Roslyn 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
Roslyn Union Free School District
Harbor Hill Road
Roslyn, New York 11576

Auditors' Communication on Internal Control

In planning and performing our audit of the basic financial statements of the Roslyn 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
Harrison, New York
September 28, 2016
Roslyn Union Free School District, New York

Addendum A

Control Deficiencies

• General Fund

Restricted Fund Balance

School Districts are permitted by State Education and General Municipal Law to restrict, commit or assign funds for specific purposes. These restrictions, commitments and assignments generally are created through Board resolutions by the end of the School District's fiscal year and are funded through Board approved transfers from fund balance. During our audit, we noted that the fund balance Restricted for Workers' Compensation Benefits is approximately $2.2 million. The fund balance Restricted for Workers Compensation Benefits has been established pursuant to Section 6-j of the General Municipal Law of the State of New York to provide funds for the payment of workers' compensation claims. The district-wide financial statements reflect workers' compensation benefit liabilities, which are based upon estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled, and of claims that have been incurred but not reported (IBNR’s). The School District has recorded approximately $829,000 as a liability for these claims at the district-wide level at June 30, 2016. This liability represents the balance of lag claims when the District was self-insured prior to joining the Nassau County Cooperative Workers' Compensation Self-Insured Plan.

Recommendation

We recommend that, in the future, the fund balance Restricted for Workers’ Compensation Benefits in the General Fund, be limited to the School District’s workers compensation claims liability of approximately $829,000 which is actuarially determined.

• Trust and Agency Fund

The Agency Fund is provided to account for assets held by the School District in a trustee capacity or as agent for individuals, private organizations, other governmental units or other funds. Our audit of the Agency Fund disclosed that eight of these accounts have been inactive with amounts that have been outstanding for several years. Additionally, these balances are carried forward year after year with no corresponding schedules to verify the composition of each of these accounts. The combined balance of these accounts total $11,670. In addition, three of these accounts are used as donations which should be treated as trust accounts and recorded in the Special Purpose Fund. These accounts include Harbor Hill Fundraising, $1,773, HS Science Research, $18,089 and Horse Tamer, $76,043.

Recommendation

We recommend that the School District investigate the status of these inactive accounts and consider transferring the funds to the General Fund if deemed not payable to a vendor, with proper Board approval. Also, detail schedules should be maintained to keep track of the nature and activity of the accounts. The School District should also consider transferring the three aforementioned accounts containing donations to the Special Purpose Fund.
Roslyn Union Free School District, New York

Addendum A

Control Deficiencies

• Special Purpose Fund

Inactive Trust Accounts

We noted that four individual trusts with a total net position of $8,430 have remained financially inactive, except for interest earnings for the entire year.

Recommendation

Although the amounts are not material, we suggest that the School District continue to analyze the balances and review the purposes of these trusts so that a determination may be made as to the proper disposition of the funds. Should it be determined that these amounts are no longer required to be held in trust, a Board resolution should be approved transferring these funds to the General Fund.

• 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 eight high school clubs (Chess, Film Society, Foreign Language Honor Society, Global Awareness, Beacon newspaper, Sewing/Fashion, Stock Market, Student Prints) and one Middle School Club (Youth Against Cancer) 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

We recommend the School District review the status of these clubs and consider closing any, if necessary. From there, the proper disposition of funds to the general student organization could then be determined.

Segregation of Duties

In reviewing the narratives and per inquiry, the Extraclassroom Activity Fund has teachers from the respective schools also acting as the Activity Fund Treasurers. This includes depositing cash, preparing and signing checks, and doing the bank reconciliations.
Roslyn Union Free School District, New York

Addendum A

Control Deficiencies

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

*Recommendation*

We recommend the School District, if feasible, assign some of the duties that the Activity Fund Treasurers are responsible for to other employees in order to strengthen internal controls over the High School and Middle School Extraclassroom activities.

*Timeliness of Cash Receipt Deposits*

During our audit of both the High School and Middle School Extraclassroom Activities Fund, we noted that seven cash receipts for the High School and three cash receipts for the Middle School were not deposited timely.

*Recommendation*

We recommend all cash receipts be deposited within 72 hours from when they are originally received.

*Allocation of Interest and Bank Charges*

We noted the interest and bank charges in the net amount of $1,399 cumulatively over the years were not allocated to the respective Clubs for the High School Extraclassroom Activity Fund.

*Recommendation*

We recommend the interest and bank charges be allocated on a regular basis to ensure all miscellaneous income and fees are proportionately allocated to the appropriate clubs.

- **Capital Projects Fund**

*Test of Capital Projects Claims*

During our audit of Capital Projects claims, we noted one instance where the construction manager’s approval was missing from the paid claim for payments to vendors.

*Recommendation*

The School District policy should be followed where invoices from contractors are approved by both the architect and the construction manager as evidence that services have been provided as described on the invoice.
Roslyn Union Free School District, New York

Addendum A

Control Deficiencies

- **Internal Controls – Walkthrough of Transactions**

  As part of our audit, we review, evaluate and test controls with respect to the payroll, purchasing and cash receipts cycles. Our inquiries and tests of transactions for the current year indicated that the following areas are in need of improvement:

  **Payroll Change Report**

  Upon inquiry and per our review of the User Access Reports, we noted that the School District does not have a formal policy for the review and approval of payroll change reports on a periodic basis.

  **Recommendation**

  We recommend that a formal policy for the review and approval of payroll change reports by management be implemented, and documentation maintained, in order to strengthen the controls over the payroll system.

  **Accounts Payable System Access**

  Upon inquiry and per our review of the User Access Reports over the accounts payable system, we noted that the Accounts Payable Clerk who initiates vendor payments also has the ability to add new vendors and modify existing vendor information.

  **Recommendation**

  We recommend that all employees who initiate payments be restricted from adding new vendors or modifying vendor information in order to maintain adequate internal control over cash disbursements.
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
GASB Statement No. 77 "Tax Abatement Disclosures" (Continued)

- 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

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).
Roslyn 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 Roslyn 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 September 28, 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 March 16, 2012 with addenda dated June 3, 2015 and September 6, 2016. These letters provide 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 "U.S. Office of Management and Budget (OMB) 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.
Roslyn 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 statement 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.
Roslyn Union Free School District, New York

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

Significant difficulties encountered during the audit

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

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 September 28, 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.
### General Fund
To release Capital Reserve to unassigned fund balance for transfer to Capital Projects Fund.

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
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<td>A.878.00</td>
<td>Fund Balance, Capital Reserve</td>
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<td></td>
</tr>
<tr>
<td>A.917.00</td>
<td>Unassigned Fund Balance</td>
<td></td>
<td>1,300,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,300,000</strong></td>
<td><strong>1,300,000</strong></td>
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</tbody>
</table>

To transfer funds to School Lunch Fund to cover accumulated deficit.

<table>
<thead>
<tr>
<th>Account</th>
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<td>Reserve for Advances</td>
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<td>1,556,474</td>
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<tr>
<td>A.9901-930-03-9000-03</td>
<td>Transfer to School Lunch</td>
<td>1,556,474</td>
<td></td>
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<tr>
<td>A.391.05</td>
<td>Advances to School Lunch Fund</td>
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<td>1,556,474</td>
</tr>
<tr>
<td>A.909.00</td>
<td>Fund Balance</td>
<td></td>
<td>1,556,474</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>3,112,948</strong></td>
<td><strong>3,112,948</strong></td>
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</tbody>
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### School Lunch Fund
To transfer amounts (covering shortfalls) previously reflected as advances

<table>
<thead>
<tr>
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<th>Credit</th>
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</thead>
<tbody>
<tr>
<td>C.630.01</td>
<td>Advances from Other Funds</td>
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<tr>
<td>C.5031.000</td>
<td>Transfer from General Fund</td>
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<td>1,556,474</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,556,474</strong></td>
<td><strong>1,556,474</strong></td>
</tr>
</tbody>
</table>

### Debt Service Fund
To adjust the fund balance accounts for the designation of subsequent year's budget

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>V.917.00</td>
<td>Unassigned Fund Balance</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>V.914.00</td>
<td>Assigned Appropriated Fund Bal</td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>100,000</strong></td>
<td><strong>100,000</strong></td>
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