

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, 2017



**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, 2017, 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 21, 2017

Pelham Union Free School District, New York

Addendum A

Control Deficiencies

- **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 two 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.

Recommendation

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

- **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 \$230,000 and the District has a total assigned fund balance of \$330,000 at June 30, 2017, which is excess of the average amount recommended by New York State.

Pelham Union Free School District, New York

Addendum A

Control Deficiencies

- **School Lunch Fund (continued)**

Recommendation

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

- **Special Aid Accounts Receivable**

Per review of the Special Aid accounts receivable it was noted that \$51,950 of the receivables for the Summer Handicap were greater than one year old.

Recommendation

We recommend that the School District reconcile the accounts receivable and determine if the amounts are still receivable when they become older than one year old.

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).**

- **Governmental Accounting Standards Board (“GASB”) Statement No. 84 “Fiduciary Activities”**

In January 2017, GASB issued Statement No. 84 “Fiduciary Activities”. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Previously issued guidance lacked the necessary clarity to determine when a government had fiduciary responsibility for a certain activity. This lack of clarity has resulted in a divergence in practice among financial statement preparers and auditors.

GASB Statement No. 84 establishes criteria for identifying fiduciary activities. The focus of the criteria is on (a) whether a government *controls* the assets of the fiduciary activity and (b) the *beneficiaries* with whom a fiduciary relationship exists. A government is considered in control of the assets if the government holds the assets or has the ability to direct the use of the assets in a manner that provides benefits to the specified or intended recipients. The assets also cannot be derived from the government’s own source revenues (or from government-mandated or voluntary non-exchange transactions) and must also have one or more of the following characteristics related to whom the assets will benefit:

- 1) Be administered through a trust
- 2) The government itself is not the beneficiary
- 3) Dedicated to providing benefits in accordance with the benefit term

Pelham Union Free School District, New York

Addendum B

Other Matters

- **Governmental Accounting Standards Board (“GASB”) Statement No. 84 “Fiduciary Activities”**
(Continued)
 - 4) Legally protected from the government’s creditors
 - 5) For the benefit of individuals and government has no administrative or direct financial involvement with the assets

An activity meeting the above criteria should be reported in the basic financial statements in one of the following four fiduciary funds, as applicable:

- 1) Pension (and other employee benefit) trust funds
- 2) Investment trust funds
- 3) Private-purpose trust funds and
- 4) Custodial funds

Custodial funds should report fiduciary activities that are not reported in one of the first three fiduciary funds noted above. The use of **Agency funds has been eliminated with this Statement and replaced with custodial funds.**

Governments with activities meeting the above criteria will present a Statement of Fiduciary Net Position (i.e., assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) and a Statement of Changes in Fiduciary Net Position (i.e., additions and deductions) for each fiduciary fund type. Previous guidance for agency funds only required the presentation of assets and liabilities, whereas the custodial funds require the same elements as the other fiduciary funds, including net position.

The provisions of this Statement are effective for fiscal years beginning after December 15, 2018 with earlier application encouraged.

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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, 2017, and have issued our report thereon dated September 21, 2017. 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.

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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.

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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 21, 2017.

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.