



# Pelham Union Free School District Reserve Funds

## Report of Examination

Period Covered:

July 1, 2014 – September 3, 2015

2015M-366



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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

March 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Pelham Union Free School District, entitled Reserve Funds. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendation are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Pelham Union Free School District (District) is located in the Town of Pelham in Westchester County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District serves approximately 2,800 students in four neighborhood elementary schools, one middle school and one high school. The District's budgeted appropriations for the fiscal year ending June 30, 2015 were approximately \$67 million, funded primarily with local taxes, State aid and federal aid.

## Objective

The objective of our audit was to examine the District's management of reserves. Our audit addressed the following related question:

- Does the District maintain reasonable levels in reserve funds?

## Scope and Methodology

We examined the District's reserve funds for the period July 1, 2014 through September 3, 2015. We extended our scope back to July 1, 2011 to analyze District reserve fund balances.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

## Comments of District Officials and Corrective Action

The results of our audit and recommendation have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendation and indicated they planned to take corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendation in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of

the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

## Reserve Funds

Reserve funds may be established by Board action pursuant to various laws to provide financing for specific purposes. The statutes under which the reserves are established determine how the reserves may be funded, expended and discontinued. Generally, the amount of money a district can maintain in reserves is not limited. However, prudent budgeting practices require that reserves correspond as close as reasonably possible to a district's anticipated liabilities so that funds are not unnecessarily restricted. Funding reserves at greater than reasonable levels essentially results in real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

It is important that the Board adopt a written policy that communicates its rationale for establishing reserve funds, objectives for each reserve established, optimal or targeted funding levels and conditions under which the funds' assets will be used or replenished. Ideally, the Board should include amounts to be placed in reserve funds in the annual budget to inform voters of the Board's plan for funding reserves and should not routinely fund reserves with excess fund balance at year-end. If the Board decides to make unbudgeted transfers to reserves, it must authorize them with a resolution that specifies the amounts and the reserves to be increased. By doing this, the Board helps ensure that its actions are transparent.

The Board has adopted an adequate reserve fund policy. The policy requires the Finance Committee to review all reserve funds at least twice a year and present an annual summary of reserve fund accounts to the public. The District maintained the following reserve fund accounts for the fiscal year ended June 30, 2015.

Figure 1: Reserve Fund Account Balances as of June 30, 2015	
Reserve	Account Balance
Tax Certiorari	\$4,113,890
Retirement Contribution	\$3,342,768
Repair	\$680,041
Compensated Absences	\$208,492
Unemployment Insurance	\$152,681
Property Loss	\$36,245
<b>Total</b>	<b>\$8,534,117</b>

We reviewed and analyzed the District's reserve accounts for the four fiscal years of 2011-12 through 2014-15. During that period the total amount reserved by the District in all reserve accounts decreased from \$9.5 million in fiscal year ended June 30, 2012 to \$8.5 million in fiscal

year ended June 30 2015. The District's retirement contribution and tax certiorari reserve funds represent about 87 percent of the total reserve fund balance. The tax certiorari reserve decreased by \$3.5 million and the retirement contribution reserve increased by \$2.5 million in fiscal year 2012-13. All other reserve account balances remained at approximately the same amount during the period. Further, our analysis showed that retirement system expenditures increased from \$897,878 in 2011-12 to \$1,074,504 in 2014-15, while the retirement contribution reserve fund balance increased from \$1,056,673 to \$3,342,768 during the same period.

We interviewed District officials to determine why the balance in the retirement contribution reserve fund increased at a rate higher than the increase in retirement system expenditures. District officials explained that the total amount of the outstanding tax certiorari liability in fiscal year 2012-13 was lower than anticipated due to settlements on reasonable terms. Therefore, the District reduced the amount in the tax certiorari reserve to reflect the decreased tax certiorari exposure by transferring \$3.5 million to general fund unassigned fund balance. The transfer caused the general fund unassigned fund balance to exceed the statutory limit of 4 percent of the subsequent year's budget. To meet the statutory requirement, the Board passed a resolution to authorize a transfer of the excess general fund unassigned fund balance amount to the retirement contribution reserve. In addition, the Board approved a five-year plan beginning in fiscal year ending June 30, 2013 to reduce the retirement contribution reserve account by appropriating approximately \$1.7 million in excess funds to support the District's operating budget and normalize the trend of future District tax levy increases.

Our analysis showed that the Board appropriated \$700,000 in both the 2012-13 and 2013-14 fiscal years from the retirement contribution reserve fund for use in the operating budget. Similarly, the Board appropriated \$700,000 for use in the 2014-15 operating budget, but did not use the amount appropriated. District officials stated that the appropriated amount was not needed due to an unexpected increase in revenue for out-of-District tuition and State aid which resulted in an operating surplus of \$600,293. To reflect the unexpected surplus in the 2014-15 fiscal year, the District increased the appropriation of funds from the retirement contribution reserve by \$125,000 to \$825,000 for use in 2015-16 fiscal year operations.

We commend the Board for approving a plan to use the excess funds transferred from the tax certiorari reserve to the retirement contribution reserve account to support the District's operating budget over five years and thus reduce the District tax levy during this time or prevent an unusual increase in the District tax levy.

## **Recommendation**

1. The Board should ensure that the excess funds in the retirement contribution reserve account are used to fund operations in a manner that benefits District residents.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following page.





February 23, 2016

Office of the State Comptroller  
Attention: Tenneh Blamah,  
Chief Examiner of Local Government and School Accountability  
Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, New York 12553

Dear Ms. Blamah:

The Pelham Public Schools offer our thanks and appreciation to the State Comptroller's Office for the opportunity to have the District's management of reserves audited for the period of July 1, 2014 through September 3, 2015.

A key objective of the Board of Education and administration of the Pelham Public Schools is to balance the financial health of the District with transparency while building responsible budgets that protect our taxpayers. We are pleased with the auditor's commendation for "approving a plan to use excess funds transferred from the tax certiorari reserve to the retirement contribution reserve account to support the District's operating budget over five years." We accept the recommendation to ensure that excess funds in the retirement contribution reserve account are used to fund operations in a manner that benefits District residents. So that we may continue to reduce and/or stabilize the District tax levy, we plan to continue our practice of appropriating funds from the retirement contribution reserve for use in the operating budget.

Finally, the District appreciates the professionalism provided to us through this audit process. We remain impressed by the depth and caliber of the review and are thankful for the feedback that your office has provided to us.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Peter Giarrizzo".

Peter Giarrizzo, Ed. D.  
Superintendent of Schools

cc: Pelham Board of Education

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

To accomplish our audit objective and obtain valid and relevant audit evidence, we performed the following audit procedures:

- We interviewed District officials to obtain an understanding of the District's reserve fund policy.
- We reviewed Board minutes and resolutions, accounting records, audited financial statements, applicable statutes and activity within the reserves to determine if the reserves were properly funded and used.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX C

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**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
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