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*Professional Association*  

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## **Common Audit Findings**

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A **material weakness** is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A **significant deficiency** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are examples of some of our more common audit findings that we report on:

### ***GASB No. 54 Fund Balance Policy***

In March 2009 the Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement became effective June 30, 2011 and requires that the School District adopt a fund balance policy. At June 30, 2011, the School District had not yet done so. We recommend that the School Board develop and formally approve such a policy.

### ***Suspension & Debarment***

**Criteria:** According to 2 CFR part 180, Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. Covered transactions include those procurement contracts for goods and services awarded under a non-procurement transaction (i.e. grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System* maintained by the General Services Administration, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

**Condition:** During expenditure testing for the federal compliance audit, it was noted that the District contracted with a vendor for over \$25,000 where the District did not verify that the vendor wasn't suspended or debarred from doing business with the Federal Government.

**Effect:** The District is not in compliance with procurement, suspension, and debarment requirements.

**Recommendation:** We recommend that any individuals or organizations that the District contracts with in the future for over \$25,000 that are paid with federal funds be verified by the District that they are not suspended or debarred.

### ***Purchase Order System***

**Criteria:** School District policy requires that purchase orders be completed and properly approved for all disbursements prior to ordering the goods or services.

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**Condition:** In seven out of forty disbursements tested, purchase orders were not obtained prior to the goods or services being ordered.

**Effect:** Interim financial statements may not give a complete accounting for all commitments outstanding.

**Recommendation:** School District policies regarding purchase orders should be followed, without exception.

## ***Payroll - Timesheets***

**Criteria:** OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* states in Attachment B: *Selected Items of Cost*; Section II: *Compensation for Personnel Services*; Subsection h: *Support of Salaries and Wages* that "where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee." The State of New Hampshire requires that time reports be signed by both the employee and the supervisor.

This subsection goes on to say: "where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5). . ."

Subsection (5) states "Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee.
- (b) They must account for the total activity for which each employee is compensated.
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal programs."

**Condition:** Out of 195 payments selected for payroll transaction testing, eight were found to have no timesheet on file for the selected pay period.

**Effect:** The District is not in compliance with allowable costs/cost principles requirements.

**Questioned Cost:** \$9,853 (pay related to the missing eight timesheets).

**Recommendation:** We recommend that management ensure that timesheets as described above are properly prepared and on file to support all payroll charges to federal programs.

## ***Food Service – Free & Reduced Price Applications***

**Criteria:** Compliance with eligibility requirements dictates that students must meet certain maximum income guidelines in order to qualify for free and reduced priced meals. A standardized application is used for families to report their income information, and the application must be reviewed and the students' status determined by a designated official of the School District.

**Condition:** Out of forty free and reduced price applications reviewed, we noted that one application could not be found (approved free), one application was improperly approved as free when the household income only supported reduced price, and one application was temporarily approved as free in the prior school year and was kept as free in the current school year even though a new application was not received.

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**Effect:** The School District is not in compliance with eligibility requirements.

**Questioned Costs:** \$1,292.40 (2 students free should have been full-price: lunch \$2.17 x 2 students x 180 + breakfast \$1.07 x 2 students x 180 = \$781.20 + \$385.20 = \$1,166.40; 1 student free should have been reduced price: lunch \$0.40 x 180 + breakfast \$0.30 x 180 = \$72.00 + \$54.00 = \$126.00).

**Recommendation:** We recommend that the District review the eligibility requirements for free and reduced price meals as described in the USDA's eligibility manual, and contact the State of New Hampshire, Department of Education, Bureau of Nutrition Programs and Services with any questions.

### *Student Activities Funds (I)*

**Criteria:** Because of the custodial nature of agency funds, it is imperative that strong controls over disbursements be in place.

**Condition:** We noted that the School District does not have a formally adopted, district-wide student activities policy. We also noted the following conditions:

1. In the High School, it was noted that deposits were not always being made in a timely manner.
2. In the Athletic Fund, we noted the following:
  - a. There were seven stale dated checks totaling \$510 that were over a year old.
  - b. There were two checks issued to and signed by the athletic director.
  - c. In many instances supporting documentation was not found for disbursements made.
  - d. Invoices did not always indicate that they had been reviewed and formally approved.
  - e. During the fiscal year \$20,000 was transferred over to the account from the general fund for the purchase of athletic supplies. This process circumvents the District's purchasing system.
3. In the Middle School the summary of activity was not prepared for the year so we could not determine if the activity balances were in agreement with the cash balance at year end.
4. In the Elementary School it was noted that several disbursements made during the year were from activity accounts that were not student related accounts such as the Coke account.

**Effect:** Because there is no policy specifically prohibiting certain types of activity, there may be inappropriate or unallowable activity occurring as part of the student activities funds. By not having supporting documentation or proper approvals on disbursements, there is a chance for misappropriation of funds from the accounts.

**Recommendation:** We recommend that the School District develop district-wide policies over the maintenance of student activities funds. The policy should describe the required approval and reconciliation processes, dealing with stale dated checks, and the timeliness of deposits. We also recommend the following:

1. Supporting documentation must be obtained and kept on file prior to the disbursement of funds.
2. Deposits should be made within one or two days of receipt.
3. All schools should be preparing a summary of activity on at least an annual basis that can be reconciled back to the cash account.
4. All non-student accounts should not be run through the activity fund and should be removed.
5. As for the athletic account, we recommend that this account be changed to a petty cash account whereby the athletic director can use it for emergency purchases. All other purchases should be run through the regular purchasing system of the District. In addition, under no circumstances should the athletic director make a check out to himself and then sign the check. If a check needs to be issued to the athletic director it should be run through the District's business office.

### ***Student Activity Funds (II)***

**Criteria:** Student activity funds are agency funds for which the School District is acting in a custodial capacity; therefore, it is imperative that strong internal controls exist to ensure that funds are safely maintained, no disbursements are made without proper authorization, and a regular accounting of the transactions within each activity is prepared.

**Condition:** Our audit of the various student activity funds disclosed the following conditions:

1. The business office of the School District has no formal oversight over the student activity funds.
2. Of the twenty-five disbursements tested for the High School, two payments were not made in a timely manner, and two payments made were not in agreement with the corresponding invoice and no explanation was provided for the difference.
3. In the High School student activity fund, we noted that deposits are not being made in a timely manner.
4. In both Central School and the Elementary School, it was noted that there is no backup being retained for deposits other than the deposit slip from the bank.
5. No supporting documentation is retained for payments to sporting officials. Additionally, one individual is responsible for maintaining and reconciling this account.

**Effect:** There is a lack of internal controls, creating a chance that receipts and disbursements could be made improperly or charged to the wrong account.

**Recommendation:** We recommend that the School District take steps to institute controls in the following areas:

1. The School Board should establish a policy governing the student activity funds and within that policy it should include oversight responsibility of those funds from the business office on at least a quarterly basis. This policy should be followed by all the schools within the School District.
2. All receipts and disbursements should be supported by appropriate documentation.
3. All deposits should be made in a timely manner, but at a minimum of once a week.
4. In order to improve the segregation of duties for the Sports Account, we recommend that another employee be responsible for the reconciliation of the account on a monthly basis.

### ***Vendor Manifests***

**Criteria:** State Statutes and School District policy require that all accounts payable manifests be properly approved by a majority of School Board members prior to the Treasurer signing the checks and releasing the funds for payment.

**Condition:** Review of the accounts payable manifests during the year indicated that numerous manifests were not properly approved by a majority of the School Board.

**Effect:** The School District is not in compliance with State Statutes nor are they following their School District policy.

**Recommendation:** A majority of the School Board should be reviewing and approving the vendor manifests prior to the Treasurer signing the checks and releasing them for payment.

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### ***Credit Card Disbursements***

**Criteria:** All credit card charges should be for School District use and be supported by the proper documentation to avoid unauthorized expenditures.

**Condition:** In the large and unusual disbursement test, we noted that four of six credit card disbursements reviewed were missing multiple receipts, some only had summary receipts, and/or were for inappropriate disbursements. The inappropriate disbursements were charged to the Improving Teacher Quality State Grants and REAP grant.

**Effect:** Unauthorized expenditures have been charged to the Federal Grants Fund and to the General Fund.

**Recommendation:** A formal credit card policy should be adopted by the District. In addition, we recommend that the School District require that supporting receipts be submitted for all charges incurred that are both reasonable and appropriate for the School District.

### ***School Board Policies***

**Criteria:** The School Board should have policies that require that management and employees establish and maintain an environment throughout the School District that sets a positive and supportive attitude toward internal control and conscientious management.

**Condition:** The School Board has not yet formally adopted any policies for disaster recovery, equipment usage, accounting procedures, and credit cards, which are essential tools necessary to manage the School Board's operations efficiently and effectively.

**Effect:** The School Board is at greater risk for exposure to losses by not having adequate policies in place.

**Recommendation:** We strongly recommend that the School Board develop and formally adopt the above noted policies in order to clearly communicate the School Board's position on these issues.

### ***Equipment***

**Criteria:** The State of New Hampshire Department of Education *Federal Funds Handbook* states that equipment means a tangible personal property having an acquisition cost of \$100 or more per unit and a useful life of more than one year. Any item meeting this criterion is required to be tagged with a Department of Education inventory sticker. It further states that individual property records must be accurately maintained and contain the following: local identification number; a description of the equipment; manufacturer's serial number or other identification number; acquisition date and cost; federal project title and project number; vendor name; percentage of federal funds used in the purchase of the equipment; location, use, and condition of the equipment and date information was reported; and ultimate disposition data, including the sale price or the method used to determine current fair market value. The State also requires that a physical inventory of equipment be taken, and results reconciled with the equipment records annually to verify the existence, current utilization, and continued need for the equipment. This physical inventory must be documented, dated, and identified to the person conducting the inventory. Differences shall be investigated and documented to show cause.

**Condition:** During our testing, we noted that a comprehensive listing of equipment purchased with federal funds could not be located.

**Effect:** The District is not in compliance with the equipment and real property management requirements.

**Recommendation:** We recommend that the District assign one individual the task of fully understanding the state and federal equipment requirements. The District then should properly track and record all equipment purchases and dispositions.

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