East Ramapo Central School District, New York

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

June 30, 2012

O'CONNOR DAVIES

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

The Board of Education
East Ramapo Central School District
105 South Madison Avenue
Spring Valley, New York 10977

In planning and performing our audit of the basic financial statements of the East Ramapo Central School District, New York ("School District") as of and for the year ended June 30, 2012, 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 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control was for the limited purpose of conducting the 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 deficiencies, significant deficiencies, or material weaknesses 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 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

However, as indicated in the attached Addendum A, we identified certain deficiencies in internal control that we consider to be control deficiencies. In Addendum B, we identify other accounting and auditing matters for your consideration. 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 addendum 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, LLP

O'Connor Davies, LLP
Harrison, New York
November 5, 2012

East Ramapo 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 that the School District has not already been made aware of
  - No instances/suspicion or allegations of fraud were noted during conduct of audit that the School District has not already been made aware of

- Internal Accounting Controls

  - Reviewed to extent necessary to render our opinion on the financial statements
  - No material weaknesses noted

- Significant Accounting Policies

  - Accounting policies appear 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

Summary of Communications
(Continued)

- Consultation by Management with Other Accountants
    - None of which we were made aware, except internal auditor
- Independence
    - O’Connor Davies, LLP is independent in all respects
- Irregularities or Illegal Acts
    - Nothing to report

Addendum A

- **General Fund**

Fund Deficit

One element in the evaluation of a School District's creditworthiness is the level of fund balance retained. The amount of fund balance retained among governmental entities varies depending upon fiscal policy and statutory requirements. The larger the fund balance retained, the stronger the financial condition. School Districts, however, cannot employ policies that only serve the dictates of a financial community. A School District's fiscal policy must establish a delicate balance between taxpayer demands, the programmatic needs of the students, fairness with the employees of the School District and the School District's long-term fiscal objectives.

Fund balance generally should be retained at a level that relates to the economically sensitive revenues and expenditures included in the budget. An assessment of contingencies should also be a determinant in developing a desired fund balance level, with a realization that a School District is limited by law to retaining 4% of its budget in unassigned fund balance. The School District's General Fund unassigned fund balance, exclusive of encumbrances, at June 30, 2012 has become a deficit of $1,781,570. This has been the result of the reliance upon a significant portion of fund balance being appropriated each of the past several years to provide property tax relief and the overestimation of certain revenue sources that ultimately were not realized. At the same time, certain costs, particularly fringe benefits (contributions to the New York State pension funds for teachers and employees and the rise in health insurance costs) and contractual salary commitments have increased costs dramatically. This will require the School District to consider a variety of options in balancing future budgets. The School District is already seeing the initial impact of this negative fund balance position on its cash flow requirements.

Recommendation

We suggest that a detail assessment be conducted that would outline the School District's need for resources now that fund balance is no longer available. We believe that consideration be given to the development of a multi-year financial plan which would provide for long-term fiscal stability. We also believe that it would be prudent for the School District to establish a fund balance retention policy in order to ensure stability in the School District's tax rate as well as its overall financial condition.

Addendum A

- **Capital Projects Fund**

Project Deficit

The Capital Projects Fund is used to account for the construction of major capital facilities. Our audit of the Capital Projects Fund identified that the Warehouse Capital Project, which had been completed several years ago, has a deficit fund balance of $20,445. Additionally, the Various District Improvement capital project reflects a deficit of $649,172, primarily due to the denial of New York State EXCEL aid for portions of this project. Since the General Fund had advanced the cash to finance these projects, a portion of the fund balance of the General Fund has been set aside in an amount equal to these deficits.

Recommendation

If additional outside funding will not be forthcoming, monies will have to be provided in future General Fund budgets approved by the voters. Once approved, those funds would be transferred to the Capital Projects Fund to eliminate the deficits. This would then restore the funds to the General Fund unassigned fund balance.

- **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 grant funds. 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 is not tracking expenditures by student, nor is it comparing the amounts paid with the costs approved by the State. This results in inaccurate balances being recorded in this program and old balances which have not been closed out.

Recommendation

We recommend that the Program Coordinator, in conjunction with the Business Office, identify those students for whom State approvals have not been received and complete the necessary paperwork. Additionally, 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 between the Director of Special Education and the Business Office to preclude disallowances.

Addendum A

- **Extraclassroom Activity Funds**

Segregation of Duties

Our audit disclosed that the duties of the faculty advisors were not adequately segregated. The responsibilities of the advisors included receiving monies, preparing bank deposits, preparing bank reconciliations and maintaining the books and records.

Recommendation

We suggest that consideration be given to redistributing these duties among available personnel, where possible, in order to improve internal controls over Extraclassroom activity fund assets.

Lack of Financial Activity

We noted that there were several clubs in the Spring Valley Senior High School and Ramapo Senior High School that had no financial activity during the fiscal year under audit. State Education Department regulations provide that the funds of a discontinued activity shall automatically revert to the account of the general student organization or to the student council and shall be expended in accordance with that organization's constitution.

Recommendation

We recommend that a review of these activities be performed to determine their status. If it is determined that these clubs are no longer active, the funds should revert to the general student organization in accordance with the regulations of the Commissioner of Education.

Timeliness of Deposits

During our audit, we noted that several deposits were not made within 72 business hours of receipt, as required by the State Education Department.

Recommendation

We suggest that the Extraclassroom activities programs modify its policies and procedures to ensure that deposits are made within 72 hours of receipt.

Cash Disbursements

Our test of cash disbursements disclosed several instances in which documentation to support the disbursements, such as a signature for payment authorization, was absent.

- **Extraclassroom Activity Funds** (Continued)

  Cash Disbursements (Continued)

  Recommendation

  We suggest that the extraclassroom activity treasurer and faculty advisor obtain the proper authorization for disbursements, as well as the required signatory authorization.

- **Cash**

  Outstanding Checks

  During our audit we noted that the bank reconciliation for the payroll account reflected outstanding checks which were over one year old, aggregating $253,960. Of this amount, one employee has outstanding, uncashed paychecks totaling $171,909, dating back as far as 2006.

  Recommendation

  We recommend that management determine the reason that paychecks have remained outstanding for such an extended period of time. After every effort has been exhausted, the Business Office should seek legal advice as to the proper disposition of these funds, including remittance of the funds to New York State to hold as escheat property.

- **Special Purpose Fund**

  These funds are used to account for monies held by the School District in accordance with the terms of a trust or scholarship agreement and remitted to selected students and vendors based on the restrictions and recommendations of the trust and/or scholarship. Our review of the Special Purpose Fund indicated that eleven of these accounts reflected no activity during the current fiscal year.

  Recommendation

  We recommend that the School District examine the status of all inactive trust accounts and, if applicable, either transfer the monies to the General Fund or remit payments back to the appropriate depositor.

Addendum B

- **Governmental Accounting Standards Board ("GASB") Statement No. 63 *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position"* and Statement No. 65 *"Items Previously Reported as Assets and Liabilities"***

  In June 2011, the Governmental Accounting Standards Board ("GASB") issued Statement No. 63. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources that were introduced in GASB Concept Statement No. 4, issued in June 2007. Concepts Statement No. 4, *Elements of Financial Statements,* established definitions for the seven fundamental components of historically based financial statements of state and local governments. These elements are defined as follows:

  - *Assets* are resources with present service capacity that the government presently controls.
  - *Liabilities* are present obligations to sacrifice resources that the government has little or no discretion to avoid.
  - An *outflow of resources* is a consumption of net assets by the government that is applicable to the *current* reporting period.
  - A *deferred outflow of resources* is a consumption of net assets by the government that is applicable to a *future* reporting period.
  - An *inflow of resources* is an acquisition of net assets by the government that is applicable to the *current* reporting period.
  - A *deferred inflow of resources* is an acquisition of net assets by the government that is applicable to a *future* reporting period.
  - *Net position* is the residual of all other elements presented in a statement of net position.

  The GASB introduced this Statement since previous financial reporting standards did not include guidance for reporting these *resource* elements, which are distinct from assets and liabilities. This Statement amended the net asset reporting requirements in GASB Statement No. 34 *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* and other applicable pronouncements by incorporating the deferred inflow and outflow of resources into the definitions of the required components of the residual measure and by renaming that measure as *net position*, rather than *net assets*. The provisions of this Statement are effective for the School District's financial statements for the year ending June 30, 2013, with earlier implementation encouraged.

Addendum B

- **Governmental Accounting Standards Board ("GASB") Statement No. 63 *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position"* and Statement No. 65 *"Items Previously Reported as Assets and Liabilities"*** (Continued)

  While GASB Concepts Statement No. 4 established the elements and Statement No. 63 established the framework and guidance for the new reporting model, Statement No. 65, issued in March 2012, established accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain specific items that were previously reported as assets and liabilities. Specifically, this Statement addresses changes in the reporting of 1) refunding of debt, 2) non-exchange transactions, 3) sales of future revenues and intra-entity transfers of future revenues, 4) debt issuance costs and 5) leases and other less common transactions.

  This Statement also clarified previous guidance in regards to revenue recognition in governmental funds. While there is no change in the concept that financial resources should be recognized in the accounting period in which they become both measurable and available, under this Statement, revenue that does not meet the availability criteria is to now be reported as deferred inflow of resources, rather than as deferred revenues in the liability section. The provisions of this Statement are effective for the School District's financial statements for the year ending June 30, 2014, with earlier implementation encouraged.

- **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.

Addendum B

- **Governmental Accounting Standards Board ("GASB") Statement No. 68 *"Accounting and Financial Reporting for Pensions"*** (Continued)

  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.