

Rockville Centre Union Free School District, New York

Communication of Internal Control Matters Identified in the
Audit to Those Charged with Governance and Management

June 30, 2016



**Communication of Internal Control Matters Identified in the Audit to
Those Charged with Governance and Management**

**The Board of Education
Rockville Centre Union Free School District
128 Shepherd Street
Rockville Centre, New York 11570**

Auditors' Communication on Internal Control

In planning and performing our audit of the basic financial statements of the Rockville Centre Union Free School District, New York ("School District") as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the School 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 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.

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 a 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.

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 deficiencies, 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 weaknesses, as defined above.

However, as indicated in the attached Addendum A, we share for your consideration other observations about the internal control and operations. In addendum B, we identify other accounting and auditing matters for your information.

This communication and addenda are intended solely for the information and use of management and the Board of Education and are not intended to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these communications and comments in further detail at your convenience, or to assist you in implementing the recommendations.

PKF O'Connor Davies, LLP
PKF O'Connor Davies, LLP
Harrison, New York
October 6, 2016

PKF O'CONNOR DAVIES, LLP
500 Mamaroneck Avenue, Harrison, NY 10528 | Tel: 914.381.8900 | Fax: 914.381.8910 | www.pkfod.com

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Rockville Centre Union Free School District, New York

Addendum A

Control Deficiencies

- **General Fund**

Budgetary Data

The Board of Education has established legal control of the budget at the program line item level of expenditures. Transfers beyond \$500 between appropriation accounts, at this level, require approval by the Board of Education. Any modification to appropriations resulting from increases in revenue estimates or supplemental reserve appropriations also require a majority vote by the Board. Final budgetary entries are not approved by the Board of Education. Based on discussions with finance personnel, the Board only approves transfers during the year within equipment and contractual codes involving purchase orders.

Recommendation

We recommend that transfers between appropriation accounts, at the program line item of expenditures level, require the approval by the Board of Education.

- **School Lunch Fund**

Financial Results and 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 deficits are varied but their initial impact will generally be felt on cash flow. The financial statements of the School Lunch Fund reflect a deficiency of revenues over expenditures of \$17,078 resulting in an unassigned deficit of \$15,360 as of June 30, 2016. While the School District has implemented changes over the past several years and has analyzed meal changes with the goal to increase meal prices in subsequent years, the school lunch program continues to operate with fiscal strain.

Recommendation

The School District continues to closely monitor the operations of the School Lunch Fund. Management, in cooperation with the Board of Education, has identified other strategies to accomplish profitability, inclusive of meal price increases. We recommend that the School District continue to pursue these initiatives with a well-documented plan and continue to monitor the operating results of the school lunch program to avoid such deficiencies of revenues over expenditures and an increased deficit fund balance.

- **Permanent Fund**

Investment in Stock Certificates

As noted above, the School District had received a bequest of stocks and established a scholarship fund entitled "Alfred E. Ives, Jr. Scholarship". The bequest specified that the principal amount of \$150,000 is to remain in a trust. The net annual income is to be applied and granted annually to a senior in the South Side High School. The School District's deposits and investment policies are governed by State statutes. Ownership of equity securities is not in accordance with State statutes and the School District's investment policy.

Rockville Centre Union Free School District, New York

Addendum A

Control Deficiencies

- **Permanent Fund** (*Continued*)

Investment in Stock Certificates (Continued)

Additionally, the bequest states that the net annual income (inclusive of changes in fair value) is to be applied to assist deserving senior students in South Side High School, Rockville Centre, to obtain a college education. The scholarship shall be granted annually to a senior based on certain criteria and extend over a four year period with 1/8 of the total award payable at the beginning of each college semester. Should the recipient fail to continue his/her college career for future years, the unused portion shall be made available to another candidate chosen.

Recommendation

We recommend that the School District investigate the legal restrictions, custodial credit risk and other options available to the School District. We also suggest that the School District consult with their legal counsel to determine if such investments should be placed in the custody of a trustee and if on an annual basis, such awarded amounts should be placed in an escrow account.

- **Extraclassroom Activity Funds**

Extraclassroom activity funds, which are authorized by the New York State Department of Education, are an integral part of the educational program of the School District. As part of our audit, we have reviewed, evaluated and tested the Extraclassroom Activity Funds of the School District. The result of our tests disclosed that the following areas were not in compliance with the regulations of the Commissioner of Education.

Clubs with No Financial Activity

We noted that two high school clubs and two middle school clubs (LEO/KEY Club, Sportsman, Challenge Day, Students Against Destructive Decisions) 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

State Education Regulations provide that inactive funds shall remain in the custody of the Central Treasurer for six months and then either expended by vote of the organization controlling the funds as provided for in the bylaws or transferred to the general student organization or student council. 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.

Cash Receipts

During our audit of the High School Extraclassroom Activity Funds, we were unable to determine the timeliness of the deposits as the bank statements appear to have only one or two deposits per month.

Rockville Centre Union Free School District, New York

Addendum A

Control Deficiencies

- **Extraclassroom Activity Funds** (*Continued*)

Cash Receipts (Continued)

Recommendation

We recommend that cash be deposited within three business days, or 72 hours of receipt. This practice will firmly strengthen internal control process over cash receipts and greatly lessen the likelihood that cash could be lost or stolen before it is deposited in the bank.

Confirmation of Club Balances

During our audit of both the High School and Middle School Extraclassroom Activities Fund, we noted that there are no procedures in place to require the clubs to agree their financial records to the Central Treasurer's statements.

Recommendation

We recommend that the High School and Middle School establish procedures requiring the Central Treasurer to print and distribute the club balance statements and require each club including the principal/advisor and student treasurer to sign off on the statement documenting that the records are in agreement with the Central Treasurer statements. Such process should be performed periodically during the year and at the end of the school year.

- **Debt Service Fund**

The School District has established a Debt Service Fund to account for the accumulation of resources and the payment of principal and interest on long-term general obligation debt. During our audit, we noted that the School District has accounted for its principal and interest obligations relating to serial bonds and energy performance contract debt in the Debt Service Fund, however, the School District budgets and records the activity relating to installment purchase debt in the General Fund.

Recommendation

We recommend that all long-term general obligation debt be recorded in the Debt Service Fund.

- **Internal Controls – Walkthroughs of Transactions**

A part of our audit of the School District's financial statements, we review, evaluate and test controls with respect to payroll, claims and purchasing and cash receipts cycles. Our tests of transactions for the current year indicated that the following areas are in need of improvement.

Payroll/User Access Reports

During our audit, we noted that the Payroll Department has the capability to add and activate employees in the payroll system without authorization from the Personnel Department.

Rockville Centre Union Free School District, New York

Addendum A

Control Deficiencies

• **Internal Controls – Walkthroughs of Transactions** *(Continued)*

Payroll/User Access Reports (Continued)

Recommendation

We recommend that the addition and activation functions of payroll be segregated by department. Only the Personnel Department should be able to add new employees and only the Payroll Department should be able to activate new employees. These practices will better segregate duties and identify only unauthorized payroll changes significantly improving internal controls over the payroll process. We have been advised that this has been corrected by the Business Office and Personnel Department.

Rockville Centre Union Free School District, New York

Addendum B

Other Matters

- **Governmental Accounting Standards Board (“GASB”) Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions”**

In June 2015, GASB issued Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.” This Statement replaces the requirements of GASB Statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions”. The key difference in the new standard for New York municipalities and school districts (since New York State has not authorized the establishment of an Other Postemployment Benefit (“OPEB”) trust fund) is that these governments must now report the *total OPEB liability* related to their employees. The prior standard allowed for the amortization of prior service cost over a thirty year period.

The statement requires municipalities and school districts to present more extensive note disclosures and required supplementary information (“RSI”) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than that assumed in the financial statements. The new RSI includes a schedule showing the causes of the increase and decreases in the OPEB liability and a schedule comparing a government’s actual OPEB contributions to its contribution requirements.

This new standard parallels the pension standard in GASB Statement No. 68 “Accounting and Financial Reporting for Pensions”. Together, these two new standards provide consistent and comprehensive disclosure for all postemployment benefits. **The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (i.e., the School District’s financial statements for the year ending June 30, 2018).**

- **GASB Statement No. 77 “Tax Abatement Disclosures”**

In August 2015, GASB issued Statement No. 77 “Tax Abatement Disclosures”. The requirements of this Statement are intended to improve financial reporting by providing users of financial statements essential information and disclosure about the nature and magnitude of tax abatements, making these types of transactions more transparent to financial statement users. As a result, users should be better equipped to understand how tax abatements affect a government’s future ability to raise resources and meet its financial obligations and the impact those abatements have on a government’s financial position and economic condition.

The statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues. The new disclosures about one’s own tax abatement agreements include:

- The purpose of the abatement program
- The tax being abated
- Dollar amount of taxes abated
- Provisions for recapturing abated taxes
- The types of commitments made by tax abatement recipients
- Other commitments made by the entity in tax abatement agreements, such as to build infrastructure assets

Rockville Centre Union Free School District, New York

Addendum B

Other Matters

• **GASB Statement No. 77 “Tax Abatement Disclosures” (Continued)**

The new disclosures about tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues include:

- The name of the government entering into the abatement agreement
- The tax being abated
- Dollar amount of the reporting government’s taxes abated

The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (i.e., the School District’s financial statements for the year ending June 30, 2017).

Rockville Centre Union Free School District, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

We have audited the financial statements of the Rockville Centre Union Free School District, New York ("School District") as of and for the year ended June 30, 2016, and have issued our report thereon dated October 6, 2016. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated April 13, 2015. These letters provides additional required communications related to our audit.

Our responsibility under professional standards

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the School District are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

Our responsibility for the supplementary information accompanying the financial statements is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to such supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with US GAAP, the method of preparing it has not changed from the prior year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In connection with our audit, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the School District's compliance with the types of compliance requirements described in the "Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the School District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it does not provide a legal determination on the School District's compliance with those requirements.

Planned scope and timing of the audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Rockville Centre Union Free School District, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

Qualitative aspects of significant accounting practices

Significant accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant accounting estimates

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as:

- Actuarial assumptions related to the Other Post Employment Benefit Obligations ("OPEB")
- Actuarial assumptions and proportionate share calculations related to pension obligations
- Asset lives for depreciable capital assets
- Estimates of certain receivable balances and allowances for uncollectible amounts
- Estimates for certain operating and long-term liabilities

Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Financial statement disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to:

- Pension plan information
- Other post employment benefit obligations payable
- Outstanding bonded indebtedness
- Fund balances

The financial statement disclosures are consistent and clear.

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Rockville Centre Union Free School District, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

Uncorrected and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction. There are no such financial statement misstatements that remain uncorrected.

In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The adjusted journal entries following this communication letter summarize the material misstatements that were corrected by management.

Disagreements with management

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations requested from management

We have requested certain written representations from management in a separate letter dated October 6, 2016.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other matters discussed with management

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

We have provided our comments regarding deficiencies and other matters noted during our audit in the attached addenda.

Auditor independence

We affirm that PKF O'Connor Davies, LLP is independent with respect to the School District in accordance with professional standards.

This communication is intended solely for the information and use of the Board of Education and management of the School District, is not intended to be, and should not be used by anyone other than these specified parties.

Rockville Centre Union Free School District, New York

Material Adjusting Journal Entries

Client: **545023.001 - Rockville Centre Union Free School District**
 Engagement: **Rockville Centre Union Free School District**
 Period Ending: **6/30/2015**
 Trial Balance: **General Fund**
 Workpaper: **7110.03 - General Fund - AJE Report**

Account	Description	W/P Ref	Debit	Credit
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Adjusting Journal Entries JE # 3

to reserve for capital fund deficit

A909	FUND BALANCE, UNRESERVED		264,174.00	
A912	RESERVE FOR ADVANCE			264,174.00
Total			<u>264,174.00</u>	<u>264,174.00</u>

Client: **545023.001 - Rockville Centre Union Free School District**
 Engagement: **Rockville Centre Union Free School District**
 Period Ending: **6/30/2015**
 Trial Balance: **7190.00 - Permanent**
 Workpaper: **7190.03 - Permanent Fund - AJE Report**

Account	Description	W/P Ref	Debit	Credit
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Adjusting Journal Entries JE # 1

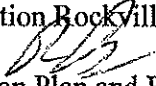
to correct fund balance and account for investment in securities gain.

PN899	OTHER RESTRICTED FUND BALANCE		91,182.00	
PN 980	Revenue - change in fair value			91,182.00
Total			<u>91,182.00</u>	<u>91,182.00</u>

Rockville Centre Union Free School District

CORRECTIVE ACTION PLAN

To: William H. Johnson, Ed.D., Superintendent of Schools
Board of Education Rockville Centre UFSD

From: Robert Bartels 

Subject: Corrective Action Plan and Response to Communication of Internal
Control Matters Identified in the Audit to Those Charged with Governance
and Management, dated June 30, 2016

Date: April 20, 2017

The Communication of Internal Control Matters Identified in the Audit to Those Charged with Governance and Management submitted by O'Connor Davies, LLP contained a number of comments and recommendations to strengthen our internal controls and operations. These recommendations have been thoroughly reviewed and responses and corrective actions identified as necessary. Each of those responses and corrective actions is listed in detail below following the audit findings as they were presented in the report. Numbers have been assigned to each of the recommendations to assist in future discussions and reports on the status of these findings and corrective actions. It should be noted that the auditors did not identify any material weaknesses. It should also be noted that while all of the audit recommendations would add additional controls, there will always be additional controls to be recommended. Each recommendation has been reviewed and responded to as deemed appropriate by the business office.

General Fund

Budgetary Data

1. Recommendation

We recommend that transfers between appropriation accounts, at the program line item of expenditures level, require the approval by the Board of Education.

Response

Agreed. Final budgetary entries will be approved by the Board of Education.

Person Responsible for Implementation:

District Treasurer and Assistant Superintendent for Business

School Lunch Fund

Financial Results and Potential Deficit Fund Balance

2. Recommendation

The School District continues to closely monitor the operations of the School Lunch Fund. Management, in cooperation with the Board of Education, has identified other strategies to accomplish profitability, inclusive of meal price increases. We recommend that the School District continue to pursue these initiatives with a well-documented plan, allocate associated benefit costs to the School Lunch Fund and continue to monitor the operating results of the School Lunch program to avoid the potential of a deficit fund balance.

Response

Agreed. The results of operations of the School Lunch program have been closely monitored on a monthly basis during the 2016-17 school year. Strategies to improve operations continue to be discussed in order to avoid future deficits. In order to foster the School Lunch operations, a transfer from the General Fund to the School Lunch Fund is being proposed in the 2017-2018 Budget.

Person Responsible for Implementation:

Assistant Superintendent for Business.

Permanent Fund

Investment in Stock Certificates

3. Recommendation

We recommend that the School District investigate the legal restrictions, custodial credit risk and other options available to the School District in connection with the stock holdings of the Alfred E. Ives, Jr. Scholarship. We also suggest that the School District consult with their legal counsel to determine if such investments should be placed in the custody of a trustee and if on an annual basis, such awarded amounts should be placed in an escrow account.

Response

Agreed. Administration has and will continue to consult with legal counsel regarding the stock holdings in the above referenced scholarship fund. The District has been unable to determine a workable solution to this recommendation since the revenue generated by the stock holdings has provided a substantial scholarship to a deserving student each year. The Treasurer/Accountant will investigate the use of an escrow account to separate amounts already awarded.

Person Responsible for Implementation:

District Treasurer and Assistant Superintendent for Business

Extraclassroom Activity Funds

4. Recommendation

State Education Regulations provide that inactive funds shall remain in the custody of the Central Treasurer for six months and then either expended by vote of the organization controlling the funds as provided for in the bylaws or transferred to the general student organization or student council. 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.

Response

Agreed. The Central Treasurer will investigate clubs with no financial activity to determine the proper disposition of the funds.

Person Responsible for Implementation:

Central Treasurers and District Treasurer.

Cash Receipts

5. Recommendation

We recommend all cash receipts be deposited no later than three business days (72 hours) from the date of receipt.

Response

Agreed. Although all funds are kept in the school safe prior to being deposited, the Central Treasurers are aware of the above recommendation and will make every attempt to comply.

Person Responsible for Implementation:

Central Treasurers and District Treasurer.

Confirmation of Club Balances

6. Recommendation

We recommend that the High School and Middle School establish procedures requiring the Central Treasurer to print and distribute the club balance statements and require each club including the principal/advisor and student treasurer to sign off on the statement documenting that the records are in agreement with the Central Treasurer statements. Such process should be performed periodically during the year and at the end of the school year.

Response

Agreed. The Central Treasurers at both the High School and the Middle School will require the principal/advisor and student treasurer of each club to sign off on a statement documenting that the club records are in agreement with the Central Treasurer statements. This recommendation has been implemented in the 2015-2016 school year by the Middle School Central Treasurer and will be implemented in the 2016-2017 school year by the High School Central Treasurer.

Person Responsible for Implementation:

Central Treasurers and District Treasurer.

Debt Service Fund

7. Recommendation

We recommend that all long-term general obligation debt be recorded in the Debt Service Fund.

Response

Agreed. The activity relating to installment purchase debt is currently being recorded in the Debt Service Fund.

Person Responsible for Implementation:

Central Treasurers and District Treasurer.

Internal Controls – Walkthroughs of Transactions

8. Recommendation

We recommend that the addition and activation functions of payroll be segregated by department. Only the Personnel Department should be able to add new employees and only the Payroll Department should be able to activate new employees. These practices will better segregate duties and identify only unauthorized payroll changes significantly improving internal

controls over the payroll process. We have been advised that this has been corrected by the Business Office and Personnel Department.

Response

Agreed. The procedures followed by the Payroll and Personnel Departments included the addition of new employees by the Personnel Department and the activation of new employees by the Payroll Department. The Permissions in the District's financial software, however, needed to reflect these procedures. We have since corrected the permissions.

Person Responsible for Implementation:

District Treasurer and Assistant Superintendent for Business.