

White Plains City School District

Financial Management

OCTOBER 2020



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

White Plains City School District

Audit Objective

Determine whether the Board and District officials adopted realistic budgets and maintained reasonable levels of fund balance and reserve funds.

Key Findings

The Board and District officials did not adopt realistic budgets or maintain reasonable levels of fund balance. However, reserves were generally funded at reasonable levels and within legal limits.

- The District's fund balance over the past five years grew to \$97.9 million, the equivalent of 43 percent of the District's annual budget.
- Certain appropriations were overestimated in previous budgets and continued to be overestimated.
- District officials made year-end transfers totaling about \$29 million to reserves. The transfers were made to stay within the statutory surplus fund balance limit and resulted in a lack of transparency because the taxpayers were not informed of the amounts that would be added to the reserves during the fiscal year.

Key Recommendations

- Adopt annual budgets that contain reasonable estimates for expenditures, revenues and the amounts to be transferred to reserves based on historical and/or other known factors.
- Reduce the amount of surplus fund balance in a manner that benefits taxpayers.

District officials disagreed with certain aspects of our findings and recommendations, but indicated they have initiated corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Subsequent Event

Our audit fieldwork was completed prior to the COVID-19 pandemic (pandemic). The District's 2019-20 fiscal year projections and our audit work do not factor in the pandemic's financial effects.

Background

The White Plains City School District (District) is located in the City of White Plains in Westchester County.

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

Quick Facts

2019-20 Fiscal Year Appropriations	\$226.5 million
Enrollment	7,114
Employees	1,195

Audit Period

July 1, 2018 – February 5, 2020. We extended the scope period to July 1, 2014 to analyze trends in the budget and reserves.

Financial Management

What Is Effective Financial Management?

To effectively manage financial condition, a board should adopt realistic and structurally balanced budgets based on historical or known trends in which recurring revenues finance recurring expenditures. In preparing the budget, a board must estimate how much the district will spend and the amount it will receive in revenues, how much fund balance will be available at year-end and the expected tax levy needed to balance the budget. Accurate budget estimates help ensure the tax levy is not greater than necessary.

A board must maintain a reasonable level of fund balance, which is the difference between revenues and expenditures accumulated over time. Currently, the New York State Real Property Tax Law¹ limits the amount of surplus fund balance² that a school district can retain to no more than 4 percent of the next year's budgeted appropriations.

To be transparent, the Board should include the amounts to be reserved in its annual budget to give taxpayers the opportunity to know and approve the Board's plans for funding reserves. School districts are legally allowed to establish reserves and accumulate reasonable funds for certain future purposes examples being capital projects or retirement. Combining a reasonable level of surplus fund balance with specific legally established reserves provides for both unanticipated events and other identified or planned needs.

The Board and District Officials Need To Improve Budgeting Practices

We reviewed the District's operating results for the 2014-15 through 2018-19 fiscal years and determined that the District had an operating surplus for each year that ranged from \$3.3 million to \$13.4 million (Figure 1). The District's budgeting practices resulted in the accumulation of fund balance over five years that totaled \$97.9 million as of June 30, 2019, the equivalent of 43 percent of the 2019-20 fiscal year budget.

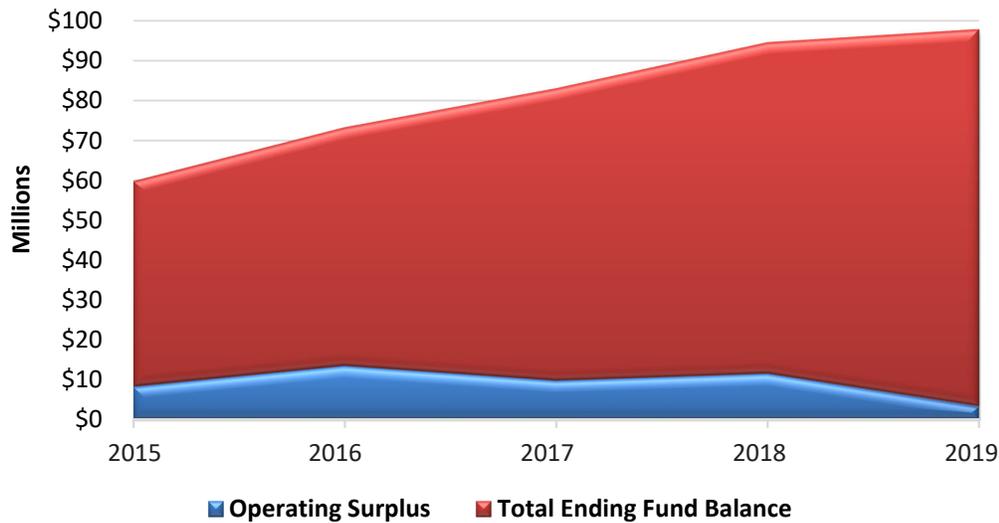
The District's budgeting practices resulted in the accumulation of fund balance over five years that totaled \$97.9 million...the equivalent of 43 percent of the 2019-20 fiscal year budget.

1 New York State Real Property Tax Law Section 1318

2 Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at www.osc.state.ny.us/files/local-government/publications/pdf/gasb54.pdf.

FIGURE 1

Operating Results and Fund Balance



The operating surpluses were the result of the overestimation of certain expenditures and underestimation of certain revenues. For example, District officials did not reasonably estimate appropriations for employee salaries and benefits each year (Figure 2) by cumulative totals of approximately \$19.4 million for employee salaries with amounts ranging from \$3.4 million to \$4.7 million per year and \$23.8 million for employee benefits with amounts ranging from \$3 million to \$5.5 million.

Figure 2: Overestimated Appropriations

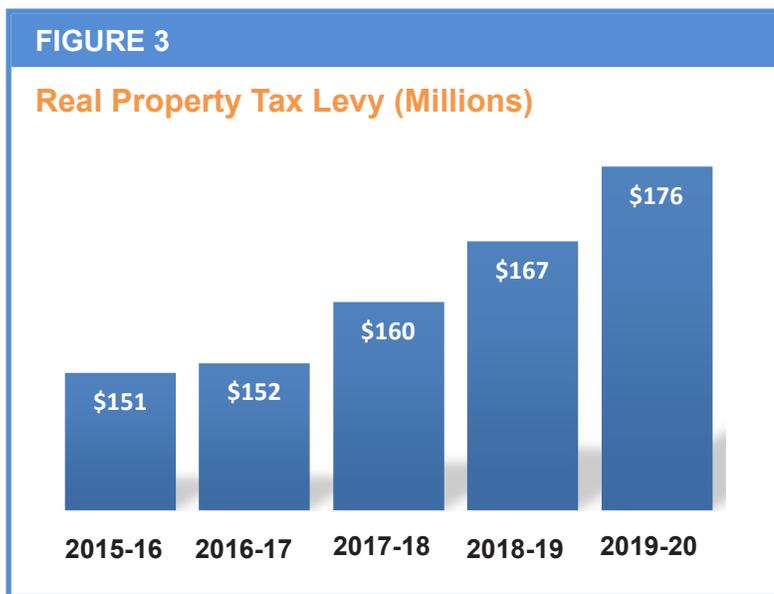
Fiscal Year	Employee Salaries			Employee Benefits		
	Budget	Actual	Over-Estimation	Budget	Actual	Over-Estimation
2014-15	\$97,595,493	\$94,194,250	\$3,401,243	\$51,653,000	\$48,631,647	\$3,021,353
2015-16	\$101,171,830	\$97,617,216	\$3,554,614	\$50,595,781	\$45,343,590	\$5,252,191
2016-17	\$104,749,099	\$100,640,973	\$4,108,126	\$49,707,000	\$44,700,034	\$5,006,966
2017-18	\$108,833,419	\$104,165,192	\$4,668,227	\$50,374,608	\$45,334,957	\$5,039,651
2018-19	\$110,294,959	\$106,673,909	\$3,621,050	\$53,058,226	\$47,604,727	\$5,453,499
Cumulative Total Overestimation			\$19,353,260	\$23,773,660		

Certain appropriations were overestimated in previous budgets, and this budgeting practice of overestimating these items continued in subsequent budgets. Salaries are set by contracts and benefits are based on contracts or

a percent of salary so these appropriations should be fairly predictable when developing the budget.

In addition, State aid was underestimated in each year. This underestimation totaled \$10.3 million over the past five years with annual amounts ranging from \$1.4 million to \$3.8 million.

Despite the repeated operating surpluses, the Board increased the tax levy by \$27 million from the 2015-16 to the 2019-20 fiscal year (Figure 3).



District officials stated that they have been working over the last three years to reduce the surpluses. In addition, District officials based the budgeted appropriation for employee salaries on current hiring levels and potential new employees in the upcoming fiscal year. They also stated that during the school year, some staff may leave the District or have their service terminated resulting in cost reduction. District officials budget employee benefits based on current employees' choices and the anticipated cost of health insurance for employees they expect to hire during the fiscal year. District officials also informed us that excess funds are used to fund capital projects, self-fund tax certiorari refunds and compensated absences.

The Board adopted budgets with conservative estimates over the five-year period that resulted in significant operating surpluses. Despite those surpluses, the Board increased the real property tax levy each year. As a result, fund balance significantly increased. When excess funds are held in fund balance, funds are

not being used to benefit the taxpayers and real property taxes may be higher than necessary.

The Board Was Not Transparent When Funding Reserves

The District reported a surplus fund balance of 4 percent for the 2015-16 through 2018-19 fiscal years in compliance with Real Property Tax Law. However, this was achieved, in part, by not including the amounts to be reserved in its annual budgets. Instead, the Board made year-end unbudgeted transfers through year-end resolution totaling approximately \$29 million to the reserves to reduce the amount of reported surplus fund balance. This amount is approximately 80 percent of the amount transferred to the reserves over the four-year period. Prior to these year-end transfers, the year-end surplus fund balances were nearly double the allowable 4 percent, except for the 2018-19 fiscal year, which was approximately 2 percent more than the allowable amount.

Figure 4: Effects of Unbudgeted Transfers on Unassigned Fund Balance

Fiscal Year	2015-16	2016-17	2017-18	2018-19
Next Year's Budget	\$208,750,000	\$214,135,854	\$218,593,020	\$226,588,509
Surplus Fund Balance – Before Year-End Transfers	\$16,613,411	\$16,790,476	\$16,985,932	\$13,386,090
Percent of the Next Year's Budget	7.96%	7.84%	7.77%	5.91%
Less Unbudgeted Year-End Transfers to Reserves	\$8,263,411	\$8,225,042	\$8,242,211	\$4,322,550
Final Unassigned Fund Balance	\$8,350,000	\$8,565,434	\$8,743,721	\$9,063,540
Percent of the Next Year's Budget	4.00%	4.00%	4.00%	4.00%

Instead of including the amounts to be reserved in their annual budgets, District officials made year-end transfers to reserves from the operating surpluses that were the result of their overestimation of certain expenditures and underestimation of certain revenues. These transfers were made to stay within the statutory surplus fund balance limit and resulted in a lack of transparency because the taxpayers were not informed of the amounts that would be added to the reserves during the fiscal year.

In addition, as of June 30, 2019, the District had four reserves in the general fund with balances totaling approximately \$85.3 million: tax certiorari, employee benefit accrued liability, capital and retirement contribution. Except for minor exceptions that we discussed with District officials, we determined that reserves were generally funded at reasonable levels or within legal limits.³

³ New York State Education Law Section 3651 authorizes the Board to establish a tax certiorari reserve to pay for judgments and claims resulting from tax certiorari proceedings. For more information, please refer to our publication *Reserve Funds* available at www.osc.state.ny.us/files/local-government/publications/pdf/reservefunds.pdf.

Our fieldwork was completed in March 2020, prior to the start of the pandemic. Given the negative financial effect of the pandemic, it is even more important for District officials to develop appropriate annual budgets and plan for the use of reserve funds.

What Do We Recommend?

The Board should:

1. Adopt annual budgets that contain reasonable estimates of expenditures, revenues and the amounts to be transferred to reserves based on historical and/or other known factors.
2. Develop a plan to reduce the amount of surplus fund balance in a manner that benefits taxpayers. Surplus funds can be used as a financing source for:
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Paying off debt.
 - Reducing District property taxes.

Appendix A: Response From District Officials



WHITE PLAINS BOARD OF EDUCATION
EDUCATION HOUSE
FIVE HOMESIDE LANE
WHITE PLAINS, NEW YORK 10605
914-422-2071

Rosemarie Eller
President

Charlie Norris
Vice President

Sheryl Brady
James F. Hricay
Cayne Letizia
Rose Lovitch
Randy Stein

Dr. Joseph L. Ricca
Superintendent of Schools

Michele Schoenfeld
District Clerk

August 14, 2020

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

Re: District's Response to Draft Report of Examination 2020M-71, dated August 5, 2020

Dear Ms. Reynolds:

The White Plains City School District is in receipt of the revised Draft Report of Examination 2020M-71. The Board of Education and the Administrative Team are appreciative of your team's review. The District prides itself in its continual efforts to fulfil its fiduciary responsibilities on behalf of its students and community.

As you have recommended, the District would like to respond to the findings in the draft report, as follows:

- **Audit Objective** – The report states that the audit objective was to determine whether the Board and District Officials adopted realistic budgets and maintained reasonable levels of fund balance and reserve funds.

District Response – Just as a point of clarification, this review was not a budget review, the field work did not include a detailed review of specific budget estimates and calculations, nor did it review the reasons for variances between actual results of operations and budget estimates.

See
Note 1
Page 12

The District engages in an extensive Multi-Year Long-Range Planning (LRP), in accordance with guidance by the Government Finance Officers Association and the Office of the State Comptroller. It is used to protect, preserve, and enhance the integrity of the instructional program for students, the development of higher performing staff, and to maintain the district's assets and infrastructure. The District includes all aspects of the organization, i.e., instruction, special education, pupil personnel, technology, facilities infrastructure, transportation, food service, etc. This information is then used to develop a comprehensive long-range financial plan that is used to assist the Board of Education and its community in making critical long-term decisions to ensure fiscal stability. As a result, in order to

support the future goals of the District, it is continually looking for ways to create efficiencies, in order to reallocate those resources in the next budget cycle to support the instructional plan and operations of the District.

Therefore, savings derived in a given year is used to offset taxpayer expense, in terms of funding one-time only expenditures, i.e. fund capital projects, payoff debt, tax certiorari refunds, compensated absences, etc., and then in the subsequent year's budget development use those reoccurring savings to support the programs of the District.

See
Note 2
Page 12

Examples of Efficiencies Achieved:

- Renegotiation of pupil transportation contract
- Bargaining unit settlements
- Standards for new hires and leave replacements
- Use of installment purchase leases for technology equipment
- Program evaluations
- Fund capital projects, without the issuance of debt service
- Self-fund compensated absences
- Develop pension reserve to offset future rate increases

The District's auditors and MOODY's rating agency have continually praised the District for its fiscal management, and its Multi-Year Long Range Plans. In addition, your audit team had high praise for the District's Multi-Year Long Range Plan.

- **Key Finding**– The District's fund balance over the past five years grew to \$97.9 million, the equivalent of 43 percent of the District's annual budget.

District Response - As stated above, the District works diligently to continually find efficiencies and then use those one-time savings to fund liabilities of District, in order to eliminate expenses from its annual budget and to save taxpayer dollars. Maintenance of a fund balance is essential to the preservation of the financial integrity of the school district.

See
Note 2
Page 12

As stated within this report, the audit team concluded that the District's "reserves were generally funded at reasonable levels or within legal limits." The majority of the District's Fund Balance, 90.7% is used to fund liabilities of the District, i.e. Tax Certiorari, Capital Projects, Compensated Absences, Retirement Contribution, Encumbrances, Nonspendable Advances, which in turn is saving taxpayer dollars by not having to budget for these expenses.

The District in accordance with NYS Real Property Tax Law §1318, maintains the allowable limit of 4% for unexpended surplus of the ensuing year's budget. It should be noted that other Governments do not have a limit, and the GFOA recommends 15% undesignated fund balance, in order to mitigate current and future risks, while maintaining financial integrity.

See
Note 3
Page 12

Therefore, to measure the District's fund balance as a percent of its annual budget does appear to be an accurate assessment based on the composition of the District's Fund Balance and that it is appropriate and within the legal limits.

- **Key Finding** – Certain appropriations were overestimated in previous budgets and continued to be overestimated.

District Response – As stated previously, the audit team did not perform a budget review and therefore, did not review the District's budget estimates to determine reasonableness. The District engages in an exhaustive budget development process. In particular, as it relates to developing budgets for salary and benefits, the district budgets by employee their exact contract entitlement and related benefits. The analysis provided by the audit team is misleading in the fact that it is using line-item totals, instead of comparing a line-item balance as a percentage of the total budget.

See
Note 1
Page 12

See
Note 3
Page 12

As explained in the District’s memo dated April 17, 2020 to the audit team, the District’s analysis of comparing the previous five years of final adjusted budgets (2018-19, 2017-18, 2016-17, 2015-16 and 2014-15) to actual final expenditures for salaries and benefits, showed the average for the five years as a percentage of the total final adjusted budget at 1.28% for salaries and 1.70% for benefits, which is more than reasonable, given the size of the District’s annual budgets.

See
Note 4
Page 12

FISCAL YEAR	TOTAL FINAL BUDGET	EMPLOYEE SALARIES				EMPLOYEE BENEFITS			
		Final Adjusted Budget	Actual	Variance	% of Final Total Budget (d/a)	Final Adjusted Budget	Actual	Variance	% of Final Total Budget (h/a)
	(a)	(b)	(c)	(d)	(d/a)	(f)	(g)	(h)	(h/a)
2018-19	236,909,889	110,010,208	106,673,909	3,336,299	1.41%	52,264,663	47,604,727	4,659,936	1.97%
2017-18	224,752,096	108,195,313	104,165,192	4,030,121	1.79%	48,962,753	45,334,957	3,627,796	1.61%
2016-17	215,587,826	103,211,211	100,640,973	2,570,238	1.19%	47,180,051	44,700,033	2,480,018	1.15%
2015-16	210,994,991	99,678,026	97,617,217	2,060,809	.98%	50,632,306	45,343,590	5,288,716	2.51%
2014-15	206,079,702	96,216,491	94,194,250	2,022,241	.98%	51,162,975	48,631,647	2,531,328	1.23%
5-yr avg.	218,864,901	103,462,250	100,658,308	2,803,942	1.28%	50,040,550	46,322,991	3,717,559	1.70%

The District develops its budget as follows:

Salaries

- Staffing salaries are projected in accordance with bargaining unit agreements or in the case of unsettled contracts, estimates based on the current negotiating trends within the region.
- The staffing budget for positions and related salary are based on the employee who holds the position at the time the budget is developed and adopted. During the course of the fiscal year, employees retire, resign or go out on leave, which results in savings due to hiring replacements at a lower salary.
- The District also budgets for contingency positions to manage any enrollment fluctuations in both regular education and special education. The goal is always to be conservative in using these positions.
- Because of the size of the District, there are often circumstances that result in positions going unfilled for a period of time. This is often the case with hard to fill teaching positions and civil service positions due to various requirements through the City of White Plains Personnel Office.
- Estimates for professional development, overtime and substitutes are established based on requested budgets and trend information of prior years.

See
Note 5
Page 13

Benefits

- FICA budget is developed based on projected salaries, taking into account the employer contribution rate and its cap for FICA and Medicare. If there are savings in salaries, FICA would also yield a savings.
- ERS/TRS budgets are based on estimated projected contribution rates. Savings are generally a result of savings in salaries and contributions rates coming in better than projections.
- Health Insurance budget is developed based on the following:
 - Number of employees projected and their rights to health insurance.
 - Changes as a result of open enrollment, i.e. buyout, changes in coverage, etc.
 - Estimated increase in premiums. The District is part of a health insurance consortium and estimated increases in premium rates have come in lower than market or five-year trend information.
 - Employees share in premiums, which continues to increase each year.

State Aid

The majority of state aid is expense driven, i.e. BOCES, Transportation, Building, Special Education Public/Private Excess Cost, and Instructional Materials aid, as a result the District prepares detailed estimates to ensure it only budgets what is reasonable to be received. There are many variables that impact the final aid calculations for these expense driven aids. For example, if we spend more with BOCES, we will receive more state aid or capital projects are completed sooner than anticipated and final cost reports are filed, additional building aid will be generated. In addition, Homeless Aid is a variable and varies from year to year. Foundation aid is budgeted based on the state's preliminary executive budget. All too often, the final state executive budget is adopted after the District's budget process is complete and therefore, if there are additional dollars allotted, those dollars are captured as part of the subsequent year's budget cycle. In addition, the District takes a very conservative view towards state aid, since it is not a guaranteed revenue, as we have seen time and time again, that the state will reduce state aid to districts in an effort to balance their budget.

Tax Levy

As stated previously, the District is continually looking to achieve efficiencies each year, in order to reallocate those resources to support the instructional program of the District.

Unfortunately, the tax levy cap calculation does not provide for a return to taxpayers without having a permanent loss in future tax levies. Prior to the tax levy cap, districts could return funds in any given year and then were able to levy in a year it was needed, the tax levy cap eliminates that flexibility. As a result, we make sure we return any surplus to taxpayers in the form of paying off debt, funding capital projects without issuing debt, pay tax certiorari refunds without issuing debt, self-fund compensated absences, fund retirement contributions, fund one-time only expenses, manage current and future risks, all without having to raise more taxes and without diminishing programs for children.

See
Note 2
Page 12

- **Key Finding** – The District made year-end transfers totaling about \$29 million to reserves. The transfers were made to stay within the statutory surplus fund balance limit and resulted in a lack of transparency because the taxpayers were not informed of the amounts that would be added to the reserves during the fiscal year. The report goes on to indicate that the Board should include the amounts to be reserved in its annual budget to give taxpayers the opportunity to know and approve the Board's plans for funding reserves.

District Response – The District funds its reserves in accordance with the District's Fund Balance Policy and applicable laws and regulations. The policy calls for the Board of Education to evaluate current reserves and designations in order to determine the final distribution of fund balance in any fiscal year in consideration of estimated liabilities of the District and sound financial planning. This can only be done based on information from Fund Balance Projections and an understanding of potential estimated liabilities. Further, certain reserves are restricted and can only be funded through surplus funds, such as the capital reserve, which clearly states in the authorization by voters that it can only be funded through surplus funds remaining at year-end. Therefore, it would be inappropriate for the District to purposely develop a budget designed to deposit funds into its reserves a year and half prior to the close of the fiscal year. The District is being transparent by making sure it follows the Office of the State Comptroller's Guidance for Reserve Funds, which indicates the following:

When appropriations for transfers to reserves are not anticipated in the annual budget, a governing board resolution is generally necessary to authorize the transfer of unexpended balances or surplus money into a reserve fund. The resolutions should include specifics about the amount to be transferred and the reserve fund to be credited.

See
Note 6
Page 13

Districts are required, prior to the close of each fiscal year, to have approved through Board resolution any amounts needed to replenish its reserves based on Fund Balance projections for that year and its estimated liabilities. In addition, each June, Districts are required to provide the Board of Education the Annual Reserve Report, which is reviewed, adopted by resolution, and posted on the District's website.

It should be noted that this methodology is an industry standard and based on research with various school district associations, accounting associations, legal counsel and various auditors who are directly involved with the Public Schools Accounting Committee at NYS. They have all indicated that it would not be appropriate nor possible for school districts to do what is being suggested. One example, that was shared was that a district did budget the deposit into a capital reserve. However, that would only be permissible if the voters authorized the reserve to be funded through the operating budget.

Therefore, based on the substantial public information provided throughout the year, the District believes it has informed the taxpayers of the amounts that would be added to the reserves during the fiscal year and that it has been completely transparent to its community.

- **Recommendations** – Develop a plan to reduce the amount of surplus fund balance in a manner that benefits taxpayers. Surplus funds can be used as a financing source for funding one-time expenditures, funding needed reserves, paying off debt, reducing property taxes.

District Response – This does not appear to be a valid recommendation. As previously stated, the District has been engaged in doing exactly this, which is evidenced by the District’s Multi-Year Long Range Plan and Fund Balance Projections.

See Note 7 Page 13

The District appreciates the opportunity to provide its perspective and specificity to the comments reflected in this report. We are committed to continuous improvement on behalf of our students and community and will continue to be diligent in its financial management of the District to ensure it is protecting and preserving the quality of education for all students, as well as maintaining the District’s assets and infrastructure.

We will submit a Corrective Action Plan, upon final release of this report.

Respectfully,

Ms. Rosemarie Eller
Board President

Appendix B: OSC Comments on the District's Response

Note 1

Although not a standard or regular budget review, our audit included obtaining, reviewing and analyzing budget estimates and comparing them to actual results. Examiners interviewed officials to gain an understanding of the District's budgeting methodology, particularly regarding salaries and benefits because these two areas had significant budget variances in each of the five years analyzed. The District's Business Official explained the District's budgeting practices in detail so examiners were completely aware of the budgeting methodology and considered the reasons for the variances between results of operations and adopted budget estimates.

Note 2

Our analysis for the fiscal years 2014-15 through 2018-19 showed that the Board and District officials overestimated employee salaries and benefits and underestimated State aid in each of these years by cumulative totals of approximately \$43.13 million and \$10.3 million, respectively. These budgeting practices continued while increasing the tax levy by \$27 million from the fiscal years 2015-16 through 2019-20, resulting in significant operating surpluses. To stay within the statutory surplus fund balance limit, at year end District officials transferred funds to various reserves in each year of the five-year period. The transfers were funded as a result of overestimation of certain expenditures and underestimation of certain revenues.

The District's statement that officials saved "taxpayer dollars by not having to budget for these expenses" is misleading when employee salaries and benefits were repeatedly overestimated and the tax levy increased annually by a total of \$27 million for the fiscal years 2015-16 through 2019-20.

Note 3

District officials would have exceeded the 4 percent limit had they not made year-end transfers totaling about \$29 million to reserves. The District reported a surplus fund balance in compliance with Real Property Tax Law because District officials made year-end transfers of funds to reserves from the operating surpluses that resulted from their overestimation of certain expenditures and underestimation of certain revenues. These transfers were made to stay within the statutory surplus fund balance limit and resulted in a lack of transparency because the taxpayers were not informed of the amounts that would be added to the reserves during the fiscal year.

Note 4

Our analysis and District officials' analysis will yield different results because we compared actual expenditures to the adopted budgets. However, District

officials compared the final adjusted budgets to actual final salaries and benefits expenditures to show the average as a percentage of the total adjusted budget.

Note 5

The Board and District officials were aware that actual salary expenditures and employee benefit expenditures were less than budgeted amounts each year. However, they overbudgeted for these expenditures each year including increasing the budget for employee salaries by between approximately 1 and 4 percent each year. As a result, actual salary expenditures were less than estimated appropriations by approximately \$19.4 million and employee benefit expenditures were less than budgeted appropriations by a total of \$23.8 million over the five-year period. The Board and officials continued these budget practices in the fiscal year 2019-20 budget.

Note 6

OSC guidance on reserve funds⁴ states that, “Reserve funds are typically funded from amounts raised through the annual budget process, transfers from unexpended balances of existing appropriations, and surplus moneys. Ideally, amounts to be placed in reserve funds should be included in the annual budget. By making provisions to raise resources for reserve funds explicit in the proposed budget, the board gives voters and residents an opportunity to know the board’s plan for funding its reserves.”

Note 7

During the audit period, the amount of annual property taxes levied combined with the District’s budgeting practices have continued to result in significant annual operating surpluses. Therefore, we recommended the District develop a plan to reduce the amount of surplus fund balance in a manner that benefits District taxpayers.

⁴ <https://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/reservefunds.pdf>

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and employees and reviewed Board meeting minutes, collective bargaining agreements, resolutions and policies to gain an understanding of the District's financial management plans, policies and procedures, budgeting practices and monitoring of fund balance and reserves.
- We reviewed the fiscal year 2014-15 through 2019-20 adopted general fund budgets to determine whether they were realistic based on results of operations, historical trends and supporting documentation. We projected revenues and expenditures for the 2019-20 fiscal year using actual results of operations as of February 5, 2020. We interviewed District officials to identify reasons for significant budget variances.
- We analyzed the District's financial records and fund balances to determine operating results and fund balance of the general fund to determine whether it was within the statutory limits.
- We reviewed Board resolutions and referendums related to reserves, including establishing, funding and using reserves. We also reviewed general fund budgets to identify provisions for funding or using reserves.
- To determine whether the employee benefits accrued liability reserve was properly funded, we reviewed the collective bargaining agreements to identify requirements for accruing liability and calculated the liability by employee using the current salary schedule and accrued leave time for each.
- To determine whether the tax certiorari reserve was overfunded, we calculated an average settlement rate by reviewing a random sample of 92 out of 300 claims settled July 1, 2018 through June 30, 2019. We made calculations based on the District's stated level of 40 percent, a conservative estimate of 50 percent and the statutory limit.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning

the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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