

Chappaqua Central School District, New York

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

June 30, 2009



O'Connor Davies Munns & Dobbins, llp  
ACCOUNTANTS AND CONSULTANTS

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

The Board of Education  
Chappaqua Central School District  
Roaring Brook Rd  
Chappaqua, New York 10708

In planning and performing our audit of the basic financial statements of the Chappaqua Central School District (the "District") as of and for the year ended June 30, 2009, 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 Audit Committee of 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 auditing standard, **Statement on Auditing Standards (SAS) 112: Communicating Internal Control Related Matters Identified in an Audit.**

Our consideration of internal control was for the limited purpose of conducting your District's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did identify certain other deficiencies that we consider to be control deficiencies that are defined and discussed below. **We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined below.**

***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 auditors 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.***

**Bennett Kielson Storch DeSantis Division**

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A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

As indicated in the attached Addendum A, we identified certain deficiencies in internal control that we considered 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. As previously mentioned, management's responses are included in the document.

This report, summary of communications, addendum and management responses 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**  
**Bennett Kielson Storch DeSantis Division**  
August 7, 2009

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, frauds, or illegal acts identified
  - No immaterial frauds 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

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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, Bennett Kielson Storch DeSantis Division is independent in all respects
- Irregularities or Illegal Acts
  - Nothing to report

Chappaqua Central School District, New York

Addendum A

- **General Fund**

*Tax Anticipation Notes Interest and Arbitrage*

Due to a clerical oversight whereby arbitrage rebates were not paid to the IRS in a timely manner, the District paid \$13,446 in interest pertaining to the underpayment of arbitrage rebates to the IRS during the 2008-2009 fiscal year. The District also paid \$124,644 in arbitrage rebates to the IRS during 2008-2009 for the Tax Anticipation Note (TAN) issued in 2006-2007.

***Recommendation***

The District should consider reducing or eliminating the amount borrowed and/or reduce the time outstanding of the TAN to minimize its arbitrage rebate. All arbitrage rebate returns should be filed with the IRS' in a timely manner.

- **Capital Fund** (*Prior Year Comment*)

During our audit of the Capital Projects Fund we noted three inactive projects, two had deficit fund balances. The projects labeled 1999-00 funding and 2002-03 funding have deficit balances in the amounts of \$31,014 and \$86,364, respectively. The District has included these amounts in the 2009-2010 General Fund Budget as a transfer out to the Capital Fund to fund for these projects.

***Recommendation***

Management should ensure that cumulative project expenditures remain within authorized budget. Projects that have been inactive should be closed with proper Board approval and any remaining balances transferred back to the appropriate fund.

- **School Lunch**

The District uses prepaid meal cards in administering the school lunch program. We were advised that the students and the faculty are able to exceed the balances on the cards up to \$99. We noted that a receivable was recorded for approximately \$14,600 for students/faculty that have exceeded the balances on the cards as of June 30, 2009.

***Recommendation***

We recommend that management make reasonable efforts to eliminate the receivable at year end.

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Addendum A

- **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.

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*

We noted that the District maintains a student extracurricular activity account that does not qualify under appropriate state guidelines. The account has a current cash balance totaling \$7,498 which is already recorded by management in the Agency Fund. The activities are supervised by teachers who are in charge of collecting donations from parents. The District's Business Office deposits receipts and pays the invoices for the various activities.

***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.

*Cash Receipts Deficiencies*

During the cash receipts walkthrough of the extraclassroom activity fund, there was one instance out of 10 receipts selected from the Horace Greeley High School that had a deposit made to the wrong bank account.

***Recommendation***

We recommend that all deposits be kept separately for each school and that the responsible person for making deposits maintain all bank deposit slips segregated in order to avoid erroneous deposits.

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Addendum A

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

*Cash Receipts Deficiencies*

During the cash receipts walkthrough of the extraclassroom activity fund, it was noted that one out of 10 receipts selected from the Horace Greeley High School did not have the Student Treasurers signature.

***Recommendation***

We recommend that all receipts be signed by the student treasurer prior to being signed by the faculty advisor.



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.

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.

- **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 have 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.