

East Islip Union Free School District

East Islip Union Free School District

Report on 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 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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Monthly Board of Education Reporting Procedures ~~(SM)~~

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.

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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

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~~BBSR~~

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.

~~FBSR~~

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 reevaluated 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.

~~SAR~~

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 2011 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

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 the 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 (EMII)

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 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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Wire Transfer Procedures ~~EM~~

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 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 #6450-5(1)-5(1)7()T

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Narrative of the Accounting and Reporting Cycle – Exhibit A
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Auditors Spoke with
Maria Brabender- District Treasurer
Terri Ferro- Account Clerk Typist
Maureen Pace Deputy Treasurer

employees
as well as observations of the process. The Accounting and Reporting Journal Entries
VI. Wire Transfers

Blue

____ = Internal Control

I. General

District Policies

- f* Policy #6150 Budget Transfers
- f* Policy #6400 Depositories of Funds
- f* Policy #6410 Authorized Signatures

Every month the Treasurer is required to report to the district funds in a monthly cash report showing the balance at the beginning of the month. Supporting documentation for cash receipts and cash disbursements for the month including the claim warrants are included in the report. The District shows the cash receipts detail by month.

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Narrative of the Accounting and Reporting Cycle – Exhibit A
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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.
- f* Although it is not required in policy #6450 Accounting of Funds the Claims Auditor reviews all outgoing wire transfers during the normal claims process.
 - f* The wire transfer is approved by the Assistant Superintendent for Business and then initiated by either the District Treasurer or Deputy Treasurer
 - f* The District Treasurer then prepares the journal entry and records the wire transfer within WinCap.