



Brentwood Union Free School District Fund Balance and Hiring Practices

Report of Examination

Period Covered:

July 1, 2014 – October 31, 2015

2016M-251



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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Dear School District Officials:

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

Following is a report of our audit of the Brentwood Union Free School District, entitled Fund Balance and Hiring 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 New York State General Municipal Law.

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Brentwood Union Free School District (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 the District's day-to-day management under the Board's direction.

The Assistant Superintendent for Finance and Operations is primarily responsible for overseeing the District's Business Office and supervising the employees who maintain the District's financial records. The Coordinator of Human Resources oversees employees in the Human Resources Department and posts job openings as instructed by the Board and Superintendent. The central administration team is responsible for screening and interviewing candidates for administrative positions.

Scope and Objective

The objective of our audit was to assess the District's fund balance and examine procedures used to hire administrators for the period July 1, 2014 through October 31, 2015. We extended our audit period back to July 1, 2012 and forward to March 31, 2016 to review fund balance and budget estimate trends. Our audit addressed the following related questions:

- Did the Board and District officials effectively manage fund balance?
- Did the Board and District officials follow procedures for recruiting and hiring administrators according to Board policy?

Audit Results

The Board and District officials have not effectively managed the District's fund balance. The Board adopted budgets for fiscal years 2012-13 through 2014-15 that appropriated a total of \$60.8 million in fund balance to finance operations. Because the budget consistently overestimated expenditures over the three-year period, the District used only \$5.6 million (9 percent) of the appropriated fund balance. As a result, the District's unrestricted fund balance has exceeded statutory limits. When unused appropriated fund balance is added back, the District's recalculated unrestricted fund balance was between 8.2 and 9.2 percent of the ensuing year's budget, more than twice the legal limit.

Furthermore, District officials could not provide Board resolutions establishing five reserve funds totaling \$36 million. Additionally, District officials could not provide a clear purpose or intent regarding

the future purpose of \$4.2 million restricted in the insurance reserve. The Board also overfunded the retirement contribution reserve by \$4.3 million.

The Board and District officials did not comply with District policy when hiring the new Superintendent and all administrators. The Board did not hire the most qualified available candidate for the Superintendent position as required by its own policy. The Board paid Eastern Suffolk Board of Cooperative Educational Services (BOCES) approximately \$7,000 to conduct a thorough search for a qualified Superintendent. Instead of hiring one of the candidates BOCES recommended as having the best qualifications, the Board hired a candidate that BOCES recommended be excluded.

The adopted Board policy requires the Superintendent to recommend two candidates for each administrative position. The Board did not comply with the policy when appointing the Assistant Superintendent for Secondary Education or advertising for the position of Director of Policy and Programs. Also, District officials did not post 17 of 27 administrative positions filled during the audit period, many of which were temporary. District officials also did not obtain required employment disclosure forms for 12 of the 20¹ administrators appointed during our audit period. Further, District officials did not obtain fingerprint/criminal background check clearance for six of these administrators.

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.

¹ Twenty individuals filled 27 administrative positions during the audit period.

Introduction

Background

The Brentwood Union Free School District (District) is located in the Town of Islip, Suffolk 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, including appointing the Superintendent of Schools (Superintendent). The Board President is the District's chief financial officer and is responsible for ensuring that the District maintains a sound financial condition. The Superintendent is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The Assistant Superintendent for Finance and Operations (Assistant Superintendent) is primarily responsible for overseeing the District's Business Office and supervising the employees who maintain the District's financial records. The Coordinator of Human Resources oversees the employees in the Human Resources Department and posts job openings as instructed by the Board and Superintendent. The central administration team is responsible for screening and interviewing candidates for administrative positions.

The District operates 17 schools with approximately 19,300 students and 3,300 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$368 million, which were funded primarily with State aid and real property taxes.

The District employed two Superintendents during our audit period. The former Superintendent served from July 1, 2010 through June 30, 2015. The current Superintendent started his tenure on July 1, 2015.

Objective

The objective of our audit was to assess the District's fund balance and examine the procedures for hiring administrators. Our audit addressed the following related questions:

- Did the Board and District officials effectively manage fund balance?
- Did the Board and District officials follow procedures for recruiting and hiring administrators according to Board policy?

Scope and Methodology

We examined the District's fund balance and hiring practices for the period July 1, 2014 through October 31, 2015. We extended our scope

back to July 1, 2012 and forward through March 31, 2016 to analyze historical trends for fund balance and budget estimates.

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. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials disagreed with many of our findings and recommendations. Appendix B includes our comments on issues raised in the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Fund Balance

The Board is responsible for making sound financial decisions that are in the best interest of the District, the students it serves and the residents who fund the District's programs and operations. This responsibility includes adopting budgets with realistic expenditure estimates, appropriating fund balance only to the extent necessary to fund District operations and ensuring reserves are legally established and reasonably funded. Accurate budget estimates and the appropriate use of reserves help ensure that the real property tax levy is not greater than necessary and that the budget process is transparent. Any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences, should be used in the District's best interest.

The Board and District officials have not effectively managed the District's fund balance. The Board adopted budgets for fiscal years 2012-13 through 2014-15 that appropriated a total of \$60.8 million in fund balance to finance operations. Because the District's budget consistently overestimated expenditures over that three-year period, the District used only \$5.6 million (9.2 percent) of the appropriated fund balance. As a result, the District's unrestricted fund balance has exceeded statutory limits. When unused appropriated fund balance was added back, the District's recalculated unrestricted fund balance was between 8.2 and 9.2 percent of the ensuing year's budget, more than twice the legal limit.

Furthermore, District officials could not provide Board resolutions establishing five reserve funds totaling \$36 million. Additionally, District officials could not provide a clear purpose or intent regarding the future purpose of \$4.2 million restricted in the insurance reserve and the Board overfunded the retirement contribution reserve by \$4.3 million.

Budgeting

When preparing the budget, the Board must estimate revenues, expenditures and the amount of fund balance that will be available at year-end, some or all of which may be used to fund the ensuing year's appropriations. Revenue and expenditure estimates should be developed based on prior years' operating results, past expenditure trends, anticipated future needs and available information related to projected changes in significant revenues or expenditures. Unrealistic budget estimates can mislead District residents and have a significant impact on the District's year-end surplus fund balance.

We compared the District’s budgeted revenues and expenditures with actual results of operations from 2012-13 through 2014-15. Budgeted revenue was generally close to actual revenue received, with the District receiving \$7.5 million (0.78 percent) more than expected over the three-year period. However, general fund expenditures were less than budgeted appropriations for each year reviewed. The Board overestimated expenditures by \$49 million (5.1 percent) over that three-year period (Figure 1).

Figure 1: General Fund Expenditures – Budget vs. Actual

	Appropriations	Actual Expenditures	Overestimated Appropriations	Percentage Overestimated
2012-13	\$324,363,514	\$311,979,686	\$12,383,828	3.97%
2013-14	\$340,130,081	\$320,010,030	\$20,120,051	6.29%
2014-15	\$354,634,052	\$338,086,648	\$16,547,404	4.89%
Total Expenditure Variance			\$49,051,283	5.06%

The majority of the overestimated expenditures were for employee benefits, special education programs and central services, which were overestimated in each of the three years. The Board overestimated employee benefits by \$29.2 million (12.2 percent), special education programs by \$9.6 million (7.9 percent) and central services by \$7.9 million (11.8 percent) over the three-year period. For example, although employee benefit costs have been no more than \$85 million in any of the years reviewed, budgeted appropriations have been as high as \$95 million. Officials indicated that the employee benefits variance was due, in part, to the expectation that additional funds may be needed for the settlement of the District’s various collective bargaining agreements.²

The Assistant Superintendent told us she also included estimates for transportation requests for proposals (RFPs) in the employee benefits budget line in the 2012-13 fiscal year. She did not include these estimates in the transportation budget line because she did not want these estimates to be readily available to would-be vendors. However, the Assistant Superintendent did not adjust the budgeted appropriation for transportation to account for this. This budget line item was overestimated by \$1.8 million (9 percent) in the 2012-13 fiscal year.

We reviewed the 2015-16 budget estimates and District officials’ projected year-end actual results and project that the District will

² The District’s contract for teachers expired in 2010 and a new contract was ratified in 2015. The contracts for clerical staff, monitors, teacher assistants and nurses expired in 2012. New contracts for clerical staff were ratified on July 1, 2014, monitors and teacher assistants on March 19, 2015 and nurses on June 2, 2015.

likely achieve surpluses again in all three areas, due to overestimated appropriations.

The District spent an average of \$16 million (5.1 percent) less than budgeted each year. Budgeting practices that continually overestimate expenditures can result in the accumulation and retention of excessive funds, resulting in tax levies that are higher than necessary.

Fund Balance

Fund balance represents the cumulative residual resources remaining from prior fiscal years that can, and in some cases must, be used to finance operations in the ensuing fiscal year. The Board may appropriate a portion of fund balance to help finance the next fiscal year's budget. The remaining portion that can be used for cash flow purposes or unanticipated expenditures is the unrestricted, unappropriated fund balance.

The legally allowed 4 percent unrestricted, unappropriated fund balance and legally established reserve funds provide resources for both unanticipated events and other unidentified or planned needs. When fund balance is appropriated as a funding source, the expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the appropriated fund balance. It is not sound practice to routinely adopt budgets that appropriate fund balance that will not actually be used, and it is not transparent to District residents voting on the budget.

The Board adopted a fund balance policy in July 2011. The policy explains the classifications of fund balance and states that the Board will maintain a fund balance in accordance with the law. The policy does not provide guidance on when fund balance should be used or how amounts should be calculated.

The District reported year-end unrestricted fund balance at levels that essentially complied with the 4 percent statutory limit for fiscal years 2012-13 through 2014-15 (Figure 2). This was accomplished, in part, by appropriating fund balance and funding reserves at year end. The Board appropriated an aggregate of \$60.8 million of fund balance to finance operations from 2012-13 through 2014-15, which should have resulted in planned operating deficits in each of those years. However, because the Board overestimated expenditures in its adopted budgets, the District experienced operating surpluses or lower than expected operating deficits. Therefore, the District did not need all of the appropriated fund balance included in each year's budget.

Figure 2: Unrestricted Fund Balance at Year-End

	2012-13	2013-14	2014-15
Total: Beginning Fund Balance	\$78,246,084	\$74,617,737	\$75,890,121
Add: Operating Surplus/(Deficit)	(\$3,628,347)	\$1,272,384	(\$1,948,989)
Total Ending Fund Balance	\$74,617,737	\$75,890,121	\$73,941,132
Less: Restricted Funds	\$43,189,110	\$43,572,524	\$42,259,968
Less: Encumbrances	\$39,875	\$48,392	\$245,354
Less: Appropriated Fund Balance for the Ensuing Year	\$20,724,497	\$20,231,103	\$21,106,261
Total Unrestricted Funds at Year-End	\$10,664,255	\$12,038,102	\$10,329,549
Ensuing Year's Budgeted Appropriations	\$340,090,206	\$354,634,052	\$368,204,872
Unrestricted Funds as Percentage of Ensuing Year's Budget	3.14%	3.39%	2.81%

The Board's practice of consistently planning for operating deficits by appropriating unrestricted fund balance that was not needed in effect circumvented the statutory limit of retaining unrestricted fund balance that does not exceed 4 percent of the ensuing year's appropriations. Although \$60.8 million of fund balance was included in the budgets as a financing source, the District used only \$5.6 million (9 percent) of the appropriated fund balance. When unused appropriated fund balance was added back, the District's recalculated unrestricted fund balance exceeded the statutory limit each year and was as much as 9.2 percent of the ensuing year's operations, more than twice the statutory limit.

Further, we reviewed the 2015-16 budget and determined that the District likely will again spend significantly less than budgeted due to overestimated expenditures. Therefore, the District will not use a large portion of the appropriated fund balance and will continue to exceed the statutory limit. We estimate that the District's 2014-15 recalculated unrestricted fund balance will be approximately 8.2 percent of the 2015-16 budget (Figure 3).

Figure 3: Unused Fund Balance			
	2012-13	2013-14	2014-15
Total Unrestricted Funds at Year-End	\$10,664,255	\$12,038,102	\$10,329,549
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$20,724,497	\$18,282,114	\$19,850,066 ^a
Total Recalculated Unrestricted Funds	\$31,388,752	\$30,320,216	\$30,179,615 ^a
Ensuing Year's Budget	\$340,090,206	\$354,634,052	\$368,204,872
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	9.23%	8.55%	8.20%

^a We estimated an operating deficit in 2015-16 of \$1,256,195, based on the District's projected fund balance for fiscal year-end June 30, 2016 as of April 22, 2016.

The appropriation of fund balance and overestimation of expenditures causes available fund balance to appear to be lower than it actually is. As a result, the Board and District officials have withheld funds from productive use and have not adequately reported the District's financial condition to District residents. Had District officials used more realistic budget estimates, they could have avoided the accumulation of excess fund balance and possibly reduced the tax levy.

Reserve Funds

Reserve funds may be established by Board action, in accordance with applicable laws, and used to provide financing for specific purposes. Each statute that authorizes a reserve fund sets forth a particular underlying purpose for the fund. A reserve fund should be established with a clear purpose or intent regarding the future purpose and use that aligns with statutory authorizations and, when appropriate, replenishment of funds into the reserve. Although school districts are generally not limited as to how much money they can maintain in reserve funds, such funds should not be used to accumulate excess cash or fund balance. It is important to ensure that all reserve fund balances are reasonable. Funding reserves at greater than reasonable levels essentially results in idle funds the District could have used for other purposes, including funding operations.

As of June 30, 2015, the District reported six reserve funds with combined balances totaling \$42.3 million: employee benefit accrued liability reserve (EBALR) (\$22.9 million), workers' compensation reserve (\$8.3 million), retirement contribution reserve (\$6.3 million), insurance reserve (\$4.2 million), debt reserve (\$550,600) and unemployment insurance reserve (\$85,900). The retirement contribution reserve was established by Board resolution on June 12, 2006, which set a maximum funding threshold not to exceed \$2 million. However, the resolution did not have clear directives on the conditions under which the reserve can be used. The retirement contribution reserve balance of \$6.3 million as of June 30, 2015 is

more than three times the \$2 million threshold set by the Board. The District did not use any reserve funds for retirement payments between July 1, 2012 and June 30, 2015.

District officials could not provide Board resolutions establishing the remaining five reserves. The insurance, unemployment and workers' compensation reserves appeared on the District's financial statements on June 30, 1993,³ the EBALR first appeared on the financial statements dated June 30, 2000 and the debt reserve was created on June 30, 2009. The Assistant Superintendent told us that she restricted \$16,157 in the debt reserve at the verbal direction of the District's previous external auditors, creating this reserve without Board authorization. She also restricted additional funds of \$340,240 in 2013-14 and \$194,235 in 2014-15 without Board authorization.

Restricting fund balance without basis and Board authorization causes available fund balance to appear to be lower than it actually is. As a result, District officials have withheld funds from productive use.

The Assistant Superintendent could not explain the basis for the current funding levels in the workers' compensation insurance and unemployment insurance reserves. She told us that all reserves are discussed by the audit committee and reviewed during budget preparation. However, no documentation was provided to support this assertion.

We reviewed the accounting records for each reserve and determined that the District expended \$914,000 in 2012-13 and \$1.6 million in 2014-15 from the EBALR with Board approval. Based on the District's reported compensated absences liability, the \$22.9 million EBALR balance appears reasonable. Although the District has no basis for the funds restricted in the workers' compensation and the unemployment insurance reserves, funding levels appear to have reasonable balances based on annual expenditures and reported long-term liabilities.

The Assistant Superintendent told us that the Board has not discussed the amount maintained in the insurance reserve, and could not explain the basis for its \$4.2 million balance. The District has no clear objective or intent regarding the future purpose and use for this reserve. She indicated that the District has had only minimal liabilities that were not covered by District insurance policies. The Assistant Superintendent believes that by restricting these funds, the District is guarding against an unknown.

³ District officials stated the reserves could have been created earlier, but June 1993 is as far back as their reports go.

In March 2016, after we brought it to the Assistant Superintendent's attention, the Board adopted resolutions establishing four of the reserves: workers' compensation, insurance, unemployment insurance and EBALR. The resolutions stated the purpose of each reserve; established maximum balances for the EBALR (\$32 million), workers' compensation reserve (\$3 million), insurance reserve (\$3 million) and unemployment insurance reserve (\$150,000); and increased the maximum threshold for the retirement contribution reserve (\$8 million). The Board also adopted resolutions transferring funds from the insurance reserve (\$1.3 million) and the workers' compensation reserve (\$5.4 million) to the EBALR. The Assistant Superintendent told us that the District plans to transfer the funds identified as the debt reserve to the District's debt service fund at the end of the 2015-16 fiscal year.

Without Board resolutions properly establishing District reserves, there is no assurance that reserves meet statutory guidelines, are necessary and are reasonably funded. Lacking this key information, District residents do not have adequate assurance that resources are being used in the most efficient manner. District officials have overfunded the retirement contribution and insurance reserve funds, have exceeded statutory limits and may have missed opportunities to reduce taxes and operate in a consistent and transparent manner. Funding reserves at greater than reasonable levels can contribute to real property tax levies that are higher than necessary because excessive reserve balances are not being used to fund operations.

Recommendations

The Board should:

1. Adopt budgets with realistic expenditure estimates.
2. Use surplus funds as a financing source for:
 - Establishing or increasing necessary reserves;
 - Financing one-time expenditures; or
 - Reducing property taxes.
3. Discontinue the practice of adopting budgets that result in the appropriation of fund balance not needed to fund District operations.
4. Update the fund balance policy to indicate the extent to which fund balance can be used, what a minimum acceptable balance is and when it is acceptable to use fund balance, either unrestricted or restricted, to fund operations.

5. Ensure that all reserve funds are properly established by resolution, which should include the rationale, objective and funding level for each reserve.

District officials should:

6. Ensure reserve funds are funded in accordance with District standards and use any excess funds identified to benefit District residents in accordance with statutory requirements.

Hiring Practices

The Board, among other functions, is responsible for interviewing and appointing a Superintendent to supervise the employees responsible for the District's management. The Superintendent, as the District's chief executive officer, is responsible for the District's day-to-day management and is primarily responsible for interviewing and hiring administrative employees, subject to Board approval. The District has a central administration team⁴ to assist with this process. The Coordinator of Human Resources is responsible for posting available job openings as instructed by the Board and Superintendent and overseeing the employees in the Human Resources Department, where employment records for administrators are generated and maintained. Education Law (Law) requires that all prospective employees undergo a fingerprint-supported criminal history background check.

The Board and District officials did not comply with the Law and District policy when appointing the Superintendent and all administrators hired during the audit period. When hiring for the Superintendent position, the Board did not follow its policy requiring the most qualified available candidate be chosen. The Board contracted with Eastern Suffolk Board of Cooperative Educational Services (BOCES) to conduct the search for a qualified Superintendent but appointed a candidate that BOCES did not recommend. The Board also interviewed and appointed the Assistant Superintendent for Secondary Education without the Superintendent's input or recommendation, as required by District policy.

The central administration team did not develop the qualifications for the Director of Policy and Programs position prior to the position being advertised. Further, the first round of interviews did not include the use of an interview committee, as required by District policy. In addition, of the 27 administrative positions filled during the audit period, officials did not publicly post 17 open positions as required by District policy. Only eight of the administrators appointed to a position during the audit period had completed the required employment disclosure forms. Additionally, six administrators were not fingerprinted as required by Law.

⁴ The central administration team includes the Assistant Superintendent for Secondary Education, Assistant Superintendent for Elementary Education and Personnel, Director of Special Services, Coordinator of Human Resources and Director of Funded Programs and Compliance.

Superintendent

The Board is responsible for appointing a Superintendent to be responsible for, along with other administrative staff, the District's day-to-day management under the Board's direction. The District's policy requires that the Board practice due diligence by securing the most qualified available candidate for the position.

In December 2014 the Board contracted with BOCES, at a cost of about \$7,000, to assist with its search for a qualified Superintendent. The Board developed a list of essential qualifications for prospective candidates. BOCES conducted a search based on the Board's criteria, with input from community members. BOCES was responsible for screening and interviewing applicants and presented a list of seven qualified candidates that it recommended the Board interview.

In addition to the seven candidates, BOCES identified:

- Two candidates for possible consideration if none of the seven worked out;
- Two candidates not recommended for interview;
- Six candidates excluded from consideration. BOCES provided the Board with an explanation as to why they were not interviewed;
- Twenty-three candidates not considered for the position because of incomplete applications;
- Five candidates excluded from consideration because they lacked proper qualifications; and
- One candidate who withdrew from the process.

The Board interviewed five of the seven candidates BOCES recommended as the most qualified and one additional candidate from the list of six candidates that BOCES recommended be excluded from consideration. None of the five Board members who were on the Board at the time could recall who requested the excluded candidate be added to the interviews. Four candidates were invited for a second round of interviews, after which the Board made its selection.

The Board hired the interviewed candidate that BOCES recommended be excluded from consideration. This candidate was not interviewed or recommended by BOCES because it did not consider him to be one of the most qualified. This same individual had previously applied at the District for the position of Assistant Superintendent for Secondary Education in March 2014. The hiring committee at that time did not

deem him qualified for the position, and he was not selected for an interview. A Board member explained that some Board members liked that this candidate lived within the District and felt it would be advantageous to the District to have a local person in the position. The Board's selected candidate accepted the Superintendent position and began District employment on July 1, 2015.

The Board did not follow its own policy in securing the most qualified available candidate. As a result, the District spent approximately \$7,000 for BOCES to conduct a thorough search for a qualified Superintendent and did not follow the recommendations provided.

Policy and Procedures

The Superintendent is responsible for hiring the best qualified administrators available. The Board adopted a hiring policy in May 2005 and revised it in December 2014. The policy requires that a committee interview candidates and make recommendations to the Superintendent for candidates for administrative positions. The committee, chosen by the Superintendent, must have one representative each from the Brentwood Teachers' Association (BTA) and the Brentwood Principals and Supervisors Association (BPSO), and can include up to two community members not currently employed by the District.

The Superintendent, or his designee, interviews all qualified applicants identified by the committee and then recommends two candidates – a first choice and a second choice – to the Board. The appointment of the administrator is only valid with the Superintendent's recommendation and Board's vote of approval. If the Board rejects the Superintendent's recommendations, the Superintendent is required to present a new candidate.

District policy also requires all employment positions to be posted on the District's website as they become available. The District's central administration team, with input from the BTA and the BPSO, is responsible for developing recommended qualifications for all new teaching and administrative positions. The Superintendent must approve the recommended qualifications for all new and existing positions. The Board must approve the qualifications for all new positions and any revisions to the qualifications for existing positions. The policy requires the consent of two-thirds of the Board's members at a public meeting to employ a teacher related by blood or marriage to a Board member.

Superintendent's Recommendation to the Board – Prior to November 2015, the District did not follow the hiring policy. The current and former Superintendents presented and recommended one candidate to the Board instead of the required two. Further, in some cases

where the Board did not appoint the Superintendent's recommended candidate, it subsequently eliminated the Superintendent from the hiring decision and made its own selections.

For example, on July 24, 2014, the former Superintendent recommended a candidate for the position of Assistant Superintendent for Secondary Education. The Board motion to appoint the individual failed. The former Superintendent did not present a second choice to the Board. Instead, the position was reposted on July 29, 2014 and a new set of candidates was interviewed. However, the process of using a hiring committee and the former Superintendent's recommendation was not followed. Instead, the Board and its legal counsel interviewed the candidates, selected the candidate for appointment and, on August 14, 2014, voted to appoint the candidate it selected. Although Board minutes indicate that the former Superintendent recommended the candidate, the former Superintendent and Board members told us that the Board made the selection without the former Superintendent's input.

The current Superintendent told us that, prior to November 2015, he provided one candidate recommendation to the Board. However, after he tried to fill the position of Coordinator of Health, Psychology and Social Work Services, the procedure changed. The Superintendent placed his recommendation for this position on the November 19, 2015 Board meeting agenda but the Board motion to appoint the candidate failed.

Subsequently, a Board member who missed the November meeting requested that the same candidate be placed on the next agenda. However, that was not in compliance with the District's policy, which requires the Superintendent to submit a new name to the Board for consideration. This same individual was placed on the agenda again as requested, the Board voted again and the motion failed again. Board members then asked the Superintendent to comply with the policy and send two candidates for question and answer sessions before being placed on the Board's agenda for consideration.

At present, the Superintendent submits two candidates, in writing, to each Board member indicating his preferred choice. The Board calls a special meeting and it meets with both candidates during an executive session. After Board members have met the two candidates, they discuss their choice with the Superintendent. If they agree with the Superintendent's choice, the candidate is placed on the next scheduled Board meeting agenda for a public vote. The Superintendent stated that if the Board does not agree with his first choice and prefers the second candidate, he places that person on the agenda instead.

The Superintendent raised concerns with the Board requiring that he identify two candidates for the Board to choose from. The Superintendent does not believe that this requirement is in compliance with the Law, though he did not provide a specific section of the Law that he believes the District is violating. If Board members meet with two candidates to ultimately choose one, they are participating in the interview process.

Although some Board members told us that they believe that they are interviewing the candidates, others believe they are not interviewing, but merely holding question and answer sessions to get to know the candidates. These Board members believe that the Superintendent is only recommending one candidate and that they require a second candidate from the Superintendent for comparative purposes only. They said that although they meet with two candidates, they are only voting on the Superintendent's top choice. Because of this confusion, officials consulted the District's legal counsel for clarity and were advised that the Superintendent should comply with the District's policy.

Because of the confusion surrounding the interview process, the Board does not have adequate assurance that its hiring process is being complied with and is functioning as intended.

Job Postings – The District has an organizational table that outlines all of the District's administrative positions. The Board must approve the addition of a title to the organizational table before appointing an employee to the position. When a position is identified as vacant, the Coordinator of Human Resources is responsible for posting the vacant position internally by placing a printed notice on bulletin boards throughout the District as well as on the District's website. If it is determined that there are no eligible candidates in the District, the position is posted externally by placing it on BOCES' On Line Application System and, when necessary, in print advertising. At times, information may also be disseminated through professional organizations.

The District filled 27 administrative positions during the audit period. Two of these positions did not need to be posted because one was a transfer from an abolished position to a new position per a memorandum of agreement, and the second was a change of title. Eight positions were posted internally; five of these eight were also posted externally. The remaining 17 positions were not posted as required by the District's policy.

District officials posted and appointed individuals to positions no longer on the District's organizational table. For example, at the

August 18, 2011 Board meeting, the Board abolished the positions of Assistant Superintendent for Secondary Education and Director of Policy and Programs as a cost saving measure. The Board created the new position of Assistant Superintendent for Secondary Education, Programs and Policy. The individual who filled that position retired in July 2014. However, instead of filling that open position, the Board and District officials advertised, interviewed and appointed a candidate for the position of Assistant Superintendent for Secondary Education, a position no longer on the District's table of organization.

Further, in June 2015, the District advertised the position of Director of Policy and Programs, another position no longer on the District's table of organization. District officials did not follow policy and procedures for the development and posting of this position. The Superintendent or his designee did not compose the posting for the position. BTA and BPSO leadership told us they were not consulted and were not provided the opportunity to offer input. District officials told us they did not know who developed the criteria for the posting or when it was created.

Subsequently, officials provided us with documentation showing that, at 6:09 a.m. on June 16, 2015, the Board President emailed the job posting to the Superintendent, the Assistant Superintendent of Secondary Education and the Coordinator of Human Resources. The Board President's email directed them to post the position on the District's website and throughout the District by noon that day. The Board President told us that this job posting was based on the person who previously held the position. Only one candidate, the Board President's son, applied for the position. He was interviewed by the newly appointed Superintendent and the Assistant Superintendent for Secondary Education on July 1, 2015, the Superintendent's first day. District officials did not use an interview committee as required by District policy.

Because the position had been previously abolished, the Superintendent could not present the candidate to the Board for appointment at that evening's Board meeting. Instead, at the July 13, 2015 meeting, the Board reinstated the position to its table of organization and the position was reposted. Fifty-three individuals responded, and District officials scheduled interviews for 10 individuals. However, District officials canceled these interviews due to a grievance filed by both the administrators and teachers unions, who were not notified of the interviews. District officials posted this position for a third time in December 2015 and received 41 responses. As of August 5, 2016, the District still had not conducted interviews or appointed anyone to the position. Further, the Board did not include funding for this position in the District's 2016-17 budget.

The Coordinator of Human Resources explained that the 17 positions that were not posted were temporary positions filled using interim employees, hired on a temporary emergency basis, which does not allow time for the position to be posted. The District's policy and procedures do not address temporary employees.

However, five of these temporary positions were longer in nature than would require using a temporary interim employee. For example, at the September 17, 2015 Board meeting, the Superintendent recommended a candidate for an assistant principal position at the middle school. The duration of this position was indefinite because the District planned to fill it with a temporary employee until it found a permanent placement. This position was not previously posted and the candidate did not go through an interview process. The Board approved the candidate although the procedures were not followed. District officials explained that this administrator was selected and recommended to the Board at the Superintendent's discretion but could not explain why they did not follow the policy.

The remaining 12 temporary positions were for short-term interim administrative vacancies. District officials explained that, generally, the Assistant Superintendents for Elementary Education and Secondary Education notify the Superintendent of interim administrative vacancies that need to be filled and usually indicate which retired administrator they would like to fill the position. Historically, the Superintendent would reach out to the Board President and discuss individuals who have retired from the District who may be available to fill interim positions. District officials then contact the individuals directly and ask if they are available to fill the position.

For example, in April 2015 three principals were out of their buildings attending a one-week training session, so the District hired three individuals to act as interim principals to fill in for them during their absence. Officials did not comply with the District's hiring and recruiting policy and procedures because none of these openings were posted internally or externally, there were no interviews, none of the hired individuals completed the required employment disclosure form and the District did not obtain the required fingerprint background checks. The former Superintendent told us that there was, at one time, a list of approved retired administrators to be used to fill these temporary positions. However, District officials told us that they were not aware of such a list and could not locate a Board resolution approving this list.

Employment Disclosure Forms — The District's policy requires applicants to complete an employment disclosure form designed to promote transparency and protect against nepotism, favoritism and

conflicts of interest in hiring. Prior to December 2014, the policy required all certified applicants new to the District to complete the form indicating any relation by blood or marriage to any Board members or District administrators and submit it with their application. The Law requires a two-thirds vote from the Board for appointment of certified applicants who are related to Board members. The employment disclosure form and policy were updated in December 2014 to apply to all employees hired, promoted or appointed and required disclosure of relations by blood or marriage to any part- or full-time District employee in addition to Board members or District administrators.

We reviewed employment records and determined that employees completed employment disclosure forms for only eight of 23 positions requiring a disclosure form. None of the eight completed forms indicated that the employee had any relation to a Board member or a District employee. The remaining 15 positions were filled by 12⁵ individuals who either did not complete a form at all or submitted an incomplete form. For example, an administrator hired in November 2015 left the question of whether they were related to a District employee or official blank. Therefore, the Board and District officials were unable to determine if any related party relationship exists.

The Coordinator of Human Resources told us that, as a practice, employment disclosure forms are not requested for substitute or temporary employees because they are typically brought in to provide temporary emergency coverage. Although the policy does not identify that these types of employees should be treated differently, they do not go through the same hiring process required of permanent employees. He told us that he was not aware that some employment disclosure forms were incomplete.

The Board and District officials did not follow District policy or procedures for recruiting and hiring administrators. Instead, Board members interviewed potential administrators, appointed the Assistant Superintendent for Secondary Education without the Superintendent's recommendation and posted two positions that were no longer part of the District's organizational table. Employment Disclosure forms have not been completed for all new or promoted employees. Because of this, the Board does not have assurance that its hiring policy is being complied with.

Criminal Background Check

The Law requires that, after July 1, 2001, prospective employees who apply for certification as a superintendent, teacher, administrator, supervisor or teaching assistant undergo a fingerprint-supported criminal history background check. If an employee leaves the District

⁵ Three individuals filled multiple positions during the audit period.

and subsequently returns to work after 12 consecutive months or more, the criminal history record check must be redone.

There were 20 individuals appointed to the 27 administrator positions during the audit period.⁶ Four administrators were exempt from the requirement because they were appointed to their positions prior to July 1, 2001. Ten administrators had the fingerprint criminal history record checks completed prior to their appointment to the positions. District officials did not obtain a criminal history record check for the remaining six administrators. District officials stated they did not obtain the criminal history record check for these individuals because they were former District employees and were unaware that updated criminal record checks on employees who had a break in service of at least 12 months was required. They are now obtaining the required information for these administrators.

Because the Board and District officials did not always comply with the Law regarding fingerprint-supported criminal background checks, students' safety could be at risk.

Recommendations

The Board should:

7. Adhere to District policy when hiring a Superintendent by choosing the most qualified candidate.
8. Consider revising the policy to address the use of interim administrators if it intends to continue to permit such appointments.
9. Ensure that positions are properly identified on the table of organization before appointing individuals to the titles.
10. Ensure that all candidates have completed disclosure forms prior to voting and appointing administrators.

District officials should:

11. Ensure compliance with District policy when posting job openings and appointing administrators.
12. Ensure that all employees, including retired administrators rehired on a temporary basis, complete disclosure forms and are in compliance with criminal background checks.

⁶ Six individuals filled multiple positions.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

District officials referred to 27 pages of enclosures in their response. We did not include these enclosures in the final report because the District officials' response included sufficient information to indicate their intentions.



Brentwood Union Free School District

Dr. Levi McIntyre
Superintendent of Schools

Dr. Monique Darrisaw-Akil
Assistant Superintendent for Secondary Education

Dr. Aurelia Henriquez
Assistant Superintendent for Elementary Education

Stacy L. O'Connor
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September 29, 2016

Mr. Ira McCracken
Chief Examiner
Divisions of Local Government and
School Accountability
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Mr. McCracken:

The Brentwood Union Free School District is in receipt of the Draft Fund Balance and Hiring Practices Report of Examination covering the period of July 1, 2014 through October 31, 2015. We would like to thank the local field staff who conducted the audit.

Response to Audit

Fund Balance Report of Examination

The District takes seriously its responsibility to effectively and transparently manage the Community's resources and is pleased that the report did not uncover any material weaknesses or fraud. We welcome the opportunity to strengthen our financial controls and have always worked, and will continue to work, cooperatively with the Claims' Auditor, Internal Auditor, External Auditor and the Comptroller's Office. While we will carefully review all recommendations received, we respectfully disagree with some of the Comptroller's comments and recommendations.

The recommendations center around the District's budgeting strategy including the use of appropriated fund balance. It is sound business practice to conservatively budget for expenditures. In the years leading up to the economic recession, the former State Education Commissioner, Richard P. Mills, issued a report that contained a "Budget Message" for school superintendents and other financial leaders. See enclosure #1. Two of the nine points included in the report follow:

- Understand the budget process as it really is, not as we would like it to be.
- Budget conservatively and then don't spend all that you have.

Adhering to these principles has allowed the District to endure the recession and beyond with most all of its programs intact. This was accomplished while navigating a changing environment over the last few years, including but not limited to Part 154 changes, the Affordable Care Act, NYSHIP's Policy Memo 122r3, mid-year increase to health insurance rates which is unknown during the budget development process, the Gap Elimination Adjustment, uncertain State Aid, non-compliance with the Foundation Aid formula, the introduction of the property tax cap, a surge in enrollment and the addition of a large homeless shelter within the District boundary. In addition, the District faces the financial stress of the possibility of a 9,000 unit apartment complex being built fully within the District's boundary.

In figure 1, the report shows that the District spent an average of 5.1% less than budgeted during the audit period. Conversely, the District spent an average of 95% of its budget. When representatives from the Comptroller's Office were asked to provide guidance as to the appropriate percentage of budget that should be expended, they were unable to provide such guidance. Their response was that it varied by district. Brentwood UFSD faces many unique circumstances not experienced in other districts and this should be taken into account. The District is far more similar to the "Big 5" districts, which have a completely different budgetary process, than to any other district in the State.

In several areas of the report, it is stated that the District's budgeting practice during the audit period resulted in the accumulation and retention of excess funds. It is important to note that during the audit period the overall fund balance declined, thus excess funds were not accumulated.

See
Note 1
Page 29

The District disagrees with the comment made throughout the report that its unrestricted fund balance has exceeded statutory limits. **Figure 2: *Unrestricted Fund Balance at Year End* clearly shows that the unrestricted fund balance at year end was well below the 4% statutory limit. It ranged from 2.81% to 3.39% during the audit period.**

See
Note 2
Page 29

The Comptroller's Office is using a recalculated figure by adding the unused, appropriated fund balance to the actual, unrestricted fund balance. The District and its auditors are not aware of a method of recalculating unrestricted fund balance to include appropriated fund balance. In fact, the following is taken from a footnote contained in the Office of the State Comptroller's November 2010 correspondence to Chief Fiscal Officers entitled, "Fund Balance Reporting and Governmental Fund Type Definitions".

See
Note 3
Page 29

"Appropriated fund balance is classified as assigned, but must be excluded from the 4 percent calculation because it is not being retained and is already being used to reduce the tax levy for the subsequent fiscal year. Encumbrances classified as committed or assigned have been excluded from the calculation for consistency, because they are not considered surplus funds and were previously excluded."

Enclosure document #2 is attached for your reference. This footnote clearly states that appropriated fund balance should not be counted as an unrestricted fund balance and it is excluded from the 4 percent calculation. In addition, the footnote clearly states that appropriated fund balance is used to reduce the tax levy for the subsequent school year. Therefore, the funds are being put to productive use which is in contrast with the Comptroller's comment.

See
Note 4
Page 29

The following excerpt from the Comptroller's Fiscal Stress Monitoring System (enclosure #3) makes clear the importance of fund balance:

"The level of a local government's year-end fund balance can affect its ability to deal with revenue shortfalls and expenditure overruns (emergency situations). A negative or low level of fund balance can affect the local government's ability to provide services at current levels. In addition, since fund balance is the accumulated results of the local government's financial operations over time, it is a strong measure of financial condition and is not unduly affected by short-term circumstances."

Based on this passage, Brentwood's fund balance position is a signal of sound financial management. The use of Brentwood's fund balance during the recession allowed it to maintain many programs that were eliminated in other districts. Following the Comptroller's recommendation to "use surplus funds as a financing source" would negatively impact the District's Fiscal Stress Monitoring Score and put the future of non-mandated programs in more jeopardy than they already are due to the challenges mentioned earlier in this response.

See
Note 5
Page 29

The District acknowledges that some reserves may not have been properly established. The reserves date back many years, some earlier than 1993, so the documentation is not readily available. In March 2016, the Board approved resolutions to properly establish the reserves.

At various meetings, the Board and Community discuss the District's reserves. Through the use of numerous reports, the balances of all reserves are reviewed to ensure they are reasonable. The basis and use for each reserve is known.

See
Note 6
Page 30

Finally, it is imperative to state that the budget development process takes place with the participation of the Community. It is a transparent process. The use of reserves and appropriated fund balance is discussed in Budget Development Meetings, Budget Hearings, Audit Committee Meetings and Board Meeting, to name a few. In addition, information about reserves is sent to Community members via the Property Tax Report Card and it is contained within budget newsletters.

See
Note 7
Page 30

Hiring Practices

Superintendent:

The Comptroller's Audit Team should realize that BOCES was performing a consulting function and thus BOCES recommendation was advisory only and not legally binding on the Board. The Board exercised its independence when it expanded the pool of candidates that BOCES suggested that it interviews, by including additional candidates to the list. The Board expanded the list based on the fact that the consultant from BOCES seems to have omitted an important criteria in the job specification that the District preferred that the candidates be residents of the District or indicate their willingness to be a resident. The Comptroller's audit team should not substitute its judgment for the Board and insisting that the Board abides by the BOCES suggestion/recommendation which was advisory only and not legally binding on the Board. This is most obvious on page 5 where the Audit Committee concluded that the Board did not exercise independence in hiring a qualified candidate.

See
Note 8
Page 30

See
Note 9
Page 30

The Audit Committee states the Board did not "follow policy requiring the most qualified available candidate to be chosen." "Board contacted BOCES to conduct the search for a qualified superintendent, but appointed a candidate that BOCES did not recommend."

The Audit Committee in those statements and in subsequent statements seems to indicate that the current superintendent is not qualified for this position because he was not a recommended BOCES candidate.

See
Note 10
Page 30

This is a false assumption. Before the Committee can make such an assumption, the Committee must independently compare the qualifications of the current superintendent with the other recommended candidates.

Furthermore, the auditors made a major research error when they associated BOCES recommended candidates with being qualified and BOCES non-recommended candidates with being unqualified. These are two mutually exclusive criteria and cannot be linked without further research; thus, any inference or conclusion drawn by linking both criteria would be an invalid conclusion.

See
Note 10
Page 30

The Audit Committee incorrectly concluded that the current superintendent was not interviewed by BOCES. This is false. The current superintendent was interviewed by Dr. [REDACTED] the Hines Administration Building in Patchogue. During the interview Dr. [REDACTED] indicated to the superintendent that he was concerned that he had filed a discrimination suit against his past District and he would have to provide the Board with full disclosure; furthermore, one of the parties to the suit was a close associate of Dr. [REDACTED] which he did not disclose at the interview. This non-recommendation was biased. The Committee may say that the Board did not follow BOCES recommendation, but cannot state that the current superintendent is "not qualified" or was not the "most qualified" for the office, unless it conducts its own comparison of qualifications.

See
Note 11
Page 30

The Comptroller is being offered the current superintendent's credentials (enclosure #4) for him to determine if the conclusions drawn by the Audit Committee is supported by the evidence. The Audit Committee should have closely reviewed the job specifications (enclosure #5) and the qualifications of all the other recommended candidates. It appears this was not done. The Audit Committee should also determine the requirements for "qualified" and "most qualified" qualifications for superintendent.

See
Note 12
Page 31

The Audit Committee should independently compare the enclosed credentials with the other recommended candidates before it can arrive at its conclusion of a most qualified candidate. The Audit Committee should also compare these credentials with the credentials of at least the previous superintendent in which the audit period covers.

The Audit Committee should also compare the current superintendent's credentials against all the current sitting superintendents in Suffolk County particularly at the time of appointment to ascertain how the current superintendent's qualifications compares with their qualifications at initial appointment before it can address the credentials of "most qualified." The Audit Committee must also first determine what are the criteria required to qualify for the superintendency (copy attached) and compare it with the current superintendent's qualifications to determine if it meets those criteria.

See
Note 10
Page 30

The Audit Committee must also look at the job specification to determine the criteria that the Board required to ascertain if the qualifications of the current superintendent fits the criteria required before making such assertions. The Audit Committee cannot validly draw those conclusions and the summary recommendation that the "most qualified" available candidate was not hired.

See
Note 11
Page 30

Again, the Committee may state that the Board did not follow BOCES recommendation but the Audit Committee cannot state that the Board had not secured the "most qualified" unless it does its own comparison of reviewing the credentials of the other recommended candidates.

See
Note 10
Page 30

Throughout the report there are factually inaccurate conclusions. It appears that the Committee included temporary administrators who were hired to cover for administrators who were absent from their position for a short period of time. It is not feasible during temporary absences to post a position to interview from a pool of candidates that may apply. It has been the past practice to temporarily employ former retired administrators from the District to provide those temporary services. It is not feasible or practical for the Administration or the Board to follow the suggestions of the Audit Committee.

See
Note 13
Page 31

The Audit Committee incorrectly states that in the interview for the Assistant Superintendent for Secondary Education that there was no committee. The members of that interview committee included representatives from the unions and the Human Resource Department.

See
Note 14
Page 31

The Audit Committee incorrectly concluded that the Assistant Superintendent for Secondary Education was hired without the former Superintendent participation or knowledge. However, the record from the Board Minutes of August 14, 2014, shows otherwise. It states that upon the recommendation of the Superintendent the Assistant Superintendent was recommended for hiring.

See
Note 15
Page 31

In addition, the position of Policy and Program was under consideration of being restored by the former superintendent when the position for Assistant Superintendent for Secondary Education was posted.

See
Note 16
Page 31

In closing, we would like to ensure the staff who conducted the audit that we will utilize this report, and all audit reports, to enhance the educational program while operating as efficiently and fiscally prudently as possible during these volatile times.

Sincerely,

Dr. Levi McIntyre
Superintendent of Schools

Ms. Stacy O'Connor
Assistant Superintendent for
Finance and Operations

- Enclosures: #1 Report to the State Board of Regents
#2 Fund Balance Reporting and Governmental Fund Type Definitions
#3 Proposed Fiscal Stress Monitoring System
#4 Superintendent's Credentials
#5 Job Specifications

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Had the results of operations mirrored the District's planned budget, the fund balance would have declined by \$60.8 million between 2012-13 and 2014-15. However, because the District overestimated expenditures by \$49 million for that same period, fund balance decreased by \$5.6 million, resulting in the accumulation of excess funds.

Note 2

Figure 2 shows the District's reported year-end unrestricted fund balance, which essentially complied with the 4 percent statutory limit for fiscal years 2012-13 through 2014-15. However, District officials accomplished this by appropriating fund balance totaling \$60.8 million for that period, of which only \$5.6 million was used. When adding back unused appropriated fund balance, the District's recalculated unrestricted fund balance exceeded the statutory limit, ranging between 8 and 9 percent of the ensuing year's appropriations during this time.

Note 3

The District's practice of routinely appropriating fund balance in its budget, but generally not using it, can distort the true unrestricted fund balance retained by the District. We recalculated the amount of unrestricted fund balance to show the actual unrestricted fund balance that the District should have reported if it had budgeted accurately.

Note 4

The footnote referred to states that appropriated fund balance is to be excluded from the 4 percent calculation because it is not being retained. We agree that fund balance that is needed to finance operations should be appropriated and excluded from the 4 percent calculation. However, fund balance that is not needed to finance the ensuing year should not be appropriated to make it appear as if the District is complying with the 4 percent statute. We reported the District's actual use of appropriated fund balance. Because District officials overestimated budgeted appropriations, they did not need 91 percent of the appropriated fund balance to finance operations and, therefore, retained it.

Note 5

The Fiscal Stress Monitoring System designation can only be as good as the quality and accuracy of the District's reported data. Although the Board appropriated \$60.8 million of fund balance in the annual budgets as a financing source, the District used only \$5.6 million (9 percent) of the appropriated fund balance. The consistent appropriation of fund balance that is not needed clouds the District's financial position and can be misleading to District residents.

Note 6

District officials were unable to provide meeting minutes or documentation to support their assertion that reserves were discussed at any meetings. Further, District officials could not support or explain the basis for funding levels in the workers' compensation reserve and unemployment insurance reserve.

Note 7

Planning for operating deficits by appropriating fund balance, while overestimating expenditures, is not a transparent means of communicating the District's true financial condition to residents. District officials did not provide meeting minutes or documentation to support their contention that the use of reserves and appropriated fund balance was discussed in these meetings. Further, we reviewed the 2014-15 budget newsletter, which contained the District's property tax report card. No information about the District's reserve use was shared with community members in that document.

Note 8

Members of the Board indicated, and BOCES provided support confirming, that the list of essential qualifications for prospective candidates was developed based on Board, staff, parents, community and student input. These essential qualifications were subsequently reviewed and approved by the Board prior to initiating the application process. There is no indication that the Board included criteria that the candidate be a District resident. We made no assertions that the recommendations from BOCES were legally binding, nor did we state that the Board did not exercise independence. Our report states that the Board contracted with BOCES to conduct the search for a qualified Superintendent but appointed a candidate that BOCES did not recommend. We did not insist that the Board abide by BOCES' recommendations. Rather, we recommended that the Board comply with its own policy.

Note 9

The District's reference to the "Audit Committee" here and going forward in the response appears to be for the Office of the State Comptroller's audit team.

Note 10

Our objective was not to determine the Superintendent's qualifications but to determine whether the Board complied with District policy. The Board contracted with BOCES to identify, evaluate and recommend the most qualified candidates. We made no assertion that BOCES-recommended candidates were qualified or that non-recommended candidates were unqualified. Instead, we reported that the Board did not follow its policy requiring the most qualified available candidate be chosen when appointing the Superintendent, based on the facts provided to us.

Note 11

BOCES provided the Board with a list of seven qualified candidates that it recommended the Board interview and six candidates BOCES excluded from consideration who were not interviewed. The current Superintendent was included in the six candidates BOCES did not interview. The Board subsequently requested that BOCES interview the current Superintendent. Our report does not state

that the Superintendent is not qualified. Our report is based on the facts provided, which show that the current Superintendent was not included in the list of the most qualified candidates available, as evaluated by BOCES.

Note 12

Our methodology did not include auditing the work BOCES completed to review the Board's list of job specifications and qualifications and identify, evaluate and recommend the most qualified candidates. Our methodology included determining whether the Board practiced due diligence in following District policy by securing the most qualified available candidate for the Superintendent position.

Note 13

District policy indicates that the procedures are required when hiring all administrators. The policy makes no distinction between types of administrators and does not note any exceptions which would allow the District to hire "temporary administrators" any differently than it hires any other administrator. To protect students' safety, it is imperative that all employees have the proper clearance before working in the District.

Note 14

As stated in the report, the former Superintendent made an original recommendation to the Board for the position of Assistant Superintendent for Secondary Education. As is the District's policy, this recommendation was made using the process of an interview committee. The Board motion to appoint the individual failed. The position was reposted and a new set of candidates was interviewed. Board members told us that the District did not follow the process of using a hiring committee with this new set of candidates. Instead, the Board and its legal counsel interviewed the candidates.

Note 15

As stated in the report, although Board minutes indicate that the former Superintendent recommended the candidate for the Assistant Superintendent for Secondary Education position, the former Superintendent and Board members told us that the Board made the selection without the former Superintendent's input. The report does not state that the Assistant Superintendent was hired without the former Superintendent's knowledge.

Note 16

Neither the former Superintendent nor Board members indicated to us that the position of Policy and Program was under consideration of being restored. Further, they did not provide any support to indicate this. It is of no consequence that it was under consideration because the position did not exist when the position of Assistant Superintendent for Secondary Education was posted.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

- We interviewed Board members and District officials to determine the processes in place for developing budgets and to gain an understanding of the District's budgeting practices and use of fund balance.
- We obtained and reviewed District policies related to fund balance, reserves and budgeting.
- We analyzed the District's general fund financial records for the fiscal years ending June 30, 2013 through June 30, 2015 to determine financial trends.
- We compared the general fund's budgeted appropriations and estimated revenues with the actual results of operations for the fiscal years ending June 30, 2013 through June 30, 2015 to identify any significant budget variances.
- We interviewed District officials to obtain the causes of any significant budget-to-actual variances.
- We obtained and reviewed the District's adopted budget for 2015-16 and compared it to prior years' results of operations to determine whether budgeted revenues and appropriations were reasonable, based on historical data and supporting source documentation.
- We reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets for the fiscal years 2012-13 through 2015-16.
- We interviewed District officials and reviewed accounting records and related Board resolutions for the District's reserve funds to determine if they were legally established, reasonably funded and in compliance with applicable laws and the District's own plans.
- We obtained a listing of all administrators appointed during the audit period. All 20 administrators and the Superintendent were included in our audit sample.
- We interviewed Board members, District officials, BOCES officials and employees to gain an understanding of the processes in place to hire administrators.
- We obtained and reviewed the District's policies related to hiring and recruiting of employees and the conditional appointment of employees.
- We obtained and reviewed Board minutes to identify appointments to or terminations from administrative positions, the abolishment of or creation of new administrative positions and any other actions related to administrative positions.

- We obtained and reviewed personnel files, bargaining agreements, contracts and memorandums of agreements.
- We obtained and reviewed payroll journals and compared to contracts, bargaining agreements and memorandums of agreement to determine that salaries were properly paid.

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

APPENDIX D

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