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To the Board of Education
Valley Stream Union Free School District Thirteen

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Stream Union Free School District Thirteen for the year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have previously communicated such information to you in a letter dated April 28, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Valley Stream Union Free School District Thirteen are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates effecting the financial statements were:

1. The District, in accordance with GASB No. 45: "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" requires significant actuarial estimates to calculate the District's postemployment benefits liability.
2. The District's estimate of its compensated absences liability.
3. Estimates involving depreciable lives of the District's capital assets and the related depreciation.

We evaluated the key factors and assumptions used by management in determining that accounting estimates were reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Findings and Recommendations

In addition, we have enclosed a memorandum summarizing matters involving the internal control structure and its operations that we feel can be improved and strengthened. None of these matters are considered to be material weaknesses.

This information is intended solely for the use of the Board of Education, Management of Valley Stream Union Free School District Thirteen, and the New York State Education Department, and is not intended to be and should not be used by anyone other than these specified parties.

D'Arcangelo & Co., LLP

October 19, 2010

Utica, New York

**VALLEY STREAM UNION FREE SCHOOL DISTRICT THIRTEEN
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2010**

1. Finance Manager Permissions

After reviewing the Finance Manager Permissions Report, it was noted that various employees have excessive permissions to the system based on their responsibilities.

Employees with excessive access to modules in Finance Manager exposes the District to an increased level of fraud risk.

We recommend that the District review the current permissions and restrict access to modules based on an employee's specific job duties. As of the date of this letter, the District has reviewed and restricted appropriate employee access.

**VALLEY STREAM UNION FREE SCHOOL DISTRICT THIRTEEN
STATUS OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS**

1. Signed Salary Agreements

We noted that signed salary agreements were not used during the current year.

We did note, however, that the use of signed salary notices are in the process of being implemented at the time of our audit for the 2009-2010 year.

Additionally, our test work did not have any findings related to employees not being paid accordingly to contract.

Status: Implemented.

2. Encumbrances/Accounts Payable

In examining encumbrances outstanding at year end, we noted several instances where encumbrances should have been closed to accounts payable at June 30, 2009.

An encumbrance represents an "appropriation that is spoken for" and are commitments related to unperformed executed contracts for goods and services. It is used as a means for budget control.

An encumbrance becomes a payable once the goods or services are received and becomes an expense in the period they are received.

While the amount of encumbrances not posted to payables was not material to the financials, all encumbrances should be closed to payables once the goods or services are received so that they are expensed in the proper period.

Status: Noted again in the current year.

3. Fixed Assets

At the present time, the School District is not maintaining fixed asset records. As a result, the School District was unable to provide supporting detail to the fixed asset inventory at June 30, 2007. In prior year, the School District contracts with an outside appraisal service to maintain the database for the inventory of the fixed assets. To eliminate this control deficiency, we recommend the following course of action:

1. A physical inventory of all fixed assets should be taken to substantiate the values on the general ledger.
2. The School District should track all additions and deletions during the year. All changes should be made to the inventory records prior to the physical inventory being taken.
3. When the physical inventory is complete, the appraisal company should be required to produce exception reports. These reports would be reviewed by management to ensure the validity of the inventory.
4. The annual fixed asset reports should be reviewed and corrected by the respective departments on an annual basis.

Status: An outside firm (CBIZ) was hired to maintain the inventory of fixed assets and provided reports for year end. No significant issues were noted during the current year, however the District needs to establish a procedure to ensure that construction in progress is properly capitalized upon substantial completion of a capital project. That procedure should include a reconciliation of additions and deletions included in CBIZ records to the appropriate expenditure accounts for equipment and capital projects expenditures to ensure all items are properly capitalized and that no items included in the additions had been capitalized in prior years.

**VALLEY STREAM UNION FREE SCHOOL DISTRICT THIRTEEN
STATUS OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS**

4. Accounts Receivable

We were unable to substantiate a significant portion of the outstanding receivable balance in the Special Aid Fund at June 30, 2005. Upon further investigation, it appears this is a cumulative balance of Summer School Handicap Aid that was either misclassified as General Fund revenue in prior years or uncollectible. As result, we proposed an adjustment of \$287,347 to reduce the July 1, 2004 Special Aid Fund balance. This adjustment created a deficit in Special Aid Fund that will need to be eliminated through a supplemental transfer from the General Fund.

Recommendation: Receivables should be tracked regularly, uncollectible amounts written off after approval from a responsible official, and a periodic report generated for presentation to the Board. We also recommend performing an audit of the Summer School Handicap Aid received in prior years to determine if any remaining balance is due.

Status: Not noted in the current year.