

LAFAYETTE CENTRAL SCHOOL DISTRICT

**Communication of Management Letter Comments
For the Year Ended June 30, 2019**

September 27, 2019

The Board of Education and Superintendent of
Lafayette Central School District

We have completed our audit of the financial statements of Lafayette Central School District (the District) as of June 30, 2019, and have issued our report thereon, dated September 27, 2019.

In planning and performing our audit of the financial statements of the District for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the 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.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The list that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 27, 2019, on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

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LAFAYETTE CENTRAL SCHOOL DISTRICT

COMMUNICATION OF MANAGEMENT LETTER COMMENTS

1) Observation:

As a result of our testing of procurement, we noted in 5 instances out of 20 that three written quotes were not sufficiently documented and retained prior to the purchase of goods or services as required by District policy.

Recommendation:

We recommend the District ensure the procurement policy is being adhered to for all purchasing meeting the threshold for obtaining quotes or bids in order to ensure the District is also in compliance with state and federal policy.

2) Observation:

In 2017, the Governmental Accounting Standards Board (GASB) issued Statement Number 84 – Fiduciary Activities to address the inconsistencies in reporting of fiduciary activities by governments which is effective for fiscal years beginning July 1, 2019 and after. The standard establishes criteria for identifying these fiduciary activities (formerly called Trust & Agency activities) which focus on a) whether a government is controlling the assets of the fiduciary activity, and b) the beneficiaries with whom a fiduciary relationship exists. Any activity meeting these criteria should be reported in a fiduciary fund in the basic financial statements.

The standard establishes four types of fiduciary funds that should be reported, if applicable – 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds.

The application of this statement will most likely result in a change to accounting for certain activities that may have been reported as agency activities (such as payroll withholdings, bid deposits and guarantees, etc.). Furthermore, it's possible that activities which were not trust and agency transactions may qualify as fiduciary activities under the new standard.

In addition, changes may need to be made to your accounting system to accommodate the new reporting and recordkeeping. Under the new standard, all fiduciary activity must be reported on a Statement of Net Position and a Statement of Changes in Net Position which means that even custodial activity would be required to report additions and deductions, and no longer just as cash and a liability.

Recommendation:

The standard is currently effective, so action should be taken right away to begin determining applicability to the District. We recommend that you review the activity currently being recorded in your trust and agency (TA and TE) accounts and apply the criteria laid out in the standard to determine the proper accounting. Additionally, you should review activity currently recognized in your governmental funds to determine if that activity would be more appropriately recorded as a fiduciary activity under the new standard. One of the key criteria is determining whether the government controls the assets, and based on the guidance coming out of the GASB, funds being held in a bank under the tax identification number of the government would be construed as control, regardless of the designated custodian (whether an employee or an elected official). Therefore, it's important to begin reviewing the activities and having discussion with your auditor as appropriate.

3) Observation:

Active cyber threats on school districts continue to evolve and grow. In response, New York State has developed regulatory requirements (Ed Law 2d, SHIED Act, NYSED NIST Cybersecurity Requirements, etc.) which the District should be prepared to comply.

Recommendation:

We recommend the following items be considered to protect the District's data and assets.

1. Have a full and accurate data inventory completed so you can accurately document and assess the:
 - a. Data types
 - b. Uses
 - c. Locations (internal and external)
 - d. Compliance requirements
 - e. Retention requirements
 - f. Destruction requirements
2. Perform a new risk assessment based on the data sets found including:
 - a. Internal and external technical, administrative and physical vulnerability assessments
 - b. Perform Red Team Penetration testing (just like a real hacker would attack you)
 - c. Measure cybersecurity regulatory and legal compliance levels per data type
3. Build a risk management portfolio based on your unique risk mitigation expectations
4. Train all personnel on their roles and responsibilities for cybersecurity and privacy protection
5. Test your Computer Security Incident Response Plan
6. Assess your cyber liability policy to ensure that the District has the appropriate coverage for an advanced attack.
7. Actively work the risk portfolio

As noted above, one of the critical steps is to perform the required accurate and thorough risk analysis. It is mandatory for all entities in New York to meet the new New York SHIELD Act, Ed Law 2d and the NIST Cybersecurity compliance. Without this analysis, the District is at an increased risk of negative outcomes in the event of a ransomware attack or other breach and the possibility of the subsequent regulatory audit.