



Springs Union Free School District Financial Condition and Leave Accruals

Report of Examination

Period Covered:

July 1, 2012 — November 30, 2013

2014M-200



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 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 Springs Union Free School District, entitled Financial Condition and Leave Accruals. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Springs Union Free School District (District) is located in the Town of East Hampton, Suffolk County. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction, including budgeting for District operations and ensuring oversight of employee leave accrual records.

The District operates one school, with 636 students attending kindergarten through eighth grade and 100 employees. The District pays tuition for 284 students in grades nine through 12 who attend other school districts. The District spent \$8.5 million for salaries and wages and \$7.7 million in tuition for the fiscal year ended June 30, 2013. The District's total actual expenditures for the fiscal year ended June 30, 2013 were approximately \$22 million and budgeted appropriations for the 2013-14 fiscal year were approximately \$25.4 million, which were funded primarily with real property taxes.

Scope and Objective

The objective of our audit was to evaluate the District's financial condition and examine leave accruals for the period July 1, 2012 through November 30, 2013. We extended our scope to the 2010-11 fiscal year to analyze budget practices, fund balance trends and reserve account balances. Our audit addressed the following related questions:

- Did the Board effectively manage the District's budget and financial condition?
- Are employee leave accrual records accurate and properly reconciled?

Audit Results

The Board needs to improve its oversight of the District's budget and financial condition. In fiscal years 2010-11 through 2012-13, the District budgeted to use an average of \$811,000 of fund balance to fund each ensuing year's expenditures. However, the District did not use these funds as intended because revenues exceeded expenditures by an average of more than \$1.7 million in each of these years. As a result, the District's unrestricted fund balance, totaling \$3.8 million as of June 30, 2013, was 15 percent of the 2013-14 budgeted appropriations. This was almost four times the 4 percent statutory limit.

Officials also need to improve their oversight of employees' sick leave accrual balances. We found that the sick leave accrual balances in the time and attendance system were not correct for the fiscal years ending June 30, 2012 and June 30, 2013. As of July 1, 2013, all 10 employees' sick leave balances reviewed were overstated by a total of 139.25 days, with a value of \$44,430. During the audit period, sick leave accrual balances were not accurate and, therefore, District officials could not rely on them. When employees' sick leave accruals are not accurate, the District is susceptible to compensating employees for time they are not entitled to.

Comments of District Officials

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 generally agreed with our recommendations and indicated they plan to initiate corrective action.

Introduction

Background

The Springs Union Free School District (District) is located in the Town of East Hampton, Suffolk County. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction, including budgeting for District operations and ensuring oversight of employee leave accrual records.

The District operates one school, with 636 students attending kindergarten through eighth grade and 100 employees. The District pays tuition for 284 students in grades nine through 12 who attend other school districts. The District spent \$8.5 million for salaries and wages and \$7.7 million in tuition for the fiscal year ended June 30, 2013. The District's total actual expenditures for the fiscal year ended June 30, 2013 were approximately \$22 million and budgeted appropriations for the 2013-14 fiscal year were approximately \$25.4 million, which were funded primarily with real property taxes.

Objective

The objective of our audit was to evaluate the District's financial condition and examine leave accruals. Our audit addressed the following related questions:

- Did the Board effectively manage the District's budget and financial condition?
- Are employee leave accrual records accurate and properly reconciled?

Scope and Methodology

We examined the District's financial operations and leave accrual records for the period July 1, 2012 through November 30, 2013. We extended our scope to fiscal year 2010-11 to analyze budget practices, fund balance trends and reserve account balances to provide current, relevant information. We also reviewed the District's budget for the 2013-14 fiscal year.

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 recommendations 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 plan 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 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 Condition

The Board and Superintendent are responsible for adopting budgets that contain estimates of actual and necessary expenditures that are funded by planned, realistic revenues. Sound budgeting provides sufficient funding for necessary operations. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. Once the Board has addressed those issues, any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences, should be used to reduce the tax levy.

The Board needs to improve its oversight of the District's budget and financial condition. In fiscal years 2010-11 through 2012-13, the District budgeted to use an average of \$811,000 of fund balance to fund each ensuing year's expenditures. However, the District did not use these funds as intended because revenues exceeded expenditures by an average of more than \$1.7 million in each of these years, as indicated in Figure 1. As a result, the District's unrestricted fund balance, totaling \$3.8 million as of June 30, 2013, was 15 percent of the 2013-14 budgeted appropriations; this was almost four times the 4 percent statutory limit.

Figure 1: Unrestricted Fund Balance			
	2010-11	2011-12	2012-13
Beginning Fund Balance	\$2,043,786	\$3,674,399	\$4,964,752
Revenues	\$24,021,370	\$24,250,729	\$24,478,781
Expenditures	\$22,390,757	\$22,960,376	\$22,013,795
Operating Surplus	\$1,630,613	\$1,290,353	\$2,464,986
Year-End Fund Balance	\$3,674,399	\$4,964,752	\$7,429,738
Less: Fund Balance Appropriated for the Next Fiscal Year	\$1,368,760	\$364,328	\$700,000
Less: Restricted Fund Balance	\$1,424,538	\$2,764,648	\$2,930,279
Unrestricted Fund Balance at Year End	\$881,101	\$1,835,776	\$3,799,459
Ensuing Year's Budget	\$24,906,723	\$24,762,352	\$25,420,531
Unrestricted Fund Balance as a % of the Ensuing Year's Budget	3.54%	7.41%	14.95%

While the District's unrestricted fund balance was within the statutory limit in fiscal year 2010-11, in fiscal years 2011-12 and 2012-13 it exceeded the amount allowed by law by an average of \$2.2 million, or 7.18 percent. During this period, District officials overestimated

appropriations in their adopted budgets by a total of \$4.7 million, as detailed in Figure 2. Had District officials based appropriations on historical data, they may have avoided such variances.

Figure 2: Overestimated Expenditures			
Fiscal Year	Budgeted Expenditures	Actual Expenditures	Overestimated Expenditures
2011-12	\$24,906,723	\$22,960,376	\$1,946,347
2012-13	\$24,762,352	\$22,013,795	\$2,748,557
Total	\$49,669,075	\$44,974,171	\$4,694,904

We found that District officials budgeted conservatively, specifically for instruction costs, because it was difficult to predict special education needs and they were often uncertain as to how many students would attend other districts. Instruction¹ costs are a significant portion of the District's expenditures, representing about 70 percent of its overall budget. District officials have increased instructional budget appropriations over the last two years, although actual expenditures have decreased. As a result, while actual expenditures totaled more than \$32.6 million during fiscal years 2011-12 and 2012-13, District officials budgeted a total of \$36.1 million, or \$3.5 million more than necessary, as shown in Figure 3.

Figure 3: Instructional Expenditures			
	2011-12	2012-13	Totals
Budgeted Expenditures	\$17,956,017	\$18,176,659	\$36,132,676
Actual Expenditures	\$16,625,660	\$16,015,550	\$32,641,210
Total Variances	\$1,330,357	\$2,161,109	\$3,491,466

District officials indicated that they pay tuition for resident students to attend other school districts and that the number of resident students they pay tuition for varies from year to year. However, the District's tax levy increase of \$1.7 million from fiscal years 2010-11 through 2012-13, or 8 percent, would not have been necessary if District officials had used reasonable estimates when preparing the budgets.

We also reviewed the District's budget for the 2013-14 fiscal year and found that it included \$17.9 million for instructional costs. This

¹ Instruction is made up of several budget lines: Instruction, administration and improvement; Teaching – regular school; Programs for children with handicapping conditions; Occupational education; Teaching – special school; Instruction media; and Pupil services.

amount exceeds the average spent in the last three fiscal years by approximately \$1.4 million. Therefore, the District may have an operating surplus for 2013-14.

The District's last two independent audit reports contained findings related to the unrestricted fund balance being in excess of the statutory limit. This has resulted in real property tax levies that may have been greater than necessary to fund operations.

Recommendations

The Board should:

1. Develop and adopt budgets that include realistic estimates for expenditures based on all information available at the time and historical data.
2. Discontinue the practice of adopting budgets that result in the appropriation of fund balance that will not be used.
3. Develop a plan that addresses the use of excess unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - Increasing necessary reserves,
 - Paying off debt,
 - Financing one-time expenditures and
 - Reducing property taxes.
4. Ensure that unrestricted fund balance amounts are within statutory limits.

Leave Accruals

Leave accruals represent time off earned by employees. The Board is responsible for ensuring that employee leave benefits are properly provided, used and accurately accounted for. The accumulation of sick leave is determined by collective bargaining agreements or individual employment contracts. The District generally allows employees to accumulate 240 sick days. However, upon retirement, the District will pay employees for half of their accumulated unused sick days, up to a maximum of 90 days.

A good system of internal controls ensures that employee sick leave accruals are granted in accordance with applicable employment contract provisions and that records are kept of each employee's time off to ensure accuracy. Periodic independent reviews and reconciliations of leave time accrual records and balances throughout the year provide an additional control to help ensure that employees' balances are correct and employees use only the leave that they are entitled to.

The District's sick leave accrual records are not accurate and are not being periodically reconciled. District staff produce three different reports relating to employee leave balances: one from the District's financial program,² one from its automated time and attendance program and a report maintained by the Treasurer. However, District officials do not periodically reconcile these reports and the accrual information included in these reports is not consistent. As a result, District officials have no assurance that employee accrual information is accurate.

We selected 10 employees'³ sick leave accrual balances to determine whether they were accurate. We compared the balances that we calculated as of July 1, 2012 and July 1, 2013 to the balances District officials calculated and found that District officials did not properly administer the carryover of unused leave. The balances maintained by the District in the time and attendance program were not correct. Additionally, four of the 10 balances carried over to June 30, 2013 on the Treasurer's balances were not correct.

² This record was found to be missing all leave taken after November 2012; therefore, we did not consider it reliable evidence for our test.

³ Using our professional judgment, we selected two employees from each class. See Appendix B, Audit Methodology and Standards, for details on our sample selection.

As of July 1, 2012, seven employees' sick leave accruals were overstated by a total of 36.75 days, with a value of \$16,513, while the remaining three employees' balances were underreported by a total of 10.5 days, totaling \$2,382. As of July 1, 2013, all 10 employees' sick leave balances were overstated by a total of 139.25 days, with a value of \$44,430. Ultimately, during the audit period, sick leave accrual balances were not accurate and, therefore, District officials could not rely on them.

The District's records were inaccurate because there are no written procedures in place for the employees keeping the time and attendance records to follow, and there is no supervisory review and reconciliation to ensure that the process has been performed correctly. When employees' sick leave accruals are not accurate, the District is susceptible to compensating employees for time they are not entitled to. When there is no supervisory oversight, the process is susceptible to errors that go undetected.

Recommendation

5. The Board should establish written procedures to address the maintenance of leave time records and ensure that accurate information for time accruals is maintained, monitored and periodically reconciled.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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Ira McCracken
Chief Examiner
Office of the State Comptroller
New York State Office Bldg. Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

Please consider this letter a response to the final draft findings for the audit of the Springs Union Free School District entitled Financial Condition and Leave Accruals Report of Examination 2014M-200. Additionally, please find the attached response to the draft findings.

Sincerely,

Elizabeth Mendelman
Board President
Springs UFSD

Cc: Ms. Joan Byrne
Board of Education
John Finello, Superintendent

Mission Statement

"Springs School is dedicated to providing a foundation for personal and social growth in order to develop students of exemplary character who become responsible, productive and caring citizens."



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Ira McCracken
Chief Examiner
Office of the State Comptroller
New York State Office Bldg. Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

The Springs Union Free School District has reviewed your Final Draft Report and acknowledges the information presented. The District agrees with the recommendations provided in this report. However, it should be noted that the sick leave accrual balances used in the District's financial reporting were based on information available at that time.

The District's written Corrective Action Plan (CAP) that addresses the findings and recommendations regarding Financial Conditions and Leave Accruals will be provided within 90 days after the release of your final report.

Please let us know when we can expect the final report, and if you have additional questions.

Sincerely,

Elizabeth Mendelman
Board President
Spirings UFSD

Cc: Ms. Joan Byrne
Board of Education
John Finello, Superintendent

Mission Statement

"Spirings School is dedicated to providing a foundation for personal and social growth in order to develop students of exemplary character who become responsible, productive and caring citizens."

APPENDIX B

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 and payroll and personal services.

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 or professional misconduct. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected financial condition and sick leave accruals for further audit testing.

- We reviewed audited financial statements and compared them to District records.
- We interviewed District officials and key personnel regarding fund balances.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund.
- We judgmentally selected two employees from each job class (five) that appeared to have the highest error in time accrued.
- We interviewed key personnel to obtain an understanding of the accrued leave process.
- We reviewed collective bargaining agreements and employment contracts.
- We interviewed key personnel to obtain an understanding of how sick leave is carried forward.
- We examined the District's records of the 10 selected employees (Treasurer's sick leave balance reports, absence reason balance reports, District Clerk's sick leave balance reports and absence verification summary reports) to verify the accuracy of the records and determine if they were in accordance with the collective bargaining agreements and employment contracts.

- To test the employees' sick leave accrual balances, we selected as a starting point the Treasurer's report as of June 30, 2012. When reviewing the three reports, his appeared to be the most accurate and it was accepted as the record of the liability by the outside accounting firm.

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 C

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