

**Shelter Island Union Free School District
 Corrective Action Plan
 Response to the
 Audit Management Letter
 for the period ending June 30, 2012**

Auditor's Comments	Management Response & Corrective Action
Comments from Prior Year Still Open	
<p>1. Unassigned Fund Balance - General Fund</p> <p>NYS Real Property Tax Law §1318 restricts the unassigned 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, 2011, the District's unassigned fund balance was \$939,842, which exceeded 4% of the 2011-12 budget of \$9,640,614 by \$554,217. The unassigned fund balance was 9.75% of the 2011-12 budget.</p> <p>As of June 30, 2012, the District's unassigned fund balance was \$911,727, which exceeded 4% of the 2012-13 budget of \$9,739,303 by \$522,155. The unassigned fund balance was 9.36% of the 2012-13 budget.</p> <p>We recommend that the District carefully monitor its financial activity with regards to fund balance in order to comply with §1318 of the Real Property Tax Law.</p>	<p>The District reduced the unassigned fund balance by one-half of one percentage point in 2011-12, and has instituted several financial plans to work towards compliance with this law, including establishing several reserve funds in which monies are saved for future use. The District will continue to monitor its compliance in this area, with an eye toward reducing the percentage of the unassigned fund balance each year.</p>

<p>2. Budget Reporting</p> <p>The Board of Education receives a budget status report on a monthly basis. This report provides the Board with the revised budget amount, actual expenditures, encumbered amounts, and a variance of the revised budget-to-actual expenditures and encumbrances.</p> <p>During our audit this year, as well as last year, we noted that the information in this report was not accurate. Various budget revisions totaling \$288,794 had not been entered into the District's accounting software and therefore were not reflected in the report in the current year.</p> <p>We recommend that the District review and modify existing procedures to ensure that the budget revisions are properly reflected in the budget status reports.</p>	<p>In November, 2012, the District put in place the following procedure:</p> <ul style="list-style-type: none"> a) An accounting software Appropriations Status Report is produced on the last day of each month. b) The Business Office prepares for the Superintendent's review and approval appropriate budget revisions below \$5,000. c) The Business Office prepares for the Superintendent's review and the Board of Education's approval appropriate budget revisions of \$5,000 and above. d) With the list of recommended budget revisions, the Board of Education receives a copy of the previous month end Appropriations Status Report before its monthly meeting. e) Following the Board meeting each month, the Business Office enters into the accounting software all approved budget revisions, within one week.
<p>3. Segregation of Duties – Accounts Payable</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</p>	<p>Beginning January 1, 2013, with its new accounting software with comprehensive audit trail reports, the Claims Auditor will do the following:</p> <ul style="list-style-type: none"> a) Print out a report monthly listing all additions or address changes made to the software's

<p>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>master vendor list.</p> <p>b) Following a review of a random sample of the changes made as reported, she will make sure the changes are valid, note any findings during her review, and sign the audit report with those findings. These print outs will be filed in a binder maintained in the Business Office.</p>
<p>4. Bank Reconciliations</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 our previous 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. We did not note any such instances during the current year's audit. However, during our audit this year as well as last year, we 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.</p>	<p>By March 1, as part of the monthly bank reconciliation procedure, the Treasurer will review all outstanding checks and make appropriate adjustments when warranted.</p>

<p>5. School Lunch Fund – Profitability</p> <p>The school lunch fund should be operated at a break-even or a modest profit.</p> <p>As of January 30, 2011, the school lunch fund had an accumulated fund deficit of \$12,444. During the 2011-12 school year, the school lunch fund generated a loss of \$94,608 for normal operations. This was subsidized by an interfund transfer from the general fund of \$117,778. This transfer ultimately eliminated the accumulated fund deficit, however the school lunch fund should be a self-sustaining fund.</p>	<p>The District continues to monitor the profitability of its school lunch fund. However, it recognizes that the financial situation for many of its families is constrained and the cost of food delivered to Shelter Island continues to rise. For this reason, the District expects that operating deficits in the School Lunch Fund will continue for the foreseeable future.</p> <p>In January, 2013, the District will review monthly the cost/meal of its school lunch program, and continue to encourage local farms to provide competitive bids for the food it purchases, so as to decrease its dependence on off-island food vendors , who charge a premium for delivery to Shelter Island.</p>
<p>6. School Lunch Sales</p> <p>The District uses a point-of-sale system for its school lunch program. The system provides information with regard 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 our audit this year, as well as last year, 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 the District reconcile these two systems on a periodic basis.</p>	<p>The District will reconcile these two systems quarterly, beginning January, 2013.</p>

<p>7. Payroll Tax Returns</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 our audit this year, as well as last year, we noted that the District prepares its quarterly Form 941 based upon payroll reports generated by its accounting software. However, neither the Form 941 or 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>The District independent accountants will reconcile the 941 or the quarterly payroll reports to the expenditure ledger on a quarterly basis.</p>
<p>8. Special Aid Grants</p> <p>Grants are accounted for within the District’s special aid fund. The various expenditures related to these grants are budgeted based on the allocation of monies to the District.</p> <p>During our audit this year, as well as last year, we noted that the individual monitoring the grants is primarily performing this function at year end. As a result it is necessary to move grant expenditures from the general fund into the special aid fund at year end.</p> <p>We recommend that the District implement procedures whereby the monitoring function is performed throughout the year (e.g., monthly) rather than just at the end of the year. In addition, the District should investigate why expenditures are not being coded directly to the grant</p>	<p>On January 1, 2013, the District will implement the following procedure:</p> <ul style="list-style-type: none"> a) The District will process applications for its grants when the application materials are available, generally in June. b) Expenditure in aid-able areas will be made from the general fund until the grant approval process is complete. When grants are finalized and receipt of approval is in hand, the funds approved for non-salary expenditures will be placed in the Special Aid Fund checking account, and future expenditures of those

<p>and effect changes in the process of expenditures so that they are coded to the correct fund and account code when requisitions are processed.</p>	<p>monies will be charged directly to that fund.</p> <p>c) When grant approval is in hand, salary expenditures will immediately begin to be charged to the grant, and if necessary, previously expended and now aid-able salaries will be moved from the general fund to the special aid fund via journal entries.</p>
<p>Current Year Comments</p>	
<p>9. Budgeting</p> <p>The District's budget is a spending plan that is developed to accomplish the educational goals and objectives of the Board of Education. This spending plan is comprised of various budget lines, e.g., teachers' salaries, employee benefits, instructional supplies and materials, etc. Some of these budgetary line items are based upon negotiated contracts, while other budgetary line items are based upon management decision.</p> <p>During the current year's audit, we noted instances where appropriation codes had been over expended. We recommend that budgetary transfers be approved and made prior to the time that an appropriation may become over expended.</p>	<p>The District will take the following action:</p> <p>a) All expenditures for salaries will occur in appropriation codes that are not over expended.</p> <p>b) All expenditures for equipment and capital purchases will also occur only in appropriation codes that are not over expended. Materials and Supplies, Contracted Services, and Travel and Conferences will have over expenditures below \$5,000 adjusted within the month they occur, to ensure that transfer of funds among these areas can occur expeditiously, and the small budget changes necessary to allow some flexibility in these areas will be frequent and closely monitored.</p> <p>c) Expenditures for Materials and Supplies, Contracted Services, and Travel and Conferences that will result in over expenditures greater than \$5,000 in budgetary line items will be approved by the Board of Education orders are authorized.</p>

<p>10. Monthly Board Reports</p> <p>A large part of the role of the District's Board of Education is to make managerial decisions based on current District spending, budgeting and appropriate projections. Concurrently, it is necessary for the Board to receive on a monthly basis reports outlining District spending and revenues as compared to budgeted amounts. Additionally, regularly received cash flow statements aid the District when making certain decisions such as whether or not to issue tax anticipation notes, and projections help with budgeting, etc.</p> <p>During the current year's audit, it was noted that the Board had not received financial reports outlining District revenue, expenditures, and budget variances, since the period ending November 9, 2011 per District Board Minutes. It was also noted that the Board had not received any type of fund balance projections or cash flow projections during the 2011-12 school year.</p> <p>We recommend that the District take appropriate steps and develop procedures to make sure the Board receives a budget status report on a monthly basis outlining revenues, expenditures, and budget balances. Also the Board should be receiving on a regular basis fund balance projections and cash flow statements to aid in current and future budgeting and managerial decisions.</p>	<p>Effective November, 2012, the Board of Education receives monthly budget status reports. The Treasurer presents cash flow statements on a monthly basis. The Business Manager will provide fund balance projections quarterly, beginning the third quarter of 2012-13.</p>
<p>11. Claims Auditor</p> <p>Section 1724 of the Education Law requires school districts to audit each voucher packet before it is paid. This task can either be performed by the Board of Education, or a delegated claims auditor, depending on which method the Board prefers. The claims auditor is responsible for reporting directly to the Board appropriate findings and reports.</p>	<p>Beginning January, 2013 the Claims Auditor will submit copies of the approval of claims to the Board of Education, and will report monthly on any findings she has made.</p>

<p>For the year ending June 30, 2012 it was noted that the District utilizes a claims auditor to ensure that voucher packages and invoices were complete before any payment is sent to a vendor, evidenced by a stamp and signature of the District's claims auditor. However, it was noted that the claims auditor did not report to the Board any findings or reports on a regular basis.</p> <p>We recommend that the claims auditor submit reports to the Board on a regular basis with any findings and evidence of approval of claims.</p>	
<p>12. Purchasing Agent</p> <p>Section 1724 of the Education Law requires that prior to presenting the claim for audit, the claim must be approved by the "officer giving rise to the claim." This is the purchasing agent and his/her signature specifies that the vendor has fulfilled the contract under the purchase order and that the claim has been processed for payment.</p> <p>During the current year's audit, we noted that the District did not formally appoint a purchasing agent. The District did have the Superintendent informally approve purchase requisitions in the accounting software before a purchase order was created. Evidence of this approval was an electronic message to the accounts payable clerk that the requisition was approved. No formal signature was required. Additionally, it was noted that other users also have access to approve requisitions per a review of user role listing report generated by the District's software.</p> <p>We recommend that the District formally designate a purchasing agent each school year through Board approval, and that the purchasing agent formally approves the requisitions by a physical signature to prevent unauthorized approval of claims.</p>	<p>The Superintendent will be formally appointed for 2012-13 and subsequent years as the Purchasing Agent for the District. In the new accounting system, to be implemented January 1, 2013, only the Superintendent as Purchasing Agent will have access to purchase orders.</p>

13. Review of Accounts Payable/Accrued Liabilities

Based on the modified accrual basis of accounting, the District is responsible for recording certain accruals at the end of a given fiscal year for items which are realizable as of that date. This includes recording liabilities for items received or services rendered not paid prior to the end of the fiscal year. A formal process should be in place to review all payables and outstanding obligations at the end of the fiscal year.

During our current year's audit, it was noted that no procedures were in place for the review of payables at the end of the fiscal year. As a result, it was noted that the District's accounts payable was overstated by approximately \$229,500. This was due to the fact that all open purchase order amounts were converted to accounts payable, even if no valid liability existed.

Additionally, it was noted that amounts were not accrued for teacher salaries for the 2011-12 school year as a result of contract settlements. The contract was approved subsequent to year end, but during the audit period. As such, teachers were paid in the 2012-13 school year for their revised 2011-12 salary amounts. Audit adjusting entries were prepared and approved for both misstatements.

We recommend that the District develop formal procedures to review all open purchase orders and District liabilities at the end of the year to ensure liabilities are properly stated.

For the year ending June 30, 2013, the District's Business Office will review all open purchase orders and District liabilities, to ensure that liabilities are properly stated. This will be formally put in place for all subsequent year end closings.

<p>14. General Ledger/Journal Entries</p> <p>A good internal control system is one that includes a supervisory review of transactions. An important component of internal control is that transactions are properly authorized and approved by Business Office management. Additionally, supporting documentation should be retained for these transactions. During our current year’s audit, we observed the following:</p> <ul style="list-style-type: none"> • Journal entries lacked adequate supporting documentation • The District does not have written procedures with regard to journal entries • No formal review/approval was performed or indicated for journal entries <p>We recommend that the District develop and enact formal procedures with regards to journal entries. These procedures should indicate who has the authority to approve journal entries, mandate the use of a prescribed form, and require supporting documentation be retained for all entries.</p>	<p>The District will develop written procedures with regard to journal entries, including examples and explanations of adequate supporting documentation. Approval authority for journal entries is electronically in place, and there is a prescribed form for Budget Journal entries. General ledger journal entries now require adequate documentation and review by the external accounting firm. The Superintendent will pre-approve all journal entries.</p>
<p>15. Accounting Software</p> <p>The District utilizes a financial accounting software package, BudgetSense, to maintain its books and records. The District has designated an individual as its information technology (IT) administrator.</p> <p>During our current audit, we noted that the District has controls over the computer function. However, we observed the following:</p> <ul style="list-style-type: none"> • Certain individuals have permissions to all areas i.e. 	<p>The District’s external accounting firm will review and recommend approval of all changes to authorizations for the new accounting system in place January 1, 2013. The Treasurer will review their recommendations and authorize all initial access and all changes in access to such matters as vendor information, purchase orders, journal entries and other areas vulnerable to fraud and abuse. The District will develop and document procedures for review of the audit trail report(s).</p>

<p>purchasing, payroll, journal entries, etc. causing a lack of segregation of duties</p> <ul style="list-style-type: none"> • Certain employees whose employment has terminated within the District still have full access as users in the system • The system can generate an audit trail report, detailing any significant changes and transactions in the software (i.e., change to vendor information, purchase orders, etc.). The District does not have a formal process to review this information. <p>We recommend that the District develop procedures to review the access privileges of users in the accounting software on a regular basis, and inactivate or eliminate user roles/permission for terminated employees. We also recommend that the District develop procedures to have someone review the audit trail report.</p>	
<p>16. Collateralization</p> <p>Per General Municipal Law §10, all public deposits in excess of the amount insured under the provisions of the Federal Deposit Insurance Act must be properly collateralized by authorized means.</p> <p>During the current year’s audit, it was noted that there was no monthly review of third party collateral statements to ensure that District deposits were properly collateralized in excess of FDIC insurance.</p> <p>We recommend that the District review third party collateral statements on a monthly basis to ensure District deposits in excess of FDIC limits are properly collateralized.</p>	<p>Beginning February, 2013, the Treasurer will review monthly all third party collateral statements, to ensure proper collateralization.</p>