

Chappaqua Central School District, New York

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

June 30, 2008



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, 2008, 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 consider to be control deficiencies.

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

**The Government Services Division of
O'Connor Davies Munns & Dobbins, LLP**
August 27, 2008

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

Chappaqua Central School District, New York

Summary of Communications
(Concluded)

- Consultation by Management with Other Accountants
 - None of which we were made aware
- Management Consulting Services
 - None
- Independence
 - Bennett Kielson Storch DeSantis, The Government Services Division of 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

• **General Fund**

Liabilities

There was an outstanding liability for \$165,630 in the prior year representing a refund due to New York State for STAR Aid. At the time of the prior audit management was unaware of the status of the balance, either as a reduction to the current year STAR Aid or paid directly by the school to the New York State Department of Education. Management determined that the current year STAR Aid had been reduced by the amount owed. An auditor's adjustment was proposed and recorded by management to reflect the payment.

Recommendation

Management should review all year end accruals for accuracy.

Management's Response

The district was aware of the deduction and should have made the adjusting entry prior to year end. The business office will conduct a review to ensure that all necessary entries are made prior to year end.

Establishment of Reserves

In a recent decision by the Commissioner of Education, a School Board was admonished for creating a reserve for fund retroactively, i.e., established by resolution in a current fiscal year for the year ending June 30th of the immediately preceding year. Therefore, if the reserve is meant to be established for the year ending June 30th, a resolution must be approved by the Board of Education prior to the fiscal year end.

During our audit we found that management did not have Board authorization prior to June 30th to make certain allocations to the fund balance reserves.

Recommendation

Management should adhere to the interpretation of the Commissioner of Education.

Management's Response

There was a misunderstanding of the Commissioner's regulation regarding the setting aside of funds to a reserve account. Our understanding of the commissioner's regulation was that it bars the establishment of reserve account after the end of the fiscal year, but does not bar the addition of funds to an existing reserve account. In the future, the district will seek Board of Education's approval prior to year end to add to the reserve account.

Chappaqua Central School District, New York

Addendum A

- **Cash Receipts Cycle**

The District does not keep a record of the date that cash receipts are received in the Business Office. Therefore, of the 25 cash receipts tested, it could not be determined if these receipts were deposited timely within 72 business hours of receipt. All payments are not mailed directly to the Business Office. Those checks not mailed directly to the Business Office remained at the other District's locations where they were received for a period of time before directed to the Business Office. This practice opens the District to the threat of a loss or theft of cash.

Recommendation

Those individuals who collect cash and checks in other locations must remit the receipts to the Business Office timely. We suggest that the District implement procedures which would enforce that all mail received at alternate District locations be forwarded to the Business Office not more than 72 hours after the receipt. This practice will strengthen the District's internal control process over cash receipts and lessen the likelihood that cash could be lost or stolen before it is deposited in the bank.

Management's Response

The Business Office deposits all the collected checks (for Extraclassroom activities fund, or Team fund) on the same day of receipt by the Office or the next day. The issue here is the checks may be sitting at the school for over a lengthy period, and the auditors are concerned about the security of such checks. One solution is to make sure all such checks are locked in the school safe at the end of each day. We will advise the building principals.

- **Special Aid Fund**

The Special Aid Fund is established to account for special projects or programs supported in whole or in part with Federal, State or local funds. Our audit of the Special Aid Fund disclosed the following:

Budgetary Compliance and Receivables

Dating back to 2001 the School has recorded receivables for State Aid in the Special Aid Fund. In 2007, it was determined that certain receivables may be uncollectible. At this time, management recorded a reserve for certain outstanding receivables in the amount of \$310,226 for years 2001 through 2005.

Chappaqua Central School District, New York

Addendum A

• **Special Aid Fund** (*Continued*)

In the current year, management investigated further and deemed the \$310,226 to be uncollectable. Additionally, there were charges (accrued) to the Summer Handicapped Program in the years 2006 through 2008 that were subsequently determined not to be reimbursable by the State.

Management deemed the following receivables uncollectable and wrote them off in the current fiscal year. Those receivables are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Non- Reimbursable Charges</u>
2002	\$ 51,643
2003	44,571
2004	67,134
2005	52,751
2006	70,173
2007	126,967
2008	<u>149,883</u>
	<u>\$ 563,122</u>

This write-off required an amendment to the original budget line, General Fund – Transfers Out – Special Aid Fund category. The total amendments were in the amount of \$595,876 is inclusive of the receivable write-off above.

Recommendation

The amendment of the budget line General Fund – Transfers Out Special Aid “requires” voter approval. The District should ensure that the original budget and any subsequent amendments receive governing body approval and are subjected to public notifications and hearings, if required.

Management’s Response

Now that we have determined what is reimbursable for the summer program, the district will not charge non-reimbursable expenses to the summer program. Instead these expenses will be drawn from the General Fund. This was done for summer 2008. Secondly, we will make sure that during the preparation of future budgets, we will always have sufficient funds to pay for the 20% of the costs that is supported by the district so that the transfer out line will not be exceeded.

Chappaqua Central School District, New York

Addendum A

- **Capital Fund**

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.

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.

Management's Response

The District currently has two on-going capita projects. We will make sure the expenditures for these two projects do not exceed the authorized budgets. As for the three inactive projects, two in deficit and one with a positive fund balance, we will transfer the positive fund balance to Debt Service Fund and seek voters' approval to fund the two deficit accounts.

- **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 School District. The results of our tests disclosed that the following areas were not in compliance with the regulations of the Commissioner of Education.

Cash Balances

We noted that the Student Council Club for the Horace Greeley High School had a negative cash balance of \$5,209. Recorded disbursements were noticeably greater than the club receipts.

Chappaqua Central School District, New York

Addendum A

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

Recommendation

Although the District maintains a detailed monthly activity report, we recommend that the appropriate personnel reconcile the ending balance and assess available funds prior to paying for club activity expenses.

Management's Response

The District accepts the recommendation. The student treasurer and teacher advisor will reconcile accounts monthly to ensure that each account will not have a deficit.

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 \$19,800 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.

Management's Response

The Audit Committee will ask the Internal Auditor to review the Extraclassroom account and practice, and make recommendations to the Board.