

October 7, 2008

CONFIDENTIAL

Mr. Anthony Falco  
Board of Education  
Sachem Central School District  
245 Union Avenue  
Holbrook, New York 11741

Dear Mr. Falco:

In planning and performing our audit of the financial statements of the governmental activities, each major fund and the fiduciary funds of the Sachem Central School District (District) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Sachem Central School District's internal control over financial reporting (internal controls) as a basis for designing our auditing procedures 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We have identified the following findings and recommendations on how to improve the District's internal controls.

## **CURRENT YEAR FINDINGS**

### **BUDGETING**

#### **Budget Transfers**

During our audit we noted that although the Board minutes reference budget transfers, they do not reflect the dollar amount of each budget transfer. We recommend that a detailed list showing the amount of the budget transfer be included in the board minutes. We noted that this procedure has been implemented in the 2008-2009 school year. We also noted that although the Board of Education passed a resolution changing the threshold for Board approval of budget transfers, the Board policy has not been updated to reflect the new \$50,000 threshold instituted in the 2007/2008 school year. We recommend the Board policy be updated to reflect the current practice for budget transfers.

### **CASH MANAGEMENT**

#### **Authorized Signers**

During our audit we noted that three of the Assistant Superintendents are authorized signers on the District's cash accounts. Since an Assistant Superintendent can approve transactions, it would be advantageous for these individuals not to be authorized signers. We recommend that the Treasurer, District Clerk and Director of Federal Funds be the authorized signers for the District's cash accounts.

### **COMPUTER CONTROLS**

#### **Permissions**

During our audit we again noted that the Technology Director has full access to the accounting software and underlying source code. We also again noted that an audit trail cannot be printed in order for an administrator to review. We also noted that several of the business office staff appear to have permissions that may not be consistent with their job functions. We are aware that the District will be upgrading their accounting system on January 1, 2009 and would recommend a full review of all staff permissions to determine if

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all permissions are consistent with job functions prior to the transition. We also recommend the District meet with the software vendor to ascertain that the new system will be able to produce an audit trail for the Technology Director.

### **EXTRA CLASSROOM ACCOUNTS**

The District has established extra classroom activity accounts to maintain student activities and funds. The New York Education Department has published guidelines governing the proper procedures and policies governing the extra classroom accounts and transactions.

Although we have noted substantial improvement in the extraclassroom activity accounts, during our review of all the District's extra classroom activity accounts we noted the following in some cases:

- Missing original invoices and/or proper approvals in five of fifteen instances tested at Sachem North, Sagamore Middle and Lynwood Elementary.
- Missing charters for clubs at Lynwood Elementary.
- Missing supporting documentation for monies received in fifteen of fifteen instances tested in Sachem North, Sagamore Middle and Lynwood Elementary.
- Invoices are not properly cancelled after payment, in Sachem North and Lynwood in eight of ten instances.

The District's internal auditors have reviewed the extraclassroom accounts and we recommend they continue reviewing these accounts during the year. We would also recommend continuing the training of the extra classroom treasurers and advisors of the proper procedures required by the State Education Department.

### **FISCAL ACCOUNTABILITY LEGISLATION**

#### **School Board Training**

As required by the New York State Fiscal Accountability Legislation, all school board members are required to complete six hours of training in the first year of their term, beginning after July 1, 2005. During our audit we noted one board member did not attend the required board training. We recommend the District ensure that all appropriate board members receive the required training per state education guidelines.

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### **PAYROLL**

During our audit we noted bus drivers and monitors have a 90 day probationary period during which they are paid at 90% of contract rate. This procedure is based on past practice, not contractual stipulation. The employment contract does not refer to this practice. We recommend bus drivers and monitors be paid based on negotiated terms in their employment contract rather than past practice.

### **PERSONNEL**

#### **Attendance**

During our audit we noted that attendance records for administrators, food service workers and child care workers are recorded using a manual system. Administrators' attendance is entered on *Pentamation*, the computerized accounting program, several months after the fact. The food service workers' and child care workers' attendance are not entered on the computer system. Although we did not note any discrepancies in our testing, we recommend that all attendance records be entered on the computer system to ensure consistency and accuracy.

We also noted during our audit that attendance reports that are sent by each school do not contain an approval signature by the principal. We recommend the attendance reports are reviewed and approved by the building principals.

We noted that employees in the buildings and grounds department use sign in sheets to record their daily attendance. We recommend a computerized system be implemented to further ensure consistency and accuracy.

### **PURCHASING AND EXPENDITURES**

#### **Confirming Purchase Orders**

During our audit we noted in eight of seventy three purchase orders tested that the invoice predated the purchase order. We did note however the District has a procedure in place to monitor confirming purchase orders, and that the District has shown improvement in this area. The procedure requires that the individual responsible for a confirming purchase order provide an explanation. The use of purchase orders prior to ordering goods or services ensures that purchases are properly authorized. We understand that in some cases these may be emergencies, but, we recommend in general that an approved purchase order be issued prior to purchasing goods or services in accordance with General Municipal Law and the District's Purchasing Policy. We recommend the District continue monitoring confirming purchase orders

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#### **Purchase Orders**

During our audit we noted the District has computerized the purchase order procedure, but the purchase orders are not integrated into the *Pentamation* program. We recommend the District review with the software vendor possibilities of integrating the purchase order procedure into the *Pentamation* program.

#### **Canceling for Payment**

The District has a procedure in place for the canceling of paid invoices, although during our audit we noted that eight of seventy three voucher packages tested were not properly cancelled for payment by the internal claims auditor. We recommend that all invoices be stamped paid. This measure will avoid potential duplicate payment of invoices.

### **STATUS OF PRIOR YEAR FINDINGS**

#### **CASH MANAGEMENT**

##### **Adult Education**

**FINDING:** During our prior year audit we were unable to trace student deposits to deposit slips and bank statements for most of the adult education participants as they were not listed on the deposit slips. We recommended that the District maintain cash received and related receipt numbers for each student in each class on the class attendance record. Each class deposit should then be totaled and listed on the deposit slip.

**STATUS:** **Implemented.** The District implemented a new procedure for reconciling cash receipts for adult education classes.

##### **Petty Cash**

**FINDING:** During our prior year audit we noted that at Tecumseh Elementary School, three items paid for out of petty cash were between thirty and fifty dollars. We also noted that the petty cash balance was \$26.97 over the imprest balance. At the Office of Student Services all items reimbursed were for mileage. We recommended that disbursements from petty cash funds be restricted to those under a predetermined threshold (i.e. \$20.00) and that mileage reimbursements be paid through the purchasing system. We understand the internal auditors were reviewing the petty cash accounts. We recommended continuing this practice.

**STATUS:** **Implemented.** The Assistant Superintendent for Business has communicated to the principals that the threshold for petty cash is no more

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than twenty five dollars, and that mileage must be reimbursed through a purchase order. We recommend incorporating the threshold into the petty cash policy.

#### **Investigating Old Outstanding Checks**

**FINDING:** During our prior year audit we noted some old outstanding checks, some over one year old are being carried on monthly bank reconciliations. We recommended the District adopt a policy and procedure for old outstanding checks including periodic reviews, follow up letters and when and what dollar amount of checks should be written off.

**STATUS:** **Implemented.** We noted that District staff, along with the internal auditors have developed guidelines and procedures for monitoring outstanding checks. However, we did note during our current year audit that checks over one year old are still being carried on the bank reconciliation.

### **BUDGETING**

#### **Budget Transfers**

**FINDING:** During our prior year audit we noted that budget transfers in excess of a threshold are not required to have Board of Education approval. We recommended that the Board of Education policy addressing budget transfers be reviewed and updated to include the establishment of a dollar threshold for approval by the Superintendent that is reasonable to the District and demonstrates Board involvement. Additionally, all transfers over the specified limit should be Board approved prior to recording the budget transfer into the accounting software system.

**STATUS:** **Partially Implemented.** A budget transfer threshold has been established and a procedure put into place, however we noted the Board policy has not been updated to reflect the current practice.

#### **Journal Entries**

**FINDING:** During our prior year audit we noted that in most cases journal entry backup did not contain a formal journal entry form. We also noted that in most cases journal entries appear to contain administrative approval dated after the entry was made. We recommended that all journal entries be



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initiated using a formal journal entry form with an approval by an administrator prior to the entry being made in the accounting software.

**STATUS:** **Implemented.** The District now utilizes a formal journal entry form with an approval by an administrator.

### **COMPUTER CONTROLS**

#### **Permissions**

**FINDING:** During our prior year audit we noted that the Technology Director has full access to the accounting software and underlying source code. We also noted that one of the staff persons in the technology department has extensive permissions within the Pentamotion system. We recommended that both accesses be reviewed and restricted, and periodic reviews of audit trails be conducted by the internal auditor as a compensating control. If an audit trail is not available for these individuals, we recommended that the District request from the software provider that this be made available. We understand the District is in the process of reviewing new software companies.

**STATUS:** The District is upgrading to a new web based software that will be implemented in the 2008-2009 school year. The District is researching whether the new system will be able to produce an audit trail for the Technology Director.

#### **Passwords**

**FINDING:** During our prior year audit we noted that the technology department maintains a spreadsheet of all passwords and passwords are not required to be changed every 60 to 90 days. We also noted that if employees forget or lose their password, their passwords can not be reset, thus requiring a master listing of passwords in the technology department. This appears to be a limitation to the current accounting system. We recommended reviewing these features with the software vendor to ensure that passwords are properly protected. We understand the District is in the process of reviewing new software companies.

**STATUS:** **In process.** The District is researching whether the new web based system will include a requirement for changing passwords.

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### **EXTRA CLASSROOM ACCOUNTS**

**FINDING:** The District has established extra classroom activity accounts to maintain student activities and funds. The New York Education Department has published guidelines governing the proper procedures and policies governing the extra classroom accounts and transactions.

During our prior year review of all the District's extra classroom activity accounts we noted the following in some cases:

- Missing original invoices and/or proper approvals.
- Missing charters for clubs or incomplete charters.
- Clubs are not paying sales tax for taxable purchases.
- There are negative balances at June 30, 2007 in High School North.
- Missing supporting documentation for cash received.
- Invoices are not properly cancelled after payment.
- The shipping address for one purchase of a digital camera was sent to a residence.
- Sagamore Middle School maintained its cash in a savings bank as opposed to a commercial bank, which is in violation of General Municipal Law Section 11.

**STATUS:** **Substantially implemented.** The District has improved their extraclassroom practices although there were findings in the current year.

### **PAYROLL**

#### **Fringe Benefits**

**FINDING:** During our prior year audit we noted that three out of four people tested did not have the premium paid by the District for \$100,000 Term Life Insurance fringe benefit included on their Form W-2 as required. We recommended that the District comply with Internal Revenue Service regulations and include all taxable fringe benefits on the W-2 of appropriate employees.

**STATUS:** **Implemented.** This has been changed on the 2007 IRS W-2 forms.



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## **PURCHASING AND EXPENDITURES**

### **Confirming Purchase Orders**

**FINDING:** During our prior year audit we noted in thirteen of one hundred fifteen instances that the invoice predated the purchase order. The use of purchase orders prior to ordering goods or services ensures that purchases are properly authorized. We understand that in some cases these may be emergencies, but, we recommended in general that an approved purchase order be issued prior to purchasing goods or services in accordance with General Municipal Law and the District's Purchasing Policy.

**STATUS:** **Substantially implemented.** The District has a practice of sending a letter to the individual responsible for a confirming purchase order requesting an explanation for not complying with the District's purchasing policy. The current practice is that an explanation is provided by the individual either on the purchase order or on a separate letter in the voucher package. If the explanation is not accepted by the internal claims auditor and the purchasing agent, then the purchase is not processed. However, during our current year audit we did note in eight out of seventy-three instances that the invoice predated the purchase order.

### **Purchase Orders**

**FINDING:** During our prior year audit we noted that purchase orders are typed manually. Changes to purchase orders are also done manually. We recommended that the District review with the software vendor options for future computerization of the purchase order requisition system.

**STATUS:** **Substantially Implemented.** During our audit we noted the District has computerized the purchase order procedure, but the purchase orders are not integrated into the *Pentamation* program. We recommend the District review with the software vendor possibilities of integrating the purchase order procedure into the *Pentamation* program.

\* \* \* \* \*

The foregoing conditions were considered in determining the nature, timing and extent of audit tests to be applied in our audit of the financial statements, and this report of such

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conditions does not modify our report on such financial statements.

We would like to acknowledge the courtesy and assistance extended to us by personnel of the District and also compliment the business office on their excellent financial operations during our audit. Should you have any questions concerning the matters referred to in this letter, we shall be pleased to discuss them with you, at your convenience.

Very truly yours,

*R.S. Abrams + Co. LLP*

R.S. Abrams & Co., LLP

October 7, 2008

The Board of Education  
Sachem Central School District  
Holbrook, New York

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sachem Central School District (the "District") for the year ended June 30, 2008, and have issued our report thereon dated October 7, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we consider the internal control of the district. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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 OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

#### Our Responsibility for Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in our report and we have no professional obligation to perform procedures to corroborate such other information. In the event the financial statements are incorporated into a printed document, please forward a printer's proof for our approval before final production.

#### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. The District implemented GASB 45, "Accounting and Reporting by Employers for Post Employment Benefits other than Pensions" during the year then ended June 30, 2008. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management feels that their estimates are reasonable in relation to the financial statements taken as a whole.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the district's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Very truly yours,

*R.S. Abrams & Co., LLP*

R.S. Abrams & Co., LLP