OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT & SCHOOL ACCOUNTABILITY

Cheektowaga-Sloan Union Free School District

Financial Condition and Payroll

Report of Examination

Period Covered:

July 1, 2015 – March 2, 2017

2017M-94

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

September 2017

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 Cheektowaga-Sloan Union Free School District, entitled Financial Condition and Payroll. 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 Cheektowaga-Sloan Union Free School District (District) is located in the Towns of Cheektowaga and West Seneca in Erie County. The District is governed by an elected seven-member Board of Education (Board), which is responsible for the general management and control of District 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 District's day-to-day management under the Board's direction.

The Superintendent and Business Manager are responsible for the District's annual budget. The Business Manager, along with the District Treasurer, is responsible for preparing and monitoring the District's financial records. The District employs two payroll clerks to process the biweekly payroll for all District employees. The Business Manager reviews and certifies payroll.

Scope and Objective

The objective of our audit was to review District financial and payroll records for the period July 1, 2015 through March 2, 2017. We extended our scope period back to July 1, 2013 for our review of financial records. Our audit addressed the following related questions:

- Did District officials properly manage District finances by ensuring that budget estimates, unrestricted fund balance and reserve balances were reasonable?
- Did District officials ensure the accuracy of the compensation paid and employee benefits provided to employees?

Audit Results

District officials need to improve their fund balance management and budgeting practices. District officials reported unrestricted fund balance to be within the statutory limit but it was actually understated by more than $2.7 million as of June 30, 2016 because the Business Manager recorded an improper prior period adjustment. Had fund balance been reported properly, it would have exceeded the statutory limit by $2.7 million or 8 percentage points that year.

District officials also did not ensure budgets were realistic and did not properly plan for the use of fund balance. Over the past three years, District officials appropriated approximately $2.2 million of fund balance on average each year to help finance the budget. However, no amount of fund balance was used to finance operations because the Board and District officials overestimated appropriations each year by an average of $4.6 million (16 percent). As a result, the District experienced cumulative operating surpluses totaling $8 million from 2013-14 through 2015-16.

The appropriation of fund balance made it appear that the District's unrestricted fund balance was within the 4 percent statutory limit. However, when unused appropriated fund balance is added back, the recalculated unrestricted fund balance exceeded the statutory limit ranging between 6 and 15 percentage points. District officials also did not have adequate plans for using the surplus funds and overfunded the employee benefit accrued liability reserve by $267,000 (70 percent).

District officials developed and implemented adequate written policies and procedures over the payroll process to ensure the accuracy of the compensation paid and benefits provided to employees. We commend District officials for establishing and implementing an effective and efficient payroll system.

Comments of District Officials

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

Introduction

Background

The Cheektowaga-Sloan Union Free School District (District) is located in the Towns of Cheektowaga and West Seneca in Erie County. The District is governed by an elected seven-member Board of Education (Board), which is responsible for the general management and control of District 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 Superintendent and Business Manager are responsible for the District's annual budget. The Business Manager, along with the District Treasurer (Treasurer), is responsible for preparing and monitoring the District's financial records. The District employs two payroll clerks (clerks) to process the biweekly payroll for all District employees. The Business Manager reviews and certifies payroll.

The District operates four schools with approximately 1,400 students and 240 employees. The District's general fund budgeted appropriations for the 2016-17 fiscal year totaled more than $34 million funded primarily with State aid, real property taxes and sales tax. General fund payroll expenditures for 2015-16 totaled more than $13 million.

Objective

The objective of our audit was to review District financial and payroll records. Our audit addressed the following related questions:

- Did District officials properly manage District finances by ensuring that budget estimates, unrestricted fund balance and reserve balances were reasonable?

- Did District officials ensure the accuracy of the compensation paid and employee benefits provided to employees?

Scope and Methodology

We examined District financial and payroll records for the period July 1, 2015 through March 2, 2017. We extended our scope period back to July 1, 2013 for our review of financial records.

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. 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 and Corrective Action

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

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.

Financial Condition

The Board, Superintendent and Business Manager are responsible for accurate and effective budgeting and financial planning, which includes adopting realistic budgets and ensuring fund balance does not exceed the amount allowed by law. New York State Real Property Tax Law limits the amount of unrestricted fund balance a school district can retain to no more than 4 percent of the subsequent year's budget. A school district can also legally establish reserves and accumulate funds for certain future purposes (e.g., capital projects or retirement expenditures). The Board should appropriately fund reserves, monitor reserve balances and use them as intended to pay related expenditures.

District officials need to improve their fund balance management and budgeting practices. District officials reported unrestricted fund balance to be within the statutory limit but it was actually understated by more than $2.7 million as of June 30, 2016 because the Business Manager recorded an improper prior period adjustment. Had fund balance been reported properly, it would have exceeded the statutory limit by $2.7 million or 8 percentage points that year. District officials also did not ensure budgets were realistic and did not properly plan for the use of fund balance. The District generated a cumulative operating surplus totaling $8 million from 2013-14 through 2015-16.

Although District officials appropriated approximately $2.2 million of fund balance on average to help finance the budget each year, none of it was needed because the Board and District officials overestimated appropriations each year by an average of $4.6 million, or 16 percent. When unused appropriated fund balance is added back to unrestricted fund balance, unrestricted fund balance exceeded the statutory limit by $5.2 million or 15 percentage points. District officials also overfunded the employee benefit accrued liability reserve (EBALR) by $267,000 (70 percent).

Fund Balance and Budgeting

The Board and District officials are responsible for effectively managing fund balance by ensuring a sufficient amount is available in the event of revenue shortfalls or unanticipated expenditures. Officials are also responsible for ensuring real property tax levies are not greater than necessary. To fulfill this responsibility, the Board must ensure unrestricted fund balance is within the statutory limit.

The District reported unrestricted fund balance within the statutory limit for the three years reviewed; however, the Business Manager improperly reduced fund balance by $2.5 million, as well as State aid revenues by $278,000, at the end of the 2015-16 fiscal year. As a result, unrestricted fund balance was understated by more than $2.7 million.

The District has been receiving State building aid for the past 10 years and District officials properly recorded the aid received each year as revenue. The Business Manager told us that he believed adjustments were necessary to align building aid with the District's debt repayment schedule. The District is receiving building aid over a 15-year period and repaying capital improvement bonds over a 20-year period.[1] However, under the modified accrual basis of accounting, revenues should be recognized when they are both measureable (reasonably estimated) and available (received within the current period, or soon enough after, to pay current liabilities).[2] The District's building aid is not a restricted revenue and is both measurable and available for general use upon receipt.

At the end of 2015-16, the Business Manager recorded a prior period adjustment to reduce fund balance by $2.5 million in order to reclassify the portion of fund balance that he believed to be a deferred revenue or inflow. He also recorded $278,000 of the building aid received during the current year as a deferred revenue. These adjustments reduced unrestricted fund balance to within the statutory limit and allowed District officials to improperly retain surplus funds. Had District officials properly accounted for these funds, unrestricted fund balance would have exceeded the statutory limit by 8 percentage points.

Figure 1: Unrestricted Fund Balance at Year-End

	2013-14	2014-15	2015-16
Beginning Fund Balance	$7,365,000	$8,588,000	$8,448,000
Add: Operating Surplus	$1,223,000	$3,330,000	$3,518,000
Less: Interfund Transfers Out[a]	$0	$3,470,000	$0
Ending Fund Balance	$8,588,000	$8,448,000	$11,966,000
Less: Appropriated Fund Balance	$2,450,000	$1,900,000	$2,500,000
Less: Encumbrances	$24,000	$14,000	$92,000
Less: Restricted Fund Balance (Reserves)	$4,823,000	$5,236,000	$5,235,000
Unrestricted Fund Balance at Year-End	$1,291,000	$1,298,000	$4,139,000
Subsequent Year's Appropriations	$33,818,000	$33,156,000	$34,396,000
Unrestricted Fund Balance as Percentage of Subsequent Year's Appropriations	4%	4%	12%

[a] The $3.4 million transfer in 2014-15 was an unbudgeted interfund transfer to the capital projects fund to help finance a capital project approved by District voters.

[1] State building aid amortization schedules are determined based on the type of building project: 15 years for reconstruction, 20 years for additions or 30 years for new build.

[2] For most governmental operating funds using the modified accrual basis of accounting

The District's budgeting practices also allowed unrestricted fund balance to be within the statutory limit. We compared budgeted appropriations and estimated revenues with actual operating results from July 1, 2013 through June 30, 2016. While actual revenues were slightly greater than budget estimates, appropriations were overestimated by an average of $4.6 million or 16 percent each year for a cumulative total of $13.8 million or 16 percent.

Figure 2: Overestimated Appropriations

	Budgeted Appropriations	Actual Expenditures	Overestimated Appropriations	Percentage Overestimated
2013-14	$33,434,000	$29,374,000	$4,060,000	14%
2014-15	$33,818,000	$28,804,000	$5,014,000	17%
2015-16	$33,156,000	$28,347,000	$4,809,000	17%
Totals	**$100,408,000**	**$86,525,000**	**$13,883,000**	**16%**

The most significant variances were found in instructional salaries, BOCES[3] services, employee benefits and tuition. Actual expenditures for these totaled between $1.8 and $4 million (14 to 31 percent) less than the amounts budgeted. The Business Manager told us that he budgeted instructional salaries based on contractual agreements and added between $50,000 and $100,000 to the totals for contingencies. However, because salary costs and employee benefits are primarily determined by contractual agreements, budgeted appropriations should be accurately projected and not consistently overestimated.

For BOCES services and tuition, the Business Manager told us that he overestimated these amounts due to the uncertainty involved with special education and the District's large number of special needs students enrolled. However, we reviewed the Business Manager's analysis of special needs students and related costs for the District, and found that the analysis did not account for State aid that would be received for these students.

The Board and District officials annually appropriated fund balance to help finance District operations. From 2013-14 through 2015-16, the District appropriated $2.2 million of fund balance on average each year for this purpose. However, the amounts appropriated were not needed because District officials annually overestimated appropriations and the District ended each year with an operating surplus rather than a planned operating deficit.

When fund balance is appropriated as a funding source, the expectation is that operating expenditures will exceed revenues, resulting in a planned operating deficit and a reduction in fund balance. The District generated a cumulative operating surplus of $8 million from 2013-14

[3] Boards of Cooperative Educational Services

through 2015-16 or an average operating surplus of approximately $2.6 million per year. As a result, no fund balance was actually used to finance operations and fund balance increased each year. The Board generally used annual operating surpluses to fund reserves and, in 2014-15 to help finance a capital project.

Appropriating fund balance reduces the amount of fund balance subject to the statutory limit. As such, the District's practice of annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and is a circumvention of the statutory limit imposed on the level of unrestricted fund balance. When appropriated fund balance that was not needed to finance operations is added back, unrestricted fund balance exceeded the statutory limit ranging between 6 and 15 percentage points.

Figure 3: Unused Fund Balance

	2013-14	2014-15	2015-16
Unrestricted Fund Balance at Year-End	$1,291,000	$1,298,000	$4,139,000
Add: Unused Appropriated Fund Balance	$2,450,000	$1,900,000	$2,500,000
Recalculated Unrestricted Fund Balance at Year-End	$3,741,000	$3,198,000	$6,639,000
Recalculated Unrestricted Fund Balance as a Percentage of the Subsequent Year's Appropriations	11%	10%	19%

Based on our analysis of the 2016-17 adopted budget and year-to-date operations, District officials budgeted similarly to previous years and will not use the $2.5 million appropriated to help finance the year's appropriations and we project the District will experience an operating surplus and fund balance will continue to exceed the statutory limit.

Budgeting practices that produce operating surpluses result in real property tax levies that are greater than necessary. The Board and District officials have increased the tax levy by $353,000 (1 percent) over the past three years. Although the tax levy remained stable, District officials may have missed opportunities to better use fund balance and reduce taxes.

Reserves

The Board may establish reserve funds to finance future costs for a variety of specified objects or purposes but must do so in compliance with statutory requirements. While school districts are generally not limited as to how much money can be held in reserves, balances should be reasonable. The Board should periodically assess the reasonableness of the amounts accumulated in each reserve and, when warranted, reduce reserve balances to a reasonable level or discontinue a reserve that is no longer needed or whose purpose has been achieved.

As of June 30, 2016, the District reported eight general fund reserves with a combined balance of $5.2 million. We analyzed the reserves for reasonableness and found the balance in one reserve, the employee benefit accrued liability reserve (EBALR), was excessive when compared to the potential costs which could be paid from the reserve. The remaining reserves were reasonably funded and properly used.

General Municipal Law authorizes school districts to create an EBALR to fund the cash payment of accrued and unused sick, vacation and certain other accrued but unused leave time owed to employees when they leave District employment. As of June 30, 2016, the balance of this reserve was nearly $644,000. However, the District's long-term liability for compensated absences payable from the EBALR was approximately $377,000 resulting in an overfunding of approximately $267,000 (70 percent).

The Business Manager told us that the reserve is maintained at the current level due to a contractual requirement in the teachers' collective bargaining agreement for a retirement payout of 40 percent of their final salary. However, because this retirement payment is not based on accrued but unused leave time, there is no legal authority for the District to reserve funds in the EBALR for this purpose. Further, District officials have not used the reserve to pay for separation payments. Instead officials levied real property taxes for this purpose and paid related expenditures from the operating budget.

While it is prudent to provide for unforeseen circumstances, consistently overestimating appropriations, improperly deferring revenue and overfunding a reserve results in taxes being higher than necessary.

Recommendations

The Board and District officials should:

1. Maintain unrestricted fund balance within the statutory limit.

2. Develop a plan to reduce unrestricted fund balance in a manner that benefits District residents. Such uses could include, but are not limited to:

    - Funding one-time expenditures;

    - Funding needed reserves; and

    - Reducing District property taxes.

3. Develop realistic estimates of appropriations and use of fund balance in the budget.

4. Ensure that the EBALR is used in accordance with statute and take appropriate action to better align funding levels with the District's long-term liability.

The Business Manager should:

5. Properly record State building aid as revenue when it is measurable and available.

Payroll

An effective payroll system provides assurance that payroll transactions are appropriately supported, authorized by management and accurately paid. The Board should adopt adequate policies and District officials should develop written procedures to ensure employees are accurately paid their respective salaries and wages. The Board is responsible for approving the amounts to be paid to District employees, benefits to be provided through collective bargaining agreements and individual employee contracts and established pay rates. The Board is also responsible for ensuring employees who leave District employment are paid only the amount of separation payments to which they are entitled.

District officials developed and implemented adequate written policies and procedures over the payroll process to ensure the accuracy of the compensation paid and benefits provided to employees. The District Clerk routinely records the Board's approval of individual contracts, CBAs, appointments, salaries, wage rates, resignations and retirements and the effective dates of the activities in the Board minutes.

Two clerks are responsible for entering new employees and Board-approved salary information into the financial system. The clerks enter time sheets and process payroll on a biweekly basis. The Treasurer issues payroll checks and direct deposit stubs, confirms bank transfers (initiated by one of the payroll clerks) and enters payroll related journal entries into the financial system. Additionally, the Business Manager reviews and certifies payroll and separation payments.

Using a combination of manual and computer-assisted auditing techniques (CAATs) procedures, we reviewed payroll records for all employees paid during the audit period and identified high-risk transactions.[4] We judgmentally selected and tested employee pay rates, benefits and withholdings for accuracy, eligibility and appropriateness.

We also reviewed the accuracy of multiple types of payments to employees and determined whether the employees were eligible to receive these payments. Payments reviewed included stipends, health insurance buyouts, educational and continuing education bonuses and longevity and separation payments. Other than minor discrepancies, which we discussed with District officials, all payments we tested

[4] The use of CAATs increases efficiency and enables testing on large data sets. See Appendix C for information on our sampling methodology.

were paid in accordance with Board approved contracts, correctly calculated, properly supported and certified by the Business Manager.

We commend the Board and District officials for establishing and implementing an effective and efficient payroll system.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Cheektowaga-Sloan Union Free School District

Mrs. Andrea L. Galenski
Superintendent of Schools
(716) 891-6402

July 19, 2017

Mr. Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Mr. Mazula:

The Cheektowaga-Sloan Union Free School District is in receipt of the *Draft Report of Examination* entitled, *Fiscal Condition and Payroll,* for the time period of July I, 2015 through March 2, 2017. On behalf of the Board of Education and Administration, we would like to thank the Comptroller's Office for their professionalism and courtesy in conducting their audit. The Cheektowaga-Sloan Union Free School District's Board of Education and Administration, while pleased that the State Comptroller's audit did not identify any instances of fraud or misappropriation, nor did the audit identify any instances of waste or misuse, respectfully disagrees with certain information and statements contained in the report.

For the purpose of ensuring that we adequately address the items contained in the *Report of Examination*, we have organized the District's response into the following three sections:

- Deferral of State Aid
- Fund Balance and Budgeting
- Payroll

<u>Deferral of State Aid</u>

We believe that the audit report neither correctly describes what occurred, the potential effects, or cites the appropriate accounting standards that are applicable in case.

We will make the most significant point now by providing background information from 2005-2006 when neither the current Superintendent of Schools, Andrea L. Galenski, or Business Manager, Wayne Drescher, were part of the District Administration. However, this background information is substantial as it describes a major error that was made back in 2005-2006 which resulted in current administration having to make thoughtful and important decisions in order to preserve the District's future.

See Note 1 Page 23

In 2005-2006, the District had a capital project for which serial bonds totaling $19,107,000 were issued to support various improvements, including new construction of a cafetorium at Theodore Roosevelt Elementary, an entire new wing at Woodrow Wilson Elementary, and many other improvements at all of our buildings. This construction was approved by Facilities Planning at New York State Department of Education ("NYSED") making it eligible to receive Building Aid over the life of the project. This is typical of a school district building project and the Building Aid received offsets the debt service on the project and only the local share is born by district tax payers (as a simple example of this if $1,000,000 of principal and interest were due on a debt for an approved project with an 88% building aid ratio, the State would provide $880,000 of building aid and the taxpayers would have to provide for $120,000 during that fiscal year).

The NYSED is supposed to assign the maximum useful life to each aidable construction project as per Section 11 of New York State's Local Finance Law which is entitled, "Periods of Probable Usefulness". The District's 2005-06 project mixed both significant new construction and various other reconstruction. NYSED assigns a 15 year amortization period to reconstruction and renovation projects and a 20 year period to new construction projects. Generally, the determination of the amortization period is based on the larger portion of the cost of reconstruction vs. new construction. Based on information received, NYSED assigned a 15 year amortization period to the District's project, which means the District is to receive building aid on assumed debt service payments (principal and interest) over that 15 years. However, when selling the serial bonds to pay for this project, the District, its financial advisor and bond counsel determined that a 20 year amortization period was appropriate and in fact the bonds were sold such that principal and interest would be paid over a 20 year period.

See
Note 2
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Consequently, the District has been receiving NYS building aid based on this project over 15 years, but is paying the debt on the project over 20 years. When this was discovered by new District administration during the 2015-16 fiscal year, it was determined that the District had been receiving excess aid on the project for the past 10 years and that in just five more years, the NYS building aid would no longer be received. The significant outcome of this error made would mean that the District would have to continue to pay principal and interest on the serial bond with an initial annual amount due exceeding $1,000,000 annually. Superintendent Galenski and Business Manager Drescher knew that this error made back in 2005-2006 would create devastating consequences on educational programming, staffing, the community and District taxpayers.

See
Note 3
Page 23

Despite the consequences being five years away, the appropriate and right thing to do for the District was to deal with the problem immediately and on a current basis. Multiple calls and e-mails were sent to NYSED to attempt to have them adjust the amortization period to match the bond that had been issued. However, they indicated that this was an amortization period assigned 10 years ago, final cost reports had been submitted by the District, and they did not believe it was appropriate to change a determination at this point.

Since the basis of building aid is based upon the maximum useful life of a project, it is only appropriate that building aid received in advance of the appropriate percentage that is aided by NYS to the appropriate time in which such debt is actually paid. The Government Accounting Standards Board issues various pronouncements which form generally accepted accounting principles for governmental entities. Government Accounting Standards Board Statement No. 33 entitled, "Accounting and Financial Reporting for Nonexchange Transactions," provides guidance for transactions that are considered *Government-mandated nonexchange transactions.* These types of transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose or purposes (GASB 33, Para. 7.c.). In this case, clearly the building aid was meant to offset the cost of the debt issued for the construction project (NYS even provides for the interest on such debt). Thus, the last sentence of GASB 33, Para. 19, is applicable as follows:

> "That is, until those requirements are met, the provider does not have a liability, the recipient does not have a receivable, and the recognition of expenses or revenues for resources transmitted in advance should be deferred."

See
Note 4
Page 23

The concept of recognizing building aid over the maximum useful life is further supported by a June 2002 Accounting Release issued by the NYS Comptroller entitled, "Advance Refunding Bonds." While the

District was not issuing refunding bonds, the purpose of the bulletin states, "Building aid, rather than being based on actual debt service payments, will now be based on an "assumed amortization calculation" that assumes that districts borrow money for the maximum period of probable usefulness allowed by Local Finance Law section 11.00 and pays an assumed interest rate." Thus, the NYS Comptroller recognizes that the amortization period is dictated by Local Finance Law under which the District's serial bonds were issued, rather that that assigned by NYSED.

See Note 5 Page 23

Further, a prior period adjustment to correct this previous error in adjusting to GASB 33 is further supported by a November 2000 Accounting Release issued by the NYS Comptroller entitled, "GASB Statement No. 33--Accounting and Financial Reporting for Nonexchange Transactions." Here it states, "Statement No. 33 is effective for fiscal years beginning on or after July 1, 2000. Accounting changes made to comply with this statement should be treated as a prior period adjustment." Therefore, the prior period adjustment made by the District is in accordance with generally accepted accounting principles and the guidance provided by the NYS Comptroller's Office.

See Note 6 Page 24

Further, the concept of receiving excess aid for 15 years and then having the taxpayers consume the burden of being completely responsible for the entire debt obligation for the subsequent 5 years is completely contrary with long-term financial planning that is strongly recommended by the NYS Comptroller.

This was not an improper adjustment. Rather, it was the necessary and critical correction of a major error made by a prior administration in 2005-2006, which was corrected by the current administration for the good of our community, students, staff, taxpayers and all District stakeholders. Furthermore, since the recording of the deferred revenue is appropriate, the District is in complete compliance with statutory limits.

Fund Balance and Budgeting

This report appears to take issue with the fact that we have under-spent our annual budgets and have built our fund balance while still being well within statutory limits. In fact, the District believes that it is proactively managing fund balance and budgeting for the good of our taxpayers and very much in line with the Office of the State Comptroller's Local Government Management Guide entitled, "Reserves."

The second paragraph on page one of this *Management Guide* states, "In addition to reserve funds, maintaining a reasonable amount of undesignated fund balance within operating funds is another important financial consideration for local governments and school districts. A reasonable level of unreserved, unappropriated fund balance provides a cushion for unforeseen expenditures, or revenue shortfalls and helps to ensure that adequate cash flow is available to meet the cost of operations. Combining a reasonable level of undesignated fund balance with specific legally established reserve funds provides resources for both unanticipated events and other identified or planned needs."

The District's financial statements for the fiscal year ended June 30, 2012 showed an undesignated fund balance of $350,949 and the only real reserve was a Capital Reserve which has since been used. Thus, the District had an undesignated fund balance of slightly over one-tenth of one percent and no reserves for unforeseen circumstances. This was not a fiscally prudent financial position. Again, we make the point that this was a situation created by past administration and unfortunately was inherited by the current administration. This situation needed to be corrected in order to proceed in a fiscally responsible manner.

Since that time of fiscal year ending June 30, 2012, the District has increased our undesignated fund balance to just below the four percent threshold allowed, has built reserves for unforeseen events and has established a new capital reserve fund as authorized by District residents.

Positioning the District in a much stronger financial position was not accomplished by over burdening taxpayers; rather, it was accomplished by robust fiscal management. In demonstration of this management, we point to the chart on page 10 of the *Report of Examination* which is partially reproduced here:

	Budgeted Appropriations	Actual Expenditures
2013-14	$ 33,434,000	$ 29,374,000
2014-15	$ 33,818,000	$ 28,804,000
2015-16	$ 33,156,000	$ 28,347,000

As you can clearly see from 2014-15, the budgeted appropriation actually decreased from $33,818,000 to $33,156,000. This represents a **$662,000 reduction**. Further, actual expenditures decreased each of these years representing a **total decrease of $1,027,000 from 2013-14 to 2015-16**. We agree that the District did not spend its annual budgeted appropriations, but we feel this is a sign of upright fiscal management and restraint.

See Note 7 Page 24

These reductions in appropriations and actual expenses were the result of some very difficult decisions that we felt were necessary and in the best interest of all District stakeholders. These difficult decisions included some of the following reductions:

2014-15 Budget

Staff reductions:

- There were 6 individuals retiring (partially utilizing a retirement incentive)
- Only 2 of these positions were replaced (at greatly reduced costs)
- The remaining 4 positions were eliminated
- Eliminated one psychologist position
- Eliminated one special education position
- Eliminated four teacher aide positions
- Eliminated eight teacher assistant positions
- Eliminated one mechanic position in Buildings & Grounds
- Reduction of hours of six administrative clerical positions

Implemented Shared Business Manager model (first in Erie County)

- The Business Manager is a .5 FTE position (previously a full time position)
- We now receive BOCES aid on the position

Partnered with BOCES for management of all computer operations

- Eliminated one full-time position (Director of Technology)
- We now receive BOCES aid on the services
- Effect is improved service and efficiency at lower net cost

Implemented vehicle rotation plan

Implemented capital project process and long-term capital plan

Implemented billing process for out-of-district students (foster and Falk School)

Implemented billing for administrative costs for pre-school special needs children

2015-16 Budget

- Eliminated one clerical position at JFK High School
- Did not replace one teaching position from an individual who retired on Jan. 20, 2015
- Switched dental coverage to lower cost provider
- Implemented a power-off system for computers
- Implemented a print management project
- Initiated capital outlay project ($100,000 annual appropriation)
- Refinanced the District's 2006 bond issuance
- Refinanced the District's 2007 bond issuance
- Eliminated fuel tank at B&G garage
- Implemented fuel cards to reduce cost and better track fuel usage

Other methods for reducing costs:

- There are no assistant, associate or deputy superintendents
- Superintendent serves as Director of Personnel
- There are no assistant principals and principals serve many roles (e.g. Technology Director, etc.)

We were very disappointed to find that the *Report of Examination* makes no comment at all on these numerous actions taken to reduce costs. Moreover, these cost reductions occurred at a time when State Aid was being reduced. In fact, New York State Aid withheld from the District totals $43,448,803, as follows:

	Actual Foundation Aid Received	Foundation Aid Calculated to be Paid by NYS	Total Unpaid Foundation Aid	Gap Elimination Adjustment	Total Aid Withheld
2007-08	$ 8,291,691	$ 11,649,139	$ 3,357,448	$ -	$ 3,357,448
2008-09	9,535,444	13,186,056	3,650,612	-	3,650,612
2009-10	9,535,444	13,598,159	4,062,715	-	4,062,715
2010-11	9,535,444	14,300,879	4,765,435	1,133,129	5,898,564
2011-12	9,535,444	14,366,721	4,831,277	2,182,832	7,014,109
2012-13	9,601,118	13,398,647	3,797,529	1,923,814	5,721,343
2013-14	9,629,921	13,107,764	3,477,843	1,474,057	4,951,900
2014-15	9,778,661	13,080,972	3,302,311	883,636	4,185,947
2015-16	9,814,842	12,496,097	2,681,255	300,180	2,981,435
2016-17	10,008,426	11,633,156	1,624,730	-	1,624,730
			$ 35,551,155	$ 7,897,648	$ 43,448,803

Despite this withholding of aid that could have significantly assisted in reducing the burden to District taxpayers, we believe the District has proactively managed finances such that the change in the tax levy has been very reasonable. New York State imposed a Tax Cap upon local governments in order to control the burden placed on local real property taxpayers. The following is a comparison of the Tax Cap to actual changes in the District's tax levy:

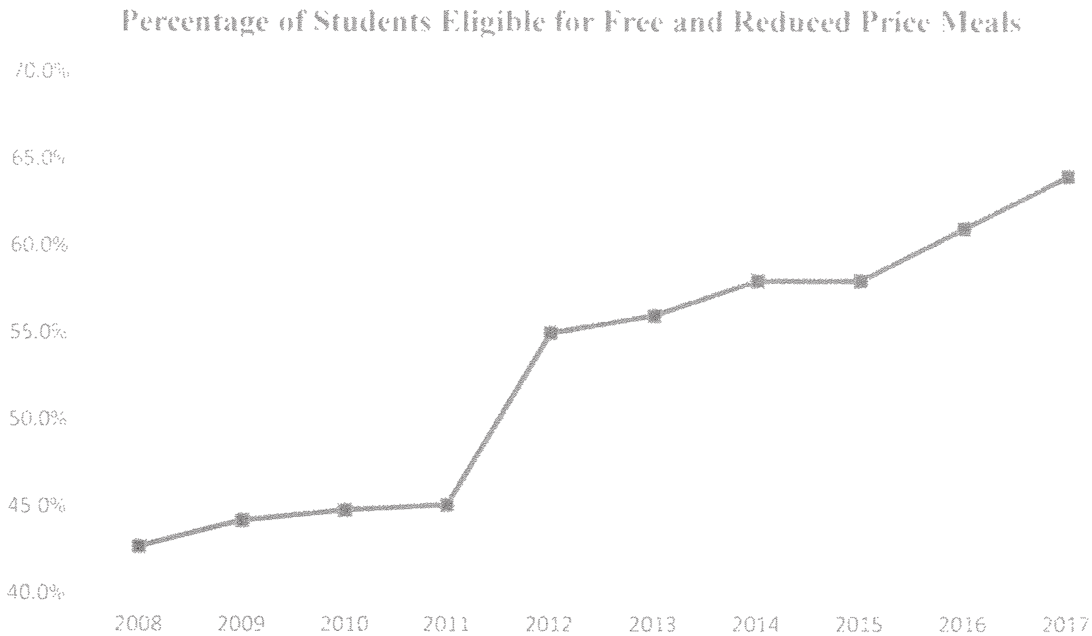
Fiscal Year	Total Tax Levy	Percentage Change	Tax Cap
2013 - 14	$ 14,882,613	-0.40%	4.10%
2014 - 15	15,089,534	1.39%	3.00%
2015 - 16	15,132,624	0.29%	3.74%
2016 - 17	15,236,351	0.69%	1.71%
2017 - 18	15,164,004	-0.47%	2.24%
Total last 5 years		1.49%	14.79%
Average for 5 years		0.30%	2.96%

As indicated in the above chart, the District's actual tax levy is approximately only one-tenth of what it could have been under the Tax Cap. Again, to our disappointment, the *Report of Examination* makes no mention of this impressive fiscal accomplishment.

See Note 8 Page 24

We would like to note that all of this was accomplished while facing some enormous challenges, many of which are caused by mandates from the State and Federal governments. Some of these challenges include:

- Significant cost increases in Charter School tuition
- Significant cost increases in Special Education for students attending special schools
- Significant cost increases in bus transportation
- Significant cost increases related to requirements under the McKinney-Vento Education of Homeless Children and Youth Assistance Act
- Significant cost increases due to influxes of students that are new English language learners
- Significant cost and other resources required due to increases in poverty within our District. The chart below displays the increase in students eligible for free and reduced price meals:



Despite the challenges faced, State aid being withheld and our attempting to keep the tax levy as low as possible, we believe it is our duty to improve the educational opportunities for our students. The Board of Education and all District employees work tirelessly to make our students better people and leaders in our community. Some of the initiatives and programs put in place in the past couple of years include:

- Implemented Honors Courses
- Several new courses introduced at the high school level—astronomy, meteorology, art courses, building math trade course, etc.
- Significant improvements in technology
- Constructed and staffed two new Academic Learning Centers
- Implemented Seven Habits / The Leader In Me program
- Introducing and training teachers for new Lucy Calkins Reading and Writing Program
- Partnership with Buffalo State College at JFK Middle School
- Implemented Math Olympiad at JFK Middle School—challenging opportunities for students
- Presented on "Return on Investment" to New York State Superintendents and Erie County School Board Association—Superintendent Galenski and Business Manager Drescher
- Maintained art, music, physical education, foreign language, librarians at each school, nurses at all schools, clubs and sports

We are proud to have provided the necessary balance in improved educational opportunities while also reducing expenses, controlling the tax levy and improving our financial position. We will continue to make these thoughtful investments in our students while being watchful for our taxpayers.

All of this prepares the District to face the current issues. In the NYS Comptroller's Message within the *Report on the State Fiscal Year 2017-18 Enacted Budget (paragraph 4),* the Comptroller states, "The Enacted Budget comes at a time when leaders in Washington are considering cuts to federal aid for health care and other services. Given that the State relies on this aid for approximately one-third of its revenues, the unpredictable nature of federal budget and policy discussions presents an elevated concern. The

Budget for this year creates a process that could be used to address potential reductions during the fiscal year. This approach provides flexibility but also leaves uncertainty as to how any such adjustments might affect state agencies, local governments, nonprofits and other entities that rely on State funding." Given the risk of reductions in certain revenues, such as Medicaid, and the potential for mid-year reductions in State Aid, it makes perfect sense to continue to underspend our annual appropriations whenever possible and persist with a strong financial picture.

In summary, we believe that reducing costs and having a sound fund balance is critical in these uncertain times. Given the great care and attention that the District places in managing finances, we find the statement on page 4 of the *Report of Examination* under the heading of *Audit Results* that says, "District officials need to improve their fund balance management and budgeting," to be incorrect, offensive and insulting.

Payroll

We appreciate the Report of Examination commending the Board and District officials for establishing and implementing an effective and efficient payroll system. Salaries and benefits make up the largest portion of expenses and we have tried to implement strong internal controls over this process.

In conclusion, we understand and respect the comments made in the *Report of Examination*. We will use the examination as a learning experience and a tool to provide even greater transparency and accountability to all District Stakeholders. It is our firm belief that we have implemented durable fiscal practices that will provide for long-term stability. The Board of Education, administration and all of our staff take great pride in the Cheektowaga-Sloan Union Free School District and together, we are most proud of the significant accomplishments that we have been able to make since 2012 despite the tremendous challenges outlined above.

Respectfully,

Andrea L. Galenski,
Superintendent of Schools

Claire M. Ferrucci
President, Board of Education

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

District officials did not provide documentation to support their assertion that the prior administration made an error in 2005-06.

Note 2

Building aid is based upon an assumed debt service using the approved project cost less any portion of the project financed by any means other than the issuance of debt, an assigned term (assumed amortization period) of 15, 20 or 30 years, respectively, for reconstruction, additions and new buildings and a Statewide average interest rate. District officials may choose to align debt service payments with the assumed amortization period, but are not required to do so.

Note 3

The prior administration chose not to align the debt service payments with the 15-year amortization period assigned by the New York State Education Department (SED). Although the current administration clearly disagrees with this decision, it was a permissible option, not necessarily an error.

Note 4

The section of GASB cited by District officials does not apply in this case because the State (provider) does not require the District (recipient) to use building aid to offset debt service, unless the aid payments are for debt service on debt excluded in ascertaining the power of the District to contract indebtedness (Education Law Section 3609-a[3] and Local Finance Law Sections 121.20 and 137.00). The debt for which the aid was paid here was not so excluded.

Upon completion of its SED-approved capital project and filing of its final cost reports, the District satisfied all of the State's requirements to be eligible to receive building aid. These requirements do not include the issuance or repayment of debt; in fact, the District would have been eligible to receive building aid even if the project had been paid for with cash. Further, the District met all the eligibility criteria for recognizing building aid as a current revenue, because it was both measurable and available. Therefore, the District's deferral of building aid was improper.

Note 5

The purpose of our June 2002 Accounting Release (release) Advance Refunding Bonds, was to explain the reporting requirements for advance refunding bonds. At that time, many school districts were issuing advance refunding bonds to align their debt service payments with building aid payable under the then new assumed amortization calculation. The release merely notes that building aid will be based on, among other factors, an assumed amortization period. School districts may, but are not required to, structure the terms of their bonds such that the debt service payment will align with building aid. The release does not suggest that building aid is recognized over the maximum maturity period under Local Finance Law.

Note 6

A prior period adjustment would be appropriate for correcting an error discovered in a school district's financial statements after the close of the fiscal year. However, such an error was not made in this case.

Note 7

Actual expenditures decreased by $1 million from 2013-14 through 2015-16. However, appropriations decreased by less than $300,000 over that same period. As a result, budget estimates far exceeded expenditures.

Note 8

The District's tax levy remained relatively flat over our audit period. However, because District officials significantly overestimated appropriations each year, the tax levy was consistently higher than necessary.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

Financial Condition

- We interviewed District officials and reviewed Board minutes and policies to gain an understanding of the procedures for maintaining financial records, monitoring fund balance, developing an annual budget and maintaining and funding reserves.

- We reviewed the last three completed years of financial data and budgets to analyze fund balance and determine whether the District's operating results and budget estimates were reasonable.

- We reviewed the 2016-17 adopted budget and year-to-date financial activity to project operating results for the current year.

- We reviewed the tax levy from 2010-11 through 2016-17 and budget documents provided by District officials to support tax levy calculations.

- We calculated unrestricted fund balance as a percentage of the next year's appropriations to determine whether the District was in compliance with statute.

- We reviewed journal entries and related supporting documentation to determine the reasonableness of deferred revenues.

- We reviewed Board minutes and other records to determine whether reserves were properly established, funded and used.

Payroll

- We obtained various data sets from the District's computerized financial database and then performed tests using specialized software to identify anomalies and high-risk transactions.

- We reviewed the internal controls and procedures over the computerized financial database and source documents to determine whether the information produced by such systems was reliable.

- The overall population of electronic payroll data for the audit period consisted of 9,364 payroll checks, 366 employees (all paid employees, including part-time and substitutes) and 266 employee bank accounts. As part of our review of checks, we looked at additional pay items and payroll withholdings.

- We interviewed and observed District officials and employees to learn about payroll-processing procedures and employee benefits and reviewed CBAs, Board-approved pay schedules for non-union employees, personnel files, time and attendance records, leave records and other payroll source documents.

- We performed audit procedures to determine whether the employees paid were actual employees. These procedures included identifying and verifying employee Social Security numbers to the Social Security death master file, employee addresses outside of a 45-mile radius, employee addresses with post office boxes or no address, employees with the same name, address or phone number, payroll checks with the same check number, duplicate employee Social Security numbers and employees using the same bank.

- To verify the accuracy of compensation paid to employees, we verified that all employees paid the appropriate Social Security and Medicare taxes, that all payments made prior to official dates of hire were appropriately paid to valid employees and that all payments made to employees through the check register agreed with amounts reported on W-2 forms.

- We performed CAAT audit procedures to determine whether certain payroll payments to employees were appropriate. We reviewed compensation paid to certain employees and key officials, rounded payroll payments and balloon payments, checks written to employees who received more than 26 payments during a fiscal year, selected checks issued on dates that were not scheduled pay dates, payments made to employees after the termination date, longevity payments, sick leave incentives, education and continuing education bonuses, separation payments, health insurance buyouts, vacation leave buy-back payments and overtime compensation.

- We compared a sample of employees' salary rates with Board-approved salary schedules (including stipends) and traced the amounts to the CBAs, individual contracts and Board resolutions. Our sample was selected using a random number generator to select 15 employees from each fiscal year to test. We also reviewed the records of a judgmentally selected sample of employees with the 20 highest gross salaries.

- We performed data reliability tests, which included looking for manual and voided checks, verifying employee direct deposits with the bank and following up on gaps in payroll check sequence numbers.

- We reviewed time sheets for a sample of employees for 2015-16 and 2016-17 to verify the accuracy of time worked and paid. We used a random number generator to select three pay periods and 10 employees from each pay period to test.

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 D

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