OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

East Ramapo Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2009 — February 1, 2013

2013M-141

Thomas P. DiNapoli

Table of Contents

State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

July 2013

Dear District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as 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 operations and School Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the East Ramapo Central School District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

Introduction

Background

The East Ramapo Central School District (District), located in Rockland County, covers 30 square miles and includes the Villages of Spring Valley and Monsey, and portions of Pomona, Suffern, Nanuet, New City, and Pearl River. The District is governed by a Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management of the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible for the day-to-day management of the District under the Board's direction. The Assistant Superintendent of Finance is responsible for supervising and managing the District's financial affairs, including developing the District's budget.

There are 14 schools, located in 13 buildings, operating in the District, serving approximately 9,800 students. In addition, the District provides transportation services, special education services, and health services to approximately 19,300 students attending non-public schools located in the District. The District has 1,098 full-time employees and 84 part-time employees. Budgeted expenditures for the fiscal years 2011-12 and 2012-13 were $199 million and $191 million, respectively, which were funded primarily by real property taxes, State aid, and grants.

Objective

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

- Did the Board adopt realistic budgets, routinely monitor financial operations, and take appropriate actions to maintain the District's financial stability?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2009, to February 1, 2013. We extended the scope period to project the District's operating results through June 30, 2013.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated that they planned to take corrective action. Appendix B includes our comments on issues raised in the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Financial Condition

A school district's financial condition reflects its ability to continue providing educational services for its students within the district. A school district is considered to have sound financial health when it can consistently generate sufficient revenues to finance anticipated expenditures and maintain sufficient cash flow to pay bills and other obligations when due, without relying on short-term borrowings. Conversely, school districts in poor financial condition often experience recurring unplanned operating deficits. Persistent unplanned operating deficits are usually indicative of poor budgeting and can result in cash flow problems and/or deficit fund balances. Cash flow problems often result in the need to borrow moneys to finance day-to-day operations. Sound budgeting practices, coupled with prudent fund balance management, ensure that sufficient funding will be available to sustain operations, address unexpected occurrences, and satisfy long-term obligations or future expenditures. The Board, Superintendent, and Assistant Superintendent for Business are responsible for effective financial planning and management of District operations.

The District has experienced both planned and unplanned operating deficits in its general fund over the last two fiscal years. These deficits were caused by inaccurate budget estimates. As a result of the operating deficits, the District's fund balance has been depleted. Further, it is estimated that the District will experience a deficit fund balance of $8.2 million for the 2012-13 fiscal year, which is $800,000 more than the $7.4 million budget note issued to fund the deficit. District officials planned to use the proceeds from a property sale to retire the budget note. However, the sale was delayed due to a lawsuit filed with the State Education Department (SED).[1] Unless these budgetary and cash flow problems are addressed, future District operations could be adversely affected.

2012 Fund Balance

A key measure of the District's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance provides cash flow that can be used to help finance the next fiscal year's operations or to manage unexpected occurrences such as emergency repairs, cost and demand fluctuations in essential commodities, and unanticipated shortfalls in estimated revenues.

For the fiscal year ending June 30, 2012, the District's financial records and its independent auditor reported an unassigned general

[1] The District is currently receiving rent payments from the prospective buyer.

fund balance deficit of $1,781,571. However, our review of the District's financial records showed that the fund balance deficit as of June 30, 2012, was actually $1,391,792, or almost $400,000 less than reported on the District's financial statements. The difference resulted from several issues:

- The District has stale checks, totaling $37,091, that are more than one year old and need to be written off. Doing so would have the effect of increasing fund balance.

- The liability to the Teachers' Retirement System was overstated by $86,168, because actual obligations were less than estimated. Making this adjustment will increase fund balance.

- The reserve for encumbrances was overstated by $266,520, because there are no expenditures related to certain encumbrances. This adjustment will increase fund balance.

As a result of the deficit fund balance, the District's ability to manage its finances is compromised, and the District may need to rely on short-term borrowing to finance operations.

Budget Note

Local Finance Law allows a school district to issue budget notes up to 5 percent of the annual budget during any fiscal year for expenditures insufficiently provided for or for which no provision is made in the annual budget. The budget note must be repaid no later than the close of the following fiscal year, or, if authorized and issued subsequent to adoption of the budget, no later than the close of the second fiscal year succeeding the year in which the note is issued.

In January 2013, the Board authorized the issuance of a budget note not to exceed $7,412,491 to cover the estimated operating deficits projected for the fiscal year ending June 30, 2013. The budget note is scheduled to be repaid within the following fiscal year by October 15, 2013.

According to our projection, the District may have a deficit fund balance of $8.2 million as of June 30, 2013. The District has obtained a budget note of $7.4 million, leaving the District with an unfunded deficit of $800,000. District officials stated that they intend to use the proceeds from the sale of the Colton school building of approximately $6.6 million (one-time revenue) to repay the budget note. While the District currently has a contract for the sale, there is a dispute over the amount to be paid. The purchaser has requested that the estimated $600,000 paid for rent during the time period the sale was delayed be applied to reduce the the $6.6 million cost. If the sale of the building takes place, the District will have to budget between \$1.6 million[2] and \$2.2 million[3] in the 2013-14 budget to fund the deficit and pay off the budget note.

Budgeting Practices

The Board is responsible for preparing and presenting the District budget to the public for approval. In preparing the budget, the Board is responsible for estimating revenue and expenditures, estimating the amount of balance available at fiscal year-end (some or all of which may be used to fund the ensuing year's appropriations and reduce the tax levy), and balancing the budget. It is important for revenue and expenditure estimates to be developed based on prior years' operating results, past expenditure trends, anticipated future needs, and available information from outside sources related to revenues, such as State aid. Unrealistic budget estimates are misleading to District voters and taxpayers and can have a significant impact on the District's year-end fund balance and financial condition.

One-time revenues, particularly larger amounts generated from the sale of real property, should not be used to finance day-to-day operations or recurring expenditures. Instead, they should be restricted to one-time expenditures, such as capital acquisitions or contributions to debt reduction. The use of non-recurring or one-time revenues to support recurring expenditures may appear to offer a solution for balancing the budget. However, using one-time revenues is a short-term solution and only temporarily defers the need to address structural budget imbalances. Further, given the inherent nature of these revenues, there is a risk that the revenue will not be realized, leaving the budget unbalanced.

<u>Revenues</u> – As illustrated in Table 1, the District experienced revenue shortfalls in the general fund during the 2010-11 and 2011-12 fiscal years.

Table 1: Revenues – Budget-to-Actual

	2009-10	2010-11	2011-12
Budgeted Revenues	\$187,658,667	\$192,837,700	\$192,335,336
Actual Revenues	\$189,210,266	\$189,975,905	\$187,308,674
Revenues Above/(Below) Budgeted Revenue[a]	\$1,551,599	(\$2,861,795)	(\$5,026,662)
[a]Indicates the actual revenue shortfall. Amounts do not include appropriated fund balance.			

For the 2011-12 fiscal year, the District's budget included \$5 million for the sale of the Colton school building. Districts officials

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[2] Calculated as \$7,400,000 - \$6,600,000 = \$800,000 + \$800,000 deficit = \$1,600,000

[3] Calculated as \$7,400,000 - (\$6,600,000- \$600,000 rent) = \$1,400,000 + \$800,000 deficit = \$2,200,000

stated that they included the revenue in the budget because there was a signed sale contract. However, the revenue from the sale was not received because SED stopped the sale due to a lawsuit.[4]

While the District is awaiting the sale of the building, the prospective purchaser, who owed the District $168,000 for rent and other services provided as of June 30, 2012, is renting the building. The District has included the $5 million for the sale of the Colton school building as revenue in the 2013-14 budget. However, it is unclear whether the full purchase price will be received, as the purchaser, according to the agreement, wants to apply the rental payments to reduce the purchase price.

In addition to the one-time revenue budgeted for 2011-12, the Board and District officials incorrectly budgeted several other revenues including:

- The District estimated Medicaid aid of $2.8 million, but actually received $625,000, resulting in a revenue shortfall of $2.1 million. Actual revenues were $473,000 in 2009-10 and $74,000 in 2010-11, which should have indicated to District officials that the amount budgeted was excessive. The Superintendent stated that the amount budgeted was based on estimates provided by the District's independent contractor who files the District's Medicaid claims for processing.

- The District budgeted for State aid of $33 million and received $37.2 million, resulting in $4.2 million of unexpected revenue. SED prepares State aid estimates which are available to District officials to use in preparing the District's budget. However, the District Treasurer and the accountant stated that they were not aware of what sources the former Assistant Superintendent for Business used to estimate the State aid revenue; therefore, they could not provide us with supporting documentation showing how this budget estimate was developed.

<u>Expenditures</u> – The District's actual expenditures exceeded budgeted amounts by $939,000 during the 2011-12 fiscal year, but were within budget during the 2009-10 and 2010-11 fiscal years. We compared the District's budgeted expenditures to actual expenditures for the last three years and found that, while overall expenditures are generally within budget, many individual line items were incorrectly budgeted as illustrated in Table 2.

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[4] The lawsuit was initiated by District residents who were challenging the sale of the Colton school building.

Table 2: Budget Line Items						
Budget Line Description	2009-10		2010-11		2011-12	
	Budget	Expenditure (Exceeds)/ Below Budget	Budget	Expenditure (Exceeds)/ Below Budget	Budget	Expenditure (Exceeds)/ Below Budget
Program for Students with Disabilities[(a)]	$10,897,837	($272,683)	$11,993,103	($633,238)	$13,734,948	($1,951,336)
District Transportation Services[(b)]	$1,955,295	$922,719	$1,990,194	$881,188	$1,768,511	$640,234
Operation of Plant[(b)]	$3,836,700	$876,494	$3,634,927	$792,512	$3,479,471	$1,157,159
Program for Students with Disabilities[(b)]	$11,828,228	($443,653)	$15,127,523	($1,219,710)	$16,662,746	($1,802,123)
State Retirement System[(c)]	$2,126,800	$357,793	$1,451,811	($950,193)	$1,375,564	($1,463,614)
Teachers' Retirement[(c)]	$6,406,400	$1,749,718	$6,662,611	$95,203	$7,468,921	($1,373,146)
District Transportation Services[(a)]	$3,814,459	$3,562	$4,124,214	$286,095	$4,162,969	$386,989
Teaching - Regular School[(b)]	$7,032,250	($205,672)	$5,303,716	$347,929	$5,059,768	$678,616
Serial Bonds - School Construction (Principal)	$1,645,000	$350,000	$1,935,000	$585,000	$1,942,500	$617,500
Serial Bonds - School Construction (Interest)	$874,893	$350,001	$805,000	$536,725	$744,450	$350,537
[(a)] Salaries, [(b)] Contractual, [(c)] Benefits,						

For example, the annual principal and interest on debt service is established according to debt service schedules and is generally a fixed amount. Debt service schedules can be used to determine the principal and interest expenditures for the upcoming year. For the past three fiscal years, District officials over-estimated costs for principal and interest on debt service payments by $700,000 in 2009-10, $1.1 million in 2010-11, and $968,000 in 2011-12.[5] The Superintendent told us he was not aware that these budget lines were continuously over-estimated.

During the audit period, the District experienced a high turnover of key administrative officials. Three different Assistant Superintendents for Business were responsible for preparing the budgets. District officials were unable to provide us with reasonable justification or back-up information for these unrealistic budget estimates. The Superintendent stated that, in the 2011-12 fiscal year, the former Assistant Superintendent for Business under-estimated salaries for the Students with Disabilities Program by failing to add salaries for approximately 33 teaching assistants. Furthermore, the contractual expenditures for this program were under-estimated for BOCES services by approximately $1.8 million. Without realistic estimates,

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5 Serial Bonds – School Construction principal and interest

there is a risk that the District could experience additional revenue shortfalls or exceed budgeted expenditures resulting in further operating deficits.

Operating Deficit

An operating deficit can be planned for and financed by appropriating fund balance. However, continued reliance on fund balance to fund District operations may eventually deplete fund balance and limit District officials' ability to manage emergencies or other unanticipated occurrences. An unplanned operating deficit results from over-expending appropriations, not receiving budgeted revenues, or a combination of the two. Although operating deficits can be planned, persistent and recurring operating deficits are usually indicative of structurally imbalanced budgets and financial stress.

The District experienced operating deficits of $3.6 million and $13.4 million in the 2010-11 and 2011-12 fiscal years, respectively, as illustrated in Table 3.

Table 3: Results of Operations

	2009-10	2010-11	2011-12
Actual Revenues	$189,210,266	$189,975,905	$187,308,674
Actual Expenditures	$186,502,471	$193,543,800	$200,748,937
Operating Surplus/(Deficit)	$2,707,795	($3,567,895)	($13,440,263)
Appropriated Fund Balance (Planned Deficit)	$5,597,500	$3,157,000	$7,473,701

During the last three fiscal years, the District appropriated fund balance; therefore, at least a portion of any operating deficit was planned. However, overall operating results were different than expected. For example, in the 2011-12 fiscal year, the District planned an operating deficit of about $7.4 million; however, the actual operating deficit was about $13.4 million, or $6 million more than planned. As a result of the both unplanned operating deficits and appropriation of fund balance, the Board and District officials have depleted the District's fund balance from $17.7 million in 2009-10 to $784,000[6] in 2011-12.

Unrealistic revenue and expenditure budget estimates, the use of one-time revenues, and the Board and District officials' failure to monitor and adjust the budget, as necessary, has resulted in the District's financial condition deteriorating significantly, causing an unassigned fund balance deficit of $1,391,792[7] as of June 30, 2012. This had

[6] The $784,000 ending fund balance is comprised of nonspendable fund balance of $669,617, assigned fund balance of $925,412, and an unassigned fund deficit of ($1,781,571) and does not include the adjustments discussed in the 2012 Fund Balance section of this report.

[7] This indicates the amount of unassigned general fund balance after adjustments.

an impact on the District's ability to manage emergencies or other unanticipated occurrences and caused the District to borrow moneys to fund operations at an additional cost to taxpayers.

Recommendations

1. District officials should ensure that their financial records are revised to include the true fund balance deficit for 2013.

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

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

4. 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.

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

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

EAST RAMAPO CENTRAL SCHOOL DISTRICT

OFFICE OF THE SUPERINTENDENT OF SCHOOLS
105 South Madison Avenue, Spring Valley, NY 10977
Phone: (845) 577-6011
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EDUCATION
EQUALITY
EXCELLENCE

Dr. Joel M. Klein
Superintendent of Schools

June 28, 2013

Tenneh Blamah
Chief Examiner of Local Government & School Accountability
PSU-CAP Submission
Newburgh Regional Office
33 Airport Center Drive
Suite 103
New Windsor, New York 12553

THE EAST RAMAPO CENTRAL SCHOOL DISTRICT'S
COMBINED RESPONSE TO THE STATE COMPTROLLER'S DRAFT AUDIT REPORT AND DISTRICT CORRECTIVE ACTION PLAN

Audit Report Number: 2013M-141
Period Covered: July 1, 2009 - February 1, 2013
Report Title: East Ramapo Central School District Financial Condition, Report of Examination

Dear Chief Examiner Blamah:

I write on behalf of the East Ramapo Central School District (the "District"), its Board of Education, and executive officers, in response to the Draft OSC Audit Report we received on May 30, 2013. This response letter also will serve as our Audit Response Letter and as the District's Corrective Action Plan. We greatly appreciate OSC's assistance in identifying opportunities for the District to improve its operations and governance, and we look forward to working with you and your office to take further positive actions in the future.

With the exception of the few matters addressed herein, the District agrees with OSC's findings and recommendations. OSC recommended five actions, all of which are or will be implemented:

> **Audit Recommendation 1**: District officials should ensure that their financial records are revised to include the true fund balance deficit for 2013.

We will take into account your Office's fund balance projections for 2013, and also will continue to work with our independent auditing firm, to identify the true fund balance deficit for 2013, and identify additional strategies to eliminate the fund balance deficit. The implementation date will be immediately and on-going throughout the year. The responsible person will be the Assistant Superintendent of Business.

> **Audit Recommendation 2**: The Board and District officials should develop a plan to address the additional unanticipated shortfall for 2013.

Our 2013-2014 budget anticipates the full payment of our deficit note, and we plan additional difficult reductions in staffing in order to address the anticipated shortfall. These actions have already begun and will be monitored by the Assistant Superintendent of Business and the business office staff.

> **Audit Recommendation 3**: District officials should develop reasonable revenue and expenditures estimates and reduce reliance on one-time revenues to finance recurring expenditures as they will not be available for future budgetary purposes.

We believe that our revenue and expense estimates for the coming year are reasonable. We are working to assure that the planned revenue from the sale of assets is realized, and that other projected revenue items are attained. We anticipate that, within the next three years, the District will no longer require "one-time revenue" sources in order to bridge gaps in the District's budget. These revenue and expenditure estimates already have been developed.

> **Audit Recommendation 4**: 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

We agree, and are actively working to build back the District's fund balance. This will be a high priority over the next three years and will be a shared responsibility of the Assistant Superintendent of Business and the Superintendent.

> **Audit Recommendation 5**: The Board and District officials should monitor and adjust budgeted revenues and expenditures to avoid operating deficits.

We agree, and will work to monitor and adjust budgeted revenues and expenditures on a going forward basis. This has already begun and will be monitored by the Assistant Superintendent of Business and the business office staff.

With respect to OSC's findings, while we agree that errors were made in prior years' revenue and expenditure projections, we don't believe that those errors are the cause of our current budget problems. Rather, we believe that the deficit was caused by a structural imbalance between the District's growing expenditures for state mandated services and pension and health care costs on the one hand, and the modest tax revenues generated by the District, and inadequate state aid, on the other. Quite simply, the state aid formulae are insufficient for the District because they do not take into account the large and increasing number of private school students in our District, for whom special education, transportation, health and other mandated services must be provided.

On page 6, your report notes that the planned sale of the Colton School is "being delayed by litigation." That is incorrect. The Colton School sale is moving forward. On December 24, 2012, after waiting one and a half years to reach his decision, the New York State Commissioner of Education denied the challenge to the proposed sale of the Colton School, and permitted the sale to proceed. It should also be noted that the stay which was imposed by the Commissioner and remained in effect for approximately 18 months was only vacated by the aforementioned December 24, 2012 decision. That stay resulted in what in retrospect was an unnecessary delay. The district and the contract vendees have been diligently proceeding since the date of the Commissioner's decision approving the sale, to finalize the municipal subdivision and zoning approvals necessary to bring the sale to an expeditious conclusion.

See Note 1 Page 16

Regarding OSC's findings and recommendations on the 2012 Fund Balance on pages 6-7, the District will write off any checks that are more than one year old. However, we note that the District will still be responsible for honoring the checks for up to five years, if they are ultimately presented for payment.

With respect to OSC's findings regarding the budgeting of Medicaid aid on page 8, we have been working to maximize our District's Medicaid revenues. We anticipate that, going forward, we will receive between $1 million and $1.5 million annually in Medicaid revenues. Nonetheless, we have reduced our revenue budget to $1 million, pursuant to the recommendation of the State Education Department.

Finally, we note that your review included an evaluation "for the risk of potential fraud, theft, and/or professional misconduct. . . ." It appears from Appendix B to your report that no such problems were discovered in OSC's review. Please confirm that finding, so that the District may include your determination in its own budgetary planning and analysis.

See Note 2 Page 16

Sincerely,

Joel M. Klein, Ed. D.
Superintendent of Schools

June 28, 2013
Date

C: East Ramapo Board of Education
New York State Education Department –Office of Audit Services

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Based on the additional information District officials provided at the exit conference, we have revised the report accordingly.

Note 2

Our report is prepared on an exception basis. The information in Appendix C (formerly Appendix B in the draft version of the report) is the audit methodology, or details of our audit procedures, and not our findings.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall objective was to assess the District's financial condition. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk.

During the initial assessment, we interviewed District officials, performed limited tests of transactions, and reviewed pertinent documents such as District policies, Board minutes, and financial records and reports. After reviewing the information gathered during our initial risk assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We determined that financial condition was the area most at risk.

To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We reviewed Board minutes for the audit period of July 1, 2009, through January 30, 2013.
- We reviewed the prior audit report, District policies and procedures, and communications between SED and District officials regarding the current financial issues facing the District.
- We obtained the District's budgeted-to-actual expenditures and revenues for the period ending January 31, 2013, and, using that information, we projected the June 30, 2013, operating results.
- We reviewed the District's projection for June 30, 2013, and compared it to our projection. We made inquiry of officials regarding variances between the two projections.
- We compared budgeted-to-actual expenditures and revenues for the three-year period and investigated significant variances.
- We reviewed and evaluated financial reports provided to Board members.
- We obtained and reviewed the past three years' budgets to determine if they were structurally balanced.
- We evaluated the District's operating results and resulting fund balance for the audit period.
- We prepared and sent cash confirmations.
- We obtained bank reconciliations prepared by the District and evaluated them for unusual or significant reconciling items.

- We obtained a list of accounts receivables as of June 30, 2012, from the District and reviewed supporting documentation and amounts collected to verify if the June 30, 2012, receivable amount was appropriate.

- We prepared a due to/due from schedule and evaluated supporting documentation to determine if the amounts were accurately reported as of June 30, 2012.

- We obtained a list of accounts payable as of June 30, 2012, and reviewed supporting documentation to determine if accounts payable were valid. Additionally, we verified if vendors were paid.

- We obtained a list of other liabilities and reviewed all supporting documentation to determine the validity of the amounts as of June 30, 2012.

- We reviewed cash disbursements for a 90-day period following the fiscal year end of June 30, 2012. We selected higher-dollar-amount cash disbursements and determined if goods or services were received prior to year end to identify potentially unrecorded liabilities.

- We obtained a schedule of the reserves as of June 30, 2012, and reviewed supporting documentation to determine if the reserves were accurately reported.

- We obtained a list of encumbrances that made up the balance as of June 30, 2012, and selected a sample of the highest dollar amounts for testing. We reviewed supporting documentation to determine the validity of the reserves. We obtained a report of outstanding encumbrances to further assist with validating reserves.

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.

APPENDIX D

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APPENDIX E

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Andrew A. SanFilippo, Executive Deputy Comptroller
Nathaalie N. Carey, Assistant Comptroller

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