

East Islip Union Free School District

**Report on the Internal Controls of the
Accounting and Reporting Cycle**

January 2014

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Functional Area Exhibits (please see attached)

- A. Narratives of Functional Area Procedures**
- B. Control Matrix of Functional Area Procedures**

Scope of Engagement

The Board of Education of East Islip Union Free School District has engaged Nawrocki Smith LLP to provide internal audit services with respect to the District's policies, procedures, and internal controls pertaining to the Accounting and Reporting Cycle. As part of this engagement, we performed extensive analysis and validation tests within the District's Accounting and Reporting Cycle.

The objective of our analysis was to determine whether the internal controls pertaining to accounting and reporting are adequate, to ensure that reporting is accurate and timely, duties are properly performed and segregated, controls are implemented, and assets are properly safeguarded. In order to verify that the accounting and reporting area has proper internal controls, we interviewed key personnel and tested various transactions to ensure the key controls within these areas are operating effectively.

Work Performed

Our analysis within each functional area consisted of the following:

- Documented functional area policies and procedures applicable to the Accounting and Reporting Cycle after interviews and discussions with key employees
- Identified key controls within each functional area of the Accounting and Reporting Cycle and performed audit tests of those controls
- Made observations and recommendations pertaining to the internal controls of the Accounting and Reporting Cycle based upon observations and testing that was performed

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Interviews and inquiries were conducted with the following District employees:

Title	Department
District Treasurer	Business Office
Deputy Treasurer	Business Office
Account Clerk Typist	Business Office

Accordingly, we documented the current procedures within each functional area of the Accounting and Reporting Cycle by way of narrative write-ups within the attached Exhibit A and by way of a Control Matrix of Functional Area Procedures within the attached Exhibit B.

Assessment of Accounting and Reporting Cycle Procedures

The District's current Accounting and Reporting procedures are structured around six (6) distinct categories. We have reviewed and tested procedures in each area during the course of our audit. We have documented the accounting and reporting process by way of narratives and control matrix for each area within the enclosed Exhibits I through VI. For ease of reference, the areas are listed below:

- ***General***
- ***Monthly Board of Education Reporting Procedures***
- ***Bank Reconciliation Procedures***
- ***Budget Transfer Procedures***
- ***Journal Entry Procedures***
- ***Wire Transfer Procedures***

General (Exhibit I)

Based upon our analysis within the area of policies and procedures, we have made the following observations and recommendations:

Observation/Recommendation #1

We observed that the District has not developed documented guidelines regarding the Accounting and Reporting function with the exception of wire transfers. Accounting and Reporting procedures are performed based upon past practices and verbal guidelines provided.

The District should develop documented guidelines regarding the Accounting and Reporting function with the exception of the currently implemented guidelines for wire transfers. Procedures should be periodically reviewed to ensure that the responsibilities are adequately assigned and performed at the District. The narratives attached to this report should serve as supplemental enclosures to the District's documented procedures.

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Monthly Board of Education Reporting Procedures (Exhibit II)

Monthly reporting to the Board of Education (“the Board”) is an essential function in order for the Board to provide proper oversight. New York State Education Law and the Regulations of the Commissioner of Education require and recommend various reports to be submitted to the Board on a quarterly or monthly basis. There are also other reports that are considered good practice to include in the monthly reporting to the Board.

Treasurer’s Report

Every month the Treasurer is required to report to the Board regarding the status of all district funds in a monthly cash report showing the District’s total cash position. Details such as the sources of cash should also be provided. Section 170.2(o) of the Commissioner’s Regulations requires that the cash balance on hand be shown on the report, including balances of checking, money management, savings accounts, certificates of deposit and any other investment amounts.

Section 170.2(o) requires the report to show the following for each fund: cash balance at the beginning of the month, receipts by source for the month, total disbursements for the month, cash balance at the end of the month, and reconciliation with bank statements.

We reviewed the District’s monthly Treasurer’s Report within the Board of Education packet for the periods of July 31, 2013 to September 30, 2013 to ensure that the reports included the required detailed as mentioned above.

We noted that the Treasurer’s Reports were presented to the Board of Education in a timely manner.

Observation/Recommendation #2

We noted that the monthly Treasurer’s Reports do not show the revenue detail by source, with the exception of the general fund; only totals were provided for each account.

We recommend that the Treasurer include the revenue source of all totals for each account in the monthly Treasurer’s Reports.

Observation/Recommendation #3

We noted that the monthly Treasurer’s Report includes a line for the Treasurer to sign and certify that each cash balance has been reconciled, although the following statement should be included on each Treasurer’s Report: “This is to certify that the cash balance is in agreement with the bank statement, as reconciled”.

We recommend that the Treasurer include the above mentioned statement in its Treasurer Report. This will ensure that the District is in compliance with Section 170.2(o) of the Commissioner’s Regulations, which indicates the proper Treasurers Report format.

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Budget Status Report

Every month the Treasurer is required to present the Board with a Budget Status Report for each fund at least quarterly, and must present it monthly if transfers were made. A Budget Status Report compares a district's budget against actual revenue received and expenditures/encumbrances incurred at a fixed point in time during the school year.

Section 170.2 of the Commissioner's Regulations mandates the format for which the Budget Status Report must be in. Revenue accounts must include estimated revenues, amounts received to date and revenues estimated to be received. Appropriation accounts must include original appropriations, transfers, revised appropriations, expenditures, outstanding encumbrances and unencumbered balances.

We reviewed the District's monthly Budget Status Report within the Board of Education packet for the month of January 2014 to ensure that the reports included the required detailed as mentioned above.

No recommendation at this time.

Fund Balance Report

School Districts should submit monthly fund balances projections, starting in the month of January, to the Board of Education. The fund balance projection should be re-evaluated each month and carried out through the remainder of the fiscal year. Estimated expenditures should be projected for the remainder of the fiscal year against appropriated balances. A review of expected revenues against those estimated when the budget was developed should be completed to determine if there will be an excess revenues or a shortage.

We reviewed the District's monthly Fund Balance Report within the Board of Education packet for the month of January 2014 to ensure that the reports included the required detailed as mentioned above.

No recommendation at this time.

Student Activity Report

The Central Treasurer for the Student Activity Clubs is required to prepare reports to present to the Board of Education on a monthly basis showing beginning balances, receipts, disbursements, and ending balances for each club. A copy of the monthly bank reconciliations should also be included.

We reviewed the District's Student Activity Reports within the Board of Education packet for the periods of July 2013 through September 2013 to ensure that the reports included the required detailed as mentioned above.

No recommendation at this time.

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Claims Auditor/Certification of Warrants

Section 1724 of the Education Law requires school districts to audit each voucher packet before it is paid. This task can be performed either by the Board of Education or a Claims Auditor. If a Claims Auditor is appointed, they must report directly to the Board. The Claims Auditor may certify each warrant for every fund or certify each individual voucher packet.

The District Treasurer has been presented with the first quarterly Claims Audit Report in draft format for the 2013-2014 school year. We will perform a review of the Claims Audit Report once it is finalized and presented to the Board.

Observation/Recommendation #4

We observed that District's Claims Auditor only issues quarterly Claims Audit Reports.

The District should consider having the Claims Auditor provide the Board of Education with monthly Claims Audit Reports.

Bank Reconciliation Procedures (Exhibit III)

Bank reconciliations show the relationship between the recorded cash inflow and outflow and the actual cash inflow and outflow. For that reason, it is imperative to monitor this relationship to identify and rectify outstanding and unusual items in a timely manner. In addition, section 170.2(o) requires each district fund to be reconciled with the bank statement.

We reviewed and tested all bank reconciliations, a total of thirteen (13) bank accounts, for the months of July, August and September 2013. Bank reconciliations were tested to confirm the following:

- A. Mathematical accuracy
- B. Beginning book balances agreed to trial balance amounts
- C. Ending book balances agreed to trial balance amounts
- D. Bank balances agreed to bank statement amounts
- E. Stale outstanding items are monitored by applicable personnel
- F. Bank reconciliations are prepared timely
- G. Bank reconciliations agreed to Treasurer's Reports

Observation/Recommendation #5

We observed that there were multiple checks outstanding which were issued more than six (6) months prior to the bank statement date, two (2) of which preceded 2010. Once this was brought to the District's attention, the Treasurer began investigating these items.

The District should continue its efforts in monitoring outstanding checks. The District should consider reaching out to the appropriate vendors regarding the outstanding checks that have been outstanding for more than six (6) months. We recommend that any outstanding checks be remitted to the Office of Unclaimed Funds according to New York's Abandoned Property Law.

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Budget Transfer Procedures (Exhibit IV)

Section 170.2(1) of the Commissioner's Regulations permits the Board of Education to authorize the chief school officer to make transfers within limits as established by the Board. The Board of Education authorizes the Superintendent to transfer funds within the budget up to \$10,000 by way of Policy #6150 *Budget Transfers*.

In addition, Section 170.2(1) establishes that budget transfers can only be made between contingent codes or from non-contingent to contingent codes. Budget transfers may not be made from contingent areas to non-contingent areas of budgets nor between non-contingent areas of the budget.

Budget transfers should also be controlled by a transfer request form which should document the approval of the budget transfers.

We selected and analyzed one hundred percent (100%), thirteen (13) in total of the budget transfers made during the months of July 2013 to October 2013 to ensure that the District is in compliance with Section 170.2(1) of the Commissioners Regulations and has established good internal control practices surrounding the budget transfer function.

We noted that all budget transfers were supported with a *Budget Transfer Form*, were approved by the appropriate individuals before the transfer was made, and were in compliance with Section 170.2(1). We also noted that any transfers in excess of \$10,000 were approved by the Board of Education prior to the transfer being made, as required by district policy.

No recommendation at this time.

Journal Entry Procedures (Exhibit V)

Journal entries may encompass a wide range of infrequent or perhaps unexpected transactions. For that reason, there is a greater than normal likelihood of error or misappropriation. Documented, knowledgeable oversight of the general journal can increase the District's control over its resources.

We selected and analyzed twelve (12) non-recurring journal entries made during July 2013 through October 2013 to ensure each journal entry was entered properly in the accounting software, was supported with documentation, and was approved prior to entry by the Assistant Superintendent for Business.

Observation/Recommendation #6

We observed that one (1) out of the twelve (12) journal entries tested did not have an approval signature and the journal entry was entered a month and a half after the effective date.

The District should ensure that all journal entries are approved by the Assistant Superintendent for Business and that all journal entries are entered into WinCap within one (1) week of approval by the Assistant Superintendent for Business.

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Wire Transfer Procedures (Exhibit VI)

Wire transfers are transfers of district funds that are usually effective within minutes of being executed, and are commonly used for bond payments, investments, or other large-dollar settlements. Good internal control practice requires at least two individuals to be involved in each electronic transaction. The recording function should be delegated to someone who does not have either approval or transmitting duties.

The Board of Education adopted policy #6450 *Accounting of Funds*, which requires two individuals to initiate and approve all wire transfers as well as requires Internal Claims Auditor approval for all wire transfers. In addition, the individual responsible for recording the wire transfer must be segregated from the approval and transmitting individual.

Risk Rating and Audit Opinion

Inherent Risk Rating: **High**

Control Risk Rating: **Low**

Audit Opinion: **Satisfactory**

Audit Comment: The District's control environment pertaining to Accounting and Reporting is satisfactory. The recommendations noted above are aimed to improve the effectiveness of the Accounting and Reporting process within the District.

Please contact our Melville, New York office @ 631-756-9500 if you should have any questions in this regard.

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Narrative of the Accounting and Reporting Cycle – Exhibit A
January 2014

Auditors Spoke with

Maria Brabender – District Treasurer

Terri Ferro – Account Clerk Typist

Maureen Pace – Deputy Treasurer

The following is a narrative, or a sequence of events, which describes the step by step process within the Accounting and Reporting Cycle of the East Islip Union Free School District. The narrative was derived from discussions and interviews with accounting and reporting employees as well as observations of the process. The Accounting and Reporting Cycle has been broken down by area for ease of reference, including the following areas:

- I.** General
- II.** Monthly Board of Education Reporting
- III.** Bank Reconciliations
- IV.** Budget Transfers
- V.** Journal Entries
- VI.** Wire Transfers

Blue = Internal Control

I. General

District Policies

- Policy #6150 Budget Transfers
- Policy #6400 Depositories of Funds
- Policy #6410 Authorized Signatures
- Policy #450 Accounting of Funds
- Policy #6600 Fiscal Accounting and Reporting
- Policy #6650 Internal Claims Auditor

II. Monthly Board of Education Reporting

- New York State Education Law and the Regulations of the Commissioner of Education require and recommend various reports to be submitted to the Board on a monthly basis.
- Every month the Treasurer is required to report to the Board regarding the status of all district funds in a monthly cash report showing the District's total cash position. Supporting documentation for cash receipts and cash disbursements is also provided.
- In accordance with Section 170.2(o), the District shows the following for each fund: cash balance at the beginning of the month, cash receipts detail by source for the month, total disbursements for the month including the claim warrants and the cash balance at the end of the month.
- The District Treasurer prepares a monthly Treasurer's Report which is presented to the Board of Education. Each fund is also shown as reconciled to the bank statement.
- Every month the Treasurer presents to the Board a Budget Status Report for the General Fund and a Revenue Status Report.

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- The Assistant Superintendent for Business and District Treasurer begin the fund balance projection calculation in January each year.
- The District submits monthly fund balances projections, starting in the month of January, to the Board of Education. The fund balance projections are re-evaluated each month and carried out through the remainder of the fiscal year and into September of the following fiscal year.
- The Central Treasurer for the Student Activity Fund prepares the Student Activity Fund Treasurers Report to present to the Board of Education on a monthly basis showing beginning balances, receipts for each month, cash disbursements for each month and the ending balances for each Student Activity Club.
- [The Account Clerk Typist prepares a Trial Balance each month, which is reconciled to the Student Activity Fund bank statement. The Business Office reviews the Student Activity Fund Bank Reconciliations.](#)
- The Student Activity Fund Trial Balance includes beginning balances, as well as the activity for the month, and ending balances for each Student Activity Club within the District.
- Section 1724 of the Education Law requires school districts to audit each voucher packet before it is paid. This task is performed by the Claims Auditor who reports to the Board on a quarterly basis. The Claims Auditor certifies each warrant for every fund and each individual voucher packet.
- [The District presents the Board of Education with a Certification of Warrant for each fund for every disbursement date. The Certification of Warrant is completed and signed by the Claims Auditor.](#)
- The Certification of Warrant includes: each fund, warrant number, date of the warrant, number of claims included in the warrant, and total dollar amount of the warrant.
- [The Claims Auditor also presents the Board of Education with a Quarterly Claims Auditor Report which summarizes the details of each warrant audited. The number of checks, dollar value of the checks, number inquiries noted and dollar amount of each inquiry is included.](#)
- A description of each inquiry that is made by the Claims Auditor is also presented in a separate schedule.

III. Bank Reconciliations

- Bank reconciliations are prepared by the Deputy Treasurer in the Business Office.
- Once the bank statements are received by mail, all documentation needed is given to the Deputy Treasurer.
- [All bank reconciliations are completed within thirty \(30\) days of the month end.](#)
- The Deputy Treasurer checks all deposits on the bank statement to the cash receipts log for the month. She also checks the deposits on the bank statement to the deposit slips for the month.
- Trial balances are printed from WinCap in order to perform the bank reconciliations.
- Any adjusting or reconciling items for the month, including any outstanding checks and interest, are then entered.
- [Once all of the bank reconciliations for the month are complete, the District Treasurer reviews them and signs off for review purposes. The bank reconciliations for each month are maintained in the District Treasurer's Office.](#)

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- The District Treasurer and Deputy Treasurer monitor any reconciling items.

IV. Budget Transfers

- The Board of Education authorizes the Superintendent to transfer funds within the budget up to \$10,000 by way of Policy #6150 Budget Transfers.
- Any budget transfers in excess of \$10,000 require Board of Education approval.
- The District utilizes an Appropriation Change Form to document the details and approvals of the budget transfers.
- [The Assistant Superintendent for Business and Superintendent of Schools approve each budget transfer.](#)
- [The Board of Education is provided with all budget transfers to review on a monthly basis.](#)
- Budget transfer forms as well as the applicable supporting documentation are maintained in a binder in the Business Office.

V. Journal Entries

- The District Treasurer is responsible for all entries posted to General Ledger.
- The District Treasurer prepares all journal entries using a standard journal entry request form and attaches backup to support the entry.
- [The Assistant Superintendent for Business approves the journal entry request forms.](#)
- The District Treasurer posts the journal entry to WinCap after its approval.
- The Deputy Treasurer is responsible for preparing and posting cash receipts via the standard journal entry request form.
- [Journal entries regarding cash receipts are approved by the District Treasurer.](#)
- [On a monthly basis, the District Treasurer prints and reviews the trial balances.](#)
- [On a bi-annual basis, the Assistant Superintendent for Business reviews the journal entry report to ensure all approved journal entries were properly posted. The Assistant Superintendent for Business signs and dates this review process.](#)

VI. Wire Transfers

- [All wire transfers are approved by the Assistant Superintendent for Business.](#)
- Once wire transfers are approved, they are initiated by the District Treasurer.
- The bank will send a confirmation to the Assistant Superintendent for Business once the wire transfer is initiated; this confirmation includes detailed information regarding the wire transfer.
- [The Board of Education adopted policy #6450 Accounting of Funds, which requires two individuals to initiate and approve all wire transfers. It also states that the Internal Claims Auditor will periodically review wire transfers performed.](#)
- [In addition, the individual responsible for recording the wire transfer is segregated from the approval and transmitting individual.](#)
- [The District does not utilize a wire transfer request form. There are only two \(2\) vendors which receive wire transfers. The Payroll Clerk enters purchase orders for wire transfers. A print out of the wire transfer to be performed as well as any supporting documentation](#)

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- is approved via signature and date by the Assistant Superintendent for Business. The Assistant Superintendent for Business must approve the wire transfer form.
- Although it is not required in policy #6450 *Accounting of Funds*, the Claims Auditor reviews all outgoing wire transfers during the normal claims process.
 - The wire transfer is approved by the Assistant Superintendent for Business and then initiated by either the District Treasurer or Deputy Treasurer.
 - The District Treasurer then prepares the journal entry and records the wire transfer within WinCap.