

**Chappaqua Central 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  
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, 2014, 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.

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  
August 12, 2014

O'CONNOR DAVIES, LLP

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## Chappaqua Central School District, New York

### Addendum A

#### Control Deficiencies

- **School Lunch**

##### *Prepaid Meal Cards*

The District uses prepaid meal cards in administering the school lunch program. We were advised that the students are able to exceed the balances on the cards up to \$60. We noted that a receivable of \$13,334 was recorded for students that have exceeded the balances on the cards as of June 30, 2014. We further noted that the District does not have a policy in place for writing off uncollectable meal card balances when a student leaves the District.

##### ***Recommendation***

We recommend that management continue to make reasonable efforts to eliminate the receivable balance at year end. Furthermore, we recommend that management implement a policy for writing off meal card balances that are deemed uncollectable.

- **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 2009-10, 2010-2011, 2011-12 and 2012-2013 summer handicapped program year of \$6,801, \$198,976, \$397,093, and \$343,756 respectively.

##### ***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.

- **Agency Fund**

##### *Flex Spending Account*

The School District provides its employees with a flex spending account option administered by a third party vendor for eligible employees. In December 2012 the District switched their procedures for the flex spending account so that the District would no longer retain unspent funds. Since the time of the transition, the third party vendor has not reconciled the District's outstanding balance. As of June 30, 2014, approximately \$110,000 remains on the books of the District.

## Chappaqua Central School District, New York

### Addendum A

#### Control Deficiencies

- **Agency Fund** (*Continued*)

*Flex Spending Account* (Continued)

***Recommendation***

We suggest that the School District work with the third party vendor to reconcile their outstanding invoices.

- **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 two receipts within the High School Student Class of 2014 and Bell Middle School Yearbook were not deposited timely.

***Recommendation***

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

## Chappaqua Central 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 School District's financial statements for the year ending June 30, 2015, with earlier implementation encouraged.**

## **Chappaqua Central School District, New York**

### **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, 2014, and have issued our report thereon dated August 12, 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 February 11, 2009, as amended by an addendum dated August 7, 2014. 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. 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.

## **Chappaqua Central School District, New York**

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

#### **Qualitative aspects of significant accounting practices** *(Continued)*

##### *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.

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

## **Chappaqua Central School District, New York**

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

#### **Uncorrected and corrected misstatements *(Continued)***

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 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 August 12, 2014.

#### **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: **Capital Fund AJE Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>				
to record entry to reflect installment purchase debt issuance				
H1000	expenditures - installment purchase debt		208,217.00	
H5000	revenues - installment purchase debt issued			208,217.00
<b>Total</b>			<b>208,217.00</b>	<b>208,217.00</b>

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
<b>Adjusting Journal Entries JE # 2</b>				
To adjust principal and interest on installment purchase debt.				
A 9785.600-34	LEASE PURCHASE TELE PRINCIPAL		6,396.00	
A 9785.700-34	LEASE PURCHASE TELE INTEREST		2,234.00	
A 1620.427-34	TELEPHONE SVC & REPAIR			8,630.00
<b>Total</b>			<b>8,630.00</b>	<b>8,630.00</b>

**Adjusting Journal Entries JE # 12**  
To reverse tax certs approved after year end out of encumbrances.

A821	RESERVE - ENCUMBRANCES		134,139.00	
A521	ENCUMBRANCES - CURRENT YEAR			134,139.00
<b>Total</b>			<b>134,139.00</b>	<b>134,139.00</b>