

**CULLEN & DANOWSKI, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

VINCENT D. CULLEN, CPA  
JAMES E. DANOWSKI, CPA  
PETER F. RODRIGUEZ, CPA  
JILL S. SANDERS, CPA  
DONALD J. HOFFMANN, CPA  
CHRISTOPHER V. REINO, CPA  
ALAN YU, CPA

October 25, 2010

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

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Hampton Bays Union Free School District (District) as of and for the year ended June 30, 2010, 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 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 October 25, 2010, on the financial statements of the Hampton Bays 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*  
Cullen & Danowski, LLP

**STATUS OF PRIOR YEAR COMMENTS**

**School Lunch Cash Sales**

The District's school lunch program serves lunches to students and District employees. Except for free and reduced priced lunches that are served to eligible students, meals are sold at a set price.

During our previous audit, we noted the following with regards to the school lunch fund:

- The School Lunch Fund director was in charge of making deposits; she was also involved in the reporting process.
- Cashiers were running register tapes before counting out their drawer.
- The Business office was receiving monthly totals rather than daily totals on their reports from the management company.

During our current audit, we noted that the District has implemented a point of sale system and can now monitor the meal counts provided by the food service company.

**Special Education Services**

The District must expend monies for additional services for students as recommended by the Committee for Special Education (CSE). These services are provided in accordance with the student's Individualized Education Plan (IEP) as recommended by CSE. The costs can be substantial, so it is imperative that adequate controls are in place to ensure that the District is aware of the potential for these costs.

During previous audits, we noted that the District did not record a liability at year end for special education students being served in other Districts.

During our current audit, we noted that the District has implemented procedures to track and record these liabilities.

**Special Aid Fund – In-House Programs**

The District's special aid fund is used to account for the summer handicapped program, which includes an in-house program run by the District.

During our previous audits, we noted that there were no formal procedures in place for the tracking of expenditures related to the in-house program and the transfer of these expenditures to the special aid fund.

During our current audit, we noted that the District's expenditures and related receivables related to its in-house summer handicapped program were tracked and recorded in the special aid fund.

Payroll Certification

The Board of Education, consistent with the provisions of Section 170.2 of the Regulations of the Commissioner of Education, must designate an official of the District to certify all payroll registers. A certified payroll is one that has been examined and approved by an administrator who certifies that the persons included in the payroll have regularly performed their duties in accordance with the terms of their employment by the Board of Education. It also certifies that any additions to, or deductions from, normal salary payments have been made pursuant to the bylaws of the District and on the basis of personnel records that have been maintained by the District.

During our previous audit, we noted that the School Business and Facilities manager would select a sample of employees to test each payroll period. We noted that there were no formal procedures related to the payroll certification process. We noted that the payroll preparation, review and certification process is critical to the reliability of the District's operations and as such we had suggested that several new procedures be considered.

During our current audit, we noted that the School Business and Facilities Manager and the Superintendent are now utilizing more detailed reports in the payroll certification process. These reports compare contract salaries and other pays to the previous pay period. The review of these reports is in addition to the procedures that were already in place.

Journal Entries Approval

A good internal control system should include segregation of duties, the purpose of which is to ensure the integrity and efficiency of the accounting system. If segregation of duties is not feasible because the cost of segregation exceeds the benefit derived, compensating controls can mitigate this weakness. Compensating controls include supervisory review and approval. Usually, control over the maintenance of the general ledger and, in particular, the posting of journal entries is accomplished through supervisory oversight.

During our previous audit, we noted a few instances where the journal entries did not have the approval signature of the school business and facilities manager. We determined that those journal entries were not unusual.

During our current audit, all journal entries selected for testing contained the required approval signatures.

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 (System to Track and Account for Children) forms to the state.

During our previous audit, and again in the current year, we observed that certain receivables and deferrals relating to programs from several summers remained outstanding. During the current year, the district wrote off \$69,582 in receivables from the 2004-05 fiscal year. As of June 30, 2010, the amount outstanding from the summer handicapped program is \$157,664.

We understand that the District has contacted the state regarding these receivables and it is their understanding that the State is behind in paying for these programs by four to five years. We recommend that the District continue to pursue the collection of these old receivables.

EXCEL Construction Project

Expanding our Children's Education and Learning (EXCEL), included in Chapter 61 of the Laws of 2006, is a new program to provide additional funding for certain types of school construction projects. Districts will receive EXCEL aid based on approved projects.

During our previous audits, and again in the current year, we noted that the voters approved capital projects to be financed with EXCEL aid. This approval included a transfer from the June 30, 2007 undesignated fund balance; however, the District had not recorded the transfer.

We recommend that the District reflect this transaction in the 2010 - 2011 books and records.

School Lunch Fund Balance

Federal Regulation, 7CFR Part 210.14b, limits the 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 be in a position to describe the planned use of these funds.

During our previous audit, and again in the current year, we noted that the school lunch fund's fund balance is over the three month average expenditures.

We recommend that the District monitor its school lunch fund in order to be in compliance with Federal Regulation, 7CFR Part 210.14b.

Controls over Check-Signing

The Treasurer is the authorized signatory on District bank accounts. The signature is encrypted on a signature disk enabling the production of signed computerized checks.

During our previous audit, and again in the current year, we noted that the signature disk is not password protected. Additionally, we noted that although the disk is kept in a locked box, employees other than the Treasurer have access to the key.

We note that the District has consulted with Finance Manager regarding a password protected signature disk. Finance Manager indicated that this password must be changed every check run and the District feels that would interfere with the day to day workings of the business office. We recommend that the District ensure that the signature disk is accessible only to the Treasurer.