

Rye City School District, New York

Communication of Internal Control Matters Identified in the
Audit to Those Charged with Governance and Management

Management Corrective Action Plan (CAP)

June 30, 2016

Rye City School District, New York

Addendum A

- **Segregation of Duties**

Access to Vendor Information

As part of our audit procedures, we performed transactions walkthroughs and reviewed the internal controls on receipts the disbursements processes. We noted that the accounts payable clerk who is responsible for processing payments to vendors have user rights to add, delete or modify vendor information.

Recommendation

We recommend that employees who process payments must not have full access to vendor information. The accounts payable clerk should only have read-only user rights to the vendor database. This will prevent unauthorized payments and loss of financial resources.

CAP: Management has since corrected this issue. Management will perform periodic system audits by reviewing vendor information change reports to verify user access.

- **Extraclassroom Activity Funds**

Extraclassroom activity funds, which are authorized by the New York State Education Department, are an integral part of the educational program of the School District. Extraclassroom activity is an area where student funds are handled by many individuals prior to being deposited into a club bank account.

Outstanding Checks

The student activity funds have outstanding checks which total \$1,867 that are greater than a year old.

Recommendation

We recommend that the central treasurer review the outstanding checks on a periodic basis and determine their status and either re-issue, void or take whatever action deemed appropriate.

CAP: The Treasure and Comptroller will review the list of outstanding checks to determine the necessary and appropriate action needed to either clear, void and re-issue or report uncollected by June 30, 2017.

- **School Lunch Fund**

Excessive Fund Balance

New York State has suggested that the fund balance in the School Lunch Fund be no more than three months' worth of operating expenditures. Based on our audit, the School Lunch Fund has a total fund balance of \$800,421 at June 30, 2016, which appears to be excessive.

Recommendation

We suggest that the District take all steps necessary to utilize the excess portion of this fund balance based upon implementing a Board approved plan.

Rye City School District, New York

Addendum A

CAP: Excess funds are intended for the use of a large, costly capital improvement project to correct the current ventilation system in the high school kitchen and cafeteria. The Board has passed a resolution and will continue to do so in support of the pending capital project initiative.

Food Sales

During our audit, we compared the revenue from food sales with the meals sales report and noted that these reports were not always in agreement.

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

Food Sales (Continued)

Recommendation

We recommend that a monthly reconciliation of these reports be prepared. This will prevent discrepancies in reported sales and revenue.

CAP: Management is working with food service to create protocols to be followed for: daily, monthly and year end processes/procedures to better manage the financial operation in a timely and consistent manner. Procedures for daily tasks are being identified and implemented as needed, monthly procedures will be fully implemented by November 2016, and year end procedures will be in place for the close of the 2016-17 school year.

Deferred Revenue

In testing the deferred revenue account, we noted that the amount in the trial balance does not match with the detailed prepaid meals report. Based on our understanding, the discrepancy arises because the School District's cafeteria system only generates a prepaid meals report as of the inquiry date.

Recommendation

The School District should run the report as of June 30 in order to ensure that the report matches the general ledger balance.

CAP: Management is working with food service to create protocols to be followed for: daily, monthly and year end processes/procedures to better manage the financial operation in a timely and consistent manner. Procedures for daily tasks are being identified and implemented as needed, monthly procedures will be fully implemented by November 2016, and year end procedures will be in place for the close of the 2016-17 school year.

- **Special Purpose Fund**

The Special Purpose Fund has been established to record the activity resulting from the various bequests for which the School District is the recipient. The School District tracks the activity for each account in separate revenue/expenditure accounts. During our audit, we noted that four accounts totaling \$4,888 had no activity for the year.

Recommendation

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Addendum A

We recommend that the School District examine the status of all inactive accounts and, if applicable, either transfer the funds into the General Fund or remit payments back to the donor.

CAP: District Treasurer will review each account and work with each account contact to determine appropriate action for either transferring or closing and paying back the donor by June 30, 2017.

- **Special Aid Fund**

Receivables and Deferred Revenues

The Special Aid Fund is used to account for special programs supported in whole or in part with Federal, State or local funds. We noted that the School District has a number of outstanding amounts due from the State relating to the Summer School Handicapped Program in the amount of \$127,741 for fiscal years 2009 to 2013 and \$2,389 due from the Federal government for fiscal year 2009-2010. Additionally, old deferred revenue in the amount of \$724 relating to the Title IV Part A program for the 2010-2011 fiscal year is still open as of June 30, 2016.

Recommendation

We suggest that the School District continue to employ all appropriate collection enforcement efforts. If collection is not forthcoming, the remaining uncollectible portion will require additional funding from the General Fund, subject to Board approval.

CAP: The District Treasurer and Assistant Superintendent for Business will investigate all outstanding items to determine validity of the receivable and pursue the appropriate next action to either collect what is outstanding or determine how to refund or write off by June 30, 2017.

Rye City School District, New York

Addendum B

Other Matters

- **Governmental Accounting Standards Board (“GASB”) Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions”**

In June 2015, GASB issued Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.” This Statement replaces the requirements of GASB Statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions”. The key difference in the new standard for New York municipalities and school districts (since New York State has not authorized the establishment of an Other Postemployment Benefit (“OPEB”) trust fund) is that these governments must now report the *total OPEB liability* related to their employees. The prior standard allowed for the amortization of prior service cost over a thirty year period.

The statement requires municipalities and school districts to present more extensive note disclosures and required supplementary information (“RSI”) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than that assumed in the financial statements. The new RSI includes a schedule showing the causes of the increase and decreases in the OPEB liability and a schedule comparing a government’s actual OPEB contributions to its contribution requirements.

This new standard parallels the pension standard in GASB Statement No. 68 “Accounting and Financial Reporting for Pensions”. Together, these two new standards provide consistent and comprehensive disclosure for all postemployment benefits. **The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (i.e., the School District’s financial statements for the year ending June 30, 2018).**

- **GASB Statement No. 77 “Tax Abatement Disclosures”**

In August 2015, GASB issued Statement No. 77 “Tax Abatement Disclosures”. The requirements of this Statement are intended to improve financial reporting by providing users of financial statements essential information and disclosure about the nature and magnitude of tax abatements, making these types of transactions more transparent to financial statement users. As a result, users should be better equipped to understand how tax abatements affect a government’s future ability to raise resources and meet its financial obligations and the impact those abatements have on a government’s financial position and economic condition.

The statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues. The new disclosures about one’s own tax abatement agreements include:

- The purpose of the abatement program
- The tax being abated
- Dollar amount of taxes abated
- Provisions for recapturing abated taxes

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Addendum B

Other Matters

• **GASB Statement No. 77 “Tax Abatement Disclosures”** (Continued)

- The types of commitments made by tax abatement recipients
- Other commitments made by the entity in tax abatement agreements, such as to build infrastructure assets

The new disclosures about tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues include:

- The name of the government entering into the abatement agreement
- The tax being abated
- Dollar amount of the reporting government’s taxes abated

The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (i.e., the School District’s financial statements for the year ending June 30, 2017).

Rye City School District, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

We have audited the financial statements of the Rye City School District, New York (the "School District") as of and for the year ended June 30, 2015, and have issued our report thereon dated September 21, 2016. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated August 30, 2012, as amended by an addendum dated September 4, 2014. This letter provides additional required communications related to our audit.

Our responsibility under professional standards

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the School District are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

Our responsibility for the supplementary information accompanying the financial statements is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to such supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with US GAAP, the method of preparing it has not changed from the prior year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In connection with our audit, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Uniform Guidance, we examined, on a test basis, evidence about the School District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the School District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it does not provide a legal determination on the School District's compliance with those requirements.

Planned scope and timing of the audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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Communication of Matters Identified in the Audit to Those Charged with Governance

Qualitative aspects of significant accounting practices

Significant accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements other than the adoption of the provisions of the Governmental Accounting Standards Board ("GASB") Statement Nos. 68, "Accounting and Financial Reporting for Pensions" and 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date" as disclosed in the notes to financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant accounting estimates

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as:

- Actuarial assumptions related to the Other Post Employment Benefit Obligations ("OPEB")
- Actuarial assumptions and proportionate share calculations related to pension obligations
- Asset lives for depreciable capital assets
- Estimates of certain receivable balances and allowances for uncollectible amounts
- Estimates for certain operating and long-term liabilities

Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Financial statement disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to:

- Pension plan information
- Other post employment benefit obligations payable
- Outstanding bonded indebtedness
- Fund balances

The financial statement disclosures are consistent and clear.

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Communication of Matters Identified in the Audit to Those Charged with Governance

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction. There are no such financial statement misstatements that remain uncorrected.

In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The adjusting journal entries following this communications letter summarize the material misstatements that were corrected by management.

Disagreements with management

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations requested from management

We have requested certain written representations from management in a separate letter dated September 21, 2016.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other matters discussed with management

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

We have provided our comments regarding deficiencies and other matters noted during our audit in the attached addenda.

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Auditor independence

We affirm that PKF O'Connor Davies, LLP is independent with respect to the School District in accordance with professional standards.

This communication is intended solely for the information and use of the Board and management of the School District and is not intended to be and should not be used by anyone other than these specified parties.

Rye City School District, New York

Adjusting Journal Entries

Rye City School District, New York

Adjusting Entries

	DEBIT	CREDIT
GENERAL FUND		
Adjusting Journal Entries JE # 1		
To reclass designation for subsequent year's per budget		
917.00 UNASSIGNED FUND BALANCE	1,030,000.00	
916.00 RESERVE FOR TAX REDUCTION		1,030,000.00
Total	1,030,000.00	1,030,000.00
Adjusting Journal Entries JE # 2		
To adjust reserves per analysis		
825.00 RESERVE FOR RETIREMENT	980,965.00	
864.00 RESERVE FOR TAX CERTIORARIS		49,836.00
878.00 FUND BALANCE RESERVE FOR CAPIT		244.00
917.00 UNASSIGNED FUND BALANCE		930,885.00
Total	980,965.00	980,965.00
Adjusting Journal Entries JE # 7		
CLIENT ENTRY- To record excess cost aid for August & September.		
410.00 DUE FROM STATE AND FEDERAL	248,324.00	
3101.001 EXCESS COST AID		248,324.00
Total	248,324.00	248,324.00
Adjusting Journal Entries JE # 8		
CLIENT ENTRY - To recode check #135382 NYS Retirement - December Bill - Due to Adjustment		
9020-800-00-0000 TRS PENSION TEACHER	269,606.00	
632.00 DUE TO STATE TEACHERS'RET.SYS		269,606.00
Total	269,606.00	269,606.00
Adjusting Journal Entries JE # 10		
To adjust reserve balance per client entry.		
864.00 RESERVE FOR TAX CERTIORARIS	41,302.00	
917.00 UNASSIGNED FUND BALANCE	933,008.00	
825.00 RESERVE FOR RETIREMENT		974,310.00
Total	974,310.00	974,310.00
CAPITAL FUND		
Adjusting Journal Entries JE # 2		
Accrue architect fee for emergency project at Osborn.		
1620-240-018- ARCHITECT FEES FOR EMERGENCY PROJECT AT OSBORN	101,553.00	
601.00 ACCRUED LIABILITIES		101,553.00
Total	101,553.00	101,553.00

Rye City School District, New York

Adjusting Journal Entries

SPECIAL AID

Adjusting Journal Entries JE # 1

Accrue additional summer school revenue based on client prepared schedule of expenses and Due to General Fund for 2014-2015 IDEA 611 receipt.

410.00	DUE FROM STATE AND FEDERAL	156,006.00	
4256.000-15S611	INDIV. W/DISAB. ED ACT (IDEA)	3.00	
5540-465-00-	TRANSPORTATION - SUMMER S	3.00	
3289.000-	2015/16 4408 SUM HANDICAP		156,012.00
Total		156,012.00	156,012.00

Adjusting Journal Entries JE # 2

Adjust Due from State to record receipt of funds in General.

F391	DUE FROM OTHER FUNDS	31,651.00	
410.00	DUE FROM STATE AND FEDERAL		2,143.00
410.00	DUE FROM STATE AND FEDERAL		29,508.00
Total		31,651.00	31,651.00

AGENCY FUND

Adjusting Journal Entries JE # 1

Adjust student activity funds to match extraclassroom fund balance at June 30, 2016.

203.00	CASH STUDENT AVTIVITY FUND	19,379.00	
038.00	STUDENT ACTIVITY FUND		19,379.00
Total		19,379.00	19,379.00