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CONFIDENTIAL

The Board of Education
Sachem Central School District:

Dear Board Members:

We have audited the financial statements of the Sachem Central School District (the District) for the year ended June 30, 2010. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. We now present for your consideration our comments and recommendations based upon observations made during our audit.

This report is intended solely for the information and use of management, the Board of Education and others within the District.

Employee Personnel Files

We noted that employee personnel files are not uniformly organized and often lacked complete documentation. We examined a sample of 60 personnel files. Our findings were as follows: 23 lacked sufficient information to document the employee's rate of pay; 14 lacked acknowledgement of receipt of the employee handbook; 13 lacked federal Form I-9; 8 lacked drivers license or social security number identification; and, 1 lacked a staff evaluation. We recommend that the Human Resources Department update its procedures for completing employee personnel files in order to comply with federal laws, in order to protect the District from potential lawsuits, and to ensure that employees are paid the proper amounts.

Extraclassroom Activity Funds - Lack of Accounting System

The District's 18 Extraclassroom Activity Funds use a variety of methods to track and record financial activity. An accounting system is important for organizing financial data and posting transactions. The lack of a uniform accounting system has resulted in a lack of consistency in reporting transactions and difficulty in verifying activities clearing the bank accounts. We recommend that the District provide a software package to the various treasurers to improve financial control and reporting.

Extraclassroom Activity Funds - Transfer Authorization Dockets

Transfers of funds between clubs within the Extraclassroom Activity Funds require an authorization docket. The current Transfer Authorization Docket does not provide for a signature from a student representative. We recommend that a signature from a student representative be required on all Transfer Authorization Dockets and that the form be so modified.

Accounts Payable

Our testing of transactions at year-end detected certain items that should have been recorded as accounts payable that were not, and an item that was included in accounts payable that was not received until after June 30. Accounts payable should be recorded based on the actual date of receipt of the goods or services provided to the District. We recommend that the District adhere to that policy in the recognition of year-end payables.

General Fixed Assets and Long-Term Debt

We noted during the audit that the District does not maintain ledgers within its accounting software for fixed assets or long-term debt. In order to improve internal control over the financial reporting system of the District, we recommend that proper accounting records be maintained for all aspects of the District's business, including the fixed asset and long-term debt account groups.

Previous Recommendations

We reviewed the disposition of recommendations included in the previous auditors' letter dated November 3, 2009. The following is a summary of the action taken by the District with regard to the recommendations.

Board Governance - Cell Phones - In 2009, it was noted that the list of authorized users requiring District-owned cell phones was not reported to the Board of Education for its approval at its reorganizational meeting in July 2008, which is required by Board Policy. It was 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 year. The Board approved the list of authorized cell phone users for the 2009-2010 school year at its reorganizational meeting in July 2009. The issue has been resolved.

Budget Transfers - In 2009, it was noted that several 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. It was recommended that the District adhere to this regulation. We examined the equipment and capital addition accounts and noted that all expenditures were budgeted to those line items, except a transfer to the capital projects fund in the amount of \$3,500,000 for an emergency roof repair, which is considered a contingent line item. The issue has been resolved.

Capital Assets - In 2009, it was noted that the District did not have a capitalization policy and that technology-related capital assets were not properly tagged when received to facilitate tracking inventory during the year. It was recommended that the District implement a policy for capitalization and depreciation of capital assets during the year to ensure that proper controls are in place to safeguard its capital assets. It was also noted that BOCES-owned computers were included in the District's capital asset inventory. It was recommended that the District review its capital asset inventory to ensure that only District-owned items are included in the capital asset inventory. We reviewed the District's adopted capital asset policy and consultant's valuation for capital assets. The issue has been resolved.

Cash Management - Adult Education Cash Receipts - In 2009, it was noted that the secretary in the adult education department retained checks received for adult education classes until the day classes began, resulting in a time lag between the District's receipt of funds and the deposit into the bank. It was recommended that the District deposit monies on a more timely basis. The District has a contract for 2010/2011 with MasterCard Pay For It, an internet based payment service provider. This payment processing method will significantly reduce the number of checks being received by various departments in the future. The issue has been resolved.

Cash Management - Cash Receipts - In 2009, it was noted in 8 of 40 instances there was 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, it was noted that 3 of the 8 cash receipts included monies collected by different District locations in the prior school year. It was recommended that monies be deposited on a more timely basis. In addition, it was recommended that monies collected by the various District locations be forwarded to the business office in a more timely manner for deposit. The District Treasurer has notified all District operations to submit all receipts on a weekly basis. The issue has been resolved.

Computer Controls - Permissions - In 2009, it was noted that the Technology Director had full access to the accounting software and underlying source code. It was also noted that an audit trail could not be printed for review by the administrator. Several of the business office staff appear to have had permissions that may be inconsistent with their job functions. The District planned on upgrading their accounting system on January 1, 2010 and it was recommended that a full review of all staff permissions be performed to determine if all were consistent with job functions prior to the transition. It was also recommended that 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 and have his access limited. The business office permissions were reviewed and revised in August 2009. After the District upgraded to a new accounting system in January 2010, a full review of all staff permissions was performed to ensure that permissions are consistent with job functions. Pentamotion, the District's software vendor, provides an audit trail for the Technology Director. The issue has been resolved.

Extraclassroom Activity Funds - In 2009, it was recommended that the District continue the training of the extraclassroom activity fund treasurers and advisors of the proper procedures required by the State Education Department. See current year recommendations concerning issues related to the extraclassroom activity funds.

Federal Fund - Salary Certification - In 2009, it was 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. It was recommended 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. The District has notified the Federal Fund Office that all employees paid on grants should complete the payroll certification form A-87, H (3). The issue has been resolved.

Federal Fund - Student Files - In 2009, it was 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. It was recommended that the District ensure that the room is locked at all times and only authorized personnel have access to the student files. The District has installed an automatic door closer which locks the room upon exiting. The issue has been resolved.

IRS Compliance - IRS W-9 Forms - In 2009, it was noted that the District does not have W-9 Forms on file for all vendors. It was recommended that the District follow up on W-9 Forms that have been sent to the vendors but not returned. The District has instituted a process where all vendors submit a W-9 to the business office. The new software will create the capability for the District to track this information. The issue has been resolved.

Payroll - Defensive Driving Instructor Rates - In 2009, it was noted that the rate of pay for the defensive driving instructor was not approved by the Board prior to payment being rendered. It was recommended that all rates of pay be approved by the Board prior to payment being rendered. Lack of documentation relating to rates of pay were observed in the payroll testing for the year ended June 30, 2010 and reported under the "Employee Personnel Files" comment in this report.

Payroll - Employment Contracts - In 2009, it was noted that bus drivers and monitors have a 90 day probationary period in which they are paid 90% of contract rate. This procedure is based on past practice, not contractual stipulation. The employment contract does not refer to this practice. It was recommended that bus drivers and monitors be paid based on negotiated terms in their employment contract rather than past practice. Ingerman Smith, the law firm which handles the District's negotiations, incorporated the 90 day probation clause into the bus driver contract. The District created a memorandum of agreement that addressed this past practice. The issue has been resolved.

Payroll - Literacy Coach Stipend - In 2009, it was noted that the rate of pay for the stipend that the District paid literacy coaches could not be traced to the Board minutes. It was 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. Lack of documentation relating to rates of pay were observed in the payroll testing for the year ended June 30, 2010 and reported under the "Employee Personnel Files" comment in this report.

Personnel - Attendance - In 2009, it was noted that various employees within the District use sign-in sheets to record their daily attendance. It was recommended that a computerized system be implemented to further ensure consistency and accuracy. It was also noted that although the year-end attendance rollover figures were verified by the personnel department, an appropriate administrator did not review the attendance figures after the year-end rollover procedures. It was recommended that both before and after year-end rollover, an administrator verify and sign off that attendance data has been reviewed to ensure that the proper amount of days are being carried forward. The District had purchased a new software system, AESOP, to track attendance. The AESOP system allows principals to check, verify, and reconcile attendance. The issue has been resolved.

Purchasing and Expenditures - Confirming Purchase Orders - In 2009, it was noted that 4 of 40 purchase orders tested involved invoices predating the purchase order. It was also noted that the District has a procedure in place to monitor confirming purchase orders, and that the District has shown improvement in this area. The procedures require that the individual responsible for confirming purchase orders provide an explanation. The use of purchase orders prior to ordering goods or services ensures that purchases are properly authorized and budgets observed. It is understood that there are emergencies, generally an approved purchase order should be issued prior to purchasing goods or services in accordance with General Municipal Law and the District's Purchasing Policy. It was recommended that the District continue monitoring confirming purchase orders. The District continues to monitor confirming purchase orders. The issue has been resolved.

Purchasing and Expenditures - Purchase Orders - In 2009, it was noted that the District computerized the purchase order procedure, but the purchase orders are not integrated into the Pentamation program. It was recommended that the District review with the software's capability of integrating the purchase orders into the Pentamation program. The District purchased a web-based module, on January 1, 2010 that addressed this recommendation. The issue has been resolved.

Purchasing and Expenditures - Canceling for Payment - In 2009, it was noted that the District has a procedure in place for canceling paid invoices, but 4 of 40 voucher packages tested were not properly cancelled. It was recommended that all paid invoices be stamped "paid." The District has discussed this procedure with the internal claims auditor. The stamping of invoices "paid" is a process currently in place. The issue has been resolved.

School Lunch Fund - Fund Balance - Operating Loss - In 2009, it was noted that the school lunch fund had a loss in the amount of \$54,153. Although the school lunch fund maintained a positive fund balance, it was recommended that the District ensure that the operations are self-sustaining by monitoring the revenues and expenditures during the year. In June 2009, a \$.10 increase was approved in school lunch prices. This school lunch fund had an excess of revenue over expenditures of \$128,343 for the 2009-1010 school year. The issue has been resolved.

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We wish to take this opportunity to express our appreciation for the courtesy and cooperation extended to us by the District's personnel during our audit. If you have any questions regarding the foregoing comment or wish any assistance in its implementation, please contact us at your convenience.

Very truly yours,

TOSKI, SCHAEFER & CO., P.C.



Ronald C. Toski, CPA
Managing Director