



West Irondequoit Central School District Financial Management and Separation Payments

Report of Examination

Period Covered:

July 1, 2012 – April 12, 2016

2016M-180



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 West Irondequoit Central School District, entitled Financial Management and Separation Payments. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The West Irondequoit Central School District (District) is located in the Town of Irondequoit, Monroe 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 day-to-day management of the District under the Board's direction. The Board-appointed Assistant Superintendent for Finance (Assistant Superintendent) supervises all functions within the Business Office, including the Treasurer, who is designated as the custodian of District funds and the Payroll Supervisor, who is responsible for calculating separation payments. In addition, the Board-appointed Deputy Superintendent is responsible for overseeing the human resources function and reviewing payroll.

The District operates 10 schools with approximately 3,600 students and 620 employees. In the 2014-15 fiscal year, the Board proposed a budget that would have required an override of the real property tax cap.¹ However, after two unsuccessful attempts² to pass the proposed budget the District was forced to adopt a contingency budget with a property tax levy no greater than the 2013-14 fiscal year. During the 2014-15 fiscal year, the District had operating expenditures of approximately \$65 million, funded primarily with State aid, real property and sales taxes. The District's budgeted appropriations for the 2015-16 fiscal year are approximately \$68.4 million.

Scope and Objectives

The objectives of our audit were to review the District's financial management for the period July 1, 2012 through April 12, 2016 and examine the District's calculation and supporting documentation of separation payments for the period July 1, 2014 through April 12, 2016. Our audit addressed the following related questions:

- Did the Board and District officials adequately manage the District's financial condition?

¹ In 2011, the New York State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap. Under this legislation, the property tax levied annually generally cannot increase more than 2 percent or the rate of inflation, whichever is lower, with some exceptions. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, the budget must be approved by 60 percent of the votes cast.

² It failed to receive the required 60 percent voter support necessary to override the property tax cap.

- Did District officials ensure that separation payments were properly calculated and adequately supported?

Audit Results

The Board did not adopt realistic budgets based on historical or known trends. The Board overestimated expenditures averaging nearly 7.9 percent from fiscal years 2012-13 through 2014-15, which generated approximately \$2.1 million in operating surpluses. The Board also budgeted for operating deficits during this time by appropriating larger than necessary amounts of fund balance each year, although these funds were not needed due to the operating surpluses generated by the unrealistic budgets. District officials reduced the year-end fund balance, to stay within the 4 percent limit established by New York State Real Property Tax Law, by making unbudgeted transfers to the District's reserves. When adding back unused appropriated fund balance, the District's recalculated unrestricted fund balance exceeded the statutory limit each year by more than 7.4 percent of the ensuing year's budget. Consequently, three of the District's five general fund reserves, which had balances totaling approximately \$10.1 million as of June 30, 2015, were excessive or potentially unnecessary. Further, we found that the District incorrectly recorded money in the special aid fund that should be recorded in either the general fund or a miscellaneous special revenue fund.

In addition, District officials have not developed written policies or procedures to formalize the separation payment process. The District does not maintain adequate supporting documentation for each separation payment. In addition, there is no review of each separation payment by any other employee or supervisor before it is paid through payroll or deposited into an employee's deferred compensation account. Furthermore, we found that the District has multiple contracts that have ambiguous terms in regards to leave accruals.

Comments of District Officials

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 recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response.

Introduction

Background

The West Irondequoit Central School District (District) is located in the Town of Irondequoit, Monroe 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 day-to-day management of the District under the Board's direction. The Board-appointed Assistant Superintendent for Finance (Assistant Superintendent) supervises all functions within the Business Office, including the Treasurer, who is designated as the custodian of District funds and the Payroll Supervisor, who is responsible for calculating separation payments. In addition, the Board-appointed Deputy Superintendent is responsible for overseeing the human resources function and reviewing payroll.

The District operates 10 schools with approximately 3,600 students and 620 employees. In the 2014-15 fiscal year, the Board proposed a budget that would have required an override of the real property tax cap.³ However, after two unsuccessful attempts⁴ to pass the proposed budget the District was forced to adopt a contingency budget with a property tax levy no greater than the 2013-14 fiscal year. During the 2014-15 fiscal year, the District had operating expenditures of approximately \$65 million, funded primarily with State aid, real property and sales taxes. The District's budgeted appropriations for the 2015-16 fiscal year are approximately \$68.4 million.

Objectives

The objectives of our audit were to review the District's financial management and examine the District's calculation and supporting documentation of separation payments. Our audit addressed the following related questions:

- Did the Board and District officials adequately manage the District's financial condition?

³ In 2011, the New York State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap. Under this legislation, the property tax levied annually generally cannot increase more than 2 percent or the rate of inflation, whichever is lower, with some exceptions. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, the budget must be approved by 60 percent of the votes cast.

⁴ It failed to receive the required 60 percent voter support necessary to override the property tax cap.

- Did District officials ensure that separation payments were properly calculated and adequately supported?

**Scope and
Methodology**

We reviewed the financial management of the District for the period July 1, 2012 through April 12, 2016 and examined the District's calculation and supporting documentation for separation payments for the period July 1, 2014 through April 12, 2016.

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 C 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 recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response.

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 Management

The Board, Superintendent and Assistant Superintendent are accountable to District residents for the use of District resources and are responsible for effectively planning and managing the District's financial operations. One of the most important tools for managing the District's finances is the budget process. District officials must ensure that annual budgets accurately depict the District's financial activity and use available resources to benefit District residents. Prudent fiscal management includes maintaining sufficient and appropriate balances in reserves that are needed to address long-term obligations or planned future expenditures. Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations. Budget transparency is important for public participation and accountability and allows residents to provide feedback on the quality and adequacy of services, as well as decisions that impact the District's long-term financial stability. Presenting complete and accurate budget information to residents allows them the opportunity to make informed decisions when voting on the budget.

The Board did not adopt realistic budgets. While revenues were generally budgeted accurately, the Board overestimated expenditures averaging nearly 7.9 percent from fiscal years 2012-13 through 2014-15, which generated approximately \$2.1 million in operating surpluses. The Board also budgeted for operating deficits during this time by appropriating fund balance each year. However, these funds were not needed due to the surpluses generated by the unrealistic budgets. To stay within the 4 percent limit established by New York State Real Property Tax Law (RPTL),⁵ District officials reduced year-end fund balance by appropriating fund balance and making unbudgeted transfers to the District's reserves. After adding back unused appropriated fund balance, the District's recalculated unrestricted fund balance for the fiscal years 2012-13 through 2014-15 exceeded the statutory limit by 7.4, 5.7 and 3.4 percentage points.

In addition, three of the District's general fund reserves, with balances totaling approximately \$7.4 million as of June 30, 2015, may be excessive or potentially unnecessary. Also, District officials, erroneously included \$471,000 within the special aid fund, the use of which should be restricted to the accounting of special projects or programs supported in whole or in part by Federal funds or State-funded grants. Once reclassified, these funds will further compound

⁵ RPTL establishes a limit on unrestricted fund balance of 4 percent of the ensuing year's budgeted appropriations.

the issue of the District's unrestricted fund balance being in excess of the statutory limit.

Budgeting and Fund Balance

In preparing the general fund budget, the Board is responsible for estimating what the District will spend, what it will receive in revenue (e.g., State aid), and the amount of fund balance that will be available at the fiscal year end to help fund the budget and for determining the expected tax levy needed to balance the budget. Accurate estimates, based on historical or known trends, help ensure that the tax levy is not greater than necessary. RPTL allows the District to retain a limited amount of unrestricted fund balance (up to 4 percent of the ensuing year's budget) for unexpected events and to provide for cash flow. Additionally, districts are legally allowed to establish reserve funds and accumulate funds for certain future purposes (e.g., capital project, retirement expenditures). Fund balance in excess of that amount must be used to fund a portion of the next year's appropriations – thereby reducing the tax levy – or used to fund legally established and necessary reserves, pay down debt or be used for non-recurring expenditures.

We reviewed the District's budgets for fiscal years 2012-13 through 2014-15 and found that the Board and District officials annually adopted unrealistic budgets. While revenues were generally budgeted accurately,⁶ expenditures were not based on historical or known trends, but were overestimated by an average of approximately 7.9 percent from fiscal years 2012-13 through 2014-15, totaling nearly \$15 million as indicated in Figure 1. We found that expenditure variances were generally spread throughout multiple line items. One of the largest variances was for employee health insurance, which was overestimated by a total of approximately \$955,000 (13 percent) over the three fiscal years.⁷ These significant budget variances resulted in operating surpluses that increased available surplus fund balance as a result of tax levies that were higher than necessary. The District reported operating surpluses in the 2012-13 and 2013-14 fiscal years and an operating deficit in the 2014-15 fiscal year. However, this operating deficit was primarily due to a transfer of approximately \$3.1 million⁸ from the capital reserve to the capital projects fund. Excluding interfund transfers, the 2014-15 fiscal year would have reported an approximately \$2.2 million operating surplus.

⁶ Actual revenues were on average within 3 percent of budgeted amounts over the last three fiscal years.

⁷ This positive variance continued to increase each fiscal year.

⁸ Approved by voters on May 20, 2014

Figure 1: Overestimated Appropriations

	Appropriations	Expenditures ^a	Difference	Percentage
2012-13	\$66,660,311	\$61,556,094	\$5,104,217	8.3%
2013-14	\$66,487,309	\$61,648,947	\$4,838,362	7.8%
2014-15	\$66,418,431	\$61,797,246	\$4,621,185	7.5%
Totals	\$199,566,051	\$185,002,287	\$14,563,764	7.9%

^a All expenditure amounts included are net of interfund transfers.

As indicated in Figure 2, by appropriating a total of \$11.9 million in fund balance to finance operations from fiscal years 2012-13 through 2014-15, which should have resulted in planned operating deficits and reductions in fund balance, District officials made it appear that the District's unrestricted fund balance was within the statutory limit. However, due to ineffective budgeting, the District actually experienced operating surpluses during the 2012-13 and 2013-14 fiscal years. These surpluses, and a less than planned operating deficit during the 2014-15 fiscal year, resulted in the District using approximately \$943,000 (7.9 percent) of the total fund balance that was budgeted during this period.

Figure 2: Reported Unrestricted Fund Balance at Year-End

	2012-13	2013-14	2014-15	Totals
Beginning Fund Balance	\$15,647,643 ^a	\$16,759,919	\$18,695,915	\$51,103,477
Revenues ^b	\$62,843,498	\$63,751,600	\$64,077,352	\$190,672,450
Expenditures ^b	\$61,731,222	\$61,815,604	\$65,021,270	\$188,568,096
Operating Surplus/(Deficit)	\$1,112,276	\$1,935,996	(\$943,918) ^c	\$2,104,354
Ending Fund Balance	\$16,759,919	\$18,695,915	\$17,751,997	\$53,207,831
Less: Restricted Funds	\$9,448,532	\$12,292,884	\$10,149,314	\$31,890,730
Less: Assigned Unappropriated Funds	\$690,868	\$137,462	\$766,429	\$1,594,759
Less: Appropriated Funds	\$3,700,000	\$3,291,972	\$3,138,757	\$10,130,729
Less: Nonspendable Funds	\$261,125	\$260,877	\$962,795	\$1,484,797
Unrestricted Funds	\$2,659,394	\$2,712,720	\$2,734,702	\$8,106,816
Ensuuing Year's Budgeted Appropriations	\$66,487,309	\$66,418,431	\$68,368,086	\$201,273,826
Unrestricted Funds as a Percentage of Ensuuing Year's Budget	4%	4%	4%	

^a The District appropriated approximately \$4.9 million for the 2012-13 fiscal year.
^b Includes interfund transfers
^c The operating deficit in the 2014-15 fiscal year is due to an approximately \$3.1 million transfer to the capital projects fund from the capital reserve.

Because the District appropriated fund balance to fund operations and funded reserves at year-end, it reported year-end unrestricted fund balance that complied with the statutory limit from fiscal years 2012-

13 through 2014-15. However, as indicated in Figure 3, after adding back unused appropriated fund balance, the District's recalculated unrestricted fund balance ranged from 7.4 to 11.4 percent of the ensuing year's budget from fiscal years 2012-13 through 2014-15, which exceeded the statutory limit each year.

Figure 3: Unused Fund Balance			
	2012-13	2013-14	2014-15
Unrestricted Funds at Year-End	\$2,659,394	\$2,712,720	\$2,734,702
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$4,934,604	\$3,700,000	\$2,348,054
Recalculated Unrestricted Funds	\$7,593,998	\$6,412,720	\$5,082,756
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	11.4%	9.7%	7.4%

The Board budgeted approximately \$68.4 million in appropriations for the 2015-16 budget. However, we expect appropriated fund balance to not be needed, which would result in the District's unrestricted fund balance again exceeding the statutory limit. The District's practice of annually appropriating fund balance that is not needed to finance operations is in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit imposed on the level of unrestricted, unappropriated fund balance.

Reserves

Reserves may be established by the Board in accordance with applicable laws to restrict a reasonable portion of fund balance for specific purposes to address long-term obligations or planned future expenditures. While school districts are generally not limited as to how much money can be held in reserves, reserve balances must be reasonable and substantiated. To provide the greatest level of transparency to residents, the Board should make clear its intentions when budgeting the funding of reserves. When conditions warrant, the Board should reduce reserves to reasonable levels, or liquidate and discontinue a reserve fund that is no longer needed or whose purpose has been achieved by transferring unneeded balances to other existing reserves in compliance with applicable statutes.

As of June 30, 2015, the District had legally established five reserves totaling approximately \$10.1 million, which represents a significant portion of its total fund balance (57 percent). However, the Board and District officials have not included provisions in the annual budgets for funding these reserves. Instead, District officials have historically funded reserves by transferring unrestricted fund balance⁹ (e.g.,

⁹ Generated from operating surpluses

approximately \$1.5 million during the 2014-15 fiscal year), which resulted in the unrestricted fund balance staying within the statutory limit. We analyzed these reserves for reasonableness and adherence to statutory requirements. We determined that the funding of tax certiorari and capital reserves totaling approximately \$2.7 million appear reasonable. However, the retirement contribution reserve, unemployment insurance reserve and workers' compensation reserve, totaling more than \$7.4 million, are overfunded and potentially unnecessary. Figure 4 shows the balances in these reserves as of June 30, 2015.

Figure 4: Questionable General Fund Reserve Balances

	Balance as of July 1, 2012	Funding	Expenditures	Balance as of June 30, 2015
Retirement Contribution Reserve	\$1,441,923	\$6,143,835	\$1,253,460	\$6,332,298
Unemployment Insurance Reserve	\$427,209	\$151,517	\$95,923	\$482,803
Workers' Compensation Reserve	\$0	\$720,600	\$120,000	\$600,600
Total	\$1,869,132	\$7,015,952	\$1,469,383	\$7,415,701

Retirement Contribution Reserve – By law, this reserve can only be used to pay benefits for employees covered by the New York State and Local Retirement System (NYSLRS). The District cannot use this reserve to pay contributions for employees covered by the New York State Teachers' Retirement System. The reserve has grown from approximately \$1.4 million as of July 1, 2012 to a balance of \$6.3 million as of June 30, 2015, which is more than five and a half times the average annual expenditures of \$1.1 million.¹⁰

Unemployment Insurance Reserve – This reserve is allowed for reimbursing the State Unemployment Insurance Fund (SUIF) for payments made to claimants where the District has elected to use the “benefit reimbursement” method based on actual unemployment claims. As of June 30, 2015, the balance in the reserve was approximately \$483,000. This balance could fund a total of 44 employees using the maximum benefits,¹¹ or 7.5 years of claims based on the District's yearly claim average totaling approximately \$64,000.¹²

Workers' Compensation Reserve – This reserve is used to pay compensation and benefits, medical, hospital or other expenses

¹⁰ Except for one year, the District generally pays for these expenditures out of the general fund.

¹¹ The maximum New York State unemployment insurance benefit is \$425 for up to 26 weeks.

¹² The average expenditure out of the fund was less than \$32,000. However, the remainder was paid out of the general fund.

authorized by Article 2 of the Worker's Compensation Law and to pay the expenses of administering a self-insurance program. The District established this reserve in 2014 and transferred \$600,000 into the reserve, and as of June 30, 2015 had a balance of \$600,600.¹³ The District's three-year average annual expenditures for workers' compensation benefits were approximately \$428,000,¹⁴ which the District has historically paid for out of the operating budget and the reserve balance being 1.4 times this amount may be excessive and unnecessary.

Special Aid Fund

A special revenue fund is used to account for and report special projects or programs supported in whole or in part by federal funds or State-funded grants. A grant is defined as a contribution of cash or other assets from the State to be used or expended for a specific purpose or activity. State grants are accounted for in the special aid fund and are those which may possess the following characteristics: if the program is funded in whole or in part through a distribution of State funds where allocations are made on some basis other than a formula basis, payments of State assistance are usually made on a current basis (i.e., revenue is usually received in the same fiscal year in which expenditures are made); an application or budget must be filed with and approved by the State or federal government as a requirement prior to receipt of the funds, or a separate expenditure report is required at the completion of each program; the funds are required to be expended for a specific purpose; federal or State aid for special projects will be credited directly to this fund, as well as revenues from other sources shall also be credited directly to this fund.

The District operates a community education program that had revenues of approximately \$443,000, expenditures of approximately \$375,000 in the 2014-15 fiscal year and had a fund balance of approximately \$471,000 as of June 30, 2015. Because this program is not supported in whole or in part by federal funds or State-funded grants, the District is incorrectly accounting for these funds in the special aid fund and should instead be accounting for these funds in the general fund. Due to the sizable fund balance associated with this program, when properly accounted for in the general fund this will further compound the issue of the District's unrestricted fund balance being in excess of the statutory limit.

By maintaining excessive fund balance, both restricted and unrestricted, and not using the fund balance appropriated in adopted budgets, District officials are levying more taxes than necessary

¹³ The \$600 net change coming from interest earnings

¹⁴ Except for one year (of those reviewed), the District generally pays for these expenditures out of the general fund.

to sustain District operations. In addition, the District's current budgeting and accounting practices circumvented statutory controls and resulted in excessive fund balance that significantly exceeded the statutory limit.

Recommendations

The Board and District officials should:

1. Adopt budgets that reflect the District's actual needs and include realistic estimates based on historical trends or other identified analysis.
2. Use surplus funds as a financing source for:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.
3. Review all reserve balances and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements. To the extent they are not, transfers should be made in compliance with statutory requirements.
4. Ensure that only projects that meet the criteria of the special aid fund are accounted for and reported within the fund.

Separation Payments

In addition to established wages and salaries, school districts often provide separation payments to employees for recognition of years of service, compensatory time or all or a portion of their earned but unused leave time when the employee retires or otherwise leaves district service. These payments are an employment benefit generally granted in negotiated collective bargaining agreements (CBAs) or individual employment contracts and can represent significant expenditures for a district. As such, District officials must be sure that employees are paid only the amounts to which they are entitled, by ensuring each payment is accurate and authorized by a Board-approved employment contract. District officials should implement written policies and procedures governing the separation payments process which require adequate supporting documentation and evidence of management review. All contracts should have well-defined language clearly stating when leave is granted, if leave is accrued throughout the year, whether earned leave is pro-rated if an employee leaves the District before the end of a school year and if unused leave balances can be paid out upon an employee's separation from employment with the District.

The District makes separation payments to individuals that retire or otherwise leave district service. Once an employee notifies the District of their separation from district service, the Payroll Supervisor will reference the employee's respective individual employment contract or CBA to determine if the employee is eligible for a separation payment. If eligible, the Payroll Supervisor will then calculate the employee's separation payment based upon their accrued vacation leave and compensatory time. Once the separation payment is calculated, it is processed through payroll and a separate check for the payment is given to the employee. Additionally, the teachers' CBA provides for a retirement incentive consisting of a lump sum payout of \$20,000 paid to the employee's deferred compensation account, provided certain requirements are met.

We determined that District officials have not developed written policies or procedures to formalize the separation payments process. Furthermore, they do not maintain adequate supporting documentation for each separation payment. In addition, there is no review of each separation payment by any other employee or supervisor before it is paid through payroll or to an employee's deferred compensation account.¹⁵ Furthermore, we found that the District has four contracts

¹⁵ The Deputy Superintendent reviews the payroll registers on a monthly basis. However, this high-level review is not an adequate mitigating control for the lack of segregation of duties.

that have ambiguous terms in regards to when leave is granted, if leave is accrued throughout the year, whether earned leave is pro-rated if an employee leaves the District before the end of a school year and if unused leave balance can be paid out upon an employee's separation from employment with the District.

We determined that there were a total of 117 employees that separated from employment with the District during our scope period and that 12 employees (or 10 percent) were eligible for separation payments based on their respective contract or Board policy. Of these employees, all 12 received separation payments for either accrued vacation leave, accrued compensatory time or for recognition of years of service totaling \$106,030. Based on our testing, we found that all of the separation payouts were calculated correctly.

Although we found all separation payments reviewed to be calculated correctly, by not having documented policies or procedures that govern the separation payments process, provide for supervisory review and ensure that supporting documentation is maintained with each separation payment, there is an increased risk that separation payments to employees may be overpaid, underpaid or employees may receive payouts they are not entitled to. Furthermore, having well-defined contract language would help prevent any confusion or misunderstandings regarding the separation payments process.

Recommendations

The Board and District officials should:

5. Develop written policies or procedures to govern the separation payments process.
6. Ensure that all contracts have well-defined language clearly stating when leave is granted, if leave is accrued throughout the year, pro-rated and if unused leave balances can be paid out upon an employee's separation from employment with the District.
7. Ensure that there is proper oversight of the separation payments process.
8. Ensure that all separation payments have adequate supporting documentation with evidence of appropriate review.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



West Irondequoit Central School District

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July 26, 2016

Mr. Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614

Dear Mr. Grant:

The West Irondequoit Central School District has received and reviewed the draft Financial Management Report of Examination for the audit period July 1, 2012 – April 12, 2016. On behalf of the Board of Education and Administration, we appreciate this opportunity to respond to the findings and to provide our responses to the audit recommendations.

Through the audit process, the Comptroller's Office performed a comprehensive examination of the District's financial practices. We are pleased that no fraud, waste or abuse was identified in the examination. Further, we appreciate the professional manner in which the auditors worked with us during the audit.

This audit focused on the District's financial management practices and separation of pay calculations. The Board of Education and District Administration strive to maintain the highest standards of fiscal management, while at the same time balancing the needs of the instructional program, as well as the community's ability to support the schools financially. In order to achieve the balance among these factors, we have committed to multi-year responsible planning which has allowed the District to cope with State Aid reductions, unfunded mandates and significant pension cost increases, while maintaining an average tax levy increase of 1.98% over the past ten years. Our commitment to, and partnership with, our taxpayers precedes and has met the theoretical 2% tax levy cap.

This letter includes both the District's response, as well as the corrective action plan. The corrective action plan was reviewed by the Audit Committee (which consists of the Board as whole) and approved by the Board of Education on July 25, 2016.

Audit Recommendation #1 – Adopt budgets that reflect the District’s actual needs and include realistic estimates based on historical trends or other identified analysis.

District Response:

The District uses a multi-year budget model to analyze revenue and expenditure trends, incorporating short and long-term programmatic and budget priorities, all the while assessing the impact of current budget decisions on future budgets.

By law, the District may not overspend its budget and therefore, it is prudent that a budget be conservative such that it is able to meet its obligations while staying within the voter authorized limits. Unlike State Law, that allows municipalities to have contingent appropriations of up to 10%, Education Law does not include such contingency accounts and no state agency has established guidance. Our goal in the administration of the annual budget is to find ways to reduce expenses throughout the fiscal year and as a result spend less than was authorized by District voters. During the audit period, the District expended, on average, 92% of its budgeted expenditures.

The addition of the tax cap requirement adds to the complexity and importance of multi-year planning as a fiscal shortfall cannot be readily reconciled in subsequent budgets, as revenue generated through the levy is limited. These multi-year decisions are developed in open session meetings of the Board of Education in order to communicate our priorities clearly and articulate decisions that are in the best interest of the school and community.

Plan of Action:

The District will continue to develop multi-year budget models as part of its budget development and utilize historic trends to forecast revenues and expenditures. As part of the 2017-18 budget process, the Board will establish targets for budget variance.

Audit Recommendation #2 – Use surplus funds as a financing source for: (a) funding one-time expenditures; (b) funding needed reserves; (c) reducing District property taxes.

District Response:

We agree with the report’s recommendation relative to the use of surplus funds. The District has been careful to manage surplus funds as part of its multi-year financial strategy. We recognize that overreliance on surplus funds to finance long-term obligations challenges future budgets, as surpluses are not a reliable source of revenue. In addition, the Board, as part of their August workshop, closely reviews any surplus funds in order to make critical decisions relative to funding needed reserves and setting the tax rate for the upcoming year.

Plan of Action:

The District will continue to monitor its budget development in order to ensure it does not become overly reliant of surplus funds as a revenue source for long-term obligations. The Board will continue to review all available data relative to surplus funds, as it makes strategic decisions relative to funding needed reserves and setting the tax rate.

Audit Recommendation #3 – Review all reserve balances and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements. To the extent they are not, transfers should be made in compliance with statutory requirements.

District Response:

In accordance with Board Policy, the District annually reviews its reserve plan as part of its budget process multiple times each year. The review includes statutory requirements, funding levels, activity in the reserve, the target level for the reserve and plan for use of the funds in the reserve.

This audit review identified three reserves as being potentially overfunded: the Unemployment Reserve, the Retirement Contribution Reserve and the Worker’s Compensation Reserve.

Unemployment Reserve:

The District established this reserve in 1984 to reimburse the State Unemployment Insurance Fund for payments made to claimants. Funds have not been added to this reserve in the last three years in response to the weakening of the financial challenges posed by the recession that started in 2008. During the same time period, the District has been reducing the levels in the reserve by utilizing it as the sole funding source for unemployment claims.

See
Note 1
Page 21

Retirement Contribution Reserve:

This reserve was authorized by the state legislature in reaction to the significant increases in retirement contribution rates. No state agency has provided guidance on the appropriate level of funding for this reserve. In absence of such guidance, the District has determined that the funding levels were within the targeted parameters, as part of its annual reserve plan. Specific to this reserve, was the plan to begin to draw upon the funds as part of the 2016-17 budget to reduce the financial burden of implementing full day kindergarten, as it is not yet fully funded by New York State. \$588,263.00 was allocated from the reserve as part of our current budget. We anticipate continued reliance on this reserve until full day kindergarten is fully funded by New York State.

See
Note 2
Page 21

Worker’s Compensation Reserve:

This reserve was established in 2014 to offset costs associated with expenses authorized under Article 2 of the Worker’s Compensation Law. The District has benefited financially by being a member of a county-wide consortium of schools to self-insure worker’s compensation claims. In 2014, an audit of the consortium plan determined that there was a plan deficit, as a result of outstanding liabilities that had not been fully reserved as well increased payments for current claims. In anticipation for the resulting increased premium costs, this reserve was established to partially off-set those increases. The reserve has been used annually since its inception to partially fund premium payments and then refunded at the close of fiscal years in which funds were available.

Plan of Action:

As part of the 2017-18 reserve planning process, and in light of this audit’s recommendations, we will continue to evaluate funding levels in each of the above reserves. Excess balances will be transferred in compliance with statutory requirements.

Audit Recommendation #4 – Ensure that only projects that meet the criteria of the Special Aid Fund are accounted for and reported within the fund.

District Response:

Similar to the School Lunch Fund, the District has established a goal that Community Education be self-sufficient and therefore, not reliant on tax payer funds to operate. We are proud of the programmatic strength that Community Education has demonstrated for several years, as evidenced by its multiple programs offered, high level of community participation and its strong fiscal standing. By including it within the Special Aid Fund, we have been able to separate it from tax payer monies and monitor its budget closely to support these endeavors.

Plan of Action:

We appreciate the perspective on accounting of funds provided by the Audit Report and will work closely with our external auditors to move Community Education and other appropriate projects to a miscellaneous Special Revenue Fund in order to maintain a strong fiscally independent program.

Audit Recommendation #5 – Develop written policies and/or procedures to govern the separation payment process.

Audit Recommendation #6 – Ensure that all contracts have well-defined language clearly stating when leave is granted, if leave is accrued throughout the year, pro-rated and if unused, leave balances can be paid out upon an employee’s separation from employment with the District.

Audit Recommendation #7 – Ensure that there is proper oversight of the separation payment process.

Audit Recommendation #8 – Ensure that all separation payments have adequate supporting documentation with evidence of appropriate review.

District Response to Recommendations #5 - #8:

The District sees a strong connection among all of these recommendations and is therefore responding to them as a group.

The District appreciates the audit’s close look at separation payments and is pleased that the audit noted that, “we found all separation payments reviewed to be calculated correctly.” The District agrees with the recommendations made as part of the Audit Report, as they will assist in improving our current practices and reduce the risk of errors occurring in the future.

Action Plan to Recommendations #5 - #8:

The District has developed and implemented written procedures for separation payments to employees leaving the District. These procedures identify that the Deputy Superintendent will notify the Payroll Supervisor that an employee is leaving the District and that a calculation is needed relative to separation payments, as authorized by the appropriate collective bargaining contract, individual contract and/or district policy. Upon completion of the calculation, the Payroll Supervisor will provide it and supporting documentation to the Assistant Superintendent for Finance to confirm the accuracy of the proposed

payment. After the calculation is confirmed, the Administrator will sign-off and approve the payment to be made to the individual by Payroll.

In regards to Recommendation #6, concerning clarifying contract language tied to separation payments, the District will include the concept in future negotiations, recognizing that as it is a negotiated item, and both parties need to come to agreement prior to implementation of the new language.

The West Irondequoit Central School District appreciates the perspective the audit brings to help inform our work towards providing an excellent education to our students, while utilizing resources from our generous community in a strategic and efficient manner, and will help us as we look to continuously improve. We thank the auditors for their efforts and professionalism, as well as the conversations that they had with us while in performing this audit.

Sincerely,



William Evans
Board of Education President

7/27/16
Date



Jeffrey Crane
Superintendent of Schools

7/27/16
Date

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

There was a net increase of \$55,594 in the unemployment reserve fund during the audit period.

Note 2

The Board of Education had not adopted a formal reserve plan. Additionally, the informal plan presented to us by District officials did not include the intent to use these funds for the purpose of reducing the financial burden of implementing a full-day kindergarten.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the budget process. We reviewed financial information provided to the Board and reviewed the Board minutes to determine the reports provided to the Board.
- We reviewed the results of operations for the general fund for fiscal years 2012-13 through 2014-15.
- We compared the budgeted revenues and expenditures to the actual revenues and expenditures for the general fund for fiscal years 2012-13 through 2014-15.
- We analyzed the total fund balance, including the use of reserves, in the general fund for the fiscal years 2012-13 through 2014-15.
- We reviewed the budget for the 2015-16 fiscal year to determine if the District had made any significant changes to its budgeting practices.
- We reviewed District reserve accounts and related expenditures to determine if reserves were properly and legally established, if they were being funded or used and if their balances were reasonable.
- We analyzed the special aid fund for the fiscal years 2012-13 through 2014-15.
- We interviewed District officials and staff to gain an understanding of the District's processing and approval of separation payments and controls over the computerized financial software.
- We reviewed the negotiated collective bargaining agreements, individual employment contracts and Board policy to identify terms authorizing separation payments.
- We reviewed Board minutes, analyzed District employee lists and inquired with District officials to identify all employees who were eligible for separation payments based on their contract or Board policy and all separation payments made during our audit period.
- We identified and reviewed all 12 employees who could be eligible for separation payments who left District service to determine if they received a separation payment.
- We examined the supporting documentation of the 12 employees who received separation payments during our audit period to determine if the payments were supported and correctly calculated according to the Board-approved 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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