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November 3, 2011

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, 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.

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 November 3, 2011, 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**

**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 previous audits we observed that certain receivables and deferrals relating to programs from several summers remained outstanding. The District wrote off, \$69,582 in receivables from the 2004-05 fiscal year during the previous fiscal year. As of June 30, 2010, the amount outstanding from the summer handicapped program was \$157,664.

Current Status: In process. The District wrote off an additional \$69,000 in the current year. We recommend that the District monitor these receivables and the STAC filing process to ensure that there are no more material write offs required in the future.

**EXCEL Construction Project**

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

During our previous audits, 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.

*Current status:* Corrected. The transfer was made in the current year.

**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 audits, we noted that the school lunch fund's fund balance was over the three month average expenditures.

*Current status:* Corrected. The District is 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 previous audits, we noted that the signature disk was not password protected. Additionally, we noted that although the disk was kept in a locked box, employees other than the Treasurer have access to the key.

The District had 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.

Current Status: Corrected. Access to the disk is limited to the Treasurer.

### **CURRENT YEAR COMMENTS**

#### **Compensated Absences**

The District records a liability for compensated absences, which are unused sick and vacation days payable upon retirement based on contractual agreements. Management's estimate of the liability for compensated absences should be based on historical information regarding employees who have separated from the District and their terminal payout amounts, in order to determine the probability and amount of future payouts.

During our current year audit, we noted that the District's estimate of the compensated absences liability is not prepared in accordance with the aforementioned method. The liability is recorded for the full amount owed rather than a stratification of the liability based on the District's estimate of the actual amount of current employees who will eventually retire from the District.

We recommend that the District establish a procedure to reasonably estimate the liability for compensated absences based on historical information regarding employees who have separated from the District and their terminal payout amounts

*Managements Response:* The District will stratify the liability accordingly going forward.

#### **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 our audit, we noted that the District had a full appraisal of all its fixed assets; however, this appraisal report has not been updated on an annual basis for additions and deletions.

We recommend that the District implement procedures for the annual update of the fixed assets appraisal reports.

*Management's response:* The District had a one- time appraisal for insurance purposes. The District plans to have a full appraisal in the current year with a different appraisal company.