

Pelham Union Free School District, New York

Communication of Internal Control Matters Identified in the
Audit to Those Charged with Governance and Management

June 30, 2014

**Communication of Internal Control Matters Identified in the Audit to
Those Charged with Governance and Management**

**The Board of Education
Pelham Union Free School District
575 Colonial Avenue
Pelham, New York 10803**

Auditors' Communication on Internal Control

In planning and performing our audit of the basic financial statements of the Pelham Union Free School District, New York (the "District") as of and for the year ended June 30, 2014, 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 audit procedures that are appropriate in the circumstances 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.

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 first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, as indicated in the attached Addendum A, we share for your consideration other observations about the internal control and operations.

This communication and addenda are intended solely for the information and use of management and the Board and are not intended to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these communications and comments in further detail at your convenience, or to assist you in implementing the recommendations.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
August 14, 2014

O'CONNOR DAVIES, LLP

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Pelham Union Free School District, New York

Addendum A

Control Deficiencies

- **Special Purpose Fund**

The Special Purpose fund records the activity of the numerous bequests of which the District is the recipient. These bequests are used for scholarship awards to students or for various other purposes. Our audit disclosed one trust account which has remained financially inactive for the entire year.

Recommendation

We suggest that the School District analyze the balances and review the purpose of these bequests, so that a determination may be made as to the proper disposition of the funds. Should it be determined that these amounts are no longer required to be held in trust, a Board resolution should be approved transferring these funds to the General Fund.

- **Capital Fund**

Retainages

Retained percentages, representing amounts withheld from contractors for completed work pending satisfactory approval of their phase of a construction project, should be classified as expenditures and recorded on the books of account simultaneously with the payment to the contractor. Accordingly, retainage withheld from various contractors since this time has not been reflected within the books and records of the Capital Projects Fund.

Recommendation

We suggest that the District record these liabilities, so that those personnel charged with overseeing these projects could be provided with the most accurate cost information.

- **Extraclassroom Activities**

Extraclassroom activity funds are defined as funds raised other than by taxation in the name of a school student body. These funds are operated by and for the students and are an integral part of the educational program of the School District. As part of our audit, we have reviewed, evaluated and tested the Extraclassroom Activity Funds. The results of our tests disclosed the following weaknesses:

Lack of Segregation of Duties

We noted that the duties of the treasurers of both the High School and Middle School Extraclassroom activity funds are not adequately segregated. The responsibilities of the Middle School central treasurer include receiving monies, making bank deposits, preparing bank reconciliation and maintaining books and records. The responsibilities of the High School advisor include receiving monies, making bank deposits, and maintaining books and records.

Pelham Union Free School District, New York

Addendum A

Control Deficiencies

- **Extraclassroom Activities** *(Continued)*

Lack of Financial Activity

Our review indicated that several clubs within Pelham High School reflected no financial activity during the current fiscal year.

Deficit Balance

We noted one club within Pelham High School (Sock-n-Buskin) that had a negative ending cash balance at June 30, 2014.

Untimely Deposit

During our testing of cash receipts we noted three instances of cash being deposited more than three business days after the receipt of the cash.

Recommendation

We suggest that the duties of the treasurers be distributed among various personnel where practicable. Additionally, we recommend that a determination of the status of the clubs with no financial activity be made to determine the proper disposition of funds. If the club is determined to be no longer active, the funds should be transferred to the general student organization to be used in accordance with their guidelines.

Pelham Union Free School District, New York

Addendum B

Other Matters

- **Governmental Accounting Standards Board (“GASB”) Statement No. 68 “Accounting and Financial Reporting for Pensions”**

In June 2012, GASB issued Statement No. 68. This Statement establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. This pronouncement supersedes Statement No. 27, “Accounting for Pensions by State and Local Governmental Employers.” Under this previous standard, *cost-sharing multiple employer defined benefit plans* (such as the plans administered by the State of New York for its municipalities and school districts) which share their assets *and* their obligations to provide pension benefits to their employees – i.e. plan assets can be used to pay the pensions of the employees of any municipal or school district employer that provides pensions through the plans, have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plans’ own financial statements for all of the participating municipalities and school districts combined.

The new Statement was designed to give users of the financial statements of cost-sharing employers access to better, more transparent financial information through the municipality or school district’s own financial statements. Under the new standards, cost-sharing employers will be required to report in their Statement of Net Position a net pension liability, pension expense and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all of the municipalities and school districts in the plan. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries.

Statement No. 68 expands disclosures in the notes to financial statements and the required supplementary information (“RSI”). The note disclosures must include 1) a description of the plan(s) and the benefits provided, 2) the significant assumptions employed in the measurement of the net pension liability, 3) descriptions of benefit changes and changes in assumptions, 4) assumptions related to the discount rate and the impact on the total pension liability of a one percentage point increase or decrease in the discount rate and 5) the net pension liability and deferred inflows and outflows of resources. The RSI must provide ten year historical information (when available) regarding the entity’s proportionate share of the net pension liability and a schedule of the entity’s contributions. Notes to RSI are also now required regarding factors that significantly affect the trends in the schedules.

It is important to note that Statement No. 68 relates to *accounting and financial reporting* issues only, that is, how pension costs and obligations are measured and reported in the entity’s audited financial statements. This Statement *does not* address how the entity approaches the *funding* of the plan. The provisions of this Statement are effective for the District’s financial statements for the year ending June 30, 2015, with earlier implementation encouraged.

Pelham Union Free School District, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

We have audited the financial statements of the Pelham Union Free School District, New York (the "District") as of and for the year ended June 30, 2014, and have issued our report thereon dated August 14, 2014. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated April 9, 2014, as amended by an addendum dated June 24, 2013. This letter provides additional required communications related to our audit.

Our responsibility under professional standards

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the District are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

Our responsibility for the supplementary information accompanying the financial statements is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to such supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with US GAAP, the method of preparing it has not changed from the prior year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In connection with our audit, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Planned scope and timing of the audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Pelham Union Free School District, New York

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Qualitative aspects of significant accounting practices

Significant accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant accounting estimates

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as:

- Actuarial assumptions related to the Other Post Employment Benefit Obligations ("OPEB")
- Asset lives for depreciable capital assets
- Estimates of certain receivable balances and allowances for uncollectible amounts
- Estimates for certain operating and long-term liabilities

Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Financial statement disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to:

- Pension plan information
- Other post-employment benefit obligations payable
- Outstanding bonded indebtedness
- Fund balances

The financial statement disclosures are consistent and clear.

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Pelham Union Free School District, New York

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Uncorrected and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction.

The uncorrected journal entries following this communication letter summarize uncorrected financial statement misstatements whose effects, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The adjusting journal entries following this communications letter summarize the material misstatements that were corrected by management.

Disagreements with management

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations requested from management

We have requested certain written representations from management in a separate letter.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other matters discussed with management

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the District, and plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

We have provided our comments regarding deficiencies and other matters noted during our audit in the attached addenda.

Pelham Union Free School District, New York

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Auditor independence

We affirm that O'Connor Davies, LLP is independent with respect to the District in accordance with professional standards.

This communication is intended solely for the information and use of the Board and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Client: 546126.00 - Pelham Union Free School District, New York
 Engagement: 545033.001 - Pelham Union Free School District, New York
 Period Ending: 6/30/2014
 Workpaper: 7120.02 - Capital Fund AJE Report

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
To book capital lease for lawn mower				
H 1620.202-00-0000	capital lease expenditure		52,213.00	
H5785	Capital lease			52,213.00
Total			<u>52,213.00</u>	<u>52,213.00</u>