

Response to Management Letter October 2010

Roslyn Union Free School District, New York

A. Significant Deficiencies

Prior Year Comments

1. School Lunch Fund

Deficit Fund Balance

Deficits place a financial burden upon a 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 \$870,767 as of June 30, 2010, which is an increase of \$114,758 from the deficit balance of \$756,009 at June 30, 2009.

This deficit has continually increased over several years causing the District to supplement the Food Service Program by advancing monies from the general fund. A reserve of fund balance for these advances has been recorded in the General Fund due to the uncertainty of the collection of these advances made to the School Lunch Fund to supplement its' operation. A food service consultant was retained in 2008 to provide suggestions for operating efficiencies which resulted in the hiring of a full-time school lunch manager. Additionally, overall enhancements to the Food Service Program were addressed such as menus that included a wider variety of nutritional food and implementation of a point of sales system.

Recommendation

The District continues to closely monitor the operations of the School Lunch Fund, although the plan developed under the consultant's guidance has not been successful in the elimination of the deficit. Management in cooperation with the Board of Education has identified other strategies to accomplish profitability, inclusive of meal price increases, outsourcing the operations of the program and renovation of the facilities. Therefore, we recommend the District pursue these initiatives with a well documented plan.

Response

Several approaches are being taken at the same time including the renovation of the high school cafeteria facility which is now in final design stages and is scheduled to be submitted to the State Education Department for final approval within the next few weeks with construction occurring during the late spring, summer and early fall of 2011. The purpose of this renovation is to make the cafeteria space more attractive to students to counteract the fact that the high school campus is "open" and all students in grades 9-12 are allowed to leave campus and take their lunch business to one of many local restaurants and other food establishments in the area. A review of the high school open campus policy is underway which could have a significant impact on the program. In addition, negotiations are ongoing since June 2009 with the Roslyn Food Service Association to reduce expenses and increase revenues through outsourcing and a larger contribution by food service workers to the cost of their health insurance benefits, both of which are subjects of collective bargaining. Meal prices have been increased in the recent past and are consistent with food service programs in neighboring school districts.

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2. Capital Projects Fund

Inactive Projects

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

Recommendation

Management has determined the status of these projects. Since 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

Of the \$263,000 in question \$173,000 was encumbered while waiting for settlement of outstanding litigation with the former architect and construction manager. That settlement came in the late months of 2009-10 school year and resulted in July 2010 of the execution of a release by the litigants and payment to the school district. In addition, consultation with our bond counsel and district counsel has determined which funds may be redirected to projects authorized by the voters but not completed while awaiting the resolution of the litigation. Those transfers will now take place by November 2010.

3. Capital Assets

A. Capital Asset System

Capital assets (net of accumulated depreciation) amount to approximately \$51.6 million at June 30, 2010. As a result of prior year recommendations the District had implemented a capital asset tracking system "Real Asset Management". 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. During our audit we noted inconsistencies in the reports generated by the system. The reports had not been reconciled and rolled forward from June 30, 2009 to the financial statements for that year. Management had not reconciled the District's Capital additions (.200 codes and Capital Outlay) to the system. Subsequent to the commencement of our audit a reconciliation was prepared by the clerk.

Recommendation

Maintaining capital asset records is one of the most basic of internal controls that any organization with significant capital assets should have in place. The lack of reconciliation to the general ledger makes it difficult to ensure that the financial statements are presented fairly as well as ensuring that the proper amount of insurance is in place to protect the District against loss. The Clerk reconciled capital assets during the audit process. Due to the severity

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of the lack of such a reconciliation throughout the year we consider this to constitute a significant deficiency in internal controls. Management should establish and implement formal written procedures regarding:

- Capitalizing and expensing of capital assets
- Calculating and accounting for depreciation
- Performing periodic physical observations of capital assets and the reconciliation of the physical count of tagged items with the subsidiary ledger
- Authorizing the disposition of capital assets.

Subsequent to the formalization of these procedures, the District should assign these tasks to the appropriate individual who should be trained and knowledgeable of the accounting for Capital Assets.

Response

The district has invested significant time, energy and resources in the acquisition of a powerful and sophisticated capital asset tracking system with the approval of the Citizens Audit Advisory Committee after consulting with our auditors. This system (RAMI) was implemented last year by our business manager with the assistance of our technology department. Day to day operation of the system was assigned to a senior clerk in the purchasing department with oversight being provided by our business manager. Clearly, additional support needs to be provided in order to monitor the system. The departure of our business manager and treasurer in June 2010 was untimely. Nonetheless, a significant effort needs to be made, as pointed out in recommendation 3A, to develop formal written procedures that could be followed by a well-trained clerk to successfully implement the system. With the assistance of our internal auditor, new assistant administrator for business, and new treasurer this will be a focus for the 2010-11 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 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

The training program referred to in recommendation 3A should be inclusive of the mandatory adherence to the Capital Asset Policy. We recommend that the District consistently follow the internal policies in place over the capital assets and the internal accounting procedures that are related.

Response

Adherence to the Capital Asset Policy will be an integral part of the training program referred to in Response 3A.

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Current Year Comments

1. General Fund

Fund Balance Changes

It was noted that the District's opening fund balance did not agree to the financial statement for the year ended June 30, 2009. The financial statement balance exceeded the general ledger by \$1,053,000. The Clerk, in error, posted (by journal entry) transactions pertaining to the recording of reserves and interest "directly" to fund balance. The Clerk did not recognize that fund balance automatically adjusts through annual profit and loss activity.

Recommendation

We suggest the District record activity through the use of activity codes (revenues and expenditures) which automatically flow to fund balance.

Response

This recommendation tells us to expend funds only through our "checking" account and never through our "savings" account (the fund balance.) We recognize the technically correct way to post these transactions and will have our internal auditor provide training to our accounting staff to insure it is done properly in the future.

2. Claims Walkthrough

During our review of the claims process, it was noted that the Treasurer authorizes and signs the paid purchase order on a date subsequent to the date the check is issued.

Recommendation

We recommend that the procedures be revised and both the check and purchase order be signed off by the Treasurer at the same time. This will prevent duplicate payments of any purchase orders and will enhance the tracking status of each order.

Response

The current procedure requires that the claim be approved by the claims auditor prior to the issuance of a check by the Treasurer. The accounts payable clerk then stamps the copy of the check which is attached to the voucher packet and presents it to the Treasurer to be reviewed and initialed. This process will be reviewed by our new treasurer, claims auditor and internal auditor and changed if there will be a significant benefit to the internal control process of the school district.

3. Journal Entries

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It was noted that one of the five of journal entries tested did not indicate evidence of approval. In addition, two of the five selected entries indicated that the approval was made subsequent to the date the entries were posted.

Recommendation

Journal entries should always be reviewed by an individual not involved in creating the entry, to ensure appropriateness and accuracy. The District's internal auditors and ODMD concur; the Assistant Superintendent for Business and Finance should review and approve all journal entries proposed by the Business Manager. All journal entries must receive the proper approval signatures prior to the journal entry being posted.

Response

The form which was being used to record the approval of the Assistant Superintendent for Business was misleading. No journal entry was posted prior to approval. However, the effective date of the entry could be prior to the approval date of the Assistant Superintendent. The form has now been changed to indicate clearly the date the journal entry was proposed by the business office, the date it was approved by the assistant superintendent, the date it was entered by the clerk. These three dates are always in the appropriate sequence. It is possible, however, that an entry effective date will be prior to any one or more of the actions specified above.

4. Capital Projects Fund

Negative Balance

There was a payment of an invoice charged to a capital project that had not been authorized.

Recommendation

Management should ensure that all expenditures charged to a project pertain to that particular project so that only authorized project expenditures are funded.

Response

This error was the result of a request by the Assistant to the Superintendent for Operations (which was honored by the business office in error) to charge an expense for work that was not part of an approved project to a similar and related project that had been in fact approved. This error will not happen again.

5. Internal Auditors (Nawrocki Smith, LLP) Comments Pertaining to Internal Controls of Capital Projects in which ODMD Concur with:

A. Capital Projects/Facilities Policies

We noted that the District's policies pertaining to Capital Projects/Facilities should be reviewed and updated, if necessary. Specifically the Financing Facilities Development Policy was adopted in December 1989 and the Facilities Planning and Plan Specifications and

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Construction Safety Policies were adopted in January 2002. Additionally, the District should consider developing more comprehensive policies which include, but are not limited to:

- Facilities Development Goals
- Selection of Architect/Engineer
- Scope of Work and Cost Estimates
- Construction Contracts
- Bidding and Awards
- Change Orders

Recommendation

We recommend that the Board of Education review current Capital Projects Facilities policies and consider additional policies mentioned above.

B. Capital Projects Process

We note that while the District does have policies governing Capital Projects, the District lacks formal written procedures regarding the Capital Projects process. These written procedures should be referred to within the District's policy and should outline detailed procedures for the various aspects of the Capital Projects process including, but not limited to, Planning and Budgeting, Recordkeeping/Documentation, Accounting, Change Orders, Close-out of Projects, etc. These written procedures should be developed in accordance with State Regulations and Projects Documents. These procedures would serve as a guideline to employees on the District's approved process for Capital Projects and would also be helpful in the event of employee turnover.

Recommendation

We recommend the Board of Education consider utilizing the narratives developed in accordance with the internal audit report on Capital Projects as District procedures.

C. Formalization of Documentation Maintenance

We noted that while all of the requisite documentation pertaining to the Middle School Project was maintained by the District, there was no formalized manner in which the documentation is maintained. Certain documentation is generally maintained by the Assistant to the Superintendent for Operations and others by the Senior Account Clerk. All contracts were maintained by the Facilities Department and Business Office, the original signed contracts were maintained in various locations.

Recommendation

We recommended that the Facilities Department and Senior Account Clerk develop and utilize documentation checklist to ensure completeness of project folders. We noted that the Architect provides the District with a checklist of documents completed; however, the District should have an internal tracking document to ensure all documents are retained by the appropriate department. The master checklist should be maintained in the Facilities Department. The District had implemented this recommendation as of April 15, 2010, however, it must be promulgated to the employees of the District.

Response

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This item and all three recommendations (A, B, and C) are in fact scheduled for follow up by the internal auditor during the 2010-11 cycle and will be implemented.

B. Control Deficiencies

Prior Year Comments

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

Working with our internal auditor and Director of Pupil Personnel Services, we will draft procedures by January 31, 2011 to be implemented immediately thereafter.

B. There is an increase when comparing the 2009 and 2010 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.

Recommendation

We advise the District to further research the accounts above 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 pursuit of the deferred revenues will be continued. By the end of fiscal year 2011, we will make a recommendation to the board to write off those receivables that are not collectible.

2. Information Technology

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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

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 Roslyn Union Free School District, New York 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 status of this problem remains unchanged. We will be sending a copy of this recommendation to Win Cap in order to secure a response as to how they deal with this issue in all of the other districts in which they are installed. In addition, we are going to review the available logs retrospectively to determine the extent of remote access in order to quantify the problem.

3. Accounts Receivable/Reserve for Long-Term Receivables

Our audit of the 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, 2010. These amounts date back to 2004/05. Since the collectability of these amounts if not assured, a reserve for long-term receivables had been previously established in the General Fund.

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Recommendation

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

Response

The litigation which is the underlying cause of the establishment of these receivables continues to be aggressively pursued by special counsel. We are utilizing all available enforcement procedures to collect these monies and are in continual consultation with counsel. We are convinced that everything possible is being done and that these reserves need to continue until an ultimate settlement is reached.

Current Year Comments

1. Encumbrances

Encumbrances are used to keep track of commitments related to open purchase orders and executory (unfilled) contracts. Encumbrances can be carried forward to the following fiscal year only for valid (1) purchases orders issued on or before June 30th by the District to a vendor for provision of goods and/or services, and (2) contract (other than a purchase order) entered into by the District and a second party to furnish goods and/or services in which both parties have concluded agreement on or before June 30th. In retrospect, an accrued liability is an expense incurred which has not yet been paid. Both an encumbrance and accrual have the same end result: a decrease of undesignated fund balance. It was noted that the encumbrances detail as of June 30, 2010 included amounts determined to be accrued liabilities rather than encumbrances. An adjustment was recorded by management reclassifying the encumbrances to accrued liabilities.

Recommendation

We recommend that the Clerk review all outstanding purchase orders and determine the validity of the encumbrance. This detail should be reviewed by supervisory personnel.

Response

We concur with this recommendation and will provide the necessary training through our internal auditor and supervision through our Assistant Administrator for Business to insure that this happens on a timely basis for next year.

C. Opportunities for Strengthening Internal Controls and Operating Efficiency

Prior Year Comments

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1. Application of Accounting Standard – Statement of the Governmental Accounting Standards Board (“GASB”) – Fund Balance Reporting and Governmental Fund Type Definitions (GASB Statement No. 54)

In February 2009, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement is intended to improve the usefulness of information provided to users of governmental financial statements about fund balance by 1) providing clearer, more structured fund balance classifications and 2) by clarifying the definitions of existing governmental fund types. It is said that fund balance is among the most widely and frequently used piece of information provided in local government financial statements. GASB Statement No. 54 was developed to address the diversity and lack of consistency that had developed in the reporting of this vital information. To reduce this confusion, the new standard establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used. GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable (such as fund balance associated with inventories) and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Accordingly, fund balance amounts will be reported in the following classifications:

- Restricted – amounts stipulated by constitution, external resource providers or through enabling legislation.
- Committed – amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority.
- Assigned – amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- Unassigned – amounts that are not constrained at all in the government’s General Fund and includes all spendable amounts not contained in other classifications.

GASB Statement No. 54 also clarifies the definitions of individual governmental fund types. It provides an interpretation of certain terms within the definition of special revenue fund types, while further clarifying the debt service and capital projects fund type definitions. GASB Statement No. 54 is effective for financial statements for periods beginning after June 15, 2010.

2. 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 District. As part of our audit, we have reviewed, evaluated and tested the Extraclassroom 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.

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Inactive Clubs

We noted that seven clubs (Astronomy, Art Club, Gay Straight Alliance, Chorus, Sewing/Fashion, Student Prints, and Stock Market) 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

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

Response

As was noted last year, the clubs identified are active but have in fact had no financial activity during 2009-10. The activity itself was not "discontinued" but simply had neither receipts nor disbursements.

Current Year Comments

1. General Fund

Fund Balance Reserve Employee Benefit Accrued Liability Reserves (EBALR)

School Districts are permitted (not required) 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 on the fund level is \$2,765,438. This reserve for employee benefits accrued liability has been established pursuant to Section 6-p of General Municipal Law to provide funds for the payment of accrued benefits due employees upon termination. Management's annual calculation of the future liability supports the reserve balance and is based upon methodology reviewed by the internal auditor. The current years calculation is consistent with previous years. The School District has recorded \$214,620 as a liability for compensated absences at the entity wide level at June 30, 2010 which is substantially less than this reserve of \$2,765,438. As a result of an ODMD recommendation from a previous year, although not required, the District engaged the services of an actuary to independently calculate the EBALR. The actuarial computation has not been made available to management as of the date of this report.

Recommendation

We recommend that once the independent actuarial computation is obtained by management, it is compared to the existing reserve balance to determine the sufficiency of management's estimate. If the reserve balance is determined to be in excess, pending legislation, the District would be obligated to transfer all or part of the excess monies in the EBALR into the general fund.

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Response

We agree with this recommendation and as soon as the report is received we will be consulting with counsel and our auditors as to our options.