



**KATONAH-LEWISBORO UNION FREE SCHOOL DISTRICT
BUDGET FINANCIAL ACCOUNTING & REPORTING INTERNAL AUDIT**

Date: September 23rd, 2013

To: Ms. Stephanie Tobin, Audit Committee Chair

From: David Moran, Director of Education Practice
Claudia Cabello Glass, Senior Manager

Cc: Audit Committee
Mike Jumper, Assistant Superintendent for Business
Dr. Paul Kreutzer, Superintendent

Subject: Budget, Financial Accounting & Reporting Internal Audit

Background

We have applied certain financial, compliance and operational audit procedures to the Budget, Financial Accounting & Reporting functional area of Katonah-Lewisboro Union Free School District (the “District”). As a result of our most recent Risk Assessment Report, the Audit Committee recommended this area for an in-depth review to determine ways to improve procedures, and establish increased accountability and stronger internal controls.

Audit Scope

Our responsibility was to assess the adequacy and effectiveness of internal controls over certain processes within the Budget, Financial Accounting & Reporting functional area. We reviewed the period from July 1st 2011 through April 30th 2013. A detailed description of audit work performed is presented in the “Summary of Audit Procedures Performed” section of this report. These audit procedures performed are in accordance with *The International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

Executive Summary

As a result of the work performed, we noted the following observations that resulted in recommendations designed to improve internal controls and enhance operating policies and procedures. The following recommendations were made:

1. The District should implement stronger internal controls over the journal entry process. Specifically, the District should modify its standard journal entry list to include all periodic recurring journal entries; the list should utilize a numbering system; non-standard journal entries should have an adequate explanation attached to the posting; and the list should be included in the Business Office Procedures Manual.



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2. The District has adequate internal controls over its budget development process. However, the District must attach the New York State Accountability Report (not refer to the report via a website link) to the Budget Document.

As a result of the work performed, observations were made that resulted in recommendations designed to improve internal controls and enhance operating policies and procedures. Based on the results of the procedures performed, the internal control structure is rated as ***“Satisfactory.”*** The internal audit rating structure is defined below:

Satisfactory Indicates an acceptable system of internal control and satisfactory compliance with applicable policies, procedures and regulatory requirements. Findings indicate modest weaknesses that require management's attention.

Needs Improvement Indicates weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. These findings require management's prompt resolution to prevent further deterioration and possible losses.

Unsatisfactory Indicates significant weaknesses in the system of internal control and/or compliance with related policies, procedures and regulatory requirements. Management's immediate attention to these findings is required to prevent potential loss to the institution.

We would like to thank the management and staff of the District for the assistance and courtesy extended to us during the course of our audit.

Very truly yours,

A handwritten signature in blue ink that reads "Accume Partners".

Accume Partners



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Summary of Audit Procedures Performed

- Procedure 1 – Reviewed the District’s Board Policies related to Budget and Finance, and the Business Office Procedures Manual for adequacy, completeness, and compliance with applicable state laws and regulations.
- Procedure 2- Interviewed the District Superintendent, Assistant Superintendent for Business, Assistant Superintendent for Curriculum & Instruction, Assistant Superintendent for Human Resources, the Director of Operations & Maintenance, the Middle School Principal, the Increase Miller Elementary School Principal, the District Treasurer, the School Business Administrator, the District Clerk, the Bookkeeper, and the Payroll Coordinator.
- Procedure 3- Reviewed the internal controls over the District’s Property Tax Cap Levy Limit calculation. Specifically, we reviewed the procedures for calculating the District’s Property Tax Cap Levy Limit for the FY11/12 and FY12/13 budgets, to ensure it was calculated correctly and in accordance with the guidelines provided by the New York State Comptroller’s Office.
- Procedure 4- Reviewed the internal controls over entering, reviewing, and approving journal entries posted to the general ledger. Specifically, we judgmentally selected 34 journal entries to test to ensure they were correct, supported by sufficient documentation, timely made, and independently reviewed and approved.
- Procedure 5- Reviewed the internal controls over initiating, approving, and processing Budget Transfers. Specifically, we randomly selected 23 budget transfers to test to ensure the Budget Transfer Requests were appropriately completed, reviewed and approved, and appropriately processed.
- Procedure 6- Evaluated the District’s financial condition, using New York State Comptroller’s School District Financial Indicator Calculations methodology.
- Procedure 7- Evaluated the District’s long-term financial planning process against New York State Comptroller and Government Finance Officer’s Association best practices methodology.
- Procedure 8- Evaluated the fiscal oversight responsibilities of the Board with respect to developing appropriate policies, and monitoring operations.
- Procedure 9- Reviewed the District’s internal controls over the Budget development and implementation process, including compliance with state budget laws and regulations, including setting forth and adhering to a budget calendar, publishing a legal notice, holding a



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public hearing, distributing a Budget Newsletter to District residents/voters, and including required elements and certain disclosures in the Budget document.

- Procedure 10- Reviewed the procedures for tallying the official results of the District's annual Budget vote and Board elections for FY12/13.

Recommendations to Enhance the System Of Internal Controls and Improve Operating Procedures

Financial Accounting

Observation

Internal Audit reviewed the internal controls over financial accounting. Specifically, we reviewed the procedures for entering, reviewing, and approving journal entries to the general ledger. To do so, Internal Audit judgmentally selected 34 journal entries posted to the general ledger from the period under review. We reviewed each journal entry to ensure it was correct; there was sufficient documentation to support the entry; it was independently reviewed and approved, and it was timely posted to the general ledger. In our review, we did not find any errors. However, we noted some procedures needing improvement.

Internal Audit noted that District established a standard journal entry list. This is a best practice. However, we found the list to be incomplete. Specifically, the list comprised of only 14 monthly journal entries. The list did not include all monthly journal entries made (for ex. School Lunch Sales) nor did it include any quarterly (for ex. Sales Tax, Disposal of Assets, etc.) or annual journal entries (for ex. Fiscal Year-end). Also, the standard journal entry list did not utilize a numbering system. In addition, we found instances where the explanations provided to describe the purpose of the non-standard journal entries were not clear.

Lastly, Internal Audit noted the standard journal entry list and accompanying procedures, explaining the purpose of each journal entry and explanation of how to make it, were not included in the Business Office Procedures Manual.

Risk/Opportunity

Best practices in financial accounting dictates establishing proper segregation of duties in the preparation and posting, and the review and approval of journal entry transactions. Proper internal controls dictate that key processes have a preparer and an independent reviewer. In general, an independent review is a detective control that adds to the overall strength of the



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control environment. The District has adequate segregation of duties in its financial accounting process. Specifically, the District's Bookkeeper prepares, posts, and makes adjusting journal entries, and the District Treasurer performs the independent review and approval of transactions posted to the general ledger. Management's supervisory role over processing of accounting information into the Business Management System helps to ensure the integrity of the data held within the system.

Best practices in financial accounting also suggest establishing a standard journal entry list. In general, a standard journal entry list is an internal control that helps to ensure that required periodic journal entries get recorded, are appropriately made, and are posted on a timely basis. Timely recording of journal entries and "closing of the books" also helps to ensure that account reconciliations and management reports are accurately prepared and complete.

In general, the standard journal entry list should include all recurring or standard journal entries made on a monthly, bi-monthly, quarterly, and annual basis. Also, the standard journal entry list should utilize a numbering system. A numbering system is a key element of the control. Each standard journal entry should be assigned a specific number. The numbering system facilitates the review of entries to ensure that all were recorded and the accounting is complete. In addition, the numbering system helps to distinguish between recurring and non-recurring journal entries. By their nature, non-standard journal entries should be identified and reviewed in more detail to ensure that the transactions are appropriate and are properly recorded. In addition, the non-standard journal entry should have an adequate explanation of its purpose, and sufficient supporting documentation should accompany the journal entry posting for Management's review.

Recommendation

1. The District should implement stronger internal controls over the journal entry process. Specifically, the District should modify its standard journal entry list to include all periodic recurring journal entries; the list should utilize a numbering system; non-standard journal entries should have an adequate explanation attached to the posting; and the list should be included in the Business Office Procedures Manual.

Management's Response:

The District has begun to implement a comprehensive numbered standard journal entry list, inclusive of all periodic recurring journal entries. Effective May 1, 2013 additional supporting documentation for both standard and non-standard journal entries are required and reviewed by the Bookkeeper and Treasurer on a monthly basis. The District will produce a list of monthly, quarterly and annual standardized journal entries. This list will be supplemented by a detailed accounting instruction manual. This list and the detailed accounting instruction manual will be included in the Business Office Procedures Manual.



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Proposed Implementation Date: December 31, 2013

Responsible Party: The District Treasurer and Bookkeeper

Budget Development & Practices

Observation

Internal Audit reviewed the District’s internal controls over the budget development and implementation process. To do so, we interviewed District staff, and reviewed documentation such as budget development books, the Budget Document, budget presentations and reports, as well as reviewed videotaped Board Meetings held as budget workshops. Internal Audit evaluated the District’s policies and procedures against best practices, as well as compliance with laws and regulations. The following tables summarize the results of our evaluation.

Budget Development Process		
Best Practice*	Katonah-Lewisboro School District Practice	Meets Best Practice Standard
1. Budget preparation process starts with the setting forth of the budget calendar.	Budget Calendar developed by the Assistant Superintendent for Business in accordance with state laws and regulations.	Yes
2. The budget officer distributes budget forms and instructions to all the department heads.	Budget Development Books and instructions prepared by the Assistant Superintendent for Business and the School Business Administrator. Utilizes a zero-based budget development approach. Additional budget guidelines provided by the Superintendent.	Yes
3. Department heads submit their estimates and discuss their requests with the budget officer.	Budget Development Books completed by Department Heads, submitted to Business Office, and discussed in Central Office Review Team (“CORT”) Meetings.	Yes
4. The budget officer uses the information from the budget forms to prepare the proposed budget	Budget Development Books compiled in Finance Manager’s Budget Module to develop proposed budget. The Assistant Superintendent for Business ensures budget meets all legal requirements, and prepares the Budget Book.	Yes
5. The budget officer presents the proposed budget to the governing board for its consideration and approval.	The proposed budget is presented by the Superintendent, Assistant Superintendents, and each Department Head to the Board. The proposed budget is reviewed line by line by the Board at several Board Meetings designated as Budget Workshops.	Yes
6. The District publishes a legal notice, and a public hearing on the budget is held.	The District Clerk issues a legal notice, and a Board Meeting is designated and held as the official public hearing on the budget.	Yes
7. The Board adopts the final budget by resolution.	The Board adopts the final budget by resolution.	Yes
8. The Business Official completes the calculation of the real property tax levy.	Assistant Superintendent for Business calculates the real property tax levy, Board approves tax levy by resolution.	Yes

**Source: New York State Comptroller’s Local Government Management Guide*



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Recommended Budget Practices*		
Budget Principal	Katonah-Lewisboro Practice	Meets Best Practice Standard
1. Establish Broad Goals to Guide Government Decision Making. Identify and Assess Community Needs, Priorities, Challenges and Opportunities.	District's Mission Statement Districts Long Range Plan 2011-2016 Board's Annual Goals Superintendent's Annual Goals School District Report Card Enrollment and Demographic Study	Yes
2. Develop Approaches to Achieve Goals. Adopt Financial Policies. Develop Programmatic, Operating, and Capital Policies and Plans. Develop Management Strategies. Develop and Evaluate Financial Options.	Fiscal Management Board Policies Series 6000 Facilities Management Board Policies Series 7000 Five Year Facilities Plan Building Condition Survey Long Range Plan 2011-2016 (Programmatic) FACE Report Debt Service Schedule Education & Economy Report Per Pupil Expenditure Report Fund Balance and Cash Flow Projections	Yes
3. Develop a Budget Consistent with Approaches to Achieve Goals. Develop a process for preparing and adopting a budget. Develop and Evaluate Financial Options. Make Choices Necessary to Adopt a Budget.	See Budget Development Process Table	
4. Evaluate Performance and Make Adjustments. Monitor, Measure, and Evaluate Performance. Make Adjustments as Needed.	See Monitoring Fiscal Operations Table	

**Source: Government Finance Officers Association, National Advisory Council on State and Local Budgeting.*

Risk/Opportunity

A school district's budget is a financial plan, developed for a complete fiscal year, and is based on estimates of expenditures and revenues. A school district budget must be balanced, whereby the total of financing sources equals the amount of appropriations for expenditures. The budget is a key tool for managing day-to-day operations. Errors in the budget, such as making unreasonable or unrealistic assumptions, underestimating expenditures, and overestimating revenues can have significant consequences. Thus, it is critical that a budget is well constructed.

Recommendation:

2. The District has adequate internal controls over its budget development process. However, the District must attach the New York State Accountability Report (not refer to the report via a website link) to the Budget Document.



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Management’s Response:

Beginning with the development of the 2014-2015 budget, the District will attach the entire New York State Accountability Report to the final Budget Document.

Proposed Implementation Date: July 1, 2013

Responsible Party: Assistant Superintendent for Business

Fiscal Monitoring

Observation

Internal Audit reviewed the internal controls over the District’s fiscal monitoring. To do so, we evaluated the District’s procedures against best practices. The following tables summarize the results of our evaluation.

Financial Condition	
Basic Elements of a Sound Financial Condition*	Internal Audit Observation
Are there sufficient revenues to meet obligations?	Yes
Are long-term debt obligations being met, and does the District maintain a good credit rating?	Yes
Does the District regularly compare its long range fiscal plan to actual progress and make adjustments?	Yes
Does the District file State Aid forms in a timely manner?	Yes
Does the District maintain its buildings to avoid unexpected renovation costs?	Yes
Does the District engage an experienced External Auditing firm to interact with the Business Official/Audit Committee to evaluate changing requirements?	Yes
Does the Board of Education and Central Administration routinely discuss fiscal status and trends?	Yes

**Source: NYSED Office of Educational Management Services*

Fiscal Stress Test		
School District Financial Indicator*	Financial Indicator Scoring	Katonah Lewisboro Score
Unassigned Fund Balance	Greater than 3% Last Fiscal Year	0
Total Fund Balance as a % of Expenditures	Greater than 10% last fiscal year	0
Operating Deficit	No deficits less than or equal to -1% in last 3 fiscal years	0
Cash Ratio	Greater than 100% last fiscal year	0
Cash as a % of Monthly Expenditures	Greater than 100% last fiscal year	0
Short-Term Debt Issuance	Greater than 0% less than 5% last fiscal year	1
Short-Term Debt Issuance Trend	Issuance in Each of last 3 fiscal years	3
Total	21 (Maximum Points)	4
Conclusion	% of Total Points (0-24.9%) Not in Fiscal Stress	19%

**Source: New York State Comptroller’s Fiscal Stress Monitoring System*

Legend-Classification of Fiscal Stress	
Percentage of Total Points	Classification of Fiscal Stress
65%-100%	Significant
45%-64.9%	Moderate
25%-44.9%	Susceptible
0-24.9%	Not in Fiscal Stress

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Fiscal Monitoring		
Best Practice*	Katonah-Lewisboro Practice	Meets Best Practice Standard
1. The Board should develop policies for financial operations of the District.	Fiscal Management Board Policies Series 6000	Yes
2. Management should provide interim reports to the Board with timely information so Board members can exercise proper fiscal oversight.	The District Treasurer provides to the Board: Treasurer’s Report, Cash Flow Statement, and Trial Balances; monthly. General Fund Revenue and Budget Status Reports, monthly Capital and Special Aid Funds Budget and Revenue Status Reports, quarterly. Fund Balance Projections Report, beginning January through Fiscal Year End, monthly.	Yes
3. The Board should take timely corrective action for identified budgetary problems.	The Board approves all Budget Transfers above \$10,000; Budget Transfers below \$10,000, approved by Assistant Superintendent for Business, provided for informational purposes. The Board approves appropriating available fund balance. The Board approves grants in aid, insurance recoveries, and gifts to the District	Yes
4. The Board is responsible for conducting audits of District operations.	The Board established an Audit Committee and Audit Committee Charter. The Audit Committee reviews all external, internal, regulatory, and claims auditing reports. The Audit Committee oversees the District’s annual External Audit of its financial statements. The Audit Committee reports to the Board.	Yes

Source: New York State Comptroller’s Fiscal Oversight Responsibilities of the Board

Risk/Opportunity

School Districts today are facing an economic crisis, and therefore should develop a strategy that balances educational reform and financial stability. Sound financial management and student achievement are inextricably linked. Best practices suggest that School Districts use real data to inform decision-making, drive changes, and monitor progress. Specifically, in order to maintain a good financial condition, school districts should engage in multi-year financial planning. A multi-year plan helps to anticipate future problems, progressively adapt with a smoother spending path, and minimize the negative impact of cuts. It ensures resources are available as needed, and cash is available to pay bills. A school district that maintains a good financial condition, may find it easier to maintain integrity and credibility with taxpayers. It also helps recruit and or retain high quality staff. A good financial condition allows for continued access to financial markets, and borrowing (notes and bonds) at favorable interest rates. A good financial condition provides stability and continuity of operations year after year.

Conclusion/Recommendation:

The District has adequate internal controls over fiscal monitoring. No recommendation is required.