



Nyack Union Free School District

Reserve Funds

Report of Examination

Period Covered:

July 1, 2012 — March 24, 2014

2014M-185



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2014

Dear District Officials:

A top priority of the Office of the State Comptroller is to help school districts manage district resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of school 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Nyack Union Free School District, entitled Reserve Funds. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

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

Respectfully submitted,

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

Introduction

Background

The Nyack Union Free School District (District) is located in the Towns of Clarkstown and Orangetown in Rockland 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 District operations. 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 five schools with approximately 2,950 students and 650 employees. The District's budgeted appropriations for the 2013-14 fiscal year were approximately \$75 million, which were funded primarily with State aid, real property taxes and grants.

The responsibility for financial planning and management rests with the Board, the Superintendent and other officials, including the Treasurer who reports financial information to the Board. The Assistant Superintendent for Business is responsible for managing the District's overall business operations, including preparing all financial statements. Decisions on funding reserves is a collaborative effort between the Board and District officials.

Objective

The objective of our audit was to examine the District's reserve funds. Our audit addressed the following related question:

- Did the Board properly establish, manage and finance reserve funds?

Scope and Methodology

We examined the District's reserve funds including how they were established, funding methods and balances for the period July 1, 2012 through March 24, 2014. We extended the scope of our audit back to July 1, 2008 for trend analysis.

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 B of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendation have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the New York State General Municipal Law, Section 2116-a (3)(c) of the New York State Educational Law, and Section 170.12 of the New York State Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendation 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.

Reserve Funds

Reserve funds may be established by Board action, pursuant to various laws, and are used to finance the cost of a variety of objects or purposes. The statutes under which reserve funds are established determine how the reserve may be funded, expended or discontinued. Generally, the amount of money school districts can maintain in reserves is not limited. However, it is important that school districts maintain reserve balances that are reasonable. Therefore, it is important that the Board adopt written policies that communicate the rationale for establishing reserve funds, objectives for each reserve established, optimal or targeted funding levels and conditions under which funds' assets will be used or replenished.

The District's reserve fund policy was adopted in February 2014. The policy provides guidance on how the District establishes, funds and maintains various reserve funds. The District has five general fund reserves with reported balances totaling about \$12.3 million as of March 24, 2014. The District's reserve funds included a capital reserve totaling \$5 million, a tax certiorari reserve totaling \$4.8 million, a retirement contribution reserve totaling \$1.8 million, an unemployment insurance reserve totaling \$604,438 and a liability reserve totaling \$100,000.

We analyzed these reserves for reasonableness and adherence to statutory requirements and determined that all five were properly established. Funding for the capital, tax certiorari, retirement contribution and liability reserves was properly authorized and these reserves were funded at reasonable levels. However, the District's unemployment insurance reserve appears to be overfunded. The amount in the reserve is enough to pay the District's average unemployment claims for approximately seven years. District officials initiated steps to reduce the reserve's balance when preparing the 2013-14 budget.

New York State General Municipal Law authorizes school districts to establish an unemployment insurance reserve to reimburse the State Unemployment Insurance Fund (SUIF) for payments made to claimants. If, at the end of any fiscal year, money in the fund exceeds amounts required to be paid into the SUIF, plus any additional amounts required to pay all pending claims, the Board may elect to transfer all or part of the excess to certain other reserve funds or apply all or part of the excess to the next fiscal year's budget appropriations.

The District's actual unemployment insurance expenditures averaged about \$84,000 from July 1, 2010 through the beginning of our field work. This amount would allow District officials to pay unemployment insurance claims for more than seven years without any need for additional funding.

Figure 1: Unemployment Insurance Reserve Analysis				
	2010-11	2011-12	2012-13	As of March 24, 2014
Unemployment Insurance Reserve Balance at Year-End	\$29,437	\$29,438	\$629,438	\$604,438
Unemployment Insurance Expenditures	\$84,787	\$88,787	\$145,338	\$15,338
Average Cost Though March 24, 2014	\$83,563			
Number of Years Unemployment Claims Could Be Funded	7.23			

According to District officials the District aggressively funded this reserve in anticipation of a large staff reduction in 2011-12. However, the District was able to avoid these layoffs, which resulted in accumulating the excessive reserve funds. District officials are aware the unemployment insurance reserve has an excessive balance and are currently working to reduce the reserve's balance.

District officials reduced the unemployment insurance reserve by \$25,000 in the 2013-14 fiscal year by using it to finance a portion of general fund operations. As a result, the real property tax levy was reduced by \$25,000. District officials plan to continue with this procedure in future years until the unemployment insurance reserve balance is substantially reduced to a more reasonable level. To accomplish this, District officials should continue to perform an analysis of possible future claims and continue to use any excess to benefit District taxpayers.

Recommendation

1. The Board should routinely review reserve fund balances and determine if reserves are funded at appropriate levels and in accordance with statutory requirements and Board policy.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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James J. Montesano, Ed.D.
Superintendent of Schools

September 16, 2014

Ms. Tenneh Blamah, Chief Examiner
State of New York Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

RE: District's Official Response to New York State Comptroller's Audit Report
and District's Corrective Action Plan

Dear Ms. Blamah:

The Nyack Union Free School Districts extends their gratitude to the Office of the State Comptroller for their comprehensive and professional audit of the District's reserve funds. We had extensive discussions regarding the balances in the reserve funds and demonstrated that the District was extremely diligent in the establishment and the oversight of the reserve funds.

State Comptroller Audit Recommendation

The Board should routinely review reserve fund balances and determine if reserves are funded at appropriate levels and in accordance with statutory requirements and Board policy.

Proposed Corrective Action Plan

The District concurs with the recommendation and the Board of Education will continue to review reserve funds in compliance with Board of Education Policy #6245 Reserve Funds.

Please feel free to contact us should you have any questions.

Sincerely,

 James J. Montesano, Ed.D.
Superintendent of Schools

Karen Hughes
President, Board of Education

JJM/KH:ld

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine the District's general reserve fund establishment, funding methods and balances. To accomplish our objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of the processes and procedures in place over the District's reserve funds.
- We reviewed the last five years of financial information submitted to the Office of the State Comptroller and compared the amounts reported with bank statements, Board minutes and externally audited financial statements to verify the District's data reliability.
- We reviewed Board minutes, policies, accounting records, audited financial statements, applicable statutes and activity within the reserves to determine if they were properly funded and used.
- We evaluated the methods used to fund the reserves and the level of unrestricted fund balance remaining in the general fund.
- We compared budgets with actual results for the last five completed fiscal years to determine whether the amounts appropriated from the reserves were used to fund operations as planned.

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.

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