



Newark Central School District

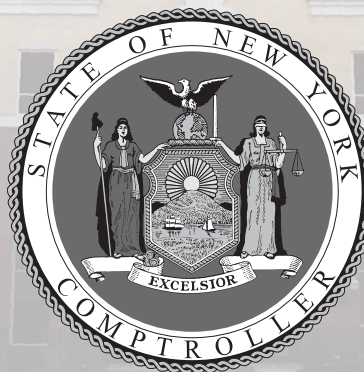
Financial Condition and Claims Processing

Report of Examination

Period Covered:

July 1, 2014 – June 30, 2016

2016M-267



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 Newark Central School District, entitled Financial Condition and Claims Processing. 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 Newark Central 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 (Superintendent) 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 Assistant Superintendent for Business (Assistant Superintendent) is responsible for the District's financial operations, under the direction of the Superintendent and Board. The current Superintendent and Assistant Superintendent were both appointed to their positions in July 2013. In addition, the District hired a new Treasurer in July 2015. The District's budgeted general fund appropriations for the 2015-16 and 2016-17 fiscal years were approximately \$46.6 million and \$47.6 million, respectively, which were funded primarily with real property taxes and State aid.

Scope and Objectives

The objectives of our audit were to evaluate the District's financial condition management and claims auditing process for the period July 1, 2014 through June 30, 2016. We also extended our audit period back to July 1, 2012 to analyze the District's financial condition. Our audit addressed the following related questions:

- Did District officials adequately manage the District's financial condition?
- Did District officials establish adequate claims processing procedures to ensure the District's assets were appropriately safeguarded?

Audit Results

The Board and District officials did not adequately manage the District's financial condition because they regularly prepared and adopted unrealistic budgets that overestimated appropriations. For example, appropriations were overestimated by \$7.3 million and revenues were underestimated by \$2.2 million for the period 2012-13 through 2015-16. Even though District officials underestimated revenues and overestimated appropriations in each of the four completed fiscal years, the amounts over or underestimated fluctuated drastically. As a result, aggregate operating surpluses totaled approximately \$719,000 over the last four fiscal years. Therefore, \$2.06 million in appropriated fund balance was not needed to finance operations. Overall, District officials improved their budgeting practices with the adoption of the 2016-17 budget by budgeting based on historical trends.

District officials also established reserve funds to prepare for future contingencies. However, they did not always include the funding of reserves in the budgets voted on by taxpayers. Instead, the Board allocated amounts to reserves at the end of each fiscal year to reduce unrestricted fund balance to the statutory limit. These actions diminish the transparency of District finances to residents and serve as a means to circumvent the statutory 4 percent fund balance limit. As a result, four of the District's seven general fund reserves,¹ which have balances totaling \$8 million, are overfunded and potentially unnecessary.

These practices allowed the District to report year-end unrestricted fund balance at levels that essentially complied with the statutory limit. However, when adding back the unused appropriated fund balance and overfunded reserves, the District's recalculated unrestricted fund balance ranged from 21 to 24 percent of the ensuing year's appropriations, significantly exceeding the 4 percent statutory limit. As a result, the District's tax levy was higher than necessary to fund District operations. Also, the Board and District officials have not developed formal multiyear financial and capital plans. Thus, officials may not be aware of future needs and available revenue streams while strategically planning.

Additionally, District officials have not implemented adequate internal controls over the claims and accounts payable processes, as incompatible duties are not adequately segregated and mitigating controls have not been implemented. The accounts payable clerk (clerk) has access to create and update vendors, manually enters purchase orders, opens mail, prints checks, mails out payments and has access to the Treasurer's electronic signature. The District has an internal claims auditor (claims auditor) that reviews claims before checks are printed and again before the payments are mailed. However, the claims auditor does not need to approve claims in the computerized accounting system; therefore, the clerk could potentially circumvent the claims audit process. As a result, District officials do not have adequate assurance that all cash disbursements are appropriately approved and for legitimate District purposes.

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 that they plan to initiate corrective action.

¹ The balances of all seven reserves total \$9.4 million as of June 30, 2016.

Introduction

Background

The Newark Central School District (District) is located in the Village of Newark and includes the Town of Arcadia and parts of the Towns of Lyons, Sodus, Palmyra and Marion in Wayne County, along with parts of the Towns of Manchester and Phelps in Ontario 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 (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's daily operations. The Assistant Superintendent for Business (Assistant Superintendent) is responsible for the District's financial operations, under the direction of the Superintendent and Board. The current Superintendent and Assistant Superintendent were both appointed to their positions in July 2013. In addition, the District hired a new Treasurer in July 2015.

The District operates five schools with approximately 2,000 students and 475 employees. The District's budgeted general fund appropriations for the 2015-16 and 2016-17 fiscal years were approximately \$46.6 and \$47.6 million, respectively, which were funded primarily with real property taxes and State aid.

Objectives

The objectives of our audit were to evaluate the District's financial condition management and claims auditing process. Our audit addressed the following related questions:

- Did District officials adequately manage the District's financial condition?
- Did District officials establish adequate claims processing procedures to ensure the District's assets were appropriately safeguarded?

Scope and Methodology

We examined the District's financial condition and claims audit process for the period July 1, 2014 through June 30, 2016. We also extended our audit period back to July 1, 2012 to analyze the District's financial condition.

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 that they plan to initiate corrective action.

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

It is essential that the Board adopt structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. District officials must ensure that budgets use available resources to benefit taxpayers; are prepared, adopted and modified in a prudent and transparent manner; and accurately depict the District's financial activity. Prudent fiscal management also includes maintaining sufficient balances in reserves to address long-term obligations or planned expenditures. In doing so, District officials should adopt a policy or plan governing the use of reserve funds. Additionally, District officials should develop detailed multiyear plans which allow them to set long-term priorities and work toward specific goals.

The Board and District officials did not adequately manage the District's financial condition. We found that the Board and District officials regularly prepared and adopted unrealistic budgets. The last four fiscal years' budgets included overestimated appropriations totaling \$7.3 million (4.4 percent) and underestimated revenues totaling \$2.2 million (1.3 percent), resulting in aggregate operating surpluses totaling \$719,000. Therefore, \$2.06 million in appropriated fund balance was not used to finance operations. In addition, the District ended 2015-16 with another operating surplus totaling \$268,000,² further adding to total fund balance. Overall, District officials improved their budgeting practices with the adoption of the 2016-17 budget by budgeting based on historical trends.

District officials also established reserve funds to prepare for future contingencies. However, they did not always include the funding of reserves in the budgets voted on by taxpayers. Instead, the Board allocated amounts to reserves at the end of each fiscal year to reduce unrestricted fund balance to the statutory limit. These actions diminish the transparency of District finances to the residents and serve as a means to circumvent the statutory 4 percent fund balance limit. As a result, four of the District's seven general fund reserves,³ which have balances totaling \$8 million as of June 30, 2016, are overfunded and potentially unnecessary.

These practices allowed the District to report year-end unrestricted fund balance at levels that essentially complied with the statutory limit. However, when adding back the unused appropriated fund balance and overfunded reserves, the District's recalculated

² Based on preliminary, unaudited 2015-16 information

³ The balances of all seven reserves totaled \$9.4 million as of June 30, 2016.

unrestricted fund balance ranged from 21 to 24 percent of the ensuing year's appropriations, significantly exceeding the 4 percent statutory limit. As a result, the District's tax levy was higher than necessary to fund District operations. Finally, the Board and District officials have not developed formal multiyear financial and capital plans. Thus, officials may not be aware of future needs and available revenue streams while strategically planning.

General Fund Budgeting and Fund Balance

Budget transparency is important for public participation and accountability and allows residents to provide feedback on the quality and adequacy of services and decisions that have an impact on the District's long-term financial stability. It is essential that the Board and District officials prepare budgets based on historical or known trends. In addition, the Board and District officials are responsible for estimating expenditures, revenues (e.g., State aid) and the amount of fund balance that will be available at fiscal year-end and balancing the budget by determining the expected tax levy. Accurate budget estimates help ensure that the taxes levied are not higher than necessary.

Fund balance represents resources remaining from prior fiscal years that can be used to lower property taxes for the ensuing fiscal year. New York State Real Property Tax Law allows a district to legally retain up to 4 percent of the ensuing year's budget in unrestricted fund balance. Fund balance in excess of the statutory limit must be used to fund a portion of the next year's appropriations, thereby reducing the tax levy, or to fund legally established reserves. Districts may establish reserves to restrict a reasonable portion of fund balance for a specific purpose, in compliance with statutory directives. When District officials establish reserve funds, it is important to develop a plan for funding the reserves, determine how much should be accumulated and determine how and when the funds will be used to finance related costs. Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

Budgeting – We compared the District's budgeted appropriations with actual results for fiscal years 2012-13 through 2015-16⁴ and determined that District officials overestimated appropriations by \$7.3 million during this period.

⁴ Based on preliminary, unaudited 2015-16 information

Figure 1: Overestimated Appropriations

	Appropriations	Expenditures	Difference	Percentage
2012-13	\$41,471,182	\$40,173,261	\$1,297,921	3.23%
2013-14	\$42,264,099	\$41,902,126	\$361,973	0.86%
2014-15	\$45,916,508	\$42,760,950	\$3,155,558	7.38%
2015-16	\$46,599,097	\$44,068,866	\$2,530,231	5.74%
Totals	\$176,250,886	\$168,905,203	\$7,345,683	4.35%

The District also underestimated total revenues by \$2.2 million from fiscal years 2012-13 through 2015-16. State aid was underestimated totaling approximately \$1.2 million for the same period. However, it is a predictable revenue because projections are provided by the State prior to the District adopting its budget each year. Even though District officials underestimated revenues and overestimated appropriations in each of the four completed fiscal years, the amounts over or underestimated fluctuated drastically. Specifically, underestimated revenues ranged from less than 1 percent to 2 percent and overestimated appropriations ranged from less than 1 percent to more than 7 percent. The largest portion of the overestimated appropriations related to salaries and benefits, which were overestimated by a total of \$4 million during the last four fiscal years. However, these are predictable expenditures as they are negotiated in the District's employment contracts and, therefore, should be budgeted very accurately.

District officials improved their budgeting practices with the adoption of the 2016-17 budget by budgeting most line items based on historical trends. However, District officials still continue to significantly overestimate salaries and benefits.

Fund Balance – Because District officials significantly overestimated appropriations, it appeared that the District needed to both increase its tax levy and use fund balance to close projected budget gaps. As a result, District officials unnecessarily increased the tax levy by \$711,459 (6 percent) between fiscal years 2012-2013 and 2015-2016. Also, appropriated fund balance and reserves, totaling \$2.72 million and \$5.35 million respectively, were not used to finance operations as budgeted. Instead, only \$750,000 of appropriated fund balance was used in the 2013-14 fiscal year to finance operations, because the District generated operating surpluses in the remaining fiscal years. As a result, the District's total fund balance increased by approximately \$719,000.

Figure 2: Unrestricted Fund Balance at Year-End				
	2012-13	2013-14	2014-15	2015-16
Total Beginning Fund Balance	\$13,237,185	\$13,760,354	\$13,012,164	\$13,687,819
Add: Operating Surplus/(Deficit)	\$523,169	(\$748,190)	\$675,655	\$268,409
Total Ending Fund Balance	\$13,760,354	\$13,012,164	\$13,687,819	\$13,956,228
Less: Restricted Funds	\$10,144,713	\$9,361,430	\$9,658,077	\$9,041,682
Less: Nonspendable Fund Balance	\$1,122,139	\$480,687	\$1,055,119	\$1,091,552
Less: Assigned (Encumbered) Fund Balance	\$252,938	\$158,711	\$279,780	\$279,780
Less: Assigned, Appropriated Fund Balance for the Ensuing Year	\$550,000	\$1,213,404	\$853,064	\$853,064
Total Unrestricted Funds at Year-End	\$1,690,564	\$1,797,932	\$1,841,779	\$2,690,150
Ensuing Year's Budgeted Appropriations	\$42,264,099	\$45,916,508	\$46,599,097	\$47,636,565
Unrestricted Funds as a Percentage of the Ensuing Year's Budget	4.00%	3.92%	3.95%	5.65%

Furthermore, the District's practice of appropriating fund balance that was not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit imposed on the level of unrestricted fund balance. When unused appropriated fund balance and overfunded reserves are added back, the District's recalculated unrestricted fund balance exceeded the statutory limit, ranging from 21 to 24 percent of the ensuing year's appropriations.

Figure 3: Unused Fund Balance and Excessive Reserves				
	2012-13	2013-14	2014-15	2015-16
Total Unrestricted Funds at Year-End	\$1,690,564	\$1,797,932	\$1,841,779	\$2,690,150
Add: Appropriated Fund Balance Not Used To Fund Ensuing Year's Budget	\$0	\$1,213,404	\$853,064	\$853,064 ^a
Total Recalculated Unrestricted Funds	\$1,690,564	\$3,011,336	\$2,694,843	\$3,543,214
Recalculated Unrestricted Funds as a Percentage of Ensuing Year's Budget	4.00%	6.56%	5.78%	7.44%
Add: Excessive Reserves (Restricted Funds)	\$7,558,352	\$7,573,125	\$8,073,771	\$7,992,384
Recalculated Unrestricted Funds (Including Excessive Reserves)	\$9,248,916	\$10,584,461	\$10,768,614	\$11,535,598
Recalculated Unrestricted Funds (Including Excessive Reserves) as a Percentage of Ensuing Year's Budget	21.88%	23.05%	23.11%	24.22%

^a Anticipating that the District will not use this amount of appropriated fund balance in 2015-16.

This practice of appropriating unneeded fund balance and reserves is evident in the 2016-17 budget. Therefore, the District's recalculated fund balance will likely continue to exceed the statutory limit. By maintaining excessive fund balance and not using the appropriated funds, District officials levied more taxes than necessary to sustain District operations.

Reserves – The Board and District officials did not establish a reserve plan which details the District's intentions for funding reserves, determines how much should be accumulated and how and when the funds will be used to finance related costs. The Board and District officials do not consistently include provisions in the budget for the funding of reserves and instead used year-end operating surpluses to fund reserves and reduce unrestricted fund balance. Additionally, the District budgets for related expenditures in the general fund and, therefore, levies taxes to fund these expenditures. Therefore, we analyzed the District's seven⁵ general fund reserves totaling \$9.4 million as of June 30, 2016.⁶ Based on our analysis, we determined that four of these reserves totaling \$8 million (85 percent of total reserves) were overfunded and potentially unnecessary.

- Retirement Contribution Reserve – This reserve had a balance of \$5.4 million as of June 30, 2016, which was approximately nine years of the average annual related expenditures.⁷ The intended purpose of this reserve should be to smooth unplanned spikes in contributions or to subsidize the budget during financially difficult years, rather than fully fund annual related expenditures.
- Workers' Compensation Reserve – This reserve had a balance of \$892,739 as of June 30, 2016, which was approximately six years of the average annual related expenditures.⁸ Ultimately, this reserve should be used to smooth spikes in related expenditures or to subsidize the budget during financially difficult years.
- Unemployment Insurance Reserve – This reserve had a balance of \$770,132 as of June 30, 2016, which is excessive. The balance in this reserve could fund approximately 77 years

⁵ The Board dissolved the technology reserve in June 2015, leaving the District with seven reserves.

⁶ Based on preliminary, unaudited 2015-16 information, prior to any year-end transfers to the reserve accounts

⁷ The District's average annual New York State and Local Retirement System expenditures over the 2012-13 through 2015-16 fiscal years were approximately \$586,208.

⁸ Average annual workers' compensation expenditures totaled approximately \$156,990 from 2012-13 through 2015-16.

of the average annual related expenditures,⁹ or 70 employees at the maximum benefit amount.¹⁰ The purpose of this reserve should be to smooth spikes in related expenditures or to subsidize the budget during financially difficult years.

- Liability Reserve – This reserve had a balance of \$891,165 as of June 30, 2016. This reserve was used during the 2012-13 through 2015-16 fiscal years, however, the balance maintained is not supported. The District maintains adequate insurance coverage to limit their need for any substantial funding in this reserve, and the District is not currently involved in any litigation which they anticipate will have a material impact on District finances.

Using the resources accumulated in the retirement, workers' compensation and unemployment insurance reserves for their related expenditures would allow for general fund resources to be used to reduce the real property tax burden. By maintaining excessive reserves, combined with ongoing budgeting practices that generated operating surpluses, the Board and District officials have levied more taxes than necessary.

Multiyear Planning

It is important for school district officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and allow school district officials to identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates.

Multiyear plans also allow school district officials to assess the effect and merits of alternative approaches to address financial issues, such as the use of unrestricted fund balance to finance operations and the accumulation of money in reserve funds. Long-term plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the priorities and goals set by the Board. Also, the Board must monitor and update long-term plans on an ongoing basis to ensure that its decisions are guided by the most accurate information available.

The Board and District officials have not developed formal multiyear financial or capital plans. District officials informed us that the District was in the process of developing long-term plans; however, the plans were not available for review during audit fieldwork. The

⁹ Average annual unemployment insurance expenditures totaled \$9,987 from 2012-13 through 2015-16.

¹⁰ As of October 5, 2015, the maximum benefit rate was \$425 a week for 26 weeks.

lack of adequate multiyear plans limits the Board's ability to set long-term priorities that are appropriate for the District's needs and work toward goals, rather than making choices based only on the needs of the moment. Additionally, by not developing effective and comprehensive long-term plans, District officials may not see the impact of their decisions over time.

Recommendations

The Board and District officials should:

1. Adopt budgets that include the District's actual needs, based on available current information and historical data.
2. Discontinue the practice of adopting budgets that result in the appropriation of fund balance and reserve funds that will not be used.
3. Develop a reserve plan which clearly communicates to District residents the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund and the optimal or targeted funding levels and applicable rationale and conditions under which each fund's assets will be used or replenished.
4. Review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements. To the extent that they are not, transfers should be made to unrestricted fund balance, where allowed by law, or to other reserves established and maintained in compliance with statutory directives.
5. Use surplus funds as a financing source for:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.
6. Develop a comprehensive multiyear financial and capital plan.

Claims Processing

An effective system for claims processing ensures that all claims against the District contain adequate supporting documentation to conclude whether the amounts presented represent actual and necessary expenditures and whether associated goods or services were actually received. Education Law requires the Board to audit all claims before they are paid or to appoint a claims auditor to assume the Board's powers and duties to determine if the claims are ordinary and necessary to the District. The claims auditor should review the invoices to determine whether the claims are itemized and supported and whether the good or services were actually received by the District.

Additionally, the District should segregate incompatible duties to ensure good internal controls are in place for accounts payable disbursements. This control reduces the risk that any employee will be able to carry out and conceal errors or fraud in the normal course of their duties without being detected. Authorizing payments or signing checks, having custody of the blank check stock and recordkeeping of transactions in the accounting system should be separated so that one individual cannot complete a transaction from start to finish. Compensating controls should be implemented if it is not practical for the District to appropriately segregate duties.

District officials have not implemented adequate internal controls over the claims and accounts payable processes, as incompatible duties are not adequately segregated and mitigating controls have not been implemented. The accounts payable clerk (clerk) has access to create and update vendors, manually enter purchase orders, open mail, print checks and mail payments, and has access to the Treasurer's electronic signature. The District has an internal claims auditor (claims auditor) that reviews claims before checks are printed and again before the payments are mailed. However, the claims auditor does not need to approve claims in the computerized accounting system; therefore, the clerk could potentially circumvent the claims audit process. As a result, District officials do not have adequate assurance that all cash disbursements are appropriately approved and for legitimate District purposes.

Due to the inadequate internal controls identified, we reviewed 418 claims paid during our audit period to determine whether these claims were supported by adequate documentation such as itemized invoices or accompanying receipts listing the amount and quantity of the goods or services purchased. We also determined whether the claims were for

legitimate District purposes and audited and approved by the claims auditor before payments were made. Except for minor discrepancies which we discussed with District officials, all claims reviewed were supported by adequate documentation, were for legitimate District purposes and were audited and approved by the claims auditor prior to payment.

Recommendation

District officials should:

7. Ensure incompatible duties are appropriately segregated or appropriate mitigating controls exist.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



NEWARK CENTRAL SCHOOL DISTRICT

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MATTHEW L. COOK
Superintendent of Schools
KRISTA LEWIS
Assistant Superintendent
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EDWARD K. GNAU
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Director of Pupil Services

October 28, 2016

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
Division of Local Government and School Accountability
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608

Dear Mr. Grant:

The Newark Central School District is in receipt of the findings and recommendation outlined in your DRAFT “Report of Examination” of the Newark Central School District for the of July 1, 2014 – Jun 8, 2016. We are pleased that your staff found no evidence of fraud, theft or professional misconduct. This examination is a welcome opportunity to review and strengthen our financial practices and oversight. We have worked diligently over the last few years to update policy, strengthen internal controls and develop budgets that balance both short term financial priorities with long term financial well-being of the District. We communicate clearly and often with the public about our financial strategies and when creating our annual budget. Our Board of Education meetings are televised once per month on the local cable channel. We are committed to continually improving our long-range planning and maintain our fiscal stability and the findings will allow us to continue to improve. The Board of Education and the administration take pride in operating the school district with fiscal integrity on behalf of the community.

Ultimately, the scope of the audit focused on examining the District financial condition and Claims Processing for the period of July 1, 2015 – June 8, 2016. We work closely with our outside independent auditors to review our financial management practices, oversight procedures and financial condition. The District has reviewed your findings and recommendations of this audit and will take corrective action in certain areas.

Adopt budgets that include the District's actual needs, based on available current information and historical data:

We appreciate the acknowledgement in the report that District budgeting practices have improved in each of the last three years. The Assistant Superintendent for Business will continue to work on putting together a budget that includes the Districts actual needs, based on information and historical data. By using the [REDACTED] software as well as trending the historical data on a spreadsheet, the numbers projected for expenditures will continue to accurately reflect the expenditures for the District. This will be one item used to help create the 2017-18 budget.

Discontinue the practice of adopting budgets that result in the appropriation of fund balance and reserve funds that will not be used:

The Assistant Superintendent for Business will continue to work on putting together a budget that includes the District' actual needs, based on information and historical data. By using the [REDACTED] software as well as trending the historical data on a spreadsheet, the numbers projected for expenditures will continue to accurately reflect the expenditures for the District. This will be used to create the 2017-18 budget.

In 2004-2005 the District had \$1,054,335 in reserves total. Since that time, through good fiscal management and planning the District increased the amount in the reserves to a maximum of \$10,144,713 in the 2012-2013 school year. Since that time, the amounts in the reserves has been used and at the end of the 2015-16 school year, the amount in all reserves for the District is at \$7,648,184.

Develop a reserve plan which clearly communicates to District residents the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund and the optimal or targeted funding levels and applicable rational and conditions under which each fund's assets will be used or replenished.

The Assistant Superintendent and the Audit Committee will create a reserve plan with the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund and the optimal or targeted funding levels. This reserve plan will also include the applicable rationale and conditions under which each fund's assets will be used or replenished.

When the Reserve Plan is completed and approved, the Audit Committee will make recommendations to the Board of Education to determine if the amounts in the reserve are necessary, reasonable and in

compliance with statutory requirements. If they are found not to comply, decisions will be made, where allowed by law, to bring the reserves in compliance with statutory directives.

The Reserve Plan has already been started and will be completed by June 30, 2017.

Use surplus funds as a financing source for: Funding one-time expenditures, Funding needed reserves, Reducing District property taxes.

For the 2015-16 school year, our unanticipated surplus funds were used in lieu of issuing debt for the upcoming capital project. This allows the District to postpone the issuing of debt and reduces the amount of interest that is accumulated due to debt for the capital project. This will reduce the impact on the tax levy for the residents. These funds were from lower than expected diesel and gasoline fuel costs, a warmer than normal winter which saved on utility costs, as well as staff that retired or left for other employment that was not announced until the end of the school year.

For the 2016-17 school year, we will again look at fund balance towards the end of the year and using it to fund a one-time expenditure of transferring it in lieu of issuing debt for the upcoming capital project.

Develop a comprehensive multiyear financial and capital plan.

The Assistant Superintendent will work with the Audit Committee to put together a multi-year financial plan as well as a capital plan. The multi-year financial plan will be shared with the BOE and the community during the budget development for the 2017-18 school year. This plan should be simple enough that all stakeholders can interpret the plan without getting lost in the details of the plan yet detailed enough to be useful for planning.

Ensure incompatible duties are appropriately segregated, or appropriate mitigating controls exist.

The Assistant Superintendent will work with the staff at the District Office to create a system to appropriately segregate duties with claims and accounts payable. Since we have a relatively small staff, coming up with a system to ensure that business can still be completed if one or more of the person's absent will be the challenge. Having two people with access to the Treasurer's signature and the impact of that will be examined and considered as well as researching to see if the claims auditor can approve claims in nVision. The Treasurer and Claims Auditor, separately, have a record of check numbers that are matched against the warrants that are produced.

We thank the Comptroller's Office for offering its opinions and recommendations.

Respectfully,

Matthew Cook
Superintendent

Russell Harris
Board of Education President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the budgeting and claims processes.
- We reviewed financial information provided to the Board and reviewed the Board minutes to determine the reports provided to the Board.
- We reviewed the results of operations for the general fund for fiscal years 2012-13 through 2015-16.
- We compared budgeted revenues and expenditures to actual revenues and expenditures for the general fund for fiscal years 2012-13 through 2015-16 to identify categories with significant overbudgeted and underbudgeted amounts.
- We analyzed total fund balance trends, including the use of reserves and appropriated fund balance, in the general fund for fiscal years 2012-13 through 2015-16. We also compared the unrestricted fund balance to the ensuing year's budgeted appropriations to determine if the District was within the statutory limitation during the same fiscal years.
- We reviewed and analyzed reserve accounts to determine if reserves were properly and legally established, if reserves were being funded or used and if reserve balances were reasonable based on historical use, related expenditures or other relevant information.
- We tested 338 claims from a randomly selected month, September 2014. We also tested 50 claims randomly selected from July 1, 2014 through April 28, 2016.¹¹ We reviewed claims packets to determine if purchases were properly authorized prior to receipt of goods and services, if claims were properly audited prior to payment, if goods and services were proper District charges and if documentation included in the claims packets showed that the District actually received the goods and services.
- We reviewed the District's cash disbursement journal for the audit period and judgmentally selected 30 claims to test, based on determined risk. We reviewed claims packets to determine if purchases were properly authorized prior to receipt of goods and services, if claims were properly audited prior to payment, if goods and services were proper District charges and if documentation included in the claims packets indicated that the District actually received the goods and services.

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.

¹¹ April 2016 was the most recent month end at the time of testing.

APPENDIX C

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