

**Pelham Union Free School District, New York**

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

June 30, 2016



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

**The Board of Education  
Pelham Union Free School District  
575 Colonial Avenue  
Pelham, New York 10803**

Auditors' Communication on Internal Control

In planning and performing our audit of the basic financial statements of the Pelham Union Free School District, New York ("District") as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

*PKF O'Connor Davies, LLP*  
**PKF O'Connor Davies, LLP**  
Harrison, New York  
September 9, 2016

**Pelham Union Free School District, New York**

Addendum A

Control Deficiencies

- **Segregation of Duties**

Segregation of duties within an entity is a key factor in the assurance of sustainable risk management and internal controls. The basis for this principal is to share the responsibilities of processes in a way so that the critical function of that process is dispersed amongst more than one person or department.

During the preliminary audit testing, it was noted, the Senior Accounts Payable Clerk, has the ability to process payments to vendors in addition to having the ability to edit the school district's master vendor listing.

**Recommendation**

We recommend that the school district takes care to review its segregation of duties framework and ensure that the duties of each employee are truly segregated.

- **Extraclassroom Activities**

Extraclassroom activity funds are defined as funds raised other than by taxation in the name of a school student body. These funds are operated by and for the students and are an integral part of the educational program of the School District. As part of our audit, we have reviewed, evaluated and tested the Extraclassroom Activity Funds. The results of our tests disclosed the following weaknesses:

*Lack of Segregation of Duties*

We noted that the duties of the treasurers of both the High School and Middle School Extraclassroom activity funds are not adequately segregated. The responsibilities of the Middle School central treasurer include receiving monies, making bank deposits, preparing bank reconciliation and maintaining books and records. The responsibilities of the High School advisor include receiving monies, making bank deposits, and maintaining books and records.

**Recommendation**

We suggest that the duties of the treasurers be distributed among various personnel where practicable. Additionally, we recommend that a determination of the status of the clubs with no financial activity be made to determine the proper disposition of funds. If the club is determined to be no longer active, the funds should be transferred to the general student organization to be used in accordance with their guidelines.

*Cash Receipts*

During our testing, the auditor noted deposits are not made timely for one of the ten selections made for Extra Classroom. The lack of timely deposits increases the risk of misplacement, and misappropriation, which can lead to negative impacts on the financial reporting process.

**Pelham Union Free School District, New York**

Addendum A

Control Deficiencies

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

*Cash Receipts* (Continued)

***Recommendation***

We recommend that procedures be implemented to deposit cash receipts daily; this ensures all deposits are made timely.

- **Cash**

Per review of the cash, auditor noted three separate accounts which had outstanding checks over one year old. Account A200 has outstanding checks totaling \$5,749; account A202 has outstanding checks totaling \$97.

***Recommendation***

We recommend that the district look into these outstanding checks and determine whether they need to be reissued or written off in the respective funds.

- **School Lunch Fund**

*Excessive Fund Balance*

The School Lunch Fund is used to account for revenues and expenditures in connection with the School District's food service program. New York State Education Regulations suggests that assigned fund balance in the School Lunch Fund be no more than three months' worth of operating average expenditures. The average three month expenditure for the School District is approximately \$200,000 and the District has a total assigned fund balance of \$338,995 at June 30, 2016, which is excess of the average amount recommended by New York State.

***Recommendation***

We recommend utilize the excess portion of the fund balance in the upcoming fiscal year to comply with New York State recommendations.

## Pelham Union Free 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

**Pelham Union Free 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).**

## **Pelham Union Free School District, New York**

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

We have audited the financial statements of the Pelham Union Free School District, New York (the "District") as of and for the year ended June 30, 2016, and have issued our report thereon dated September 9, 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 April 9, 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 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 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 the Uniform Guidance, we examined, on a test basis, evidence about the 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 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 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.

**Pelham Union Free School District, New York**

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**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 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.

**Significant difficulties encountered during the audit**

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



## **Pelham Union Free School District, New York**

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

#### **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. Our audit did not identify 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 9, 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 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.

#### **Auditor independence**

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

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