

**Chappaqua Central School District, New York**

**Independent Auditors' Report on Communication of  
Internal Control Matters Identified in the Audit**

**June 30, 2011**



**Independent Auditors Report on Communication of Internal Control Related  
Matters Identified in the Audit**

Chappaqua Central School District  
66 Roaring Brook Road  
Chappaqua, New York 10514

In planning and performing our audit of the basic financial statements of the Chappaqua Central School District, New York ("District") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting 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.

We have included in this letter a summary of communications with the Board of Education as required by generally accepted auditing standards. We are also required to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of the Statement on Auditing Standards (SAS) 115: Communicating Internal Control Related Matters Identified in an Audit.

Our consideration of internal control was for the limited purpose of conducting your School District's audit and would not necessarily identify all deficiencies in internal control that might be 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.

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 a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

As indicated in the attached Addendum A, we identified certain deficiencies in internal control that we consider to be control deficiencies as well as other comments and recommendations identified in Addendum B that are opportunities for strengthening internal controls and operating efficiency.

It is important to note that control deficiencies are not necessarily issues management and the Board of Education will choose to address, however, control deficiencies may represent potential risks. Our responsibility as your auditor is to ensure that management and the Board of Education are aware of these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks.

This report, summary of communications and addendums are intended for the information and use of management and the Board of Education. However, this report is a matter of public record and its distribution is not limited. We will be pleased to discuss these comments in further detail at your convenience, or to assist you in implementing the recommendations.

*O'Connor Davies Munns & Dobbins, LLP*

**O'Connor Davies Munns & Dobbins, LLP**  
Harrison, New York  
August 5, 2011

## Chappaqua Central School District, New York

### Summary of Communications

- Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America
  - Unqualified opinion on financial statements
  - No change in scope of the audit
  - No material errors
  - No fraud or illegal acts identified
  - No instances/suspicion or allegations of fraud were noted during conduct of audit
- Internal Accounting Controls
  - Reviewed to extent necessary to render our opinion on the financial statements
  - No material weaknesses noted
- Significant Accounting Policies
  - Accounting policies appears appropriate
  - Significant accounting policies included in Note 1 to the financial statements
  - No changes in accounting policies during the year
- Management's Judgments and Accounting Estimates
  - Estimates used deemed adequate
- Audit Adjustments
  - No significant unrecorded adjustments
- Other Information in Documents Containing Audited Financial Statements
  - Management's Discussion and Analysis appears reasonable
- Disagreements with Management
  - None
- Unresolved Difficulties Encountered in Performing the Audit
  - None

Chappaqua Central School District, New York

Summary of Communications

- Consultation by Management with Other Accountants
  - None of which we were made aware
- Management Consulting Services
  - None
- Independence
  - O'Connor Davies Munns & Dobbins, LLP is independent in all respects
- Irregularities or Illegal Acts
  - Nothing to report

Chappaqua Central School District, New York

Addendum A

- **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 \$99. We noted that a receivable of \$21,530 was recorded for students that have exceeded the balances on the cards as of June 30, 2011.

***Recommendation***

Last year's recommendation was accepted by management. Management has informed us that they have sent numerous letters to parents of students with excess balances and has suggested that economic factors are affecting the collection process. We recommend that management continue to make reasonable efforts to eliminate the receivable balance at year end.

- **Special Purpose**

*Inactive Account*

During our audit of the Special Purpose fund, we noted that one trust account, had no activity for the year.

***Recommendation***

We recommend that the District analyze the balance and review the purpose of this bequest 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 the trust account, a Board resolution should be approved transferring these amounts to the General Fund.

- **Agency Fund**

*Inactive Scholarship Accounts*

The agency fund had two inactive deposit accounts during the year, there were no transactions noted within the account detail. The RB and WO scholarship fund maintained the same balance as the prior year.

Chappaqua Central School District, New York

Addendum A

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

*Inactive Scholarship Accounts* (Continued)

**Recommendation**

We recommend the district determine if there will be future use of these scholarship accounts. If it is determined that there will be no award, the district should consider writing off and release these funds into the General Fund.

*Insurance Agency Funding*

It was noted that the agency account used for health insurance disbursement in the Agency Fund has been over-funded throughout the year. The over-funding in effect creates an excess amount of expenditures in the General Fund relating to insurance cost for the year.

**Recommendation**

We recommend the district monitor the balance of this account so that it does not create an expenditure overage in the General Fund. The agency account should equal zero after all of the funding has been disbursed. This item was corrected by the district staff.

- **Encumbrances**

*Misclassification of Accrued Liabilities*

The District's encumbrance detail included \$621,294 for vendor activity that has been committed prior to year end. The invoices indicated that the billed amounts were for services performed prior to June 2011. Included in this amount was student tuition of approximately \$422,833 for prior months. The committed amount should have been properly classified in accrued liabilities.

**Recommendation**

We suggest the District review their rollover purchase orders and determine whether or not a purchase has been received, or if the service has been performed prior to year end. An encumbrance is a reserve of fund balance and should only include purchase orders that have been committed prior to year end but have not been received. In the

Chappaqua Central School District, New York

Addendum A

- **Encumbrances** *(Continued)*

*Misclassification of Accrued Liabilities (Continued)*

event that a purchase or service has been received prior to year end, the purchase order or invoice should be classified as an accounts payable. Tuition is normally not included in an encumbrance detail. School services are performed prior to year end; any unbilled tuition should be included in accounts payable either by estimate or per school agreement.

- **Cash Receipts**

*Timeliness of Deposits*

When performing the cash receipts walkthrough for the General Fund we noted that there was one out of twenty five items selected for testing, where the actual receipt of checks by the Bell Middle School was forwarded to the Treasurer two months after the date of receipt. Another transaction, from the same twenty five items tested, for the Chappaqua Continuing Education program showed only the amount of cash deposited without the corresponding copies of the checks. Determining if the deposit was made in a timely manner could not be confirmed. The practice of not promptly depositing checks allows the possibility for theft or loss of cash.

***Recommendation***

We recommend that receipts be deposited within three days upon receipt. Also, we recommend that all receipts forwarded to the Treasurer should have a photocopy of the checks deposited in order for the Business Office to monitor prompt deposit of receipts.

- **Claims Cycle**

*Purchase Order Documentation*

The claims walkthrough disclosed that there was one transaction, out of a total of fifty items selected for testing, that did not have a corresponding purchase order. Per discussion with management, and use of financial software, it was noted that there was no purchase order created.

***Recommendation***

A purchase order should be created without exception for every purchase. The purchase order is used for the means of approval. In order for the School District to remit payments, such as the one in question, proper approval must be made prior to disbursement of funds. The District should not make payments to vendors without the Accounts Payable department receiving the correct purchase order.

## Chappaqua Central School District, New York

### Addendum B

- **Written Investment Policy**

The current economic crisis has altered the relationship between banks and the various municipal entities that they service. In addition to sweeping changes in Federal Deposit Insurance Corporation (“FDIC”) coverage that affect all depositors, banks have also begun to expand the options permitted under Section 10 of the New York State General Municipal Law in regards to collateralizing a municipality’s deposits that exceed FDIC limits. For instance, one of the options that has been most prevalent is the acceptance of a letter of credit issued by the Federal Home Loan Bank.

Section 39 of the New York State General Municipal Law requires municipalities, under their written investment policies, to include in the policy “procedures and provisions to secure in a satisfactory manner the local municipality’s financial interest in investments”. Accordingly, many entities have included in their written investment policy a listing of the collateral which will be accepted by them as collateral to secure deposits in excess of FDIC coverage.

We suggest that a review of the written investment policy, collateral agreements and FDIC coverage regulations be performed to ensure that all deposits are fully covered and that the list of acceptable collateral instruments to secure deposits in excess of FDIC limits in the written investment policy is consistent with the collateral agreements with the banks.

- **Continuing Emphasis on Governance**

The School District has established guidelines and policies that address the principles of governance for a municipality. As management is aware, recent years have seen a heightened awareness in government regarding the responsibilities of governing boards. Accordingly, we bring to your attention the following considerations:

Document Retention – The time period for which a government’s routine accounting and financial documents should be retained needs to be established so that important documentation could be kept at hand, in the context of the cost-benefit considerations of storing such information over time. In today’s environment, regulators and other interested parties may be concerned, for a variety of reasons, about the availability of an entity’s historical accounting and financial information. Accordingly, it is important now that the School Board formally assigns to a specific representative the sole authority to delete, destroy, or discard the School District’s documents, based on the established policy’s guidelines for the type of documentation to be maintained and the time frame for maintaining it.

## Chappaqua Central School District, New York

### Addendum B

- **Continuing Emphasis on Governance** (*Continued*)

Providing Access for Employee Comments and Concerns – This is an area frequently referred to as the “whistleblowers’ provision”, although the term “whistleblower” may sometimes have negative connotations in the public’s mind that are not intended here. The intention is to provide a municipality’s officers and employees with a mechanism that will permit them to communicate and concerns they may have regarding the organization, such as, but not limited to, what they may consider to be inappropriate behavior or actions by management. It is essential to this process that any communications from employees are completely confidential – to protect them from potential reprisals – and that their comments are received directly by the governing board or its audit committee, perhaps through an independent third party. The School District should continue its emphasis on governance.

- **Budget**

*Budget Amendments – Timing and Impact on Future Fund Balance*

The budget is intended to be the annual financial plan for School District’s operations. Internal controls prevent individual budgetary accounts from being over-expended throughout the year. Commonly, balances in certain budgetary accounts may not be sufficient when balances in budgetary accounts are not sufficient. Management should evaluate year to date financial activity and determine the need to increase an appropriation “before” the end of the year. If a modification is necessary, a budget transfer or amendment should be recommended to the Board of Education.

The Office of the State Comptroller has been especially critical of “clean-up budget transfers” enacted after year-end by municipalities and school districts. A comment in a local government’s “Report of Examination” reads, “making Budget transfers after the fact, particularly months after the fiscal year is over, defeats the purpose of adopting and monitoring the budget.”

While we concur with the State Comptroller’s interpretation of municipal accounting, we understand there will be some exceptions to a policy of making all amendments prior to year end. Governmental Accounting Standards Board issued their Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for periods beginning after June 15, 2010 (School District fiscal’s year 2011) which requires local governments to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. The new fund balance classifications (Nonspendable, Restricted, Committed, Assigned and Unassigned) will indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints.

Chappaqua Central School District, New York

Addendum B

- **Budget** (*Continued*)

Certain constraints of fund balance require formal action of the government's highest level of decision-making authority prior to the end of the fiscal year. The School District presently performs numerous accruals within various departments before year end and should make the appropriate recommendations to the Board of Education before the end of the fiscal year.