

**Shelter Island Union Free School District
 Corrective Action Plan
 Audit Management Letter
 For the Period Ending June 30, 2010**

Auditor's Comment

Corrective Action

<p><u>1. Undesignated Fund Balance - General Fund</u></p> <p>NYS Real Property Tax Law §1318, restricts the unreserved, undesignated fund balance of the general fund to an amount not greater than 4% of the subsequent year's budget.</p> <p>As of June 30, 2010, the District's unreserved undesignated fund balance exceeded 4% of the 2010-11 budget.</p> <p>We recommend that the District carefully monitor its financial activity with regards to fund balance in order to comply with Section 1318 of the Real Property Tax Law.</p>	<p>The District increased the Appropriated Fund Balance this year in order to reduce the Undesignated Fund Balance.</p> <p>During the budget process, the Board and Administration began preliminary discussions on asking voters to approve the establishment of a new capital reserve, to be funded with excess fund balance. These discussions will continue during the 2011-2012 planning process.</p>
<p><u>2. Salary Certification – Federal Grants</u></p> <p>Charges to federal awards for salaries and wages, whether treated as direct or indirect costs, are based on payrolls documented in accordance with cost principles established by the Federal Office of Management and Budget (OMB) within its Circular A-87. These cost principles require after the fact certifications by individual employees as to time worked within cost objectives, i.e., Special Education Cluster, general fund budget, etc.</p> <p>During our audit this year, as well as last year, we observed that charges to federal awards for salaries and wages were not supported by these certifications.</p> <p>We recommend that the District ensure that these certifications are done on an on-going basis.</p>	<p>We will continue to review our practices to ensure the certifications are completed.</p>

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<p><u>3. Segregation of Duties – Accounts Payable</u></p> <p>Segregation of duties is an integral part of a good internal control system, which includes the accounts payable function. It is through segregation of duties that checks and balances can be implemented to ensure the integrity and efficiency of the system.</p> <p>During our audit this year, as well as last year, we observed that the individual who generates payments to vendors is also the person who can add vendors to the master vendor list. The inherent problem with this procedure is that it is possible to generate payments to unauthorized vendors without the knowledge of other Business Office personnel.</p> <p>We understand that the District has other mitigating controls in this area; however, we recommend that the District evaluate ways to better segregate these responsibilities within the Business Office.</p>	<p>We continue to revise this process. Due to the size of our staff, it may not be possible to completely eliminate this problem, but with the checks that the Business Official, the Claims Auditor and the Treasurer do, we feel confident that unauthorized payments cannot happen.</p>
<p><u>4. School Lunch Fund - Deficit</u></p> <p>The school lunch fund should be operated at a break-even or a modest profit.</p> <p>During the past year, the school lunch fund generated a loss of \$7,536. This loss was after an interfund transfer of \$65,000 from the general fund. The current year's loss increased the accumulated school lunch fund deficit to \$48,156.</p> <p>We recommend that the District monitor the profitability of the school lunch fund. Additionally, we recommend that the District take appropriate action to eliminate the accumulated deficit.</p>	<p>The District has instituted a trial breakfast program to see if serving a morning meal would help increase revenue to the program. The results of that trial should be ready in January 2011.</p> <p>The Board of Education will be asked to consider remedying the accumulated deficit through a transfer of fund balance.</p>
<p><u>5. Disaster Recovery Plan</u></p> <p>A disaster recovery plan consists of the precautions taken so that the effects of a disaster will be minimized and the organization will be able to either maintain or quickly resume mission-critical functions.</p> <p>During the current and prior year's audits, we observed that the District has developed a formal Disaster Recovery Plan, but has not tested the plan, or developed procedures to test the plan.</p> <p>We recommend that the District develop procedures to test and document the Disaster Recovery Plan.</p>	<p>The Business Office will work with the Computer Coordinator to test the disaster recovery plan every six months and document its completion.</p> <p>The district has established two off-site locations for data back-up, and has frequently updated the data housed at those off-site locations.</p>

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<p><u>6. Accounting Software</u></p> <p>The District utilizes a financial accounting software package, Unifund, to maintain its books and records. This software is supported directly by the vendor. The District has designated an individual(s) as its information technology (IT) administrator.</p> <p>The basic applications with this software package include recording cash receipts, processing payroll, encumbering purchase orders, producing accounts payable checks and recording adjusting journal entries. These transactions are all automatically posted to the District's general and subsidiary ledgers.</p> <p>During the current year's audit, we observed the following:</p> <ul style="list-style-type: none"> • Budget transfers approved and processed by the Business Official are being reported incorrectly in the system as being approved by other employees. • Reports that include employee social security numbers are not masking the numbers (e.g., XXX-XX-1234) potentially exposing this information to fraudulent use. • Information from the prior year such as carried forward encumbrances are accounted for in a separate fund (AZ). It was noted that expenditures were posted to this fund in an inconsistent manner with the purpose of this fund resulting in the under/over reporting of expenditures for the general fund (AO) to the Board of Education. <p>We recommend that the District review and contact the vendor to make modifications to the system that will correct the above to comply with New York State reporting requirements.</p>	<p>The District has arranged to have Unifund's representative visit the District to see the issues firsthand and provide the District with options to remediate these issues. Since Unifund went online in the District, the District has reached out to the seven other New York State districts using the system in order to compare results and work collaboratively to solve problems.</p>

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<p><u>7. Bank Reconciliations</u></p> <p>At the end of every month, the bank accounts should be reconciled and any necessary adjustments should be made to the books. Reconciliation of cash accounts ensures that transactions have been properly recorded on the District's books. Generally, the differences between the District's balances and those of the bank are outstanding checks, deposits in transit, and bookkeeping adjustments.</p> <p>During the current year's audit, we noted instances in which District personnel did not reconcile cash balances in its books to the balances per the bank during the course of the year, and that at year end bank reconciliations did not agree with the District's general ledger. We also noted that some of the outstanding checks on the bank reconciliation are checks that had been issued over a year ago.</p> <p>We recommend that the District review all outstanding checks and make the appropriate adjustments. We also recommend that the District ensure that all general ledger cash accounts are reconciled to the bank reconciliations on a monthly basis.</p>	<p>Due to a change in personnel, the District had to spend a considerable amount of time reviewing bank statements and reconfiguring its accounting processes. This procedure will be closely monitored during the year to ensure compliance with the recommended procedures.</p>
<p><u>8. Payroll Tax Returns</u></p> <p>The District is required to file Form 941 (Employer's Quarterly Federal Tax Return) within one month after the end of the quarterly tax period. The payroll on these returns should agree with the amount recorded in the salary codes within the District's expenditure ledger.</p> <p>During the current year's audit, we noted that the District prepares its quarterly Form 941 based upon payroll reports generated by its accounting software. However, neither of the Form 941 nor the quarterly payroll reports are reconciled to the District's expenditure ledgers (i.e., salary codes) on a quarterly basis.</p> <p>We recommend that the District reconcile either the 941 or the quarterly payroll reports to the expenditure ledger on a quarterly basis.</p>	<p>Due to a change in payroll software, the District had to spend a considerable amount of time reviewing and reconfiguring its payroll processes. This procedure will be closely monitored during the year to ensure compliance with the recommended procedures.</p>

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<p><u>9. School Lunch Sales</u></p> <p>The District uses a point of sale system for its school lunch program. The system provides information with regards to sales, as well as charged and prepaid lunches. The point of sales system is not integrated with the District's accounting software. Since the systems are not integrated entries are required to record the sales, charged and prepaid lunches in the accounting software.</p> <p>During the current year's audit, we noted that the District does not reconcile the two systems on a periodic basis to ensure that amounts recorded in the accounting software agree to those in the point of sale system.</p> <p>We recommend that the District reconcile these two systems on a periodic basis.</p>	<p>The District will develop a procedure to ensure compliance with the recommended action during the 2010-2011 school year.</p>
<p><u>10. Extraclassroom Activity Funds</u></p> <p>The extraclassroom activity funds are the depository of student money. The New York State Education Department publishes the <i>Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds</i>. These guidelines recommend procedures for organizing these activities, controlling receipts and disbursements, as well as recording and reporting transactions.</p> <p>During the course of our audit, we observed the following:</p> <ul style="list-style-type: none"> • Some of the cash receipts were not supported by a receipt form, signed by an authorized supervisor and lack evidence of student involvement. • Some of the cash disbursements did not reflect student involvement in the transaction. <p>We recommend that the District review with all involved personnel the guidelines publish by the New York State Education Department.</p>	<p>The District has held annual "refresher" courses with Extraclassroom Activity advisors to review proper accounting procedures. These efforts will continue along with specific remediation where necessary to ensure compliance with legal standards.</p>

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<p><u>11. Maintenance of Accounting Records</u></p> <p>The District is required to exercise control over the maintenance of its accounting records. The maintenance of its accounting records includes the:</p> <ul style="list-style-type: none"> • recording of adjusting journal entries during the year and at year end in order to close the books, and • the reconciliation of balances within its books throughout the year, as well as at year end, to independent sources (i.e., bank reconciliations). <p>During the current year's audit, we noted that the District's accounting service did not exercise control over the maintenance of its records in certain specific areas. As a result, we recommended audit adjustments that the District accepted and recorded in the form of adjusting journal entries. It was also noted that the District did not prepare the annual financial statements.</p> <p>We recommend that the District should review its Business Office function to ensure the completeness of its accounting records and control over its financial statement preparation.</p>	<p>With the complete implementation of Unifund, coupled with a change in personnel within the Business Office, the District was in a period of transition during the 2009-2010 school year. The District is taking steps to improve its maintenance of accounting records by:</p> <ul style="list-style-type: none"> • Establishing new procedures to ensure that Board action concerning finances is promptly acted upon with bookkeeping entries • Eliminating manual entries of data that were required during the transition of financial systems. <p>These procedures will be closely monitored during the 2010-2011 school year to ensure compliance.</p>
<p><u>12. Segregation of Duties - Cash</u></p> <p>Segregation of duties is an integral part of a good internal control system within the management of cash. A good system would have different individuals involved in the process.</p> <p>This year, as well as last year, we have observed that the individual who received the cash receipts was also the person who deposited the money monthly within the District's designated banks and recorded the cash receipts into the general ledger.</p> <p>We recommend that the District evaluate ways to better segregate duties within the Business Office.</p>	<p>As part of our efforts to segregate these duties, we have separated the duties of receiving cash and recording/depositing cash. Subject to the availability of personnel, we will try to separate the duties of recording cash and depositing cash.</p> <p>As part of our Point Of Sale system in the cafeteria, our cafeteria staff electronically records cash in-flow and gives a printout attesting to the amount taken in to the business office on a daily basis.</p> <p>Additionally, receipt of all non-cafeteria originated cash is logged by a person who is not part of the Business Office function.</p>