

Shelter Island UFSD
 Corrective Action Plan to Audit for the Period Ending June 30, 2011

<u>Auditor's Comment</u>	<u>Management's Response</u>
<u>Comments from Prior Year Still Open</u>	
<p><u>Undesignated Fund Balance - General Fund:</u> 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 year's subsequent budget. As of June 30, 2011, the District's unreserved, undesignated fund balance exceeded 4% of the 2011-12 budget. We recommend that the District continue to 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 is well aware of its responsibilities under Section 1318 and has instituted several financial plans to work towards compliance with this law. For example, the District has established several reserve funds in which monies are saved for future use. The District will continue to monitor its compliance in this area and strive for compliance.</p>
<p><u>Segregation of Duties - Accounts Payable:</u> 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. 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. 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>The District has put into place compensating controls to prevent the type of fraudulent activity described, including requiring signatures from three separate individuals before the issuance of a check to a vendor. The District is also undertaking a thorough review of its Business Office function and will be evaluating other approaches to solve this problem.</p>
<p><u>School Lunch Fund - Deficit:</u> The school lunch fund should be operated at a break-even or a modest profit. As of June 30, 2010, the school lunch fund had an accumulated fund deficit of \$48,156. During the 2010-11 school year, the school lunch fund generated a profit of \$35,712. This was after an interfund transfer from the general fund of \$110,156 aimed at eliminating the accumulated deficit in the school lunch fund. As of June 30, 2011, the school lunch fund still had an accumulated fund deficit of \$12,444. 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 begun the process of improving the profitability of its school lunch fund. Among the changes includes a breakfast program, which has been implemented to help improve profitability. The District recognizes, however, that with increased costs of commodities and financial constraints of many families, student use will decline and operating deficits may continue. The District will place before the Board of Education a resolution to authorize appropriate transfers of funds to eliminate the lingering accumulated fund deficit.</p>

Shelter Island UFSD
 Corrective Action Plan to Audit for the Period Ending June 30, 2011

<u>Auditor's Comment</u>	<u>Management's Response</u>
<p><u>Bank Reconciliations:</u> 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. During our audit this year as well as last year, 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. However, it was noted that at June 30, 2011, year end balances were reconciled to the 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. 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>The District will review all outstanding checks and make adjustments where necessary. As stated elsewhere in the Corrective Action Plan, the District is in the process of evaluating its Business Office function and will make adjustments throughout the entire operation.</p>
<p><u>Payroll Tax Returns:</u> 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. 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 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. 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 will review this recommendation and incorporate it into the Business Office function, which is currently under a thorough review.</p>

Shelter Island UFSD
 Corrective Action Plan to Audit for the Period Ending June 30, 2011

<u>Auditor's Comment</u>	<u>Management's Response</u>
<p><u>School Lunch Sales:</u> 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 sale 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. 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. We recommend that the District reconcile these two systems on a periodic basis.</p>	<p>The District will review this recommendation and incorporate it into the Business Office function, which is currently under a thorough review.</p>
<u>Current Year Comments</u>	
<p><u>Budget Reporting:</u> 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. During the current year's audit, we noted that the information in this report was not accurate. Various budget revisions totaling \$265,700 had not been entered into the District's accounting software and therefore were not reflected in the report. In addition, it was noted that there were budget transfers during the year totaling \$172,365 that had been entered as regular adjusting entries. This in effect improperly increased or decreased the balance of various impacted expenditure accounts. We recommend that the District review and modify existing procedures to ensure that the budget transfers and budget revisions are properly reflected in the budget status reports.</p>	<p>The District hired a new accounting service at the beginning of the 2011-2012 school year and has charged that firm with the responsibility of ensuring the reports are timely and up to date. The District has made note of the entry differences and will ensure that future transfers are recorded properly.</p>

Shelter Island UFSD
Corrective Action Plan to Audit for the Period Ending June 30, 2011

<u>Auditor's Comment</u>	<u>Management's Response</u>
<p><u>Special Aid Grants:</u> 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. During our current year audit 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. 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 and effect changes in the processing of expenditures so that they are coded to the correct fund and account code when requisitions are processed.</p>	<p>The District will review this recommendation and incorporate it into the Business Office function, which is currently under a thorough review.</p>