

## **Rye City School District, New York**

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

June 30, 2015

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

**The Board of Education  
Rye City School District  
411 Theodore Fremd Avenue, Ste. 100 South  
Rye, New York 10580**

Auditors' Communication on Internal Control

In planning and performing our audit of the basic financial statements of the Rye City School District, New York (the "School District") as of and for the year ended June 30, 2015, 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 audit procedures that are appropriate in the circumstances 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, 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 defined above. However, as indicated in the attached Addendum A, we share for your consideration other observations about the internal control and operations. In addition, as indicated in the attached Addendum B, we identify other accounting and auditing matters for your information.

This communication and addenda are intended solely for the information and use of management and the Board and are not intended to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these communications and 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  
September 28, 2015

O'CONNOR DAVIES, LLP

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## Rye City School District, New York

### Addendum A

- **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. As part of our audit, we have reviewed, evaluated and randomly tested the School District's thirty-one Extraclassroom Activity Funds in which individual cash balances aggregated to approximately \$89,000 at June 30, 2015 and noted the following areas were not in compliance with the regulations of the Commissioner of Education governing Extraclassroom Activity Funds:

#### *Inactive Clubs*

We noted that one club (girls basketball) with a cash balance of \$2,002 had no financial activity during the current fiscal year. State Education Regulations provide that the funds of a discontinued activity shall automatically revert to the account of the general student organization or the student council and shall be expended in accordance with the organization's constitution.

#### **Recommendation**

A determination of the status of the club with no financial activity should be made to determine the proper disposition of funds. This will deter all clubs from becoming inactive in future years.

#### *Segregation of Duties*

The duties of the central treasurer of the high school and middle school are not properly segregated. The responsibilities of the central treasurer include receiving monies, making bank deposits, preparing bank reconciliations and maintaining books and records.

#### **Recommendation**

To minimize the risk of loss, we recommend that these functions be segregated.

#### *Deficit Balances*

Our review indicates that the Girl's Squash club had a deficit balance totaling \$3 for the fiscal year ended June 30, 2015.

#### **Recommendation**

A determination should be made as to the funds available of the respective club prior to expenditures being made. This will prevent club from overspending in the future.

#### *Old Outstanding Checking*

During our testing of cash, we noted that the Extraclassroom activity checking account has outstanding checks over a year old in the amount of \$1,247.08.

## Rye City School District, New York

### Addendum A

- **Extraclassroom Activity Funds (*Continued*)**

***Recommendation***

We recommend that the central treasurer review the outstanding checks list on the periodic basis and consider writing them off if it is determined that they are not valid.

- **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 \$647,882 at June 30, 2015, 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.

*Cash*

During the audit, we noted that the bank statement for Rye City School District's School Lunch Fund did not reconcile to the general ledger. This difference amounted to \$610.39.

***Recommendation***

We recommend that all of the bank accounts be reconciled monthly to the general ledger and that all suspicious reconciling items be promptly investigated and adjusted with adequate explanations.

- **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 five accounts totaling \$52,167 had no activity for the year.

***Recommendation***

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.

## Rye City School District, New York

### Addendum A

- **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 State relating to the Summer School Handicapped Program of \$56,814 for the 2009-2010 year, \$42,245 for the 2011-2012 year, \$82,842 for the 2012-2013, and \$35,832 for the 2013-2014 year. Additionally, old deferred revenue in the amounts of \$724 relating to the Title IV Part A program for the 2010-2011 year exists at June 30, 2015.

***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. Also, the District should further investigate the status of the deferred revenue.

- **Investments**

*Inactive Accounts*

During the audit, we noted that the Bank Confirmation from NYCLASS for Rye City School District has 6 accounts open with zero balance.

***Recommendation***

We recommend that the School District examine the status of all inactive accounts and, if appropriate, get approval from the Board to close the accounts

- **Transaction Walkthroughs**

*Real Property Walkthrough*

During our audit we noted that there was one real property tax payment that was received from the taxpayer and deposited a month later after receiving the funds. This creates a situation where theft of cash or manipulation of receipts records by employees can occur.

***Recommendation***

We recommend that all cash receipts be deposited within 72 business hours in order to strengthen internal control over the cash receipts process and lessen the likelihood that cash can be lost or stolen before it is deposited in the bank.

## 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
- 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

**Rye City School District, New York**

Addendum B

Other Matters

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

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 28, 2015. 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 Circular A-133, 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) Circular A-133 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.



## Rye City School District, New York

### 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.

## **Rye City School District, New York**

### **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 28, 2015.

#### **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.

**Rye City School District, New York**

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

**Auditor independence**

We affirm that 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

### Special Aid

#### Adjusting Journal Entries JE # 1

To Correct Misposting

3289.000-14SUMM	2014/15 4408 SUM HANDICAP	62,115.00	
5031	INTERFUND TRANSFERS		62,115.00
<b>Total</b>		<b>62,115.00</b>	<b>62,115.00</b>

#### Adjusting Journal Entries JE # 3

To correct the 20% transfer from General Fund

2253-471-00-14SUMM	SUMMER 2014 CONTRACTUAL	22,072.00	
2253-490-00-14SUMM	SUMMER 2014 BOCES SERVICE	7,016.00	
5540-465-00-14TRAN	TRANSPORTATION - SUMMER S	33,027.00	
410.00	DUE FROM STATE AND FEDERAL		62,115.00
<b>Total</b>		<b>62,115.00</b>	<b>62,115.00</b>

### General Fund

#### Adjusting Journal Entries JE # 12

To remove the encumbrance and reclass it to the accrued liabilities

821.00	RESERVE FOR ENCUMBRANCES	353,168.00	
521.00	ENCUMBRANCES		353,168.00
<b>Total</b>		<b>353,168.00</b>	<b>353,168.00</b>

#### Adjusting Journal Entries JE # 15

To book Accrued Liabilities for an encumbrance that was removed.

1420-422-00-4201	NON-ATTORNEY LEGAL PAYMEN	353,168.00	
601A.00	A/L - Judgement & Claims		353,168.00
<b>Total</b>		<b>353,168.00</b>	<b>353,168.00</b>

### Capital Fund

#### Adjusting Journal Entries JE # 3

To book exp. that was originally booked 2014 but was removed from their AP but exp belongs in 2014

1620-290-T15-00FILM	DW SECURITY FILM	48,930.00	
600.AA 000000	Accrued Liabilites P/Y AUDIT A		48,930.00
<b>Total</b>		<b>48,930.00</b>	<b>48,930.00</b>

### School Lunch

#### Adjusting Journal Entries JE # 2

To correct client AJE taking September sales out of Deferred revenue and putting into Misc. Revenue.

2772.000	MISCELLANEOUS	176,391.00	
1440.000	STUDENT SALES		171,289.00
1445.000	OTHER CAFETERIA SALES		5,102.00
<b>Total</b>		<b>176,391.00</b>	<b>176,391.00</b>

### Debt Service

#### Adjusting Journal Entries JE # 1

To book refunding

V1380.4	FISCAL AGENT FEES	108,948.00	
V9991.4	PAYMENT TO ESCROW AGENT	7,305,456.00	
V2710	PREMIUMS ON OBLIGATIONS		579,404.00
V5791	PROCEEDS OF REFUNDING BONDS		6,835,000.00
<b>Total</b>		<b>7,414,404.00</b>	<b>7,414,404.00</b>

#### Adjusting Journal Entries JE # 2

To receive interest earned in the capital fund

391.H0	Due From Capital	17,977.00	
2401.000	INTEREST AND EARNINGS		17,977.00
<b>Total</b>		<b>17,977.00</b>	<b>17,977.00</b>

#### Adjusting Journal Entries JE # 3

To reclassify designation for subsequent years per 2015/16 budget

884.00	RESERVE FOR DEBT	135,000.00	
V910	DESIGNATED FOR SUB YEARS		135,000.00
<b>Total</b>		<b>135,000.00</b>	<b>135,000.00</b>