



# Hyde Park Central School District Financial Management Practices

## Report of Examination

Period Covered:

July 1, 2010 — March 26, 2012

2012M-172



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

January 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district 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 school districts 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 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 Hyde Park Central School District, entitled Financial Management Practices. 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*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Hyde Park Central School District (District) is located in the Town of Hyde Park, and portions of the Towns of Poughkeepsie, Rhinebeck, Pleasant Valley, and Clinton in Dutchess 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 President of the Board serves as the District's chief fiscal officer. 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.

There are seven schools in operation within the District, with approximately 3,800 students and 800 employees. The District's budgeted expenditures for the 2011-12 fiscal year were approximately \$85 million, which were funded primarily with real property taxes and State aid.

#### **Scope and Objective**

The objective of our audit was to evaluate the District's financial management practices for the period July 1, 2010, through March 26, 2012. We extended our scope to the 2007-08 fiscal year to analyze budgeting practices, fund balance trends, and reserve account balances and to the 2011-12 fiscal year to analyze budgeting practices. Our audit addressed the following related questions:

- Did the Board and District officials ensure that budget estimates and reserve balances were reasonable and take corrective action to address the excessive fund balance in the general fund?
- Did the Board receive sufficient and timely information to evaluate District finances and make informed decisions?

#### **Audit Results**

The Board and District officials did not ensure that budget estimates and reserve balances were reasonable and take corrective action to address the excessive fund balance in the general fund. In addition, the Board did not receive timely financial reports to evaluate the District's finances.

Over several fiscal years, the Board routinely overestimated expenditures in the District's annual budget. During 2008-09, 2009-10 and 2010-11, expenditures were overestimated by approximately \$1.9 million. Even though District officials knew that certain expenditures had been overestimated in previous budgets, they still allocated excessive funds to these line items in the 2011-12 budget, in

which expenditures were overestimated by over \$4 million. The budgets presented to the voters for 2008-09, 2009-10, and 2010-11 made it appear as if the District needed to both raise taxes and use appropriated unexpended surplus<sup>1</sup> totaling \$6.25 million to close projected budget gaps. However, appropriated unexpended surplus was not required to cover expenditures in the 2008-09 and 2009-10 school years because expenditures were overestimated in the budgets. As a result, an unnecessary burden was placed on taxpayers.

The District also maintained tax certiorari reserves in excess of what was necessary. The District started a tax certiorari reserve in the fiscal year 2007-08 with \$932,000 to cover the current year and three previous school years. However, the Board lacked authority to establish a reserve retroactively for prior fiscal years. The District's tax certiorari fund was overfunded by amounts ranging from \$207,000 to \$636,000 for the three fiscal years ended June 30, 2010.

Finally, the former Treasurer did not prepare and present monthly reports to the Board. Our review showed that, as of May 9, 2012, the Board did not receive and discuss the monthly Treasurer's reports for the period July 2011 through March 2012. Further, bank reconciliations for the general fund for July 2011 through December 2011, and for January 2012 and February 2012 were prepared in March 2012 and April 2012, respectively. Budget status reports for the period July 2011 through February 2012 were not submitted as of May 9, 2012 and, therefore, were up to eight months late. As a result, the Board did not have sufficient and timely financial information available to make informed decisions about the District's financial condition.

### **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 planned to initiate corrective action.

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<sup>1</sup> The Governmental 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).

# Introduction

## Background

The Hyde Park Central School District (District) is located in the Town of Hyde Park, and portions of the Towns of Poughkeepsie, Rhinebeck, Pleasant Valley, and Clinton in Dutchess 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 President of the Board serves as the District's chief fiscal officer. 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 as well as development and administration of the budget.

There are seven schools in operation within the District, with approximately 3,800 students and 800 employees. The District's budgeted expenditures for the 2011-12 fiscal year were approximately \$85 million, which were funded primarily with real property taxes and State aid.

The District Treasurer (Treasurer) is responsible for the District's financial and recordkeeping functions. The Treasurer writes all checks, reconciles or supervises the reconciliation of accounts, and prepares monthly and quarterly Treasurer's reports for the Board.

## Objective

The objective of our audit was to evaluate the District's financial management practices. Our audit addressed the following related questions:

- Did the Board and District officials ensure that budget estimates and reserve balances were reasonable and take corrective action to address the excessive fund balance in the general fund?
- Did the Board receive sufficient and timely information to evaluate District finances and make informed decisions?

## Scope and Methodology

We examined the District's financial activities for the period July 1, 2010, to March 26, 2012. We extended our scope to the 2007-08 fiscal year to analyze budgets, fund balance trends, and reserve accounts balances and to the 2011-12 fiscal year to analyze budgeting practices.

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 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 planned to initiate corrective action.

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.



## Budgeting Practices

The Superintendent and Board must use the most current and accurate information available to ensure that budgeted appropriations are not overestimated, and that fund balance assigned as a funding source is actually used in the next fiscal year to cover expenditures. Budgeting practices that result in the accumulation and retention of excessive funds are not permitted by law and place an unnecessary tax burden on District taxpayers.

Over several fiscal years, the Board overestimated expenditures in the District's annual budget. During 2008-09, 2009-10, and 2010-11, expenditures were overestimated by approximately \$1.9 million in total for each year. Even though District officials knew that certain expenditures had been overestimated in previous budgets, they still allocated excessive funds to these line items in the 2011-12 budget, in which expenditures were overestimated by over \$4 million. The budgets presented to the voters for 2008-09, 2009-10, and 2010-11 made it appear as if the District needed to both raise taxes and use appropriated unexpended surplus<sup>2</sup> totaling \$6.25 million to close projected budget gaps. However, appropriated unexpended surplus was not required to cover expenditures in the 2008-09 and 2009-10 school years because expenditures were overestimated in the budgets. As a result, an unnecessary burden was placed on taxpayers.

The District also placed \$2.4 million in tax certiorari reserves for fiscal years 2007-08 through 2010-11, but could not provide documentation to support the amounts placed in these reserves. The Board and District officials improperly established a tax certiorari reserve in 2008 with \$932,000 to cover 2007-08 and three prior fiscal years, even though they lacked authority to establish a reserve retroactively for prior fiscal years. The balance in the District's tax certiorari reserve accounts at June 30, 2011 was overfunded by \$207,000 to \$636,000

<sup>2</sup> The Governmental 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).



for the three fiscal years ended June 30, 2010.<sup>3</sup> This too resulted in an unnecessary burden on District taxpayers.

## Expenditure Projections

The Superintendent and Board must ensure that budgets are prepared based on realistic projections/estimates and on the most current and accurate information available. Budgeting practices which result in the retention of fund balance in excess of the amount allowed by law places an unnecessary burden on District taxpayers.

For the three fiscal years ending June 30, 2011, the Board overestimated expenditures in the District's annual budget by approximately \$1.9 million or more per year. Three expenditure account codes were consistently overestimated: teachers' retirement, health insurance and teacher salaries. Even though the Board and District officials knew that these expenditures had been overestimated in previous budgets, they still allocated excessive funds of more than \$4 million to these line items in the 2011-12 budget. For example:

<b>Table 1: Overestimated Appropriations</b>				
<b>NYS Teachers Retirement</b>				
<b>Fiscal Year</b>	<b>Budget<sup>a</sup></b>	<b>Actual</b>	<b>Excess</b>	<b>Percent Over Actual</b>
2008-09	\$2,684,153	\$2,270,578	\$413,575	18.2%
2009-10	\$2,928,259	\$1,782,448	\$1,145,811	64.3%
2010-11	\$3,540,759	\$2,626,633	\$914,126	34.8%
2011-12	\$3,630,140	\$3,267,605	\$362,535	11.1%
Total Excess			\$2,836,047	
<b>Health Insurance Program</b>				
<b>Fiscal Year</b>	<b>Budget<sup>a</sup></b>	<b>Actual</b>	<b>Excess</b>	<b>Percent Over Actual</b>
2008-09	\$9,446,119	\$8,748,973	\$697,146	8.0%
2009-10	\$10,713,827	\$9,566,740	\$1,147,087	12.0%
2010-11	\$11,602,383	\$10,569,561	\$1,032,822	9.8%
2011-12	\$13,047,151	\$10,877,062	\$2,170,089	20.0%
Total Excess			\$5,047,144	
<b>Teacher Salaries</b>				
<b>Fiscal Year</b>	<b>Budget<sup>a</sup></b>	<b>Actual</b>	<b>Excess</b>	<b>Percent Over Actual</b>
2008-09	\$21,156,746	\$20,233,328	\$923,418	4.6%
2009-10	\$20,573,731	\$20,978,742	(\$405,011)	-1.9%
2010-11	\$21,199,585	\$20,419,791	\$779,794	3.8%
2011-12	\$20,774,262	\$18,849,747	\$1,924,515	10.2%
Total Excess			\$3,222,716	
<sup>a</sup> Budget amounts are from the original budgets submitted to taxpayers for approval prior to any adjustments throughout the fiscal year. Actual amounts expended include amounts encumbered as of June 30 of each fiscal year.				

<sup>3</sup> Historically, the District estimated and allocated 40 percent of potential claims for claims settlement.

The fiscal year 2009-10 budgetary appropriation for teachers' retirement was overestimated by approximately 64 percent. District officials could easily have calculated and provided the Board with more accurate projections for each of these expenditure accounts. Their failure to use realistic estimates created annual operating surpluses, resulting in the accumulation of excessive fund balance. Overestimating budget expenditures places a higher tax burden on District taxpayers than necessary to provide educational services for District students.

The Assistant Superintendent for Business informed us that teachers' retirement costs were routinely overestimated to provide a contingency fund in the budget and that health insurance program costs were difficult to estimate because new rates did not arrive until August (after voter budget approval).

## **Fund Balance**

Fund balance is the difference between revenues and expenditures accumulated over a given period of time. Restricted fund balance represents moneys that the District has set aside and may use only for specific purposes and, therefore, these moneys are not available for the District to use in any other manner. Unexpended surplus funds represent uncommitted funds and may be used for cash flow purposes and unanticipated expenditures and/or revenue shortfalls. Real Property Tax Law (Law) currently limits the amount of unexpended surplus funds that the District can retain to no more than 4 percent of the ensuing fiscal year's budget.

When fund balance is assigned as a funding source for the budget, it reduces fund balance included in the 4 percent calculation. The expectation is that the District will incur an operating deficit in the ensuing fiscal year equal to the amount of appropriated unexpended surplus<sup>4</sup> so that excess surplus funds will cover expenditures.

In our previous report (2008M-139, issued November 2008), we found that the District's unexpended surplus funds were not consistent with statutory requirements. The unexpended surplus funds in the general fund at June 30, 2007 were \$4 million more than the amount allowed by Law. We recommended the Board and District officials develop a plan to reduce unexpended surplus funds in the general fund.

In the budgets presented to the voters for 2008-09, 2009-10, and 2010-11, the Board made it appear as if the District needed to both raise taxes<sup>5</sup> and use appropriated unexpended surplus totaling \$6.25 million

<sup>4</sup> Prior to June 2011, appropriated unexpended surplus was referred to as unreserved appropriated fund balance. After June 2011, appropriated unexpended surplus funds are referred to as unrestricted appropriated fund balance. The terminology was changed pursuant to GASB 54.

<sup>5</sup> The 2008-09 budget raised taxes by \$1 million. The 2009-10 budget raised taxes by \$500,000, and the 2010-11 budget raised taxes by \$1.8 million.

to close projected budget gaps. The voter-approved budgets had planned operating deficits each year. However, District expenditures were lower than budgeted, resulting in operating surpluses totaling approximately \$4.4 million in the first two of the three years we analyzed.

<b>Table 2: Operating Surplus/Deficit</b>				
	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>Total</b>
Actual Revenue	\$78,675,373	\$77,932,151	\$78,084,760	\$234,692,284
Actual Expenditures	\$77,327,527	\$74,881,659	\$81,555,050	\$233,764,236
Reported Operating Surplus/(Deficit)	\$1,347,846	\$3,050,492	(\$3,470,290)	\$928,048
Fund Balance Used to Reduce Debt and for One-time Capital Expenditure			\$2,340,000	\$2,340,000
Adjusted Operating Surplus (Deficit)	\$1,347,846	\$3,050,492	(\$1,130,290)	\$3,268,048
Appropriated Unexpended Surplus	\$1,650,000	\$2,000,000	\$2,600,000	\$6,250,000

Although the District's unexpended surplus funds decreased from 2009-10 to 2010-11, they exceeded the 4 percent maximum allowed by Law for the school years 2008-09 through 2010-11 as follows:

<b>Table 3: Excess Unexpended Surplus Funds</b>			
	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Unexpended Surplus Funds as of June 30	\$6,692,496	\$11,267,476	\$2,566,109
Excess Tax Certiorari Reserve <sup>a</sup>			\$1,327,026
Tax Certiorari Funds Paid	\$44,478	\$132,003	\$6,235
Adjusted Unexpended Surplus Funds as of June 30	\$6,736,974	\$11,399,479	\$3,899,370
Ensuing Year's Budgeted Appropriations	\$77,230,587	\$80,022,747	\$83,758,091
4% Limit for Unexpended Surplus Funds	\$3,089,223	\$3,200,910	\$3,350,324
Excess Unexpended Surplus Funds	\$3,647,751	\$8,198,569	\$549,046
<sup>a</sup> See Table 4 for calculation of amount			

The fiscal year 2010-11 excess unexpended surplus funds were significantly lower than prior years' because the District budgeted \$7.1 million of 2010-11 fund balance to be used to pay expenditures in the 2011-12 year. Historically, the District's appropriated unexpended surplus funds were not fully used. This practice of appropriating unexpended surplus funds that are not actually used to fund operations is, in effect, a reservation of fund balance that circumvents the statutory limit for unexpended surplus funds.

District officials informed us that due to the economic collapse in 2008, the resulting changes to State aid during the 2008-09 and subsequent fiscal years, and the 2 percent property tax cap, the District reduced expenditures and froze purchases. The District took these actions in anticipation of reduced State funding and revenue streams in future

years. As a result, significant savings were realized in 2008-09 and 2009-10 that lowered expenditures and conserved or increased fund balance. However, as highlighted in Table 1, the Board and District officials were aware or should have known that the expenditures were repeatedly overestimated. The Board and District officials should have decreased the budgeted amounts accordingly.

By continually retaining unexpended surplus funds that exceed the 4 percent threshold, the Board is not adhering to the Law and is placing an unnecessary tax burden on District taxpayers. It is important that District officials not assign fund balance that will not be used in an effort to circumvent the statutory limit. Had District officials budgeted appropriately and reduced fund balance to the required level, real property taxes could have been lowered.

### **Tax Certiorari Reserve**

A tax certiorari is a legal proceeding whereby a taxpayer who has been denied a reduction in property tax assessment by a local assessment review board or small claims procedure challenges the assessment on the grounds of excessiveness, inequality, illegality or misclassification.

Establishing and Funding — Education Law authorizes school districts to establish a reserve fund for payments and claims related to tax certiorari proceedings. A school district may establish a reserve fund for the potential cost of tax certiorari proceedings without approval by voters, provided the total moneys in the reserve do not exceed the amounts reasonably deemed necessary to meet anticipated judgments and claims.

As a result of our November 2008 audit of the District which found that the District had excessive surplus funds, the Board established reserves, including a tax certiorari reserve in the amount of \$932,000. The District placed funds in the tax certiorari reserve each year for fiscal years 2008-09, 2009-10, and 2010-11.

District officials established the tax certiorari reserve in fiscal year 2007-08 with \$932,000, covering 2007-08 and three prior years. However, the Board did not have the authority to establish tax certiorari reserve funds retroactively for prior fiscal years. District officials informed us that they were unaware of the Commissioner of Education's ruling requiring that a tax certiorari reserve fund must be used for tax certiorari proceedings for the tax roll in the specific year the tax certiorari was established.

We requested supporting schedules for amounts placed in the tax certiorari reserves for 2007-08 through 2010-11. District officials had a schedule for active 2011-12 claims, but could not provide

schedules to support prior year-end amounts placed in these reserves. Similarly, they could not provide year-end (June 30) schedules for tax certiorari claims. Because District officials could not provide us with the schedules for prior years, we were unable to confirm that the moneys deposited in the reserve funds supported actual tax certiorari claims. Some of these funds should have remained in the District's general fund balance. The funds then could have been used to benefit District taxpayers by paying for one-time expenses, reducing debt, or reducing property taxes.

Overfunding — Tax certiorari reserves may not exceed the amounts reasonably deemed necessary to meet anticipated judgments and claims. Education Law requires that any moneys not expended for the tax roll in the year the funds are deposited, or which will not be reasonably required to pay judgments or claims, should be returned to the general fund. Historically, the District estimated and allocated funds for 40 percent of potential claims for claims settlement.

We analyzed the reasonableness of the tax certiorari reserve funds as of June 30, 2011, and found that, in addition to improperly establishing retroactive reserves, the reserve balances were overfunded by amounts ranging from \$207,000 to \$636,000 for the three fiscal years ended June 30, 2010. District officials did not overfund the tax certiorari reserve for fiscal year 2010-11.

<b>Table 4: Overfunded Tax Certiorari Reserve</b>				
	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Tax Certiorari Proceedings Against the District at June 30	\$769,710	\$736,386	\$691,676	\$963,514
Liability Assuming Cases Settle at 40%	\$307,884	\$294,554	\$276,670	\$385,406
Less: Tax Certiorari Settled through June 30 <sup>a</sup>		\$44,478	\$132,003	\$6,235
Adjusted Liability	\$307,884	\$250,076	\$144,667	\$379,171
Tax Certiorari Reserve Funds at June 30	\$944,285	\$733,611	\$351,757	\$360,344
Excess Reserve	\$636,401	\$483,535	\$207,090	\$0
<sup>a</sup> Actual amounts for settled cases				

Prior to fiscal year 2010-11, District officials elected to pay settled cases from the general fund instead of the established tax certiorari reserve funds. This caused the prior years' tax certiorari reserves to have excess balances. The excess funds in the tax certiorari reserve should have been returned to the general fund consistent with the requirements of Education Law. By overfunding the tax certiorari reserve funds, District officials understated unexpended surplus

funds in order not to exceed the maximum permitted by Law.<sup>6</sup> If, in prior years, these moneys had remained in the District's fund balance or were returned to the fund balance, the funds could have been used to benefit District taxpayers by paying one-time expenses, reducing debt, or reducing property taxes in the prior and current years.

Furthermore, we determined that the District did not use the reserves to pay settled tax certiorari claims. According to the Assistant Superintendent, the District used available budgeted general fund resources to pay settled claims rather than reserved amounts.

## **Recommendations**

1. The Board should adopt realistic budgets using actual financial results from prior years to project expenditures.
2. District officials should ensure that information related to reserve balances is maintained and retained on an annual basis.
3. The Board should ensure that moneys deposited in a tax certiorari reserve fund are appropriately used, and do not exceed the amounts reasonably deemed necessary to pay for the cost of judgments and claims arising from the tax roll in the year the moneys are deposited.
4. The Board should maintain unassigned fund balance within the allowed legal limits.
5. District officials should develop a plan to use surplus fund balance in a manner that benefits District taxpayers. In order to provide appropriate transparency, the use of surplus fund balance should be done through the budget process with public disclosure. Such uses could include, but are not limited to:
  - Funding necessary reserves
  - Paying off debt
  - Funding one-time expenditures
  - Reducing District property taxes.

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<sup>6</sup> Real Property Tax Law has established the amount of fund balance a school district may retain. Unexpended surplus funds cannot exceed 4 percent of the current year's appropriations.



## Treasurer's Reports

The Board is responsible for managing and overseeing the District's overall fiscal affairs and safeguarding its resources. The Treasurer must prepare and provide timely financial reports to the Board so that it can effectively carry out its fiscal oversight responsibility. The Treasurer's reports should provide the financial information District officials and the Board need to develop budgets, monitor the District's fiscal affairs, and effectively manage and safeguard cash.

The former Treasurer did not prepare and present monthly reports to the Board in a timely manner. Our review of the minutes showed that as of May 9, 2012, the Board did not receive and discuss the monthly Treasurer's reports from July 2011 through March 2012. Further, bank reconciliations for the general fund for July 2011 through December 2011, and for January 2012 and February 2012 were prepared in March 2012 and April 2012, respectively. As of May 9, 2012, budget status reports for the Board were not prepared for the months of July 2011 through February 2012 and therefore, were up to eight months late. As a result, the Board did not have sufficient and timely financial information available to make informed decisions about the District's financial condition.

### Monthly Reports

The Treasurer is required to prepare and present to the Board a monthly report showing the cash balance on hand at the beginning of the month, receipts by source during the month, total disbursements during the month, the cash balance on hand at the end of the month, and reconciliation with the bank statements. Timely preparation of the monthly reports ensures that errors and/or irregularities will be detected and corrected in a timely manner. The information contained in the report is essential for maintaining effective control over cash transactions. The Board is responsible for ensuring that the Treasurer prepares and presents scheduled monthly reports.

The former Treasurer did not prepare and present monthly reports to the Board. Our review of the minutes showed that the Board did not receive and discuss the monthly Treasurer's reports from July 2010 through March 2012 within one month of the end of the month. For example, reports for July 2011 through March 2012 were not submitted as of May 9, 2012. Further, bank reconciliations for the general fund for July 2011 through December 2011, and for January 2012 and February 2012 were prepared in March 2012 and April 2012, respectively.

Due to these deficiencies, we reviewed all bank reconciliations for the general fund and the payroll account for July 2011 through



February 2012. We also scanned bank reconciliations for all other 13 accounts. While the bank reconciliations supported the cash account balances and were properly performed, all reconciliations for this period were completed in March and April 2012. Our examination of the reconciliations did not reveal any discrepancies.

The Assistant Superintendent for Business said the District experienced turnover in the Treasurer's position in calendar year 2011. A Treasurer hired in January 2011 was unable to complete the required reports through June 30, 2011, and subsequently left the District in September 2011. The Treasurer's position was vacant from September 2011 until January 2012. During this period, a staff member was appointed as Treasurer to oversee the preparation of checks. The Board sought an experienced individual to perform the Treasurer's duties and hired a new Treasurer beginning January 2012. In the interim, the Superintendent and Assistant Superintendent kept the Board informed of the District's cash position.

The failure to prepare and present timely monthly Treasurer's reports limited the Board's ability to adequately and effectively monitor and manage the District's financial resources, and the District's financial position could not be known with certainty at any given point in time. Also, the failure to prepare monthly bank reconciliations increased the risk that errors and/or irregularities could occur and not be detected.

## **Quarterly Reports**

Once the financial course has been set through the adoption of the annual budget, Board members have the equally important task of keeping District operations on course. It is important for Board members to compare actual results to budgets, policies, and directives. Board members' concerns and decisions must be communicated to appropriate senior management and department heads so that they can make adjustments and corrections as needed.

The Board needs certain financial reports for effective monitoring, such as periodic budget-to-actual reports. In order for the Board to follow proper budgetary procedures, it needs these reports to closely monitor the progress of actual revenues and expenditures throughout the year, and identify any variances that might cause the District to end the year with a significant surplus or deficit. Generally, corrective action is easier to initiate when the need is identified early. The Treasurer is required to prepare, at least quarterly (monthly in the event that budget transfers have been made since the last report), for each fund, reports including the original budget, any authorized amendments, actual transactions to date (revenues, expenditures and encumbrances listed by account code) and the variances between the amended budget and actual expenditures. Budget reports must be prepared and reviewed, as required, during the fiscal year. These reports are known as budget status reports.

The Treasurer did not prepare timely budget status reports for the Board. Board minutes indicate that the Board received the budget status report for June 2011 on December 8, 2011 – 130 days late. Reports for July 2011 through February 2012 had not been submitted as of May 9, 2012, and, therefore, were up to eight months late. The Assistant Superintendent for Business told us that the District was behind in preparing reports because of turnover in the Treasurer’s position. The Board President said that despite the lack of formal financial reports, the Superintendent and Assistant Superintendent for Business kept the Board informed of the District’s financial position. The July and August 2011 Treasurer’s and budget status reports were submitted and discussed at the May 10, 2012, Board meeting.

The Board’s ability to carry out its fiduciary responsibilities was severely limited because it did not receive timely, interim budget status reports. While District administrators provided the Board with a general statement of cash position for each fund, the total amount of revenues per fund, and the total amount of expenditures per fund, these reports were not sufficient to monitor the budget in detail. These reports do not show the individual revenue and expenditure accounts. When the Board is provided with detailed budget-to-actual reports, it is better able to identify whether its initial projections were on target and assess if financial trouble might occur. It also helps the Board to identify any budget modifications that may be necessary throughout the year and to ensure that sufficient appropriations exist to cover the claims against the District.

Good financial management calls for submission of timely and accurate reports. Lack of timely financial information severely impedes the Board’s ability to manage the accounts of the District and could result in mistakes, errors, and financial irregularities that could result in losses to the District.

## **Recommendations**

6. District officials should develop written procedures requiring timely bank reconciliations to be performed on a monthly basis.
7. The Board should ensure that Treasurer prepares and submits monthly and quarterly reports in a timely manner to fulfill the Board’s financial oversight functions.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

The District's response letter refers to an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.

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**Greer F. Fischer, Ed.D.**  
**Superintendent of Schools**

**Wayne L. Kurlander**  
Assistant Superintendent  
for Business

**Cora Stempel**  
Assistant Superintendent  
for Instruction & Personnel

**Aviva Kafka**  
Assistant Superintendent  
for Pupil Services

January 4, 2013

Office of State Comptroller  
Attn: Tenneh Blamah  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12533

Dear Tenneh,

The following is a response to the NYS State Comptrollers' draft audit report submitted to Hyde Park Central School District on December 21, 2012. There were four areas that were brought up in this audit:

- 1) Budget Estimates
- 2) Fund Balance
- 3) Tax Certiorari Reserve
- 4) Timely Treasurer's Reports

The District's response is as follows:

**1) Budgeting Estimates**

The draft audit report states that "over several years, the District routinely overestimated the annual budget and that even though the District knew that certain expenditures were overestimated in previous budgets, they still allocated excessive funds to these line items in the 2011-12 budget".

**District Response**

*There are several reasons why Hyde Park Central School District maintains the budgeting estimates it does. Listed below are just some of the main estimated budget lines that require flexibility for the unknown. During budget preparation, certain expenditures are unknown and must be estimated.*

- A. **Unfunded state and federal mandates** that the District is expected to uphold. These do not always follow the same timeline to include them in the budget. Attachment #1 is a list of some of the mandates where fiscal implications have been experienced.
- B. **New and Changed IEPs for district students** may require additional contractual and payroll expenditures. IEPs can be established at any time during the school year and must be followed regardless of budgetary impact. Additional funds are necessary to cover these costs.
- C. **New hires due to programmatic developments.** The cost for new hires not only include salary increases, but also result in increases to health benefits, payroll taxes, retirement contributions and other employee benefits.
- D. **Payroll related costs** are also increased by other factors. For example, a current employee with an individual health insurance plan may switch to a family plan or new hire replacements can result in an increase.
- E. **Teacher Substitute expenditures** is another unknown area. This has increased due to mandated training requiring teachers to be out of the classroom more frequently.
- F. **Health Insurance increases** are often unknown until after budget preparation and must be estimated. The final rates are usually determined early to mid May.
- G. **Federal Grant Allocation timetables** do not coincide with budget preparation. We may discover after the budget is in place that grant funding is not sufficient to cover all the costs of employees assigned to the federal grants. The District must be prepared to cover any of these personnel expenditures from our general fund.
- H. **Other costs that are unknown during budget preparation include:**
  - a. Unemployment
  - b. Utilities such as fuel (heating and gasoline) and electricity costs
  - c. Unexpected emergency repairs of buses, equipment and District facilities.

*These and many other district expenditures are based on well-researched estimates and historical data.*

*Budgets are, at best, educated estimates of the following year's expenditures. As budgets are prepared months in advance of the new year, estimates in certain areas must be used. There is always the fear of not budgeting enough in certain areas, therefore, we feel it best to sometimes budget higher in areas such as employee benefits, when all rates are not always known.*

*During the 2011-2012 school year we utilized 94.3% of the budget. In comparison to other school districts, this is average. We will, however, attempt to be more diligent in future estimates so as to raise the percentage of budget usage.*



*Also, for the three years covered by the audit report, the district steadily increased the amount appropriated for the ensuing year's budget. The district appropriated \$1,650,000, \$2,000,000 and \$2,600,000 for fiscal years 2008-09, 2009-10 and 2010-11, respectively.*

*More specifically, for the cited categories of NYS Teacher's Retirement, Health Insurance and Teacher's salaries, we will attempt to reduce the excesses based on information available at the time the budget is prepared. For teacher's salaries, budgets are prepared but position cuts may be made after the fact. We will attempt to visualize these cuts at budget time, if any.*

*We realize that the amount of unexpended budget has created a surplus each year and we will strive to eliminate such a budget surplus to a reasonably prudent amount based on reasonable budget estimates.*

## **2) Fund Balance**

The draft audit report states that in their previous audit report issued November 2008, they found that "unexpended surplus funds were not consistent with statutory requirements". At that time the State Comptroller's Office recommended the Board and District officials develop a plan to reduce the unexpended surplus funds in the general fund. The current draft report states that the budgets for 2008-09, 2009-10 and 2010-11 makes it appear as "if the District needed to both raise taxes and use appropriated unexpended surplus totaling \$6.25 million to close projected budget gaps. The voter approved budgets had planned operating deficits each year. However, District expenditures were lower than budgeted resulting in operating surpluses totaling approximately \$4.4 million in the first two of the three years we analyzed".

### **District Response:**

*Several years ago, the District did not have a fund balance. Fund balance is an integral strategic financial tool utilized to help balance budgets and is necessary. The state allows unassigned fund balance of 4% of the next year's budgeted appropriations. In an effort to stabilize the district financially we annually search for efficiencies in the budget. For example, because of mid-year state aid cuts in 2009-2010, we cut off spending at the same time. This caused an increase in fund balance for that year. In subsequent years, we kept a close eye on expenditures and periodically cut off spending to help alleviate potential crisis because of the phase-out of ARRA funds, decreasing state aid and increasing pension costs. The Board has strived to maintain the unassigned fund balance at or below the allowed legal limit. We believe we have maintained that level over the past two years. We believe that, over the past few years, the District has made a conscious effort to maintain a 4% unassigned fund balance and has used surplus to fund necessary reserves or to fund one-time expenditures.*

*As the auditors stated, the district did appropriate \$6.25 million from 2008-2009 through 2010-2011. During that time period, revenues were more than expenditures because we received additional State funds for special education students for prior years. The state does not tell us when we will receive these funds so it is not possible to budget for this revenue.*

### **3) Tax Certiorari Reserve:**

The draft audit report states that in 2007-2008 we initially overfunded the Tax Certiorari Reserve retroactively for prior fiscal years. The report also states that we overfunded the reserve for three fiscal years ending June 30, 2010.

#### **District Response:**

*During that time period, we took the advice of the District's external and internal auditors as well as legal counsel on how to justify the Tax Certiorari Reserve balances. The auditors and legal counsel were given the list of outstanding, potential tax certioraris. We were advised to fund the reserve with only a portion (25% or less). The Board of Education followed the recommendations of the auditors and legal counsel in funding this reserve.*

### **4) Timely Treasurer's Reports:**

The draft audit report states that the "former Treasurer did not prepare and present monthly reports to the Board in a timely manner" and that "the Board did not receive and discuss the monthly Treasurer's reports from July 2011 through March 2012. Further, bank reconciliations for the general fund for July 2011 through December 2011, and January 2012 and February 2012 were prepared in March 2012 and April 2012, respectively. As of May 9, 2012, budget status reports for the Board were not prepared for the months of July 2011 through February 2012 and therefore, were up to seven months late".

#### **District Response:**

*During the time frame mentioned the District had two turnovers in the Treasurer's position. Unfortunately, it took the District several months to realize that the candidate initially selected was unable to keep up with the workload for this position and that the learning curve was too great for their success. There was a lapse in coverage while the District searched for an experienced Treasurer which further delayed timely reporting.*

*Our new Treasurer was hired in January 2012. She began bringing these records up to date as a priority. In doing so, the Treasurer discovered that the bank statements were also not reconciled. She worked diligently with new Accountant to catch up on the past due work. Once the bank reconciliations were complete and up-to-date, the Treasurer had other urgent financial issues to attend to before she could begin updating the monthly Treasurer's reports. Once all supporting source documents were on hand (cash receipts, invoices received and invoicing to other organizations), necessary adjustments were made and all Treasurer's reports were prepared and presented to the Board along with the budget status reports.*



If there are further questions, please do not hesitate to contact our office.

Sincerely,

Greer F. Fischer, Ed.D.  
Superintendent of Schools

Steve Mittermaier  
President, Board of Education

Enclosures

C: Wayne Kurlander, Assistant Superintendent for Business

WK/LS/jm2

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

The overall goal of our audit was to evaluate the District's financial management practices to determine if the Board was receiving sufficient financial information to properly manage the District. To accomplish our objectives, we interviewed District officials and District staff members. We examined records and documents for the period July 1, 2010 to March 26, 2012. We extended our scope to 2007-08 fiscal year to analyze budgeting, fund balance trends, and reserve accounts balances and to 2011-12 fiscal year to analyze budgeting practices.

Our testing included the following steps:

- We reviewed Board minutes, District policies, adopted budgets and budget status reports for the 2008-09 through 2011-12 fiscal years.
- We analyzed expenditures with significant budget-to-actual variances.
- We analyzed the reserve account changes and the changes in fund balance of the general fund. We also reviewed the establishment of the tax certiorari reserve accounts. We obtained an understanding of the District's internal controls related to the reserve accounts.
- We obtained an understanding of the District's internal controls related to the District's financial recording and monitoring process.
- We reviewed bank reconciliations performed and minutes for dates of submission of Treasurer's reports including bank reconciliations and statements, budget status reports, and reports of receipts and disbursements.

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 C**

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**APPENDIX D**  
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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
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