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MANAGEMENT LETTER

October 8, 2020

The Audit Committee, Board of Education,
and Management
Grand Island Central School District

In planning and performing our audit of the financial statements of the governmental activities, each major fund and, the remaining fund information of Grand Island Central School District (the District) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

OBSERVATIONS

1. Deficit fund balance in the school lunch fund

The District's school lunch fund deficit has grown to $879,000 as of June 30, 2020, a further decrease of $58,000 from 2019. The District has experienced an annual decline in fund balance since 2008, a cumulative decrease of $1,205,000 over the past 13 years. Total sales, exclusive of free and reduced reimbursements, have hovered at about $500,000 over the past five years. However, current year sales were $350,000 due to the pandemic. The school lunch fund has cumulatively borrowed $1,404,000 from the general fund as of June 30, 2020 to finance operations. As we have mentioned in prior audit reports, the District should consider providing the school lunch fund with a permanent transfer and develop a strategy that will allow food service operations to be self-sustaining. You may need a consultant or consider using an outside party to manage food service operations.

2. Extraclassroom Activity Funds

- We previously noted multiple extraclassroom activity student ledgers that did not agree to the central treasurer's ledger. The primary reason of the differences was due student club treasurers not being available over the summer. We encourage the District to reconcile club activity timely and coordinate with club treasurers to ensure both sets of ledgers agree at the end of the fiscal year. During our testing there were no student ledgers available as the review is done quarterly and the school was closed prior to the last quarter due to COVID-19.
- We noted that club advisors are signing student ledgers indicating the balances agree although there are variances with the central treasurer's ledger. We continue to recommend a more formal procedure be implemented to ensure this approval is done only after balances are reconciled and agreed.
- We noted various transactions that did not have complete documentation or signatures present. We continue to recommend that purchases and deposits are not completed until all proper documentation and approvals are received.
- We noted various clubs that had no activity during the current year. We recommend that clubs be closed after two years of inactivity.

PRIOR YEAR RECOMMENDATIONS

Included in our current year procedures is an update of the status of recommendations made in our previous audits. Recommendations not mentioned elsewhere are as follows:

- We continue to recommend that the District use pre-numbered receipts for ticket sales for sport and theatre events, perform regular reconciliations (with first and last tickets attached) when cash is collected outside the Business Office, and ensure timely remittance of cash deposits to the Business Office after each event.
- We continue to recommend that commingled trust and agency funds be separated into proper private-purpose trust funds and agency funds. This will be mandated in 2021 due to new accounting principles.
- Interfund borrowings are required to be short-term and designed to facilitate cash flow between the various operating funds. The District has continued to accumulate these funds. A formal reconciliation should be prepared and interfund borrowings must be liquidated.
- We continue to recommend that bank statements should be opened by someone other than the preparer and reviewed prior to the preparation of the bank reconciliation.
- We previously recommended that the District improve its capital asset records by maintaining one comprehensive database to ensure the accuracy of the information in conjunction with the full valuation of fixed asset inventory once the capital project is completed. We are pleased to report the District worked with a third party to document capital assets into a single database. We encourage the District to continue to update capital asset records throughout the year to ensure accurate financial reporting.

INFORMATIONAL POINTS - ACCOUNTING STANDARDS UPDATES

The following are for informational purposes only and we do not consider it necessary for management to include a response:

- GASB Statement No. 84, *Fiduciary Activities*, is effective for the District's year ending June 30, 2021 due to the extended date provided by GASB 95. This statement establishes criteria for identifying fiduciary activities and generally focuses on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. This statement describes four fiduciary funds that should be reported, if applicable, and requires presentation of a statement of fiduciary net position and a statement of changes in fiduciary net position for each. It will impact the District's accounting for payroll liabilities, scholarships, and extraclassroom activities.

- GASB Statement No. 87, *Leases*, was also affected by GASB 95 and is now effective for the District's year ending June 30, 2022. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and that recognized income or expenditures, based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease as a liability and an intangible right-to-use lease asset and a lessor is required to recognize a lease receivable and a deferred inflow of resources.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for the District's year ending June 30, 2023. This statement generally requires a government to recognize a right-to-use subscription asset and a corresponding subscription liability that is measured at the present value of the subscription payments expected to be paid during the subscription term.

We have discussed these comments with District personnel and would be pleased to discuss them in further detail, perform any additional studies, or assist you in implementing the recommendations.

This communication is intended solely for the information and use of the District's management, Audit Committee, and Board of Education; others within the District; the NYS Education Department Office of Audit Services; and the Office of the NYS Comptroller, Division of Local Government and School Accountability. It is not intended to be, and should not be, used by anyone other than these specified parties.

Lumsden & McCormick, LLP