

Significant Deficiencies

Significant Deficiency 1: Extra-classroom Activity

Extra-classroom activity funds, which are authorized by the New York State Department of Education, are an integral part of the educational program of the District. As part of our audit, we have reviewed, evaluated and tested the Extra-classroom Activity Funds of the District. The result of our tests disclosed that the following areas were not in compliance with the regulations of the Commissioner of Education.

A. Inactive Clubs

We noted that seven clubs had no financial activity during the current fiscal year. State Education Regulations provide that the funds of a discontinued activity shall automatically revert to the account of the general student organization or the student council and shall be expended in accordance with the organization's constitution.

Recommendation

We suggest that a determination of the status of the clubs with no financial activity be made to determine the proper disposition of funds. This will deter all clubs from becoming inactive in future years.

Response

The seven clubs cited with no financial activity were Chorus, Gay Straight Alliance, Junior Scope, Principal's Advisory Committee, STEP Club, Stock Market, and Student Prints and were all at the high school. A club may be active yet have no financial activity in a given year or years. For example, the STEP Club is a dance club that from time to time goes to competitions and may need to raise and expend money in order to attend, but on other occasions do not need to do so should the district provide transportation. Faculty advisors were in fact appointed for the GSA, Junior Scope, STEP, Stock Market Club and Principal's Advisory Committee. No faculty advisor was appointed for either the Chorus or Student Prints. Therefore, the \$195 balance in those two club accounts will be transferred to the student government (OCC) account. An annual review of the status of each club will be conducted by the two secondary principals.

B. Outstanding Checks

We noted twenty nine checks that have been outstanding in excess of one year. These checks approximate \$4,100. Tracking outstanding checks is an important control procedure that ensures that all outgoing checks are accounted for.

Recommendation

We suggest that the outstanding check lists be reviewed and, if necessary, stop payment notices should be sent to the issuing bank.

Response

The extra-curricular activity treasurers at each of the two schools (Middle and High School) will be directed to issue stop payment orders on all checks that are outstanding for more than six months.

Significant Deficiency 2: Cash

A. Bank Statement Review

At the time of our audit, we noted that the Principal Account Clerk prepares the bank reconciliations and scans cancelled checks for proper payee and endorsement. However the reconciliations do not indicate the preparer's signature, date prepared and the signature of reviewer and date reviewed until June 30, 2008.

Two bank accounts (those associated with the extra-classroom activities funds) were not collateralized since they were initially opened with the principal's social security number rather than the District's employee identification number.

Recommendation

We suggest that bank reconciliations are competed within 30 days and subsequent to preparation be forwarded directly to the Treasurer or Business Manager after the preparer has signed off on the reconciliation report and the appropriate review and documentation of that review take place. All accounts should be collateralized.

Response

As noted above, bank reconciliations are now signed and dated by both the preparer and the Treasurer. In fact, the Treasurer has always signed the monthly reconciliation report presented to the board of education. All accounts will be collateralized, although the increased FDIC limit to \$250,000 has made this moot.

B. Outstanding Checks

At the time of our audit, there were eleven checks that have been outstanding in excess of one year. These checks approximate \$3,800.

Recommendation

We suggest that the outstanding check lists be reviewed and if necessary, stop payment notices should be sent to the issuing bank.

Response

The Treasurer will continue to review all outstanding checks every six months that are outstanding more than six months and present a list of checks to be voided to the board of education at the conclusion of each six month period.

Significant Deficiency 3: School Lunch Fund

Deficit Fund Balance

We noted that the School Lunch Fund's deficit fund balance as of June 30, 2007 in the amount of \$578,440 has increased to \$682,794 at June 30, 2008. A reserve of General fund Balance is reflected for those advances made to the School Lunch fund to supplement its' operation. A food service consultant was retained to provide suggestions for operating efficiencies which resulted in hiring a full-time food service director.

Recommendation

We suggest the District continue with its' plan to eliminate the deficit over a period of time.

Response

The district is continuing the plan to reduce the deficit. The new food service manager has introduced a wider variety of healthy foods and increased student participation in the program. We are working on the recommendations of the consultant who was retained.

Significant Deficiency 4: Fund Balance Reserve

Workers' Compensation Reserve

The district-wide financial statement reflects workers' compensation benefit liabilities, which are based upon estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled, and of claims that have been incurred but not reported (IBNR's). The length of time for Roslyn Union Free School District, New York which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors. During our audit, we noted that although the District was self-insured for workers' compensation, the District had a balance of \$200,000 in its workers' compensation reserve at June 30, 2008. The District's reported but unpaid workers' compensation claims provided by the School District's third party administrator amounted to \$208,670. The District has not had an actuary calculate incurred but not reported (IBNR) claims for workers' compensation.

Recommendation

As this liability continues to grow, we recommend the District engage the services of an actuary to calculate the incurred but not reported workers' compensation claims to assist in providing an evaluation of potential liability for the utilization of the workers' compensation reserve to fund the District's incurred but not reported claims liability. We were advised by District Administration that an actuary will be obtained in the upcoming fiscal year.

Response

The actuarial report of Incurred but Not Reported liabilities will be available by June 30, 2009.

Significant Deficiency 5: Capital Projects Fund

A. Retained Percentages

Retained percentages, which represent amounts withheld from contractors for completed work pending satisfactory approval of their phase of a construction project, should be classified as expenditures and recorded on the books of account simultaneously with the payment to the contractor. Our audit of the Capital Projects Fund disclosed that this process is not being adhered to and therefore retainages are not recorded. This recommendation also appeared (Page 12) in the Office of the New York State Comptroller's Capital Projects, Report of Examination, Period Covered: February 1, 2000 - June 30, 2004 issued in June 2007.

Recommendation

These amounts should be recorded simultaneously within the accounts payable process throughout the fiscal year. Any retainage pertaining to completed projects that will not be paid to the vendor should be written off, with Board approval.

Response

Despite the recommendation of the Comptroller and affirmation by our external auditor, our business office disagrees with this recommendation. "Expenditure" is the actual payment to someone in the form of the issuance of a check. When a contract is awarded to a vendor in the Capital Projects Fund, the full value of the contract is encumbered in a purchase order to the contractor which is then appropriately recorded on the books of the district. When a contractor submits a bill for \$100, the district makes a payment of \$95 and retains the \$5 balance as a continuing encumbrance in the purchase order. There is no chance that there could be a mistake with the \$5 retainage. If we were to classify that retainage as an "expenditure," we would have conflicting records on the books. One report (the budget report) would list the expenditure as \$95 and an

encumbrance of \$5, while other reports would list the expenditure as \$100. We understand that the retainage amount is technically earned by the contractor and will, of course, be eventually paid. However, until that amount is actually paid in the form of a final check with the closeout of the project, it is our belief that the retainage should continue to be reflected as an encumbrance and not an expense. We plan to bring this issue to the Comptroller for clarification by June 2009.

B. Inactive Projects

During our audit we noted that the Bleachers Project, 2000 Bond Project and the 2005 High School Renovations had no activity during the year.

Recommendation

Management should determine the status of these projects. If these projects are completed, the balance of funds should be transferred to either the Debt Service Fund or the General Fund; depending on the how the projects were funded.

Response

We are now providing to the board on a monthly basis a report of all funds available in the Capital Fund. The following recapitulation was provided on December 11, 2008:

Bldg/ Code	Project Name Description	Budget Approved	Encumbered Monies	Spent plus Encumbrance	Unencumbered Balance
HH/2003	Bond 2000 HH Electric	\$ 600.00		\$ 600.00	
MS/2004	Bond 2000 MS GenConst	\$ 299,035.65	\$104,530.60	\$ 292,475.05	\$ 6,560.60
HS/2005	Bond 2000 HS Electric	\$ 28,809.73	\$ 500.00	\$ 500.00	
HS/2006	Bond 2000 AdmGenConst	\$ 31,071.92	\$ 22,148.28	\$ 22,148.28	
HS/2008	Bond 2000 Press Box	\$ 615.00		\$ -	
MS/2012	Bond 2000 WAN Elect.	\$ 21,240.85		\$ -	
MS/2015	Bond 2000 MS Roof Proj.	\$ 13,711.10		\$ -	\$ 0.11
DW/2099	Bond 2000 Unen Balance	\$ 34,713.08		\$ -	\$ 34,713.08
Hts/2101	Heights Site Work	\$ 7,353.57		\$ -	\$ 0.08
MB/2102	Maint. Bldg. Site Work	\$ 27,850.00		\$ -	\$ 27,850.00
HS/2401	HS H & V Replacement	\$ 55,265.00	\$ 10,450.00	\$ 10,450.00	\$ 4,500.00
MS/9509	Repl 2nd 1/2 Bleachers	\$ 35,000.00		\$ -	\$ 35,000.00
HS/9718	HS Roof Repair	\$ 10,000.00		\$ -	\$ -
HS/9820	HS Renovations	\$ 185,646.60		\$ -	\$ -
DW	DW Renovations	\$ 30,000.00		\$ -	\$ 16,710.00
	Totals	\$ 780,912.50	\$ 137,628.88	\$ 326,173.33	\$ 125,333.87

		↑		↑
	←←←		\$ 262,960.75	→→→
Unexpended Balances	→→→	\$ 27,851.00	↑	
As Reported in the	→→→	\$ 35,000.00	↑	
Audit for FYE 6/30/08	→→→	\$ 16,710.00	↑	
	→→→	\$168,452.00	↑	
	→→→	\$ 14,950.00	↑	
		\$262,963.00	→→→	

It is our intention to resolve the \$262,963 unexpended balance this year. Approximately \$127,000 is encumbered due to ongoing litigation with the contractor, architect and construction manager.

Significant Deficiency 6: Capital Assets

A. Capital Asset Records

Capital assets (net of accumulated depreciation) amount to approximately \$48 million at June 30, 2008. As a result of prior year recommendations made to management the School District had engaged an appraisal company "CBIZ" to perform a physical count, tag and value the District's capital assets. As a result of this physical valuation, management recorded an adjustment to the capital assets balance reported in the Districts June 30, 2007 Financial Statements. This adjustment amounts to a "reduction" of the Districts' capital assets gross value of approximately \$3.2 million. This reduction is inclusive of the deletion of 590 computers approximating \$1 million dollars which were no longer in the District. This reduction is also inclusive of deletions from the capital asset inventory that were beneath the capitalization threshold of \$5,000 in accordance with Board policy. The appraisal report provides a detailed record of the capital assets the District presently has on hand. However, the report did not initially and the appraiser could not segregate the current year additions (description or cost). The appraiser's adjustment initially was cumulative. The current year additions are a vital component of the GASB 34 conversion of the District's fund level statements to full accrual entity-wide statements. Extensive time was spent subsequent to year end by management, the appraiser, and auditors reviewing the report and arriving at current year additions to produce an accurate report. Depreciation expense was not allocated to the functional expense categories as required by GASB 34.

Recommendation

We recommend that the District maintain the new detailed capital asset records and reconcile these records to the general ledger on a timely basis, at least quarterly, to ensure accurate accounting for assets.

Response

We have engaged the services of a fixed asset inventory company (Real Asset Management) based on a recommendation made to the CAAC by our business office and technology staff and are in the process of implementing regular reconciliations to ensure proper accounting for assets. The implementation process will begin during the last week of March 2009.

B. Tagging of Capital Assets

We were pleased to note that management has commenced the process of identifying individual assets by the assignment of individual identification numbers. This completed project should lend itself for the strengthening of

controls and to avoid potential abuse, including fraud and other defalcation, to exist and not be detected. The results of this should be reviewed and reconciled to the fixed asset listing by the Accounting Manager.

Recommendation

We understand that the process is a time consuming one, we feel management should continue to diligently work towards the completion of this process.

Response

We agree and will continue to work diligently towards completion of the process by June 2009.

Control Deficiencies

Control Deficiency 1: Special Aid Fund

A. The District participates in the State's summer program for handicapped pupils. The State funds eighty percent of this program with the General Fund providing the balance. The State has mandated that all revenues and expenditures related to this program be accounted for in the Special Aid Fund. We noted the Finance department did not reconcile student censuses to the New York State student verification list or the New York State payments for this program.

Recommendation

We recommend the Finance Department implement policies and procedures to reconcile the number of students in the program to the New York State approved verification list as well as to the remittances received as part of the State payment, and investigate any discrepancies.

Response

The Business Office will continue to work with the Special Education Department to develop procedures to reconcile any discrepancies between the AVL and remittances received by June 2009.

B. Certain receivables in this fund date back to the fiscal year ended June 30, 2005. In addition, there are deferred revenues relating to projects that date back to the fiscal year ended June 30, 2002.

Year Ended June 30,	Accounts Receivable	Deferred Revenue	Net Total
2002	\$	\$ (12,172)	\$ (12,172)
2003		(27,182)	(27,182)
2004		(26,802)	(26,800)
2005	37,970	(2,635)	35,335
2006	59,985	(190)	59,795
2007	81,772	(51,231)	30,541
	\$ 179,727	\$(120,212)	\$ 59,517

Recommendation

We advise the District to research the accounts above further and determine the reason for non-payment or overpayment. Once determined, these amounts should be written off to the General Fund, with proper board approval.

Response

The Business Office will complete a review of the reason for non-payment in these accounts and will make a recommendation to the board of education by June 30, 2009.

Control Deficiency 2: Accounts Receivable/Reserve for Long-term receivables

Our audit of the School District's records disclosed that there are approximately \$57,000 of accounts receivables from former employees and/or board members that remain unpaid at June 30, 2008. These amounts date back to 2004/05. Since the collectability of these amounts is not assured, a reserve for long-term receivables had been previously established in the General Fund.

Recommendation

Although a reserve has been established, it should not preclude the School District from utilizing available enforcement procedures to collect these monies. We also suggest that the School District continue consulting with counsel on the appropriate actions to be taken.

The district continues to work periodically with appropriate counsel in aggressively pursuing collection of any outstanding debt.

Control Deficiency 3: Purchasing/Purchase Orders

During our testwork it was found that twelve purchase orders from the sample of fifty tested were dated subsequent to their related invoices. The District requires that purchase orders be prepared and approved prior to expenditures being incurred. During our audit, we noted that the twelve instances were prepared subsequent to when the goods were received or services were rendered. This circumvents the purpose of a comprehensive purchase order system and makes it difficult for financial management to anticipate cash needs and expenditure patterns during the year.

Recommendation

Purchase orders should be approved/dated prior to the actual purchase.

Response

The internal auditor, claims auditor, purchasing agent and business office will be working with the Citizens Audit Advisory Committee to address the issue of confirming purchase orders during 2008/09. A number of instances relate to the method by which conference attendees requested reimbursement for travel expenses. The Assistant Superintendent for Business is educating all administrators concerning the proper methods to be used. Conference request and reimbursement forms have been modified to improve and clarify the process. Claims selected by board members for review have been scrutinized by the assistant superintendent and incidences of confirming purchase orders have been brought to the attention of the responsible administrator. The internal auditor is developing a new reporting format for the claims auditor to use in his report to the board which will now be on a monthly basis instead of a quarterly basis, highlighting the importance of resolving this violation of board policy and good business practice. We have noted that none of the payments involved were inappropriate in any way but for the fact that the date of the actual purchase order as approved by the purchasing agent was subsequent to the date of the invoice.

Control Deficiency 4: Information Technology

This section presents our findings and recommendations pertaining to the District's information technology. These findings were also noted in the Office of the New York State Comptroller's Anatomy of a Scandal Follow-Up Audit Report of Examination (Pages 21-23) Period covered: September 2005 - January 2006. The findings are as follows:

A. Remote Access to Servers

We understand that certain information technologies Capital Computer Associates, Inc. consultants can connect exclusively to the District's WINCAP financial server without, notifying the District and that system administrator logs/reports are not supported by WINCAP to alert IT personnel to the fact that someone has accessed the servers remotely. We understand that for security and authentication purposes, the origination and destination points are defined by specific IP address rules; from the WINCAP office in Albany, New York directly to and through Roslyn's firewall. We also understand that users can access via Citrix their "My Documents" folder on the server, and that administrator logs/reports are available to log user connectivity.

Recommendation

We understand that the District has asked WINCAP to modify its code such that administrator logs/reports would be available to the District; however, the vendor has not been responsive to this request. We recommend that

the District continue to evaluate and review available security measures in an effort to further increased security surrounding access to the WINCAP Server. Ideally, there should be some control in place enabling the information technologies staff at the District to be alerted via pager, text message or a log that is reviewed daily whenever someone accesses the system remotely. This would enable the information technologies staff to verify the identity of the remote user on a timelier basis, although it would still be after a potential intrusion has occurred. District management would need to review the risk/benefit of remote access and related controls. We also recommend that the District implement a policy whereby the Citrix administrator reports/logs are reviewed periodically for unusual activity.

Response

The Assistant Superintendent for Administration continues to work with our software vendor, Capital Computer Associates, to strengthen our security in this area.

B. Password and User Account Deactivation Procedures

We understand that the District has a process of deactivating passwords and user accounts for terminated personnel which is triggered when information technologies personnel receive the monthly Board of Education minutes containing the names of terminated employees. Consequently, the passwords and user accounts for such terminated employees could remain active for a period of time beyond the employee's actual termination date.

Recommendation

We recommend that the District implement a procedure whereby the Human Resources Department notifies the network administrator when an employee is terminated and that the employee's user password and user identification is promptly deactivated.

Response

The Assistant Superintendent for Administration is currently developing an exit form which will be completed by each employee upon separation from service that will include a procedure by which the Information Technology Department will be notified. The Assistant Superintendent for Administration supervises both Human Resources and Information Technology Departments so this process should be relatively easy to implement. Our expectation is that the form and process will be in place by June 30, 2009.

C. Disaster Recovery/Contingency Planning

We understand that there are currently no written disaster recovery plans in place for the information technologies systems that are maintained by the District.

Recommendation

We recommend that a formal written contingency plan be developed and tested for alternative processing in the event of a loss or interruption of the District's servers/network. Any agreements with other entities would need to be tested to make sure that compatible servers and tape drives exist at other facilities to enable any restore procedures to be successful. District employees would also need to be given written instructions and training in disaster recovery procedures.

Response

The IT Department is currently reviewing plans in place in other districts and will be developing a written contingency plan by June 30, 2009.

Control Deficiency 5: OMS Circular A-133 - Federal Allowable/Allocable Costs Pertaining to the Following Program Cluster: Special Education - Grants to State Special Education - Preschool Grants

Criteria

84.027

84.173

Under OMS Circular A-122, salaries and wages charged to grants must be adequately documented and supported by personnel activity reports or another acceptable documentation.

Condition

Although timesheets were available, the allocation of salaries and wages charged to the grant were not supported by adequate documentation and not supported by personnel activity reports.

Questioned Costs

None noted.

Effect

Salaries and wages may not be accurately allocated to the grants.

Cause

At the start of the contract, allocations of employee salaries and wages were based on the prior year grant performance. During the fiscal year employee salary and wage allocations were modified and the reason for the modification was not documented.

Recommendation

We recommend that the District implement procedures to ensure that all employees who work on the grant complete personnel activity reports, or another acceptable documentation in order to support the time charges to the federal program.

Response

The Director of Special Education and Pupil Personnel Services will work with the Assistant Superintendent for Administration to develop the necessary documentation in order to support time charged to the federal program. This will be implemented during 2008-09.

Opportunities for Strengthening Internal Controls and Operating Efficiency

Opportunity 1: Fund Balance Reserves

A. Employee Benefit Accrued Liability Reserve

School Districts are permitted by State Education and General municipal Law to reserve funds for specific purposes. These reserves generally are created through board resolutions by the end of the School District's fiscal year and are funded through board approved transfers from fund balance. The reserve for employee benefits accrued liability was established pursuant to General Municipal Law to provide funds for the payment of unused sick time and other forms of payment for accrued leave time granted upon termination or separation from service was in excess of the liability. The School District's liability on the "District-wide level" for accrued time totals \$664,874 and the fund balance reserve on the "fund level" is approximately \$2.7 million.

Recommendation

We recommend the District engage the services of an actuary to calculate the Employee Benefit Accrued Liability so as to in the future report as a liability on the District-wide level.

Response

The budget for 2009-10 will include an appropriation for the services of an actuary to complete this analysis.

B. Allocation of Interest

The following District Reserves existed at June 30, 2008. Interest should have been credited at a 2% rate as follows to the various reserves:

Workers compensation	Retirement	Employee Benefits	Capital	Repair
\$ 200,000	425,000	2,702,727	4,000,000	22,442
\$7.35 million x 2% - \$147,000				

This interest remained in the District's undesignated fund balance.

Recommendation

In the future management should allocate interest to fund balance reserves.

Response

In the future, interest will be allocated proportionately to the reserves.

Opportunity 2: Future Application of Accounting Standard

Retiree health care costs have traditionally been accounted for and financed on a pay-as you go basis. Each year's budget has included an appropriation for the current year's cost of retiree health care. Governmental accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions ("OPEB"), requires that retirees health care costs be treated on an accrual basis, on the School District's "governmental-wide" financial statements. Presently, New York State has not established a vehicle to fund this liability. Recently, the New York State comptroller announced legislation to authorize the creation on trust funds to help State and local governments plan the costs of OPEB.

The School District's annual OPEB cost (expense) is calculated based on the annual required contribution ("ARC") of the employer, which is an actuarially determined amount. GASB Statement No. 45 establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees' medical insurance. As a result, reporting of expenses and liabilities will no longer be recognized under the "pay-as-you-go" approach. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Status

The School District has to engaged an actuary to determine the future costs of retiree health care coverage, and calculate projections of the accrued liability for present retirees and the present value of the future benefits and accrued liability for current employees. GASB Statement No. 45 is effective for the District's fiscal year ending June 30, 2009.

Opportunity 3: Continuing Emphasis on Governance

The District has established guidelines and policies that address the principles of governance for a municipality. As management is aware, recent years have seen a heightened awareness in government regarding the responsibilities of governing boards. Accordingly, we bring to your attention the following considerations:

A. Document Retention

The time period for which a District's routine accounting and financial documents should be retained needs to be established so that important documentation could be kept at hand, in the context of the cost-benefit considerations of storing such information over time. In today's environment, regulators and other interested parties may be concerned, for a variety of reasons, about the availability of the District's historical accounting and financial information.

Recommendation

Accordingly, it is important now that the School Board formally assigns to a specific representative the sole authority to delete, destroy, or discard the District's documents, based on the established policy's guidelines for the type of documentation to be maintained and the time frame for maintaining it.

Response

The board of education will formally appoint the Records Management Officer to have the sole authority to delete, destroy or discard the District's documents based on established policy in conformity with Records Retention Schedule ED-1. This action will take place by June 30, 2009.

B. Providing Access for Employee Comments and Concerns

This is an area frequently referred to as the "whistleblowers' provision", although the term "whistleblower" may sometimes have negative connotations in the public's mind that are not intended here. The intention is to provide a District's officers and employees with a mechanism that will permit them to communicate any concerns they may have regarding the organization, such as, but not limited to, what they may consider to be inappropriate behavior or actions by management.

Recommendation

A formal mechanism should be put in place and it is essential to this process that any communications from employees are completely confidential - to protect them from potential reprisals - and that their comments are received directly by the governing board or its audit committee, perhaps through an independent third party. The District should continue its' emphasis on governance.

Response

The board of education will establish through formal action a mechanism by which employees may in confidence express concerns they may have regarding the organization such as, but not limited to, what the employee may consider as inappropriate behavior or actions on the part of management. This action will take place by June 30, 2009.