



Levittown Union Free School District Reserve Funds and Extra-Classroom Activity Fund

Report of Examination

Period Covered:

July 1, 2014 – December 31, 2015

2016M-174



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
EXECUTIVE SUMMARY	2
INTRODUCTION	4
Background	4
Objective	4
Scope and Methodology	4
Comments of District Officials and Corrective Action	4
RESERVE FUNDS	6
Recommendations	7
EXTRA-CLASSROOM ACTIVITY FUND	9
Recommendations	11
APPENDIX A Response From District Officials	12
APPENDIX B Audit Methodology and Standards	15
APPENDIX C How to Obtain Additional Copies of the Report	16
APPENDIX D Local Regional Office Listing	17

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving 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 Levittown Union Free School District, entitled Reserve Funds and Extra-Classroom Activity Fund. 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 Levittown Union Free School District (District) is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. The District's budgeted appropriations for the 2015-16 fiscal year were \$201.8 million.

Scope and Objective

The objective of our audit was to review the District's reserve funds and extra-classroom activity fund for the period July 1, 2014 through December 31, 2015. Our audit addressed the following related questions:

- Did the Board and District officials appropriately establish and maintain reserve funds?
- Did the Board and District officials adequately safeguard extra-classroom activity funds?

Audit Results

The Board and District officials did not appropriately establish and maintain reserve funds. The District had five reserves as of June 30, 2015. The unemployment insurance reserve had a balance of \$2.9 million. However, District officials are unable to find a resolution establishing this reserve and it is overfunded. The current balance in the unemployment insurance reserve could pay for unemployment insurance costs for more than 27 years. In addition, the employee benefit accrued liability reserve (EBALR) has a balance of \$6 million. However, the EBALR is not needed because the District does not have a liability for compensated absences. Further, the State Comptroller previously recommended that the District consider using the EBALR surplus when planning its future budget. Because District officials have overfunded reserves, they may have missed opportunities to reduce the tax levy.

The Board and District officials need to improve controls over extra-classroom activity funds. Club officials did not maintain adequate supporting documentation, such as duplicate prenumbered receipts, for cash collections totaling \$38,377. In addition, supporting records for 2014-15 prom ticket sales totaling \$19,325 were disposed of despite a requirement to maintain the records for six years. Supporting documentation for collections totaling \$103,145 and \$106,872 did not contain the dates the cash was collected or the compositions of the collections, respectively. Further, the central treasurers did not issue receipts to club officials when they remitted \$10,437 for deposit. Without

records that demonstrate deposits are made intact and in a timely manner, there is an increased risk that irregularities can occur.

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 agreed with our recommendations and indicated they planned to initiate corrective action.

Introduction

Background

The Levittown Union Free School District (District) is located in the Town of Hempstead in Nassau County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates 11 schools with approximately 7,100 students and 1,650 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$201.8 million, funded primarily with State aid and real property taxes.

Objective

The objective of our audit was to review the District's reserve funds and extra-classroom activity fund. Our audit addressed the following related questions:

- Did the Board and District officials appropriately establish and maintain reserve funds?
- Did the Board and District officials adequately safeguard extra-classroom activity funds?

Scope and Methodology

We examined the District's reserve funds and extra-classroom activity fund for the period July 1, 2014 through December 31, 2015.

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

Comments of District Officials 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 agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that 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.

Reserve Funds

Districts are legally allowed to establish reserve funds and accumulate funds for certain future purposes (e.g., capital projects, retirement expenditures). Reserve funds may be established by Board action, in accordance with applicable laws, and only used to provide financing for the specific purpose intended. It is important that the Board outlines, in the resolution establishing each fund or in a written policy, why the money is being set aside, the financial objective for the reserve, optimal funding levels and conditions under which the assets will be utilized. Such a resolution or policy should guide officials and inform residents how tax dollars will be used. Although school districts are generally not limited as to how much money they can maintain in reserves, it is important that all reserve fund balances are reasonable. Reserve fund balances above reasonable amounts represent funds the District could have used for other purposes, including reducing the tax levy.

Establishment – The District had five reserves¹ with balances totaling approximately \$38.3 million as of June 30, 2015. Although District officials provided Board resolutions establishing four of the reserves, District officials were unable to locate a resolution establishing the unemployment insurance reserve. The Board adopted a reserve fund policy on December 9, 2015. The policy allows the District to establish and maintain reserve funds in accordance with applicable laws. However, neither Board resolutions nor the policy identify the reasons why the money is being set aside, the Board's financial objectives for the reserves, optimal funding levels or conditions under which each reserve will be utilized. Without this key information, District residents do not have adequate assurance that resources are used in the most efficient manner.

Unemployment Insurance Reserve – As of June 30, 2015, this reserve had a balance of \$2.9 million. Because the District's annual unemployment insurance expenses averaged \$106,971 during the last three fiscal years, the current reserve balance could pay for unemployment insurance costs for more than 27 years. As such, this reserve is overfunded. In addition, the District paid for unemployment insurance costs totaling \$320,912 during the last three fiscal years by including appropriations in the budgets instead of appropriating money from the reserve fund. Officials could not explain why the

¹ A retirement contribution reserve of \$15.5 million, a capital reserve of \$8.9 million, an employee benefit accrued liability reserve of \$6 million, a workers' compensation reserve of \$5 million and an unemployment insurance reserve of \$2.9 million

unemployment insurance reserve was overfunded or why the funds were not used.

EBALR – An employee benefit accrued liability reserve (EBALR) may be created under provisions of General Municipal Law (GML). Moneys from an EBALR may be used to make cash payments to employees upon termination for compensated absences; that is, for unused sick leave, holiday leave, vacation time, etc. According to GML, the only costs that can be paid from an EBALR are for compensated absences.

The District established an EBALR in December 2005 by transferring almost \$13.4 million from a fund the District previously established to pay for other post-employment benefits and compensated absences costs. However, because the District does not have a liability for compensated absences, it does not need an EBALR. According to the District's collective bargaining agreements, employees cannot carry forward unused vacation leave balances, and sick leave balances are not payable upon separation from the District. This is confirmed by the District's 2014-15 audited financial statements that show no long-term liability for unpaid leave accruals.

In June 2009, the State Comptroller issued an audit report citing the District for having no basis for an EBALR. Furthermore, in May 2013, the State Comptroller sent the District a letter certifying that the entire EBALR balance exceeded the costs associated with compensated leave accruals and recommended that the District consider using the EBALR surplus when planning funding for its future budget. However, as of June 30, 2015, the District still has approximately \$6 million in the EBALR.

District officials told us that their intention is to transfer \$3 million of the EBALR to the capital reserve fund and use the remaining \$3 million to fund future operating expenses. However, they have continued to leave the funds idle, restricting moneys they have no need for. In addition, they have no formal plan to spend down the surplus EBALR and could not explain why a balance remained as of June 30, 2015.

Recommendations

The Board and District officials should:

1. Ensure reserve funds are governed by Board resolutions or policies that include the reasons why the money is being set aside, the financial objectives for the reserves, optimal funding levels and conditions under which each reserve fund will be utilized.

2. Use excess unemployment insurance reserve fund money in a manner that benefits District residents in accordance with statutory requirements. Such uses could include, but are not limited to:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.
3. Consult with legal counsel as to appropriate methods for removing money from the EBALR and dissolving the reserve.

Extra-Classroom Activity Fund

Student activity organizations (clubs) raise money to promote the general welfare, education and morale of students and finance the normal and appropriate activities of the student body. Regulations of the State Commissioner of Education require the Board to appoint a central treasurer to maintain records of receipts and disbursements and make deposits and disbursements for these funds. Each club must have a student treasurer, faculty advisor and chief faculty counselor. Student treasurers, with the assistance of faculty advisors, should maintain independent ledgers of receipts and disbursements and supporting documentation for receipts and disbursements.

The District's extra-classroom activity fund is composed of 100 clubs that operate in the District's two high schools, two middle schools and a technical center. Each school has a Board-appointed central treasurer who is responsible for supervising cash receipts and disbursements, maintaining a general ledger and reconciling extra-classroom activity fund bank accounts for his or her respective school. As of December 31, 2015, the District has seven bank accounts for its extra-classroom activity fund. Each of the five schools has one checking account and two of the five schools have an additional savings account. The District's extra-classroom activity fund recorded \$861,813 in deposits and \$896,053 in disbursements during our audit period.

The District's policy requires District officials to manage extra-classroom activity funds in accordance with the financial procedures outlined in a pamphlet published by the New York State Education Department (SED). Central treasurers received formal training for extra-classroom activity funds and were provided a copy of the pamphlet.

Cash Collections – Students and District officials that collect money should issue a duplicate press-numbered receipt or use some other method to document the source, date, amount and purpose of cash collections, such as a daily sales report. Faculty advisors are responsible for ensuring student treasurers maintain supporting evidence for collections. Student treasurers and faculty advisors should remit collections to the central treasurers and the central treasurers should issue receipts for all money received and deposit collections as soon as possible to prevent loss or misuse of collections. When the student treasurer and faculty advisor remit collections for deposit, they should provide the duplicate receipts or other adequate documentation. It is important that the central treasurers deposit cash

receipts intact² to reduce the risk of irregularities. Extra-classroom activity records should be maintained for six years.

District officials made 705 deposits of student activity funds totaling \$861,813. We reviewed 10 deposits totaling \$141,522 and found that club officials did not maintain adequate supporting documentation, such as duplicate press-numbered receipts, for collections totaling \$38,377, including \$19,325 for 2014-15³ prom ticket sales, \$7,800 for an eighth grade dance, \$5,815 in tickets sales for a drama club play and \$184 for a candy sale. Officials indicated that the club advisor who maintained the records for the prom ticket sales retired last year and disposed of all of her records. Officials could not explain why there was no supporting documentation for the other collections.

In addition, supporting documentation for collections totaling \$103,145 did not contain the dates cash was collected. Also, the documentation for six deposits totaling \$106,872 did not contain the compositions of the collections. For example, a spreadsheet to support a deposit of \$26,598 showed that \$61,489 was collected for advanced placement exams but did not show which of those collections were included in the \$26,598 deposit or any of the dates of collection. Therefore, District officials cannot determine whether the collections were turned over to the central treasurers for deposit intact and in a timely manner. Also, because the central treasurers did not issue receipts when \$10,437 of cash collected was remitted by the club officials, District officials cannot determine if the central treasurers deposited these funds in a timely manner.

Disbursements – The central treasurers should disburse moneys only upon receiving payment orders signed by the student treasurer, faculty advisor and chief faculty counselor. Disbursements should have documentation, such as itemized receipts or invoices, to support the expenditures approved for payment.

The central treasurers made 1,228 check disbursements totaling \$896,053. We reviewed 10 disbursements totaling \$189,620. All 10 checks were supported by payment order forms signed by the student treasurer, faculty advisor and chief faculty advisor, were supported by adequate documentation and were for appropriate purposes.

Although club disbursements were properly supported, club officials did not follow guidance for cash collections in SED's pamphlet. Club officials did not issue duplicate press-numbered receipts or maintain

² In the same amount and form (e.g., cash or check) in which they were received

³ Deposited on May 9, 2015, corresponding to the collection period for the 2014-15 prom

collection records that detailed which receipts were included in deposits. Club officials also did not retain documentation for cash collections for six years as required. Without records that document the source, date, amount, composition and purpose of each receipt, District officials cannot ensure that all receipts are accounted for, remitted to the central treasurers and deposited in an intact and timely manner. As a result, there is an increased risk that irregularities could occur.

Recommendations

District officials should ensure that:

4. Club officials issue duplicate press-numbered receipts or use some other method to document the source, date, amount, composition and purpose of cash collections.
5. All records including those for cash collections are maintained for six years.
6. The central treasurers issue receipts to club officials for all cash remitted and ensure that all cash is deposited in a timely manner.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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Superintendent of Schools

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July 12, 2016

Mr. Ira McCracken, Chief Examiner
Division of Local Government and School Accountability
New York State Office of State Comptroller
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Hauppauge, New York 11788-5533

Dear Mr. McCracken:

Please accept this letter as the official response from the Levittown Union Free School District to the Report of Examination for the period July 1, 2014 through December 31, 2015. Thank you and your staff for taking the time and effort to visit us, review the Reserve Funds and Extra-Classroom Activity Fund and identify opportunities to improve our operations and Board governance. The District has adhered to the Tax Cap Legislation and, through careful planning and resourceful administration, is proud of the programs and services it continues to provide to the students and community.

With regard to the Reserve Funds, the report recommends that the District :

1. Ensure reserve funds are governed by Board resolution or policies that include the reasons why the money is being set aside, the financial objectives for the reserves, optimal Funding levels and conditions under which each reserve fund will be utilized.
2. Use excess unemployment insurance reserve fund moneys in a manner that benefits District residents in accordance with statutory requirements. Such uses could include, but are not limited to:
 - Funding one-time expenditures
 - Funding needed reserves
 - Reducing District property Taxes
3. Consult with legal counsel as to appropriate methods for removing moneys from the EBALR and dissolving the reserve.

District response and corrective action plan – The District agrees that the financial objectives for all reserves should be publicly stated. The District will work on a revised policy which incorporates these recommendations. With regard to items number 2 and 3, at the July 6, 2016 meeting, the Board of Education passed resolutions to move two million dollars each from the Unemployment Reserve and the EBALR Reserve to the Capital Reserve to be used to improve and maintain the District's schools and facilities. The District consulted with its internal auditors and counsel to create legal and appropriate resolutions. At this point, the Board had chosen not to completely eliminate the EBALR Reserve so that a more concrete plan for its utilization can be developed.

With regard to the Extra-Classroom Activity Fund, the report recommends the following:

4. Club official issue duplicate press-numbered receipts or use some other method to document the source, date, amount composition and purpose of cash collections.
5. All records, including those for cash collections, are maintained for six years.
6. The central treasurers issue receipts to club officials for all cash remitted and ensure that all cash is deposited in a timely manner.

District response and corrective action plan – The District agrees with the Extra-Classroom Activity Fund recommendations and will implement them. The District does have a Records Retention program and will ensure that the staff involved with the Extra-Classroom Activities are following the approved record retention rules.

Your staff was professional and courteous and it was a pleasure to work with them. We appreciate their input and suggestions to improve our operations and internal controls and we kindly ask that they be available as we implement the recommendations.

Very truly yours,

Dr. Tonie McDonald,
Superintendent of Schools

Cc: Levittown Public School Board of Education
William J. Pastore, Assistant Superintendent of Business
Elizabeth Appelbaum, District Clerk

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the District's reserve funds and extra-classroom activity fund. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of the processes and procedures for reserve funds.
- We reviewed the District's reserve fund policy to determine if it includes the Board's financial objective, optimal funding level and conditions under which each reserve fund will be utilized.
- We reviewed Board resolutions, accounting records, audited financial statements and applicable statutes to determine if reserves were legally established and had reasonable balances.
- We compared each reserve fund balance as of June 30, 2015 to associated costs for the past three fiscal years and any long-term liability to determine if the balances were reasonable.
- We interviewed District officials to determine their plans for the excess funds in the unemployment reserve and EBALR.
- We interviewed District officials and employees and reviewed the District's extra-classroom activity fund policy and the pamphlet published by SED⁴ to gain an understanding of the internal controls over extra-classroom activity funds.
- We judgmentally selected a sample of 10 deposits totaling \$141,522 to determine if they had adequate supporting documentation. Our sample included the two largest deposits made by each of the five schools during the audit period.
- We judgmentally selected a sample of 10 checks, totaling \$189,620. Our sample included the two largest check disbursements issued by each of the five schools during the audit period.

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.

⁴ <http://www.p12.nysed.gov/mgtserv/accounting/docs/ExtraclassroomActivitiesJanuary2015.pdf>

APPENDIX C

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