



Dobbs Ferry Union Free School District Reserve Funds

Report of Examination

Period Covered:

July 1, 2014 — July 28, 2015

2015M-264



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2016

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

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

Respectfully submitted,

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

Introduction

Background

The Dobbs Ferry Union Free School District (District) is located in the Village of Dobbs Ferry in Westchester 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 is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The District operates three schools with approximately 1,470 students and 250 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$41.9 million, funded primarily with State aid, sales tax, real property taxes and grants.

Objective

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

- Did the Board properly establish and maintain reserve funds at reasonable levels?

Scope and Methodology

We examined the establishment, funding methods and balances of the District's general fund reserves for the period July 1, 2014 through July 28, 2015. We extended our scope period back to July 1, 2010 to analyze reserve fund balances.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. 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

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

Reserve Funds

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

The District has seven reserves in the general fund with reported balances totaling approximately \$7 million as of June 30, 2015: a tax certiorari reserve totaling \$4,930,040, a debt reserve totaling \$892,448, a retirement contribution reserve totaling \$675,256, an encumbrance reserve totaling \$360,621, an unemployment insurance reserve totaling \$126,766, an employee benefit accrued liability reserve totaling \$23,813 and a capital reserve totaling \$2,487. The District's tax certiorari reserve fund represents about 70 percent of the total restricted fund balance.

We analyzed these reserves for reasonableness and adherence to statutory requirements and determined that all seven reserves were funded at reasonable levels. While the tax certiorari reserve balance exceeded the District's average historical settlement as a percentage of the original claim amount, the excess amount is reasonable.

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. New York State 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 proceeding without approval by voters, provided the total amount in the reserve does not exceed the amount reasonably deemed necessary to meet anticipated judgments and claims. This reserve is to pay judgments and claims in tax certiorari proceedings in accordance with New York State Real Property Tax Law.

As of June 30, 2015, the tax certiorari reserve fund had a balance of approximately \$4.9 million. The District's tax certiorari cases on file showed a total potential liability of \$9.8 million as of June 30, 2015. We reviewed the claims that the District had settled during the past three fiscal years (2012-13 through 2014-15).¹ As shown in Figure 1, claims had been settled on average for approximately 39 percent of the original exposure (claim) amounts.

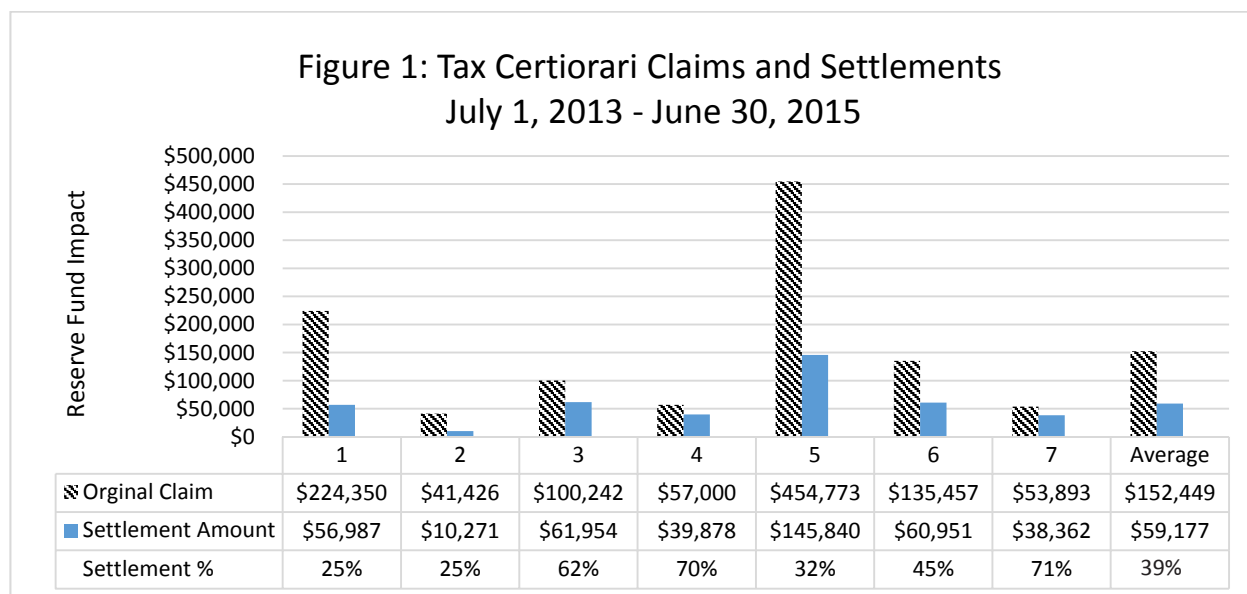


Figure 2 shows that the District's tax certiorari reserve balance as of June 30, 2015 was approximately \$4.9 million, or 57 percent of the \$8.7 million in outstanding claims.

Figure 2: Tax Certiorari Reserve as of June 30, 2015	
Total Tax Certiorari Claims	\$9,750,301
Less: Total Claims Settled by the District	(\$1,067,141)
Total Outstanding Claims	\$8,683,160
Tax Certiorari Reserve Balance	\$4,930,040
Projected Settlement at 38.82% of Total Outstanding Claims	(\$3,370,803)
Excess Tax Certiorari Reserve Balance (Per Historic Average)	\$1,559,237

Although the balance of \$1,559,237 exceeded the 39 percent historical average, our examination of the District's basis for restricting fund balance for tax certiorari showed that the amounts reserved were reasonable.

¹ The District did not make any tax certiorari settlement payments in 2012-13.

We encourage the Board to continue its funding of reserves at levels deemed reasonably necessary based on all information available during the budgeting process and to ensure the appropriate use of those funds.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

January 11, 2016

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


Re: Dobbs Ferry UFSD

Dear Ms. Blamah,

This letter is the Dobbs Ferry Union Free School District's (the District) response to the revised draft management letter. As encouraged in your letter, the Board will continue to fund reserves at levels deemed reasonably necessary as it has in the past.

We appreciate the input from the auditors as well as the time, attention and level of professionalism shown to the District during the audit. Should you require additional information, please contact Sylvia Fassler-Wallach, Assistant Superintendent, by telephone at (914) 693-1500 ext. 3030 or by email at fasslerwallachs@dfs.org. Thank you.

Sincerely,

Lisa Brady, Ed.D.
Superintendent 

cc: Adam Kama
James Obeng

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if the District properly established and maintained reserve funds at reasonable levels. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of the processes and procedures in place over the District's reserve funds.
- We interviewed District officials and reviewed the Board meeting minutes and resolutions to gain an understanding of the District's budget development including the fund balance management process.
- We analyzed the general fund's trend in total and restricted fund balances, including the use of appropriated fund balance, for the fiscal years 2009-10 through 2013-14. We also compared the unrestricted fund balance to the ensuing year's budgeted expenditures to determine the fund balance availability for future years.
- We reviewed the list of outstanding claims for tax certiorari and estimated the rate of settlement based on payment history.
- We reviewed Board minutes, policies, accounting records, audited financial statements, applicable statutes and activity within the reserves to determine if they were properly established, funded and used.
- We reviewed the last five years of financial information submitted to the Office of the State Comptroller and compared the amounts reported with bank statements, Board minutes and externally audited financial statements to verify the District's data reliability.
- We evaluated the methods used to fund the reserves and the level of unrestricted fund balance remaining in the general fund.

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

APPENDIX C

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