

# **East Ramapo Central 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  
East Ramapo Central School District  
105 South Madison Avenue  
Spring Valley, New York 10977**

Auditors' Communication on Internal Control

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, 2016, 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 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 of Education 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

October 18, 2016

## East Ramapo Central School District, New York

### Addendum A

#### Control Deficiencies

- **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 a deficit of \$230,886 in the Various District Improvements Capital Project. This deficit arose because of expenditures incurred in prior years that exceeded available financing on the project. This deficit was reduced by \$35,155 from the prior year as a result of transfers of budgeted monies for such purpose in the General Fund. As there is no other outside financing source available for this project, the remaining deficit can only be eliminated with the continued receipt of monies authorized from an adopted General Fund budget.

##### ***Recommendation***

We have been advised that \$60,000 has been provided in the 2016-17 adopted budget to continue addressing this project deficit. A provision must continue to be made in future General Fund budgets to provide the necessary transfer of resources that would eliminate any remaining deficit.

- **Cash**

##### *Outstanding Checks*

During our audit, we noted that the bank reconciliation for the payroll account reflects outstanding checks totaling \$108,346 which are greater than one year old. There were also outstanding checks totaling \$21,432 in the General Fund and \$16,354 in the Special Aid Fund that also were outstanding in excess of one year. It is the School District's policy to write off outstanding checks greater than six years old.

##### ***Recommendation***

We recommend that management determine the reason that these checks, and in particular, payroll checks 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.

##### *General Fund and Payroll Bank Reconciliations*

The School District operates its payroll and general checking account as "imprest" accounts. This means that these accounts are only to be funded to the extent of the checks being processed. If all the checks were to have cleared the account, both the book and bank balances of these accounts should be zero. Our review of these accounts revealed that the bank balances are in excess of currently outstanding checks.

##### ***Recommendation***

We suggest that the School District personnel modify funding amounts to these accounts that would take into consideration such things as voided checks so as to reduce the overfunded amounts.

**East Ramapo Central School District, New York**

Addendum A

Control Deficiencies

- **Cash** (*Continued*)

*Positive Pay*

During our audit, we noted the School District does not utilize positive pay. Positive pay allows the School District to provide the bank with the list of checks written. The bank will not cash any checks that are not included within the list, resulting in enhanced controls over cash disbursements.

***Recommendation***

We recommend that the School District participate in positive pay for each bank account held in the tax identification number of the District.

- **Special Purpose Fund**

The Special Purpose Fund is used to account for assets held by the School District in accordance with the terms of a trust or scholarship agreement. Our review of the Special Purpose Fund indicated that, for several of these trust and scholarship accounts, there was no activity during 2015-2016 other than interest earnings. These accounts aggregate to approximately \$63,754 at June 30, 2016.

***Recommendation***

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

- **Procurement Policy**

The purpose of obtaining bids or quotations is to encourage competition in the procurement of supplies, equipment, and services which will be paid for by public funds. Competitive bids or quotations should be solicited in connection with all purchases, whenever feasible, and in the best interest of the School District. According to New York State General Municipal Law, all purchase contracts for materials, equipment, or supplies involving an annual expenditure of over \$20,000 and all public works involving an expenditure of more than \$35,000 should be awarded on the basis of public advertising and competitive bidding. We again noted that the School District's procurement policy was several years old and has not been updated to reflect the new required bidding thresholds mandated by New York State.

***Recommendation***

We recommend that the School District update their procurement policy in order to adhere to the regulations mandated by New York State. In addition, the School District should ensure all purchases subject to competitive bidding are properly executed.

**East Ramapo Central School District, New York**

Addendum A

Control Deficiencies

• **Extraclassroom Activity Funds**

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 deficiencies:

*Lack of Financial Activity*

We noted that there were numerous clubs in the Spring Valley High School, Ramapo High School and Pomona Middle 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 suggest that a determination of the status of the clubs with no financial activity be made to determine the proper disposition of funds. If the clubs are determined to be inactive, the funds should be transferred to the general student organization to be used in accordance with the regulations of the Commissioner of Education.

*Outstanding Checks*

During our audit, we noted that the bank reconciliation for the extraclassroom activity account at the Spring Valley High School reflected seventeen outstanding checks aggregating \$2,840 and Ramapo High School reflected three outstanding checks aggregating \$540 that are greater than one year old.

***Recommendation***

We recommend that management determine the reason that these checks have remained outstanding for such an extended period of time. After every effort has been exhausted, the funds should be returned to the general student organization or to the student council.

*Cash Receipts*

The State Education Department recommends that student club receipts be deposited within seventy two hours of receipt. Our test of cash receipts revealed that five receipts for the Spring Valley High School were not deposited within this recommended time frame. Our tests also revealed that deposit slips were dated prior to the date indicated on the receipt forms.

***Recommendation***

We suggest that the School District modify its procedures to ensure compliance with the above noted time line and properly date deposit slips and receipts on the actual date the activity occurred.

## East Ramapo Central School District, New York

### Addendum A

#### Control Deficiencies

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

##### *Deposit Slip and Receipt Preparation*

The State Education Department recommends each student activity treasurer issue a receipt for all monies received by him/her to be deposited in the activity account. These receipts shall be pre-numbered and must be used in consecutive order. Our test of cash receipts revealed that a description or use of funds was not clearly identified on the deposit slip to ensure the proper activity was credited for the Pomona Middle School.

##### ***Recommendation***

We recommend that the School District modify its procedures to ensure the preparation of the deposit slips and receipts be descriptive to ensure the proper club is being credited.

##### *Cash Disbursements*

Our test of a sample of cash disbursements throughout the year in the Spring Valley High School account revealed that the proper signatures were not noted on several disbursements and one instance where the name of the payee and amount on the check did not match the amount and name on the supporting documentation. Lastly, we also noted one disbursement at the Pomona Middle School that did not have a supporting invoice.

##### ***Recommendation***

We recommend that all required signatures be present on all payment vouchers. Any disbursements from these funds should be clearly identified to a particular club. All disbursements should agree to the corresponding invoice and claim form.

- **Internal Audit Findings**

##### *Building Permit Information*

The access database which contains building permit information has a field for "WinCap invoice number". At the time of the internal audit review, this was not being used. In addition, the accounting department is currently only reviewing invoices for permits that are being billed. There is no review to ensure that all permits receive invoices, or to check if there is a valid reason for an unbilled permit. The system is being updated to include a field to show "unbilled, and the reason".

##### ***Recommendation***

Once the information is entered consistently, the accounting department can obtain periodic reports which show all permits, billed and unbilled, they can verify the invoices for billed permits, and verify the reasons for unbilled permits. This will ensure all permits that should be billed in fact are.

East Ramapo Central School District, New York

Addendum A

Control Deficiencies

• **Internal Audit Findings** (*Continued*)

*Technology*

WinCap users are not required to change their passwords periodically.

**Recommendation**

It is a safe practice to require password changes every 90 days to ensure security.

*Vendor Creation*

In some instances, the WinCap purchasing and accounts payable system has multiple vendors set up for the same payee. Although the School District has controls in place to cancel invoices prior to payment, the multiple vendors for the same payee increases the likelihood that duplicate payments would occur.

**Recommendation**

There should only be one vendor created within the system so that no duplicates occur.

*Timecard Entry*

The payroll clerk enters hours from time cards into the WinCap payroll module. Although these hours are reviewed by a second clerk, there is no control total to review.

**Recommendation**

The payroll clerk should compare the total of hours input from the timesheets to the total from the payroll edit report to ensure the completeness and accuracy of the input.

## East Ramapo Central 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

**East Ramapo Central 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).**

## **East Ramapo Central School District, New York**

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

We have audited the financial statements of the East Ramapo Central School District, New York ("School District") as of and for the year ended June 30, 2016, and have issued our report thereon dated October 5, 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 May 5, 2016.

#### **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. 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 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.

## **East Ramapo Central 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. 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.

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
- Litigation

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.

**East Ramapo Central School District, New York**

**Communication of Matters Identified in the Audit to  
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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. The adjusting journal entries following this communications letter summarize the material adjustments 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 October 5, 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.

**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 of Education and management of the School District and is not intended to be and should not be used by anyone other than these specified parties.

**East Ramapo Central School District, New York**

Adjusting Journal Entries

**6/30/2016**

<b>Account</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
<b>GENERAL FUND</b>			
To accrue for Medicaid July and August 2016			
410.00	Due From State and Federal	352,980.00	
3101.000	Basic Formula Aid-Gen Aid		176,490.00
4601.000	Medic.Ass't-Sch Age-Sch Yr Pro		176,490.00
<b>Total</b>		<b><u>352,980.00</u></b>	<b><u>352,980.00</u></b>
To adjust encumbrances per detail.			
821.00	Reserve for Encumbrances	934,903.00	
521.00	Encumbrances		934,903.00
<b>Total</b>		<b><u>934,903.00</u></b>	<b><u>934,903.00</u></b>