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November 6, 2019

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

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Mattituck-Cutchoque Union Free School District (District) as of and for the year ended June 30, 2019, 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.

During our audit, we noted 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. This letter does not affect our report dated November 6, 2019, on the financial statements of the Mattituck-Cutchoque 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**

**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 our previous audits, we noted that the reserve balance was in excess of the compensated absences liability by approximately \$309,000 at June 30, 2016, \$463,626 at June 30, 2017 and \$312,709 at June 30, 2018. We also noted that the District has utilized the reserve to the extent possible for a retirement incentive and has budgeted the use of this reserve for the current year in the amount of \$120,574. We recommended that the Board consider the reserve balance in conjunction with future budgets to ensure that the reserve does not remain overfunded.

*Current Status: In process* – The Employee Benefit Accrued Liability Reserve balance is in excess of the compensated absences liability by \$285,500 at June 30, 2019. The District should continue to monitor the reserve and liability balances.

**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 previous 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.
- Thirteen instances in which cash receipts lacked student involvement.
- Nine instances in which cash disbursements lacked student involvement.
- Four instances in which cash disbursements lacked evidence of an advisor's involvement.

Current Status: Corrected.

**Summer Program Billings**

The District runs a program for students with disabilities during the summer months. Students from other Districts attend this program and the home Districts are billed based on an approved rate from the New York State Education Department Rate Setting Unit.

During our previous audit, we noted that these billings for the summer program are recorded in the general fund. Although the amounts are below materiality thresholds and no audit adjustment was made, the District should be recording these amounts in the special aid fund. We recommended that the District develop procedures for tracking students attending this program and the approved costs and ensure that all costs and corresponding revenue are recorded in the special aid fund going forward.

*Current Status: Not Corrected* – During the current year, we noted that the District recorded the revenue in the special aid fund through an adjusting journal entry after year-end. However, this entry was reflected on the special aid fund side only, resulting in the revenue being recorded in both funds and the interfund receivable and payable being out of balance.

**CURRENT YEAR COMMENTS**

**Unassigned Fund Balance – General Fund**

Section 1318 of the Real Property Tax Law limits the amount of unassigned fund balance a school district can retain. Legislation sets the limit at 4% of the subsequent year’s budget.

As of June 30, 2019, the District’s unassigned fund balance exceeded the statutory limit by 0.7%.

We recommend that the District develop a plan to ensure that the unassigned fund balance retained is in compliance with Section 1318 of the Real Property Tax Law.

**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 the current year audit, we noted that there are no procedures in place to reconcile these balances on a routine basis. At year end, the interfund receivables and payables were out of balance.

We recommend that the District institute procedures to reconcile the interfund receivables and payables on a routine basis.

**Uniform Guidance – Federal Grants Compliance**

The Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Title 2, Code of Federal Regulations - 2CFR Part 200 - commonly called "Uniform Guidance") is an authoritative set of rules and requirements for Federal awards that synthesizes and supersedes guidance from earlier OMB circulars. The reforms that comprise the Uniform Guidance aim to reduce the administrative burden on award recipients and, at the same time, guard against the risk of waste and misuse of Federal funds. Under the Uniform Guidance, to help ensure compliance with Federal statutes and regulations, Federal awards recipients must maintain effective internal controls, which include having written policies and procedures, such as procurement policy that adheres to state and local laws as well as Federal statutes and regulations; conflict of interest policy, procedures for documenting how costs are to be allocated to Federal awards, documenting actual time and effort for payroll costs charged to Federal awards; cash management procedures to minimize the time elapsed between the receipts and disbursements of Federal funds; subrecipient monitoring; and how to safeguard personally identifiable information.

During the current year audit, we reviewed the District's policies and noted that the District's current procurement policy did not incorporate the Uniform Guidance procurement standards. Additionally we noted that the District does not have a formal conflict of interest policy and has not adopted written procedures for documenting how costs are to be allocated to Federal awards, documenting actual time and effort for payroll costs charged to Federal awards; cash management procedures to minimize the time elapsed between the receipts and disbursements of Federal funds; subrecipient monitoring; and how to safeguard personally identifiable information.

We recommend that the District review the Uniform Guidance requirements and update the related policies and written procedures as required.

**School Food Service Fund**

The District operates a school lunch program. The transactions for this program are tracked in a point of sales system and are accounted for in the School Food Service fund.

During current year audit, we noted the following:

- We performed an observation of the cash receipts process. During this observation, we observed during the close out process, a cashier using a log in for a manager no longer with the food service company, in order to ascertain what the final cash drawer should be and to modify a check amount.
- When performing our audit, we noted that there are no procedures in place to reconcile the amount of meals claimed for federal and state reimbursement to the point of sale system. Our analytics revealed that for one month, the incorrect number of meals was communicated to the District by the food service company and the District was reimbursed for more meals than was reflected in the point of sale system. The District was given the September 2017 meal count instead of the September 2018 meal count.

We communicated the results of our observation during our interim field work and the District immediately modified the user permissions in the point of sales system and inactivated the user.

We recommend the following:

- The District should review user permissions for the point of sales system periodically.
- The District should file an amended claim for September 2018 as a year-end adjustment was recorded to reduce the current year revenue by the overpayment.
- The District should institute procedures for the reconciliation of the monthly claims for federal/state reimbursement to the meals served per the point of sales system.

### **Capital Assets**

The responsibility of safeguarding the District's investment in capital 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. The District's capital assets inventory records reflect assets that are capitalized for financial reporting (GASB 34) purposes according to the Board of Education capitalization policy.

During the current year audit, we noted that there are no procedures in place for the review of the capital assets appraisal report at year-end. This resulted in the need for an in-depth analysis during our audit. The following issues were noted:

- The additions communicated to the appraisal company were incomplete. An analysis of capital expenditures and equipment purchases revealed that approximately \$1,500,000 in additions were not communicated to the appraisal company and added to the appraisal reports.
- Additions that were initially reported to the appraisal company were added at incorrect amounts.
- Depreciation was not calculated properly, as we noted that the appraisal reports listed newly added items as fully depreciated.

This analysis resulted in a request for a new updated appraisal report to address all these issues.

We recommend that the District review its process for updating of the capital assets records and institute procedures for the reconciliation of the appraisal report received to the Districts accounting records. Depreciation should also be reviewed for reasonableness.

### **Summer Handicapped Program**

The District participates in a New York State sponsored Summer Handicapped Program through which it receives aid as reimbursement from the State at a rate of 80% of qualified tuition, maintenance and transportation costs of certain handicapped children. The remaining 20% is funded by the District. Aid is generated through the submission of STAC forms to the State. This program is accounted for within the special aid fund.

During the current year audit, we noted that the expenses coded the special aid fund for this program were lower than those reported to the state through the STAC process resulting in a year-end adjustment to the receivable and the general fund transfer amount. The District had no procedures in place to reconcile actual expenditures to amounts approved by the State.

We recommend that the District develop procedures to reconcile the expenditures recorded to the special aid fund to approved students/rates per the APPR forms received from NYS and to the STAC unit.

**Tuition Billings**

The District bills various counties and school districts for services based upon tuition rates approved by New York State and based on signed contracts. The original billings are recorded as a receivable and subsequent collections are applied to this balance. The District bills in the current year for the preceding year based on the timing of the rates set by New York State.

During our audit, we noted the following:

- The District billed tuition based on the prior year's estimated rate rather than the current year's estimated rate resulting in an under-billing of approximately \$34,000. A year-end adjustment was required.
- There are no procedures in place to reconcile estimated rates to actual rates resulting in an under-billing in the current year for the prior year of approximately \$12,000.

We recommend that the District rebill at the correct rate and develop procedures to ensure that the District receives the proper amount of tuition based on final approved rates.