

# Lakeland Central School District

## Reserves Management

JULY 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Lakeland Central School District

### Audit Objective

Determine whether the Board properly managed reserves.

### Key Findings

- The Board did not adopt written policies establishing the financial objectives, funding levels and conditions for use for the District's reserves.
- The District's tax certiorari reserve balance could fund approximately eight years of claims.
- The Business Official's report of reserves did not comply with some requirements of the Board's policy.

### Key Recommendations

The Board should:

- Adopt a written policy outlining the financial objectives, optimal funding levels and conditions for use for each reserve.
- Perform an analysis of the tax certiorari reserve fund balance to determine proper funding levels.
- Ensure the Business Official submits the report of reserves in compliance with all requirements of the Board's policy.

District officials generally agreed with our recommendations and indicated they will take corrective action.

### Background

The Lakeland Central School District (District) serves the Towns of Yorktown, Cortlandt and Somers in Westchester County and the Towns of Carmel, Philipstown and Putnam Valley in Putnam County. A nine-member Board of Education (Board) is responsible for the general management 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 Business Official manages the Business Office and is responsible for running the day-to-day financial operations of the District and providing financial reports to the Board.

The District has four reserves: tax certiorari, capital, retirement contribution, and employee benefits and accrued liabilities.

#### Quick Facts

2018-19 Student Enrollment	5,609
2018-19 General Fund Appropriations	\$166.6 million
Reserve Funds as of March 31, 2019	\$39.9 million

### Audit Period

July 1, 2017 – March 31, 2019

We extended our scope back to July 1, 2013 to analyze trends.

# Reserves Management

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## How Does a Board Effectively Manage Reserves?

The board may establish reserves to restrict a portion of fund balance for specific purposes in compliance with statutory requirements. It is important that the board adopt a written policy that communicates the board's financial objectives for the reserves, optimal funding levels and conditions under which the assets will be used. Such a plan should guide the board in accumulating and using reserve funds and helps inform district residents about how their tax dollars will be used. Generally, school districts are not limited as to how much money can be held in reserves. However, reserve balances should be reasonable. In addition, the board should review the district's reserves at least annually to help ensure the amounts reserved are necessary and provide transparency to residents.

Education Law requires the board to expressly authorize by resolution money transferred into any reserve fund.<sup>1</sup> It also requires school authorities to submit to the Commissioner of Education an annual detailed report of the operation and conditions of its reserve funds,<sup>2</sup> and for tax certiorari reserve fund totals not to exceed the amounts expected to pay anticipated judgments and claims.<sup>3</sup>

The board's adopted fund balance policy<sup>4</sup> addresses reserves and requires the business official to submit an annual report of all reserve funds to the board to enable them to make necessary decisions regarding maintenance and management of such reserve funds. The report shall include the type and description of the reserve, the date it was established and the amount of each sum paid into the fund, the interest earned, any capital gains or losses from sale of investments of the fund, the total amount and date of each withdrawal, the total assets of the fund showing cash balances and a schedule of investments, an analysis of the projected needs for the fund in the upcoming fiscal year and a recommendation regarding funding those needs.

## The Board Could Improve Its Management of Reserves

As of March 31, 2019, the District reported four general fund reserves<sup>5</sup> with balances totaling \$39,891,644. We compared the balances for each reserve to its historical expenditures and planned use and found three of them (capital, retirement and employee benefits) to be reasonably funded. However, based on the highest rate at which the District has paid out tax certiorari settlements for

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1 New York State Education Law (Education Law) Section 3653

2 Education Law Section 3651[7]

3 Education Law Section 3651[1-a]

4 Board of Education Policy 3470, "Fund Balance"

5 The District's four reserves are: tax certiorari, capital, retirement contribution, and employee benefits and accrued liabilities.

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the past five fiscal years (4.75 percent of the total amount claimed), we found the tax certiorari reserve balance of \$6,211,404 was sufficient to cover at least eight years of potential claims.

This occurred because there was no reserve policy, the existing fund balance policy does not indicate a targeted funding amount and officials had used an estimate of 50 percent of open tax certiorari claims rather than analyzing the actual needs for the reserve. As a result, funds may be tied up in the reserve that could be applied to other District needs.

We examined all three deposits totaling \$2,555,269 into District reserves during the audit period and found they were properly authorized by Board resolutions. The Business Official also submitted the required annual reports to the Commissioner of Education. Further, we compared the tax certiorari reserve balance to open claims for fiscal years 2013-14 through 2017-18 and found the reserve balance was properly less than the open claims.

However, the Board has not adopted written policies for funding or using any of the reserves. Although the Board has policies for general reporting of the District's reserves, it does not contain specific plans for each reserve with financial objectives, optimal funding levels and conditions under which the funds will be used. Officials stated they had not adopted reserve policies because they were not aware of the importance of them. Realistic reserve policies can help the Board maintain and use reserves in the District's best interest and provide transparency to taxpayers.

### **Annual Reserve Reports Do Not Meet All Policy Criteria**

Although the Business Official submits an annual report to the Board, the report does not meet all the criteria of the Board's fund balance policy. While the report lists the type of fund, the balance of each reserve and the interest earned by each fund, it does not include a description of each fund, the date it was established, the dates and amounts of each withdrawal, the total assets of each fund (including the cash balance and schedule of investments), an analysis of projected needs in the upcoming fiscal year and recommended funding of those projected needs.

Additionally, although the provided report did include amounts paid into each fund, these were projections of the total amounts officials expected to place into the fund, not the actual amount of each sum that was deposited. The reports did not meet all requirements of the Board policy because neither the Business Official nor the Board was aware of the policy's specific reporting requirements. As a result, the Board was less aware of the state of the District's reserves than it would have been if the report had been compliant with the policy.

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## What Do We Recommend?

The Board should:

1. Adopt a written policy outlining the financial objectives, optimal funding levels and conditions for use for each reserve.
2. Perform an analysis of its tax certiorari reserve fund balance to determine proper funding levels.
3. Ensure the Business Official submits the report of reserves to the Board in compliance with all requirements of its policy.

# Appendix A: Response From District Officials

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## CENTRAL ADMINISTRATION

Dr. George E. Stone  
Superintendent

Jean Miccio  
Assistant Superintendent for Instruction

Dr. Tammy Cosgrove  
Assistant Superintendent for Human Resources

Dr. Steve Rappleyea  
Assistant Superintendent for Pupil Personnel Services

Binoy Alunkal  
Business Manager

Jim Van Develde  
Director of Communications

July 12, 2019

Ann C. Singer  
Chief Examiner  
Division of Local Government and School Accountability  
110 State Street, 12<sup>th</sup> Floor  
Albany, New York 12236

### Re: District Response and Corrective Action Plan

Dear Chief Examiner Singer:

Thank you for taking the time to visit the Lakeland Central School District, and provide us with meaningful examination, feedback and recommendations as to how we can continue to improve our financial services. I want to note that at all times your team was courteous, professional, and willing to identify our positive financial practices as well as areas to improve.

In terms of the report itself, "Reserves Management, Report of Examination 2019M-113," we accept the audit findings and recommendations, and below is our response and corrective action plan. More specifically:

**Recommendation One:** "The Board should adopt a written policy outlining the financial objectives, optimal funding levels and conditions for use for each reserve."

**Response:** *The District was unaware of the need for additional policies beyond the financial management policies currently in place.*

**Corrective Action Plan:** The District will update and adopt a written policy outlining the financial objectives, optimal funding levels and conditions for use for each reserve fund and will be implemented by December 31, 2019.

**Recommendation Two:** "The Board should perform an analysis of the tax certiorari reserve fund balance to determine proper funding levels."

**Response:** *It has been the District's philosophy to fund tax certiorari reserves conservatively, based primarily on total exposure as opposed to actual claims paid.*

**Corrective Action Plan:** Moving forward, the District will take this recommendation under advisement and work to optimize the reserve considering all factors and will be implemented by December 31, 2019.

**Recommendation Three:** "The Board should ensure the Business Official submits the report of reserves in compliance with all requirements of the district's policy."

**Response:** *Agree*

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**Corrective Action Plan:** Moving forward, the Business Official's reports will include and comply with all requirements of the District's policy and will be implemented by December 31, 2019.

The Recommendations, Responses and Corrective Action Plan were reviewed by, and approved at the Board of Education meeting held on July 11, 2019.

Once again, we want to thank the auditors for their reporting, and appreciate their assistance in helping us continue to excel in financial management.

Sincerely,

George E. Stone, Ed.D.  
Superintendent of Schools

GES:lc





**Agenda Item Details**

Meeting Jul 11, 2019 - Annual Organizational Meeting

Category J. Board Action Items

Subject 3. Office of the State Comptroller (OSC) Audit District Response and Corrective Action Plan

Access Public

Type

**Public Content**

RESOLVED, that the Board of Education of the Lakeland Central School District of Shrub Oak, New York, hereby approves the District Response and Corrective Action Plan (CAP) in response to the Office of the State Comptroller's Audit 2019m-113.

LAKELAND MISSION STATEMENT: The Lakeland Central School District accepts the challenge of preparing students for a rapidly changing world, and provides the opportunity for all students to learn and succeed. We encourage, promote, and develop life-long learning and educational excellence in a safe, secure, student-centered environment. Our practices and policies are shaped by mutual respect, open and honest communication, ethical behavior, and personal responsibility.

## Appendix B: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed the Board meeting minutes, resolutions and policies to gain an understanding of the District's reserves and reserve policies.
- We examined Board resolutions, reserve ledgers and the District's property tax report card to the New York State Education Department to determine compliance with Education Law.
- We compared reserve balances to historical expenditures and planned uses to determine how reasonable the balances were.
- We calculated the percentage of open tax certiorari claims paid out from 2013-14 through 2017-18 to estimate how much of current claims would likely be paid. We then used that percentage to estimate how many years of claims the tax certiorari reserve could pay out with budgeted 2019-20 reserve levels and planned uses.
- We compared the reserve report provided to the Board to the annual reserve reporting requirements of Board policy to determine compliance.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3) (c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the 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.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

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