

OTHER INTERNAL CONTROL MATTERS

April 5, 2017

To the Board of Education
Poughkeepsie City School District
Poughkeepsie, New York

Dear Board Members:

We have completed our audit of the financial statements of Poughkeepsie City School District as of June 30, 2016, and have issued our report thereon, dated April 5, 2017.

In planning and performing our audit of the financial statements of Poughkeepsie City School District for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Poughkeepsie City School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The financial statements and required reports include all required communications regarding internal control. During our audit, we became aware of other matters that are not necessary to be reported in the required reports, however, we are presenting them here for your consideration:

We believe that part of our responsibility as your auditors is to bring to your attention to our observations and suggestions which may assist you in the development and continued growth of the District. The following matters came to our attention during our recent audit and we offer them to you for your consideration.

Journal Entries

During our testing and inquiry of District staff, we noted that journal entries are posted within the District's accounting software package and are not required to be approved prior to posting. Therefore, journal entries can be made without adequate review, or authorization. Additionally, no subsequent review of these entries is occurring.

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Journal Entries (Continued)

We recommend that the District implement a policy which outlines how journal entries are prepared, posted, and approved. Additionally, as part of the policy, review of the entries by a second party, preferably prior to input, should be required. The transactions should be reviewed and approved by someone other than the person preparing the entry.

Treasurer's Report

During our testing of cash and inquiry of District staff, it was noted that the treasurer's report is not provided to the Board of Education on timely basis. For example, the August 2016 treasurer's report was being prepared for presentation to the Board at its February 2017 meeting.

To assist the Board in fulfilling its fiduciary responsibility to enable informed decision making on their part, the Treasurer's report should be completed and presented to the Board on a monthly basis. The preparation of this report is dependent on the timely and accurate preparation of the bank reconciliations. To help ensure the reconciliations are prepared timely, the District should consider reconciling cash on a weekly basis. This will not minimize the time needed at the end of the month to prepare the bank reconciliations but will also provide the District with accurate and up to date cash balances on a more frequent basis.

Capital Assets

The District has a substantial amount of construction in process. In previous years, the District reported their construction in process to their third-party capital asset company but have not done so since 2013. As a result, the construction in progress balance has increased over the past two years with no reclassifications to the appropriate capital asset categories.

To ensure that capital assets are reported in the appropriate categories and depreciated, where appropriate, the District should perform a detailed review of construction in progress and determine which items should be reclassified to the appropriate fixed asset category, assigned appropriate lives and depreciated accordingly. Once completed, the District should report the construction in progress detail to their third-party capital asset company for maintenance of this detail going forward.

Communication of Fraud, waste and abuse

During the planning of our audit, we interviewed several employees and management as part of our standard risk assessment procedures. Through our interviews, we noted a pattern of replies that indicated a lack of understanding as to who issues of fraud, waste or abuse should be reported to and concerns with the lack of anonymity in reporting. While we were able to enhance our audit procedures to mitigate the risk of material financial statement error or fraud, we have noted this matter for your attention.

District policy 6850 Anti-Fraud notes that *"Any individual who reasonably believes that an act of fraud, waste or abuse has occurred or is occurring shall report such allegations to the Superintendent of Schools, or the Board of Education if the allegations involve the Superintendent of Schools"*.

We recommend that the District review these policies with their staff annually and require a written response that they understand and have been instructed on the policies, where not already implemented.

To be effective, District policies must be well communicated to, and understood by, those expected to adhere to it. Thus, we also recommend that the District hold one or more special sessions to present the policies to District personnel and conduct periodic training sessions to ensure that they remain aware of the policies and understand its implications for their behavior.

Communication of Fraud, waste and abuse (continued)

In response to the concerns of anonymity, we recommend that the District implement a third party reporting mechanism so that these concerns do not preclude feedback that could prevent fraud, waste or abuse.

We would be happy to assist the District with these measures as needed.

Repeat comments from the prior year

Extraclassroom Receipts

During our audit, we noted that certain extraclassroom receipts were not supported by adequate documentation. The students and advisors should provide a reconciliation of actual and expected receipts from fundraisers.

The following are some suggestions:

- For events, pre-numbered tickets should be used and then reconciled to total sales.
- For the sale of items, an inventory should be kept of the items for sale and reconciled to receipts
- For the sale of items where the money is collected before the items are delivered, a list of all money collected and from whom, should be submitted with the receipt. That will make it clearer how much money was paid in the event of a refund.

The advisor and student should each sign the receipt verifying that the correct amount of money was submitted to the Treasurer.

Status at June 30, 2016

We noted similar issues during the 2016 audit year. We recommend that the District address this issue in the coming year.

Extraclassroom Disbursements

During our testing of disbursements for the extraclassroom programs, we noted instances where supporting invoices for disbursements were not on file. Student activities are for the benefit of the students and are learning tools for them. These responsibilities include that each disbursement be supported by an invoice as proof of the expenditure.

We recommend that all disbursements be reviewed and approved by a student treasurer as soon as the liability is incurred and that as part of their review, they ensure that there is a supporting invoice, so they may then be turned over to the Central Treasurer for payment from the extraclassroom account.

Status at June 30, 2016

While supporting invoices were available for the sample selected in the current year, we noted many invoices were not reviewed and approved the central treasurer. We recommend that the District address this issue in the coming year.

Yearend Closing Procedures

During the summer of 2014, the District experienced turnover in positions key to the yearend audit preparation process. As a result, certain schedules provided for audit were received later in the audit cycle and in some cases required correction upon auditor review. In considering our internal control assessments and discussions with management, we determined that the District had an adequate understanding of what should have been recorded or compiled on the audit schedules and that the corrections stemmed from time constraints resulting from the change in the business office management and staff during several stages of the audit. These factors resulted in items being provided later and in some cases without review prior to submitting to the audit team.

While we note that this issue was the result of a temporary event, we recommend that the District assess their capacity each year against the audit timetable and auditor requests to ensure that time is available to meet the timetable and includes time for appropriate review.

Status at June 30, 2016

We noted similar issues during the 2016 audit year which delayed the completion of the audit. We recommend that the District address this issue in the coming year.

Extraclassroom Inactive Clubs

During the audit, we noted 12 clubs with no activity. Furthermore, two of the clubs were for previous graduating classes (2012 and 2013).

We recommend that the District regularly monitor these clubs for activity and perform procedures to close out any dormant accounts including any graduating classes.

Status at June 30, 2016

We noted similar issues during the 2016 audit year which delayed the completion of the audit. We recommend that the District address this issue in the coming year.

Operating System End of Life

Per inquiry with the District IT personnel, it was determined that some of the District's workstations have a Microsoft Windows XP operating system installed, which reached its end of life in April 2014. In addition, it was noted that the District also has some servers running on a Microsoft Server 2003 operating system, which reached its end of life on July 14, 2015. This means that Microsoft will no longer provide automatic fixes, patches, or online technical support for these operating systems. It should be noted that the District is in the process of moving the application to a physical server located at MHRIC.

Failure to upgrade workstation operating systems to Microsoft Windows 7 or newer and servers to Microsoft Windows 2008 or newer, to ensure that systems continue to be updated, patched, and supported as needed, increases the risk that these systems could introduce harmful viruses, spyware, and other malicious software into the District's network.

We recommend that the District develop and implement a plan to replace upgrade or replace these workstations and servers to ensure they are fully supported.

Status at June 30, 2016

We were not able to confirm if this item was addressed due to the lack of a response from the District's IT Department. This finding was based on work performed during the 2015 – 2016 year.

Mobile Device Security

Per inquiry with the District IT personnel, it was determined that the District uses mobile devices including laptops and smartphones. All devices on the network are provided by the District. It should be noted that administrator smartphones are not connected to the network and all data is transferred through the wireless carrier. Laptops require password protection; however, smartphones do not. All mobile devices, including laptops, do not utilize encryption. In addition, USB ports (for use with portable devices such as thumb drives) are not restricted. The District does not have the ability to remotely wipe any devices should they become lost or stolen.

Failure to password protect and encrypt all mobile devices, as well as not restricting use of USB ports, significantly increases the risk of loss or theft of confidential and legally controlled data. The inability to remotely wipe data further increases the risk of unauthorized access to data in the event that an asset is lost or stolen. This could result in fines, sanctions, and reputational damage.

We recommend that the District develop and implement a plan to install safeguards to mitigate the risk of unauthorized access or breach.

Status at June 30, 2016

We were not able to confirm if this item was addressed due to the lack of a response from the District's IT Department. This finding was based on work performed during the 2015 – 2016 year.

We would like to acknowledge the cooperation and the professional conduct of the business office personnel and thank all of the School District personnel for the courtesy received during the course of our audit. Should you have any questions regarding the matters presented, we shall be pleased to discuss them at your convenience.

Very truly yours,

BONADIO & CO., LLP