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September 15, 2011

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

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Jericho Union Free School District (District) as of and for the year ended June 30, 2011, 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.

During our audit we became aware of several 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 15, 2011 on the financial statements of the Jericho 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 to be and should not be used by anyone other than these specified parties.

Very truly yours,

Cullen & Danowski, LLP
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STATUS OF PRIOR YEAR COMMENTS

Extraclassroom Activity Funds

Extraclassroom activity funds are the depository of student money. The District has adopted internal procedures regarding the extraclassroom activities. The New York State Education Department has also published guidelines titled *Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds*; these guidelines recommend procedures for organizing extraclassroom activities, controlling receipts and disbursements, as well as recording and reporting transactions.

Last year, we noted that there was no profit and loss accounting for fundraisers held by student clubs.

Current status: In progress. At the beginning of the school year, the extraclassroom activity funds central treasurer communicated to all club advisors about the use of profit and loss accounting.

We recommend that the District continue to monitor the reporting of fundraising accounting by student clubs to ensure that proper accounting procedures are being followed.

Summer Program for Students with Disabilities

The District provides summer programs for students with disabilities under section 4408 of the Education Law. The District is entitled to State reimbursements of 80% of qualified education, student maintenance and transportation costs for the program.

We noted in prior years that there were outstanding state reimbursements receivables for summer programs from earlier years. The District had been in contact with the State program offices to resolve those receivables and had received more than half of the outstanding receivables, but there remained a significant amount of outstanding receivables.

Current status: Uncollected receivables for prior years programs have been written off at year end.

We recommend that the District continue to monitor summer program expenditures to determine the amount that would be reimbursable by the State, and continue to communicate with the State regarding outstanding receivables.

Vendors Setup and Changes Audit Trail Report

The addition of new vendors and changes in vendor information, such as vendor names or addresses, should be approved by management.

We noted last year that the Purchasing clerk was responsible for setting up new vendors and making changes to existing vendors' information in the computer system. All vendor changes were approved by the former Assistant Superintendent for Business Affairs. However, audit trail report for vendor information changes was not reviewed periodically to ensure there were no unauthorized changes.

Current status: Unchanged. All vendor changes were approved by the former Assistant Superintendent for Business Affairs before they were entered into the computer system; however, system audit trail reports were not reviewed periodically to ensure there were no unauthorized changes.

We recommend that the District periodically review system audit trail reports to ensure changes made in the system are those authorized by management.

Payroll Timesheets Review and Approval

Reviews and approval of source documents prior to payroll processing are effective internal control procedures, and should be documented by the individual performing the tasks.

We noted in our last audit that an account clerk independent of payroll processing reviewed timesheets against a payroll edit report to ensure the information entered is accurate, but did not sign off on the timesheets or the payroll edit report to indicate her independent review.

Current status: Corrected. All individuals who input and review payroll information initial the FinancePlus payroll reports.

Journal Entries Review

Effective internal control includes supervisory review and approval of recorded transactions. Proposed journal entries are written up and given to the Assistant Superintendent for Business Affairs for review and approval before they are recorded.

We reported last year that there was no periodic review of journal entries report from the FinancePlus general ledger system to ensure all journal entries recorded in FinancePlus were those approved by the former Assistant Superintendent for Business Affairs.

Current status: Corrected. Journal entries reports were printed quarterly from FinancePlus and reviewed and signed off by the former Assistant Superintendent for Business Affairs.

ARRA Funds

The District is the recipient of federal ARRA (American Recovery and Reinvestment Act) funds. School districts which receive ARRA funds are required to separately identify the related expenditures in their accounting records.

During the prior year's audit, we noted that the District recorded General Fund expenditures funded by the ARRA education stabilization funds by journal entries after the fiscal year ended instead of during the year as the expenditures incurred.

Current status: Corrected. The District has recorded payroll expenditures funded by ARRA funds throughout the fiscal year.

Federal Grants Personnel Activity Reports

Charges to federal awards for salaries and wages, whether treated as direct or indirect costs, must be documented in accordance with cost principles established by the Federal Office of Management and Budget (OMB) within its Circular A-87. These cost principles require after the fact certifications by individual employees as to time worked within cost objectives, i.e., Title I, special education cluster, general fund budget, etc. New York

State Education Department has indicated that information reported on the PARs must account for 100% of the employee's time effort including non-federal grant activities (i.e. General Fund).

We noted that the District has established procedures and utilizes personnel activity reports (PARs) to document the employees' percentages of time charged to federal grants, but the PARs only listed the employees' time charged to federal accounts and did not include non-federal grant activities (i.e. General Fund) to account for 100% of the employee's time effort.

Current status: Corrected. The PARs within our current year's audit sample accounted for 100% of the employees' time effort.

Capital Assets Inventory Report

Capital assets inventory report is used to account for equipment purchased and capital constructions. The report is used for financial reporting purposes as well as for insurance purposes. The District's business office maintains the capital assets inventory report.

During last year's audit, we noted that some capital construction expenditures for projects that were still ongoing were included in the capital assets inventory report as building additions instead of construction in progress.

Current status: Corrected.

CURRENT YEAR COMMENT

Flex Benefits Plan Bank Account

The District provides flex spending benefits plan to its employees for pre-tax reimbursements of medical, dental, and dependent care expenses. A third-party claims administrator reviews submitted claims and forwards a list of adjudicated claims to the District for approval. The District then transfers funds to a bank account maintained by the third-party administrator in the District's name; reimbursement checks to claimants are issued against this bank account. Each month, the third-party administrator sends copies of the monthly bank statement, bank reconciliation, and its account ledger to the District. The bank account is reported in the District's Trust and Agency Fund.

During the current fiscal year, the District changed to another third-party claims administrator. The bank account administered by the former third-party administrator was closed, and a new bank account was opened by the new administrator. However, the new bank account has not been reported in the Trust and Agency Fund.

As soon as we brought this to the attention of the District's new Assistant Superintendent for Business Affairs and the Interim Treasurer, they researched the subject matter and contacted the new third-party administrator immediately to gather information regarding the bank account. An audit adjustment to record the cash balance in the Trust and Agency Fund was proposed by us and accepted by the District.

We recommend that the District develop procedures to ensure all bank accounts held by a third party in the District's name are included in the District's financial reporting.
