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September 27, 2013

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, 2013, 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 27, 2013, 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
Cullen & Danowski, LLP

STATUS OF PRIOR YEAR'S COMMENTS

School Lunch Fund - Fund Balance

Federal Regulation, 7CFR Part 210.14b, limits the net cash resources within the school lunch fund to an amount not exceeding three month's average expenditures. If there are excessive cash resources available, the District must be in a position to describe the planned use of these funds.

We noted in our prior audit that the District had been reducing the fund balance of the school lunch fund, but the school lunch fund's year-end assigned fund balance at June 30, 2012 was in excess of the three-month average expenditures limit.

Current status: During 2012-13, the school lunch fund's assigned fund balance decreased from \$410,918 as of June 30, 2012, to \$267,533 as of June 30, 2013, as a result of operations. As of June 30, 2013, the school lunch fund's fund balance was no longer in excess of three-month average expenditures limit and the District was in compliance with Federal regulations. We now consider this comment closed.

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.

During the prior year audit, we noted the following:

High School – The Girls Leader Club and the Key Club had no financial activity.

Middle School – The Cheerleading club and the Environmental Club had no financial activity during 2011/12 school year.

Current status: In the current year we noted the following:

High School – Only the Girls Leaders club still had no financial activity during the current year.

Middle School – The Cheerleading Club and the Environmental Club again had no financial activity during 2012/13. In addition, four additional clubs (Builders Club, Girls Leaders, Junior Honor Society and the Spanish Club) had no financial activity during the 2012/13 school year.

We recommend that the District continue to ascertain whether the above student clubs with no financial activity are in fact inactive, and should be closed and the remaining funds redirected.

Management has indicated in their corrective action that they will continue to review clubs with no financial or other activity and close them over a three year period.

CURRENT YEAR COMMENTS

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 current 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. This process was set up by the District and the bank that they have their main operating account with. The process includes establishing certain vendor settings within Win-Cap in order to set up the electronic payments. We noted that the District obtains 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 is generated and exported by the Treasurer from the Win-Cap system into Microsoft Excel. This exported file contains all the vendor payment information necessary to send to the bank in order process electronic payments to the vendors. Upon further review, we noted the following:

- The file exported is 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 current internal control process does not include a subsequent review of the files remitted to the bank by someone other than the Treasurer.

We recommend that prior to the files being remitted to the bank, the District consider an additional review by someone other than the Treasurer.

Information Technology Controls

The District utilizes a financial accounting software package, Win-Cap, to maintain its books and records. The District outsources their Information Technology (IT) services to a consulting firm that helps them oversee the operations of the network of the District, which includes the financial software.

Based on our review of the information technology questionnaire completed by the District's outside consultants who oversee the information technology area, and our inquiry with the consultant in charge at the District since July 2013, we noted that the District does have a number of information technology controls in place. However, we did note some exceptions in the following areas:

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

Given the rapid changes and the increasing reliance on technology, we recommend that the District address the above areas to ensure that additional controls are in place to enhance the security and integrity of all the data that resides on the district's server. Our recommendations include:

- Requiring password changes on a quarterly basis (every 90 days) to minimize any potential unauthorized access to the network. Management has informed us that effective October 1, 2013, a requirement to change network user passwords every 90 days will be implemented.
- Semiannually testing the disaster recovery plan to ensure that the District can recover all vital data that resides on the server in the event of an actual disaster.
- Reviewing and incorporating additional protective measures to minimize the loss of important data that can be caused by fire or water damage to the server room.

The District has indicated they are aware of the importance of these areas and they are working on hiring an information technology administrator. The administrator would be responsible for overseeing this important function and improving and strengthening the existing internal controls in the information technology area.
