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To the Board of Education
Huntington Union Free School District
Huntington Station, New York

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Huntington Union Free School District (District) as of and for the year ended June 30, 2012, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain 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. A separate report dated October 9, 2012, contains our report on a significant deficiency in the District's internal control. This letter does not affect our report dated October 9, 2012, on the financial statements of the Huntington Union Free School District.

The accompanying comments and recommendations are intended solely for the use and information 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 for use by anyone other than these specified parties.

Very truly yours,

Cullen & Danowski, LLP

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STATUS OF PRIOR YEAR'S COMMENTS

Cash Receipts

The District collects monies from other entities or individuals for services it provides or expenses it incurs on behalf of others. These are typically in the form of checks and are deposited into one of the District bank accounts.

During our prior year audit and our current year audit, we noted that certain deposits were not on the cash receipts log. Additionally, cash receipts are collected outside of the business office and the deposit of those amounts are made by building level staff.

We recommend that the cash receipts log contain all transactions. We also recommend that the business office be the centralized location for cash / check collections for purposes of deposit.

Journal Entry and Budget Transfer Approvals

The District has a policy regarding communication of transfers to the Board. The District also has a procedure for approval of journal entries.

During our prior year audit, in the sample of transactions we tested, we noted that:

- One budget transfer had not been communicated to the Board.
- Two journal entries had not been approved by the Assistant Superintendent, Finance & Management Services until our audit of these transactions.

During our current year audit, in the sample of transactions we tested, we noted that:

- All budget transfers had been communicated to the Board.
- Some budget transfer forms had no indication of approval date.

We recommend that the District review their procedures for approval of budget transfers.

Personnel Activity Reports (PARs)

Salaries and wages charged to federal awards must be supported by documentation in a format prescribed by Circular A-87. Internal controls should be in place that provide reasonable assurance that appropriate documentation is acquired and maintained.

During our prior year audit and our current year audit, we noted that the District prepares payroll certifications. However, in the sample of certifications we audited, some were not complete; others did not account for 100% of the employee's time.

We recommend that the District complete payroll certifications which support salaries and wages charged to federal awards in accordance with the requirements of Circular A-87.

Payroll Processing Controls

Payroll represents the single largest expenditure incurred by a school district. A key element in the system of internal control is the segregation of duties as they relate to the processing of payroll from those duties related to personnel.

During our prior year audit and our current year audit, we noted that:

- The payroll department can enter new hire information, and change or delete information in the payroll module.

As mitigating controls, the Assistant Superintendent, Personnel & General Administration reviews payroll checks and direct deposit transactions. The Assistant Superintendent, Finance & Management Services also reviews a sample of employee payroll transactions periodically. Nevertheless, we recommend that the District consider limiting the input of new hire payroll information and modification of employee and payroll information to the personnel department.

- Payroll checks which are not able to be distributed to employees are returned to the payroll processor.

We recommend that payroll checks not able to be distributed to employees be returned to someone other than the payroll processor.

- Timesheets or daily time records were not used by all employees. In certain instances, where records are used, sign in / sign out information was not complete.

We recommend that the District determine how to address the issue of employee daily time and attendance records for all District employees.

Internal Claims Auditor Reports

The claims auditing process is an integral part of the District's internal control, assuring that only claims that are proper charges against the District are paid. The internal claims auditor is directly responsible to the Board.

During our prior year audit and our current year audit, we noted that the internal claims auditor renders monthly reports to the Board of Education. Our review of the internal claims audit reports revealed findings related to non-compliance with the Board's quotation policy, and other procedural non-compliance issues.

We recommend that the District continue their efforts towards reducing the findings noted in the internal claims auditor reports.

Extraclassroom Activity Funds - Transactions

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 prior year audit and our current year audit, we noted that:

- There were extraclassroom activity clubs that did not have financial activity during the year.

We recommend that the District determine if financially inactive activity clubs are non-operational, and if so how those account balances should be disposed of.

- In the sample of cash receipts transactions we tested, the bank statement deposit date for some deposits was some time after the date the funds were collected.

We recommend that the District attempt to more timely deposit cash receipts.

- In the sample of cash disbursements we tested, there were a number of reimbursements to staff for activity related expenses.

We recommend that to the extent possible, payments be made to vendors for goods and services, rather than to District employees or individuals as reimbursements, and that goods be delivered to the District offices.

School Lunch Fund

The District's food service program serves meals to students and District employees. Except for free and reduced priced meals that are served to eligible students, meals are sold at a set price. The District uses the services of a food service management company.

During our prior year audit, we noted that students are allowed to charge meals. Additionally, students can purchase prepaid meal plans. Nevertheless, the Board did not have a student meal account policy. There was an informal process of both tracking amounts receivable and collecting amounts outstanding. The prepaid collections could not be reconciled to the detail records of prepaid sales maintained by student. The District had not reconciled the District's books and records for the school lunch fund to the food service management company's records.

During our current year audit, we noted that the Board had not yet adopted a student meal account policy. The District installed a point of sale system. The information from this system is used to track amounts receivable by student and prepaid amounts. We noted that the District now reconciles the District's cash receipts records to the bank deposits, and financial transactions to the food service management company's records.

Payroll Tax Returns

The District is required to file Form 941 (Employer's Quarterly Federal Tax Return) within one month after the end of the quarterly tax period. The payroll on these returns should agree with the amount recorded in the salary codes within the District's expenditure ledger.

During our prior year audit, we noted that the District had not reconciled the District's salary expenditures on a quarterly basis.

During our current year audit, we noted that the District reconciled the salary expenditures on a quarterly basis to the quarterly payroll tax reports.

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, and conducting periodic physical inventory of all assets. The District has a property control manager to help with coordinating this process.

During our prior year audit, we noted that the capitalization threshold had not been communicated to the property control manager so that assets tagged for reporting purposes were under the threshold established in the District's capitalization policy. We also noted that not all purchase orders for fixed assets were given to the manager so that certain fixed assets had not been tagged.

During our current year audit, we noted that communication of the capitalization policy took place, and that all fixed assets over \$1,000 are tagged and included in the fixed assets inventory records. Nevertheless, all fixed asset tags are given to the property manager.

We recommend that the fixed asset tags be controlled by the business office, and given to the property manager at the time the purchase order for that particular fixed asset is approved.

Reconciliation of Time Worked

The District employs certain staff whose time is tracked through a time keeping system. The calculation for overtime hours worked is based on the time cards and summarized for each employee by clerical staff on a spreadsheet. The spreadsheet is approved by the supervisor and submitted to payroll for the processing of paychecks.

During our prior year audit, in our sample of transactions for employees paid for overtime, we noted that there were a few instances where the overtime for some employees as indicated on the spreadsheet was not reflective of the time worked as per their time cards. In most instances, this resulted from certain employees not punching in and out for their lunch break, which is ½ hour a day. Another employee punched in prior to the start of his normal working hours, which is not covered by the employment agreement.

During our current year audit, in our sample of transactions for employees paid for overtime, in the early part of the school year, we noted instances similar to the prior year's occurrences. The business office communicated to staff what timekeeping practices should be. Also, beginning in March 2012, the District implemented a procedure whereby the accounting office reviews time cards to determine that the record is correct for payroll processing purposes.

CURRENT YEAR'S COMMENTS

Bank Reconciliations

The District maintains bank accounts at several financial institutions. Reconciliations of the District's bank accounts with the District's books are completed by the treasurer who is independent of the accounting functions.

During our current year audit, we noted that the preparer of the bank reconciliations does not sign and date all reconciliations once they are prepared. Some bank reconciliations have no indication that they were reviewed. Some bank reconciliations were reviewed months after the reconciliation was prepared.

We recommend that all bank reconciliations be initialed and dated by the preparer. We also recommend that all bank reconciliations be reviewed within a reasonable time after they are prepared.

Overtime

District employees in the course of normal operations work overtime. The hours of that overtime are manually tracked. Overtime for staff is to be authorized by the employee's supervisor.

During our current year audit, in the sample of transactions we tested, we noted that there were instances where overtime was approved after the hours were worked. There was also an instance where overtime was not approved. We note that the District has a procedure whereby payroll for buildings and grounds employees, as well as food service employees is reviewed by the Assistant Superintendent for Business.

We recommend that any overtime hours to be worked be preapproved by the employee's supervisor. That preapproval and the record of hours worked serves as a communication to payroll that the paycheck can be processed.

Budgetary Transfers

Section 170.2 of the Commissioner of Education's Regulations provides for budgetary transfers and permits the Board of Education to facilitate the procedure by authorizing the chief school officer to make transfers within limits as established by the Board.

During our current year audit, we noted in the sample of transactions we tested, that some budget transfer appropriation codes were overspent; budget transfers took place after this had occurred. The overall budget was not overspent.

We recommend that the District appropriate additional funds within the budget before such time as an appropriation balance is overspent.

Bank Transfers

An employee on behalf of the District is responsible for making transfers between its various bank accounts so that interest earnings may be maximized and funds are available to pay for expenditures. Those transfers are typically performed through the internet for payroll taxes and benefits charges.

During our current year audit, we noted that the confirmation of wire transfers had not been returned to someone independent of the wire transfer process.

We recommend that the confirmation of wire transfers be sent by the bank to the Assistant Superintendent for Business.