



PUTNAM VALLEY CENTRAL SCHOOL DISTRICT REVENUE AND ACCOUNTS RECEIVABLE INTERNAL AUDIT

Date: June 29, 2018

To: Ms. Jeanine Rufo, Board President

From: David E. Moran, Director of Education Practice

Cc: Audit Committee
Ms. Jill Figarella, District Treasurer
Dr. Frances Wills, Superintendent

Subject: Revenue and Accounts Receivable Internal Audit

Background

We have applied certain financial, compliance and operational audit procedures to the Revenue and Accounts Receivable functional areas of Putnam Valley Central School District (the “District”) as of April 30, 2018. As a result of our most recent Risk Assessment Report, Internal Audit 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 Revenue and Accounts Receivable operations in the District. We reviewed the period from July 1st 2017 through April 30th 2018. 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 has adequate internal controls over the billing, receiving and processing of its property tax collections.
2. The District has adequate internal controls over the collection, receiving and processing of its cash receipts and should continue to exercise the internal controls.



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3. The District has adequate internal controls over bank account reconciliations and should continue to exercise the internal controls.

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.

A stylized, handwritten signature of "Accume Partners" in a dark grey or black ink.

Accume Partners



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Summary of Audit Procedures Performed

- Procedure 1 – Reviewed the District’s Board Policies and Department level Revenue and Accounts Receivable policies and procedures.
- Procedure 2- Interviewed District management and staff: Superintendent, District Treasurer, District Clerk, Tax Collector/Accountant, Account Clerk, Office Assistants and Part-Time Office Assistant.
- Procedure 3- Reviewed and tested a sample of 17 property tax billings and receipts totaling \$102,709.01 to insure they were properly processed, deposited and posted to the appropriate general ledger account.
- Procedure 4- Reviewed and tested a sample of 17 cash receipts totaling \$14,460.85 to insure they were processed, deposited and posted to the appropriate general ledger accounts.
- Procedure 5- Verified that the 34 property tax payments and other cash receipts reconciled to the General Fund, Trust and Agency Fund and Special Purpose Fund bank statements.



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

1. The District has adequate internal controls over the billing, receiving and processing of its property tax collections.

Observation:

Internal Audit reviewed the procedures in place for billing, receiving and processing its property tax collections. We noted that the District contracts with Putnam County to prepare the official tax rolls. The District recently hired a new services provider, Business Automation Services, Inc. (BAS) who prepares the property tax statements electronically and delivers the data to the District, and the District prints and mails out the property tax statements to property owners.

Internal Audit reviewed the procedures in place for collecting and processing property tax receipts. The District processes all of its property tax receipts via bank lockbox. We thus randomly selected 17 individual property tax payments totaling \$102,709.01. We reviewed the cash receipts, payment stubs, deposit tickets, and post batch reports, to ensure that the monies were properly handled and accounted for, were timely deposited, and appropriately applied to property tax accounts. We did not find any exceptions in our testing. In addition, we tested the process for identifying and refunding of overpayments and found no exceptions.

School District Risk and/or Opportunity:

The District uses a lockbox function to collect property taxes. District taxpayers are instructed to mail payments directly to the Lockbox service. By utilizing the cash management technology of a lockbox function, the District's property tax collection process operates more efficiently. The District processes more payments in a timely manner. Payments are applied to property tax accounts by uploading master data files provided by the Bank to its property tax database. In that way, the cash application process is automated and helps to minimize the risk of errors from manual data entry. In addition, this method has created segregation of duties between billing, collecting, and reconciling functions.

Recommendation:

The District has adequate internal controls over the billing, receiving and processing of its property tax collections.

No Management Response Required



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2. The District has adequate internal controls over the collection, receiving and processing of its cash receipts and should continue to exercise the internal controls.

Observation:

Internal Audit reviewed the procedures for collecting miscellaneous cash receipts. A *cash receipt* is a printed document that is logged to record every time the District receives *cash* for a good or service. *Cash* refers to currency, coins on hand, bank balances, wire deposits, and checks.

The District bills and collects for miscellaneous items such as health service benefits for retirees, tuition, and other miscellaneous fees (facilities use, lost library books, etc.). To conduct our review, we randomly selected 17 miscellaneous cash receipts totaling \$14,460.85 to test. We reviewed the cash receipts, deposit tickets, and remittance information, to ensure that the monies were properly handled and accounted for, were timely deposited, and appropriately applied to customer accounts. We did not find any significant errors in our testing.

School District Risk and/or Opportunity:

In general, a good internal control environment is one where procedures exist to adequately control miscellaneous cash collections. Specifically, procedures are in place to ensure the receipt, custody, handling, deposit, and recording of cash is properly processed and the duties appropriately segregated.

First and foremost, cash receipts and deposit forms should be appropriately completed to ensure that all monies are accounted for and transactions are correctly completed at the bank. Check logs, cash receipts, and deposit slips that lack detailed information can make the control of cash and bank reconciliation processes problematic. The District has a well established procedures for processing cash receipts.

Recommendation:

The District has adequate internal controls over the collection, receiving and processing of its cash receipts and should continue to exercise the internal controls.

Management's Response:

No response required.



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3. The District has adequate internal controls over bank account reconciliations.

Internal Audit selected the monthly bank reconciliations of the General Fund, Trust and Agency Fund and Special Purpose Fund Accounts for each of the 34 property tax payments and other cash receipts to test. We re-performed the bank account reconciliations and reviewed their preparations to ensure they were completed on a timely basis. We tied all items on the cash receipts test to the bank statements and to journal entries posted to the general ledger, to ensure accuracy and completeness; and verified that trial balances on the general ledger reconciled to the cash balances on the bank statements. Finally, we ensured that all reconciling items were appropriately explained and/or resolved. Internal Audit did not find any errors.

School District Risk and/or Opportunity:

Bank reconciliations are an important internal control over cash assets. Periodic bank reconciliations help to ensure that account balances are accurately reflected on the District's financial statements. An accurate picture of the District's financial position helps Management make informed decisions. Bank reconciliations are a detective control that may uncover irregularities, recording errors, or other problems that need further investigation. Timely performance of bank reconciliations enables Management to isolate problems before they become bigger issues. Overall bank reconciliations help to create a stronger control environment and greater accountability over cash assets.

Bank reconciliations should be completed on a timely basis to ensure accountability over District funds and to ensure bank errors and irregularities are detected and appropriately resolved. Once the reconciliations are completed, an independent review of the process should be conducted to ensure completeness and ensure appropriate and timely resolution of reconciling items.

Recommendation:

The District has adequate internal controls over bank account reconciliations.

Management's Response:

No response required.