



ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

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Bertie County Board of Education
Windsor, North Carolina

In planning and performing our audit of the financial statements of the Bertie County Board of Education for the year ended June 30, 2016, we considered the Board's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, however, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. This memorandum summarizes our comments and suggestions regarding these items. We previously reported on the Board's internal control structure in our report dated January 6, 2017. This letter does not affect our report dated January 6, 2017, on the financial statements of the Bertie County Board of Education.

Deficit Fund Balances

1. Per review of the district's audit reports for the past few years, it was noted that the district reported fund balance at June 30, 2013 of \$2.5 million in its General Fund. Fund balance reported in the General Fund at June 30, 2016 is a deficit \$704,995, meaning that the district has expended over \$3.2 million of fund balance in the past three years, or on average more than \$1.0 million per year. In order to address the issues cited in item 2 below, the district will need to increase revenues and/or decrease expenditures in sufficient amounts so as to allow for it to eliminate its fund balance deficits. Failure to address these matters in a timely manner could result in prompt corrective action being taken by the district's oversight agencies.
2. At June 30, 2016 the district reported deficit fund balances in its General and Special Restricted funds of \$704,995 and \$135,078, respectively. NC State law G.S. 115C-432(b)(2) states that the full amount of any lawful deficit from the prior fiscal year shall be appropriated in the budget resolution. The Board should immediately review its fiscal year 2016-2017 budget to ensure that it has made appropriations to cover these deficits.

Bank Accounts

3. The district currently maintains its General, Capital Outlay, School Food Service and Special Restricted funds checking accounts all in the same account. We recommend that the Capital Outlay Fund and the School Food Service Fund each have their own separate bank account due to revenues in these two funds being restricted for use.
4. During our audit, we noted that the district has numerous old outstanding checks in its State bank account. Many of the checks are anywhere from ten to twenty years old. We recommend that these checks be investigated and escheated, if necessary, in accordance with State law.
5. It was noted during our audit that the district had numerous checks that were produced through the district's payroll system to cover certain payroll liability payments that are paid as bank ACH payments for items such as hospitalization, retirement and federal and FICA tax payments. These checks were written to Bertie County Schools and should have been deposited into the local PNC bank account where the ACH payments are withdrawn. We noted outstanding checks to Bertie

County Schools for such items totaling approximately \$339,000 at June 30, 2016 which had not been deposited into the local PNC bank account. Some of these outstanding checks dated back to 2002 and were replaced in October 2016. Based on discussions with management, we were unable to determine why these checks had not been immediately deposited into the Board's PNC bank account at the time they were written.

Hospitalization Insurance

6. As cited in Finding 16-01 in the June 30, 2016 financial statements, the district did not perform reconciliations of various general ledger accounts throughout the year, including its hospitalization insurance liability accounts. It was discovered during the completion of the district's bank reconciliations subsequent to year end that the Blue Cross Blue Shield (BCBS) monthly health insurance invoices were being paid without reconciling those payments to the district's employee withholding and employer matching records. Data provided to us by the district shows that payments to BCBS during the year were over \$250,000 more than the related employee withholding and employer matching amounts. We recommend that management begin reconciling the BCBS invoice and related liability accounts on a monthly basis to ensure the accuracy of the payments made to BCBS and also to ensure that employee withholdings and employer matching amounts are correct.
7. Employee hospitalization insurance withholdings and employer matching checks are currently being deposited into the main General Fund operating account. We recommend that a separate bank account be opened to record BCBS insurance payments and related deposits. Use of a separate account will make the monthly reconciliation process easier and more efficient.

Salary Exceptions

8. During our audit, we obtained reports and other documentation from management which show outstanding salary exceptions as of June 30, 2016. Per review of this documentation, we noted the Board overpaid employees with State funds totaling \$71,648 and underpaid employees by \$16,580.62. A liability was recorded in the General Fund for both amounts as of June 30, 2016. These items will need to be paid during the 2016-2017 fiscal year. We recommend controls be implemented to address all salary exceptions in a more timely manner.

State Position and Dollar Allotments

9. During our audit, we obtained a report from management that is provided by DPI which shows position allotment balances as of June 30, 2016. Per review of this report, we noted the Board utilized less positions than it was allocated in various State PRC's. These unused positions equate to approximately \$60,000 of State funds that the district would have received had these positions been utilized. We also obtained a report from DPI which shows all State PRC unexpended dollar allotment balances as of June 30, 2016. This report showed over \$180,000 of unexpended State allotments for the year ended June 30, 2016 that reverted back to the State. We recommend that management closely monitor its State position and dollar allotments throughout the year to ensure that the district is fully maximizing the funding that is available from the State.

Termination Payments

10. During our testing of terminated employee payments made by the Board during the year, we noted immaterial payout miscalculations. These miscalculations totaled \$1,235.89 in underpayments of State funds. We also noted one instance in which an employee's annual leave balance was not properly paid out or transferred to another State agency. This oversight resulted in an underpayment of State funds totaling \$556.98. No overpayments to employees were noted in our testing. Controls should be implemented to ensure that terminated payments are properly calculated.

Sales Tax Refunds

11. During our audit, we noted that NC sales tax request for refund forms had not been filed during the 2015-2016 year. Per discussions with management, it was determined that no request for refund forms had been filed since the 2011 calendar year. It is our understanding that management has contracted to have these forms completed going back as many years as allowable by State law.

Child Nutrition Program

12. During our testing of child nutrition inventory, we noted the Board is not utilizing a computerized inventory management system to track inventory balances. Per discussions child nutrition management, each school uses excel spreadsheets to track their inventory on hand at the end of each month. The Cafeteria Manager at each school is responsible for maintaining the spreadsheet and updating the value for each item in their inventory. Per inquiry of the Child Nutrition Director, her department does not review the spreadsheets to ensure each school is using the proper valuation for each item. We recommend that the Board consider utilizing a computerized inventory management system so that inventory balances and values can be monitored more closely by child nutrition program management.
13. During our audit, we noted that the child nutrition department is not tracking prepaid student meal balances and recording those balances in its general ledger. We recommend that management of the child nutrition program begin tracking these balances in its general ledger going forward.
14. During our testing of child nutrition capital asset additions for the 2015-2016 year, we noted the purchase of a new convection oven for \$10,827.45 that was charged to object code 422 – Repair Parts & Materials. Equipment purchases with a cost of over \$5,000 should be capitalized and charged to object code 541 – Purchase of Capitalized Equipment.
15. The Board is required to pay a \$45,000 match from State Public School Fund for school nutrition supervisors. We noted that the Board paid only \$40,276.03 of this amount. Controls should be put in place to ensure that the Board complies with this requirement.
16. Per discussions with child nutrition management, each day, funds collected in the school cafeterias are remitted to the school bookkeeper who deposits them in the school's bank account. Once a month, those funds are remitted to Central Office and are deposited in the child nutrition main bank account. Therefore, total cafeteria revenues and expenditures reported on each school's Statement of Receipts & Disbursements should agree. However, on the June 30, 2016 year-to-date Statements of Receipts & Disbursements, we noted cafeteria expenditures were \$1,860 more than revenues. We recommend that controls be put in place to ensure that all child nutrition cash receipts are being properly accounted for and deposited into the child nutrition program bank account.
17. During our audit, we performed a walkthrough of the internal controls over the receipt of cash in the child nutrition program. We selected cash receipts at Bertie High on March 2, 2016 for testing. Per review of the cash receipt documentation for that day, we noted that the Daily Cash Reports did not contain dual signatures and that the Cafeteria Manager did not sign the Daily Deposit Reconciliation form. We recommend that management emphasize to all child nutrition staff the importance of following proper control procedures when handling cash.

Governmental and Child Nutrition Capital Assets

18. Based on discussions with management, we noted that a detailed physical inventory of the Board's capital assets has not been conducted in recent years. We recommend that a physical inventory be conducted to ensure that the Board's capital asset records are up to date and reflect all assets owned by the district.

Payroll Installment Accruals

19. During our testing of payroll installment accruals at June 30, 2016, we noted the Board's payroll system accrued installment liabilities for health insurance (object code 231). Installment accruals should only be accrued for salaries (object codes 100-199), retirement (object code 221), and FICA (object code 211). Adjusting entries were recorded subsequent to year end to remove these health insurance installment liabilities from the June 30, 2016 general ledger.

Individual School Accounts

20. During our testing of individual school accounting records for the year ended June 30, 2016, we noted the following issues:

- a. Aulander Elementary – The 6/30/16 bank reconciliation was not completed properly. No bank balance was entered on the reconciliation and the bank statement balance was (\$156.48). Deposits in transit totaling \$6,288.71 are old, ranging in dates from 8/14/13 to 5/31/16. Therefore, these amounts appear to not be valid outstanding deposits. Also, there are miscellaneous outstanding additions of \$71.00 for which there is no supporting documentation. Outstanding checks totaling \$1,196.67 are old, for checks written on 11/6/13 & 1/17/14. These checks should be investigated and potentially escheated in accordance with State law. Also, there are other miscellaneous outstanding items totaling \$527.83 for which there is no supporting documentation.
- b. Colerain Elementary – The 6/30/16 bank reconciliation shows an old deposit in transit of \$54.00 from 3/2/15. Also, there are old outstanding checks totaling \$36.00 dated 3/15/12 and 8/22/12 which should be investigated and/or escheated in accordance with State law.
- c. West Bertie Elementary – The 6/30/16 bank reconciliation shows an old deposit in transit of \$70.00 from 4/11/16. A deposit in transit should clear the bank within a day or two. Also, there's an outstanding check of \$10.36 dated 4/11/11 which should be investigated and/or escheated in accordance with State law.
- d. Windsor Elementary – The 6/30/16 bank reconciliation shows outstanding checks totaling \$1,198.12 that have been outstanding for more than a year. These items should be investigated and/or escheated in accordance with State law.
- e. Bertie Middle – The 6/30/16 bank reconciliation shows outstanding checks totaling \$222.14 that have been outstanding for more than a year. These items should be investigated and/or escheated in accordance with State law.
- f. Bertie High – The 6/30/16 bank reconciliation shows outstanding checks totaling \$14,474.19 that have been outstanding for more than a year, some as old as 3/2/91 (most o/s checks are at least 4 years old). These items should be investigated and/or escheated in accordance with State law.
- g. Bertie STEM High – The 6/30/16 bank reconciliation shows an outstanding check of \$4.70 dated 3/19/15 which should be investigated and/or escheated in accordance with State law.

Budget Resolution and Amendments

21. In our testing of the district's budget and related amendments, we noted that a budget was not initially adopted for the Federal Grants Fund in the 2015-2016 budget resolution. The entire Federal Grants Fund budget was approved through amendments. The initial resolution for all funds was approved by the Board at the function level. However, management was unable to provide us a detail of the Federal Grants Fund final budget by function because all budget amendments were not properly keyed into the Board's general ledger program. The Federal Grants Fund budget could therefore not be presented at the function level in the June 30, 2016 financial statements. We recommend that management approve the Federal Grants Fund budget as part of the initial budget resolution. In addition, controls and procedures should be put in place to ensure that the beginning budget and related amendments, as approved by the Board of Education, are properly keyed into the Board's general ledger software program.

22. The budget entered into the general ledger for the School Food Service Fund shows fund balance appropriated of \$800,000. It appears that this may be a keying error and that the amount should have been posted to the budget for food sales revenue given that actual food sales revenues were over \$500,000 but there was no budget shown in the general ledger for those revenues. The approved budget resolution and amendments that we were provided for review did not give adequate detail to determine what the \$800,000 budget amount was for. We therefore presented it in the financial statements as fund balance appropriated since that's where it was keyed by management into the general ledger we were provided.
23. The Board's budget resolution is referred to and approved in the Board of Education minutes. However, the actual budget resolution document is not signed and dated by anyone. We recommend the resolution be signed and dated on the last page by the Board Chair and Superintendent. This will help to provide evidence of the exact document that is being referred to in the Board minutes.
24. The Board does not have a formal management policy for revenue spending that provides guidance for programs with multiple revenue sources. We recommend that wording for such a policy be added to and included in the budget resolution each year.
25. The budget resolution should include wording to describe the Board's legal level of budgetary compliance and indicate the conditions under which the Superintendent is authorized to transfer appropriations within a fund. Most school systems include this wording at the end of their budget resolution.

Indirect Cost and Workers Compensation

26. During our audit, we noted that indirect cost totaling \$163,529 could have been collected from the School Food Service Fund. It also appears that the Board could have collected \$40,000 to \$50,000 more in indirect cost from the Federal Grants Fund than what was charged. The Board can also charge the School Food Service Fund for its proportional share of workers compensation insurance expense. We recommend that the Board begin charging and collecting the full amount of indirect cost and workers compensation insurance expense allowable by law.

Federal Data Collection Form

27. During our audit, we noted that federal Data Collection forms had not been completed and submitted to the Federal Audit Clearinghouse, as required, since the 2009-2010 fiscal year. These forms are required to be filed annually within 30 days of completion of the Board's audited financial statements. Failure to file this form results in the district automatically being considered a high-risk auditee for purposes of federal single audit determination.

Payroll and Accounts Payable Transaction Cycles

28. During our audit, we evaluated the key controls and procedures followed for the Board's payroll and accounts payable transaction cycles. Due to a limited number of employees involved in these processes, we recommend that management implement the use of check logs for these two cycles. The check logs should include the range of checks/direct deposits written each run, and be initialed by the employee who generated the checks/direct deposits. The Finance Officer should then initial the check log to provide evidence that they have reviewed documentation to support payment of the corresponding checks/direct deposits.

Contracted Services Payment.

29. During our audit, we noted the payment to an individual of \$3,333.36 for 8 days of work under a contracted services agreement. Per review of the agreement, the individual was to be paid a total of \$2,500 per month for 6-8 days of work per month. However, the individual was paid \$833.36 over the contract amount. It appears that the individual's pay for the month was based on the contract being for 6 days instead of the 6-8 days stated in the contract. We recommend that management review contracts more closely to ensure that the district is not overpaying vendors, contractors or others.

The aforementioned comments are intended to be constructive suggestions for improvements in the effectiveness of internal accounting controls and financial records. We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Anderson Smith & Wike PLLC

*Anderson Smith & Wike PLLC
Rockingham, North Carolina*