OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Greenburgh-Graham Union Free School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2012 – February 29, 2016

2016M-159

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

**Division of Local Government
and School Accountability**

July 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Greenburgh-Graham Union Free School District, entitled Financial Condition. 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 recommendation 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 Greenburgh-Graham Union Free School District (District) is located in the Town of Greenburgh in Westchester County. The District is a special act public school established in 1967 by the New York State Legislature to provide educational services to students with special education needs and operates in accordance with New York State Education law.

The District primarily serves children from the Graham Windham residential program. The District is governed by the Board of Education (Board), which is composed of eight members who are appointed by the Graham Windham organization. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the chief executive officer and is responsible, along with other staff, for the District's day-to-day management under the Board's direction.

The District operates two schools with approximately 335 students and 225 employees. The District's budgeted appropriations for the 2015-16 fiscal year were $19.7 million, which were funded primarily by tuition billed to students' home school districts or counties of residence.

Objective

The objective of our audit was to review the District's financial condition. Our audit addressed the following related question:

- Do District officials adequately monitor the District's financial condition?

Scope and Methodology

We examined District's financial condition for the period July 1, 2012 through February 29, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendation have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our report and indicated they plan to initiate corrective action.

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 address the findings and recommendation 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. We encourage the Board to make the CAP available for public review in the District Clerk's office.

Financial Condition

Financial condition may be defined as a school district's ability to balance recurring expenditures with recurring revenue sources, while providing desired services on a continuing basis. A school district in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a school district in poor financial condition usually struggles to balance its budget, may suffer through disruptive service level declines, has limited resources to finance future needs and has minimal cash available to pay current liabilities as they become due. As a special act district, the District is not allowed to maintain a fund balance, which makes the monitoring of financial condition crucial to avoid interruptions in District operations.

Additionally, school districts may issue revenue anticipation notes (RANs), which are short-term debt instruments issued in anticipation of certain future revenues. The notes must be redeemed by repaying principal and interest to the financing institution within one year and generally may be renewed for up to two years. The purpose of a RAN is to improve cash flow in the short-term. RANs can be issued only in the fiscal year in which the specific revenue is expected to be collected or received.

We analyzed the District's financial condition for the years 2011-12 through 2014-15 and found, in general, that District officials adequately monitor its financial condition. However, District officials have issued RANs each year despite the District's stable cash position.

District officials have issued a $1.7 million RAN each fiscal year since 2011-12. We found that the District had sufficient cash flow and did not use RAN proceeds to finance operations. Even though District officials did not use these proceeds, the District incurred annual interest expenditures and other administrative fees on the borrowed funds (Figure 1).

Figure 1: Interest Expenditures and Other Fees

Year	Interest Rate (%)	Interest Expenditures	Other Fees	Total Expenditures Incurred
2012-13	2.41	$40,970	$768	$41,738
2013-14	1.99	$33,906	$761	$34,667
2014-15	2.60	$44,151	$984	$45,135
2015-16	1.99	$33,905	$1,518	$35,423
Total		**$152,932**	**$4,031**	**$156,963**

The District could have saved a total of $156,963 (an average of approximately $39,000 each year) in RAN related expenditures during our audit period had a RAN not been issued when the funds were not needed.

District officials told us that due to the uncertainty of census figures for student enrollment and the unreconciled tuition rate, the Board feels it was prudent to have these funds available in the event it cannot meet the District's costs of operations. District officials also stated that although it appears the District does not need the RAN proceeds, they need to ensure that mandated services are provided with no interruption.

Because the Board issued a RAN when the District did not need funding, the District incurred interest expenditures and other fees that could have been used to fund other District needs.

Recommendation

1. The Board should issue a RAN only when the District needs to improve short-term cash flow.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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Ms. Tenneh Blamah
Chief Examiner of Local Government and School Accountability
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Ms. Blamah:

We would like to thank the Office of the State Comptroller staff for their hard, diligent and thorough work. We truly benefitted from their presence and analyses. We have provided herein the district's response to your recommendation contained in the report.

With regard to the OSC recommendation dealing with the issuance of Revenue Anticipation Notes (RAN's), we'd like to note that the chief reasons the Board and district have annually approved issuing Revenue Anticipation Notes due to great uncertainties that are always present. These include:

1) The justification and use of RAN's is consistent with the requirements of Section 25.00 of the New York State Local Finance Law and recognition that the District's obligation to maintain the programs and operations, even where the actual funding is still pending. The Board is required to ensure that it meets both its fiduciary and programmatic obligations to the District and to its students, therefore the current practice of ensuring cash flow is available to meet the fiscal needs of the District to maintain its programs and services, as required by law, pending receipt of tuition monies is essential.

2) The Rate Setting Unit of NYSED may at any time reduce the district's tuition rate it's allowed to charge or what it charged in the past.

   In Greenburgh-Graham UFSD, a public school district whose operating revenues come nearly exclusively from the tuition the district charges sending districts, there is great uncertainty as to if and when the district's tuition rate will be reduced for prior and current years by the Rate Setting Unit (RSU). Even though the district complies with Parts 100 and 200 of New York State Education Law, it has costs that are beyond the district's control. These expenses include, but are not limited to: contractual expenses, infrastructural repairs, retirement, unemployment and health insurance.

The District is unable to bill at a rate consistent with actual expenses, rather it is limited to billing only the approved rates set by RSU, which means that the District must maintain the operations at the actual cost value, without additional tuition revenue, until reconciliation is completed, which may be several years.

Furthermore, at any point in time, notwithstanding the district's constitutional responsibility for meeting these educational requirements, RSU may reduce the rate. This could have dire consequences for the district as it would need to repay money to sending districts, while at the same time maintaining ongoing operations, and facing a reduced educational rate for reimbursement going forward, regardless of the actual cost. Having a RAN protects the district from such possible times.

3) The District has little control over enrollment, or timing on when students will enter and leave the program, which makes the financial picture extremely difficult to reconcile, but regardless of enrollment projections, the cost of operating the program remains constant, therefore ensuring cash on hand to meet costs and to absorb changes in enrollment is critical.

4) Districts sending students to GGUFSD for their education could delay payments at any time for any reason. Having the funds available from a RAN enable the district to have operating cash.

5) There has been declining interest by banks to lend money to Special Act Public Schools because of uncertainty associated with such districts' tuition rates. Without the track record of borrowing and repaying RAN's, when GGUFSD needs the money, it would be rather unlikely that a bank would allow the district to borrow. If the District were unable to secure the RAN when necessary, it will struggle with meeting liabilities in a timely manner and threatens the continued program operation.

6) Banks have already changed the terms of the loans. Having to borrow every 30, 60 or 90 days would make for a very time-consuming process for the district.

The district believes that the best time to borrow is from a position of strength. If the district had to use its fund balance to meet its obligations that at the future point at which the district had solicited a RAN, it's financial condition would have been weaker. Banks invariably like borrowers with strong balance sheets.

Sincerely,

Amy Goodman
Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and reviewed Board meeting minutes and resolutions to gain an understanding of the District's monitoring of financial condition.
- We reviewed the District's financial records and reports for all funds, including trial balances, balance sheets, budget reports and statements of revenue and expenditures for 2012 through 2015.
- We reviewed the District's policies and procedures for short-term borrowing.
- We examined RAN documents and bank statements to ascertain the costs incurred by the District in obtaining short-term debt and to determine the District's use of RAN proceeds.

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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APPENDIX D

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