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October 9, 2017

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, 2017, 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 October 9, 2017, 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

Flexible Benefit Cash account

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

During our previous audit, we noted that there were two flexible spending accounts with J.J. 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 recommended 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 J.J. Stanis & Company, Inc. on a periodic basis and compare the amounts to the trust and agency fund trial balance for agreement.

Current Status: Corrected.

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 previous audit, we noted that payroll expenditures were not charged to the special aid fund directly, instead they were moved to the special aid fund at the end of the year through an adjusting journal entry. We recommended that the District record payroll expenditures for the grants within the special aid fund throughout the year.

Current Status: Corrected

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 \$43,170 at June 30, 2016. 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: In process – The assigned unappropriated fund balance in the school lunch fund was in excess of the allowable three month average expenditures by \$101,539 at June 30, 2017. We noted through discussions with the Business and operations administrator that the District has developed and submitted a plan to the State Education Department in September 2017 related to the excess fund balance.

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 audit, we noted that the reserve balance was in excess of the compensated absences liability by approximately \$309,000 at June 30, 2016. 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: Not Corrected – The Employee Benefit Accrued Liability Reserve balance is in excess of the compensated absences liability by approximately \$463,626 at June 30, 2017.

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 previous audits, we noted that the District undergoes a full appraisal each year. The appraisal report for previous years' audits omitted a significant amount of assets that were included on the District's audited financial statements beginning with the 2013/14 fiscal 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 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.
- 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.

Current Status: Not Corrected. 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.
- Eleven instances in which a cash receipts lacked student involvement.
- Six instances in which cash disbursements lacked student involvement.
- One instance in which there was no withdrawal request form utilized.
- One reimbursement in which there was no support just a description of "tips and miscellaneous" for a trip to Washington DC.

We recommended 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 previous audits, 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 COMMENT

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 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 recommend 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.