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June 30, 2010

MEMO TO:

Salmon River Central School District
Audit Committee

Committee Members:

We performed an annual risk assessment to evaluate potential risk in the Salmon River Central School District.

We reviewed policies and procedures, and also examined the District's Business Office financial operations for the period of July 1, 2009 to June 30, 2010. Some of the discovered conditions are as follows:

- Inventory Control

An annual physical inspection of inventory of property and equipment should be performed to determine that the items owned by the District are present, in usable condition, located in the assigned area and are accurately recorded in the general ledger.

- Purchasing

The Purchasing Policy needs to be updated to include the role of the Accounts Payable clerk, to reflect the current competitive bidding thresholds and establish guidelines on the appropriate use of open Purchase Orders.

Open purchase orders should be used for regular predictable purchases that recur throughout the year such as cellular services, leases and other like expenses.

In addition, steps need to be taken to ensure that the staff diligently adheres to the adopted purchasing procedures. Review of the Internal Claims auditor log indicated numerous instances where services were performed and invoices received before the date of the requisition and purchase order. In addition, insufficient open purchase orders were submitted with invoices received for amounts much larger than the total purchase order.

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There should also be procedures established for setting up new vendors and an approved vendor listing should be made available. An integral component of this policy should include the requirement that U.S. vendors provide a completed and signed Form W-9 prior to issuance of a purchase order. This policy helps ensure compliance with the IRS regulations concerning the issuance and accuracy of annual tax statements to vendors and avoids making inappropriate payments to fraudulent entities.

- Segregation of Duties

This policy should not just be limited to segregation of duties over the payroll process. Adequate segregation of duties reduces the likelihood that errors (intentional or unintentional) will remain undetected and needs to be considered in the adoption of all of the District's procedures.

- Payroll

A Payroll Policy needs to be adopted that encompasses the current arrangement with BOCES that includes a consistent method to handle the employee documentation required for the completion of the Employment Eligibility Employment I-9 forms.

- User Rights Controls

To ensure proper segregation of duties and internal controls, the computerized financial system should only allow users' access to the computer functions necessary to fulfill their job responsibilities. Adequate access controls prevent users from being involved in multiple aspects of financial transactions. In reviewing the employee permissions reports, we found that in many instances employees have access to areas that are not needed to fulfill their job responsibilities. Computer system access rights need to be limited to include access only to areas needed to perform job functions and updated continuously to ensure that the district's assets are safeguarded.

- Policy Manual

The Policy Manual should include statements on areas such as budgeting, purchasing, accounting/auditing, transportation, school lunch, operation and maintenance, toxic substances, energy conservation and disaster preparedness. These policies should be complete and updated as necessary.

The current policy manual does not address all of these areas and needs to be updated accordingly. A time line for the Erie 1 BOCES proposed policy manual should be established.

- Extra Classroom Activity Fund Policy:

The current Student activities funds management policy needs to be updated and expanded to include rules and regulations for the establishment, conduct, operation and maintenance of extra-classroom activities and for the safeguarding, accounting and audit of all moneys received.

- **Authorized Use of School-Owned Materials and Equipment Policy:**
The current policy needs to be updated to clearly communicate that district assets can only be used for official business. The policy should include a prohibition against the unauthorized use of personal property and the theft or conversion of personal property, a statement of the actions to be taken where staff violate the policy, the designation of staff responsible for enforcement of the policy and the procedures for assuring the staff are informed of the policy.
- **Fiscal Accounting and Reporting Policy:**
The current policy needs to be updated to cover all phases of the fiscal management process, including audit scope and internal controls.
- **Internal Controls against Over-Commitment of Funds:**
The district should review the internal controls procedures for appropriations. In accordance with section 36 of the General Municipal Law, transfer must be made before purchase orders can be released.
- **Long Term Financial Plan:**
The district should adopt at least a three year plan for operating expense and capital items. This plan should be updated annually.
- **Accounting Transactions**
Effective policies and procedures need to be developed to ensure that all journal entries are complete, accurate, properly supported and approved prior to the posting in the general ledger.

An integral part of this process needs to include review of support documentation by someone other than the preparer prior to approval.
- **Reports provided to the Board**
Pursuant to the Regulations of the Commissioner of Education, the Treasurer's monthly report to the Board needs to include the bank statements.
- **Training**
The district currently does not have a formal training program for the staff. New members of the staff need to be properly indoctrinated in the district's methods and procedures, while experienced staff needs to be able to update their knowledge and skills. Most often, this can be accomplished with the adoption of a comprehensive in-service training program.

- Bond Coverage

The July 13, 2009 Board minutes reflect authorization of bonding of District Treasurer, Tax Collector, Deputy Tax Collector and Purchasing Agent in the amount of \$1,100,000. The insurance declaration sheet does not reflect additional coverage for the Deputy Tax Collector.

- Cross Training:

The district currently does not have a formal cross training plan for continuity of services. A plan should be in place to maintain continuity and internal control safeguards.

- Records Retention:

The district should review records retention schedule and disposition policy in accordance with the provisions of Section 65-b of the Public Officers Law. The district should also evaluate the current security and storage of long term permanent records, mainly pertaining to possible damage from moisture and handling of records in the storage area.

- Board Minutes:

The minute's book should be kept current.

- Security of Confidential Records

Access to confidential personnel files need to be safeguarded against unauthorized access. Even though these records are kept in locked filing cabinets located in the District Office lobby, all office personnel have access to these cabinets.

Sincerely,

A handwritten signature in blue ink, appearing to read "James McKee III CPA", is written over a large, stylized blue circular mark.

James McKee III, CPA