



Washingtonville Central School District Reserve Funds

Report of Examination

Period Covered:

July 1, 2012 — October 29, 2013

2014M-45



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2014

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 Washingtonville Central 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 recommendations 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 Washingtonville Central School District (District) is located in the Town of Blooming Grove and includes the Village of Washingtonville and part of the Towns of Cornwall, Hamptonburgh and New Windsor in Orange County. The District is governed by the Board of Education (Board), which comprises 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 (Superintendent) 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 operates five schools with an enrollment of approximately 4,300 students. The District's budgeted appropriations for the fiscal years ending June 30, 2013 and June 30, 2014 were approximately \$82 million and \$84 million, respectively, and were funded primarily with local property taxes and State and Federal aid.

Objective

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

- Does the District maintain reasonable amounts in its reserve funds?

Scope and Methodology

We examined the District's reserve funds for the period of July 1, 2012 through October 29, 2013. To analyze financial trends, we extended our audit period back to July 1, 2008.

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 is included in Appendix B of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations 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 findings and recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 recommendations 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.

Reserves

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 the 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. Therefore, 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 by a resolution, which specifies the amounts and the reserves to be increased, to promote transparency of the Board's actions.

District officials have not implemented the District's reserve fund policy for the funding and use of the District's reserves. Over the past five fiscal years (2008-09 through 2012-13), District officials added approximately \$9 million to reserves and increased the real property tax levy by approximately 9 percent. We analyzed the balances totaling \$9,988,638 in the District's eight reserves as of June 30, 2013 for reasonableness and adherence to statutory requirements. One reserve, the Unemployment Insurance Reserve, was not supported by a plan or other documentation validating the amount retained. The \$956,640 balance in this reserve as of June 30, 2013 was 14 times the amount of the District's \$68,000 average annual unemployment costs. Further, the District has paid for its unemployment costs from the general fund. Therefore, the amount in this reserve is excessive.

Reserve Fund Policy — The Board adopted a comprehensive reserve fund policy on May 9, 2011. The policy states that the District will prepare and submit a detailed annual report of all reserve funds to the Board. The annual report should include an analysis of the projected needs for each of the District's reserve funds in the upcoming fiscal year and a recommendation regarding funding those projected needs.

The policy also states that the Board will use the information in the annual report to make necessary decisions to adequately maintain and manage the District's reserve fund balances while being mindful of its role and responsibility as a fiduciary of public funds. The policy instructs the Superintendent to develop any necessary or appropriate regulations to implement the terms of the policy. The policy does not, however, articulate whose responsibility it is to prepare and submit the detailed annual report to the Board.

A detailed annual report of all reserve funds has not been prepared and submitted to the Board as required by the District's policy, and the Superintendent has not developed any regulations to implement the terms of the policy. Our attempts to contact and interview two Board members to determine the reason the reserve fund policy was not implemented were unsuccessful. The Assistant Superintendent for Business told us that the Board is aware of the policy and it relies on his periodic reports regarding the status of the reserve funds and the advice of the Superintendent, Assistant Superintendent for Business, fiscal advisors and legal counsel to determine the fund amounts.

By adopting a policy and then not ensuring it is implemented, the Board diminishes the policy making process and sends a message that Board-adopted policies need not be complied with. In addition, because the reserve fund policy specifies what information the Board should consider when determining the reasonableness of reserve balances, not following the policy compromises the Board's ability to be sure that all the information required to make informed decisions on reserve fund balances is considered. Therefore, the risk that the District is maintaining unnecessary reserve funds and/or reserve balances that are higher than necessary is increased.

Unemployment Insurance Reserve — General Municipal Law authorizes districts to create a reserve to reimburse the State Unemployment Insurance Fund for payments made to claimants. The balance in this reserve as of June 30, 2013 was \$956,640. The District incurred unemployment costs averaging approximately \$68,000 per year over the five-year period from 2008-09 through 2012-13. All of these expenditures were paid directly from general fund appropriations with no use of the existing reserve fund. The Unemployment Insurance Reserve fund balance exceeds the average annual expenditures of the past five years by 14 times and District officials stated no significant staff reductions were currently planned.

The Board's decision to fund these expenditures directly from general fund appropriations and the absence of a formalized plan detailing the need and expected use of these funds raises questions as to the balance maintained in the Unemployment Insurance Reserve.

By maintaining an excessive amount in the reserve, the Board and District officials have withheld funds from productive use, levied unnecessary taxes and compromised the transparency of District finances to the taxpayers.

Recommendations

1. The Board should ensure that the District's reserve fund policy is implemented. District officials should prepare and submit the annual report of reserve funds to the Board, as required.
2. The Superintendent should develop appropriate regulations to implement the terms of the reserve fund policy.
3. The Board and District officials should review the Unemployment Insurance Reserve, determine if the amount is necessary and reasonable and use any surplus amount to reduce real property taxes or finance one-time expenditures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

WASHINGTONVILLE CENTRAL SCHOOL DISTRICT

52 West Main Street, Washingtonville, New York 10992

ROBERTA L. GREENE, *Superintendent of Schools*
JANET L. SEAMAN, ED.D., *Assistant Superintendent for Curriculum and Instruction*
MICHAEL COGLIANO, ED.D., *Assistant Superintendent for Pupil Personnel Services*
GREGORY KERN, *Assistant Superintendent for Business*
MAUREEN PETERSON, *Director of Personnel and Staff Development*



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APRIL 26, 2014

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Office of the State Comptroller
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New Windsor, N.Y. 12553

To whom it may concern:

The Board of Education has had an opportunity to review the draft Audit Report regarding its Reserve Funds, covering the period from July 1, 2012 through October 29, 2013. I have been asked to express appreciation for the professionalism of the audit team and the constructive suggestions set forth in the draft Audit Report. The following constitutes the District's response.

The Board strives to be in compliance with both Educational and Municipal laws and takes seriously their fiduciary responsibilities.

The Board does receive the several reports during the year including budget projections, year end, audit and an update prior to setting the tax rate in August to make an inform decision on the funding levels of the reserves. No formal report as described in Reserve Policy 5511 has been presented to the Board.

The Board has worked with the administration to formulate a long term plan that keeps the district solvent and provides a consistent level of student opportunity. This plan includes the funding levels of all district reserves.

The Board will discuss the recommendations put forth in the final comptroller's report and will give direction to administration on the Corrective Action Plan. I expect to recommend a corrective action plan by July 15, 2014.

Sincerely yours,

Roberta Greene,
Superintendent of Schools

The Washingtonville Central School District is committed to the intellectual, cultural, physical and emotional growth of our children in a safe and supportive environment.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to evaluate the District's reserve funds for the period July 1, 2012 through October 29, 2013. We extended our audit period back to July 1, 2008 to analyze District expenditure trends. 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 internal controls over the establishment and use of reserve funds.
- We reviewed and analyzed the District's financial information submitted to the Office of the State Comptroller and determined data reliability.
- We reviewed Board minutes and Board resolutions, accounting records, audited financial statements, applicable statutes and activity within the reserves to determine if the reserves were properly established, funded and used.
- We evaluated the methods used to fund the reserves and monitor the level of reserve fund balances.

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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