

## **Roslyn Union Free School District Addendum A – Control Deficiencies Management Responses**

### **General Fund - Restricted Fund Balance**

School Districts are permitted by State Education and General Municipal Law to restrict, commit or assign funds for specific purposes. These restrictions, commitments and assignments generally are created through Board resolutions by the end of the School District's fiscal year and are funded through Board approved transfers from fund balance. During our audit, we noted that the fund balance Restricted for Workers' Compensation Benefits is approximately \$2.2 million. The fund balance Restricted for Workers Compensation Benefits has been established pursuant to Section 6-j of the General Municipal Law of the State of New York to provide funds for the payment of workers' compensation claims. The districtwide financial statements reflect workers' compensation benefit liabilities, which are based upon estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled, and of claims that have been incurred but not reported (IBNR's). The School District has recorded approximately \$829,000 as a liability for these claims at the district-wide level at June 30, 2016. This liability represents the balance of lag claims when the District was self-insured prior to joining the Nassau County Cooperative Workers' Compensation Self-Insured Plan.

### **Recommendation**

We recommend that, in the future, the fund balance Restricted for Workers' Compensation Benefits in the General Fund, be limited to the School District's workers compensation claims liability of approximately \$829,000 which is actuarially determined.

### ***Management Response***

***During the past two years a significant amount was appropriated from this reserve to pay claims incurred prior to July 1, 2014 as well as the assessments from the Workers Compensation Board which have become a direct charge upon the employer. This reserve is being used judiciously to handle our workers compensation liabilities without putting an additional burden on taxpayers.***

### **Trust and Agency Fund**

The Agency Fund is provided to account for assets held by the School District in a trustee capacity or as agent for individuals, private organizations, other governmental units or other funds. Our audit of the Agency Fund disclosed that eight of these accounts have been inactive with amounts that have been outstanding for several years. Additionally, these balances are carried forward year after year with no corresponding schedules to verify the composition of each of these accounts. The combined balance of these accounts total \$11,670. In addition, three of these accounts are used as donations which should be treated as trust accounts and recorded in the Special Purpose Fund. These accounts include Harbor Hill Fundraising, \$1,773, HS Science Research, \$18,089 and Horse Tamer, \$76,043.

### **Recommendation**

We recommend that the School District investigate the status of these inactive accounts and consider transferring the funds to the General Fund if deemed not payable to a vendor, with proper Board approval. Also, detail schedules should be maintained to keep track of the nature and activity of the accounts. The School District should also consider transferring the three aforementioned accounts containing donations to the Special Purpose Fund.

### ***Management Response***

***We will continue to analyze the Special Purpose and Trust and Agency accounts in order to properly dispose of the funds in dormant accounts. Our accountant has made a significant effort during the past year to do this and will continue to do so. Some of the***

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***funds held in these accounts include employee and retiree contributions to health insurance which have now been transferred to the General Fund.***

### **Special Purpose Fund**

#### **Inactive Trust Accounts**

We noted that four individual trusts with a total net position of \$8,430 have remained financially inactive, except for interest earnings for the entire year.

#### **Recommendation**

Although the amounts are not material, we suggest that the School District continue to analyze the balances and review the purposes of these trusts so that a determination may be made as to the proper disposition of the funds. Should it be determined that these amounts are no longer required to be held in trust, a Board resolution should be approved transferring these funds to the General Fund.

#### **Management Response**

***We agree that the amount is not material. These funds will be transferred to the General Fund when appropriate.***

### **Extra classroom Activity Funds**

Extra classroom activity funds, which are authorized by the New York State Department of Education, are an integral part of the educational program of the School District. As part of our audit, we have reviewed, evaluated and tested the Extra classroom Activity Funds of the School District. The result of our tests disclosed that the following areas were not in compliance with the regulations of the Commissioner of Education.

#### **Clubs with No Financial Activity**

We noted that eight high school clubs (Chess, Film Society, Foreign Language Honor Society, Global Awareness, Beacon newspaper, Sewing/Fashion, Stock Market, Student Prints) and one Middle School Club (Youth Against Cancer) had no financial activity during the current fiscal year. State Education Regulations provide that the funds of a discontinued activity shall automatically revert to the account of the general student organization or the student council and shall be expended in accordance with the organization's constitution.

#### **Recommendation**

We recommend the School District review the status of these clubs and consider closing any, if necessary. From there, the proper disposition of funds to the general student organization could then be determined.

#### **Management Response**

***We will continue to analyze the Extra Curricular Fund accounts in order to properly dispose of the funds in dormant accounts. In fact, we have declared as of July 1, 2015 a number of these clubs to be defunct and transferred remaining assets to the OCC as allowed by Commissioner's Regulations.***

#### **Segregation of Duties**

In reviewing the narratives and per inquiry, the Extra classroom Activity Fund has teachers from the respective schools also acting as the Activity Fund Treasurers. This includes depositing cash, preparing and signing checks, and doing the bank reconciliations.

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### **Recommendation**

We recommend the School District, if feasible, assign some of the duties that the Activity Fund Treasurers are responsible for to other employees in order to strengthen internal controls over the High School and Middle School Extra classroom activities.

### ***Management Response***

***Unfortunately, this is not feasible since the ECA Fund Treasurers are members of the Teachers Bargaining Unit by contract and the duties may not be assumed by anyone else. We note, however, that the Treasurers are not, themselves, faculty advisors to any particular club.***

### **Timeliness of Cash Receipt Deposits**

During our audit of both the High School and Middle School Extra classroom Activities Fund, we noted that seven cash receipts for the High School and three cash receipts for the Middle School were not deposited timely.

### **Recommendation**

We recommend all cash receipts be deposited within 72 hours from when they are originally received.

### ***Management Response***

***We will continue to work with our student treasurers and faculty advisors and central treasurers to insure that deposits are made timely.***

### **Allocation of interest and Bank Charges**

We noted the interest and bank charges in the net amount of \$1,399 cumulatively over the years were not allocated to the respective Clubs for the High School Extra classroom Activity Fund.

### **Recommendation**

We recommend the interest and bank charges be allocated on a regular basis to ensure all miscellaneous income and fees are proportionately allocated to the appropriate clubs.

### ***Management Response***

***Interest and bank charges at the High School are, in fact, allocated to the Organization of Class Councils, the one organization that represents all students regardless of the club to which they belong. Those funds are used as start-up money for new clubs and to offset any bank charges that may be incurred.***

### **Capital Projects Fund - Test of Capital Projects Claims**

During our audit of Capital Projects claims, we noted one instance where the construction manager's approval was missing from the paid claim for payments to vendors.

### **Recommendation**

The School District policy should be followed where invoices from contractors are approved by both the architect and the construction manager as evidence that services have been provided as described on the invoice.

### ***Management Response***

***We reviewed this particular situation and discovered that the CM approval appeared on only one copy of the claim for payment. We will endeavor to make sure that this does not happen again.***

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### **Internal Controls - Walkthrough of Transactions**

#### **Payroll Change Report**

Upon inquiry and per our review of the User Access Reports, we noted that the School District does not have a formal policy for the review and approval of payroll change reports on a periodic basis.

#### **Recommendation**

We recommend that a formal policy for the review and approval of payroll change reports by management be implemented, and documentation maintained, in order to strengthen the controls over the payroll system.

#### ***Management Response***

***We are in the midst of a wholesale review of all BOE policies. This suggestion will be presented to the attorneys who are working with the BOE president on this project.***

### **Accounts Payable System Access**

Upon inquiry and per our review of the User Access Reports over the accounts payable system, we noted that the Accounts Payable Clerk who initiates vendor payments also has the ability to add new vendors and modify existing vendor information.

#### **Recommendation**

We recommend that all employees who initiate payments be restricted from adding new vendors or modifying vendor information in order to maintain adequate internal control over cash disbursements.

#### ***Management Response***

***We have resolved this problem. The accounts payable clerk only has viewing and not editing rights.***