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September 30, 2016

To the Board of Education
Mattituck-Cutchogue Union Free School District
Cutchogue, New York

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Mattituck-Cutchogue Union Free School District (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 District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion 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.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated September 30, 2016, on the financial statements of the Mattituck-Cutchogue Union Free School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Board of Education, Audit Committee, management, others you deem appropriate within the District, and any governmental authorities you need to share this information with. It is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Cullen & Danowski, LLP
Cullen & Danowski, LLP

STATUS OF PRIOR YEAR COMMENTS

School Lunch Fund – Student Deposits and/or Charges

The District uses a point of sale system software program called NUTRIKIDS to track school lunch sales. Students can prepay for meals in advance using MySchoolBucks.

Last year, we noted that student account balances at year end were not reflected in the school lunch fund's general ledger. Although the amounts were not material overall, the District should be reporting any prepaid account balances or negative account balances at year end. A receivable should be recorded for any charged meals or negative account balances and a deferred revenue should be recorded for any payments in advance. We recommended that the District institute procedures to ensure that all prepayments on account or charged meals are reflected in the school lunch fund activity at year end.

Current Status: Corrected – An audit adjustment was proposed and accepted by the District to record these balances and they are reflected on the current year's financial statements. We recommend that the District record this balance going forward.

Accounting Software – Internal Control Reports

The District utilizes a financial accounting software package Finance Manager, to maintain its books and records. This software package is supported by the software company. The software provides a log of all use of the system, edit listings of all changes to master files and audit trail reports.

During our previous audit, we noted that although the accounting software has audit trail reports that track changes to employee and vendor master files; there were no procedures in place for a review of these reports on a periodic or routine basis. We recommended that the District develop a procedure for the review of these audit trail reports.

Current Status: Corrected – These reports are now being printed and reviewed quarterly.

District Policies

The Board of Education, as the governing body of the District, is responsible for fiscal management of the District. As such, the Board adopts various policies governing the financial transactions of the District. The District is responsible for developing and implementing procedures which permit the Board of Education's policies to be effectuated.

Last year, we reviewed the Board of Education's policies governing fiscal matters. During our review, we noted that the District's Capital Assets Accounting policy did not reflect any capitalization thresholds, useful lives or depreciation methods. Additionally, we noted that the District had not adopted a fund balance policy in accordance with GASB Statement No 54. - Fund Balance Reporting and Governmental Fund Type Definitions. The District's footnotes included information as to the order and use of fund balance, the various fund balance categories and who has the authority to assign fund balance for encumbrance purposes. We recommended that the District update its capital assets accounting policy and develop a fund balance policy.

Current Status: Corrected.

Employee Benefit Accrued Liability Reserve

Employee Benefit Accrued Liability Reserve (GML §6-p) is used to reserve funds for the payment of accrued employee benefit primarily based on unused and unpaid sick leave, personal leave, holiday leave or vacation time due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the general fund.

During the prior year audit, we noted the following with regards to this reserve:

- The District was unable to provide us with the original resolution establishing the reserve.
- The reserve balance is in excess of the compensated absences liability by approximately \$240,000 at June 30, 2015.

We recommended that the Board adopt a resolution reestablishing the purpose of this reserve. We also recommended that the Board consider the reserve balance in conjunction with future budgets to ensure that the reserve does not remain overfunded.

Current Status: Partially Corrected – The District has reestablished the Employee Benefit Accrued Liability Reserve, but the reserve balance is in excess of the compensated absences liability by approximately \$309,000 at June 30, 2016.

Fund Balance – School Lunch Fund

Under Federal Regulation, 7CFR Part 210.14b, the District is to limit its net cash resources within the school lunch fund to an amount that does not exceed three months average expenditures. If there are excessive cash resources available, the District must have a plan for use of these funds.

During the prior year audit, we noted that the assigned unappropriated fund balance in the school lunch fund was in excess of the allowable three months average expenditures by \$15,233 at June 30, 2015. We recommended that the District develop a plan for the use of these funds in order to be in compliance with Federal regulations.

Current Status: Not corrected – The assigned unappropriated fund balance in the school lunch fund was in excess of the allowable three month average expenditures by \$43,170 at June 30, 2016.

Fixed Assets

The responsibility of safeguarding the District's investment in fixed assets is important to sound fiscal management. The responsibilities can only be discharged through adequate fixed asset accounting. In addition to maintaining this record for accountability purposes, the District also needs this information for insurance and financial reporting purposes.

During our previous audit, we noted that the District undergoes a full appraisal each year. The appraisal report for the previous year's audit omitted a significant amount of assets that were included on the District's audited financial statements in the prior year. These amounts related mainly to the District's energy performance contract. We provided the District with a reconciliation as to what assets were not included. The financial statements were adjusted to include the correct amounts. We recommended that the District communicate this information to the appraisal company and obtain updated reports.

Current Status: Not Corrected – The current year reports did not reflect the abovementioned amounts. We again recommend that the District communicate this information to the appraisal company and obtain updated reports. Procedures should be developed to ensure that the appraisal company is including any major construction expenditures in their appraisals going forward.

Extraclassroom Activity Funds

The extraclassroom activity funds are the depository of student money. The New York State Education Department publishes the Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds. These guidelines recommend procedures for organizing these activities, controlling receipts and disbursements, as well as recording and reporting transactions.

During our current year audit, we noted the following with regards to the extraclassroom activity funds:

- Instances in which sales tax was not being paid on purchases.
- Sales tax is not being collected for extraclassroom activities.
- One instance in which a cash receipt lacked student involvement.
- Instances in which cash disbursements lacked student involvement.
- Two instances in which there was no withdrawal request form utilized.
- There was one cash disbursement in the amount of \$1,570 payable to an advisor for miscellaneous Washington D.C. trip expenses. Receipts for reimbursement only totaled \$1,222.

We recommend that the District review the state's guidelines for maintaining extraclassroom activity funds to ensure that the adequate internal controls are in place to ensure compliance with state guidelines.

Interfund Receivables and Payables

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year.

During our previous audit, we noted that there were no procedures in place for the repayment of these interfund borrowings on a routine basis. As these transactions are supposed to be temporary in nature, we recommended that the District periodically transfer the outstanding amounts to eliminate the interfund receivables/payables.

Current Status: Not Corrected.

CURRENT YEAR COMMENTS

Flexible Benefit Cash account

The District offers a flexible spending plan to District employees. This plan is administered by JJ. Stanis & Company, Inc. The District withholds amounts stipulated by employees and these amounts are remitted to JJ Stanis & Company, Inc. The District should record asset and a liability in the trust and agency fund for these amounts.

During our audit, we noted that there are two flexible spending accounts with JJ Stanis & Company, Inc. We note that the District received confirmation of activity from the plan administrator, however, one account was not included on the District's trial balance for the trust and agency fund at year end. An audit adjustment was proposed to the District and the account is now reported on the financial statements.

We recommend that the District ensure that this account is recorded on the District's trial balance going forward. The District should review the bank reconciliations received from JJ Stanis & Company, Inc. on a periodic basis and compare the amounts to the trust and agency fund trial balance for agreement.

Special Aid Grants

Grants are accounted for within the District's special aid fund. The various expenditures related to these grants are budgeted based on the allocation of monies to the District.

During our audit, we noted that payroll expenditures are not charged to the special aid fund directly, instead they are moved to the special aid fund at the end of the year through an adjusting journal entry.

We recommend that the District record payroll expenditures for the grants within the special aid fund throughout the year.