Office of the New York State Comptroller

Division of Local Government & School Accountability

Sayville Union Free School District

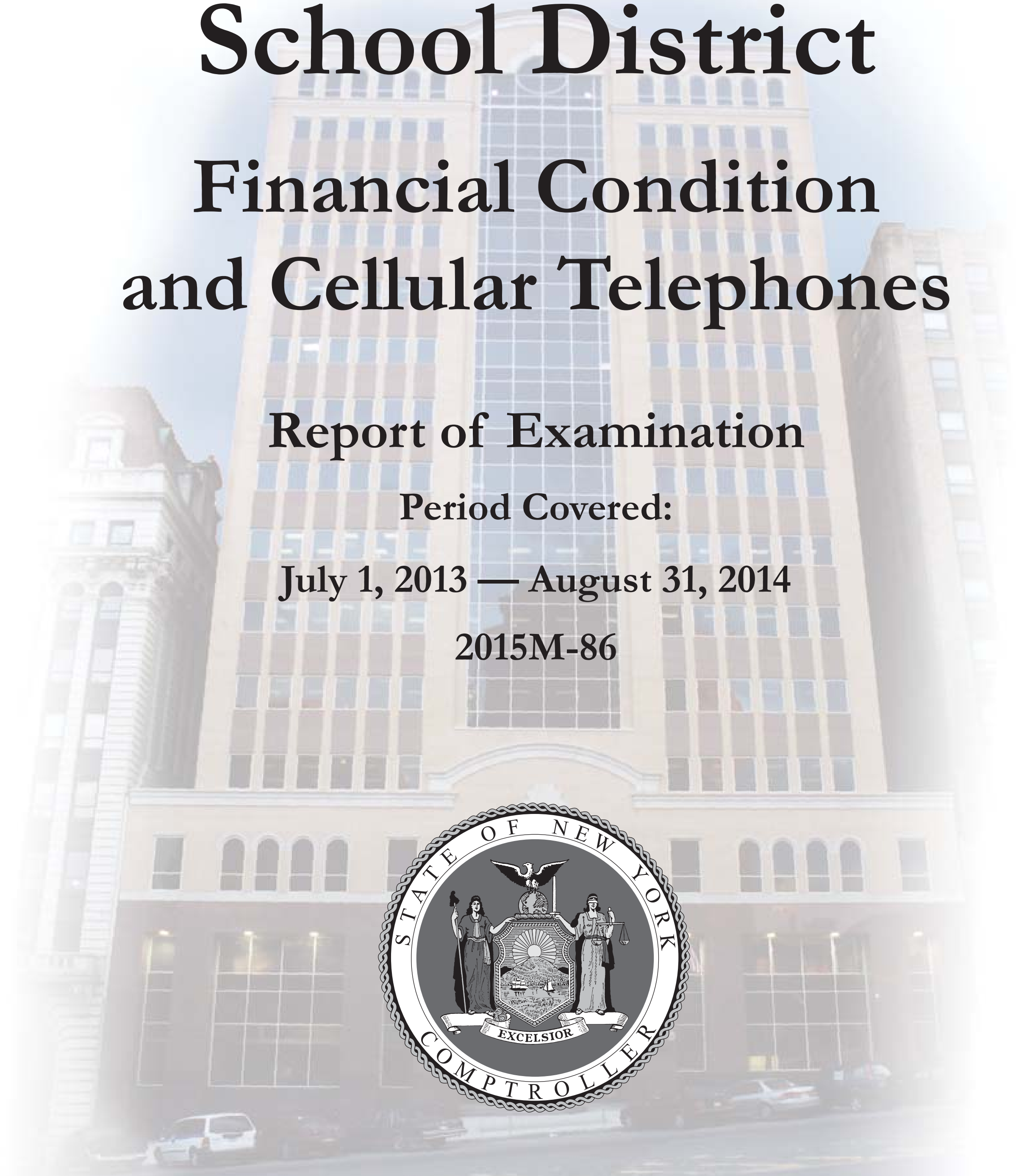
Financial Condition and Cellular Telephones

Report of Examination

Period Covered:

July 1, 2013 — August 31, 2014

2015M-86



Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

August 2015

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 Sayville Union Free School District, entitled Financial Condition and Cellular Telephones. 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 Sayville Union Free School District (District) is governed by the Board of Education (Board) which comprises 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 day-to-day District management under the Board's direction.

The District operates five school buildings with approximately 3,000 students and 563 employees. Actual expenditures for the 2013-14 fiscal year totaled about $86 million and were funded primarily with property taxes and State aid. Budgeted expenditures for the 2014-15 fiscal year were about $90 million. At June 30, 2014, the District had year-end encumbrances totaling $2.5 million.

Scope and Objectives

The objectives of our audit were to evaluate the District's financial activities and cellular telephone purchases and use. Our audit addressed the following related questions:

- Did the Board and District officials effectively manage the District's financial condition by ensuring budget estimates and encumbrances were reasonable?

- Did the Board ensure that District officials provided adequate oversight of District-issued cellular telephones and accessories?

Audit Results

The Board and District officials did not ensure that unexpended surplus funds were reasonable for the five-year period ending June 30, 2014. District officials planned to use a total of $17 million of fund balance during this period to finance District operations, an average of $3.4 million each year. However, they only used $2.4 million of the appropriated fund balance, or 14 percent of the total amount appropriated. In addition, the District overstated encumbrances by more than $6.5 million between the 2009-10 and 2013-14 fiscal years. As a result, the unexpended surplus fund balance[1] exceeded the statutory maximum of 4 percent of the ensuing year's budget for each of the five years.

[1] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: non-spendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54) and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget, amounts reserved for insurance recovery and tax reduction and encumbrances included in committed and assigned fund balance (after Statement 54).

Although the District has a cellular telephone (cell phone) policy, officials do not have proper procedures in place to effectively manage cell phone use and acquisition. The District purchased cell service, cell phones and accessories totaling $45,877 during the audit period. We reviewed five payments totaling $28,741 and found that the District paid additional charges and fees of $3,277. Because the Board is not ensuring that officials adhere to the policy in place, the District incurred additional and unnecessary costs.

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 disagreed with many of the findings in our report. Our comments on issues District officials raised in their response are included in Appendix B.

Introduction

Background

The Sayville Union Free School District (District) is located in the Town of Islip, Suffolk County. The District is governed by the Board of Education (Board) which comprises seven elected members. One of the members is appointed President. The President is the District's chief financial officer. The Board is responsible for the general management of the District's financial affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the Board's direction.

The District operates five school buildings with approximately 3,000 students and 563 employees. Actual expenditures for the 2013-14 fiscal year totaled about $86 million and were funded primarily with property taxes and State aid. Budgeted expenditures for the 2014-15 fiscal year were about $90 million. At June 30, 2014, the District had year-end encumbrances totaling $2.5 million.

Objectives

The objectives of our audit were to evaluate the District's financial activities and cellular telephone purchases and use. Our audit addressed the following related questions:

- Did the Board and District officials effectively manage the District's financial condition by ensuring budget estimates and encumbrances were reasonable?
- Did the Board ensure that District officials provided adequate oversight of District-issued cellular telephones and accessories?

Scope and Methodology

We examined the District's financial operations and cellular phone records for the period July 1, 2013 through August 31, 2014. We expanded our scope back to July 1, 2009 to analyze the District's financial condition and to provide perspective and background information.

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 is included in Appendix C of this report.

Comments of District Officials and Corrective Action

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 and Superintendent are responsible for adopting budgets that contain estimates of actual and necessary expenditures that are funded by realistic revenues. Sound budgeting provides sufficient funding for necessary operations. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. Once the Board has addressed those issues, any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences, should be used appropriately. Additionally, for District officials to maintain budgetary control and to arrive at an accurate estimate of the District's uncommitted appropriations, it is necessary to encumber all of the District's known obligations when contracts are approved or purchases are authorized.

The Board and District officials did not ensure that unexpended surplus funds were reasonable for the five-year period ending June 30, 2014. District officials planned to use a total of $17 million of fund balance during this period to finance District operations, an average of $3.4 million each year. However, they only used $2.4 million of the appropriated fund balance, or 14 percent of the total amount appropriated. In addition, the District overstated encumbrances by more than $6.5 million between the 2009-10 and 2013-14 fiscal years. As a result, the unexpended surplus fund balance[2] exceeded the statutory maximum of 4 percent of the ensuing year's budget for each of the five years.

Budgeting and Use of Fund Balance

In preparing a realistic budget, the Board must estimate revenues, expenditures, and the amount of unexpended surplus funds that will be available at fiscal year-end, some or all of which may be used to fund the ensuing year's expenditures. After taking these factors into account, the Board establishes the expected tax levy necessary to fund operations. Accurate estimates help ensure that the levy of real property taxes is not greater than necessary. Revenue and expenditure

[2] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: non-spendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54) and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (after Statement 54).

estimates should be developed based on prior years' operating results, past expenditure trends, anticipated future needs and available information related to projected changes in significant revenues and expenditures. Unrealistic budget estimates can mislead District voters and taxpayers and can significantly impact the District's year-end surplus funds and financial condition.

Fund balance represents resources remaining from prior fiscal years. School districts may retain a portion of fund balance at year-end for purposes of cash flow or unexpected expenses. However, New York State Real Property Tax Law (Real Property Tax Law) requires that unexpended surplus funds not exceed 4 percent of the ensuing year's budget appropriations. When fund balance is appropriated as a funding source, the expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the appropriated fund balance. Conversely, an operating surplus (when budgeted appropriations are underexpended, expected revenues are greater than estimated or both) increases the total year-end fund balance and can indicate that budgets are not realistic. It is not sound practice to routinely adopt annual budgets that appropriate fund balance that will not actually be used. This practice misleads taxpayers; instead of decreasing the unexpended surplus funds, it further increases the amount of surplus fund balance.

The District reported year-end unexpended surplus funds in the general fund at levels that essentially complied with the 4 percent fund balance limit for three out of the five years reviewed. This was accomplished, in part, by appropriating fund balance and funding reserves at year end. District officials' appropriation of fund balance aggregated to more than $17 million over the past five years (an average of about $3.4 million each year), which should have resulted in planned operating deficits. However, because the District overestimated expenditures in its adopted budgets, it experienced large operating surpluses in four of these years and did not use the appropriated fund balance included in its budgets, as indicated in Figure 1.

Figure 1: Unexpended Surplus Funds at Year End

	2009-10	2010-11	2011-12	2012-13	2013-14
Beginning Fund Balance	$20,051,326	$20,730,561	$23,147,555	$26,432,558	$28,993,664
Plus: Operating Surplus/(Deficit)	$679,235	$2,416,994	$3,285,003	$2,561,106	($2,387,888)
Total Fund Balance	$20,730,561	$23,147,555	$26,432,558	$28,993,664	$26,605,776
Less: Appropriated Fund Balance	$2,500,000	$2,500,000	$4,000,000	$4,019,500	$4,109,654
Less: Reserves	$10,919,978	$10,797,176	$16,073,892	$18,528,541	$16,501,916
Less: Encumbrances	$1,860,765	$2,421,020	$2,934,643	$2,869,650	$2,521,099
Total Unexpended Surplus Funds at Year End	$5,449,818	$7,429,359	$3,424,023	$3,575,973	$3,473,107
Ensuing Year's Budget	$78,735,453	$81,779,400	$85,674,961	$89,461,217	$90,051,255
Reported Unexpended Surplus Funds as Percentage of Ensuing Year's Budget	6.92%	9.08%	4.00%	4.00%	3.86%
Actual Unexpended Surplus Funds Resulting From Unused Appropriated Fund Balance From Prior Year[a]	$8,521,087	$11,440,135	$7,312,382	$9,204,868	$6,060,049
Actual Unexpended Surplus Funds as a Percentage of Ensuing Year's Budget	10.82%	13.99%	8.54%	10.29%	6.73%

[a] Unused appropriated fund balance from prior year and unused reserve for encumbrances (see Encumbrances finding) were added back in to the unexpended surplus fund balance to determine total unexpended surplus funds.

The District planned for operating deficits in all five years reviewed and appropriated more than $17 million to fund the ensuing years' budgets. However, it experienced an operating deficit of $2.4 million in only the 2013-14 fiscal year. Therefore, the District only used 14 percent of total appropriated fund balance during this time. For the remaining four of the five years reviewed, total actual revenues exceeded expenditures by $8.9 million, resulting in better than planned operations. The District therefore effectively retained unexpended surplus funds beyond the statutory limit in all five years.

We compared the District's budgeted revenues and appropriations with actual results of operations and found that District officials consistently presented, and the Board approved, budgets which overestimated expenditures during this five-year period. As shown in Figure 2, District officials overestimated expenditures from $3.8 to $7.4 million during this period, for a total of almost $31 million from the 2009-10 through the 2013-14 fiscal years.

Figure 2: Overestimated Expenditures			
Fiscal Year	Budgeted Appropriations[a]	Actual Expenditures	Overestimated Expenditures
2009-10	$79,331,408	$75,566,654	$3,764,754
2010-11	$80,596,218	$74,024,021	$6,572,197
2011-12	$84,200,420	$76,791,960	$7,408,460
2012-13	$88,609,604	$81,811,071	$6,798,533
2013-14	$92,330,867	$85,944,561	$6,386,306
		Total Expenditure Variance	**$30,930,250**

[a] Includes year-end encumbrances from prior fiscal year

The plurality of the overestimated expenditures were for employee benefits and special education instruction. District officials overestimated employee benefit costs by a total of $8.5 million and special education costs by $2.8 million over the five-year period. District officials stated that they budgeted for contingencies in special education costs to anticipate any incoming students needing services. They added that the District was part of a health insurance consortium that was self-funded prior to January 1, 2015; therefore, the District was responsible for any deficits that the self-funded plan had. Overestimated appropriations contributed to the District's unexpended surplus fund balance exceeding the statutory limit. Had District officials used more realistic budget estimates, they could have accumulated less fund balance and possibly reduced the tax levy.

Encumbrances

Encumbrances are commitments for payments related to unperformed contracts for goods or services. Encumbrance accounting is intended to guard against a district creating liabilities in excess of approved appropriations. For District officials to maintain budgetary control and arrive at an accurate estimate of the District's uncommitted appropriations, it is necessary to encumber all of its known obligations when contracts are approved or purchases are authorized. At the end of the fiscal year, a portion of the unexpended surplus funds are set aside for the payment of goods, materials and services that have been ordered but not received. This restricted amount of fund balance is known as the reserve for encumbrances and the following year's budget is increased by this amount.

During fiscal years 2009-10 through 2013-14, the District overstated the reserve for encumbrances and thereby understated the amount of available fund balance. The District encumbered a total of $12.6 million for the five fiscal years reviewed. Each year, fund balance was reserved for purchase orders that were not used. More than $6 million of encumbrances was liquidated during this period.

We analyzed the District's expenditures related to encumbrances and found that, while District officials reserved fund balance for encumbrances in amounts of no less than $1.8 million for each of these years, between $715,000 and $1.5 million of these encumbrances were canceled each year, as outlined in Figure 3.

Figure 3: Unused Encumbrances

Fiscal Year Ended	Amount Reserved for Encumbrances	Unused Reserve for Encumbrances	Percentage Not Used
June 30, 2010	$1,860,765	$1,013,269	54%
June 30, 2011	$2,424,019	$1,510,776	62%
June 30, 2012	$2,934,644	$1,351,822	46%
June 30, 2013	$2,869,650	$1,522,677	53%
June 30, 2014	$2,521,099	$715,984[a]	28%
Totals	**$12,610,177**	**$6,114,528**	

[a] Amount reflects year-to-date totals as of March 3, 2015

At or near the end of each of the five fiscal years, the District canceled an average of 48 percent of the amount encumbered in the previous fiscal year. We reviewed 75[3] District purchase orders totaling $459,941 that made up the reserve for encumbrances for the fiscal years ended June 30, 2012, 2013 and 2014. The majority of the encumbrances in our sample, 83 percent, were either the following year's operating expenditures ($371,945) or the current year's accounts payable ($10,155). Nine encumbrances, totaling $12,073, had no orders placed with a vendor. Two of these encumbrances totaling $5,320 have not been liquidated.[4]

Based on our review, the District overstated encumbrances by a total of at least $6.5 million for the period reviewed: $6.1 million from purchase orders that were not used and $382,100 from purchase orders that were improperly encumbered. Because encumbrances were overstated, it caused the District's unexpended surplus funds to be understated by an average of $1.2 million in each of the fiscal years reviewed and resulted in the District exceeding the 4 percent statutory limitation.

[3] See Appendix C for selection methodology.

[4] When the District encumbers funds at the end of a fiscal year, the practice is to liquidate the unused encumbrances at the end of the following fiscal year. The two unliquidated encumbrances are for the 2013-14 fiscal year and will be liquidated at the end of the current year, 2014-15.

Recommendations

The Board should:

1. Ensure that the amount of the District's unexpended surplus funds is in compliance with Real Property Tax Law statutory limits.

2. Discontinue the practice of adopting budgets that result in the appropriation of unexpended surplus funds that are not needed to fund District operations.

3. Develop procedures to ensure it adopts more realistic budgets.

District officials should:

4. Limit the establishment of encumbrances to include only orders placed in and for the current year.

Cellular Telephones

The District's cellular telephone (cell phone) policy requires the Superintendent to determine the job titles that require cell phones and the effectiveness of the cell phone plan and to present this information to the Board for approval. Moreover, the District should have established written procedures regarding the purchase of cell phones and related equipment. Purchasing procedures should require the person who gave rise to a claim to indicate receipt of goods, which includes reviewing the items purchased to ensure that the District received the correct item in the correct amount at the agreed upon price before the claim (invoice) is processed for payment. Cell phone claims should be audited prior to payment to ensure that they are valid District expenditures. The audit should include verifying that the District does not pay sales tax, as school districts are generally exempt from this tax.

The District has issued 59 cell phones: 36 to individuals and 23 to District offices. Although required by the District's cell phone policy, the Superintendent did not determine the job titles requiring cell phones or report the effectiveness of the cell phone plan to the Board. The Superintendent told us that a prior administration did this; however, he could not provide us with documentation supporting this. Listings of cell phone numbers and users are maintained by both the business and the technology offices; however, the list maintained by the business office does not include cell phones that are used by the various District offices, such as the nurse's office and the main office of each school building. Neither lists were presented to or approved by the Board.

The District uses a blanket purchase order[5] to make cell phone purchases and payments throughout the year. The Network Administrator determines the number of phones needed, obtains the price and requests approval from the Assistant Superintendent for Business. District officials told us that the Purchasing Agent authorizes payments for invoices, the Network Systems Administrator reviews invoices for proper charges and the claims auditor approves payments. The District made 13 payments totaling $45,877 to the cell phone provider during our audit period. We judgmentally reviewed the five highest payments totaling $28,741, which consisted of eight invoices and included the purchase of 26 cell phones totaling $5,083

[5] A blanket purchase order is an agreement to spend a specific amount of money with a named vendor over a period of time and is used in instances where services are needed on an ongoing basis and there are recurring payments of varying amounts and quantities.

and accessories totaling $1,004. We determined that invoices were not properly reviewed and claims were not properly audited. The District paid:

- $2,200 in fees because the District did not activate six cell phones within the 60 days allowed by the provider.
- $199 each for eight cell phones that could have been purchased for $95 each, for an overpayment of $832.
- $245 in sales tax for 26 cell phones and 38 accessories.

Without approving a list of job titles requiring District cell phones, the risk exists that the District could be paying cell phone charges for unauthorized individuals. Further, because the Network Systems Administrator did not properly review invoices and the claims auditor did not properly review the claims for proper and accurate charges, the District incurred unnecessary expenses totaling $3,277.

Recommendations

The Board should:

5. Enforce the cell phone policy.
6. Ensure the Network Systems Administrator and claims auditor properly review all cell phone bills prior to authorizing payment.

District officials should:

7. Implement procedures that provide additional oversight of the acquisition and use of cell phones and ensure that invoices are adequately reviewed and include the agreed-upon rates.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Dr. Walter F. Schartner
Superintendent of Schools

Re: Response to State Auditor's Report: 2015M-086 July 21, 2015

This response is prepared in accordance with the information provided by the Comptroller's office in the document titled, Responding to an OSC Audit Report.
This is the District's opportunity to react and respond to the comments and recommendations outlined in the Sayville Union Free School District, Financial Condition and Cellular Telephones, Report of Examination. The District has also chosen to use this Response Report as the required Corrective Action Plan (CAP).

See Note 1 Page 23

It is truly unfortunate that this Report of Examination does not present a fair and accurate picture of the financial condition of the School District. The Report, as written, draws inaccurate conclusions without the validation and disclosure leading up to the annual fiscal results or outcomes. OSC's approach and inaccurate conclusions are misleading to the readers of the Report.
It fails to properly report and characterize the many variables that are inherent in assessing Financial Condition as prescribed by the Comptroller's Office in the Local Government Management Guide, Financial Condition Analysis. This Guide, as published by the Comptroller's Office, is a great resource document that provides a comprehensive look into the numerous components that go into assessing the financial condition of an organization. We encourage the readers of this Report to also take a moment and review this publication. It will provide an additional sense of balance. The link is as follows:
http://www.osc.state.ny.us/localgov/pubs/lgmg/financialconditionanalysis.pdf

In order to better understand the various components of assessing financial condition of an organization, it may be helpful to review the Comptroller's definition of financial condition as provided in their Local Government Management Guide, Financial Condition Analysis, (page 2):

"**Defining Financial Condition**

Financial condition may be defined as the ability of a local government or school district to balance recurring expenditure needs with recurring revenue sources, while providing services on a continuing basis. A community in good financial condition generally maintains adequate service levels during fiscal downturns, identifies and adjusts to long-term economic or demographic changes, and develops resources to meet future needs. Conversely, a community in fiscal stress usually struggles to balance its budget, suffers through disruptive service level declines, has a difficult time adjusting to socioeconomic forces, and has limited resources to finance future needs. Maintaining or restoring sound financial condition requires local officials to adjust to long-term socioeconomic and demographic changes, respond to the economic impact of the business cycle, and plan for the future.

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There is no single measure that fully captures the financial condition of a local government or school district. Rather, local governments need to take a comprehensive approach that focuses on both external and internal fiscal indicators that are easy to measure, evaluate and understand. Ideally, you want a financial indicator system that is comprehensive enough to match the complexity of your government (suburban counties might have a very different fiscal indicator system than rural towns), but that is operationally manageable and produces regular, reliable reports for decision making.

Financial condition is affected by a combination of environmental, fiscal and organizational factors, including decisions and actions of the governing board. For example, a steady population decline can lead to an erosion of the property tax base (a negative environmental trend). However, the ways in which local officials respond to this decline (such as cutting services, increasing tax rates, or engaging in economic development) also affect the financial condition of the local government.

Environmental factors include measures of community needs and resources such as population, property value and poverty, and economic factors such as inflation, personal income and employment. These environmental indicators often provide the best "early warning" of future fiscal stress. Research by OSC has concluded that there is a strong correlation between environmental factors and financial condition, and that fiscal stress is often apparent in these measures before it is evident in the financial data...."

In part, the auditors have concluded that, "The Board and District officials did not ensure that Unexpended Surplus balances were reasonable for the five year period June 30, 2014."
The District understands the single measurement approach (analysis and restatement of only Unexpended Surplus balances) used by the auditors to arrive at their conclusion, but does not concur that Unexpended Surplus balances were unreasonable for the five-year period ending June 30, 2014.

See Note 2 Page 23

A budget is a financial plan that provides for the necessary resources to support both the instructional and non-instructional support programs offered by the District. Budgets must be fluid and flexible to address current contractual obligations, as well as potential contingences that may arise in any given school year. One assumption made by the auditors was that the District did not fully use the designated ***appropriated*** (added the word appropriated since report only uses the term 'fund balance') fund balance in each of the five years ending June 30, 2015. We do agree with this finding.

See Note 3 Page 23

It is the District's position that we aggressively manage budgetary appropriations to achieve-annual budgetary savings. It would be fiscally irresponsible to spend all Appropriated Fund Balance monies, **and** not make a conscious effort to restore some or all of these monies through annual achieved budgetary savings. There are provisions in General Municipal Law which clearly sets forth the regulations of the use and establishment of Reserve Funds (Reserve Funds are only one component of total Fund Balance). As end-of-year Operating Surpluses may have been achieved (in the four (4) out of five (5) years audited), the District has always responsibly followed the appropriate regulations/statutes in applying these surpluses or savings to the proper components of Fund Balance.

See Note 4 Page 23

See Note 5 Page 23

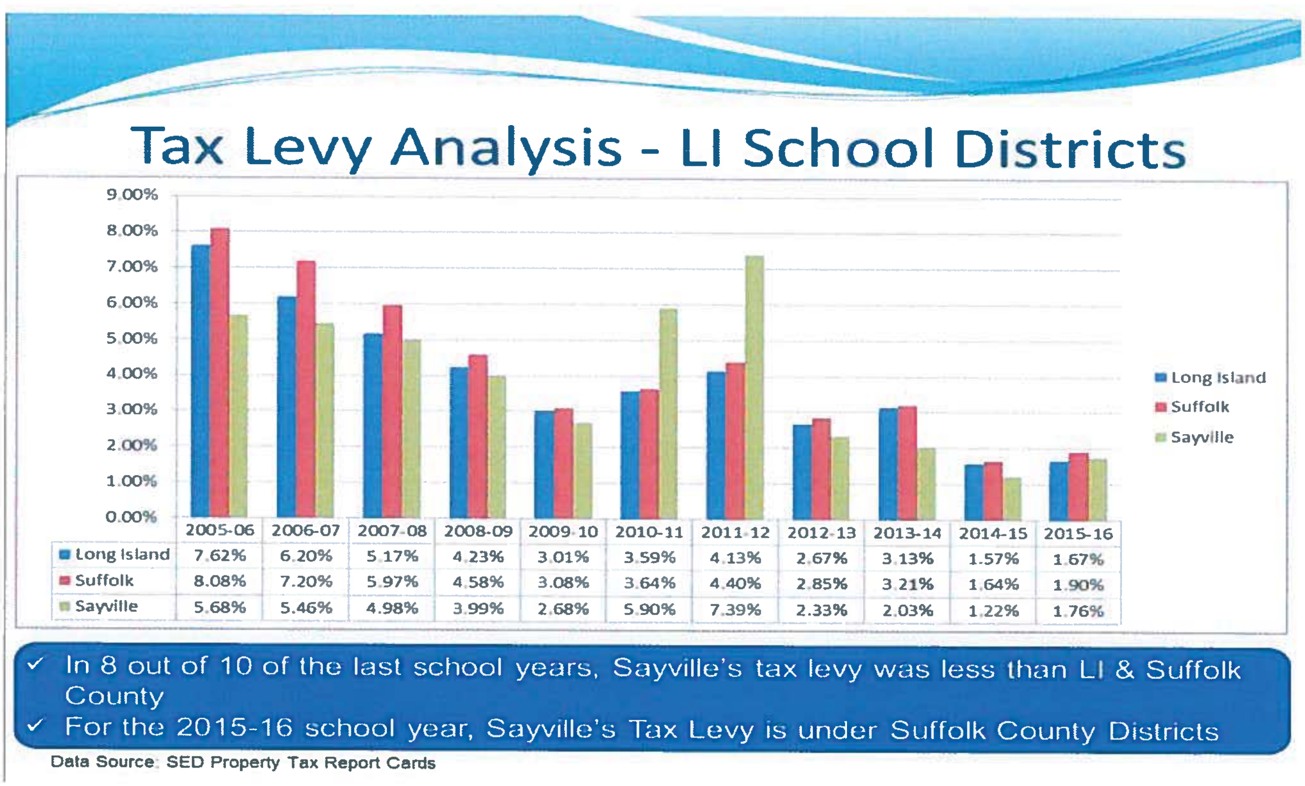
Unexpended Surplus amounts used in part to fund future budgets have the direct effect of reducing the tax levy as a revenue source. Using these funds, and all fund balances monies, in this capacity serves to enhance the financial condition of the District.

See Note 6 Page 24

As a result of the District effectively managing its budgets and surplus funds, we were able to successfully navigate through a fiscal downturn beginning in the 2008-09 school year, and continuing through the 2013-14 school year. These fiscal strategies have enabled the District to preserve our educational programs, maintain our teaching and support staff, provide for unanticipated events, such as students leaving Sayville and entering foster care in other school districts (whereby Sayville becomes financially responsible for the education costs), emergency boiler replacement, decreasing state aid (***loss of over $15 million in State aid due to the Gap Elimination Adjustment since the 2010-11 school year***) and navigating the 2% property tax levy cap. These are just some examples of the different challenges a District faces from year to year. As budgets are being developed the District strives to be fiscally responsible and anticipate as many variables as reasonably possible in order to maintain and enhance the educational opportunities for our Sayville students.

Trends Analysis

Analyzing historical trends can provide valuable information about current and future fiscal health. During the 2015-16 budget development process, the District prepared and presented to the community a ten (10) year Tax Levy Analysis of all Long Island School Districts. The data was disaggregated, showing Sayville's Tax Levy as compared to Long Island and Suffolk County Districts. The results are provided in the following graph:



	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Long Island	7.62%	6.20%	5.17%	4.23%	3.01%	3.59%	4.13%	2.67%	3.13%	1.57%	1.67%
Suffolk	8.08%	7.20%	5.97%	4.58%	3.08%	3.64%	4.40%	2.85%	3.21%	1.64%	1.90%
Sayville	5.68%	5.46%	4.98%	3.99%	2.68%	5.90%	7.39%	2.33%	2.03%	1.22%	1.76%

- ✓ In 8 out of 10 of the last school years, Sayville's tax levy was less than LI & Suffolk County
- ✓ For the 2015-16 school year, Sayville's Tax Levy is under Suffolk County Districts

Data Source: SED Property Tax Report Cards

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The District's Tax Levy comprises approximately 65% of total revenues - no doubt a large portion of our annual revenue dollars. The Board of Education and Administration are very sensitive to the concept of taxpayer fatigue and the ability of our community to pay increasing taxes in support of the school system. The above chart is only one of many indicators that demonstrate the effective fiscal management of the District's Tax Levy as compared to other school districts.

Fiscal Stress

Another good measurement of a District's financial condition is the Fiscal Stress Monitoring System that was implemented by the Office of the State Controller. This System was put in place beginning with the fiscal year ending 2013. According to Comptroller's Office, "The goal of the System is to inform both municipal leaders and taxpayers of the budgetary and economic challenges facing their locality so that actions can be taken when appropriate to avoid a fiscal crisis."

The District's fiscal and environmental scores and designation are outlined below:

FYE	Fiscal Stress Score	Fiscal Stress Designation	Environmental Score	Environmental Designation
2013	0.0%	No Designation	36.7%	#
2014	11.7%	No Designation	39.2%	#

For additional information on scores and designation categories refer to the Fiscal Stress Report on the Comptroller's website, located at: https://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm.

As we can see from the above analysis, Sayville Schools does not have a Fiscal Stress Designation in the fiscal years ending 2013 or 2014. This is a good thing; however, you will note for the 2013-14 school year, our Fiscal Stress Score went from 0% to 11.7%. This is due to the fact that, for the 2013-14 school year, the District ended the year with a $2,387,888 operating **deficit**. This is the result of the spending down of fund balance monies. As we can see from above, having consecutive operating deficits from year to year will in fact raise the fiscal stress indicators. However, by managing and using fund balance monies prudently, coupled with the monitoring of the fiscal stress indictors, the District will continue to remain in good financial condition.

For more of an in-depth review of the Fiscal Stress Monitoring System, we encourage readers of this report to visit the above link.

Financial Condition – Response to Recommendations and Corrective Action Plan (CAP)

Audit Recommendation:

1. Ensure that the amount of the District's unexpended surplus funds is in compliance with Real Property Tax Law statutory limits.

District's Response/Plan of Action:

Beginning with the 2011-12 school year and beyond, and as evidenced in the District's Annual Audit Reports, the District believes we are in compliance with the Real Property Tax Law statutory limits. For the 2009-10 and 2010-11 school years, we acknowledge being over the 4% statutory limits on June 30th of the respective years. This was resolved by the Board of Education (in the 2011-12 school year) by legally establishing and transferring the amounts over 4% to appropriate reserve funds.

It should be noted that the calculation of the 4% limit in accordance with Real Property Tax Law statutory limits is performed and tested at June 30 in any given school year. Prior to the closing and preparation of year-end Financial Statements, this calculation is made by the District annually. Based on the operational results for a given school year, should the District be over the 4% limit, all monies over the 4% would appropriately be transferred to other reserve account(s) by Board action.

See Note 7 Page 24

As presented by the auditors in Figure 1 of their Report, they have taken the approach of going back to each of the five years presented and re-calculating the Real Property Tax Law statutory limits based on actual results. We can concur that this methodology may be useful as a monitoring or evaluation tool, but not to conclude that the District is not in compliance with Real Property Tax Law statutory limits.

As indicated above, the statue provides for this calculation to be made at the end of a fiscal year. We believe there is no provision in the statue that provides for the re-calculation of unexpended surplus funds after the June 30 end of fiscal year. To take this approach is paramount to punishing a District for being fiscally responsible and not totally spending all of their appropriations.

See Note 8 Page 24

The District will continue to closely monitor the provisions pursuant to the Real Property Tax Law statutory limits.

The Assistant Superintendent for Business will be responsible for this annual review/action.

Audit Recommendation:

2. Discontinue the practice of adopting budgets that result in the appropriation of unexpended surplus funds that are not needed to fund District operations.

District's Response/Plan of Action:

The District has in place a detailed budget development process that results in a projected spending plan based on contractual obligations and provisions for contingencies where appropriate. As stated earlier, the District has adopted a budget philosophy whereby budgets are managed aggressively. Our long-term fiscal approach has always been to only spend where necessary, and attempt to generate enough savings to replenish or restore existing fund balance levels. This is an acceptable approach in managing budgetary funds. Furthermore, it is

See Note 9 Page 24

important to reiterate that when Unexpended Surplus Funds are committed to fund a portion of the subsequent year's revenues, it DIRECTLY reduces the tax levy.
The auditors are promoting that, in order to use Unexpended Surplus Funds, the District should develop budgets that will result in operating deficits; and, if you want to restore reserves or develop Unexpended Surplus up to the 4% limits, that additional monies be added to the budget. Essentially, the District is achieving the same result, only through the management of the budget. All Fund Balance monies are disclosed to the community. This transparency is accomplished through budget presentations, publishing of the District's Annual Financial Statements; Reports filed with the State Education Department (ST-3), amount used or applied within our annual Revenue Budgets, etc.

See Note 6 Page 24

See Note 10 Page 24

The District will continue to make a concerted effort to assess and evaluate our budget development practices with the objective of ensuring the fiscal integrity of the District to fully support our educational programs. This process runs December through the time the Board adopts a Budget in April in any given school year.

District Administration and the Board of Education will continue to be responsible for the development of annual budgets and the use of unexpended surplus funds.

Audit Recommendation:

3. Develop procedures to ensure it adopts more realistic budgets.

District's Response/Action plan:

As stated earlier in the Report, a budget is a financial plan that provides for the necessary resources to support both the instructional and non-instructional programs offered by the District. Budgets must be fluid and flexible to address current contractual obligations, as well as potential contingences that may arise in any given school year. The District will continue to make a concerted effort to assess and evaluate our budget development practices, with the objective of ensuring the fiscal integrity of the District to fully support our educational programs. The Board will continue to review budgetary and actual year end results during the budget development time frame.

This process runs December through the time the Board adopts a Budget in April in any given school year.

District Administration and the Board of Education will continue to be responsible for the development of annual budgets.

Audit Recommendation:

4. Limit the establishment of encumbrances to include only orders placed in and for the current year.

District's Response/Action Plan:

During the review, the auditors took exception to the fact that certain purchases were made in June and paid in the following school year. They made the assumption that because some items were not available at the end of a school year, the purchase should have been made in the following year. The District fully explained the purchasing practices, which are in full compliance with the Purchasing Policy and Procedures. In order to ensure that some supplies and or instructional technology are available for the start of the next school year, sometimes it becomes necessary to replenish supplies late in a school year.

See Note 11 Page 24

For example, one specific item questioned was the 1:1 Student Technology Initiative. During the 2013-14 school year, the District had budgeted and planned to implement this 1:1 initiative. As the school year began, a committee was charged with reviewing, evaluating and deciding on the type of technology that would best fit the program. In early June, a decision was made to purchase chrome books. This project was planned for in the 2013-14 school year, budgeted in the 2013-14 school year, and the purchase made in the 2013-14 school year. After the exit interview with District personnel, the auditors requested additional information demonstrating the Board of Education was aware of the Initiative. The District provided a copy of the December 12, 2013 Board Agenda, which clearly shows under Public Content, Item #6: 1:1 Initiative. In addition, they were also provided the Minutes of the same meeting which shows a brief summary of a presentation that was under: Reports - Superintendent of Schools.

See Note 12 Page 25

The auditors were provided sufficient documentation and verbally informed the District that the information was not going to be included in the report, and we should include it in our response. This example is being provided, to once again provide a sense of balance as to the factual information that was provided during the audit process, but chosen to be discounted by the auditors.

See Note 12 Page 25

In conclusion, the District will continue to review all purchasing policies and procedures with the District's Purchasing Agent.

The Assistant Superintendent for Business and School Purchasing Agent will be responsible for the application of the District's purchasing policies and procedures.

Cellular Telephones – Response to Recommendations and Corrective Action Plan (CAP)

The District's Cell Phone Policy was put in place in response to The Safe Schools Against Violence in Education (SAVE) Act. This legislation was passed by the New York State Legislature and signed into law by Governor George E. Pataki on July 24, 2000, to address issues of school safety and violence prevention.

As part of the District's Emergency Management Plan, specific District personnel are issued cell phones to ensure that a dependable alternative means of communication is available to address daily operational matters, as well as, the prompt response and coordination to health and safety issues.

Audit Recommendation:

5. Enforce the cell phone policy.

District's Response/Action Plan:

The District will review the auditor's findings and take corrective actions where necessary. Appropriate lists are currently maintained, including job titles. Such listing was in fact reviewed by the Superintendent of Schools and presented to the Board of Education for approval on July 1, 2015.

The Superintendent of Schools, Assistant Superintendent for Business, Network Systems Administrator and School Purchasing Agent will be the individuals responsible for administering the cell phone policy.

Audit Recommendation:

6. Ensure the Network Systems Administrator and claims auditor properly review all cell phone bills prior to authorizing payment.

District's Response/Action Plan:

Procedures and internal controls will be reviewed by both the Network Systems Administrator and the independent outside claims auditor. All monthly cell phone bills will be thoroughly reviewed and approved for payment. Any discrepancies identified, will be promptly addressed with the carrier.

Audit Recommendation:

7. Implement procedures that provide additional oversight of the acquisition and use of cell phones, and ensure that invoices are adequately reviewed and include the agreed upon rates.

District's Response/Action Plan:

Based on discussions and findings during the review process, the above recommendation is already being implemented. The oversight consists of a two part review process by the Network Systems Administrator and School Purchasing Agent. It should be noted that as a result of the review process, the District has received $829.81 in refunds from our Sprint carrier. Any discrepancies identified, will be promptly addressed with the carrier.

Submitted by: Sayville Board of Education — Dated: July 21, 2015

John Verdone, Board President

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Our report is accurate and based on documents presented to us by District officials and on information reported in the District's audited financial statements. Our report objectively presents financial trends and results of operations over time. The report shows that, for the past five fiscal years, the Board and District officials overstated encumbrances and budgeted for inflated expenditure estimates. Therefore, the District did not use the appropriated fund balance included in each of those years. This practice resulted in tax levies that were higher than necessary.

Note 2

Our audit did not use a single measurement approach to assessing financial condition. Our findings were based on an objective review of the District's annual budgets, and an analysis of revenue and expenditure trends, results of operations and appropriation of fund balance.

Note 3

Our audit made no assumption regarding the use of appropriated fund balance. Our findings were based on the District's annual budgets − which included plans to use appropriated fund balance to finance operations − and the results of operations, which showed little to no use of appropriated fund balance because of the overestimated appropriations.

Note 4

Annual budgets did not indicate a plan to save. Rather, the District's budgets indicated that, each year, the District expected to have more expenditures than revenues and would cover the planned operating deficits using fund balance. If the District's plan was to avoid using fund balance by achieving budgetary savings, the budgets should not have been presented with appropriations from fund balance. Indicating to residents that the District intended to use fund balance when there was a plan to achieve savings would be misleading and not transparent.

Note 5

Our report does not state or imply that the District did not comply with laws or regulations governing the accounting for surplus. Our report focuses on the District's consistently inflated budgets which resulted in surpluses and appropriation of fund balance that was not needed and which served to circumvent the statutory 4 percent limit.

Note 6

Unexpended surplus funds are the portion of fund balance that is unrestricted and unappropriated. We agree that the use of unrestricted fund balance reduces the tax levy. However, the District appropriated fund balance to balance budgets with overestimated expenditures. This practice results in tax levies that are higher than necessary. True cost savings to taxpayers can be accomplished by using more accurate estimates when developing the budget.

Note 7

A more transparent method for funding reserves is to include an appropriation in the annual budget presented to the voters for approval. By making provisions to raise resources for reserve funds explicit in the proposed budget, the Board gives voters an opportunity to know the Board's plan for funding its reserves.

Note 8

The findings in our report serve to clarify to the taxpayers that the District's tax levies for the past five fiscal years have been higher than necessary. The practice of overestimating expenditures to obtain "budgetary savings" overburdens taxpayers and is not fiscally responsible.

Note 9

The District's budgetary trends indicate that it has routinely budgeted for what it does not plan to spend or use. The District did not need to replenish or restore the majority of the unrestricted fund balance that it appropriated because it only used $2.4 million (14 percent) of the $17 million appropriated over the five-year period.

Note 10

Our report does not promote or suggest that the District develop budgets with deficits. District officials presented annual budgets to residents which indicated planned operating deficits each year. These budget presentations were unreasonable because District officials did not truly expect deficits. At year-end, it appears that they appropriated fund balance that was not needed or used in order to circumvent the statutory requirement, while overestimating expenditures in the annual budgets. This misleads taxpayers into thinking they were receiving a reduction in their tax levy.

Note 11

District officials confirmed that these items were purchased for use in the subsequent year, which indicates that they were the subsequent year's expenditures. Therefore, these purchases should not have been encumbered from the current year's funds.

Note 12

After our exit discussion, District officials provided us with minutes from the December 2013 Board meeting showing that a presentation was given regarding the initiative. No additional information was provided. We informed the District that these minutes were insufficient because there was no explanation of the initiative, no mention of the items to be purchased as a part of the initiative and no Board approval of items to be purchased. Furthermore, if the items were built into the 2013-14 budget, any presentation and approvals would have been prior to the 2013-14 budget vote, which was held on May 21, 2013. These purchases were made in June 2014 for training that took place during the 2014-15 fiscal year. These items should not have been encumbered at the end of the 2013-14 fiscal year because they were commitments for the subsequent fiscal year.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objectives of our audit were to examine the District's financial condition and cell phone purchases and use for the period July 1, 2013 through August 31, 2014. We expanded our scope back to July 1, 2009 to analyze the District's financial condition and to provide perspective and background information. To achieve our objectives and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed the meeting minutes, resolutions and budget brochures to gain an understanding of the District's budget development, including the fund balance process.

- We reviewed the general fund's results of operations for fiscal years 2009-10 through 2013-14.

- We compared the budgeted revenues and appropriations to the actual revenues and expenditures for the general fund for fiscal years 2009-10 through 2013-14.

- We analyzed the trend in total fund balance, including the use of appropriated fund balance, in the general fund for fiscal years 2009-10 through 2013-14. We also compared the unexpended surplus fund balances to the ensuing years' budgeted expenditures to determine if the District was within the statutory limitation during the same fiscal years.

- We analyzed reserve funds' general ledger audit trails for fiscal years 2009-10 through 2013-14.

- We requested and reviewed purchase order status reports for fiscal years 2009-10 through 2013-14 and a year-to-date report for 2015 to determine the total amount of encumbrances actually used each year and the amounts canceled.

- We selected and reviewed 25 encumbrances each from the June 2012, 2013 and 2014 encumbrance reports. We selected the June 2014 encumbrances by choosing every third encumbrance. We randomly selected the June 2013 and June 2012 encumbrances using a random number generator. We requested supporting documentation (such as purchase orders and invoices) from the Assistant Superintendent for Business. We analyzed the supporting documentation to determine whether encumbrances were valid and proper.

- We obtained and reviewed the District's cell phone policy.

- We determined the total number of payments (13) made by the District to its cell provider during the audit period, selected the five highest payments and analyzed invoices for usage, overages and equipment purchases.

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

APPENDIX D

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