

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, 2016, 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.

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 or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material noncompliance.

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. 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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a 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 Section 1318), to retain up to 4% of the succeeding year's budget in unassigned fund balance. At June 30, 2016, the unassigned fund balance was \$523,965 in excess of the allowable amount. At June 30, 2015, the unassigned fund balance was \$551,894 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 fund 2 vehicles and improve programs.

SIGNIFICANT DEFICIENCY

Finding:

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

Recommendation:

We recommend more careful monitoring of property tax calculations and information sent for said calculations.

OTHER MATTERS

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

Current Findings

Bidding

Finding:

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

Recommendation:

We recommend District personnel ensure bids are obtained as required by General Municipal Law and School District policy.

Time Card Approval

Finding:

During our current year test of the payroll cycle, Supervisor approval of time cards was performed after submission to the Treasurer and CBO personnel. Physical time cards are not sent to the CBO for verification of time worked.

Recommendation:

We recommend time cards be approved by Supervisors prior to submission to the Treasurer and CBO personnel. Additionally, the CBO Payroll Clerk should receive physical time cards to verify accuracy and proper approval.

Recurring Findings

Purchasing Policy

Finding:

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

Recommendation:

We 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

Finding:

During our current and prior year review of Claims Auditor 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 address were noted by the Claims Auditor and corrected.

Recommendation:

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

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 73, “Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,” effective for the year ending June 30, 2017.
- 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.” Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,” establishes new accounting and financial reporting requirements for OPEB plans.
- GASB has issued Statement No. 77, “Tax Abatement Disclosures,” effective for the year ending June 30, 2017.

- GASB has issued Statement No. 78, “Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,” effective for the year ending June 30, 2017.
- GASB has issued Statement No. 80, “Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14,” effective for the year ending June 30, 2017.
- GASB has issued Statement No. 81, “Irrevocable Split-Interest Agreements,” effective for the year ending June 30, 2017.
- GASB has issued Statement No. 82, “Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73,” effective for the year ending June 30, 2017, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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 August 29, 2016 on the basic financial statements of the 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,



Certified Public Accountants
Insero & Co. CPAs, LLP

Ithaca, New York
August 29, 2016