

Chappaqua Central School District, New York

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

June 30, 2010



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, 2010, 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.

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.

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.

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

September 23, 2010

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

- **Special Aid Fund**

Balanced Budget

The District's Special Aid Fund did not have a balanced budget. Although actual activity had matching revenue and expenditures at year end, the budgetary revenue and expenditure ledgers did not equal. The Special Aid Fund should have revenues and expenditures equal at all times. In the event of an increase or decrease of appropriation, the District must also increase or decrease the respective revenue account.

Recommendation

We suggest the District closely monitor any changes in appropriations. These changes must also reflect a revenue source that must also be increased or decreased with proper Board approval.

Summer Handicapped Program

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 of the records maintained for this program disclosed that the School District only tracks the program costs when the program is completed and payments are made to the School District.

Recommendation

We recommend that the system for accounting and tracking the status of expenditures and approvals for this program be modified to an individual student basis. This tracking should be coordinated among the Special Education Office and the Business Office. Management has informed us that these expenditures are currently being tracked, by student, at the beginning of the program year.

- **School Lunch**

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 the staff is able to exceed the card balance which is contrary to policy. We also noted that a receivable of \$17,844 was recorded for 1,203 students and 111 staff that have exceeded the balances on the cards as of June 30, 2010.

Chappaqua Central School District, New York

Addendum A

- **School Lunch** (*Continued*)

Recommendation

We recommend that management instruct the food service workers not to allow the staff to purchase amounts which exceeds the card balance and that management should make reasonable efforts to eliminate the receivable at year end.

- **Special Purpose**

During our audit of the Special Purpose fund, we noted that one 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.

- **Cash**

A bank confirmation disclosed that one of the three authorized signers on the District's accounts is no longer valid. The Superintendent of Schools was confirmed to be an authorized signer. His position was terminated as of June 30, 2010 and should therefore not be registered with the bank.

Recommendation

We recommend the District contact all banks and update the list of authorized signatories and any inactive personnel should no longer appear as an authorized signer.

- **Encumbrances**

Misclassification of Accounts Payable

The District's encumbrance detail included \$54,277 for vendor activity that has been committed prior to year end. The invoice indicated that the billed amounts were for services performed from October 2009 to June 2010. In addition, there was student

Chappaqua Central School District, New York

Addendum A

- **Encumbrances** *(Continued)*

Special Education tuition of approximately \$279,090 for the month of June included in the encumbrance detail. The committed amount should have been properly classified in accounts payable.

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 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.

- **Employee Compensation**

Compensation Not Included As Payroll Expenditure

Certain administrators are receiving an auto allowance through the Accounts payable system (\$2,400 annually).

Recommendation

We recommend all allocations relating to employee compensation be included in payroll ledger. The use of an accounts payable system should be for vendor transactions only.

- **Extraclassroom Activities**

The fund consists of those student activity programs and clubs which have student participation in the activity and student involvement in the management of the program. The extraclassroom activity funds represent funds of the students of the District. Although the extraclassroom activity funds are independent of the District with respect to its financial transactions and the designation of student management, the Board of Education exercises general oversight of these funds. Based on this criterion, the extraclassroom activity funds are included in the District's reporting entity.

Chappaqua Central School District, New York

Addendum A

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

As part of our audit, we have reviewed, evaluated and tested the Extraclassroom Activity Funds of the District. The results of our tests disclosed that the following areas were not in compliance with the regulations of the Commissioner of Education.

Unqualified Student Accounts – Middle School Team Accounts

Middle School Team Accounts are funded by parent contributions to specific teams each year. They are used to pay for the student activities and events. Contributions are recorded by management in the Agency Fund. Team teachers oversee the use of the funds. The district business office deposits receipts and pays invoices for the various activities.

We noted that the combined team account balance totals \$10,427. Given that the parent contributions are intended to cover expenses for the specific school year, the account balance should be zeroed out at year end.

Recommendation

Since these funds represent activities that are not in compliance with State guidelines we recommend that the District close the account and suggest that the PTA or another parent organization maintain the account.

Addendum B

- **Future Application of Accounting Standard – Statement of the Governmental Accounting Standards Board - Fund Balance Reporting and Governmental Fund Type Definitions (GASB Statement No. 54)**

In February 2009, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement is intended to improve the usefulness of information provided to users of governmental financial statements about fund balance by 1) providing clearer, more structured fund balance classifications and 2) by clarifying the definitions of existing governmental fund types.

It is said that fund balance is among the most widely and frequently used piece of information provided in local government financial statements. GASB Statement No. 54 was developed to address the diversity and lack of consistency that had developed in the reporting of this vital information. To reduce this confusion, the new standard establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used.

GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable (such as fund balance associated with inventories) and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Accordingly, fund balance amounts will be reported in the following classifications:

- Restricted – amounts stipulated by constitution, external resource providers or through enabling legislation.
- Committed – amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority.
- Assigned – amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- Unassigned – amounts that are not constrained at all in the government’s General Fund and includes all spendable amounts not contained in other classifications.

Chappaqua Central School District, New York

Addendum B

- **Future Application of Accounting Standard – Statement of the Governmental Accounting Standards Board - Fund Balance Reporting and Governmental Fund Type Definitions (GASB Statement No. 54) (Continued)**

GASB Statement No. 54 also clarifies the definitions of individual governmental fund types. It provides an interpretation of certain terms within the definition of special revenue fund types, while further clarifying the Debt Service and Capital Projects Funds type definitions. GASB Statement No. 54 is effective for the School District's fiscal year ending June 30, 2011 with earlier implementation encouraged.