



Ardsley Union Free School District Reserve Funds

Report of Examination

Period Covered:

July 1, 2014 — October 2, 2015

2015M-348



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

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 district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Ardsley 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 New York State 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 Ardsley Union Free School District (District) is located in the Village of Ardsley in Westchester County. The District is governed by the Board of Education (Board) which is composed of five 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 three schools with approximately 2,060 students and 375 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$63.9 million, funded primarily with real property taxes and State aid.

Objective

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

- Did the Board properly establish reserve funds and maintain them at reasonable levels?

Scope and Methodology

We examined the establishment, funding methods and balances of the District's reserve funds for the period July 1, 2014 through October 2, 2015. We extended our scope period back to July 1, 2011 to analyze trends in 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 New York State 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.

Reserve Funds

Reserve funds may be established by Board action, pursuant to various laws, and can be used to finance the cost of a variety of objects or purposes. The statutes under which reserve funds are established determine how the reserve may be funded, expended or discontinued. Generally, the amount of money school districts can maintain in reserves is not limited. However, it is important that districts maintain reasonable reserve balances. Therefore, the Board should adopt written policies that communicate the 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. The District has a reserve fund policy which was adopted in August 2010. The policy provides guidance on how the District is to establish, fund and maintain various reserve funds.

The District has four reserves with reported balances totaling approximately \$11.79 million as of June 30, 2015. These reserves consist of a tax certiorari reserve totaling \$7.08 million, a retirement contribution reserve totaling \$2.48 million, a compensated absences reserve totaling \$1.98 million and an unemployment insurance reserve totaling \$250,000.

We analyzed the District's reserves for reasonableness and adherence to statutory requirements and determined that all four reserves were properly established and three of the four reserves (tax certiorari, retirement contribution and unemployment insurance) were funded at reasonable levels. The District's compensated absences reserve, also referred to as an employee benefit accrued liability reserve (EBALR),¹ exceeded the amount deemed necessary to pay employees for accrued and unused sick and vacation leave time when they leave District employment by almost \$178,000.

District officials provided us with a schedule identifying the leave balances for employees entitled to a payout at retirement. We reviewed the schedule, employee contracts and collective bargaining agreements provided by the District to determine the potential costs

¹ General Municipal Law (GML) allows local governments and school districts to establish an EBALR for the purpose of paying costs associated only with compensated leave paid directly to or on the behalf of employees when they separate from district employment. GML does not set a limit on the amount of funds a school district can maintain in an EBALR. However, the balance in this reserve must be reasonable and meet specific legal requirements, such as not exceeding the total EBALR liability.

associated with compensated absences to eligible employees. The District's schedule included employees who were not eligible for a payout based on the collective bargaining agreement. The District's potential liability was actually \$1.8 million. Therefore, the reserve was overfunded by almost \$178,000, or about 10 percent.

Recommendation

1. The Board should only include payouts to eligible employees when determining the amount to fund the EBALR.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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February 25, 2016

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

Dear Ms. Blamah,

Please accept this letter as notification that the Ardsley Union Free School District has received and reviewed the draft findings that resulted from the audit conducted by the Comptroller's Office. The District affirms that the report accurately reflects the condition of the reserves.

Based on the preliminary report the District is in the process of developing a corrective action plan to respond to the finding in the report.

If you required any additional information, please contact me accordingly.

Thank you,

Dr. Lauren Allan
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the District properly established and maintained reserve funds at reasonable levels. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of the processes and procedures in place over the District's reserve funds.
- We analyzed the general fund's trends in total and restricted fund balances for the fiscal years 2011-12 through 2014-15.
- We reviewed Board minutes, policies, accounting records, audited financial statements, applicable statutes and activity within the reserves to determine if they were properly established, funded and used.
- We evaluated the methods used to fund the reserves and the level of unrestricted fund balance remaining in the general fund.
- We reviewed employee contracts for benefits payable upon retirement.
- We reviewed leave schedules and calculated the value of leave payable to employees upon separation of service based on the individual employee contracts and collective bargaining agreements.

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.

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