



Tuxedo Union Free School District Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – August 4, 2015

2015M-360



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
FINANCIAL CONDITION	4
Accounting Records	5
Budgeting	6
Board Oversight	8
Multiyear Plan	9
Recommendations	9
APPENDIX A Response From District Officials	10
APPENDIX B Audit Methodology and Standards	15
APPENDIX C How to Obtain Additional Copies of the Report	16
APPENDIX D Local Regional Office Listing	17

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 Tuxedo Union Free School District, entitled Financial Condition. 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 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 Tuxedo Union Free School District (District) is located in the Town of Tuxedo in Orange 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 (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 two schools and had approximately 470 students and 136 employees for the 2014-15 fiscal year. Because the District no longer provides grade 9 through 12 educational services to the Greenwood Lake Union Free School District (GWL), enrollment for the 2015-16 fiscal year is approximately 260 students with 109 employees. The District's budgeted appropriations for the 2014-15 and 2015-16 fiscal years were \$15.9 million and \$14.2 million, respectively, funded primarily with real property taxes, State aid, out-of-district tuition and grants.

Objective

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

- Did the Board and District officials take appropriate actions to address the District's financial condition?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2014 through August 4, 2015. We extended our scope back to the 2011-12 fiscal year to evaluate financial trends.

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 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 plan to initiate 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.

Financial Condition

A school district's financial condition is a primary factor in determining its ability to continue providing public educational services. The Board, Superintendent and Business Administrator are accountable for the use of District resources and are responsible for effectively planning and managing financial operations, including ensuring that the tax burden is not greater than necessary. Therefore, it is essential that officials develop reasonable budgets and manage fund balance responsibly and in accordance with statute. Sound budgeting practices coupled with prudent fund balance management helps ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures.

In order to make sound financial decisions, the Board must receive accurate financial information. One of the basic objectives of accounting and financial reporting is to provide managers with financial information useful for determining and forecasting financial condition. Accurate financial information is necessary for the Board to develop proper budgets and multiyear financial plans and to make sound financial decisions.

Prior to the 2015-16 fiscal year, the District had a contract with the GWL to provide secondary education to approximately 200 students at \$12,240 per student, or about \$2.4 million annually. The GWL contract was phased out over the two-year period of 2013-14 and 2014-15. As a result, the District's enrollment declined significantly over the past three fiscal years. Along with the decline in students, the District's revenue declined drastically.

The Business Administrator did not ensure that the Board received accurate financial information. We found errors in accounting for financial transactions resulting in a misleading picture of the District's financial condition. For example, accounts receivables are overstated by as much as \$602,000 and reported cash balances were overstated in one month by over \$1.1 million. In addition, reserve fund moneys were commingled with other moneys and the District appropriated over \$100,000 more than available from certain reserve funds to fund the 2015-16 budget. In addition, the Board's adopted budget for 2015-16 is structurally imbalanced. Depending on the results of operations, the District may end 2015-16 with a deficit at year-end. Finally, the Board did not develop a multiyear financial plan to address the District's decline in enrollment and financial condition. As a result, the District's financial condition has diminished.

Accounting Records

To adequately evaluate financial condition, it is essential that complete and accurate accounting records are maintained to properly account for and report the District's financial condition and activities. Inadequate accounting records make it difficult for the Board to evaluate the District's financial activities and can obscure the District's true financial condition.

We identified significant problems with account balances and postings to various accounts resulting in an inaccurate depiction of the District's financial activity. The Business Administrator did not ensure account balances were accurate and supported and did not apply consistent accounting principles or adequately account for financial transactions that affected the District's operations. As a result, the Board and District officials could not properly assess the District's financial condition.

Accounts Receivable – The District had over \$935,000 in tuition and other services receivables on its books as of June 30, 2015. As of December 4, 2015, the District received \$283,000 of these funds and an additional \$50,000 appear to be reasonably collectible. However, the collectability of the remaining \$602,000 is questionable. This includes \$110,000 of tuition and other services billed to other school districts from periods ranging from April 2011 through May 2014. Because these amounts have been outstanding for over a year and may not be collectible, they should be evaluated and potentially written off. The remaining \$492,000 is due from GWL and represents billings for classes the District provided to GWL students during 2013-14 that were not included in the flat contract tuition rate billed to GWL. This amount has not been paid by GWL and is in dispute before the New York State Education Department. The disputed amount is not available for the District's use and, therefore, does not meet the criteria to be recognized as revenue. As such, it should not have been recorded as tuition revenue in fiscal year 2014-15.

Overstating the tuition revenues receivable made the District's financial condition appear to be better than it really is and results in fund balance being overstated.

Overstated Cash Balances – We reviewed the Treasurer's reports to the Board for 2014-15 and found them to be inaccurate. We compared the general fund checking account's cash balances reported to the Board to the general fund checking account's cash amounts on the District's bank reconciliations and found that four of 12 reports for 2014-15 had significant discrepancies. For example, the November 2014 Treasurer's report had \$1,265,948 listed as the District's cash balance. However, the bank reconciliation for that month showed the District had \$131,364 in the account, a difference of \$1,134,584.

This incorrect amount carried over onto the December 2014 report. Similarly, the April 2015 report to the Board overstated the District's cash position by \$752,810 and the June 2015 report overstated the District's cash position by \$500,000. These inaccurate reports occurred because the Business Administrator and clerk recorded revenue before it was received and erroneously recorded the same cash amount in two different cash accounts.

Overstating the amount of cash available provides a false picture to the Board of the District's cash balance and cash available to fund District's operations and may have affected subsequent Board decisions.

Accounting for Reserve Funds – Although reserve funds do not have to be in separate bank accounts, they must be accounted for separately. Accounting records for each reserve fund must show the date and amount of each sum paid into the fund, the interest earned by the fund, total fund assets, cash balances and a schedule of investments.

The District has three reserve accounts: an employee benefit and accrued liability reserve (EBALR), a tax certiorari reserve and a retirement contribution reserve. Reserve funds of approximately \$800,000 are included with other District funds in the District's money market account. The Business Administrator does not maintain separate records for each reserve and did not credit each reserve with the interest earned. As a result, the Board and District officials did not have accurate information about the reserve accounts at any given time and, consequently, were unable to correctly project year-end reserve account balances. As a result, District officials overestimated revenues from the reserve funds in the 2015-16 fiscal year's budget.

Due to poor accounting and reporting, the Board and District residents are not being provided with an accurate picture of the District's true financial condition. Without accurate financial information, the District's fiscal health is at risk and the Board cannot develop an accurate fiscal plan for the future.

Budgeting

A structurally balanced budget is one that finances recurring expenditures with recurring revenue sources and uses reasonable and realistic budget projections based on all known changes and historical data. The use of one-time revenues to support recurring expenditures creates a structural imbalance in the following year's budget because these "one-shot" revenues will not be available in the following year to finance recurring expenditures. Unrealistic or unreasonable budget projections that overestimate revenues, underestimate expenditures or both could result in shortfalls that threaten the delivery of essential services.

An important financing source for the annual budget is available fund balance. The key to using this as a funding source is the proper estimation of its value. Any remaining unrestricted fund balance not used as a financing source in the annual budget provides a cushion throughout the fiscal year that can help with cash flow and can be an available resource to fund revenue shortfalls or unanticipated expenditures.

Use of Reserve Funds – The District’s EBALR, tax certiorari reserve and retirement contribution reserve had balances of \$379,070, \$220,518 and \$200,000, respectively, as of June 30, 2015. The District’s 2015-16 budget includes \$523,176 in appropriations from the tax certiorari and retirement contribution reserves to fund operations, which would leave the District with no funds in either of these reserves for any liability incurred in future years for tax certiorari claims or retirement payments. In addition, the combined balance of the tax certiorari and retirement contribution reserves was \$420,518 as of June 30, 2015. Therefore, the District’s budget includes \$102,658 more than is available from these two reserves. As a result, the District’s 2015-16 budget has a revenue shortfall of \$102,658 and the budget is not structurally balanced.

Use of Fund Balance – The Board appropriated \$999,756 of unassigned fund balance for the 2015-16 fiscal year, leaving the District with \$509,669 in unassigned fund balance per the District’s audited 2014-15 financial statements. However, because District officials have included \$602,000 in questionable receivables as part of the District’s 2014-15 fiscal year’s revenues, these funds are included in the calculation of the District’s available fund balance. If the District does not receive these funds and uses the \$999,756 in appropriated fund balance in the 2015-16 fiscal year, the District’s general fund will be near a deficit at the end of fiscal year 2015-16 as depicted in Figure 1.

Figure 1: Unrestricted Fund Balance at Year End				
	2013-14	2014-15	Restated 2014-15	Projected 2015-16
Total Beginning Fund Balance	\$2,786,616	\$2,376,695	\$2,376,695	\$2,039,858
Add: Operating Surplus/(Deficit)	(\$409,921)	\$265,163	\$265,163	(\$1,522,932)
Add: Period Adjustment (Reduction)	-	-	(\$602,000)	-
Total Ending Fund Balance	\$2,376,695	\$2,641,858	\$2,039,858	\$516,926
Less: Nonspendable Fund Balance	\$10,737	\$7,947	\$7,947	\$7,947
Less: Restricted Fund Balance	\$1,021,848	\$934,346	\$934,346	\$379,070
Less: Encumbrances	\$33,011	\$91,978	\$91,978	\$91,978
Less: Appropriated Fund Balance for the Ensuing Year	\$1,063,167	\$1,097,918	\$1,097,918	\$244
Total Unrestricted Funds at Year End	\$247,932	\$509,669	(\$92,331)	\$37,687
Ensuing Year's Budgeted Appropriations	\$15,932,700	\$14,167,143	\$14,167,143	\$14,167,143
Unrestricted Funds as Percentage of Ensuing Year's Budget	1.56%	3.60%	(0.65%)	0.27%

Interest Revenue Projection – In addition to the one-time revenues and unrealistic use of reserve funds and fund balance, the Board has budgeted an unrealistic amount for interest earnings. The Board budgeted \$40,000 for interest and earnings although it received approximately \$7,500 on average for this amount in the last three fiscal years. This overstatement creates a possible shortfall in revenue of approximately \$32,500 for the 2015-16 fiscal year.

Board Oversight

The Board is responsible for making sound financial decisions that are in the best interest of the District as well as the taxpayers who fund its operations. To enable the Board to carry out its fiscal oversight responsibility effectively, it must ensure that it is receiving necessary and accurate financial information. It is the Board's responsibility to review, understand and question, when necessary, the financial information provided to it.

The Board receives a packet of information from the Business Administrator prior to Board meetings that includes the Treasurer's report, claims auditor's report, budget status report, report of budget transfers and school lunch fund report. Although, the financial information in the Treasurer's report was not accurate, the Board did not question the amounts reported to them. For example, the Board should have noticed that the revenue reported on the budget status reports did not correspond to the amount of cash received reported in the Treasurer's report. Because the Board did not question unusual amounts in the Treasurer's report, its ability to make informed financial decisions on the District's behalf was hindered.

Multiyear Plan

Multiyear financial planning is a tool school districts can use to improve the budget development process. Planning on a multiyear basis will enable District officials to identify developing revenue and expenditure trends and to establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. It also allows District officials to assess the merits of alternative approaches to finance District operations. Any long-term financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

Although the Board and District officials were aware of the contract termination with the GWL, they did not develop a multiyear financial plan to address the declining enrollment issues, which significantly impacted the District's revenue. It is imperative that the District develop an effective plan to address its current and future financial condition.

Recommendations

The Board should:

1. Adopt structurally balanced budgets, not rely on one-time revenues, maintain reserves at reasonable levels and use realistic revenue projections based on historical data and known changes that affect operations.
2. Review and question financial data that is provided in the monthly financial reports.
3. Establish a documented multiyear plan and review it annually for necessary adjustments.

District officials should:

4. Properly record tuition receivables that are not currently available as deferred revenues.
5. Provide accurate financial information to the Board.
6. Properly record cash in the accounting records.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Tuxedo Union Free School District

Tuxedo Park, New York 10987

Ms. Nancy Teed
Interim Superintendent of Schools

Ms. Dawn Cupano
Business Administrator

April 11, 2016

[REDACTED]
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725

Dear [REDACTED]

I am in receipt of the preliminary draft audit findings prepared by [REDACTED] and [REDACTED] based upon their review of the financial condition of the District. The preliminary draft was reviewed with [REDACTED] and [REDACTED] at a meeting in my office on March 18, 2016. Also in attendance at that meeting were Board of Education President Joanne Vernon and Business Administrator Dawn Cupano.

The District thanks the Comptroller's Office for conducting its review and for the support and recommendations that both examiners provided during the course of the audit. We found them to be professional, resourceful and reasonable in their interactions with school district personnel.

Based on the review of the preliminary draft during the March 18th meeting, please note the following items which were discussed in detail with your representatives. The District's Corrective Action Plan is included with the recommendations as follows:

Under Accounting Records

1. The District does have procedures for posting to various accounts. These procedures are in the final stages of being completed in written form. The Board of Education will receive additional information monthly accompanying the financial reports with the attachment of bank statements. This additional procedure will allow for completeness in all records and transactions that are included in the business reports. It will also address the accuracy that the correct amounts are recorded in the proper designated accounts. (Recommendation 1)

2. A schedule has been set up for the Treasurer and Business Administrator bimonthly to review the deposits and deposit slips for accuracy. Deposits and transfers will be done in a timely manner with monies deposited into the proper fund and account. Deposit slips for different accounts will be stored in separate locations with clear delineations of which account the deposit slip is to be applied to. (Recommendation 2)
3. Monies that have not been physically received will not be included in the revenue report until such time a timely deposit has been completed. Monies anticipated to be received as revenues will be listed as deferred revenue until posted documentation is available to support the receivable as revenue. This will ensure the criteria for receivables to be considered revenue is met and there is no overstating of collected revenue receivables. (Recommendation 3)
4. To ensure accurate reporting of cash balances, the Business Administrator and the General Ledger Clerk will review the general fund checking account cash balance bimonthly. This additional review will ensure records of postings of deposits or transfer of monies is accurately reflected. (Recommendation 4)
5. The reserve funds will be kept in separate bank accounts and will be accounted for separately from operating funds. The records for each reserve will show the date and amount of each sum paid into the fund, the interest earned by the fund, cash balances and schedule of investments (if applicable). The Board of Education will review the bank statements reflecting the reserve funds quarterly. (Recommendation 5)

Under Budgeting

1. The delineation of separate accounts for the reserve funds will ensure accuracy in reporting when the Board of Education is reviewing appropriations and receivables when considering use of the reserve funds. Accurate balances of the reserve accounts will be listed so the District's budget does not include more monies than is available in the reserve accounts. (Recommendation 6)
2. The use of fund balance when appropriating unassigned funds will only include documented receivables as part of the District's fiscal year revenues. (Recommendation 7)

3. A daily calculations sheet will be implemented reflective of deposits and transfers of monies into designated accounts to accurately reflect the cash balances in each account. (Recommendation 8)

Under Board Oversight

1. The Board of Education will continue to receive the monthly Treasurer's report, internal claim's auditor report, a budget status report, revenue status report, transfers and school lunch profit and loss statement. The Board of Education will closely review the Treasurer's report and direct any inquiries to the Business Administrator for clarification and answers prior to any action being taken. (Recommendation 9)

Under Multiyear Plan

1. The Board and District Administration have initiated the development of a three year plan for increasing revenues and controlling expenditures to maintain reserves at reasonable levels. The District has implemented a marketing plan funded by a donor to attract non-resident students on a tuition basis to address declining enrollment. The District will continue to utilize cost savings measures through the use of cooperative bids and municipal agreements, including the introduction of new endeavors such as solar solutions. This multi-year plan will be reviewed annually for necessary adjustments to assist in identifying alternative approaches to finance District operations. (Recommendation 10)

We appreciate the opportunity to work with your office to improve school district operations that were reflected in this exceptions audit. We recognize the exceptions audit's purpose is to identify errors and make recommendations. The District's Corrective Action Plan recommendations will address the errors noted and safeguards will be implemented in procedures to prevent future errors. It is our goal to maximize efficiency and accuracy to safeguard taxpayer dollars. The approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties are the top priorities of the Board of Education and District Administration. Please feel free to contact me should you require any additional information.

Sincerely,

Nancy M. Teed
Interim Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials concerning budgeting, financial planning and reserve practices.
- We reviewed budget-to-actual expenditures and revenues for the 2014-15 and 2015-16 fiscal years.
- We reviewed financial reports and compared them to the monthly corresponding Treasurer's reports and the corresponding monthly bank reconciliations.
- We reviewed reserve fund and fund balances and trends for the 2011-12 through 2014-15 fiscal years and compared these to the budget amounts for fiscal year 2015-16.
- We reviewed the actual revenues and expenditures for the 2011-12 through 2013-14 fiscal years for trends and major changes.
- We reviewed the invoices, payments received after June 30, 2015 and sub-ledgers pertaining to tuition receivables to determine reasonableness.

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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