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Deborah L. Wortham, Interim Superintendent of Schools
Members of the Board of Education
East Ramapo Central School District
105 South Madison Avenue
Spring Valley, NY 10977

Report Numbers: 2013M-141-F, 2011M-52-F

Dear Dr. Wortham and Members of the Board of Education:

One of the Office of the State Comptroller's (OSC) primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. OSC also works to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and account for and protect their school district's assets. In accordance with these objectives, we conducted two audits of the East Ramapo Central School District (District). One audit assessed financial condition and the other assessed internal controls over financial activities. As a result of our audits, we issued two reports, dated July 2013 and August 2011, identifying certain conditions and opportunities for District management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the District in January 2016 to review progress in implementing our recommendations. Our follow-up review was limited to interviews with District personnel and inspection of certain documents related to the issues identified in our reports. Based on our limited procedures, it appears that the District has made limited progress on implementing corrective action. Of the five audit recommendations from the 2013 audit, one recommendation was implemented, one recommendation was partially implemented and three recommendations were not implemented. Of the 11 audit recommendations from the 2011 audit, one recommendation was implemented, seven recommendations were partially implemented, two recommendations were not implemented and one recommendation was not applicable.

2013 Report

Recommendation 1 – Deficit Fund Balance

District officials should ensure that their financial records are revised to include the true fund balance deficit for 2012.

Status of Corrective Action: Not implemented

Observations/Findings: District officials did not revise financial records to include the true fund balance deficit for 2012. As a result, neither the annual financial report filed with the New York State Education Department (ST-3) nor the District's audited financial statements reflect the true fund balance deficit for 2012 as calculated by OSC.

In the 2013-14 fiscal year, District officials wrote off stale checks totaling \$37,091 identified in the audit report. In addition, we reviewed the 2014-15 balance sheet and performed limited testing of various balances that could cause the fund balance to be misstated. We did not identify any discrepancies. Further, we reviewed several asset accounts including cash, accounts receivable, due from other funds and due from other governments and did not identify any significant areas of concern. However, \$246,800 of the reported encumbrances as of June 30, 2015 totaling \$723,100 remained unpaid as of December 31, 2015. The overstatement of reported encumbrances was reported in our prior audit.

Recommendation 2 – Unanticipated Shortfall Plan

The Board and District should develop a plan to address the additional anticipated shortfall for 2013.

Status of Corrective Action: Fully Implemented

Observations/Findings: Our prior audit projected an \$8.2 million fund balance deficit for 2012-13. District officials issued a \$7.4 million budget note during 2012-13 leaving a remaining unfunded deficit of \$800,000. District officials included the amount necessary to repay the \$7.4 million budget note in the 2012-13 budget and indicated they would reduce staff in 2013-14 to address the remaining deficit. District officials paid the \$7.4 million budget note during 2013-14. As indicated in the Corrective Action Plan (CAP), District officials reduced staff by 89 positions to 1,141 during 2013-14.

Recommendation 3 – Reasonable Estimates/One-time Revenue

District officials should develop reasonable revenue and expenditure estimates and reduce the reliance on one-time revenues to finance recurring expenditures because these one-time revenues will not be available for future budgetary purposes.

Status of Corrective Action: Partially implemented

Observations/Findings: We reviewed revenues and expenditures for 2012-13, 2013-14 and 2014-15. The District included a one-time revenue of \$5 million for the sale of property in the 2013-14

budget. The property was not sold, thus contributing to a \$9.1 million revenue shortfall in 2013-14. The revenue was not included in the 2014-15 budget but was realized. We did not identify any one-time revenues in the 2015-16 budget.

The District did not properly budget for expenditures in the last three fiscal years. In 2012-13 and 2014-15, appropriations were underestimated by \$9.2 million and \$738,000, respectively. In 2013-14, appropriations were overestimated by \$8.9 million because the budget included \$7.4 million for a budget note but the actual payment of the budget note was not reflected in the expenditures. When the budget note repayment is included in the budgeted appropriations, the District’s overestimation was actually \$1.5 million.

Recommendation 4 – Fund Balance

The Board and District officials should retain a reasonable amount of fund balance to address unanticipated needs and to provide necessary cash flow for operations.

Status of Corrective Action: Not Implemented

Observations/Findings: The District had negative unrestricted fund balances for 2012-13 and 2013-14 of \$8,904,988 and \$7,027,250. The unrestricted fund balance for 2014-15 was \$1,402,568. This increase occurred because of the sale of the two properties totaling \$10.1 million. Had the sales not occurred, the District would have had an operating deficit of \$942,244.

According to New York State Real Property Tax Law, the amount of fund balance that the District can retain may not be more than 4 percent of the ensuing fiscal year’s budget. The District’s 2014-15 unrestricted fund balance of \$1.4 million was 0.64 percent of the adopted 2015-16 budget, significantly less than the amount allowed. While the District has increased fund balance since 2012-13, the level is still below what would be considered reasonable to address unanticipated needs and provide cash flow for operations. We project the unrestricted fund balance will decrease to approximately \$587,000 during 2015-16, increasing the likelihood that the District will experience some level of fiscal stress.

Figure 1: Unrestricted Fund Balance at Year-End			
	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$784,879	(\$6,445,488)	(\$6,662,120)
Less: Prior Period Adjustments	(\$2)	(\$3)	\$0
Add: Operating Surplus (Deficit)	(\$7,230,365)	(\$216,629)	\$9,120,376
Total Ending Fund Balance	(\$6,445,488)	(\$6,662,120)	\$2,458,256
Less: Restricted Funds	\$1,526,725	\$365,130	\$332,601
Less: Encumbrances	\$932,775	\$0	\$723,087
Total Unrestricted Funds at Year-End	(\$8,904,988)	(\$7,027,250)	\$1,402,568
Ensuing Year’s Budgeted Appropriations	\$209,517,465	\$210,909,476	\$218,226,551
Unrestricted Funds as Percentage of Ensuing Year’s Budget	(4.25 %)	(3.33%)	0.64%

Recommendation 5 – Operating Deficits

The Board and District officials should monitor and adjust budgeted revenues and expenditures to avoid operating deficits.

Status of Corrective Action: Not Implemented

Observations/Findings: We compared the budget-to-actual results for 2012-13, 2013-14 and 2014-15. The District had operating deficits of \$7,230,365 and \$216,629 in 2012-13 and 2013-14. Although the District had an operating surplus of \$9,120,376 in 2014-15, this resulted from one-time revenues from the sale of two properties totaling \$10.1 million.

While the District projects a small operating surplus (under \$25,000) for the 2015-16 fiscal year, we project an operating deficit of approximately \$815,000. The deficit will likely result from underestimated salaries. As of February 18, 2016, the District's budgeted salaries were overspent by \$718,000. Further, we project that salaries will exceed budgeted amounts by as much as \$1.6 million. Unless the District reduces expenditures in other areas, it is likely that an operating deficit will occur.

We reviewed 192 budget transfers totaling \$17,766,633 in 2014-15, which represented 8 percent of the adopted budget of \$210,909,476. The Superintendent and Assistant Superintendent of Finance did not present 21 transfers to the Board even though Board approval was required per District Policy 6150. Two transfers were not performed in a timely manner and four transfers approved by the Board and documented in the minutes were not entered into District records by the Assistant Superintendent of Finance accurately as the Board approved. The significant number and dollar value of the transfers indicates that the original budget was inaccurate or that controls over spending were not sufficient.

2011 Report

Recommendation 1 – Strengthen Control Environment

The Board and District officials should take immediate action to strengthen the District's control environment by adopting and enforcing policies and procedures to protect District resources that are entrusted to them.

Status of Corrective Action: Not Implemented

Observations/Findings: The District is required to have an annual internal audit to evaluate internal controls and recommend changes. However, none of the 15 recommendations made by the internal auditor for 2012-13, 2013-14 and 2014-15 were implemented.

The District experienced high turnover in key administrative positions in the last five years. There have been three Superintendents, five Business Officials and five Personnel Directors. Changes in personnel may compromise the functioning of internal controls or the functioning of the control framework, thereby weakening the checks and balances that help prevent fraud, waste and abuse.

The District's CAP for this audit indicated that District officials planned to review and revise 18 policies that would improve the control environment. However, since 2011, only one¹ of the policies was modified. The CAP stated that reviews and revisions to existing Board policies were being conducted by a committee. We were provided committee meeting minutes for four dates in 2011 and 2012. According to the District Clerk, the committee reviewed certain policies and made suggestions for revisions, but the revisions stalled either in committee, with legal counsel or with the Board. There was no evidence the committee met after February 22, 2012.

Recommendation 2 – Health Insurance Plan Participant Payments

The Board should adopt policies and procedures to ensure all health insurance plan participants pay their portion of the insurance premiums on time. If participants fail to pay premiums in default, collection procedures should be initiated and ultimately coverage canceled for nonpayment. District officials should ensure that policies are applied uniformly.

Status of Corrective Action: Partially Implemented

Observations/Findings: Although Board Policy 2650 (Board Member Insurance) was rewritten, the rewrite only addressed Board member health insurance, and the rewrite did not contain procedures for payments not received.

Recommendation 3 – Health Insurance Board Member Reimbursements

District officials should ensure that Board members reimburse the District for any outstanding health insurance premiums and returned check fees.

Status of Corrective Action: Fully Implemented

Observations/Findings: We reviewed 2011 payment files and found that Board members have reimbursed the District for healthcare coverage premiums and charges incurred.

Recommendation 4 – Professional Services Proposals or Quotations

The Board and District officials should obtain proposals or quotations for the procurement of professional services.

Status of Corrective Action: Partially Implemented

Observations/Findings: We tested a sample of five professional services totaling \$2,124,748 that were obtained during 2014-15 (legal, transportation, preschool, physical therapy and extended day learning). Two of the five procurements did not have proposals or quotations. One was a legal firm that provided services totaling \$1,535,179. The other procurement was for services for an extended day learning program totaling \$307,860.

¹ Board Policy 8334 (Use of Credit Cards)

Recommendation 5 – Written Agreements

The Board should enter into written agreements for all current and future professional service providers to detail the services to be provided and the basis for compensation.

Status of Corrective Action: Partially Implemented

Observations/Findings: Four of five professional service providers in our sample had written agreements or contracts that detailed the services to be provided and the basis for compensation for payments totaling \$589,569. There was no written agreement or contract for the legal firm that was paid \$1,535,179.

Recommendation 6 – Professional Service Documentation

District officials should ensure that documentation for payments to professional service providers include sufficient detail to determine if payments are in accordance with written agreements.

Status of Corrective Action: Partially Implemented

Observations/Findings: Four of the five providers in our sample received payments in accordance with written agreements or contracts totaling \$589,569. Since there was no written agreement, contract or proposal for the legal firm, District officials could not determine if payments to the legal firm were accurate or appropriate.

Recommendation 7 – Textbook Policy

The Board should amend its policy and guidelines for textbooks on loan to nonpublic schools to:

- Require nonpublic school administrators to perform annual inventories of textbooks on loan.
- Provide procedures for conducting inventories including a comparison of students to textbooks shipped.
- Require the results of annual inventories to be reconciled to the District's master list.

Status of Corrective Action: Not Implemented

Observations/Findings: The District did not amend the applicable Board Policy 1740 (Relationship with Nonpublic School) as recommended. District officials stated that the textbook sampling inventory function was assigned to their internal auditors and was completed in 2012-13 and 2013-14. However, District officials did not provide an independent audit report of the textbook sampling for 2014-15.

Recommendation 8 – Book Disposals

The Clerk or designee at the depository should obtain prior approval from the Director of Funded Programs before disposing of books that are considered to be obsolete.

Status of Corrective Action: Not Applicable

Observations/Findings: We reviewed the Board minutes from July 2012 through October 2015 and found no approvals for the disposal or sale of obsolete textbooks. The District Clerk confirmed that no approvals were given for the disposal or sale of obsolete textbooks. The Director of Funded Programs and the Book Depository Clerk told us that no disposals were done. Obsolete textbooks are kept and stored in a room separate from the inventory of current textbooks.

Recommendation 9 – Nonpublic School Agreements

The Board should enter into agreements for textbooks on loan to nonpublic schools that require nonpublic school administrators to comply with all terms and conditions of the District’s policy and guidelines.

Status of Corrective Action: Partially Implemented

Observations/Findings: The District has signed agreements for 69 of the 85 nonpublic schools that were provided books in the past three years.

Recommendation 10 – Estimated Fund Balance Records

District officials should maintain records that show the basis for the estimated fund balance used for the budget process in February and for each month thereafter, until the end of the fiscal year.

Status of Corrective Action: Partially Implemented

Observations/Findings: Although the records showing the basis for estimated fund balance were not maintained, the Assistant Superintendent of Finance provided an estimate of the operating results and fund balance for 2015-16. The estimate showed the detail for the revenue, but the appropriation estimate was a lump sum in a worksheet. The appropriation estimate was calculated by the Assistant Superintendent of Finance using data from the financial software and was adjusted where necessary.

Recommendation 11 – Accurate Estimate of Year-End Fund Balance

District officials should accurately estimate year-end fund balance to identify the resources that can be used for the benefit of the taxpayers. Such uses include, but are not limited to:

- Reducing property taxes.
- Funding necessary reserves.

- Paying off debt.
- Financing one-time expenditures.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Assistant Superintendent of Finance provided an estimate of the operating results and fund balance for 2015-16. However, the estimate only showed the detail for revenue. The appropriation estimate was a lump sum in a worksheet. The appropriation estimate was calculated by the Assistant Superintendent of Finance using data from the financial software and was adjusted where necessary.

During our review, we discussed the basis for our conclusions and the operational considerations relating to these issues. We encourage District officials to continue their efforts to fully implement our recommended improvements.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Tenneh Blamah, Chief Examiner of our Newburgh Regional Office at (845) 567-0858.

Gabriel F. Deyo
Deputy Comptroller