

Roslyn UFSD Response to Management Letter

1. School Lunch Fund

Deficit Fund Balance

Deficits place a financial burden upon a School District. They are created by either expenditures in excess of budgetary provisions or revenue shortfalls. The effects of a deficit are varied but their initial impact will generally be felt on cash flow. The financial statements of the School Lunch Fund reflect a deficit of \$756,009 an increase of \$73,215 from the deficit balance of \$682,794 at June 30, 2008. A reserve for advances in the General Fund is reflected for those advances made to the School Lunch Fund to supplement its' operation. A food service consultant was retained in the prior year to provide suggestions for operating efficiencies which resulted in the hiring of a full-time school lunch manager.

Recommendation 1

We suggest that the School District continue to closely monitor the operations of the School Lunch Fund and a plan be implemented to eliminate the deficit over a period of time.

Response to Recommendation 1

The School Lunch Program has been improved since the hiring of a full-time school lunch manager in a number of significant ways. Average daily participation has increased which has resulted in increased revenue. Costs (other than labor) have been reduced by more efficient use of the government commodities program. Quality and variety of food choices have increased including the elimination of deep fat fryers and the installation of Healthy Vending choices. A review of the high school open campus policy is underway which could have a significant impact on the program.

2. 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 the 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.

Recommendation 2A

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

Response to Recommendation 2A

Starting with the 2009-10 school year, retainages shall be recorded in the Capital Fund as Retainages Payable by the end of the fiscal year.

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B. Inactive Projects

During our audit we noted that the 2003 Funding project, Bleachers Project, District - Wide Renovations project, 2000 Bond project and the 2005 High School Renovations had no activity during the year. The total fund balance of these projects aggregate approximately \$263,000.

Recommendation 2B

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 to Recommendation 2B

The bulk of the money is related to the 2000 Bond Project renovations at the middle school which is currently the subject of litigation with the architect, construction manager and contractor. Upon conclusion of that litigation, the board will determine the status of these funds and transfer them to the appropriate locations. All projects through 2003-04 are being reviewed and a recommendation will be made to the Board of Education as to the disposition of unencumbered funds by the end of the calendar year.

3. Capital Assets

A. Capital Asset System

Capital assets (net of accumulated depreciation) amount to approximately \$49.7 million at June 30, 2009. As a result of prior year recommendations made to management the School District had implemented a new capital asset tracking system. The system was implemented towards the end of the fiscal year ended June 30, 2009 and it is being utilized to track the age, location, asset ID number and related depreciation for each asset individually. In addition, depreciation expense will be calculated and recorded annually at the asset ID level. This is an improvement in the area of capital asset accounting for the School District.

Recommendation 3A

We recommend that the district reconcile the records maintained in the capital asset system to the general ledger on a timely basis including additions and disposals of property, plant and equipment, at least quarterly, to ensure accurate accounting for assets and prevent the need for major adjustments at the end of each year.

Response to Recommendation 3A

We agree with this recommendation and intend to reconcile the asset register to the general ledger on a quarterly basis beginning with the 2009-10 school year.

B. Capital Asset Policy Should be Followed Consistently

During the external and internal audits of the District's capital assets it was noted that several of the internal policies were not being followed consistently. As described in the

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internal Auditors' "Report on the Internal Controls of Fixed Assets, August 2009," there were exceptions noted in the consistency of the application of policies in the following areas of the capital asset accounting procedures: asset acquisition, asset disposal and depreciation of assets. While these exceptions noted under audit did not occur in great frequency, it reflects a weakness in the internal control of the District.

Recommendation 3B

We recommend that the District consistently follow the internal policies in place over the capital assets and the internal accounting procedures that are related. The school District's Capitalization policy does not reflect the practice of the School District. The "current practice" which was the intent of the policy is that purchases in excess of \$500 are inventoried for insurance purposes and purchases of \$5,000 or greater are capitalized.

Response to Recommendation 3B

The policy has now been amended to reflect the current practice.

C. Depreciation Expense

We noted that depreciation expense was not allocated to the functional expense categories as required by GASB 34.

Recommendation 3C

We suggest that the School District allocate depreciation expense to the appropriate functional expense categories.

Response to Recommendation 3C

We agree with this recommendation and it will be implemented in the 2009-10 school year.

4. Fund Balance Reserves

Employee Benefit Accrued Liability Reserve

Under provisions contained in Education Law and General Municipal Law, School Districts are permitted to set aside reserves of fund balance for specific purposes. These reserves generally are created through board resolutions by the close of the School District's fiscal year and are funded through Board approved transfers from fund balance. During our audit, we noted that the Board adopted certain adjustments to reserve balances prior to the close of the fiscal year. We also noted that the School District has also established a reserve for employee benefit's accrued liability pursuant to Section 6-P of General Municipal Law to provide funds for the payment of accrued vacation and sick time due employees upon termination. A calculation of the School District's liability for such vacation and sick leave aggregated \$589,729 at June 30, 2009 and this amount has been reflected in the district-wide statement of net assets as a liability. However, the amount reflected as a reserve of fund balance in the General Fund is \$2,728,851, an amount \$2,139,122 greater than the current liability.

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Recommendation 4

We recommend the School District engage the services of an actuary to calculate the Employee Benefit Accrued Liability. We also suggest that the employee benefit accrued liability reserve be adjusted to coincide with the compensated absences liability reflected on the district-wide statements. Any excess could be transferred to another reserve, with proper Board approval. Using the criteria delineated in GASB No. 16, Governmental Accounting Standards Board Statement: Accounting for Compensated Absences, a liability for compensated absences that is attributable to services already rendered and is not contingent on a specific event that is outside the control of the employer and employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer and employee should be accounted for in the period those services are rendered or those events take place.

Response to Recommendation 4

The engagement of an actuary to complete this study has been budgeted for 2009-10 and we expect the study to be completed by March 31, 2010.

6. Payroll Walkthrough

Certification of Payroll

We noted during our audit that the Superintendent is designated to certify payrolls. We did note that the Superintendent's signature appears on the payroll distribution records. However, there was no documentation to support the payroll.

Recommendation 6

We recommend that the Superintendent's certification of payroll include the necessary documentation including certain testwork performed to support the payroll.

Response to Recommendation 6

The particular sample certification that was selected by the auditor for review was one of the payrolls during the time period in which we had lost a key member of the accounting staff and were in transition between superintendents. Normally, the documentation in question (the time sheets) is attached to the summary certification report signed by the superintendent. In fact this documentation was available but not attached at the time of the review. This is a significant recommendation which is the subject of a proposal now under study by the CAAC which would allow the claims auditor to perform a review of the payroll documentation prior to certification by the superintendent. If accepted by the CAAC, we believe this would significantly strengthen the payroll certification process beyond the normal process underway in most school districts and municipalities.

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7. 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 7A

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 to Recommendation 7A

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 2010.

B. There is improvement when comparing the 2009 and 2008 net receivable cumulative balances. However, certain receivables in this fund date back to the fiscal year ended June 30, 2005. In addition, there are deferred revenues which remain relating to projects that date back to the fiscal year ended June 30, 2002.

Year Ended June 30,	2009			2008
	Accounts Receivable	Deferred Revenue	Net Total	Net Total
2002		\$ (12,172)	\$ (12,172)	\$(12,172)
2003		(27,182)	(27,182)	(27,182)
2004		(28,007)	(28,007)	(26,800)
2005	36,011	(2,634)	33,377	35,335
2006	40,909	(190)	40,719	59,795
2007	57,579	(44,563)	13,016	30,541
2008	15,694	(2,516)	13,178	-
	<u>\$ 150,193</u>	<u>\$(117,264)</u>	<u>\$ 32,929</u>	<u>\$ 59,517</u>

Recommendation 7B

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.

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Response to Recommendation 7B

The Business Office will work with the Special Education Department to complete a review of the reason for non-payment in these accounts and will attempt to have them cleared by June 30, 2010.

8. 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:

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 8

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 to Recommendation 8

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

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9. 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, 2009. 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 9

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.

Response to Recommendation 9

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

10. Extraclassroom Activity

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

Inactive Clubs

We noted that seven clubs (Chorus, Gay Straight alliance, Junior Scope, Principal's Advisory Committee, STEP Club, Stock Market, and Student Prints) 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 10

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 to Recommendation 10

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

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appointed for the GSA, Junior Scope, STEP, Stock Market Club and Principal's Advisory Committee. No faculty advisor or student officers have yet been appointed for either the Chorus or Student Prints. Therefore, the \$195 balance in those two club accounts should 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.

11. 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 consideration:

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 11

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 has established 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. The third reading and final approval of this “Whistleblower Policy” took place on October 8, 2009. The policy is now posted on the district website and in each school building and office.