

**THE BONADIO GROUP**

CPAs, Consultants & More



# **BUDGET DEVELOPMENT AND INTERNAL CONTROLS**

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# The Bonadio Group

- 10 locations
  - Albany, Syracuse, Geneva, Rochester, Buffalo (2), Batavia, Utica, NYC & Vermont
- Over 600 Employees (100+ in Syracuse)
- Government, Compliance & Labor Division provides audit and consulting services to counties, cities, towns, villages, school districts, BOCES, community colleges and public authorities.
- Over 400+ Government clients served annually

# Randall R. Shepard, Partner



Randy is a partner in The Government, Compliance & Labor Division. He has been with Bonadio for 19 years with experience in many areas of attestation engagements. Randy is also the head of our Buffalo Government Practice.

Randy provides consulting, accounting, and auditing services for all types of government clients.

Randy has also been a speaker on various governmental topics for the NYS Association of Counties as well as Governmental Finance Officers Association.

# Keeley Ann Hines, Principal



A Principal on the Syracuse Government, Compliance and Labor Team, Keeley has more than 10 years of experience. A CPA, Keeley has experience with school districts, public authorities, municipalities and tax-exempt entities. Broad knowledge of Single Audits, and Government Auditing Standards, Keeley is responsible for performing risk assessments developing audit strategy and supervising fieldwork.

# INTERNAL CONTROLS

# 5 Components of Internal Control

- Control Environment
  - Sets tone of board and management
- Risk Assessment
  - Identifying, analyzing and managing risks
- Control Activities
  - Policies & procedures to mitigate risks
- Information & Communication
  - Internal & external communication & sharing of data, results etc. (accurately & timely)
- Monitoring
  - Ongoing evaluation / review of operations & components of internal control

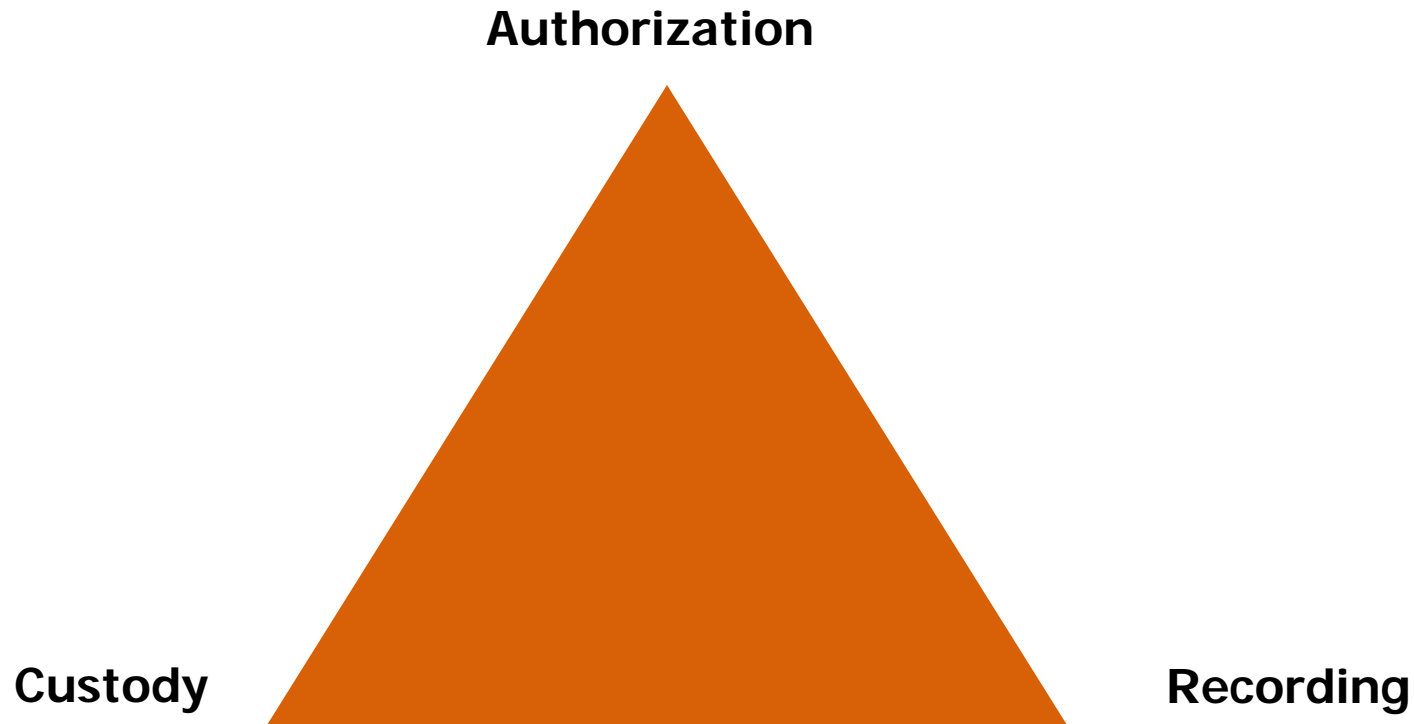
# Control Environment Requirements

- 5 member board (may opt for 7) appointed by County Board (provisions for Westchester, Nassau, Rockland and NYC)
  - 2 members represented from County Board (appointed annually)
  - 2 members represented from farmers (3 yr term)
  - 1 member represented from non-farmer, urban etc. (3 yr term)
- Directors = those charged with governance
  - Chairperson
  - Secretary (not required to be a Director)
  - Treasurer (not required to be a Director)

*Source: NYS Soil & Water Conservation Districts Law Subsection 6 - Designation of District Directors*

# What is Segregation of Duties?

- Separation of the following functions:





# Internal Controls Over Cash and Reconciliations

- Banking
  - Opening/Closing of Accounts
  - Signatories
  - Reconciliations
  - Electronic Transfer Controls

# Internal Controls Over Cash and Reconciliations

- Bank Reconciliation

- What is the purpose?

- To ensure that the recorded carrying value (what is in your records) agrees to the bank value (what the bank says you have)

- Format:

- Bank balance

- Plus: Outstanding deposits (not posted to bank)

- Less: Outstanding checks (not posted to bank)

- Plus/Minus: Reconciling items (journal entries impacting cash)

- Equals – Book Balance

# Internal Controls Over Cash and Reconciliations

- Bank Reconciliation
  - What should you look for?
    - Anything unusual
      - Long-outstanding checks
      - Repeating reconciling items
      - DIT more than one cycle
      - Significant delays in completing the reconciliation
      - Cleared checks
        - Any unrecognized names or vendors?
      - Checks clearing out of order

# Internal Controls Over Financial Reporting

- What is my role regarding Financial Reporting
  - Be involved
  - Ask questions
  - Timeliness
  - No right to remain silent

# Grant Accounting

What is a grant?

When a government agrees to provide a service in exchange for compensation from another party.

Two types of Grants:

- Entitlement and Shared Revenues (Formula Grants)
- Expenditure Driven (reimbursement type)

# Grant Types

What are the typical grants for SWCDs?

1) FL-LOWPA

- Activities such as streambank stabilization, hydro-seeding, road ditch stabilization. Typically covers three-year period based on SFY (4/1-3/31)

2) State Aid (Parts A, B, C) – see later slides

3) Water Quality Improvement Program (WQIP)

- As the name implies. Typically covers a four-year period based on 6/1 start date

# Grant Types

What are the typical grants for SWCDs?

## 4) Ag Grants

- Projects involving landowner improvements. Includes advance funding to Districts for control over disbursement

## 5) Natural Resources Conservation Services

- Technical assistance grants

## 6) FEMA

- Based on declared federal disasters

# State Aid - Part A - Eligible Expenditures

- Reimbursement of 50% of specific expenditures not to exceed \$60,000 (annually)
  - Allowable:
    - field technicians, district managers, supplies/equipment etc.
  - NOT Allowable:
    - Office utilities, subscriptions, permits, dues, rent, sales tax etc.
  - Controls:
    - Maintain receipts, payroll records and submit with claim (due 2/15).

*Source: NYS Soil & Water Conservation Districts Law Subsection 11a – State aid to districts para. (a)*



# State Aid - Part B - Conservation Project Financial Assistance

- Reimbursement of \$6,000 for conservation project(s) (annually)
  - Allowable Projects:
    - Conserve, restore, and enhance soil and water resources, reduce water pollution, flood control, etc.
  - Controls:
    - Obtain prior project approval (due 11/1)
    - Develop budget (discussed in future slides)
    - Report project changes timely
    - Retain documentation of tangible results, output, etc.

*Source: NYS Soil & Water Conservation Districts Law Subsection 11a – State aid to districts para. (b)*

# State Aid - Part C - Additional Assistance

- Additional aid for executing and carrying out mission
- Reimbursement Basis for those Eligible Projects
- Controls:
  - Submit Performance Measure Evaluation Summary & Project Reports (2/15 for previous year)
  - Maintain receipts, payroll records and submit with claim

*Source: NYS Soil & Water Conservation Districts Law Subsection 11a – State aid to districts para. (c)*

# What Kind of Grant is it?

FL-LOWPA	Expenditure
State Aid – Part A	Expenditure
State Aid – Part B	Expenditure
State Aid – Part C	Expenditure
Ag Grants	Expenditure
NRCS	Expenditure
FEMA	Expenditure
EPA (66.432, 66.468)	Formula Grant
Others?	Let's discuss

# Internal Controls Over Disbursements

What to look for:

- Supporting Documentation
  - Never pay from a statement, use invoices only
  - Verify mathematical calculations (extensions, etc.)
  - Reasonable as to purpose/activity
  - Is dollar threshold such that bid should have occurred
- Any related party or unusual vendors
- Significant amount of round dollar payments, repeated over time

# Internal Controls Over Cash Disbursements

- Duties Requiring Consideration:
  - Initiate purchase orders
  - Approve purchase orders
    - Adequate funds?
    - Compliance?
  - Initiate payment
  - Authorize payment (who retains check stock or checkbook)
  - Maintain the general ledger (recording of transactions)

# Internal Controls Over Cash Disbursements (Cont'd)

- Good Internal Control Reminders:
  - System rejects duplicates invoices for payment
  - Purchase order, invoice etc. are matched & “cancelled” before payment
  - Purchase order, invoices etc. are marked “PAID”
  - Proper cutoff
  - Purchase order is not in excess of remaining budget amounts
  - Checks are pre-numbered
  - Checks are maintained in a secured location
  - Dual signature checks

# Internal Controls Over Petty Cash

- Petty cash is authorized by Board of Directors
- < or = \$250
- Listing of all disbursements (w/ invoices/receipts etc.) must be provided to Board of Directors for audit

*Source: NYS Soil & Water Conservation Districts Law Subsection 9 - Powers of Districts and Directors*

# Internal Control Scenario #1 - Disbursements

- The District has (1) Executive Director, (1) Field Technician, (1) Clerk, and a governing body that includes a Treasurer
- Determine where a lack of segregation of duties and/or a lack of control exists in the following scenario.....



# Scenario #1

The District orders a piece of equipment (~\$7,500). The Executive Director (ED) initiates the purchase order (PO) and signs off as approved. The ED notifies the Clerk of the purchase and asks that he/she notify the ED when it arrives. The ED records the PO in the system. When the equipment arrives, the Clerk does not examine package and provides to ED as requested. The ED views the equipment and places it into service. Invoice/bill is received and the ED intercepts the bill in the mail (unopened) wanting to get it paid ASAP to take advantage of a discount. The ED obtains the checkbook from the safe in his office and writes a check to the vendor. The ED calls the Clerk and asks that she input the payment made into the accounting software and drops the check and bill in the mail on the way home. Later that month, the bank statement is viewed by the Clerk but only the ED prepares the reconciliation. No subsequent review occurred.

# Scenario #1 (Recommendations)

## Authorization

- Field Tech to initiate PO and ED approve
- Dual signature checks - ED and Treasurer sign all checks (especially if ED can initiate a PO/purchase)

## Custody

- Clerk maintain checkbook (but not be an authorized signer) and prepares the check
- Items received accepted & "logged" by Clerk (check packing slip etc.) THEN item placed in service

## Recording

- Voucher packet to be assembled by Clerk (invoice, PO etc.)
- Check to be recorded in system by Clerk
- Unopened bank statements reviewed by Treasurer BEFORE reconciliation
- Bank rec prepared by ED, reviewed by Treasurer (retain signoffs)

# Agreements

## Bartering Transactions

- While not illegal, pose risks (2008 – Industrial Exhibit Authority)
- Comparing value
- Need to record on books

All agreements should be in writing and authorized

Presented and reflected in Board minutes

# BUDGETING

# Facts About Budgeting

- Budget = detail of the financial plan that includes anticipated revenues and expenditures/expenses
- Why important?
- What are the risks if Budget is not accurate?
- Review of budget vs. actual = sound internal controls
- Create using general ledger accounts
- Maintain a separate g/l account for each appropriation and each source of revenue
- DOCUMENT

# Points of Consideration When Developing a Budget

- Budget on modified accrual basis
- Prior year budget to actual
- Prior year f/s
- Future debt maturity schedules
- Capital project budgets
- Any state and federal aid information
- Current economic conditions
- Anticipated changes in operations
- Rate of inflation
- Available beginning fund balance
- Reserves w/ restrictions
- Use of a contingency line

# Steps in Developing a Budget

- Step 1: Develop, document and communicate a budget calendar. Key dates needed:
  - When financial and/or historical data will be shared w/ key personnel
  - When is draft budget due / approved

# Steps in Developing a Budget (Continued)

- Step 2: Gathering Data and Forecasting
  - Budget to actual (2 – 3 year lookback)
  - Current year budget to actual (to date)
  - Annualized current year budget to actual
  - Forecasting, provide known and/or anticipated current year budget to actual variances



# Steps in Developing a Budget (Continued)

- Step 3: Review proposed budget (or revisions)
  - Compare budget to historical data and projected year end figures
  - Consider effects of the projected use of equity (fund balance/ net position), if applicable
  - Project following year's ending equity
  - Consider expenditures > revenues?

# Steps in Developing a Budget (Continued)

- Step 4: Provide proposed budget to Board (for approval)
  - Provide information at g/l account level of detail
  - Provide with relevant historical data and projected annualized data
  - Determine threshold for when explanation / additional information is provided to Board
  - Provide any additional requested information to the Board
  - Modify proposed budget as necessary

# Monitoring the Budget

- Budget vs. actual to be monitored regularly (i.e. monthly)
- Responding to budget vs. actual may mean modifying budget
- Analysis to include: adopted, modified, actual
- Deficit in resources anticipated? Discuss appropriate course of action
- **DOCUMENT** and **RETAIN** results of monitoring

# Common NYS Comptroller Audit Results

- No written policies/procedures
- Timely approval of service contracts
- Lack of segregation of duties
- No annual review of district records
- Lacked (in design or operational effectiveness) proper internal controls over receipts/disbursements
- Failed to provide budget to actual reports
- Multiple versions of budget to actual reports
- Potential conflicts of interest
- Lack of record retention to support transactions

# QUESTIONS - Please!

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