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September 30, 2014

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, 2014, 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, 2014, 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 had no financial activity. These clubs included the Girls Leaders club in the High School and the Cheerleading Club; Environmental Club; Builders Club, Girls Leaders Club; Junior Honor Society Club and the Spanish Club in the Middle School

Current status: In the current year we noted that the Gay Straight Alliance Club and the Girls Leader Club at the High School had no financial activity. For the Middle School, we noted that only the Cheerleaders Club and the Environmental Leaders Club had no financial activity. 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 by clubs that were reselling items.

We recommend that student clubs prepare profit and loss accounting for their fundraising events and submit the accounting to the Central Treasurer together with the cash receipts for deposit. We also recommend that sales tax be derived from taxable sales and remitted to the State taxing authority.

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.

Last year, we noted that the district began utilizing its financial software (Win-Cap) to process electronic payments 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 the electronic payments. We noted that the District obtained all the approvals prior to these electronic payments being made, including claims auditor review and approval and also receives a confirmation back from the bank after the payment is processed.

During our review of the internal control procedures for this process, we noted that an electronic payment report was generated and exported by the Treasurer from the Win-Cap system into Microsoft Excel. This exported file contained all the vendor payment information necessary to send to the bank for processing electronic payments to the vendors. We noted the following:

- The file exported was not a read-only file which could allow someone to manipulate the data in the file prior to the submission to the bank for processing.
- The internal control process did not include a subsequent review of the files transmitted to the bank by someone other than the Treasurer.

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We recommended last year that the District consider having someone other than the Treasurer review the exported Excel files prior to the files being transmitted to the bank.

Current status: In April 2014, the bank began notifying the Deputy Treasurer by e-mail when a file of e-payable payments to vendors is submitted by the Treasurer. The Deputy Treasurer compares the detail from the e-mail to the Win-cap e-payable report to ensure the information's accuracy. The report is then given to the accounts payable clerk for submission and approval by the claims auditor. Win-cap has indicated to the District that the software cannot generate a read-only e-payable file. The District is 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 submission to the bank.

Information Technology Controls

The District utilizes a financial accounting software package, Win-Cap, to maintain its books and records. In prior years, the District outsourced their Information Technology (IT) services to a consulting firm that helped oversee the operations of the District's network.

We reported the following observations last year:

- The District did not require password changes on a regular basis for access to the network.
- The District had a formal disaster recovery plan in place; however, the IT consultant indicated to us that this plan had not been tested.
- The computer server room for the District was not protected from fire or water damage.

We recommended that the District put additional controls in place to enhance the security and integrity of all its IT data.

Current status: Mostly corrected. During 2013-14, the District hired a new technology director and now has full-time as well as part-time IT technicians. System users' passwords are now required to be changed every 90 days, and computer servers are placed on racks to prevent flood damage. However, the disaster recovery plan was not tested. We were informed by the District's current technology director that the District's existing plan is outdated and is in need of updating. We recommend that the District update its disaster recovery plan. Once approved by the Board, the plan should be tested periodically to ensure its viability.

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CURRENT YEAR COMMENT

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

We recommend 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 a process. Additionally, we recommend that the District have 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.
