

**ROSLYN UNION FREE SCHOOL DISTRICT, NEW YORK**

**Independent Auditors' Report on Communication of  
Internal Control Matters Identified in the Audit**

June 30, 2011



## Independent Auditors' Report on Communication of Internal Control Matters Identified in the Audit

Members of the Board of Education  
Roslyn Union Free School District  
Harbor Hill Road  
Roslyn, New York 11576

In planning and performing our audit of the financial statements of the Roslyn Union Free School District (the "School District") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

We have included in this letter a summary of communications with the Audit Committee of the Board of Education as required by generally accepted auditing standards. We are also required to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of **Statement on Auditing Standards (SAS) 115: Communicating Internal Control Related Matters Identified in an Audit**.

Our consideration of internal control was for the limited purpose of conducting your School District's audit and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weakness

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

As indicated in the attached Addendum A, we identified certain deficiencies in internal control that we consider to be significant deficiencies, deficiencies in internal control that we consider to be control deficiencies are detailed in addendum B as well as other comments and recommendations identified in Addendum C that are opportunities for strengthening internal controls and operating efficiency.

***It is important to note that control deficiencies are not necessarily issues that management and the Board of Education will choose to address, however, control deficiencies may represent potential risks. Our responsibility as your auditors is to ensure that management and the Board of Education are aware of these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks.***

This report and addendums are intended for the information and use of management and the Board of Education. However, this report is a matter of public record and its distribution is not limited. We will be pleased to discuss these comments in further detail at your convenience, or to assist you in implementing the recommendations.

*O'Connor Davies Munns & Dobbins, LLP*

**O'Connor Davies Munns & Dobbins, LLP**  
Harrison, New York  
October 3, 2011

Roslyn Union Free School District, New York

Summary of Communications

- Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America
  - Unqualified opinion on financial statements
  - No change in scope of the audit
  - No material errors, frauds, or illegal acts identified
  - No immaterial frauds or illegal acts identified
  - No instances/suspicion or allegations of fraud were noted during conduct of audit
- Internal Accounting Controls
  - Reviewed to extent necessary to render our opinion on the financial statements
  - Significant deficiencies were noted.
- Significant Accounting Policies
  - Accounting policies appears appropriate
  - Significant accounting policies included in Note 1 to the financial statements
  - Adopted Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions"
- Management's Judgments and Accounting Estimates
  - Estimates used deemed adequate
- Audit Adjustments
  - No significant unrecorded adjustments
- Other Information in Documents Containing Audited Financial Statements
  - Management's Discussion and Analysis appears reasonable
- Disagreements with Management
  - None
- Unresolved Difficulties Encountered in Performing the Audit
  - None

Roslyn Union Free School District, New York

Summary of Communications

- Consultation by Management with Other Accountants
  - With the exception of consultations with the internal auditors none of which we were made aware
- Management Consulting Services
  - None
- Independence
  - O'Connor Davies Munns & Dobbins, LLP is independent in all respects
- Irregularities or Illegal Acts
  - Nothing to report

Roslyn Union Free School District, New York

Addendum A

Significant Deficiencies

**Prior Year Comments**

**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 \$1,060,426 as of June 30, 2011, which is an increase of \$189,659 from the deficit balance of \$870,767 at June 30, 2010. This deficit has continually increased over several years causing the School 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 School 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 School District pursue these initiatives with a well documented plan.

**2. Capital Projects Fund**

*Inactive Projects*

During our audit we noted that the following projects had no activity during the current year: 2003 Funding, District-Wide Renovations, 2005 High School Renovations, and 2008 Middle School Remediation. The total fund balance of these projects aggregate approximately to \$85,000.

***Recommendation***

Management has determined that the projects have been completed. Since these projects have been 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.

Roslyn Union Free School District, New York

Addendum A

Significant Deficiencies

**Prior Year Comments (Continued)**

**3. General Fund**

*Fund Balance Changes*

It was noted that the School District's opening fund balance did not agree to the financial statement for the year ended June 30, 2011. The financial statement balance exceeded the general ledger by \$2,142,023. 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 School District record activity through the use of activity codes (revenues and expenditures) which automatically flow to fund balance.

**Current Year Comments**

**1. General Fund**

*Payments in Lieu of Taxes*

The School District receives from Nassau County ("County") revenue for payments in lieu of taxes ("PILOT"). These amounts are established by the County's Industrial Development Agency and collected by the County, and then distributed to the School District. The School District initially budgeted a conservative estimate for amounts due for PILOT revenues in the amount of \$785,749 which it is collected during the fiscal year. The School District had recognized \$785,749 in revenue during the fiscal year, however there was approximately \$508,000 collected subsequent to year end that was not recorded as a current year revenue. An auditor's proposed journal entry was recorded by management to record a receivable June 30, 2011 for amounts due from the County and the related revenue.

***Recommendation***

Management should analyze the PILOT revenue and determine prior to year end any amounts due from the County. If it is determined that monies will be collected subsequent to year end the receivable and corresponding revenue should be recorded.

Roslyn Union Free School District, New York

Addendum B

Control Deficiencies

**Prior Year Comments**

**1. Special Aid Fund**

*Reconciliation Process*

The School 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.

*Outstanding Receivables*

There is an increase when comparing the 2010 and 2011 net receivable cumulative balances. However, certain receivables in this fund date back to the fiscal year ended June 30, 2007. In addition, there are deferred revenues which remain relating to projects that date back to the fiscal year ended June 30, 2007.

	2011			2010
<u>Year End June 30,</u>	<u>Accounts Receivable</u>	<u>Deferred Revenue</u>	<u>Net Total</u>	<u>Net Total</u>
2007	\$ 22,650	\$ (44,563)	\$ (21,913)	\$ (21,913)
2008	17,615	(3,167)	14,448	15,099
2009	88,139	(16,203)	71,936	71,564
2010	<u>79,961</u>	<u>-</u>	<u>79,961</u>	<u>-</u>
	<u>\$ 208,364</u>	<u>\$ (63,933)</u>	<u>\$ 144,432</u>	<u>\$ 64,750</u>

***Recommendation***

Although it was noted that the School District has made an effort to collect outstanding receivables we advise the School District to continue to research the accounts above and determine the reason for non-payment or overpayment. However these amounts should be reserved as a long-term receivable or ultimately written off to the General Fund, with proper board approval.



Roslyn Union Free School District, New York

Addendum B

Control Deficiencies

**Prior Year Comments (Continued)**

**2. Information Technology**

This section presents our findings and recommendations pertaining to the School 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 School District's WINCAP financial server without, notifying the School 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 School District has asked WINCAP to modify its code such that administrator logs/reports would be available to the School District; however, the vendor has not been responsive to this request. We recommend that the school 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 School 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. School District management would need to review the risk/benefit of remote access and related controls. We also recommend that the School District implement a policy whereby the Citrix administrator reports/logs are reviewed periodically for unusual activity.

Roslyn Union Free School District, New York

Addendum B

Control Deficiencies

**Prior Year Comments (Continued)**

**3. Capital Assets**

*Capital Asset System*

Capital assets (net of accumulated depreciation) amount to approximately \$52.6 million at June 30, 2011. As a result of prior year recommendations the School 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, 2010 to the financial statements for that year. Management had not reconciled the School 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. Presently although there is a procedure for capital asset records reports they are not reconciled on a regular monthly or quarterly basis.

***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 School District against loss. The Clerk reconciled capital assets during the audit process. Due to the lack of such reconciliation throughout the year we consider this to constitute a significant deficiency in internal controls.

**Current Year Comments**

**1. Extraclassroom Activity**

*Documentation of Receipts*

It was noted that the Middle School Student Activity had various receipts that indicate the monies collected and the deposits were made within a timely manner. Although properly recorded, it came to our attention that the checks received by the student club representative contained checks that were dated several weeks prior to the deposit date. This indicates that the club representative retains checks for a period greater than the recommended 72 hours. The collection of club funds are being accumulated until the club representative is willing to submit the collections to the Student Activity's Treasurer.

Roslyn Union Free School District, New York

Addendum B

Control Deficiencies

**Current Year Comments (Continued)**

**1. Extraclassroom Activity (Continued)**

***Recommendation***

We recommend the Student Activity Treasurer enforce the procedure where by club participants submit the collected funds on a timely manner, thus deterring possible fraud or loss of such funds.

**2. Extraclassroom Activity**

***Supporting Documentation***

The High School Student Activity receipts did not have supporting documentation attached to the receipt slips. There were several instances in which only the receipt and deposit slip were presented as supporting documentation.

***Recommendation***

We recommend the Student Activity Treasurer emphasize to the student club members the importance of retaining copies of funds received. An example would be copies of checks collected, summary of cash and coins collected, or indication of what the collection of funds is for, who made payments, and what activity took place for these funds to be collected.

**3. Agency Fund**

***Inactive Accounts***

Fiduciary funds are used to account for assets held by the School District in an agency capacity on behalf of others. The Agency Fund is primarily utilized to account for payroll tax withholdings and other deposits that are payable to other jurisdictions or individuals. There were 9 accounts aggregating to \$21,199 which were inactive during the fiscal year ended June 30, 2011.

***Recommendation***

The School District should research the status of all inactive accounts and, if applicable, either transfer the monies into the General Fund or remit payments back to the appropriate depositor.

Roslyn Union Free School District, New York

Addendum C

Opportunities for Strengthening Internal Controls and Operating Efficiency

**Prior Year Comments**

**1. Extraclassroom Activity**

*Inactive Clubs*

We noted that eight clubs (Art Club, Cheerleader, PAC, Beacon Newspaper, Tzuh-Ling, Chorus, 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.

**2. 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. 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. The Office of the State Comptroller determined that the EBLAR should comprise of those funds held for it's compensated absences liability The School District has recorded \$ 121,580 as a liability for compensated absences at the district-wide level at June 30, 2011, which is substantially less than this reserve of \$1,840,765.

Subsequent to June 30, 2011 in accordance with the legislation adopted as part of New York State's 2011-2012 budget the School District was permitted to withdraw from the EBLAR those funds in excess of the compensated absences liability up to a maximum amount equal to the GAP Elimination Adjustment "GEA" (the gap in State finances). The GEA is approximately \$939,000.

Roslyn Union Free School District, New York

Addendum C

Opportunities for Strengthening Internal Controls and Operating Efficiency

**Prior Year Comments**

**3. General Fund (Continued)**

*Fund Balance Reserve (Continued)*

*Employee Benefit Accrued Liability Reserves (EBALR)(Continued)*

***Recommendation***

The employee benefit accrued liability reserve should be adjusted to coincide with the compensated absences liability reflected on the district-wide statements. The School District, pending legislation, is obligated to transfer all the excess in the EBALR into the general fund and or another appropriate reserve.

**Current Year Comments**

**1. Capital Projects Fund**

*Overexpended Authorized Budget*

The Capital Projects Fund is used to account for the construction of major capital facilities. The Uniform System of Accounts as promulgated by the State Comptroller requires that a budget be adopted for each individual capital project. If additional financing is required to complete the project in a timely manner, the Board of Education should revise the authorization. Our audit of the Capital Projects Fund identified District-Wide Renovations had over expended its authorized budget. The actual project expenditures exceeded their respective actual and budget revenue sources. As a result, the School District has incurred an immaterial excess of expenditures over revenue creating a project deficit in the amount of \$72.

***Recommendation***

We recommend that management address the over expended project and project deficit with the Board of Education and authorize the necessary funding.

Roslyn Union Free School District, New York

Addendum C

Opportunities for Strengthening Internal Controls and Operating Efficiency

**Current Year Comments**

**2. Cash**

*Outstanding Checks*

Section 21 of General Municipal Law provides that checks or drafts of any municipality which have been outstanding for more than one year be canceled and the amount returned to the fund which was originally charged. Our audit disclosed that the bank reconciliations for the Trust and Agency Account included 73 checks aggregating to \$3,740 which were outstanding for a period in excess of one year.

***Recommendation***

The School District should modify this procedure so that checks that have been outstanding for greater than one year be written off and the funds returned either to the expenditure code that was originally charged or to the refund of prior years expenditure code on the revenue side of the budget.