



Ramapo Central School District Fund Balance and Employee Compensation

Report of Examination

Period Covered:

July 1, 2011 — January 14, 2013

2013M-189



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2013

Dear District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

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

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Ramapo Central School District (District) is located in the Town of Ramapo, in Rockland County. The District is governed by the Board of Education (Board) which is composed of 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 day-to-day District management under the Board's direction.

The District operates seven schools, with approximately 4,500 students and 610 employees. During the 2011-12 fiscal year, the District had operating expenditures of approximately \$118 million, funded primarily with real property taxes and State aid. The District's budgeted expenditures for the 2012-13 fiscal year were \$127 million.

Scope and Objective

The objective of our audit was to examine the District's fund balance and payroll for the period July 1, 2011, to January 14, 2013. Our audit addressed the following related questions:

- Did the District maintain fund balance in accordance with statutory requirements and appropriately establish, fund, and use reserve funds?
- Were District employees paid according to Board resolutions or approved contracts?

Audit Results

The District has accumulated more than \$16.3 million in excess funds that could be used to benefit taxpayers by paying one-time expenditures, funding necessary reserves, reducing debt and/or reducing the tax levy, in accordance with applicable statutory requirements. The excess balance is about 13 percent of the subsequent year's budget, which is much higher than the statutory 4 percent limit allowed for school districts. The District circumvented the 4 percent limit by inappropriately encumbering approximately \$8.7 million in purchase orders and tax certioraris for 2012 fiscal year. In addition, the District had \$2.3 million in excess funds in the unemployment and insurance reserves.

Nine of the 40 employees tested started their employment at steps higher than the entry level. In total, those nine employees cost about \$95,000 more a year than if they started at the entry level. For example, one employee was hired at step 11, which was about \$26,400 more than the entry level step one and another started at step 6 which was \$12,800 more than the entry level step one. According to

District officials, individuals were given higher levels because of degree completion, work experience, difficulty of academic curriculum, and scarcity of a particular skill set needed by the District. However, District officials were unable to provide any documentation supporting why those nine employees received an initial salary at those particular levels.

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 disagreed with the findings and recommendations in our report. Appendix B includes our comments on the issues raised in the District's response letter.

Introduction

Background

The Ramapo Central School District (District) is located in the Town of Ramapo, in Rockland County. The District is governed by the Board of Education (Board) which is composed of 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 day-to-day District management under the Board's direction.

The District operates seven schools, with approximately 4,500 students and 610 employees. During the 2011-12 fiscal year, the District had operating expenditures of approximately \$118 million, funded primarily with real property taxes and State aid. The District's budgeted expenditures for the 2012-13 fiscal year were \$127 million.

The responsibility for effective financial planning and District management rests with the Board, the Superintendent, and other officials including the District Treasurer (Treasurer), who reports financial information to the Board. The Assistant Superintendent for Business is responsible for the management of overall District business operations, including preparing all financial statements. The Treasurer is responsible for accounting functions.

Objective

The objective of our audit was to examine the District's fund balance and payroll. Our audit addressed the following related questions:

- Did the District maintain fund balance in accordance with statutory requirements and appropriately establish, fund, and use reserve funds?
- Were District employees paid according to Board resolutions or approved contracts?

Scope and Methodology

We examined the District's financial condition and payroll processes for the period July 1, 2011, to January 14, 2013. To analyze the District's financial trends, we extended the scope back to the 2007-08 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 are included in Appendix C of this report.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. 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.

Fund Balance

Fund balance represents moneys remaining from prior fiscal years that can be appropriated to finance the next year's budget and/or to be set aside as reserves for specific purposes. School districts may carry over a portion of unexpended surplus fund balance from year-to-year to help mitigate the effect of unforeseen contingencies, to ensure the orderly operations of the district, and for the continuity of necessary programs and services. Accurate budget estimates and fund balance levels help ensure that real property levies are not greater than necessary. Real Property Tax Law limits the amount of unexpended surplus funds that can be retained by school districts to no more than 4 percent of the subsequent fiscal year's budget. School districts may also establish reserves to restrict a portion of fund balance for a specific purpose, but must do so in compliance with statutory requirements.

For the year ended June 30, 2012, the District reported unexpended surplus fund balance (fund balance) of about \$5.1 million, which was within the 4 percent statutory limit. However, the District's financial reporting was not accurate and the unexpended surplus was actually about \$16.3 million, representing 13 percent of the subsequent year's budget, well in excess of the statutory limit. The difference in the calculation of fund balance is the result of over-accounting for encumbrances and a tax certiorari reserve. As a result, the District has accumulated more than \$11.3 million in excess funds that should be used to benefit taxpayers by paying one-time expenditures, funding necessary reserves, and reducing debt and/or reducing the tax levy, in accordance with applicable statutory requirements. In addition, the unemployment and insurance reserves were unnecessarily funded, further reducing the amounts that could have been used to benefit District taxpayers.

Encumbrances

The State Comptroller's Uniform System of Accounts and generally accepted accounting principles (GAAP) provide the framework within which financial transactions are recorded and reported, resulting in financial statements that provide comparability between governmental entities, consistency between accounting periods, and reliability for internal and external users of financial statements. One of the primary responsibilities of the Board and the Superintendent is to ensure that District financial transactions are recorded in a manner that meets these guidelines.

Encumbrances are commitments for payments related to unperformed contracts for goods or services. Encumbrance accounting is intended to guard against a district creating liabilities in excess of

approved appropriations. In order for school district officials to maintain budgetary control and to arrive at an accurate estimate of its uncommitted appropriations, it is necessary to encumber all of its known obligations when contracts are approved or purchases are authorized. At the end of the fiscal year, a portion of the fund balance can be set aside for the payment of goods, materials, and services that have been ordered but not received. This restricted amount of fund balance is known as the reserve for encumbrances.

The District encumbered approximately \$12.6 million for fiscal year ended June 2012, of which about \$8.7 million in encumbrances were not appropriate. This included about \$7.7 million for tax certioraris claims and \$1 million unsupported and outdated purchase orders.

Moneys deposited in a tax certiorari reserve fund may only be used for tax certiorari proceedings arising from the tax roll of the specific year that the moneys were deposited into the reserve. Therefore, a school district may not set aside moneys in a tax certiorari reserve fund in one fiscal year for the purpose of financing judgments and claims arising from the tax rolls of prior fiscal years. Also, tax certioraris claims are not liabilities until legal proceedings are finalized. Therefore, under GAAP, tax certiorari claims should not be encumbered. However, District officials encumbered \$7.7 million, which resulted in the reported fund balance being understated.

In addition, although encumbrances that exist at the end of the fiscal year may be carried over to the next year, they must represent valid commitments for specific future expenditures. The \$1 million encumbered by District officials consisted of amounts that were not going to be paid and did not represent future expenditures. In fact, the District reviewed these purchase orders and closed or canceled them in January 2013 after the June 30, 2012 financial statements were compiled. In addition, many of the amounts encumbered were not supported by any documentation such as contracts or invoices, and many were outdated, as shown in Table 1:

FYE	# of Items	Aggregate Amts.
2007	1	\$6,094
2008	0	\$0
2009	8	\$270,922
2010	15	\$141,173
2011	43	\$626,348
Total:	67	\$1,044,537

Encumbrances should not be recorded simply as a means of reducing available year-end fund balance. Encumbrances that are established without a genuine purchase or contractual commitment artificially reduce fund balance, resulting in the inappropriate circumvention of the 4 percent statutory requirement.

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. Education Law authorizes school districts to establish a reserve fund for payment of 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. Reserve funds that are not expended for the payment of judgments or claims arising out of tax certiorari proceedings for the tax roll in the year the moneys are deposited to the fund and/or that will not be “reasonably required to pay any such judgment or claim,” must be returned to the general fund on or before the first day of the fourth fiscal year following the deposit of such moneys to the reserve fund.

The District’s tax certiorari reserve fund balance was approximately \$3.7 million as of June 30, 2012.¹ The District funds the reserve at the end of each year with surplus funds that would otherwise be applied to fund balance and be included when calculating the 4 percent fund balance restrictions. Over a five-year period, the District paid about \$4.5 million in tax certiorari claims with operating funds and never used any money from the reserve, which is an indication that the moneys put in the reserves were not needed to pay claims. The District provided documentation that listed all possible liabilities to be paid from the reserve fund. However, they could not provide us with specific documentation detailing which claims were from tax certiorari proceedings for the tax roll in the year the moneys were deposited to the fund represented by the reserve; therefore, it precluded the District from properly monitoring the reserve and returning the portion of the funds that must be returned to the general fund on or before the first day of the fourth fiscal year following the deposit of such moneys to the reserve fund.

To determine how much of the tax certiorari reserve fund could be supported, we obtained specific general ledger activity from July 1,

¹ This amount was in addition to the \$7.7 tax certiorari encumbrance discussed in the previous section.

2007, through June 30, 2012. The balance as of July 1, 2007, was about \$3.2 million. Since funds must be returned on the first day of the fourth year after they were deposited, we have included only amounts carried over from 2007 and all amounts deposited from 2008 - 2012. This totaled about \$1.2 million that may be needed for tax certiorari claims in the future. The District currently has \$3.7 million in the reserve; therefore, the reserve is over-funded by \$2.5 million.

If 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.

Unemployment Reserve

According to General Municipal Law (GML), the purpose of an unemployment reserve is to reimburse the State Unemployment Insurance Fund for payments made to claimants. Expenditures may be made only as required by law to pay into the Unemployment Insurance Fund an amount equivalent to the amount of benefits paid to claimants and charged to the District's account. If at the end of any fiscal year, moneys in the fund exceed amounts required to be paid into the Unemployment Insurance Fund, plus any additional amounts required to pay all pending claims, the Board, within 60 days of the close of the fiscal year, may elect to transfer all or part of the excess amounts to certain other reserve funds, or apply all or part of the excess to the budget appropriation of the next succeeding fiscal year.

The District held excess funds in the unemployment reserve. For the five-year period July 1, 2007, through June 30, 2012, the average reported expenditures for such unemployment claims averaged \$57,000 a year. The reserve balance averaged about \$505,000 during that same period, a difference of \$448,000, which represents excess funds that could have been returned to the general fund.

Although the District has used some of the funds during that period, and plans to use the funds for upcoming layoffs, they could not provide specific analysis of possible future claims. Therefore, this excess could have been used to benefit District taxpayers.

Insurance Reserve

An insurance reserve is authorized by GML to fund certain losses, claims, actions, or judgments which would not be covered by insurance. The annual allocation to the reserve is limited to 5 percent of the adopted budget. An insurance reserve fund may also be used to pay for expert or professional services in connection with the investigation, adjustment, or settlement of claims, actions, or judgments.

Although the District purchases liability insurance to limit the need for substantial reserves to fund insurance claims, it still maintained an average balance of \$2.2 million in the insurance reserve over the last five fiscal years. The District has not expended moneys from this reserve for its statutory purpose during the same period. For example, in 2010, a claim was paid for \$425,000. Although at the time the reserve balance was more than \$3 million, the District used general fund moneys to pay the claim. This is an indication that the moneys held in the fund were not needed and should be returned to the general fund.

By maintaining excessive and/or unnecessary reserves, combined with inappropriately encumbering funds, the Board and District officials have withheld more than \$11 million from productive use, levied unnecessarily taxes, and compromised the transparency of District finances to the taxpayers.

Recommendations

1. District officials should develop a plan to use surplus fund balance and unnecessary reserves 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 tax(es).
2. District officials should ensure that year-end encumbrances are valid and supported.
3. The Board and District officials should review all reserves and determine if the amounts reserved are necessary, reasonable, and in compliance with statutory requirements.

Employee Compensation

Teaching staff that are employed by the District should be compensated at the salary level established by the District and its collective bargaining agreement. To determine if the compensation is appropriate, District officials responsible for hiring should review supporting documentation such as academic background and related work experience. There may be certain circumstances where an employee may have a particular set of unique skills that is in demand by the District. These circumstances may warrant the employee to be compensated at a higher level. However, the District should document the justification as to why such an employee is compensated at a higher level and the Board should review and approve such justification.

The collective bargaining agreement (CBA) includes a salary schedule broken down by classification. There are multiple classifications that a teacher can fall under based on education and post graduate work. Within each classification there are steps which usually correspond to years of service in that category. We randomly selected 40 employees out of 667 to determine whether the District compensated employees appropriately. We found that nine of the 40 employees tested were at salary steps disproportionate with years of service. These nine employees started their employment at steps higher than step 1. These employees were hired between 2003 and 2007. For example, an employee was hired at step 11, which was about \$26,400 more than the entry level step 1 and another started at step 6, which was \$12,800 more than the entry level step one. In total, those nine employees cost about \$95,000 more a year than if they started at the entry level. According to District officials, individuals were given higher levels because of degree completion, work experience, difficulty of academic curriculum, and scarcity of a particular skill set needed by the District. This was an informal practice that was only recently detailed in the latest CBA. We were able to verify their credentials such as extent of education and other advanced certification. However, District officials were unable to provide any documentation supporting why those nine employees received an initial salary at those particular steps. They told us it was up to the discretion of the previous Director of Human Resources.

When significant decisions in the hiring process are not documented, it reduces the transparency of the process. This could increase the risk of misappropriation through the salary process.

Recommendation

4. District officials should properly document the reasons for any starting salary that exceeds the established entry level rate.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



RAMAPO CENTRAL SCHOOL DISTRICT
45 MOUNTAIN AVENUE
HILLBURN, NEW YORK 10931

Office of the Superintendent of Schools
Telephone: (845) 357-7783 Ext. 11229
Fax: (845) 357-5707
E-Mail: dadams@ramapocentral.org

September 4, 2013

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

Dear Ms. Blamah:

This is in response to the report, *Fund Balance and Employee Compensation*, prepared by the local Office of the State Comptroller (OSC) for the period between July 1, 2011 and January 14, 2013.

On behalf of the Board of Education and the District's administration, we want to make note of the fact that your local field staff spent nearly four months in our District. During that extended period of time, they found no material internal control weaknesses, no fraud, no theft, no abuse of funds, no illegal activities, and no professional misconduct. All of the public funds for which we are responsible were fully accounted for by the audit.

See
Note 1
Page 21

To the extent that the Comptroller's audit represents an examination of the District's fund balance and employee compensation in the context of statutory and regulatory compliance, we have carefully considered the auditor's perspective. The District has in place adequate safeguards in the areas of a claims auditor, internal auditor and external auditor. Our overall approach to fund balance, reserve funds, encumbrances, and employee compensation is consistent with our fiduciary responsibility to our taxpayers, students, and employees. The audit report contains numerous subjective conclusions and statements that are not based upon objective facts and, therefore, are inaccurate, misleading, and inflammatory. The District provided the auditors all requested information to correct the multiple inaccurate key numbers and misleading conclusions included in the report. However, the Comptroller's office, without any written explanation, apparently ignored the information provided by the District. The District has a legitimate expectation that an official report from the Comptroller's office will accurately depict the District's information during the period of time identified as the scope of the examination. The hard work of the Board of Education and its administration in maintaining the fiscal health of the District should not be impugned by subjective findings not supported by objective evidence.

See
Note 2
Page 21

See
Note 3
Page 21

See
Note 4
Page 21

FUND BALANCE

The State Comptroller's report inaccurately states that the District has an unexpended surplus of \$16.3 million. The unexpended surplus is \$5.1 million which is in full compliance with the 4 percent statutory limit pursuant to Real Property Tax Law §1318. Furthermore, the District has never

See
Note 5
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exceeded the statutory limit and has always received stellar reports from our independent audit firms. The Comptroller's Office was provided copies of the external and internal audit reports. If the District had exceeded the 4% limit as incorrectly concluded by the Comptroller's office, the State Education Department would have documented this non-compliance. No such action occurred, because none was required.

See
Note 1
Page 21

ENCUMBRANCES

The State Comptroller's report inaccurately states that the District encumbered \$8.7 million in purchase orders that were not appropriate. Furthermore, the auditors inaccurately state that \$1 million were for unsupported and outdated purchase orders. The District provided justification during the auditor's fieldwork, again on April 26, 2013, again on May 17, 2013, again on June 21, 2013, and again at the exit conference on August 8, 2013. The District issued payment or closed all of the \$1 million purchase orders that are mentioned in the report during the auditor's period of examination that ended January 14, 2013. The majority of the purchase orders were for Special Education tuition. These purchase orders were originally encumbered for the amount owed each organization based on the number of students attending the organization. We keep these purchase orders open for a number of years because we find that organizations and other school districts do not always bill in a timely manner.

See
Note 6
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At the beginning of the August 8, 2013 exit conference the auditor stated that any issue resolved during the examination period of July 1, 2011 through January 14, 2013 would not be included in the audit report. Even though the District has provided thorough justification and documentation related to the \$1 million in purchase orders, this inaccurate finding remains included in the report. This is contrary to what we were told by the auditor during the exit conference.

See
Note 7
Page 22

For more than 20 years, including during the 2007 NYS Comptroller's Audit of our purchasing internal controls, where there were no substantial findings, the District has encumbered purchase orders for potential tax certioraris. The District reviews the open tax certioraris with officials at the Town and examines past judgments to ensure that the specific properties are accurate, unsettled and that the amounts are reasonable. The District encumbers additional purchase orders for new tax proceedings. Before 2009-10, the encumbrances, as well as the reserves, were reported to the state in the same general area of the balance sheet labeled "Fund Balance Reserved". The District believes that it is a much more efficient and accurate way to account for potential tax certioraris. In 2009-10, with GASB 54, the state now requires that encumbrances be reported as "Assigned Fund Balance" and the reserves as "Restricted Fund Balance." The auditors contend that these tax certioraris should be reported in the Tax Certiorari Reserve and not be encumbered. As a result of our current practice, we have been able to fund tax certiorari settlements in a predictable manner without burdening our taxpayers with having to bond each new indebtedness, a method that would do nothing for our taxpayers but which would only increase our cost of doing business. The consequence of that would be to take away much needed funding from the mission of our District, namely, to educate students. The District will address this in the District's corrective action plan.

See
Note 8
Page 22

The audit report states that *"encumbrances that are established without a genuine purchase or contractual commitment artificially reduce fund balance result in the inappropriate circumvention of the 4 percent statutory requirement."* The auditor's words are inflammatory and unsubstantiated. The District has sufficient support for all the purchase orders. As previously stated, if the District had exceeded the 4% limit as suggested by the Comptroller's office, the State Education Department would have documented this non-compliance. No such action occurred, because none was required.

See
Note 5
Page 21

See
Note 6
Page 21

TAX CERTIORARI RESERVE

The State Comptroller's report inaccurately states that *"the district funds the reserve at the end of each year with surplus funds"*. The District funded the reserve once since 2003 year. However, the inaccurate finding remains in the report.

See
Note 9
Page 22

The State Comptroller's report inaccurately states that *"the reserve is overfunded by \$2.5 million."* However, the District has provided justification in the form of official documentation, from one of the three towns in the District, that substantiates approximately \$13 million in potential tax certioraris liabilities. In response to the District's request for additional information detailing the auditor's overfunding calculation of \$2.5 million, the District received a response from the auditor that states *"Although they have not provided a specific schedule there is enough claims to justify these amounts."* Simply put, the Comptroller first states that we are overfunded and then states that there are enough claims to justify the amounts we have reserved. The audit report is inconsistent with this clarification from the auditor and the philosophy set forth by the Comptroller's Office guidance document captioned *Local Government Management Guide on Reserve Funds dated January 2010* that states:

See
Note 10
Page 22

See
Note 11
Page 23

"Saving for future projects, acquisitions, and other allowable purposes is an important planning consideration for local governments and school districts. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can also provide a degree of financial stability by reducing reliance indebtedness to finance capital projects and acquisitions. In uncertain economic times, reserve funds can also provide officials with a welcomed budgetary option that can help mitigate the need to cut services or to raise taxes. In good times, money not needed for current purposes can often be set aside in reserves for future use."

The District has experienced a reduction in state aid including the Gap Elimination Adjustment of over \$10 million.

Year	Gap Elimination Adjustment Loss
2010-2011	(2,462,562)
2011-2012	(3,051,665)
2012-2013	(2,585,575)
2013-2014	<u>(2,394,939)</u>
TOTAL	(10,494,741)

In these uncertain economic times, our approach to reserves funds is consistent with our fiduciary responsibility and is in the best interest of our taxpayers, students, and employees.

See
Note 12
Page 23

The District reserves are allocated to guard against the possible liabilities in excess of approved appropriation to avoid a potential fiscal catastrophe similar to what has taken place elsewhere in Rockland County. Therefore, with approximately \$13 million dollars of documented claims, and the possibility of unforeseen and unreserved settlements, we have significant documentation that supports our fiscally-prudent practice.

See
Note 13
Page 23

UNEMPLOYMENT RESERVE

The State Comptroller's report cites the District for overfunding the Unemployment Reserve. The auditor used a five-year average for unemployment claims of \$57,000 and states that the "excess" funds could have been returned to the general fund. The District disagrees with this assessment.

The District has increased the reserve due to the decrease in State Aid funding and the tax cap legislation. The loss in State Aid and Tax Cap Legislation has caused this School District to implement huge layoffs as a result. Due to the emergence of Federal ARRA funds and the Education Job Stabilization Fund over the last several years, the District was able to postpone many of the potential layoffs and, therefore, did not need to dig as deep into the reserve as the District anticipated. As federal funding has come to an end and we face a dramatic drop in funding, the District has this reserve in place to offset potentially large unemployment costs in the future. As a result of the decrease in State Aid and the Tax Cap Legislation, the District has been forced to excess over 60 staff members. If this reserve were not available for allocation towards the 2013-14 unemployment expense, the District would have to excess an additional 5 -10 staff members, causing further elimination of student programs. The District paid \$110,061 in unemployment expense for the 2012-2013 school year. If the District had reduced the reserve to \$57,000 per the auditor's assessment, the District would have insufficient funds to cover the actual expense. The potential 2013-2014 unemployment liability expense of over \$600,000 is more than \$200,000 in excess of the District's current unemployment reserve. The District provided justification during the auditor's fieldwork, again on June 21, 2013, and again at the exit conference on August 8, 2013. Furthermore, at the public Board of Education meeting on August 20, 2013, the board approved a resolution to increase the unemployment reserve to adequately fund the potential liability.

See
Note 14
Page 23

The reserve will be used to pay the unemployment expenses for the 60 individuals who were excessed as well as for future expenses to ensure that the taxpayers of the Ramapo Central School District are protected from any liabilities that would require the District to further raise taxes.

INSURANCE RESERVE

The State Comptroller's report inaccurately states that "...the moneys held in the fund were not needed and should be returned to the general fund." The District established the insurance reserve due to the fact that the District had \$65 million worth of bonded capital projects. On December 2, 2009 the District paid a settlement in the amount of \$425,000 in a vendor dispute on the bonded capital projects. The District chose not to deplete the insurance reserves until the final cost reports were submitted to NYSED in 2011. In June 2011, the District decided to reduce the insurance reserve in the amount of \$2,277,520.40. In order to be fiscally responsible and ensure that the taxpayers of the Ramapo Central School are protected from any liabilities that would require the District to raise additional taxes, the District decided to leave a balance of \$896,792.96 in the reserve. The District entered into an Energy Performance Bond and approved capital projects in excess of 12 million dollars in the last two years.

See
Note 15
Page 23

A potential liability has occurred with a general contractor on a recent capital project that represents the realistic possibility of claims. The District has been contacted by the Department of Labor to withhold payments and the District has notified the general contractor's bond and insurance company

of the potential liability. Due to the contractor's failure to perform, we now face the potential of having to commence litigation to compel the contractor to perform on his contract. Once again, the audit report is inconsistent with the philosophy set forth by the Comptroller's Office guidance document captioned *Local Government Management Guide on Reserve Funds dated January 2010* that states:

See
Note 15
Page 23

"Reserve funds, like other savings plans, are mechanisms for accumulating cash for future capital outlays and other allowable purposes. The proactive of planning ahead and systematically saving for capital acquisitions and other contingencies is considered prudent management. Savings for future capital needs can reduce or eliminate interest and other costs associated with debt issuances. Similarly, certain reserve funds can be utilized to help protect the budget against known risks (a potential lawsuit) or unknown risk (a major ice storm)."

"Planning today and saving incrementally for expected future events can help mitigate the financial impact of major, nonrecurring, or unforeseen expenditures on your annual operating budget."

Furthermore, specifically related to the insurance reserve, the Comptroller's 2010 guidance document states:

"If it is determined that the fund is no longer needed the money remaining in the fund may be transferred to another reserve fund authorized by the General Municipal Law (supported by the same tax base) or, in the case of a school district, a reserve fund established under Educational Law Section 3651, but only to the extent that the moneys in the fund exceed a sum sufficient to pay all liabilities incurred or accrued against the funds, as certified to the governing board by the fiscal and legal officer of the local government prior to the discountenance of the fund."

Therefore, the reserve balance in the fund is needed and should not be returned to the general fund. The District has concluded that it is fiscally responsible to maintain an insurance reserve as long as the District has open capital projects. Furthermore, this practice demonstrates prudent management and helps to mitigate the financial impact of a potential major, nonrecurring, or unforeseen expenditure and is consistent with the Comptroller's 2010 guidance document. Despite the auditor's misleading statement, there is no legal requirement to return the insurance reserve to the general fund.

See
Note 15
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RESERVES/ENCUMBRANCES

The State Comptroller's report inaccurately states that *"...the Board and District officials have withheld over \$11 million from productive use, levied unnecessarily taxes, and compromised the transparency of District finances to the taxpayers"*. The District has provided significant documentation to justify all reserve funds and encumbrances. This comment in the report is in direct contradiction of the philosophy set forth by the Comptroller's Office guidance document *Local Government Management Guide on Reserve Funds dated January 2010*. The State Comptroller's report suggests, without any basis in fact, that the District is not providing appropriate transparency and that the use of surplus fund balance should be done through the budget process with public disclosure. The District adamantly rejects this misleading comment. The District provides multiple reports including monthly treasurer reports, quarterly financial reports, audited financial statements, and the annual budget during public board meetings and posts on the District website. Additionally, District officials present various financial reports throughout the year including a report on "Fund & Reserve Balances" that was presented at the August 7, 2012 Board of Education meeting. Furthermore, the District holds multiple public budget workshops that provide detailed balances and explanations of reserves and their future use.

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Note 4
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Note 16
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RECOMMENDATIONS

The State Comptroller's report suggests that District officials should develop a plan to use surplus fund balance and so-called unnecessary reserves in a manner that benefits District taxpayers. All reserves, encumbrances, and fund balance are necessary, reasonable, and consistent with guidance set forth by the State Comptroller's office, and are in compliance with statutory requirements. Our fiscally prudent plan is consistent with our fiduciary responsibility and is in the best interest of our taxpayers, students, and employees.

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Note 5
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As stated above, the District adamantly rejects the auditor's misleading comment of an alleged lack of transparency. The District provides multiple reports, audited financial statements, and the annual budget during public board meetings and posts on the District website. Additionally, District officials present various financial reports throughout the year. Furthermore, the District holds multiple public budget workshops that provide detailed balances and explanations of reserves and their future use.

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Note 16
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The State Comptroller's report suggests that the District officials should ensure that year-end encumbrances are valid and supported. The District does do that. All encumbrances are valid and supported. The District has provided the Comptroller's Office with substantial documentation from the Town Assessor with detailed potential tax certioraris that justify our encumbrances. The District has further provided a detailed explanation of the remaining encumbrance. However, the Comptroller's office has chosen to ignore this evidence and, when asked why the voluminous data is being ignored, the District has not received a written response supported by objective data.

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Note 6
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The State Comptroller's report suggests that the board and District officials should review all reserves and determine if the amounts reserved are necessary, reasonable, and in compliance with statutory requirements. The District does do that. To reiterate, all amounts reserved are necessary, reasonable, and in compliance with statutory requirements. Once again, this comment is a direct contradiction of the philosophy set forth by the Comptroller's Office guidance document *Local Government Management Guide on Reserve Funds* dated January 2010.

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EMPLOYEE COMPENSATION

The State Comptroller's report suggests that District officials should properly document the reasons for any starting salary that exceeds the established entry-level rate. The District has implemented new procedures that ensure proper documentation when starting salaries exceed the established entry-level rate. Beyond that, the Comptroller has not shared with us any instances of this occurring during the period encompassed by their examination. Requests for specific names and access to the auditor's working papers have been denied making it impossible for us to verify the comments.

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SUMMARY

The audit report contains numerous conclusions and statements that reflect subjective opinions that are inaccurate, misleading, and inflammatory. The District is concerned that the overall tone and lack of clarity of the audit report presents a misleading and inaccurate portrayal of the District's finances. The District provided significant documentation to support reserves and encumbrances; however this information was ignored and discounted with no evidence or explanation from the Comptroller's office. The information provided to us by the District's independent external auditor, who is a certified public accountant, and the extensive tax assessment data provided to us by the Town Assessor were both given to and ignored by the audit team with no written, objective explanation as to why. Instead, their report is filled with subjective conclusions that contradict the Comptroller's very own published

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guidance documents. Our District should not be placed in the position of having to receive an audit report that is inconsistent with our local assessor's factually reliable tax data as well as the Comptroller's published guidance documents. We should also not be required to repeatedly ask for information only to have such requests completely ignored. The Comptroller's office has repeatedly stated that it is a top priority for them "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". That being said, then the report we receive should be objectively based, devoid of subjective judgments, and one that takes into account legitimate data provided by us to you for a thorough understanding of our District. Our repeated requests for auditor's working papers have been ignored, depriving us of the opportunity to review the audit trail and to meaningfully analyze the auditor's findings.

The District would like to reiterate that the Comptroller's office four-month examination, found no material internal control weaknesses, no fraud, no theft, no abuse of funds, no illegal activities, and no professional misconduct. The Comptroller's Office findings represent a difference of opinion on the definition of "reasonable" and where reserves are reported on the balance sheet. Our overall approach to fund balance, reserves funds, encumbrances, and employee compensation is consistent with our fiduciary responsibility and in the best interest of our taxpayers, students, and employees.

Sincerely,

Douglas S. Adams, J.D., Ed.D.
Superintendent of Schools

cc. Board of Education
Mr. Kelly E. Seibert

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Our audit addressed two specific areas: fund balance and employee compensation. Our audit did not include all of the District's operations and we did not conclude that all public funds were accounted for. We did find internal control weaknesses related to accounting for fund balance and employee compensation, as stated in the audit report.

Note 2

The District exceeded the 4 percent statutory limit on unassigned fund balance.

Note 3

Our audit was performed according to Generally Accepted Government Auditing Standards (GAGAS), which require us to obtain sufficient and competent evidence to support our findings. These standards require that audit staff is independent so that opinions, findings, conclusions, judgments and recommendations will be impartial and will be viewed as impartial by reasonable and informed third parties. Furthermore, our findings related to fund balance and reserves are based on Generally Accepted Accounting Principles (GAAP) and statutory requirements.

Note 4

All numbers in the report are accurate, factual, and supported with documented evidence. The results of our audit and recommendations were discussed with District officials on numerous occasions and their feedback was considered in preparing this report. We provided our analysis, sample selection, all support for our findings, and written response addressing their concerns.

Note 5

The report accurately states that the District's actual unexpended surplus is \$16.3 million, which exceeds the 4 percent statutory limit. The report provides specific details concerning the District's recording of inappropriate encumbrances. If those encumbrances were correctly recorded, the District's unexpended surplus does not comply with the 4 percent statutory limit. Our conclusions were based on the fact the District did not properly apply GAAP when recording encumbrances.

Note 6

The report states that "The District circumvented the 4 percent limit by inappropriately encumbering approximately \$8.7 million in purchase orders and tax certioraris for 2012 fiscal year." The \$8.7 million was made up mostly of the incorrect encumbrance of tax certioraris totaling about \$7.7 million. Documents provided by the District did not support justification for encumbering tax certioraris.

Information in the audit report concerning the \$1 million in unsupported or outdated purchase orders is accurate. Subsequent to our exit conference, District officials provided documentation which supported payment of claims related to three purchase orders totaling about \$48,000. We updated the report to reflect that information. On August 21, 2013, the Assistant Superintendent for Business confirmed that those were the only purchase orders that were in fact paid as opposed to closed after our audit. The District reviewed and cancelled \$1 million in purchase orders after the June 30, 2012 financial statements were issued. This supports the finding in our audit. District officials reviewed and closed these purchase orders after the fiscal year ended, which clearly indicates that these purchase orders did not represent valid commitments for specific future expenditures. If this review was done prior to the fiscal year end, the District would have had to report more available fund balance and would have exceeded the 4 percent requirement.

In addition, the District's independent auditor, in its management letter for period ending June 30, 2012, stated:

"We recommend that all open purchase orders, including blanket purchase orders be completely reviewed at year end, all estimates to be analyzed and close/canceled, unneeded items be reversed."

Note 7

Although District officials cancelled \$1 million in purchase orders during our field work, this did not change the finding relating to the excessive fund balance because this amount impacted the year end fund balance calculation.

Note 8

We told District officials that tax certioraris cannot be encumbered according to GAAP, and that one option would be to fund a tax reserve. By properly funding reserves, the District would be able to fund settlements without bonding.

Note 9

The statement is accurate as reported. Based on the general ledger information provided during the audit by the District Treasurer, the reserve was funded on June 30 of each year from 2008 through 2012, as follows:

- 6/30/08 increased by about \$101,000
- 6/30/09 increased by about \$33,000
- 6/30/10 increased by about \$12,000
- 6/30/10 increased by about \$12,000
- 6/30/12 increased by about \$13,000.

Note 10

The quoted statement in the District's response is taken out of context. The statement included in an email to District officials, referred to the list of potential tax certiorari amounts carried over from 2007. We have clearly and consistently discussed our findings with District officials throughout the audit process. Our report discusses the specific reasons as to why this amount was disallowed. The District has not funded the tax certiorari reserve according to the provisions outlined in Education Law.

In addition, the District's independent auditor in the management letter for period ending June 30, 2012, commented about open purchase orders and the tax certiorari reserve:

"...The District has reached its three year period of several of the amounts reserved and we are recommending that all tax certiorari reserves be reviewed to determine if any amounts are still outstanding and need to be reserved again. Any unneeded reserves must be returned to the unreserved fund."

Note 11

The report is consistent with guidance provided by the State Comptroller's *Local Government Management Guide on Reserve Funds*. The report states that the District can use the reserves, but only in compliance with statutory requirements.

Note 12

The District's approach to reserve funds has not been consistent with statutory requirements and has resulted in excess amounts of fund balance being retained.

Note 13

The District's practice in funding and not using the tax certiorari reserve is not fiscally prudent. The purpose of the reserve is to pay judgments and claims in tax certiorari proceedings in accordance with Real Property Tax Law. The District, however, accumulated funds, but never used those funds to pay the claims; instead, they were paid out of the general fund, thereby increasing taxpayer burden.

Note 14

District officials have consistently over-funded the unemployment reserve. Their response indicates that, they did not need the funds until 2012 – 2013 fiscal year; however, they maintained over \$500,000 over the previous five years. The justification provided by the District supported that on average only \$57,000 was used. Therefore, the excess could have been used to benefit District taxpayers.

Note 15

District officials did not use the reserve for its intended purposes. They paid for the \$425,000 claim using general fund resources while having about \$3.1 million in the reserve at the time.

Note 16

Even though District officials provide various reports as stated in their response, if accounting principles are not being properly applied and encumbrances do not reflect valid future commitments, then appropriate transparency is impaired.

Note 17

We provided our list of employees tested throughout the audit. At the informal findings meeting on June 17, 2013, the Superintendent, after receiving the list of the nine employees with disproportionate salary steps, commented that the District's own internal review also had issues with these same employees.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

We selected the District's financial condition and payroll processing for audit testing. To accomplish the objective of this audit:

We tested five reserves and all the encumbrances for year ending June 30, 2012.

- We documented the internal controls and related procedures surrounding reserve funds; this included how they were established and how they were funded.
- We determined if reserve funds are properly established and funded according to policy and statutory requirements.
- We determined if the District modified the budgets to circumvent the fund balance limit.
- We calculated proper unassigned fund balance based on the appropriateness of the District's reserves and amount allocated as an encumbrance.

We randomly selected 40 employees from a population of 667 to determine salary appropriateness.

- We documented internal controls and related procedures for human resources.
- We determined if salaries of employees was properly established.
- We traced actual salary to collective bargaining agreements based on credentials, years of service, and other attributes.

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

APPENDIX D

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