

MANAGEMENT COMMENT LETTER

Board of Education
Otselic Valley Central School District
South Otselic, New York

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Otselic Valley Central School District (the School 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 School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, as discussed below, we identified an instance of material noncompliance.

MATERIAL NONCOMPLIANCE

Compliance with Laws and Regulations

Fund Balance Limitation

Finding:

The School District is allowed, under New York State Real Property Tax Law (Code §1318), to retain up to 4% of the succeeding year's budget in unassigned fund balance. At June 30, 2017, the unassigned fund balance was \$527,008 in excess of the allowable amount. At June 30, 2016, the unassigned fund balance was \$523,965 in excess of the allowable amount.

Recommendation:

We recommend current fund balance reserve accounts be reviewed to determine appropriate levels from both a short-term and long-term planning perspective. As part of the budget development and monitoring processes, we recommend School District management estimate the amount of unassigned fund balance anticipated at year end in order to determine amounts which can be transferred to reserve accounts, assigned to appropriated fund balance, or used to reduce the tax levy in accordance with New York State Real Property Tax Law.

Management Response:

The School District plans to purchase one vehicle as well as implementing paving and fencing projects.

OTHER MATTERS

During our audit, we also became aware of the following deficiencies in internal control, other than significant deficiencies or material weaknesses, which provide opportunities for strengthening internal controls and operating efficiency:

Current Findings

Administrative Expenditures

Findings:

During our current year audit, administrative disbursements, mainly Superintendent expenses, did not follow School District policy. During a disbursement test of applicable expenses, we noted a lack of separation of duties, as the Superintendent also acts as the purchasing agent and can approve his own purchases. A blanket purchase order is used for a variety of Superintendent expenditures including meals, mileage, travel and conferences. A personal credit card is used for many purchases, although purchase orders could be used for such expenditures as memberships and conferences. Sales tax was paid for items that should have been tax exempt. Additionally, explanations were not provided for meal expenditures, including the purpose of meal and why the attendees needed food and/or refreshments to conduct School District business. As stated in Board Policy 5323 "meals of public officers and employees generally should not be reimbursed or paid by the municipal entity unless the officer or employee is traveling outside his/her regular work area on official business for an extended period of time, or where events prevent them from taking off during mealtime for food consumption because of a pressing need to complete business." Business breakfasts, lunches, and dinners do not appear to qualify for reimbursement. Travel conference request forms were also not submitted as required by School District policy.

Recommendation:

We recommend one or two Board of Education members approve Superintendent expenditures and that specific purchase orders be used as appropriate. The use of personal credit cards should be limited. In addition, we recommend all required forms be completed, including the travel conference request form, and sufficient meal documentation be provided.

Use of School Vehicle

Finding:

Per the Superintendent contract, a school vehicle should be used for meetings and conferences whenever possible.

Recommendation:

We recommend the use of a school vehicle whenever possible.

Recurring Findings

Purchasing Policy - Quotes

Finding:

During our current and prior year examination of the cash disbursements cycle, no quote requirements were specified in the School District purchasing policy.

Recommendation:

We continue to recommend the Board review the purchasing policy and determine what dollar threshold requires quotes, how many quotes should be solicited, and specify when written or verbal quotes are required.

Claims Auditor Reports/Purchase Orders

Finding:

During our current and prior year review of Claims Auditor's reports, we noted several instances where requisitions and/or purchase orders were created after the purchase, service, or invoice date. To a lesser degree, instances of incorrect dollar amounts, invoice numbers, account codes, vendors and/or remittance addresses were noted by the Claims Auditor and corrected.

Recommendation:

We continue to recommend requisitions and purchase orders be completed and authorized prior to purchase. We further recommend Claims Auditor's findings be reviewed and a corrective action plan be implemented to reduce the number of errors found during the claims audit process.

Prior Year Findings Resolved

Finding:

During our prior year examination of property tax revenue, management identified an error in equalization rates submitted for property tax calculations which resulted in collection of property taxes of \$102,787 less than budgeted.

Resolution:

During our current year examination, no errors were found in equalization rates submitted for property tax calculations.

Bidding

Finding:

During our prior year examination of the cash disbursements cycle, 2 disbursements examined which required bidding were not put out to bid.

Resolution:

During our current year examination, all disbursements examined which required bidding were properly bid.

Time Card Approval

Finding:

During our prior year examination of the payroll cycle, supervisor approval of time cards was performed after submission to the Treasurer and CBO personnel. Physical time cards were not sent to the CBO for verification of time worked.

Resolution:

During our current year examination of the payroll cycle, we noted the District calculated all time cards before the spreadsheet detailing days and hours is sent to the CBO to be entered manually for each employee. Payroll is verified by the district and approved by the Superintendent before the Account Clerk/District Treasurer can print the payroll checks.

DISCUSSION ITEM

Impact of Future Standards of the Governmental Accounting Standards Board (GASB)

The School District is in the process of assessing the future effects of each of the following:

- GASB has issued Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,” effective for the year ending June 30, 2018. This Statement replaces the requirements of Statements No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,” as amended, and No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.”
- GASB has issued Statement No. 83, “Certain Asset Retirement Obligations,” effective for the year ending June 30, 2019.
- GASB has issued Statement No. 84, “Fiduciary Activities,” effective for the year ending June 30, 2020. This statement improves guidance regarding identification of fiduciary activities for accounting and reporting purposes.
- GASB has issued Statement No. 85, “Omnibus 2017,” effective for the year ending June 30, 2018.
- GASB has issued Statement No. 86, “Certain Debt Extinguishment Issues,” effective for the year ending June 30, 2018.
- GASB has issued Statement No. 87, “Leases,” effective for the year ending June 30, 2021.

The School District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

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 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 letter does not affect our report dated September 23, 2017 on the basic financial statements of the Otselic Valley School District.

We would like to take this opportunity to express our appreciation to the School District's and DCMO BOCES' management and staff for their time and cooperation in aiding us in our audit work. Their assistance resulted in an expedient and efficient audit process. It has been our pleasure to provide auditing and related services to you. We look forward to assisting you with other matters in the future.

This communication is intended solely for the information and use of the Audit Committee, the Board of Education, management and others within the Otselic Valley Central School District, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink that reads "Insero & Co. CPAs, LLP". The signature is written in a cursive, slightly slanted style.

Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
September 23, 2017