

November 9, 2023

Management and The Board of Education of
Utica City School District

In planning and performing our audit of the financial statements of the Utica City School District (School District) as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The list that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 9, 2023, on the financial statements of the Utica City School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various School District personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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UTICA CITY SCHOOL DISTRICT

COMMUNICATION OF MANAGEMENT LETTER COMMENTS

1) Observation:

The individual responsible for performing bank reconciliations also is involved in the cash disbursement process and there is not a formal review process of the bank reconciliations.

Recommendation:

We recommend reviewing segregation of duties to ensure that a review function is in place over bank reconciliations. A reviewer should initial or sign reconciliations to document review.

2) Observation:

There is not a documented process in place for the review of reporting resulting from the work of the internal auditor.

Recommendation:

We recommend that the method of communication between the Board of Education and the internal auditor be reviewed and ensure that this function is being utilized effectively and that any findings are considered as part of ongoing risk assessment.

3) Observation:

In 1 out of 10 disbursements reviewed, the supporting purchase order was not properly signed off by the principal for approval.

In 1 out of 10 individual payrolls reviewed, an individual was reported under a grant code and no timesheet was retained for tracking of hours related to the grant.

Recommendation:

We recommend that the School District institute training on processes with a renewed emphasis on proper controls being executed effectively in all instances.

4) Observation:

Journal entries recorded by the treasurer require review, but those entered by other individuals require no authorization.

Recommendation:

We recommend implementing and documenting a requirement as part of the journal entry process for all entries to require authorization by a second appropriate individual. Consider restricting the ability to post entries without this authorization.

Communication of Management Letter (Continued)

5) Observation:

Instances were noted of significant variances from budget to actual, indicating inaccurate budgeting. Most significantly, employee benefit expenditures were noted to be overbudgeted over multiple years, including approximately \$4.2 million in FY23.

Additionally, there was not a process in place as part of financial reporting at year end to properly calculate and allocate employee benefit expenditures to the School Lunch Fund and instead a round estimated number was used. School District management subsequently recorded an entry to properly allocate these expenditures.

Recommendation:

We recommend the School District review the budgeting process and information considered in developing the budget in future fiscal years to improve the accuracy of budgeting. Financial reporting processes should include the accurate allocation of employee benefit expenditures among funds.

6) Observation:

Tracking over capital projects has not been sufficient to properly close out projects upon completion and request timely reimbursement in cases where projects include grant funding. In the current year, Smart Schools Bond Act funding in excess of \$1 million was claimed and received related to prior period expenditures.

Recommendation:

We recommend that the process of tracking and monitoring of capital projects be reviewed for effectiveness. Tracking should ensure individual project information is readily available and that claims, reporting, and close outs occur in a timely manner.

7) Observation:

Accounting and monitoring of grants in the Special Aid Fund has been incomplete, as the following items were noted:

- Individual grants were improperly reporting grossed up receivable and unearned revenue balances.
- Delays in claim submissions resulted in large negative cash balances related to certain grants.
- Accrued liabilities as of June 30, 2023 in the amount of \$458,826 were not properly reversed out in FY23, resulting in the overstatement of current year activity.
- An unearned revenue account in the amount of \$280,652 was identified that was not tied to a specific grant. Upon further inquiry, it was identified this account used as a clearing account in prior years to force revenues and expenditures to match in the fund. Accordingly, a complete and accurate reconciliation was not completed.
- Management identified expenditures originally charged to the Special Aid Fund, which were subsequently moved to the General Fund as it was identified that required procurement procedures were not followed.

7) Observation (Continued):

Recommendation:

We recommend that the process of tracking and monitoring of grants be examined. A period reconciliation should take place and also ensure that claims are accurate and timely. Additionally, the Uniform Guidance has heightened procurement requirements when expending federal grant money. Make certain that proper procurement procedures are implemented and followed.

8) Observation:

In testing census data that is used to support the actuarial valuation of the other post-employment benefit liability:

- For 5 out of 5 retired individuals selected from the census data, I-9 forms were not located to provide support.
- For 4 out of 25 active employees selected from the census data, discrepancies were noted between the I-9 forms and the census data.

Recommendation:

Census data should be reviewed for accuracy and files should be maintained to properly support the information reported to actuaries.

9) Observation:

The School District experienced delays in property tax collections that were collected by the City of Utica, which were not remitted within 5 days of collection.

Additionally, the School District did not have a method for tracking and reconciling tax abatement agreements with expected payments in lieu of tax amounts and actual payments received during the year.

Recommendation:

The School District should monitor receipts of remitted property taxes, so that it is able to take timely and appropriate action in the event of delays.

The School District should track and actively monitor its tax abatement agreements and ensure payments received during the year are in accordance with the agreements.

10) Observation:

The reserve for worker's compensation is set at \$9M. The current reserve amount is currently over twice the current IBNR liability for worker's comp of approximately \$3.7M at June 30, 2023.

Recommendation:

The School District should evaluate the current reserve amounts set and continue to consider the appropriateness of the levels of these reserves.