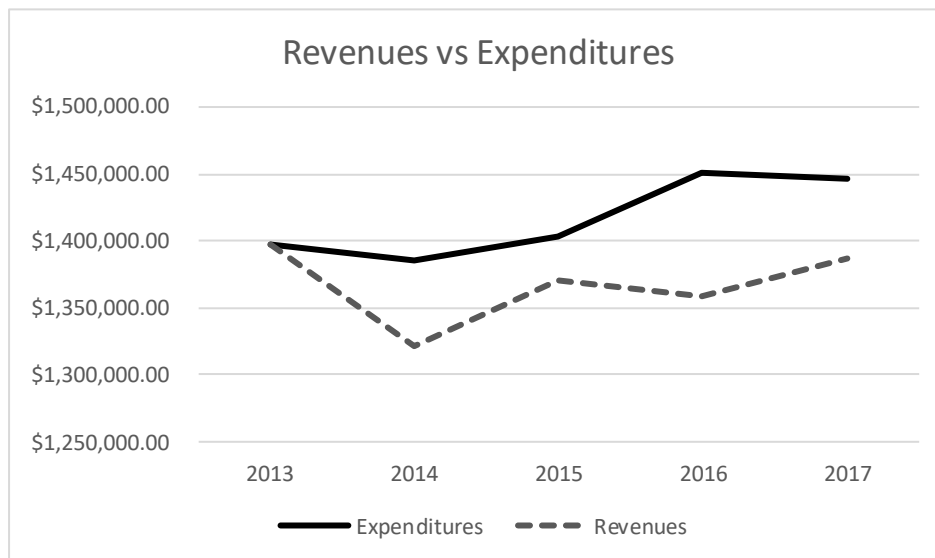
During our discussion with the new School Lunch Director we inquired about the financial information that is available to her on a regular basis. We confirmed that, like our discussion with the Interim School Lunch Director previously, *no* financial information recorded in the District's financial software was made available to the School Lunch Director on a regular basis. Many times, the School Lunch Director, while she may have an idea based on monthly revenues, does not know if the program is running at a deficit or not until the conclusion of the school year.

The Director maintains her own analysis of sales and other revenues along with having an idea of payroll costs; however, she does not have access to the costs of employee benefits or other items that would be reflected within the general ledger that affect the profitability of the program. This missing information is very important in allowing for the proper analysis of costs, thus enhancing internal controls.

Recommendation: *It is our recommendation that on a regular basis, perhaps monthly, the School Lunch Director prepare with the business office a year-to-date general ledger/trial balance which includes Revenues and Expenditures in order that this information may be used for the purposes of monitoring profitability and adjusting the costs accordingly.*

Status: Implemented. *The District continues to monitor profitability and looks for opportunities to maximize revenue, as well as reduce costs through staffing, purchasing and improved efficiency.*

As evidenced by the chart below, which was created using the District’s general ledger as it pertains to the School Lunch Program, the District has had a deficit regarding revenues and expenditures for each of the past five years.



In addressing deficits, as highlighted within this chart, it is necessary to look at both Revenues and Expenditures. Currently, the cost of a Type A Lunch at both the Elementary Schools and Secondary Schools is \$3.00 and \$3.50, respectively. These lunch prices and the price of other items being served within the School Lunch program are in-line with those same prices being charged at other Long Island schools. **While it is certainly possible to further increase the price charged for a lunch, we believe the greater issue about profitability lies within the number of sales and more importantly with the reduction of expenses.**

Currently, the District offers an open campus for High School students. Allowing students to leave campus for the purpose of getting lunch not only reduces sales at this location, but also places those students at a greater risk of harm during these hours of the day than if they were required to remain on campus throughout the day. We understand that this is an Administrative decision and therefore have not included this as a recommendation, but rather as a mention within this area for consideration.

Other ways that the School Lunch Program may help to increase sales are the consideration of the following items:

- Provide More Food Options
- Run Promotions
- Try “Themed Days” of Serving
- Improve environment

The above are just a few ways in which the District may increase school lunch participation by the students to increase sales.

The greater issue with profitability lies within the expenditure side of the equation, as mentioned above. Therefore, the most effective means of improvement in profitability may be achieved by reducing costs and becoming more efficient in the preparation of food and in the maintenance of this program.

According to the national average, as provided by the *School Nutrition Association*, the food costs for a school lunch program fall between 25% and 35% of total costs. Specific to the Herricks Union Free School District, the following information has been provided:

<u>Fiscal Year</u>	<u>Total Cost of Food Purchased</u>	<u>Percentage of Food Food Purchased to Total Expenditures</u>
2012-2013	\$ 484,910	34.69 %
2013-2014	\$ 470,134	33.93 %
2014-2015	\$ 483,173	34.44 %
2015-2016	\$ 487,070	30.93 %
2016-2017	\$ 490,290	33.21 %

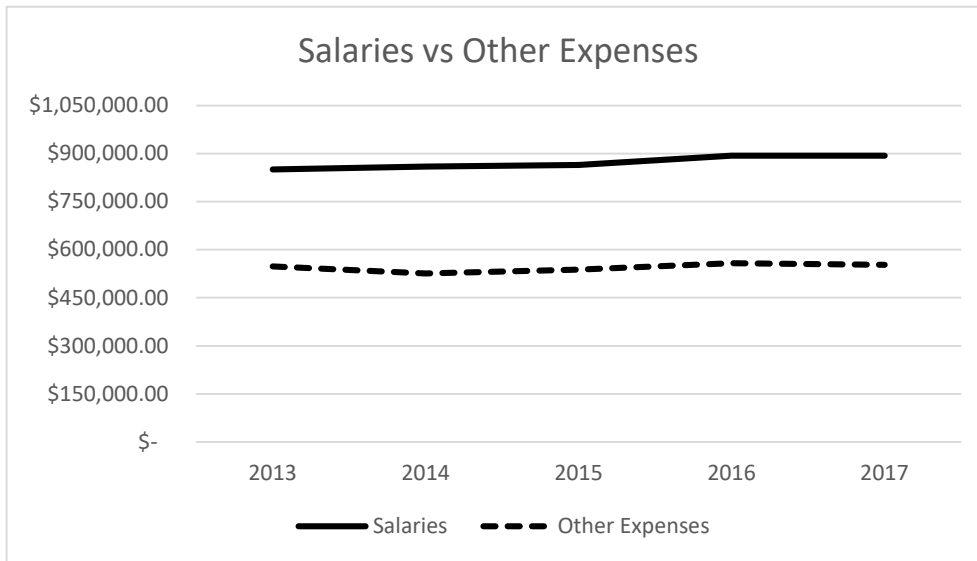
In looking at the percentages above, the District is operating within the national average for food costs when compared to total expenditures. These percentages seem to be on the higher end of the national average; however, it should also be noted that the food costs in this area of the country tend to be higher than in other areas.

One may not argue that there is room for improvement as it relates to the cost of food being purchased, but we are also aware that steps may have already been taken to reduce these costs in the last year. This is addressed in the section of the report that follows entitled *Purchasing*.

The larger area to be addressed within the expenditures appears to be those associated with labor. According to the School Nutrition Association, labor costs (including benefits) typically fall between 25% and 38% of total costs. The cost of labor as it relates to the school lunch program at the Herricks Union Free School District is as follows:

<u>Fiscal Year</u>	<u>Total Labor Costs</u>	<u>Labor Costs As a Percentage of Total Expenditures</u>
2012-2013	\$ 850,238	60.82 %
2013-2014	\$ 859,277	62.01 %
2014-2015	\$ 864,541	61.62 %
2015-2016	\$ 893,497	56.74 %
2016-2017	\$ 893,688	60.54 %

As indicated above, the percentage of labor costs to total expenditures is considerably higher than the national average. This again is the result of higher labor costs within this area of the country. Additionally, the cost of insurance, security, utilities and other costs associated with the maintenance of facilities is covered by the District directly and is not allocated to the School Lunch Program, which is typical in most school districts on Long Island. Including these additional costs in calculating the percentages above would result in significantly lower percentages for total labor but would increase the overall deficit of the school lunch program.



As labor cost is the greatest portion of the District’s costs regarding the School Lunch Program, any reduction in these costs would have the greatest effect on increased profitability of the program.

Recommendation: *In addressing the profitability of the program it is our recommendation that attention be placed on reducing labor costs through scheduling changes, more efficient use of current staff, and, where feasible, a reduction in the number of staff.*

Status: *Implemented. The District continues to monitor profitability and looks for opportunities to maximize revenue, as well as reduce costs through staffing, purchasing and improved efficiency.*

The more efficient use of staff and potential reduction of labor costs has also been addressed within the sections of this report, which follow entitled *Staffing*, and *Inventory*.

Inventory

Inventory is currently counted and maintained at the High School by laborer in the facilities team. This location is where the main freezer and dry storage area is located for all inventory of School Food Service Operations. Additionally, most items are delivered to the High School by the various vendors, as well as brought to this location after being picked up by District staff.

The staff at the High School is integral to the food preparation at all locations; however, the responsibility of checking stock for inventory or ordering items requested is not performed by anyone directly involved in the food preparation process. The laborer is tasked with the counting of inventory at this location but does not formally inform the kitchens of items that are available for use or if an item being requested by one of the other schools is already on hand at the High School.

Since the deliveries are also stocked by the laborer and often placed in front of already stored items, the “on hand” inventory is not easily tracked or efficiently placed in the freezers. By organizing the inventory in a more efficient manner, including putting the oldest items first, it is possible to significantly reduce spoilage and by doing so, reduce food costs and maintain the freshest inventory.

As mentioned above, much of the food preparation for all locations is done at the High School making it difficult for the kitchen staff at this location to take on the responsibility of organizing and controlling the inventory currently being handled by the laborer. As discussed later in this report, we believe better use of current staff can result in a more efficient program.

Recommendation: It is our recommendation that the stocking and maintenance of main food inventory located at the High School should fall under the responsibility of an individual knowledgeable of the needs of the food preparers and include an assessment of those items on hand prior to the request for placement of orders for the different locations. All orders are placed centrally by the Food Service Director.

Status: Implemented.. The Cooks in Charge work with the laborer monthly on inventory to ensure all food is being utilized efficiently and to also prevent over ordering. Additionally, all orders are reviewed by the Food Service Director before orders are placed.

According to the Food Service Director, inventory counts are performed monthly by the Head Cooks at each of the other locations throughout the District. We did obtain copies of the most recent inventory counts conducted at each location, which confirmed that the process is being followed.

During our walkthrough and visits to the individual locations, we did have an opportunity to go into some of the freezers and refrigerators. In all locations we found these areas to be very clean and organized. As mentioned, most of the food is not stored at the individual schools, but rather at the High School where the freezers and dry storage areas in the basement are larger.

In addition to a monthly inventory, counts are taken throughout the day for the purposes of tracking food used and meals sold at each of the school locations within the District. The number of lunch items available for sale at the start of the day are entered on an inventory sheet. As the individual kitchens run out of food items, these items are added to the sheets throughout the day. At the end of all lunch periods the remaining items are counted allowing for the calculation of what was sold. These sheets are sent up to the Director daily. This information allows the Director to make note of what is selling. The Director also verifies that the food amounts used are reasonable based on the number of lunches sold in the POS System.

Recommendation: *It is our recommendation that with the counting of inventory, procedures be put in place to (1) stocking the oldest items first (FIFO) and (2) periodically purge old or unwanted food items. This process will not only help to keep the freezers and refrigerators clean and organized but will allow for the storage of those items that are in demand.*

Status: *Implemented. As described above, the Cooks in Charge work with the laborer monthly on inventory to ensure all food is being utilized efficiently and to also prevent over ordering.*

**WEBSMARTT (BOCES) POINT OF SALE PROGRAM
AND CASH RECEIPTING OBSERVATIONS AT ALL LOCATIONS**

WebSMARTT was introduced during the 2015-16 fiscal year and is a third-party Point of Sale (POS) program that is hosted by *BOCES*. The program has all the capabilities of facilitating meal transactions. It captures all the required data for reimbursement reporting and accountability. Some of the other features of this program include meal planning and production, ordering and inventory. Menus may be planned based upon historic participation data and could help reduce food waste.

In conjunction with this POS system, the District also introduced *MySchoolBucks*, which allows for the collection and management of meal payments. Parents may pay for school meals online or with a mobile app. Parents are also able to view account balances and track what their children are purchasing. Based upon our review, we would encourage District personnel to acquire more training and tutoring on the different aspects of these programs in order that they are used in the most efficient manner possible.

Recommendation: *Some features of the POS program are not being utilized. Further training would also allow for the introduction of snacks to be purchased using the individual student's accounts so that cash collections could be reduced, and these purchases would also be able to be monitored by the Parents or Guardians if desired. By including snack purchases in the same manner as other meals (i.e., breakfast and lunch), the sales of snacks for the later periods at some of the Elementary schools would also be included in the lunch counts of the same day (Denton Elementary).*

Status: *Implemented. The Director of Food Service was addressing with the Nutrition and Wellness Committee the offering of snacks at the Elementary level. Additionally, training of food service team members had been put in place regarding various elements of child nutrition.*

As with all of the locations observed, no pictures were input into the system and the Cashier may only identify the students by name.

Recommendation: *It is our recommendation that steps be taken to enter pictures for all students into the Point of Sale System. Utilizing this valuable feature of the system will further strengthen controls by allowing the cashier to positively identify the student purchasing lunch by their picture. It also allows for a more positive identification in those circumstances where questions may arise.*

Recommendation: *It is our recommendation that steps be taken to install a number pad to allow students to input their own number as a back up to the current card system or alternate if a card is not available. This further strengthens internal controls and ensures the accuracy of the information being input into the system.*

As described above, the use of a card reader or number pad is very useful. Furthermore, with the implementation of a card reader or pin pad, snacks may be rung without the need of cash from the students. This will allow the purchase of those snacks to be attributed to a student and would also allow parents to look up their student's account to see what they are eating and what they have spent their money on, which would alleviate concerns and questions from the parents.

Status: *Implemented. Both of the above recommendations were being addressed by the Director of Food Service. These were being discussed with the Nutrition and Wellness Committees, technology department, WebSMARTT, the Long Island School Nutrition Director's Association, and the Assistant Superintendent for Business to assess the pros and cons of such changes.*

Additionally, Pin-pads are being installed at the Middle School.

PROPERTY, PLANT AND EQUIPMENT

The following **“Internal Control Objectives”** and **“Potential Errors and Fraud”** represent the general criteria used for assessing risk with respect to this area (Property, Plant and Equipment) and may not specifically pertain to the Herricks Union Free School District.

Internal Control Objectives

- Property, plant and equipment are purchased only with proper authorization.
- Property, plant and equipment purchases are recorded correctly as to account, amount and period.
- Disposals, retirements and trade-ins are identified promptly and recorded correctly as to account, amount and period.
- Property, plant and equipment are adequately safeguarded and insured.
- Depreciation is calculated correctly using proper lives and the method in which depreciation is recorded is done in a timely manner.
- The District has implemented a capitalization policy and it is followed for government-wide reporting.

Potential Errors and Fraud

- Purchases of property, plant and equipment are recorded in the wrong account or not recorded.
- Unnecessary property, plant and equipment is acquired, resulting in unused or idle capacity.
- Employees can conceal unauthorized purchases for their own benefit.
- Property, plant and equipment remains in the accounting records after disposal.
- Sales of property, plant or equipment are not recorded, and proceeds are misappropriated.
- Wrong lives are assigned to property, resulting in miscalculation of depreciation.

BOARD POLICY

The Board of Education has adopted the following policies regarding the recording and safeguarding of equipment and inventories. These policies include no. 6640, Fixed Asset Accounting and no. 6900, Disposal of Broken/Obsolete District Property.

Board Policy no. 6640 was revised on July 6, 2017 and established the threshold for any fixed asset with a value of \$2,000 or more for recording for inventory purposes and contains the following thresholds for capitalization and depreciation purposes in accordance with GASB 34 reporting as follows:

- | | | | |
|------------------------------------|----------|----------------------------|------------|
| • Building & Building Improvements | \$15,000 | Straight Line Depreciation | 50 years |
| • Furniture & Equipment | \$ 5,000 | Straight Line Depreciation | 5-20 years |
| • Land Improvements | \$15,000 | Straight Line Depreciation | 20 years |
| • Vehicles | \$ 5,000 | Straight Line Depreciation | 8 years |

This policy does not specifically address computer items, which often are considered separately because of technology and the concern of estimated life. It also does not address the value assigned to donated assets as fair market value on the date of donation.

While acquiring assets, it is common for the purchases to be made in large quantities and although individually these assets would fall below the \$2,000 threshold, the policy does not address the treatment of applying the threshold amount to a “group of assets”, which is common treatment.

During our in-depth review of these policies and the application thereof, we have made the following recommendations:

Recommendation: *When applying the above policies to the actual inventory records, it came to our attention that there are numerous assets listed with a historical cost less than \$2,000. The distinction between tracking assets for insurance purposes (safeguarding) may be different than accounting for fixed assets for financial reporting. The amount used for financial statement presentation must capture 80% of the District’s fixed assets owned. Although a value assigned may be different when reporting for insurance coverage as compared to the capturing of asset values for financial statement purposes, the amounts used should be consistent with the policy in place. Since this policy was adopted on July 6, 2017, it is possible that the contract signed with CBIZ Valuation Group, LLC on July 6, 2017 for the 2017-18 fiscal year may have incorporated the change in valuation within the Asset Inventory prepared.*

Status: *Not Implemented. The Assistant Superintendent for Business had revisited the change in policy with the external auditors and concluded a change in policy was not necessary. Additionally, the District’s policy committee and legal counsel who assist with Board policies were to revisit the policy to ascertain if any changes were needed in policy or practice. On June 13, 2019 the above policy was revised, with no changes made regarding the grouping of assets, such as computers which may fall under the \$2,000 threshold individually but exceed this threshold as a “group”.*

It is usually our recommendation that a physical inventory be taken approximately every three years. This is addressed within the District’s Fixed Asset Policy. ***CBIZ Valuation Group, LLC (CBIZ)*** will perform a physical inventory every five years with no charge to the District as they are a New York State Insurance Reciprocal (NYSIR) client. The fixed asset inventory should be updated annually for any additions, and while the Policy states a new physical inventory every three years will be completed and ***CBIZ offers to perform this at no cost to the district every five years,*** we recommend that the District’s policy should be written in such a manner to allow for the physical inventory of assets to be performed sooner if warranted by major capitalization of District assets or upon the anniversary of the five-year mark in accordance with CBIZ’s offering. Changes to the inventory should address both additions and deletions to the fixed assets. It should be noted that the last physical inventory performed by ***CBIZ*** (third party asset Appraisal Company) was for the 2014-15 fiscal year.

The District’s Policy no. 6900, entitled ***Disposal of Broken/Obsolete District Property*** was adopted on July 6, 2017. This policy appears to address all of the important information and is supported by a District form (Asset Deletion Form). While this form does include key information relating to the asset in question, we offer the following improvements to the form in addressing internal controls.

Recommendations: *The form used by District Personnel to identify an asset for disposal and to properly carry out this policy is referred to as the Asset Deletion Form. The form contains all the pertinent facts relating to the specific asset but does not include a space to indicate the Board of*

Education Approval Date (reference to Resolution). We would further recommend that this same form also include a space at the bottom to indicate the decision of the Board of Education as well, whether it was to sell or dispose of the asset identified. When disposing of computer equipment, the form going to the Board of Education should also include a certification that all sensitive data has been removed from the hard drive/system.

Status: Implemented. *The Asset Deletion Form was updated to include the above recommended changes in May 2019.*

CONTROLS OVER THE RECORDING OF FIXED ASSETS

In speaking with the Assistant Superintendent for Business and the individual charged with updating fixed asset records, Jeannie Keane (Business Office) Account Clerk, on June 26, 2018, the following procedure was provided as support in identifying the controls over the recording of fixed assets.

Procedures:

The Account Clerk will:

- Run a report within *Finance Manager (NVision with the 2018-19 fiscal year)* for object codes: .2 (all equipment related codes). **NOTE:** Contractual codes .4 and Supplies and Material codes .45 are not included with this review.
- Pull the Purchase Order(s)/ Invoice that is referenced and decide if the District will track this asset or not.
- Make a copy of the Invoice containing the asset.
- Fill out the ***Asset Addition Form*** with the pertinent information [Manufacturer, Model, Number, Serial Number, Building, Location, Purchase Order Number and Check Number]
- Assign and attach a barcode asset tag to an ***Asset Addition Form***.
- Provide the appropriate individual with all asset tags/forms for the custodians to tag/fill out in each building. The form is then returned by a certain date in order that the Fixed Asset records may be updated for the particular fiscal year.
- Enter items in the Annual Updating System Collection Template Form (Excel form provided by CBIZ) for adding asset to the inventory at year-end.

The Custodian will then:

- Locate the asset in the building.
- Place Barcode Asset Tag on the equipment.
- Fill out and complete the required information on the Asset Addition Form.
- Send the form back to Ms. Keane.

Regarding items of a technology nature, such as computers, monitors and other such equipment, these items are addressed separately by the technology department, but utilize a similar process for adding and deleting assets. Since these acquisitions often include many assets at one time, a listing typically accompanies the Fixed Asset Tracking Form which details the item by room number. Additionally, in speaking with the IT Department, the asset additions are put into a separate database (*Google Spreadsheet*) as a backup inventory by location for updating the CBIZ spreadsheet maintained in the Business Office.

Recommendation: We believe that the Form being used for adding assets to the District's inventory is a good one, however, we believe that the form should also include data such as the Class type for determining the correct depreciation term, the Purchase Price and where a donated asset is involved the value at the time of donation and finally the "In Service Date". Sometimes assets are added, but not placed into service until the occurrence of another event, such as the connecting of equipment.

Status: Implemented. The Asset Addition Form was updated in March 2019.

INVENTORY TESTING RESULTS AT THE INDIVIDUAL SCHOOLS

A walk-through of asset locations was conducted on June 26, 2018 within the District. When we arrived at each of the buildings, we were introduced to the Head Custodian, except where noted, and were taken to the different locations within the building. These individuals were most helpful during the process as they were also the designated individuals who are responsible for tagging the new additions within their building when instructed through the Business Office. Some of the asset classifications involve assets that are mobile in nature during their usage (i.e., vehicles and laptops) and when these were not found in their "asset" location, the custodian was able to easily re-direct us to another location.

The details of the walk-through and results of each of the locations was reported and discussed with the Board of Education. For this reason, the details of the result of each individual location are not included in this follow-up report.

Much of our concerns previously reported, with the Inventory, involve the different tagging of items by departments (i.e., IT and Music) and while these identifications appear efficient and a good internal control, these same numbering systems should be incorporated into the District's inventory records so that a cross referencing of databases may be made. Additionally, it is hard to ascertain that the fixed asset being identified is not duplicated or included properly.

During our review of this area of concentration during 2017-18, we were unable to test capital project additions as the District was undergoing a major Capital Improvement with the recent Bond Issue. We had inquired as to the procedures used in tracking and addressing these expenditures and additions as well and were told that they are identified by the Assistant Superintendent for Business annually. We had mentioned that a defined procedure should be put in place that would also ensure that these expenditures are properly identified, and the status of the addition is appropriate (i.e., Construction in Progress).

Although the process for adding capital projects to the Fixed Assets Inventory was not documented in a written format, we were informed that the District's projects may be identified within the Capital Fund by project with a unique coding system within Finance Manager. This coding system identifies the type of expenditure and the SED approval project number. The activity for each project may then be analyzed annually and a determination made of those finished capital projects or those that will be considered as "Construction in Progress" at year-end.

The results of actual tests of the inventory indicate that the process of tagging assets was not fully reliable or efficient and has contributed to the inconsistent data found when comparing actual inventory items to the reports being supplied. The following was abstracted from the last review of Fixed Assets which took place during the 2008-09 Fiscal Year and addresses many of the same concerns reported within this fiscal year's review of Fixed Assets.

“When we were out in the schools locating the Computer additions in 2007-08 for Computer Labs, we found 2008-09 additions. These computers were purchased through CDW and had identification tags affixed by the Vendor prior to shipment. We discussed the use of these tags, which makes the placement of these items into use more efficient and timelier. The Technology department confirmed that these tags are able to be used as the identification numbers for the purposes of Fixed Asset Inventory and would then not necessitate the duplication of these computers being tagged by the District. The 2007-08 computers were moved from this Computer Lab and we understand that the District was devising a form for posting on the District's website, a “transfer form”. We believe this practice is very prudent and will allow the District to control the location of these items in particular for the safeguarding of assets.

*We would recommend the use of a **Transfer Form** every time an item is moved to a new location and this information should be given to the Business Office for the updating of information for the Fixed Asset Inventory as well.*

Additionally, procedures should be developed for the tracking of Capital Projects, especially with the new Bonded Projects the District will be embarking on. It is imperative that these costs become a part of the Fixed Asset Inventory at the end of each fiscal year, first as Construction in Progress as the work develops and then, once completed and put into service, these costs must be appropriately transferred from Construction in Progress to the schedule of Depreciable Assets according to the Fixed Asset Policy adopted by the District. “

Recommendation: A Transfer of School District Property form is utilized for the tracking of equipment from one location to another. In the event a piece of equipment is to be moved from one location to another, it is the intent that the individual responsible for moving this equipment complete the above-mentioned form. This form is not only designed to record the original (current) location of the equipment to be moved, but more importantly to record the new location of the equipment. This form upon completion should be returned to Ms. Keane prior to the movement of equipment. Proper utilization of this form will allow for the adjustment and update to the fixed asset inventory and will properly reflect the location of all equipment

Recommendation: Ensuring that the District's fixed asset inventory properly reflects the location of all items is a very important part of ensuring the accuracy of the inventory and the safeguarding of that equipment. Knowing where an item is currently located becomes increasingly more important in the event of an emergency or disaster, such as a fire. It is our recommendation that a directive be sent to all individuals that may be responsible for the transfer of equipment between locations, in order that they are aware of the existence of this new form once it is placed into use.

Status: Implemented. In May 2019, the Asset Transfer Form was updated and directive was sent to all individuals responsible for the transfer of equipment between locations.

BUILDINGS AND GROUNDS VEHICLES

As part of our review of fixed assets for the year ended June 30, 2018, a listing was obtained from the Secretary in the Buildings and Grounds Office of all District owned vehicles. At the time of this review the Buildings and Grounds Department had **16** maintenance vehicles included on this listing. The listing included the following information:

- District Vehicle Number
- Vehicle Year and Make
- Vehicle Identification Number
- Description of Vehicle
- License Plate Number

In addition to the above, a listing is maintained by the Buildings and Grounds Department of each staff member that is assigned to a particular District vehicle, where applicable.

However, this information was not significant to the testing of assets as conducted.

Following the receipt and review of the above listing, a comparison was made between the listing provided by the Buildings and Grounds Department and the District's insurance policy. The District's insurance policy includes **41** vehicles, comprising of the 16 vehicles discussed above as well as those transportation related vehicles, inclusive of buses and passenger vans.

All vehicles listed on the Buildings and Grounds listing were verified to the District's insurance policy through the *NYS Insurance Reciprocal (NYSIR)*, who insures the District's assets. Additionally, there was one vehicle, a *1989 Ford Pick-up Truck* that was included on the District's insurance policy but was not included in the listing of current vehicles provided by the Buildings and Grounds Department. It was later noted that this vehicle also appeared on the District's fixed asset inventory as prepared by *CBIZ*.

Upon further inquiry regarding the *1989 Ford Pick-up*, it was noted that this truck along with a *1987 Ford Pick-up* were disposed of by the Board on **August 17, 2017**. No further follow-up was deemed necessary on these two vehicles because of this Board action. All other vehicles listed were also included on the fixed asset inventory as prepared by *CBIZ*, ***however, this type of review is meaningful and should be conducted by District personnel, either within the Business Office or the Buildings and Grounds office in order to determine that the District is not continuing to insure vehicles that have been disposed of.***

All District Transportation Vehicles are housed at the District's Administration Building in a separate parking lot. To test and verify the accuracy of the District's fixed asset listing, a walk-

through of this lot was conducted. As indicated above, for the total vehicles **(41)** reported, the District's listing reflects **24** vehicles associated with the Transportation Department (buses and passenger vans) utilized by this department for the transportation of students throughout the District, **16** as Buildings and Grounds vehicles and the **one** vehicle, currently being disposed of.

During our visit on *June 25, 2018* we were able to physically observe **17** of the **24** vehicles at the Transportation parking lot. The remaining **7** were not available at the time of our walk-through because they were out for service, as school was closed, and the vehicles were not currently being used. This was confirmed with Transportation Staff on this day.

No additional follow-up or recommendations were deemed necessary at this time.

CURRENT YEAR TESTING & RECOMMENDATIONS:

ACCOUNTING AND REPORTING

Budget Development

In our review of the Administration's Budget Development and Budget Administration during January 2019, our objectives were to review the existence of the following procedures and policies:

- The District has a formal budgeting policy dealing with such items as budgetary objectives, budget development/preparation procedures, budget administration and budget transfers.
- The District has written budgetary objectives to address areas such as funding priorities, maintenance of reserves and fund balance, incurrence of short and long-term debt, and replacement of capital assets.
- The popular budget provided to District residents, relating to the annual meeting or the budget hearing, has enough detail to adequately inform the public about the District's educational program and estimated revenues and appropriations.
- The District has procedures in place to ensure it does not incur a liability more than the amount appropriated.
- All known obligations, including salaries and fringe benefits, debt service, utilities, and service contracts, are mass encumbered at the beginning of the year.
- The District has procedures to compare actual to budgeted expenditures and actual to budgeted revenues along with procedures to project revenue collections and future expenditure needs for the remainder of the year. If projected revenues are expected to be under realized, or if expenditures are expected to be unexpectedly higher in some areas, the District takes timely action to address the issues.
- Year-end fund balance projections are made regularly, starting in January, so that the available balance is as accurate as possible and to help ensure the budget is not overspent.
- Budget status reports for all funds are provided to the Board on a regular basis and to the individuals responsible for controlling appropriations for specific buildings or programs.
- Revenue status reports for all funds are provided to the Board of Education on a regular basis.

The budget process begins with the setting of a budget calendar, which the Herricks Board of Education approved at the **October 25, 2018** Regular Meeting.

It is important to note that the budget process is a team effort. Each Department Head should develop proposed revenues and expenditures related to their department based upon the last two fiscal years and current year to date totals as this information is used as the basis for developing the next year's budget. Explanations should also be provided for any large increases or decreases in the amounts proposed for the following year as compared with the current year's budget. Through discussions with Administration, we are aware that these very budget meetings began with those relevant departments and building supervisors during the fall of 2018.

Since the Board of Governance has the authority and responsibility to adopt a realistic and structurally balanced budget and must also continuously monitor the budget, the following sources of information were obtained and found to be properly used in the preparation of the Herrick's proposed budget for 2019-20 during our review:

- Modified budgets for prior and current year
- Prior year's financial reports
- Current year revenue and expenditure information to date
- Debt service requirements, contracts and other commitments
- Current economic conditions affecting revenue generation
- Cash flow reports and revenue projections (especially where State aid is concerned)
- State and federal aid information
- Collective bargaining agreements
- Service Contracts with other governments
- Multiyear capital plans
- New and pending legislation
- Rate of inflation
- Current interest rates
- Tax and debt limit information – if applicable
- Strategic plans

In conducting our tests of the information, we worked with the first draft of the proposed 2019-20 Budget as provided to us by Ms. Rutkoske, Assistant Superintendent for Business. This draft included the following:

- Revenue assumptions – state aid, tax levy and appropriated fund balance/reserves, which approximate 95% of all revenue
- Assumptions and working papers for employee benefits (health insurance, ERS, TRS, FICA, Workers Compensation, etc.) and special education
- Sample testing of payroll, in particular teacher and administrative salaries
- Variation analysis for significant other expenditure line items

Salaries are a large part of the budget and the salary schedules and collective bargaining agreements determine the rates of pay for the upcoming year. This information is critical in forecasting the proper expenditure totals to be used in the next year's budget. A sample of salaries reflected within the 2019-20 draft budget was made to support the projected salaries generated for the various bargaining units.

Again, since salaries make up such a large part of the expenditure budget, it is essential that the Payroll department encumber all salary figures at the beginning of each fiscal year according to the collectively negotiated contracts. The amounts budgeted may also be used as a tool for monitoring the actual amounts reflected in the current year's expenditure totals.

In order to determine that the amounts being utilized in the development of the budget for payroll are reasonable, a sample of employees was tested and traced through the steps and grades for the effective salary used in the budget purposes.

A copy of all related contracts was obtained and utilized to make the determination as described. As we had chosen a sample in a previous year to test the same, we utilized this same sample to also confirm that individuals have moved up properly from step and grade since last tested. We could feel comfortable that the information being used to support the assumptions on payroll are reasonable in nature.

Debt service schedules are easily reviewed to determine the principal and interest expenditures for the upcoming year. The District's residents recently approved a bond issue for capital projects and the use of a capital reserve with continued funding. A review of the projects and short-term borrowing was made to ensure that this data was properly reflected within the ensuing fiscal year's proposed budget.

Employee Benefits include FICA (based upon the total salaries to be paid), health care benefits as negotiated within the collective bargaining agreements for active and retired employees and employer contributions for both the *Employees Retirement System* and *Teachers Retirement System* were reviewed. Rate information was used in determining the reasonableness of this data in both the projection and estimated figures for 19-20. Within the benefits category, the workers compensation and life insurance costs were also included based upon an average of previous year's costs.

For the *revenue estimates*, a review of actual revenues received over the last few years was made and is a fair indicator of future results.

The largest revenue source is that of a real property tax levy. The District's projected levy is within the cap using the latest information for the allowable levy growth factor of 1.0017. Information pertaining to the District's PILOT's was shared and appears conservative as of our review date. ***This information may change but appears reasonable at the time of our review.***

State and Federal Aid also represents a significant revenue source. Because of the significance of this revenue source, fluctuations in the aid levels may have a considerable impact on revenues realized. While much of this aid is based upon decisions made at the State and federal level, other aid may also be controlled to some extent at the local level depending on the type of programs, the category of reimbursable expenditures and the claim filing process. Filing aid claims and final cost reports timely and accurately, in particular for special education related excess cost and capital projects, do help to expedite the receipt process for these types of State Aid. ***This information may change but appears reasonable at the time of our review.***

Estimates of available fund balance as another important financing source for the annual budget is key. At budget time, the challenge of a budget officer is to calculate the year-end fund balance months in advance of year-end. Fund Balance projections should be started in January and revised each month as information develops. The calculation is made by starting with the opening fund balance at the beginning of the year and adding projected revenues and subtracting projected expenditures. A fund balance projection was prepared using this proper format, while also including the change in the District's available reserves for this purpose.

In the middle of April, after the District's Administration continued through the budget process for the development and presentation of the 2019-20 Proposed Budget, we reviewed the following documents that further supported the work of the District's Administration in preparing a meaningful and comprehensive budget.

- The District's "6 Day Notice" of the Proposed Budget totaling \$117,541,254 which represented a 2.75% increase over 2018-19 and a 2.21% increase in the tax levy which was within the tax cap allowed.
- Tax Levy Cap Calculation
- NYSED reporting of Administrative Compensation Information
- 2019-20 Budget Brochure (*Herricks Dateline – Budget Edition 2019*)

The amount of Appropriated Fund Balance and Reserves for the 2019-20 Budget remained the same from the previous year at \$1,300,000.

The proposed budget maintained all the District's educational programs and extracurricular activities, along with many enhancements that correlate to the district's goals and mission.

A budget hearing was presented on May 9, 2019 and the residents of the District approved the Proposed Budget for 2019-20 on the budget vote date of May 21, 2019.

Conclusion:

*Based upon the information we were provided and tested, we were pleased with the review of the budget process and felt that the District's Administration and Board of Education were transparent throughout the process with many of the details provided in a timely manner on the District's website. **There were no recommendations to note currently as it relates to internal controls or risk assessment.***

PURCHASING AND ACCOUNTS PAYABLE

Medicare Reimbursements

The next area of concentration selected during the 2018-19 fiscal year was related to the reimbursement of Medicare payments.

Following retirement, all retirees (and spouses) who have reached the age of 65 and are covered under the NYS Health Insurance Program (NYSHIP/Empire) through the District are eligible to receive reimbursement for their Medicare Part B premiums.

Additionally, retirees are also entitled to reimbursement for any *Income Related Monthly Adjustments* or IRMA. These reimbursements are in addition to the Medicare Part B Premiums.

We began our review by speaking with Catherine Vetrano, who is the individual responsible for making the calculations and preparing the back-up for Medicare reimbursements to retirees.

Prior to the current year, reimbursements were paid out in potentially three payments, as follows:

- The first payment was prepared and mailed after June 30, 2017 for the basic Medicare Part B and was in the amount of \$104.90 per month for the months of January 2017 through June 2017, less any amounts owed to the District.
- The second payment was prepared and mailed on December 31, 2017 for the basic Medicare Part B, also for basic amount rate of \$104.90 after for the months of July 2017 through December 2017, less any amounts owed to the District.
- Finally, a check was prepared in May 2018 for all individuals that were entitled to an amount greater than that which they were previously reimbursed for amounts deducted from their social security benefits relating to IRMA reductions or higher Medicare B costs.

In a correspondence dated December 21, 2017, Medicare reimbursement recipients were informed that they must provide the District with Form SSA-1099 entitled *Social Security Benefit Statement*, by March 31, 2018 in order to receive reimbursement for any additional amounts paid throughout the 2017 fiscal year.

Also included with the check for the December 2017 reimbursement was the following information pertaining to the process and timing for reimbursements going forward.

*Beginning with the 2018 calendar year, reimbursement checks will still be sent **ONCE A YEAR** by May of the following calendar year. Your reimbursement for calendar year 2018 will be mailed by May 2019, assuming all necessary paperwork required below has been completed and received by the business office.*

By **March 1, 2019**, please submit the following:

- **Health Insurance Record Update/Medicare Reimbursement Verification Form**
*This form needs to be completed by you and any eligible spouse. The purpose of this form is to verify your health insurance status, that you are entitled to receive Medicare reimbursement checks from the Herricks UFSD and **that you are not receiving Medicare reimbursement checks from another agency.** The completion of this form is an annual requirement and must be on file in order to receive your reimbursement check. The District will send out new forms each year around this time. Failure to respond by March 1st could result in an interruption of your reimbursement check, so please complete and return the attached form as soon as possible, but no later than March 1st.*
- *Notice from Social Security regarding your Medicare deduction*
- *Form SSA-1099 from Social Security*

Testing

Due to the changes in the procedures as described above, no reimbursements pertaining to the 2018 fiscal year were processed and paid. The first payments using the new procedures were to be made in May 2019. For this reason, it was initially necessary to test items from the payments processed pertaining to the reimbursements for the 2017 fiscal year. A sample of 40 individuals was selected from those payments issued during calendar year 2017. These payments were processed in June 2017 and again in December 2017 and pertained only to the basic Medicare Part B for the six months prior to the date of payment.

Again, as described above, a third payment was processed in May 2018 for all amounts greater than the basic reimbursement such as IRMA. This is provided that individuals submitted support documentation by the deadline of March 31, 2018. During our discussion with Catherine Vetrano, it came to our attention that a handful of individuals who did not provide their information by the March 31, 2018 deadline had still not been paid. Ms. Vetrano mentioned that she was waiting until the March 31, 2019 deadline to address the processing of those payments.

This above information was brought to the attention of the Assistant Superintendent for Business at the time of our initial review. It was our feeling and recommendation that these payments should have been made, as soon as possible and prior to the processing of the 2018 payments. We were pleased that during our return to the District in May 2019, all 2017 payments that were awaiting payment had been made.

In addition, to the changes in the timing of the payments, in December 2018 the *Health Insurance Record Update* form had been changed. The only changes to the form at this time was the addition of a request for both telephone number and email address. In reviewing the newly updated form, we believe that the form should also include an indication as to whether there had been a change in address since the last time the form had been completed. This indication could be achieved by simply checking a box that would serve to highlight that information must be updated within the District's records.

Recommendation: *In order to ensure that the District's contact information is appropriately updated as described above, we recommend that the form once again be modified going forward to include an indication as to whether the individual's contact information has changed within the last year to further highlight the need to update this information within the District records.*

Implementation: *Prior to the next mailing of the above-mentioned form.*

In order to test the accuracy and methodology in calculating Medicare Reimbursements to retirees, we obtained the year in which the individual retired. Based on the year of retirement, the percentage of contribution for individual coverage ranged between 5% and as high as to 50%. The percentage of contribution for family coverage, based on the year of retirement ranged between 20% and 65%. The higher percentage mentioned relates to individuals retiring with less than 10 years of service, thereby reducing the benefits in retirement.

In December of each year, the Assistant Superintendent for Business, provides all retirees receiving health insurance benefits with the cost of coverage including the employee's share, the Board's share and the differences based on how many are receiving Medicare benefits. This Memorandum also indicates how much of the premiums will be billed by the District for individual coverage and what portion will be deducted from pension benefits to cover the employee's share of the premium.

Using the information provided regarding rates, the year in which the employee retired, and the support documentation provided, it is possible to recalculate not only the basic reimbursement but also the amount to be reimbursed for items such as IRMA.

Retirees who have elected family coverage have a portion of the coverage deducted directly from their pension benefits from New York State. Therefore, in calculating their reimbursement of Medicare benefits the only amount that is deducted from their reimbursement is the difference between the total contribution required under their contract for family coverage and the amount already withheld from their pension benefits. This amount varies depending on the contractual agreement.

An example of this is as follows:

In 2017 an employee who has elected family coverage and retired prior to July 1, 1999, must contribute 20% of the cost of that health insurance. In the case of both spouses receiving Medicare, the employees share of the premium amounted to \$159.72. Of that \$159.72, \$138.65 will be deducted from their pension leaving the amount to be deducted from their Medicare reimbursements at \$21.07 per month.

Again, the % of cost that an employee is responsible for and the cost of that coverage varies depending on the Contract under which they retired, whether individual or family coverage and the number of individual's receiving Medicare benefits.

In testing the calculations and amounts actually reimbursed to retirees, overall, we were very pleased with the level of support documentation and accuracy of the calculations. For the sample testing of the reimbursements processed in 2017, we did not note any discrepancies with the percentages being applied based on year of retirement, whether individual or family, the number of individuals receiving Medicare benefits or the cost of the coverage.

We did, however, note discrepancies in the documentation provided by the individuals. In seven instances, the support documentation was missing the *Health Insurance Record Update/Medicare Reimbursement Verification Form*. In three other instances the forms were included, but the forms had not been signed by the individuals.

The return of these forms is very important in confirming the individual's current status and the dependents, including the spouse that are covered by the plan. Additionally, these forms confirm the recipients understanding that it is unlawful to accept a Medicare reimbursement check where they or their spouse receive a duplication of benefits, such as a reimbursement check from another agency or company or governmental entity

Furthermore, the signing of the form is confirmation that the employee and their spouse have read and understand the information they are providing.

Recommendation: It is our recommendation that the importance of completing above described "Health Insurance Record Update/Medicare Reimbursement Verification Form" be clearly communicated to all Retirees in the mailing of the form. This correspondence should clearly indicate that there will be no reimbursements processed without a completed and signed form, accompanying all other documentation required.

Implementation: At the next mailing of the forms to retirees.

The information necessary to confirm the accuracy of the calculation was available in the remaining documentation including the *Notice from Social Security regarding Medicare deduction* and/or Form SSA-1099 from Social Security.

We were able to recalculate the reimbursement paid to all 40 of the selected individuals without exception. No discrepancies were noted, within the sample, in the amount of reimbursements paid.

During a return visit to the District during the month of May, we had an opportunity to review and test the reimbursements that had just been processed. These reimbursements pertained to the calendar year 2018.

Utilizing the same sample for the testing of these reimbursements, again we did not note any discrepancies with the percentages being applied based on year of retirement, whether individual or family, the number of individuals receiving Medicare benefits or the cost of the coverage.

However, we did note that in one instance support documentation was missing the *Health Insurance Record Update/Medicare Reimbursement Verification Form*. In three other instances the forms were included, but these forms had not been signed by the individuals.

Deaths

We were pleased to learn that direct attention is given to the tracking and reconciliation of those individuals who have passed away since the last reimbursements made. Those individuals, who may have passed, are no longer receiving health insurance benefits and their estates would only be entitled to the reimbursement of Medicare premiums for the months they were alive.

During our review of support documentation, we obtained a listing maintained of individuals that have passed away during the last 12 months. This listing is maintained and updated monthly by Ms. Vetrano. During the year under review 26 retirees or their spouses had passed away.

Utilizing this listing, we were able to review the health insurance bill as of 12/31/18. All of the individuals on the listing prepared were removed from the health insurance bill at the time of review, without exception.

The procedures that are in place include the reconciliation of the health insurance bill monthly. This process ensures that all bills are up to date and the payment for health insurance monthly is accurate.

Potential Medicare Recipients

Additionally, in order to remain proactive regarding the individuals who are eligible for Medicare reimbursement, Ms. Vetrano will print monthly a report based on date of birth . Utilizing this information Ms. Vetrano can identify those individuals, who are or may become eligible for Medicare in the near future. This listing will also indicate if an individual is listed without of a Medicare ID.

The above steps are completed in order to remain proactive and ensure that everything is up to date with Medicare recipients.

In conclusion, based on our interviews, observations and the testing performed, the District has established effective controls over the calculation, processing and payment of Medicare reimbursements to retirees. The test performed resulted in minimal findings, indicating the internal control structure in this area is adequate. Implementing our proposed recommendations will help ensure that the processing of Medicare reimbursement claims will continue to operate effectively and that errors do not go undetected.

OTHER ITEMS

Payroll Portal

At the request of the Assistant Superintendent for Business, we had an opportunity to review the new Payroll Portal for NVision (Finance Manager). The District went live with the NVision program in November 2017. The new payroll portal will go live in July 2019.

The new payroll portal will be accessible by all employees with ‘active directory’ user access. Currently not all employees have “active directory” user access, but it is the intention to create an email, which acts as the username, as well as a password for all employees. The individuals who have access now, only have “Read Only” access.

Those employees who do not currently have “active directory” access include but are not limited to some of the following:

- School Monitors
- Aides
- Food Service Workers
- Transportation Employees
- Facility Employees

Since the above do not have use of an email, they were never provided with an “active directory” account. School Monitors, Aides and Food Service Workers have access to a computer through the computer labs within their assigned locations. It is the intention of the District to provide a computer and printer for facility employees and transportation employees. At the time of our review, emails addressing these employees were being formulated.

Once the system goes live, employees will be able to access the following in the portal in a read-only format:

- Personnel Data
 - Address
 - Date of Birth
 - Emergency Contacts
 - Deductions
 - Direct Deposit Data
- Payroll Data
 - Last Paycheck
 - Payroll Tax Forms for past two years
 - Accrued Sick Time
 - Calendars showing days used.
- The system will also allow for messages to be posted (i.e. timesheet due date)

One of the major concerns is putting in place an alternate procedure to replace the current steps whereby employees receiving a paper check are required to sign for their paycheck and in the case of direct deposit employees, their paystub. During our discussions it was tentatively decided that the following procedures would be implemented:

- On the Wednesday prior to payday, a listing of all employees will be provided to the Building Principal or Department Head to verify all employees that will be receiving a paycheck at that location.
- On Friday, with the release of paychecks not paystubs, a listing will be provided to each location of all checks that are being distributed at these locations. It will be necessary for the employee to sign the listing documenting they have received their paycheck and more importantly as an internal control, an indication that the individual is an active current employee.

Direct Deposit employees will no longer be required to sign a sheet each pay period. Additionally, the direct deposit employees will ultimately not receive a pay stub, but rather will be able to access their paystub through the new payroll portal.

Once an employee separates from the District, they are removed from “active directory” and no longer have access to the system.

Based on our limited review of the new system “payroll portal”, we are confident the implementation will result in greater efficiency without an adverse effect to the District’s current control environment regarding payroll and related information being addressed by this system.

APPENDIX A

Listing of Policies addressed by the Board of Education

0110	Prohibition Against Sexual Harassment (including Exhibits)	Adopted 11/29/18
1900	Parent & Family Engagement	Revised 05/23/19
2250	Board of Education Sub-Committees	Adopted 09/27/18
2260	Advisory Committees	Adopted 09/27/18
2350	Board of Education Meetings – Types, Agendas Procedures and Minutes	Adopted 12/13/18
4526	Computer, Network, and Internet Acceptable Use	Adopted 03/28/19
4531	Field Trips and Excursions	Adopted 03/28/19
5150	School Admissions/Residency Requirements	Revised 05/23/19
5291	Athletic Placement Process for Interscholastic Athletic Teams	Adopted 02/28/19
5300	Code of Conduct	Revised 05/23/19
5420	Student Health Services	Revised 03/28/19
5605	Voter Registration for Students	Adopted 06/19/19
6240	Investments	Adopted 10/25/18
6640	Fixed Asset Accounting	Revised 06/19/19
8330	Authorized Use of School-owned Materials And Equipment	Adopted 02/28/19
8334	Use of District Credit Cards	Adopted 10/25/18
8410	Student Transportation Services	Adopted 11/29/18
8414	Alcohol and Drug Testing of Bus Drivers and Other Safety-Sensitive Employees	Adopted 11/29/18
9200	School Volunteers	Adopted 12/13/18
9520	Family & Medical Leave	Revised 05/23/19