



New Hyde Park – Garden City Park Union Free School District

Financial Management

Report of Examination

Period Covered:

July 1, 2011 — June 30, 2013

2014M-7



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2014

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 New Hyde Park – Garden City Park Union Free School District, entitled Financial Management. 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 district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

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

Introduction

Background

The New Hyde Park – Garden City Park Union Free School District (District) is located in the Towns of Hempstead and North Hempstead, Nassau County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District’s financial and educational affairs. The Superintendent of Schools (Superintendent) is the District’s chief executive officer and is responsible, along with other administrative staff, for the District’s day-to-day management under the Board’s direction.

The District operates four schools, with approximately 1,615 students and 450 employees. The District’s expenditures for the 2012-13 fiscal year totaled \$33 million, which were funded primarily with revenues from real property taxes and State and Federal aid.

The Superintendent and Assistant Superintendent for Business are responsible for preparing the annual budget for review and adoption by the Board. The Assistant Superintendent for Business also plays a key role in monitoring the District’s budget and reserve funds.

Objective

The objective of our audit was to evaluate the District’s financial operations and use of fund balance. Our audit addressed the following related question:

- Did District officials prepare a financial plan that included reasonable budget estimates and maintain a reasonable balance in the retirement contribution reserve fund?

Scope and Methodology

We examined the Board’s management of the District’s financial condition and budgeting practices for the period of July 1, 2011 through June 30, 2013. We extended our scope back to July 1, 2008 to evaluate the District’s financial condition and to provide additional information for perspective and background.

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 is 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 disagreed with certain aspects of our findings and recommendations

in our report, but indicated that they planned to implement some of our recommendations. Appendix B includes our comments on the 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 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, the Superintendent and the Assistant Superintendent for Business are responsible for accurate and effective financial planning. One of the most important tasks for managing the District's financial operations is the budget process. District officials must ensure that budgets are prepared, adopted and modified in a prudent manner, accurately depicting the District's financial activity while also using available resources to ensure that the tax burden is not greater than necessary. It is essential that officials develop reasonable budgets and manage unexpended surplus funds¹ responsibly and in accordance with statute. Prudent fiscal management also includes maintaining sufficient balances in reserves to address long-term obligations or planned future expenditures. In doing so, District officials should adopt a policy governing the use of reserve funds and ensure that taxpayers are fully informed of all reserve fund activity.

Over the past five years, District officials consistently overestimated expenditures by a total of more than \$8 million, resulting in operating surpluses totaling \$6.3 million. To reduce fund balance and stay within the year-end statutory limit for unexpended surplus funds, District officials transferred money to District reserves and consistently appropriated unexpended surplus funds to reduce the tax levy. However, because of the District's operating surpluses, almost \$3 million of fund balance appropriated over the five-year period was not used. These practices gave the appearance that the District's fund balance was within the legal limit when in effect it exceeded the limit each year. We also found that the District routinely funded its retirement contribution reserve with operating surpluses at year end, instead of funding the reserve through the annual budget process, which would have been more transparent to taxpayers.

Budgeting and Use of Fund Balance

The Board is responsible for preparing and presenting the District's budget for voter approval. In preparing the budget, the Board must estimate revenues, expenditures (e.g., salaries, health insurance) and

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: non-spendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

the amount of unexpended surplus funds that will be available at fiscal year-end (some or all of which may be used to fund the ensuing year's appropriations and balance the budget). After taking these factors into account, the Board should determine the expected tax levy necessary to fund operations. Accurate estimates help ensure that the levy of real property taxes is not greater than necessary.

Fund balance represents resources remaining from prior fiscal years. School districts may retain a portion of fund balance at year end for purposes of cash flow or unexpected expenses. However, Real Property Tax Law requires that unexpended surplus funds not exceed 4 percent of the ensuing year's budget appropriations. Districts may establish reserve funds to restrict a portion of fund balance for a special purpose, in a reasonable amount and in compliance with statutory directives. However, District officials should not appropriate fund balance or establish reserves to simply circumvent the 4 percent statutory limit.

The District reported year-end unexpended surplus funds in the general fund at levels that essentially complied with the 4 percent limit for fiscal years 2008-09 through 2012-13. This was accomplished, in part, by appropriating fund balance and setting aside funds in reserves. District officials' appropriation of fund balance aggregated to almost \$3 million over the past five years, which should have resulted in planned operating deficits. Instead, over that period, the District realized operating surpluses totaling \$7.9 million,² or \$10.9 million better than planned.

Fiscal Year	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Actual Revenues	\$30,703,407	\$32,012,913	\$31,577,103	\$32,762,007	\$33,790,493	\$160,845,923
Actual Expenditures	\$29,181,925	\$29,234,958 ^a	\$30,573,667 ^a	\$31,407,824 ^a	\$32,536,722 ^a	\$152,935,096
Operating Surplus	\$1,521,482	\$2,777,955	\$1,003,436	\$1,354,183	\$1,253,771	\$7,910,827
Appropriated Fund Balance - Planned Deficit for Ensuing Year's Budget	(\$590,000)	(\$590,000)	(\$590,000)	(\$590,000)	(\$590,000)	(\$2,950,000)
Better Than Planned Results of Operations	\$2,111,482	\$3,367,955	\$1,593,436	\$1,944,183	\$1,843,771	\$10,860,827

^a Total expenditures were reduced to reflect the following assignment of reserve funds in adopted budgets that were expended for reserve funds' purposes: \$238,920 in 2009-10, \$384,465 in 2010-11, \$590,395 in 2011-12 and \$439,686 in 2012-13.

We compared the District's budgeted revenues and expenditures with actual results of operations for that period and found that the District overestimated expenditures by a total of more than \$8 million. For

² General fund expenditures were adjusted to exclude certain expenditures that were budgeted for and paid with assigned fund balances of legally established reserves.

example, District officials overestimated employee benefits costs by a total of \$3.4 million, instructional costs by \$2.9 million, and general support by \$1.2 million over the five-year period.

Fiscal Year	Original Budget	Actual Expenditures	Positive Expenditure Variances
2008-09	\$30,590,790	\$29,181,925	\$1,408,865
2009-10	\$31,515,250	\$29,473,878	\$2,041,372
2010-11	\$32,560,270	\$30,958,132	\$1,602,138
2011-12	\$33,527,125	\$31,998,219	\$1,528,906
2012-13	\$34,494,380	\$32,976,408	\$1,517,972
Total Expenditure Variance			\$8,099,253

Because the District overestimated expenditures in its adopted budgets, it experienced operating surpluses in each of those five years and did not need the appropriated fund balance included in each year’s budget. For that period, total actual revenues exceeded actual expenditures by \$6.3 million and none of the nearly \$3 million of appropriated fund balance was needed to finance operations. Instead, the District used \$3.5 million of unexpended surplus funds to increase the retirement reserve without including those transfers in the budget process and without soliciting the approval of District taxpayers. At the exit conference, District officials informed us that an additional \$4.8 million of unexpended surplus funds were also used to fund the capital reserve fund³ over the five-year period.

The District’s practice of consistently planning operating deficits by appropriating unexpended surplus funds that were not needed to finance operations in effect circumvents the statutory limitation of retaining unexpended surplus funds to no more than 4 percent of the ensuing year’s appropriations.

Fiscal Year	2008-09	2009-10	2010-11	2011-12	2012-13
Ending Unexpended Surplus Funds	\$1,260,610	\$1,302,410	\$1,341,085	\$1,379,755	\$1,421,030
Ensuing Year’s Budget	\$31,515,250	\$32,560,270	\$33,527,125	\$34,494,380	\$35,525,755
Unexpended Surplus Funds as Percentage of Ensuing Year’s Budget	4.00%	4.00%	4.00%	4.00%	4.00%
Effective Unexpended Surplus Funds Resulting From Unused Appropriated Fund Balance	\$1,850,610	\$1,892,410	\$1,931,085	\$1,969,775	\$2,011,030
Effective Unexpended Surplus Funds as a Percentage of Ensuing Year’s Budget	5.87%	5.81%	5.76%	5.71%	5.66%

³ District voters approved the funding of the capital reserve fund from operating surplus money.

Had District officials used more realistic budget estimates and informed District taxpayers of their intent to increase reserve funds during the budget process, they could have accumulated less fund balance, funded the retirement reserve with voters' approval and possibly reduced the tax levy.

Retirement Contribution Reserve

Reserve funds may be established by Board action, pursuant to various laws, and are used to provide financing only for specific purposes, such as New York State and Local Retirement System (NYSLRS) retirement contributions. The statutes under which the reserves are established determine how the reserves may be funded, expended or discontinued. Generally, school districts are not limited as to how much money can be held in reserves. However, it is important that school districts maintain reserve balances that are reasonable. To do otherwise (that is, funding reserves at greater than reasonable levels), essentially results in real property tax levies that are higher than necessary.

A governing board that establishes and funds reserves on a regular basis should adopt written policies that communicate its rationale for establishing reserve funds, objectives for each reserve established, optimal or targeted funding levels and conditions under which the funds' assets will be used or replenished. Reserve fund transactions should be transparent to the public. Reserve funds are typically funded from amounts raised through the annual budget process, transfers from unexpended surplus balances of existing appropriations and other surplus money. Ideally, District officials should include in the annual budget the amounts they anticipate placing in reserve funds instead of routinely using surplus funds to increase reserves at year-end.

Between 2008-09 and 2012-13, the District increased the balance in its retirement contribution reserve from \$1.1 million to \$2.7 million. The Board established funding limits by resolution for each of these years, which were calculated by projecting four years of future NYSLRS retirement costs. Although the limits within which District officials were permitted to fund the reserve were established by annual resolutions, the resolutions did not communicate the objectives and conditions under which the fund's assets were to be used or replenished.

Over the five-year period, the District contributed almost \$2 million to the New York State Employees' Retirement System (ERS) and appropriated a total of \$1.5 million from the retirement contribution reserve fund to offset the cost of its annual retirement contributions. However, in each of the five years, the District ended with sufficient operating surpluses (See Table 1) to not only restore the reserve to

its original balance at the start of each year, but also to increase the reserve by 261 percent over the five-year period (with annual increases ranging from 7 percent to as much as 50 percent). Because the District was able to fully restore and augment the reserve's balance at each year end with operating surpluses, the District essentially did not use the reserve, despite its routine appropriation of reserve balances. Also, because annual ERS contribution payments averaged only \$395,000⁴ over the five-year period, we question whether maintaining a reserve balance of \$2.7 million, or almost seven times the annual average cost, is in the best interest of District taxpayers.

Moreover, appropriations were not included in the original budgets nor were the budgets revised during this period to provide for the year-end increases made to the retirement contribution reserve fund. Instead, operating surpluses were used to fund the reserve. Over this period, District officials made about \$3.5 million of unbudgeted transfers at year-end into the retirement contribution reserve fund. As a result, these transfers were made without sufficiently informing taxpayers of the District's intent to increase reserve funds during the budget process. A more transparent method would be to include an appropriation to increase reserves in the budget presented to taxpayers for approval.

The District's practice of adopting budgets that included appropriations in excess of amounts needed have allowed District officials to increase the retirement contribution reserve fund without disclosing their intent to do so in the budget document presented to the voters. This has resulted in a significant accumulation of resources without public involvement. Moreover, without any effective use of reserve balances or without a clear directive from the Board on how the fund is to be used or replenished, we question the reasonableness for the excessive funding of this reserve.

Recommendations

1. The Board and District officials should develop budgets that include realistic expenditures estimates based on contractual and historical data and discontinue the practice of appropriating unexpended surplus funds that are not needed to fund District operations.
2. District officials should develop a plan to use excess unexpended surplus funds in a manner that best benefits District taxpayers. Such uses could include, but are not limited to:
 - Paying off debt,
 - Financing one-time expenditures and
 - Reducing District property taxes.

⁴ The District paid \$578,882 in ERS contributions during the 2012-13 fiscal year.

3. District officials should ensure that budgets presented to the voters for approval be more transparent, and consider including an appropriation in the annual budget to fund the retirement contribution reserve.
4. The Board should reconsider the funding limit established for the retirement contribution reserve fund to reflect a more reasonable balance that is in line with the actual retirement contribution expenditure trends.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



NEW HYDE PARK - GARDEN CITY PARK

Union Free School District

1950 Hillside Avenue, New Hyde Park, New York 11040

Robert Katulak
Superintendent of Schools
516-434-2305

Michael G. Frank
Assistant Superintendent for Business
516-434-2310

April 25, 2014

Ira McCracken, Chief Examiner
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Dear Mr. McCracken,

Please accept this document as the New Hyde Park – Garden City Park UFSD’s response to your audit report titled “Financial Management – Report of Examination” for the period “July 1, 2011 – June 30, 2013”.

We are appreciative of the time and effort expended by the Comptroller’s staff and will implement any legally applicable recommendations. The District will also continue to work with our external, internal, and claims auditors to continue to improve the fiscal management of the New Hyde Park -Garden City Park UFSD. It should be noted that the annual audit reports from these independent auditors did not find the District deficient in any of the areas raised in the Comptroller’s report and praised the fiscal management and financial stability of the District.

The Comptroller’s audit report makes three erroneous assumptions about the District’s actions:

- 1) The appropriations budgets were deliberately set higher than necessary;
- 2) The District used the resulting surpluses to fund reserves excessively and inappropriately;
- 3) The District was not transparent in its actions.

See
Note 1
Page 16

Each of these assumptions will be addressed below:

1) The appropriations budgets were not deliberately set higher than necessary

With the benefit of hindsight, it is not difficult to examine prior year’s budgets and determine which expenditures were less than the amounts budgeted. The largest area of the budget where this has occurred, as noted in the audit report, is benefits. However, budgeting is a process of estimating future expenditures based upon the limited information available at the time. When budgeting for contractually obligated benefits, the District takes into consideration the specific benefits that each employee is receiving at the time the budget is created. Then, the current cost is increased by the expected rate increase.

The problem is that when the budget is being developed there are a lot of unknowns. For example, health insurance rates for the New York State Health Insurance Program (NYSHIP) are usually provided towards the middle of the subsequent school year which is certainly not in time for the budget season. Historically, NYSHIP rate increases vary greatly from year to year with no consistency or pattern to use for estimating. The rate increases have been as low as 1.05% and as high as 13.75% during the audited period. Thus, it is not prudent to automatically carry over the prior year’s rates into the following year’s budget.

See
Note 2
Page 16

The same concept pertains to other rates provided by the state such as pension costs. For the Teachers’ Retirement System (TRS), the District is provided with an **estimated** rate that is not finalized until well after the budget vote. The rate is applied to certified staff salaries to calculate how much is owed to the state for the pension cost. The rates have been as low as 6.19% and as high as 11.84% during the years audited and as a point in fact the rate increased to 16.25% for the 2013-2014 school year. For the Employees’ Retirement

System (ERS), the pension system from the state for non-certified staff, a rate is provided for the first ¾ of the upcoming year but not the last ¼ of the year. It should be noted that the state has increased these ERS rates by approximately 110% during the audited timeframe. These fluctuations in rates, coupled with not setting the rates during the District’s budget season make it difficult to accurately budget for the precise cost.

There are many other reasons why areas of the budget are left with unexpended appropriations (expenses less than the amount budgeted). When budgeting for salaries for the subsequent year, the District lists each individual employee and calculates what their contractual salary will be for the subsequent year. Often, subsequent to the boards April adoption of the budget, the District learns of additional retirements, resignations or other changes in staffing. Since individuals appointed as replacements for vacated positions are hired at lower salaries, the difference between the budgeted salaries and the new hires salaries results in a savings to the District.

Additionally, the District is always seeking out more efficient ways to provide a service or obtain an item. When the budget is developed the District obtains quotes for the cost of items or services based upon bids. During the course of the school year, the District seeks to obtain those items or services at lower costs. At the time the budget is developed there is no way to know if the District will be successful obtaining pricing better than the awarded bid. The savings achieved ultimately results in budget lines not being fully spent, leaving surplus funds.

For all of these reasons, the resulting surpluses noted in the report were not deliberately planned with the intent of circumventing the four percent maximum fund balance. The Commissioner of Education has recently addressed these same issues in *Appeal of Gorman, Decision No. 16,412 (September 18, 2012)*, by dismissing an appeal which (among other things) claimed that a school District circumvented the four percent unrestricted fund balance maximum by consistently expending less than was budgeted over four consecutive years. In defending the appeal, the assistant superintendent for business pointed out that the District must “estimate premiums for health and liability insurance and required premium contributions for the New York State Teachers’ Retirement System (“TRS”) and Employees’ Retirement System (“ERS”) because the amounts are not available until after the formulation of the budget and/or after the budget vote.” In addition, the District argued that it must estimate costs for salaries because staff members fluctuate, estimate costs of interest on its tax anticipation notes because of fluctuating interest rates, and estimate the amount of state aid. **The Commissioner held that the estimating process followed by the District was rational, reasonable and consistent with law concluding that the “fact that expenditures were less than proposed budgets does not compel the conclusion that budgets were improperly exaggerated or inflated” (emphasis added).**

See
Note 3
Page 16

2) The District appropriately used the resulting surpluses to fund reserves

The report’s criticisms are based upon the assumption that the District deliberately overfunded the budget thereby effectively circumventing the statutory four percent limit on retaining unexpended surplus funds and availing the District the opportunity to fund its reserves. In fact, the District’s actions were not the result of any premeditated plan. As demonstrated below, the actions taken were in response to an unplanned surplus. The surpluses were legally transferred to established, existing reserves.

See
Note 4
Page 16

Chart 1 of the Report indicates a total “Operating Surplus” of \$7,910,827.00. Respectfully, we believe that this number is overstated. Particular attention must be paid to footnote “a”. The Report reduced the actual general fund expenditures by the amount stated in footnote “a”. However, since the District actually incurred and paid these amounts, it is our view they need to be added back in to properly calculate the “Operating Surplus”. The total amount actually expended by the District during the time periods illustrated in Chart 1 - - including the amounts taken out by the footnote - - can be verified in the District’s audited financial statements. By adding back in the footnoted reductions, the five year total for “Actual Expenditures” equals \$154,588,562.00. When you subtract this amount from the five year total for “Actual Revenues”, you get a more accurate “Operating Surplus” for the five years of \$6,257,361.00. It is this 6.3 million dollar figure that will be referenced as the District’s “Operating Surplus” throughout the remainder of this response.

See
Note 5
Page 16

The board and District taxpayers have collectively set a goal for the District to fund a capital reserve from surplus funds (unexpended appropriations and/or excess revenues). The report references \$6.3 million in “Operating Surplus” over the 5 year audit period. It should be clear that approximately 75% of that amount funded the capital reserve which the voters specifically authorized to be funded from surplus funds as part of a

See
Note 6
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plan to avoid Bond financing or additional debt in taking care of the needs of the District’s facilities. The ballot read (emphasis added):

Resolved, that the Board of Education of the New Hyde Park – Garden City Park Union Free School District in the County of Nassau, New York, be authorized to establish pursuant to Education Law § 3651 a Capital Reserve Fund for the purpose of future building renovations, capital improvements, and vehicle acquisitions for a maximum of fifteen years. **The Capital Reserve Fund shall be funded by unexpended appropriations and/or excess revenues in any given school year.** The total amount of the Capital Reserve Fund shall not exceed ten million dollars.

Approximately 25% of the \$6.3 million in “Operating Surplus” went towards increasing the Retirement Contribution Reserve during the audit period. The function of funding the reserve at the end of a year from operating surplus is fully consistent with the law. The appropriate retention of funds for the Retirement Contribution Reserve is a legally permissible and appropriate use of these surplus funds. The law does not require voter approval of transfers to fund the Retirement Contribution Reserve.

See
Note 7
Page 17

The law leaves to each school District to determine the level of funding that it deems reasonable and appropriate. *In Matter of Leman, Decision No. 14,166 (July 22, 1999)*, the Commissioner rejected a similar claim of “overfunding”, upholding a challenged transfer and citing the established rule **that since budgets are prepared a year in advance, a transfer of funds is permissible if authorized by the regulations of Commissioner.**

The yearly transfers to reserves are legally authorized by Board of Education resolutions adopted in public session. The purposes of the funding and the planned utilization of the monies are discussed and reviewed publicly.

The District’s actions are appropriate and prudent, and permissible under the Commissioner of Education Regulations.

In addition to this audit report, the State Comptroller’s office has recently issued another report about the New Hyde Park – Garden City Park UFSD. The District received a report on its Fiscal Stress which was based on the fiscal stress monitoring system. Specifically, the District received the best rating of “No Designation” compared to the other possible ratings of “Significant Fiscal Stress”, “Moderate Fiscal Stress”, and “Susceptible to Fiscal Stress”.

See
Note 8
Page 17

It has been explained at presentations that fund balance (including reserves) accounts for 50% of the Comptroller’s determination as to whether or not a District is experiencing fiscal stress. In other words, having an adequate fund balance is a significant factor in avoiding fiscal stress. The report can be accessed on line at:

<http://www1.osc.state.ny.us/localgov/fiscalmonitoring/fsi1a.cfm>

3) The District was transparent in its actions

The report suggests that the manner in which the District funded reserves from operational surplus was not transparent to the community. We respectfully disagree with this conclusion. The District took the following specific actions in an effort to be transparent:

- The District received voter authorization for capital reserve to be funded from unexpended appropriations and excess revenue. This accounted for approximately 75% of the Operating Surplus referenced in the report.
- The board approved a three year plan that has specific wording of “a minimum goal of replenishing amounts utilized annually”. The plan specifically states that the resources for funding the reserves are from “operational surplus”. This plan was discussed in both public session and approved at a public board of education meeting.

See
Note 9
Page 17

- The Superintendent referenced the three year plan for the District in public board of education meetings.
- The board approved a resolution annually that reestablishes the reserves and authorizes funding limits. This is done each June and discussions typically take place regarding the use of the reserves as well as the funding of the reserves.
- Fund balance discussions with the board of education occur in public session.
- Fund balance is discussed with the audit committee.
- The MD&A (Management Discussion and Analysis) section of the District's Financial Statements specifically state the changes in fund balance and attribute the changes primarily to operating results.
- The MD&A section of the District's Financial Statements specifically highlighted the authorization from the voters to utilize the capital reserve.
- The District advertises in local newspapers letting the public know that the audit reports are final and available for public inspection.
- Auditors discuss fund balance with the board of education and audit committee annually.
- Auditors annually discuss in public the financial condition of the District and specifically discuss fund balance.
- District administration discusses fund balance in every budget presentation including the use of reserves and the possibility of increasing the reserves based on the operational results of the budget. Public presentations/ discussions are given prior to select board meetings, at select work sessions of the board, at PTA meetings, at Civic Center meetings, at local senior centers, and for all staff (many of whom are residents).
- The budget presentation is posted on the website.
- The budget is posted on the website.
- The budget news brief, which is mailed to each resident, contains information on the proposed utilization of reserves and fund balance.
- The District holds two public input sessions during each budget cycle to allow for any and all questions to be asked and answered.
- The District posts all the questions raised from the public input sessions on the website so that those who could not attend are able to see what was stated.

For all of these reasons, the District believes that its actions have been fully transparent to the public.

In conclusion, the District will continue to work to improve the fiscal management of the New Hyde Park - Garden City Park UFSD and continue to be transparent to the taxpayers of the community. We thank the Comptroller's office for its report and intend to respond with a corrective action plan that will address the specific recommendations within the legal time frame for doing so.

Sincerely,

Robert Katulak
Superintendent of Schools

Michael Frank
Assistant Superintendent
for Business

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The District's response does not appropriately characterize our audit report. None of the three assumptions, which District officials incorrectly attribute to our report, are factual and supported. Our report objectively presents financial trends and results of operations over time and documents the method used to fund the retirement reserve fund from operating surpluses.

Note 2

We acknowledge that budget estimates are based on the best information available at the time budgets are prepared and adopted. While rates for retirement contributions do vary from year-to-year, estimates originating from third parties are usually reliable and accurate. In addition, District officials have other tools available at their disposal when formulating budget estimates. One such tool is trend analysis which can show predictable patterns of the District's significant revenues and expenditures over time.

Note 3

Our findings are not inconsistent with the Commissioner of Education's decision in the Gorman appeal. The reasonableness of school district budget estimates involves a case-by-case analysis under the particular facts and circumstances. The fact that the Commissioner, in reviewing the record before him in Gorman, concluded that the Sachem Central School District's budget estimation process was reasonable, is not determinative of the reasonableness of the District's estimates at issue in this report. Moreover, unlike the Petitioner's allegations in Gorman, our report does not state that the District intentionally or deliberately overestimated or underestimated budget items in violation of law. Furthermore, consistent with our report, the Gorman decision reaffirms the basic budgeting principles that school district officials should be mindful in developing budgets "to avoid levying taxes in excess of need," and the requirement in the Real Property Tax Law that a board of education apply unexpended "surplus funds" in excess of 4 percent to reduce the tax levy for the ensuing fiscal year.

Note 4

Our recommendations are based on our objective review of the District's annual budgets, and the analysis of revenue and expenditure trends, results of operations and allocation of unexpended fund balance to reserve funds. District officials' mischaracterizations of the recommendations in the audit report are unfounded and misleading.

Note 5

District officials appear to misunderstand the purpose and significance of adjusting the general fund results of operations to reflect the portion of operations funded from reserve funds. While we agree that the reported results of operations for the period were \$6.3 million, the effective results of subsidizing general fund operations with reserve funds shows that the District actually had a surplus of \$7.9 million. In addition, because the District did not sustain the planned deficit of \$4.6 million (\$2.95 million + \$1.65 million), results of operations were better than planned by \$10.9 million. The District's insistence of using the cumulative results of operations of \$6.3 million in their response is not supported by the actions taken by the Board which, over this period, authorized the funding of reserve funds by \$8.9 million while still appropriating \$590,000 of fund balance in annual budgets and maintaining an average unexpended general fund balance of \$1.3 million.

Note 6

Over the five-year period, the Board transferred unexpended fund balance, resulting from annual operating surpluses, to its reserve funds aggregating over \$8.9 million. Therefore, the District’s claim that “approximately 75%” of the operating surplus of \$6.3 million was used to fund the capital reserve fund is inaccurate. The following table shows the increases in the various reserve funds authorized by the Board over this period.

Fiscal Year	Capital Reserve	Retirement Reserve	Other Reserves^a	Totals
2008-09	\$1,390,125	\$352,521	\$10,000	\$1,752,646
2009-10	\$2,042,213	\$782,907	\$88,840	\$2,913,960
2010-11	\$16,435	\$995,236	\$4,990	\$1,016,661
2011-12	\$442,417	\$746,647	\$391,712	\$1,580,776
2012-13	\$864,747	\$595,712	\$222,326	\$1,682,785
Total	\$4,755,937	\$3,473,023	\$717,868	\$8,946,828

^a Includes: Employees Benefits Accrued Liability Reserve, Unemployment Reserve and Tax Certiorari Reserve

Note 7

As stated in the report, the amount set aside in the retirement reserve fund was \$2.7 million or almost seven times the annual average expenditure requirements for employees’ retirement contributions. In addition, although the Board may authorize the transfer of unexpended fund balance to the reserve, a more transparent method for funding the reserve is to include an appropriation in the budgets presented to the voters for approval, as allowed by law.

Note 8

We commend the District for earning the “no designation” in their recent fiscal stress review. However, we believe that District officials would have achieved the same designation had they been more transparent in their budgeting practices and informed voters of their intent to fund the reserve funds through the budget process.

Note 9

None of the District’s explanations address the report’s recommendation that the District’s voters should be apprised of the District intentions to fund the reserve funds through the budget process rather than resorting to the inconsistent and imprecise method of funding reserves from operating surpluses.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. 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. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected the Board's management of the District's finances for further audit testing.

- We obtained an understanding of the District's internal control environment and specific controls significant to the District's budgeting process.
- We interviewed District officials and employees to gain an understanding of the internal controls and related procedures for budget development and use of reserve funds, including how reserves were funded.
- We reviewed District policies and procedures regarding budgeting and level of fund balance to be maintained.
- We reviewed annual financial statements and the accompanying management letters prepared by the District's independent public accountant.
- We compared the amounts reported in the District's externally audited financial statement with a budget status report to verify their reliability.
- We analyzed revenue and expenditure trends and budget-to-actual comparisons for the operating funds for fiscal years 2008-09 through 2012-13 and calculated the percentage of unexpended surplus funds compared with ensuing years' budget appropriations.

- We reviewed and analyzed reported fund balance combined with appropriated unexpended surplus funds to identify effective retained unexpended surplus funds.
- We evaluated the retirement contribution reserve fund to ensure that it was appropriately funded and in compliance with applicable laws.
- We quantified the amount transferred to the capital reserve fund during fiscal years 2008-09 through 2012-13.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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