

City School District of New Rochelle, New York

Independent Auditors' Report on Communication of
Internal Control Matters Identified in the Audit

June 30, 2009



**Independent Auditors' Report on Communication of Internal Control Matters
Identified in the Audit**

The Board of Education
City School District of New Rochelle
515 North Avenue
New Rochelle, New York 10801

In planning and performing our audit of the basic financial statements of the City School District of New Rochelle, New York as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures 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.

We have included in this letter a summary of communications with the audit committee of the Board of Education as required by generally accepted auditing standards. We are also required to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of the Statement on Auditing Standards (SAS) 112: Communicating Internal Control Related Matters Identified in an Audit.

Our consideration of internal control was for the limited purpose of conducting your School District's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined in SAS 112 as follows:

Control deficiency - 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 misstatements on a timely basis.

Significant deficiency - is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Material weakness – is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. **We did not identify any deficiencies in internal control that we consider to be material weaknesses.**

However, as indicated in the attached Addendum A, we identified certain deficiencies in internal control that we consider to be control deficiencies.

It is important to note that control deficiencies are not necessarily issues management and the Board of Education will choose to address, however, control deficiencies may represent potential risks. Our responsibility as your auditor is to ensure that management and the Board of Education are aware of these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks.

This report, summary of communications and addendums are intended for the information and use of management and the Board of Education. However, this report is a matter of public record and its distribution is not limited. We will be pleased to discuss these comments in further detail at your convenience, or to assist you in implementing the recommendations.

O'Connor Davies Munns & Dobbins, LLP

**O'Connor Davies Munns & Dobbins, LLP
Bennett Kielson Storch DeSantis Division
October 30, 2009**

City School District of New Rochelle, New York

Summary of Communications

- Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America
 - Unqualified opinion on financial statements
 - No change in scope of the audit
 - No material errors, frauds, or illegal acts identified
 - No immaterial frauds or illegal acts identified
 - No instances/suspicion or allegations of fraud were noted during conduct of audit
- Internal Accounting Controls
 - Reviewed to extent necessary to render our opinion on the financial statements
 - No material weaknesses noted
- Significant Accounting Policies
 - Accounting policies appears appropriate
 - Significant accounting policies included in Note 1 to the financial statements
 - No changes in accounting policies during the year
- Management's Judgments and Accounting Estimates
 - Estimates used deemed adequate
- Audit Adjustments
 - No significant unrecorded adjustments
- Other Information in Documents Containing Audited Financial Statements
 - Management's Discussion and Analysis appears reasonable
- Disagreements with Management
 - None
- Unresolved Difficulties Encountered in Performing the Audit
 - None

City School District of New Rochelle, New York

Summary of Communications
(Concluded)

- Consultation by Management with Other Accountants
 - None of which we were made aware
- Management Consulting Services
 - None
- Independence
 - O'Connor Davies Munns & Dobbins, LLP, Bennett Kielson Storch DeSantis Division is independent in all respects

City School District of New Rochelle, New York

Addendum A

• **General Fund**

Accounts Receivable and Due from Other Governments

The School District's billings to outside entities and to other districts and governments for tuition, health and other services represent a significant revenue source. The procedures for the billing and collection of these items should include the issuance of billings on a timely basis, and the use of effective collection measures. These measures should consist of management's review of open items, the issuance of statements, telephone contact with payors and, if necessary, legal action. Our audit indicated that prior year's billings aggregating \$672,000 remain unpaid, a marked improvement from the prior year's amount of \$1.3 million and significantly better than the \$2.5 million of outstanding prior year's billings at June 30, 2007. We inquired as to the collection efforts, and significant improvement has been demonstrated. The School District should continue its collection efforts. An allowance of approximately \$448,000 has been established for a portion of these amounts, which might ultimately be deemed uncollectible.

Recommendation

While the amounts are not significant in relation to the budget, they are a sizeable portion of the fund balance of the General Fund and collection efforts should continue.

STAR Program Reimbursement

The School District, during the past several years, has been notified to refund property taxes to City residents who were eligible for "STAR" tax relief, but who had failed to file their applications in a timely manner and were, therefore, not reflected on the assessment roll. The School District refunded these amounts and is entitled to receive approximately \$530,000 of additional STAR aid from New York State, upon filing of the required documentation. This amount was recorded as a receivable in prior years and, in our current year's audit, we noted that the School District's efforts resulted in the realization of \$463,000 of this amount from New York State. However, there remains on the books a balance of approximately \$74,000 of older amounts whose collectability is uncertain.

Recommendation

We suggest that the School District continue with its current procedures to submit the appropriate information to the State in a timely manner so as to avoid any delay in the recovery of future STAR reimbursements. For those older amounts where reimbursement is denied by New York State, a Board resolution should be sought by the Business Office seeking authorization to write off the old, uncollectible balance.

City School District of New Rochelle, New York

Addendum A

- **General Fund** (*Continued*)

Tax Certiorari Refunds

Tax certiorari refunds represent payments to residents and businesses as a result of a filing of a claim for a refund and a court approved settlement amount. These court orders can cover both current year's real property taxes as well as prior tax years. From an accounting standpoint, any court orders that are dated before the end of the fiscal year need to be reported as expenditures of the fiscal year, regardless of when the payment is made. During our review of disbursements made subsequent to the end of the fiscal year, we noted that \$512,132 of tax certiorari settlement payments with court order dates prior to June 30, 2009 were not accrued by the School District. Accordingly, an adjustment was made upon audit.

Recommendation

We suggest that, in the future, the School District review its disbursements for tax certiorari settlements made after the end of the fiscal year to ensure that the obligations are reflected in the proper fiscal year.

- **Public Library Fund**

Grant Accounting

During the past several fiscal years, the administration of the New Rochelle Public Library applied for certain state and local grants and was awarded the monies on a reimbursement basis. As part of our audit of the fund, we tested the accounting for these grants and noted that the activity was not accounted for in accordance with grant accounting guidelines. Grant accounting provides that since expenditures are the prime factor for determining eligibility, revenue should be recognized when the expenditure is incurred. As a result, audit adjustments were required so that grant revenues would match grant expenditures.

Recommendation

We suggest that, in the future, the books and records be maintained in accordance with the above principle.

City School District of New Rochelle, New York

Addendum A

- **Special Aid Fund**

Receivables

We noted that the School District has numerous outstanding receivables in the Special Aid Fund, including \$1,171,494 for the Summer School Handicapped Program, \$337,051 for the Employment Preparedness Education Aid Program and \$533,300 for the Pre-K Program. All of the aforementioned receivables are over two years old. We were advised that the School District has started to actively pursue collection efforts during the current fiscal year.

Recommendation

We suggest that the School District continue to employ all appropriate collection enforcement efforts. If collection is not forthcoming, the uncollectible portion will require funding from the General Fund, subject to Board approval. If the funding is not contained in the next adopted budget for the General Fund, a reserve of the fund balance of the General Fund for the cash advances to support these programs will need to be reflected in the School District's financial statements.

- **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. As part of our audit, we have reviewed, evaluated and tested the extraclassroom activity funds of the School District. The results of our tests disclosed the following areas were not in compliance with the regulations of the Commissioner of Education:

Supporting Documentation

During our audit, we noted that supporting documentation for the 2008/09 fiscal year for the Isaac E Young Middle School could not be located. As a result, we issued a qualification in the auditor's opinion letter stating that fact.

Recommendation

The School District should establish a records management policy relating to the supporting documentation maintained by the extraclassroom activity advisors. For example, copies or electronic scans of this material could be forwarded to the Business Office as a means of backing up this information so as to avoid this situation in the future.

Addendum B

- **Future Application of Accounting Standard – Statement of the Governmental Accounting Standards Board (“GASB”) – Fund Balance Reporting and Governmental Fund Type Definitions (GASB Statement No. 54)**

In February 2009, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement is intended to improve the usefulness of information provided to users of governmental financial statements about fund balance by 1) providing clearer, more structured fund balance classifications and 2) by clarifying the definitions of existing governmental fund types.

It is said that fund balance is among the most widely and frequently used piece of information provided in local government financial statements. GASB Statement No. 54 was developed to address the diversity and lack of consistency that had developed in the reporting of this vital information. To reduce this confusion, the new standard establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used.

GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable (such as fund balance associated with inventories) and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Accordingly, fund balance amounts will be reported in the following classifications:

- Restricted – amounts stipulated by constitution, external resource providers or through enabling legislation.
- Committed – amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority.
- Assigned – amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- Unassigned – amounts that are not constrained at all in the government’s General Fund and includes all spendable amounts not contained in other classifications.

GASB Statement No. 54 also clarifies the definitions of individual governmental fund types. It provides an interpretation of certain terms within the definition of special revenue fund types, while further clarifying the debt service and capital projects fund type definitions. The requirements of this Statement are effective for the School District’s fiscal year ending June 30, 2011, with earlier implementation encouraged.

Addendum B

• **Written Investment Policy**

The current economic crisis has altered the relationship between banks and the various municipal entities that they service. In addition to sweeping changes in Federal Deposit Insurance Corporation ("FDIC") coverage that affect all depositors, banks have also begun to expand the options permitted under Section 10 of the New York State General Municipal Law in regards to collateralizing a municipality's deposits that exceed FDIC limits. For instance, one of the options that has been most prevalent is the acceptance of a letter of credit issued by the Federal Home Loan Bank.

Section 39 of the New York State General Municipal Law requires municipalities, under their written investment policies, to include in the policy "procedures and provisions to secure in a satisfactory manner the local municipality's financial interest in investments". Accordingly, many entities have included in their written investment policy a listing of the collateral which will be accepted by them as collateral to secure deposits in excess of FDIC coverage.

We suggest that a review of the written investment policy, collateral agreements and FDIC coverage regulations be performed to ensure that all deposits are fully covered and that the list of acceptable collateral instruments to secure deposits in excess of FDIC limits in the written investment policy is consistent with the collateral agreements with the banks.