

November 3, 2009

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, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the 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.

During our current year audit, we have identified several areas in which the District's internal controls can be improved.

The following is our findings and recommendations relating to our current year audit. These recommendations are provided to assist management and those charged with governance in improving accounting and administrative controls and procedures. In addition, we have also included the Status of Prior Year Recommendations.

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BOARD GOVERNANCE

Cell Phones

During our audit we noted that the list of authorized users requiring district-owned cell phones was not reported to the Board of Education, the "Board," for its approval at its reorganizational meeting in July 2008, which is required by Board policy. We recommended that the District adhere to the Board policy regarding cell phone users and submit the list of authorized users to the Board for approval each school year. We understand that the Board approved the list of authorized cell phone users for the 2009-2010 school year at its reorganizational meeting in July 2009.

BUDGETING

Budget Transfers

During our audit we noted several instances where budget transfers were made into an equipment code, which is a non-contingent expenditure code. According to §170.2(1) of the Commissioner's Regulations, budget transfers made from a contingent expenditure code to a non-contingent expenditure code are not allowed. In addition, this regulation does not allow transfers to be made between non-contingent expenditure codes. We recommend the District strictly adhere to this regulation.

CAPITAL ASSETS

We noted the District does not have a capitalization policy and that technology related capital assets are not properly tagged when received to facilitate tracking inventory during the year. We recommend the District implement a policy for capitalization and depreciation of capital assets and implement a system to track the technology related capital assets during the year to ensure that proper controls are in place to safeguard the District's capital assets.

During our audit we noted that BOCES owned computers are included in the District's capital asset inventory. We recommend that the District review its capital asset inventory to ensure that only District owned items are included in the capital asset inventory. We understand that the District plans on completing a full capital asset valuation during the 2009-2010 school year.

CASH MANAGEMENT

Adult Education Cash Receipts

During our audit we noted the secretary in the adult education department retains the checks received for adult education classes until the day classes begin resulting in a time lag

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between the receipt of funds and the deposit into the bank. We recommend depositing monies on a more timely basis in order to properly secure District funds.

Cash Receipts

During our audit we noted in eight out of forty instances at least a one month time lag between the receipt of funds at the different District locations and the deposit into the bank. In addition, out of those eight instances, we noted three cash receipts include monies collected by the different District locations in the prior school year. We recommend depositing monies on a more timely basis in order to properly secure District funds and improve interest earnings. In addition, we recommend that monies collected by the various District locations be forwarded to the business office in a more timely manner for deposit.

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 for review by an administrator. We also noted that several of the business office staff appear to have permissions that may be inconsistent with their job functions. We are aware that the District will be upgrading their accounting system on January 1, 2010 and we would recommend a full review of all staff permissions to determine if 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 or have his access limited.

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 the District's extra classroom activity accounts in Hiawatha Elementary School, Samoset Middle School and Sachem East High School we noted the following in some cases:

- Sales tax was not paid in four out of ten instances tested at Sachem East High School and Hiawatha Elementary.
- Photocopies of checks being submitted for deposit are not maintained as

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- supporting documentation for the cash receipt in Samoset Middle School, Hiawatha Elementary and Sachem East High School.
- Pre-numbered, pre-printed cash receipts are not utilized in Sachem East High School.
 - Stop payments are not issued for disbursement checks that are considered lost in Sachem East High School.
 - The faculty advisors are responsible for making deposits rather than the central treasurer in Sachem East High School.
 - Profit and loss statements are not prepared for fundraising activities in Hiawatha Elementary School and Sachem East High School.
 - A computerized software program is not being utilized by the central treasurers for the tracking of cash receipts and disbursements.

We recommend the District continue the training of the extraclassroom treasurers and advisors of the proper procedures required by the State Education Department.

FEDERAL FUND

Salary Certification – Federal Grants

During our audit we noted that the District did not have payroll certification Form Circular A-87, H (3) for all employees being paid through the Title IIA grant. We recommend that the District ensure that each employee complete a payroll certification Form Circular A-87, H (3) to assist the District in monitoring federal grant salary expenditures.

Student Files

During our audit we noted that the room in which special education student files are maintained is not locked at all times therefore making it accessible to unauthorized personnel. We recommend that the District ensure that the room is locked at all times and only authorized personnel have access to the student files. We understand that the District plans on installing an automatic door closer which will lock the room upon exiting.

IRS COMPLIANCE

IRS W-9 Forms

During our audit we again noted that the District does not have IRS W-9 Forms on file for all vendors. We noted seven out of thirteen instances where the District did not have an IRS W-9 form for a vendor. We recommend the District follow up on IRS W-9 forms that have been sent to the vendors but not returned.

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PAYROLL

Defensive Driving Instructor Rates

During our audit we noted that the rate of pay for the defensive driving instructor was not approved by the Board prior to payment being rendered. We recommend that all rates of pay be approved by the Board prior to payment being rendered. We understand that the District is in the process of obtaining Board approval for the rate of pay for the defensive driving instructor.

Employment Contracts

During our audit we again 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. We understand the District is in the process of creating a memorandum of agreement that will address this past practice.

Literacy Coach Stipend

During our audit we noted the rate of pay for the stipend that the District paid literacy coaches could not be traced to the Board minutes. We recommended that the rate of pay for all stipends that are not covered by an employment contract be approved by the Board of Education, and be reflected in the Board minutes and job titles and descriptions be examined before all stipends are authorized for payment. We understand the District is in the process of obtaining Board approval for the rate of pay for the literacy coach stipend.

PERSONNEL

Attendance

During our audit we noted that various employees within the District use sign in sheets to record their daily attendance. We recommend a computerized system be implemented to further ensure consistency and accuracy.

During our audit we noted that although the year-end attendance rollover figures are verified by the personnel department, an appropriate administrator does not review the attendance figures after the year end rollover procedures have taken place. We recommend that in preparation for both before and after year-end rollover, an administrator should verify and sign off that attendance data has been reviewed to ensure that the proper amount of days are being carried forward as per contract stipulations.

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PURCHASING AND EXPENDITURES

Confirming Purchase Orders

During our audit we noted in four of forty 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

Purchase Orders

During our audit we again 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. We understand that the District has purchased a web-based module, with an implementation date of January 1, 2010, that will address this issue.

Canceling for Payment

The District has a procedure in place for the canceling of paid invoices, although during our audit we noted that four of forty 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.

SCHOOL LUNCH FUND

Fund Balance – Operating Loss

During our audit we noted the school lunch fund had an operating loss in the amount of \$54,152. Although the school lunch fund maintained a positive fund balance, we recommend that the District ensure that the operations are self-sustaining by monitoring the revenues and expenditures during the year.

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STATUS OF PRIOR YEAR RECOMMENDATIONS

BUDGETING

Budget Transfers

FINDING: During our prior year audit we noted that although the Board minutes reference budget transfers, they did not reflect the dollar amount of each budget transfer. We recommended that a detailed list showing the amount of the budget transfer be included in the board minutes. We noted that this procedure was 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 had not been updated to reflect the new \$50,000 threshold instituted in the 2007/2008 school year. We recommended the Board policy be updated to reflect the current practice for budget transfers.

STATUS: **Implemented.**

CASH MANAGEMENT

Authorized Signers

FINDING: During our prior year audit we noted that three of the Assistant Superintendents were 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 recommended that the Treasurer, District Clerk and Director of Federal Funds be the authorized signers for the District's cash accounts.

STATUS: **Implemented.**

COMPUTER CONTROLS

Permissions

FINDING: During our prior year audit we again noted that the Technology Director has full access to the accounting software and underlying source code. We also

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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 were aware that the District will be upgrading their accounting system on January 1, 2009 and recommended a full review of all staff permissions to determine if all permissions are consistent with job functions prior to the transition. We also recommended 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.

STATUS: **Not Implemented.** However, we understand that the District has purchased a web-based module, with an implementation date of January 1, 2010, which will address the above issues.

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.

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 had reviewed the extraclassroom accounts and we recommended they continue reviewing these accounts during the year. We also recommended continuing the training of the extra classroom treasurers and advisors of the proper procedures required by the State Education Department.

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STATUS: **Partially Implemented.** Refer to current year findings for comments related to the extraclassroom accounts.

FISCAL ACCOUNTABILITY LEGISLATION

School Board Training

FINDING: 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 prior year audit we noted one board member did not attend the required board training. We recommended the District ensure that all appropriate board members receive the required training per state education guidelines.

STATUS: **Implemented.**

PAYROLL

FINDING: During our prior year audit we noted bus drivers and monitors have a 90 day probationary period during which they were 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 recommended bus drivers and monitors be paid based on negotiated terms in their employment contract rather than past practice.

STATUS: **Not Implemented.**

PERSONNEL

Attendance

FINDING: During our prior year audit we noted that attendance records for administrators, food service workers and child care workers were recorded using a manual system. Administrators' attendance was entered on *Pentamation*, the computerized accounting program, several months after the fact. The food service workers' and child care workers' attendance were not entered on the computer system. Although we did not note any discrepancies in our testing, we recommended that all attendance records

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be entered on the computer system to ensure consistency and accuracy.

We also noted during our prior year audit that attendance reports that are sent by each school do not contain an approval signature by the principal. We recommended 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 recommended a computerized system be implemented to further ensure consistency and accuracy.

STATUS: **Substantially Implemented.** During our current year audit we noted that the food service workers' and administrators' attendance is recorded on Pentamation. The District has implemented proper procedures to review and approve daily attendance. However, we noted that the buildings and grounds department continue to use sign-in sheets to record their daily attendance.

PURCHASING AND EXPENDITURES

Confirming Purchase Orders

FINDING: During our prior year audit we noted in eight of seventy three purchase orders tested that the invoice predated the purchase order. We did note however the District had 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 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. We recommended the District continue monitoring confirming purchase orders.

STATUS: **Partially Implemented.** During our current year audit we noted four out of forty instances in which the invoice predated the purchase order.

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Purchase Orders

FINDING: During our prior year audit we noted the District had computerized the purchase order procedure, but the purchase orders were not integrated into the *Pentamation* program. We recommended the District review with the software vendor possibilities of integrating the purchase order procedure into the *Pentamation* program.

STATUS: **Not Implemented.**

Canceling for Payment

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

STATUS: **Partially Implemented.** During our current year audit we noted that four out of forty voucher packages tested were not properly cancelled after payment.

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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 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.

This communication is intended solely for the information and use of the Board of Education, the audit committee, management, federal awarding agencies and pass-

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through entities 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
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