

**Chappaqua Central School District,
New York**

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

June 30, 2015

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

**The Board of Education
Chappaqua Central School District
66 Roaring Brook Road
Chappaqua, New York 10514**

Auditors' Communication on Internal Control

In planning and performing our audit of the basic financial statements of the Chappaqua Central School District, New York ("School District") as of and for the year ended June 30, 2015, 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 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School 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 as well as other comments and recommendations identified in Addendum B that are opportunities for strengthening internal controls and operating efficiency.

This communication and addenda are intended solely for the information and use of management and the Board of Education 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
September 17, 2015

O'CONNOR DAVIES, LLP

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Chappaqua Central School District, New York

Addendum A

Control Deficiencies

- **Special Aid Fund**

The School District participates in the State's summer program for handicapped pupils. The State funds eighty percent of this program and the balance is funded by the General Fund. The State has mandated that all revenues and expenditures related to this program be accounted for in the Special Aid Fund. Our audit disclosed the following:

Amounts Due from State

The School District had outstanding amounts due from the state for the 2010-2011, 2011-12, 2012-2013, 2013-2014 and 2014-2015 summer handicapped program year of \$115,151, \$189,721, \$307,542, \$260,276 and \$457,541 respectively. As of June 30, 2015, \$1.2 million has been classified as non-spendable fund balance in the General Fund to indicate that this amount may not be collected within one year.

Recommendation

We suggest that the School District monitor these outstanding amounts and present all write-offs to the Board including records relating to these programs identifying the rate setting costs and the amounts actually paid by the School District. If such amounts are ultimately deemed uncollectable, they should be written off with board approval and funded by the General Fund.

- **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:

Cash Receipts

Our review indicated a receipt within the High School Band account that was not deposited timely.

Recommendation

We recommend that all monies be deposited within 72 business hours upon receipt as mandated by New York State.

- **Journal Entries**

As part of our internal control testing, we review journal entries posted throughout the year. We noted several journal entries that were posted without additional supervisory review.

Recommendation

We suggest that the District adhere to its policy that all journal entries are approved by someone independent of the preparer.

Chappaqua Central School District, New York

Addendum A

Control Deficiencies

- **Internal Controls**

Purchase Orders

It was noted during our walkthrough of internal controls over disbursements that 5 of the 50 claims tested had purchased orders dated subsequent of the invoice date.

Recommendation

We suggest that all purchase orders be initiated prior to District purchases

Chappaqua Central School District, New York

Addendum B

Other Matters

- **Governmental Accounting Standards Board ("GASB") Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions"**

In June 2015, GASB issued Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." This Statement replaces the requirements of GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions". The key difference in the new standard for New York municipalities and school districts (since New York State has not authorized the establishment of an Other Postemployment Benefit ("OPEB") trust fund) is that these governments must now report the *total OPEB liability* related to their employees. The prior standard allowed for the amortization of prior service cost over a thirty year period.

The statement requires municipalities and school districts to present more extensive note disclosures and required supplementary information ("RSI") about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than that assumed in the financial statements. The new RSI includes a schedule showing the causes of the increase and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

This new standard parallels the pension standard in GASB Statement No. 68 "Accounting and Financial Reporting for Pensions". Together, these two new standards provide consistent and comprehensive disclosure for all postemployment benefits. **The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (i.e., the School District's financial statements for the year ending June 30, 2018).**

- **GASB Statement No. 77 "Tax Abatement Disclosures"**

In August 2015, GASB issued Statement No. 77 "Tax Abatement Disclosures". The requirements of this Statement are intended to improve financial reporting by providing users of financial statements essential information and disclosure about the nature and magnitude of tax abatements, making these types of transactions more transparent to financial statement users. As a result, users should be better equipped to understand how tax abatements affect a government's future ability to raise resources and meet its financial obligations and the impact those abatements have on a government's financial position and economic condition.

The statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. The new disclosures about one's own tax abatement agreements include:

- The purpose of the abatement program
- The tax being abated
- Dollar amount of taxes abated
- Provisions for recapturing abated taxes
- The types of commitments made by tax abatement recipients

Chappaqua Central School District, New York

Addendum B

Other Matters

• **GASB Statement No. 77 “Tax Abatement Disclosures” (Continued)**

- Other commitments made by the entity in tax abatement agreements, such as to build infrastructure assets

The new disclosures about tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues include:

- The name of the government entering into the abatement agreement
- The tax being abated
- Dollar amount of the reporting government’s taxes abated

The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (i.e., the School District’s financial statements for the year ending June 30, 2017).

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

We have audited the financial statements of the Chappaqua Central School District, New York ("School District") as of and for the year ended June 30, 2015, and have issued our report thereon dated September 17, 2015. 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 February 4, 2015. 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 School 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 School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective to our tests was not to provide an opinion on compliance with such provisions.

Planned scope and timing of the audit

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

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 School District are described in Note 1 to the financial statements. There have 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 other than the adoption of the provisions of the Governmental Accounting Standards Board ("GASB") Statement Nos. 68, "Accounting and Financial Reporting for Pensions" and 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date" as disclosed in the notes to financial

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

Qualitative aspects of significant accounting practices *(Continued)*

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")
- Actuarial assumptions and proportionate share calculations related to pension obligations
- 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.

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.

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

Uncorrected and corrected misstatements (Continued)

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. There are no such financial statement misstatements that remain uncorrected.

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 dated September 17, 2015.

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 School 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.

Auditor independence

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

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

Client: **Chappaqua CSD**
Engagement: **CORRECT - Chappaqua Central School District**
Period Ending: **6/30/2013**
Workpaper: **General Fund AJE Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 10				
To adjust Due to TRS and the expense		02.632		
A632	DUE TO TRS		257,215.00	
A 9020.800-36	TRS - TEACHER RETIREMENT			257,215.00
Total			257,215.00	257,215.00