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September 30, 2015

To the Board of Education and Management East Islip Union Free School District Islip Terrace, New York

In planning and performing our audit of the financial statements of the East Islip Union Free School District (District) as of and for the year ended June 30, 2015, 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 auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion 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.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses, and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated September 30, 2015, on the financial statements of the East Islip Union Free School District.

We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Board of Education, Audit Committee, management, others you deem appropriate within the District, and any governmental authorities you need to share this information with. It is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Cullen & Danowski, LLP

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STATUS OF PRIOR YEAR'S COMMENTS

Extraclassroom Activity Funds

The extraclassroom activity funds are the depository of student money. The New York State Education Department publishes the *Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds*. These guidelines recommend procedures for organizing these activities, controlling receipts and disbursements, as well as recording and reporting transactions.

We reported last year that certain clubs at the High School and the Middle School had no financial activity. Management had indicated that they will continue to review clubs with no financial or other activity and close them over a three-year period.

Current status: In the current year, we noted that several student clubs at the High School and the Middle School had no financial activity. The District's management indicated that they will continue to review clubs with no financial or other activity and close them over a three-year period.

In addition, during the current year's audit, we interviewed faculty advisors for several clubs about their procedures for fundraisers. We noted that they did not prepare formal profit-and-loss accounting for fundraisers and that sales tax was not being charged, collected, or remitted to the State taxing authority for taxable items resold by the clubs.

The Central Treasurer and the Assistant Superintendent for Business met with the club advisors at the beginning of the 2014-15 school year to stress the importance of preparing profit-and-loss statements and inventory control logs, and provided standard forms to the club advisors at that meeting. We understand that the Central Treasurer and the Assistant Superintendent for Business will address the issues with club advisors again in the 2015-16 school year, and that the clubs are being notified that sales tax is to be collected and remitted for items being sold by the clubs. We recommend that the District continue to monitor the clubs throughout the year to ensure that they are following District procedures.

Cash Disbursements

A good internal control system for cash disbursements is one that includes checks and balances and proper supervisory review and approval of all cash disbursements by the District.

In the 2012-13 fiscal year, the District began utilizing its financial software (Win-Cap) to process electronic payments (e-payables) to certain vendors who have the ability to receive credit card payments. The process involved establishing certain vendor settings within Win-Cap in order to set up these e-payables, and the Treasurer would generate an e-payables report from the Win-Cap system and export it into Microsoft Excel file and transmit the Excel file to the bank for electronic payment processing. We reported at the time that the exported e-payables report was not a read-only file, which increased the risk of data manipulation before the file was transmitted to the bank for processing, and that there was no independent review of the transmitted files by someone other than the Treasurer.

In fiscal 2013-14, the District improved the internal controls over the e-payables by including the Deputy Treasurer in the process. The Deputy Treasurer would receive e-mail notifications from the bank when they received an e-payables file from the Treasurer, and then compare the detail information from the e-mail

For the Year Ended June 30, 2015

notification to the Win-Cap e-payable report to ensure the information's accuracy. The report was then given to the accounts payable clerk and provided to the claims auditor for review and approval. However, the epayables report was still not in read-only format because the Win-Cap software could not generate it as a readonly file. The District was considering having the Deputy Treasurer download the e-payable file from Win-Cap and convert it into a read-only file with password protection. The converted file would then be forwarded to the Treasurer for transmission to the bank.

Current status: In the current year audit, we noted that the District fully implemented these procedures and we now consider this comment closed.

Information Technology Controls

Policies and procedures for Information Technology (IT) are part of internal controls and provide guidelines for school district employees. A formal disaster recovery plan provides guidance for employees to follow in the event of a disaster to help minimize equipment and data loss, and to recover data,

In the prior year audit, we had noted that the District's disaster recovery plan had not been tested. We were informed by the District's current technology director that the District's existing plan was outdated and was in need of updating. We had recommended that the District update its disaster recovery plan and have it approved by the Board, and that the plan be periodically tested to ensure that all systems could be restored.

Current status: The District contracted with Win-Cap to provide off-site backup of the District's financial accounting data. The District is in the process of updating its disaster recovery plan; the final plan should incorporate the coordination with outside backup services for all IT data in order to provide clear procedures and protocols for employees to follow.

Before and After School Program

The District offers a Before and After School Program for its elementary school students in the District. This program is provided for the benefit of parents of these students for a fee. The fees charged vary based on the type of program, number of days and hours that the elementary school students attend.

During the prior year's audit, we had reviewed the internal controls over this program and noted that the registration, billing and payment collection for this program was being performed by the same individual. In addition, we noted that there was no independent review or periodic reconciliation of the program's attendance, billings and collections.

We had recommended that the District separate the duties of registration, billing, and payment collection for this program to minimize the risk of one employee having too much control over the process. Additionally, we had recommended that an employee outside of this program periodically reconcile the attendance and billing to the collections to ensure that the District is properly receiving all the associated fees for this program.

Current status: The District's Business Office began reviewing and reconciling the attendance, billings and collections information in October 2014. The District is also implementing the following procedures for the 2015-16 school year:

East Islip Union Free School District

For the Year Ended June 30, 2015

- The District's Central Registrar will register the students enrolled in this program.
- The Central Registrar will then notify the Business Office of the registration information via the District's Infinite Campus student management system.
- Initial deposits for students enrolled will be handled by the Business Office to properly segregate the registration and collection responsibilities.
- The Business Office will then set up the student account in the Win-Cap system in order to track the initial payment, future billing, accounts receivable, and cash collections.
- Attendance records generated by enrollment in the program will then be reconciled with registration information on a monthly basis.

CURRENT YEAR COMMENTS

Use of Facilities

As an additional source of revenue, the District periodically rents out certain auditoriums for non-district use upon Board approval.

During our current year audit, we noted that the Director of Arts and Music was responsible for the registration, billing and collection of funds for the auditorium rental. Once funds were received by this individual, they were then forwarded to the Business Office to be deposited.

We recommend that the District properly segregate the duties of registration, billing and collections to more than one employee to strengthen the internal controls over rental revenue for the use of facilities.

Purchasing/Procurement of Goods

The District's existing purchasing policy (Policy #6740) outlines the purchasing procedures that are to be followed by all District personnel. These procedures require the use of purchase requisition form to be approved by an authorizing department head, and a purchase order to be approved by the purchasing agent of the District.

During the current year audit, it was brought to our attention that the District's former Superintendent did not follow the proper procedures for the purchase of approximately \$147,000 of textbooks. Upon further inquiry of District personnel, it was determined that a letter of intent to purchase these textbooks was authorized by the former Superintendent promising to pay 50% in July 2014 and the remaining 50% in July 2015. However, we noted that no purchase requisition form or purchase order approval was obtained in conjunction with the issuance of this letter of intent to the vendor. The Business Office became aware of the transaction when the first invoice was received from the vendor, and has been actively addressing this matter. After contacting the vendor and investigating the transactions, the Business Office has issued an approved purchase order and payment for the first 50%, or approximately \$73,000, and is in the processing of determining the appropriate action for the remaining balance.

We recommend that the District review their current purchasing policies and procedures and determine the need to build in additional safeguards to prevent this type of occurrence in the future.

East Islip Union Free School District

For the Year Ended June 30, 2015

Capital Assets

The responsibility of safeguarding the District's investment in capital assets is important to sound fiscal management. The responsibility can only be discharged through adequate capital asset accounting. In addition to maintaining this record for accountability purposes, the District also needs this information for insurance and financial reporting purposes.

The District utilizes a capital assets management software to maintain and update its capital assets inventory. During our current year audit, we noted that \$5.4 million worth of capital projects expenditures were still reported in the capital assets inventory report as construction in progress. These costs were related to prior construction projects which had been substantially completed and placed in service and, therefore, the amounts should have been reclassified to the appropriate capital assets categories (building improvements, equipment etc.) and depreciation should have begun. We discussed this with the District and management agreed to reclassify the \$5.4 million to the appropriate capital asset categories and begin depreciating the assets. This resulted in additional depreciation expense of approximately \$272,000 for the year.

We recommend that, going forward, the District periodically review amounts accumulating as construction in progress to determine whether the associated capital projects have been placed in service and are operational, and should be reclassified and reflected in the capital assets inventory report at year end.
