Office of the New York State Comptroller

Division of Local Government
& School Accountability

Plainedge Union Free School District

Financial Condition and Extra-Classroom Activity Funds

Report of Examination

Period Covered:

July 1, 2015 – February 28, 2017

2017M- 189

Thomas P. DiNapoli

Table of Contents

State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

January 2018

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 Plainedge Union Free School District, entitled Financial Condition and Extra-Classroom Activity Funds. 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 Plainedge 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 (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

Responsibilities relating to the District's finances, accounting records and reports are largely those of the Assistant Superintendent for Business and the Treasurer. The Board appoints a central treasurer to oversee all functions within the extra-classroom activity (ECA) funds, including the cash collection activities. An account clerk in the business office performs many of the central treasurer's functions.

The District operates five schools with 3,023 students and 645 employees. Projected expenditures for the 2016-17 fiscal year were $84.4 million, which were funded primarily with State aid, sales tax, real property taxes and grants.

Scope and Objective

The objective of our audit was to evaluate the District's financial condition and ECA funds for the period July 1, 2015 through February 28, 2017. For financial condition, we extended our scope back to July 1, 2013 to analyze the District's fund balance, budget practices and reserve fund trends. For ECA funds, we extended our scope forward to March 31, 2017 to review receipts. Our audit addressed the following related questions:

- Did the Board and District officials ensure that fund balance and restricted funds were reasonable?
- Did the Board ensure that the duties of the faculty auditor and central treasurer were properly performed and that ECA cash receipts were adequately accounted for?

Audit Results

District officials overestimated expenditures by a total of more than $15 million (6 percent) for fiscal years 2013-14 through 2015-16. Additionally, the District's unrestricted fund balance was within the year-end statutory limit for unrestricted fund balance because District officials appropriated a total of $11.4 million (annual average of $3.8 million) of fund balance at the end of 2013-14 through 2015-16. However, this appropriated fund balance was not always needed to finance operations because the

District had a total of $2.5 million in operating surpluses in two of the three subsequent fiscal years. When adding back unused appropriated fund balance, the District's recalculated unrestricted fund balance was between 7.9 and 8.7 percent of the ensuing years' appropriations, which exceeded the statutory limit in these two years.

The District maintained five reserve funds with balances totaling $23.3 million as of June 30, 2016; four were overfunded. During fiscal years 2013-14 through 2015-16, the District appropriated $4.2 million from reserve funds to offset expenditures in the budget. However, the District returned $1.8 million (43 percent) to the reserves although it had additional expenditures of $1.2 million which could have been charged to reserves. Instead, it funded these expenditures through the general fund. Additionally, the District did not have Board resolutions establishing two reserve funds. Finally, reserves are funded at the end of each fiscal year from excess fund balance instead of being included in the annual budget presented to District residents.

District officials did not ensure that the ECA funds cash receipts process was administered in accordance with the District's and Commissioner of Education's guidelines. Specifically, the central treasurer did not issue pre-numbered duplicate receipts for all funds placed in her custody, and did not always deposit funds in a timely manner and sign school deposit forms. Additionally, the Board did not appoint a faculty auditor to reconcile the central treasurer's records with the ECA clubs' records. The central treasurer's duties are generally performed by a clerk. Further, the ECA clubs did not prepare profit and loss statements. The ECA clubs also did not issue pre-numbered receipts or maintain supporting itemized records for cash collected. These discrepancies increase the risk that funds could be lost or misappropriated without detection.

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 certain findings in our report. Appendix B includes our comments on certain issues in the District's response.

Introduction

Background

The Plainedge Union Free School District (District) is located in the Town of Oyster Bay, 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 (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

Responsibilities relating to the District's finances, accounting records and reports are largely those of the Assistant Superintendent for Business and the Treasurer. The Board appoints a central treasurer to oversee all functions within the extra-classroom activity (ECA) funds, including the cash collection activities. An account clerk in the business office performs many of the central treasurer's functions.

The District operates five schools with 3,023 students and 645 employees. Projected expenditures for the 2016-17 fiscal year were $84.4 million, which were funded primarily with State aid, sales tax, real property taxes and grants.

Objective

The objective of our audit was to evaluate the District's financial condition and ECA funds for the period July 1, 2015 through February 28, 2017. Our audit addressed the following related questions:

- Did the Board and District officials ensure that fund balance and restricted funds were reasonable?
- Did the Board ensure that the duties of the faculty auditor and central treasurer were properly performed and that ECA cash receipts were adequately accounted for?

Scope and Methodology

We examined the District's financial condition and ECA funds for the period July 1, 2015 through February 28, 2017. For financial condition, we extended our scope back to July 1, 2013 to analyze the District's fund balance, budget practices and reserve fund trends. For ECA funds, we extended our scope forward to March 31, 2017 to review receipts.

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

Comments of District Officials and Corrective Action

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report,* which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Financial Condition

The Board and District officials are responsible for properly managing the District's finances. This responsibility includes adopting budgets with reasonable expenditure estimates, ensuring that unrestricted fund balance does not exceed the amount allowed by law, appropriating fund balance only to the extent necessary to fund District operations and ensuring reserves are legally established and reasonably funded. New York State Real Property Tax Law limits the amount of unrestricted fund balance a school district can retain to no more than 4 percent of the subsequent year's budget. Accurate estimates help ensure that the real property tax levy is not greater than necessary and that the budget process is transparent.

District officials overestimated expenditures by a total of more than $15 million (6 percent) for fiscal years 2013-14 through 2015-16. To reduce fund balance and stay within the year-end statutory limit for unrestricted fund balance, District officials appropriated a total of $11.4 million to fund subsequent years' budgets. However, it was not always needed to finance operations because the District had a cumulative operating surplus of $2.5 million for two of the three fiscal years.[1] The appropriated fund balance was used in 2015-16 because the District had an operating deficit of $4.2 million. When adding back unused appropriated fund balance in these two years, the District's recalculated unrestricted fund balance exceeded the statutory limit by 4.7 percentage points and 3.9 percentage points at the completion of the 2013-14 and 2015-16 fiscal years, respectively.

The District maintained five reserve funds with balances totaling $23.3 million as of June 30, 2016, four of which were overfunded. During fiscal years 2013-14 through 2015-16, the District appropriated $4.2 million from reserve funds to offset expenditures in the budget. However, the District returned $1.8 million (43 percent) to the reserves although it had additional expenditures of $1.2 million which could have been charged to reserves. Instead, it funded these expenditures through the general fund. Additionally, the District did not have Board resolutions establishing two reserve funds. Finally, reserves are funded at the end of each fiscal year from excess fund balance instead of being included in the annual budget presented to District residents.

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[1] Fiscal years 2014-15 and the District's projected 2016-17.

Overestimated Expenditures

When preparing the budget, the Board must estimate revenues, expenditures and the amount of fund balance that will be available at year-end, some or all of which may be used to fund the ensuing year's appropriations. Revenue and expenditure 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 or expenditures. Unreasonable budget estimates may mislead District residents and can significantly impact the District's year-end unrestricted fund balance and financial condition.

We compared the District's budgeted revenues and expenditures with actual results of operations for 2013-14 through 2015-16. Estimated revenues were reasonable and generally close to actual revenues received.[2] However, District officials consistently presented, and the Board approved, budgets which overestimated appropriations for each of the three fiscal years. District officials overestimated expenditures by as much as $6.9 million, for a total of $15.1 million (6 percent) from the 2013-14 through 2015-16 fiscal years (Figure 1).

Figure 1: Overestimated Appropriations

Fiscal Year	Appropriations[a]	Actual Expenditures	Overestimated Appropriations	Percentage Overestimated[b]
2013-14	$86,969,241	$80,113,101	$6,856,140	9%
2014-15	$89,413,492	$84,863,386	$4,550,106	5%
2015-16	$91,157,459	$87,496,174	$3,661,285	4%
Total	**$267,540,192**	**$252,472,661**	**$15,067,531[c]**	**6%**

[a] Includes year-end encumbrances from the prior fiscal year. Includes transfers to other funds.

[b] Overestimated appropriations divided by actual expenditures

[c] Actual expenditures include a total of $25,530,082 of transfers to other funds, of which $13,883,226 was included in the original budget. During each of the fiscal years, District officials modified the budget to include transfers from reserves to cover the majority of these additional interfund transactions. Without the additional $11,646,856 of these interfund transactions, the overestimated appropriations would be $26.7 million (11 percent).

Significant portions of overestimated appropriations for the three years reviewed were for employee benefits ($8.3 million), programs for children with disabilities ($5.9 million) teaching regular school ($3.6 million), pupil transportation ($2.5 million) and central services ($2.4 million). Based upon District officials' projections,[3] they will

[2] Actual revenues were less than 1 percent more than budgeted revenues over the three fiscal years reviewed.

[3] District officials provided us with projections for the results of operations for the 2016-17 fiscal year as of May 31, 2017.

have overestimated expenditures by a total of $8.5 million (10 percent) at the end of the 2016-17 fiscal year.

Because of this overestimation of expenditures, District officials are projecting an operating surplus of $2.5 million. Therefore, they will not use the $3.6 million appropriated fund balance. District officials informed us that some of the variances are due to uncertainty with additional children and bus routes in the District. Budgeting practices that continually overestimate expenditures may result in the accumulation and retention of excessive funds, resulting in tax levies that are higher than necessary.

Unrestricted Fund Balance

Unrestricted fund balance that exceeds the 4 percent statutory limit should be used to lower real property taxes, increase necessary reserve funds, pay for one-time expenditures or pay down debt. When fund balance is appropriated as a funding source, it reduces the fund balance included in the 4 percent calculation and 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 not fully expended, expected revenues are greater than estimated or both) increases the total year-end fund balance and can indicate that budgets are not reasonable. It is not sound practice for District officials to adopt annual budgets that appropriate fund balance or reserve funds with an appearance of circumventing the statutory limit.

The District reported year-end unrestricted fund balance at levels that complied with the 4 percent fund balance limit for fiscal years 2013-14 through 2015-16 (Figure 2). This was accomplished, in part, by the Board appropriating fund balance totaling $11.4 million during the three fiscal years reviewed, an average of $3.8 million per year.

Figure 2: Unused Fund balance

	2013-14	2014-15	2015-16
Reported Unrestricted Fund Balance	$3,538,533	$3,607,405	$3,660,277
Subsequent Year's Budgeted Appropriations	$88,463,342	$90,185,141	$91,509,907
Unrestricted Funds as Percentage of the Subsequent Year's Budget	4.0%	4.0%	4.0%
Add: Unused Appropriated Fund Balance to Fund Subsequent Year's Budget	$4,199,618	$0	$3,561,842
Recalculated Unrestricted Fund Balance	$7,738,151	$3,607,405	$7,222,119
Recalculated Fund Balance as a Percentage of the Subsequent Year's Budget	8.7%	4.0%	7.9%

The appropriation of fund balance should have resulted in operating deficits each year. However, because expenditures were overestimated, there was an operating surplus in two of the three ensuing years.[4] There was an operating deficit in 2015-16 totaling $4.2 million.[5] The District had an operating surplus in 2014-15 of about $7,000 and is projecting an operating surplus in 2016-17 of $2.5 million. Therefore, the appropriated fund balances of $4.2 million and $3.6 million were not needed to fund District operations in the 2014-15 and 2016-17 fiscal years. When adding back unused appropriated fund balance in these two years, the District's recalculated unrestricted fund balance exceeded the statutory limit by 4.7 percentage points and 3.9 percentage points at the completion of the 2013-14 and 2015-16 fiscal years, respectively.

The practice of planning operating deficits by appropriating unrestricted fund balance that was not always needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a reduction of the fund balance included in the 4 percent statutory limit calculation. As a result, the Board may have levied more taxes than necessary to fund the District's operations.

Reserve Funds

Fund balance may be restricted for particular purposes or appropriated to reduce the real property tax levy. Reserve funds may be established by Board action, in accordance with applicable laws, and only used to provide financing for specific purposes. When the Board establishes reserve funds, it is important that it develops a plan for funding them. This can be outlined in the resolution establishing each fund or in a written policy that communicates to residents why the money is being set aside, the Board's financial objectives for the reserves, optimal funding levels and conditions under which the assets will be used. Ideally, transfers to reserve funds should be included in the annual budget instead of routinely using surplus funds to increase reserves at year-end. Generally, school districts are not limited as to how much money they can maintain in reserves. However, reserve balances should be reasonable. Funding reserves at greater than reasonable levels essentially results in real property tax levies that are higher than necessary.

The District maintained five reserves with balances totaling $23.3 million as of June 30, 2016: retirement contribution ($7.7 million), capital ($7.6 million), Employee Benefit Accrued Liability Reserve (EBALR) ($4.2 million), unemployment insurance ($2.4 million)

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[4] The District appropriated $3.7 million to fund 2013-14 operations; however, there was an operating surplus of $1.8 million that year.

[5] The District appropriated $3.7 million to fund the operating deficit in the 2015-16 fiscal year that was predominantly due to the overestimation of State aid revenues of about $2.4 million.

and workers' compensation ($1.4 million). District officials could not provide Board resolutions establishing the EBALR and workers' compensation reserves. Although there were resolutions for the establishment of the other reserves, the Board did not establish financial objectives for each reserve or when the reserves would be used and the specific funding levels, with the exception of capital reserve. Additionally, the Board did not include provisions in the budget for funding reserves. Instead, the Board passed resolutions at the end of each fiscal year to increase reserves with operating surpluses. A more transparent method would be to include an appropriation to increase reserves in the budget presented to residents for approval. We analyzed the reasonableness of the balances in each of the reserves.

- The retirement reserve had a balance of $7.7 million as of June 30, 2016. The District's average annual retirement contribution expenditures from fiscal years 2013-14 through 2015-16 were $1.2 million. Therefore, the retirement reserve balance is more than six times the average annual expenditure. During the three fiscal years reviewed, the District appropriated a total of $2.3 million into the budget from the retirement reserve to fund retirement expenditures, of which $1.5 million was used. Retirement costs totaled $3.6 million; therefore, $2.1 million of retirement costs were paid from the general fund. District officials returned a total $849,725 back to the reserve although they could have used these funds to pay related expenditures.

- The EBALR is used to finance cash payments to employees for accrued and unused sick, vacation and certain other leave time owed to them when they leave District employment. This reserve had a balance of $4.2 million as of June 30, 2016. The District's compensated absence liability associated with this reserve was $3.6 million as of June 30, 2016. The reserve was therefore overfunded by more than $600,000. In the 2013-14 fiscal year, District officials appropriated $130,000 to fund related expenses which amounted to $154,136 during that fiscal year; however, they returned the entire amount appropriated back to the reserve. Additionally, during the 2014-15 fiscal year, District officials appropriated $130,000 from the reserve, but the total related expenditures amounted to $91,716. The difference of $38,284 was not returned to the reserve.

- School districts that have elected to make payments in lieu of contributions to the State Unemployment Insurance Fund (SUIF) are authorized by General Municipal Law (GML) to establish an unemployment insurance reserve. Payments are made to reimburse the SUIF for the actual amount of unemployment insurance benefits paid to claimants and charged to the District's account. If, at the end of any fiscal year, the amount of the fund exceeds the amount required to be paid into the SUIF, plus any additional amount to pay all pending claims, the Board, within 60 days of the close of the fiscal year, may elect to transfer all or part of the excess amount to another authorized reserve fund or apply the excess to the ensuing year's budgeted appropriations. The District's unemployment insurance reserve balance was $2.4 million as of June 30, 2016. However, the annual average expenditures for the last three years were $17,795 (for a three-year total of $53,386). As such, the current reserve balance is more than 137 times the average annual expenditure. Additionally, the District appropriated $100,000 from the reserve each year during the 2013-14 and 2014-15 fiscal year and returned a total of $187,657 to the reserve. Only $12,343 was used from the reserve (1 percent of the balance) to pay for unemployment costs; the remaining $41,043 was paid from the general fund.

- The workers' compensation reserve is authorized by GML to pay for workers' compensation costs and to pay the expenses to administer a workers' compensation self-insurance program. As of June 30, 2016, the workers' compensation reserve had a balance of $1.4 million. During the three fiscal years reviewed, the District appropriated $1.25 million and charged $636,078 of related costs to the reserve. District officials returned the remaining $614,000 to the reserve although they could have charged an additional $229,813. Instead, this amount was paid from the general fund. The District's liability was $1.2 million as of June 30, 2016. As such, the reserve fund balance as of June 30, 2016 was $224,000 more than the liability.

The District has taken measures to reduce reserve balances by transferring $2.6 million from the workers' compensation reserve and $2.5 million from the retirement reserve during the 2014-15 fiscal year to the District's capital reserve. However, the reserves are still overfunded as of June 30, 2016. By maintaining reserves that are significantly overfunded, the Board has withheld funds from productive use, unnecessarily levied taxes and reduced the transparency of District finances.

Recommendations

The Board and District officials should:

1. Adopt budgets that include reasonable estimates for appropriations.

2. Discontinue adopting budgets that result in the appropriation of fund balance that is not needed to fund District operations.

3. Ensure that each reserve fund is established by a Board resolution that includes the financial objective for the reserve and conditions under which it will be used.

4. Use surplus funds as a financing source for:

    a. Funding one-time expenditures

    b. Funding needed reserves

    c. Paying off debt

    d. Reducing District property taxes.

5. When statutorily allowed, charge related costs to reserves appropriated in the budget.

6. Ensure that annual proposed budgets include the amounts of appropriated fund balance planned to fund reserves as a way to enhance transparency to residents.

Extra-Classroom Activity Funds

The Regulations of the Commissioner of Education (Regulations) of the New York State Education Department (SED) were formulated to help safeguard extra-classroom activity (ECA) funds. Regulations require the Board to safeguard, account for and audit all ECA money received and derived from extra-classroom activities. This includes adopting and implementing policies and procedures that describe the records District personnel and students must maintain, and the duties and control procedures that they must use.

The Regulations require that the central treasurer issue a duplicate receipt whenever possible when collecting funds from the ECA clubs. If pre-numbered receipts are not practical, the student treasurer and club advisor should devise a method whereby the exact amount to be realized by the sale is determined in advance. Both the Regulations and the District's regulations and guidelines require that two independent sets of records of receipts and expenditures be maintained: one set maintained by the central treasurer and one set by the ECA club. The Board should appoint a faculty auditor to oversee the management of ECA funds by comparing the balance on the ECA club's ledger with the balance listed on the central treasurer's report and investigating any differences. The Regulations require that a profit and loss statement be prepared for all activities that require admissions. Additionally, the District's regulations and guidelines require a profit and loss statement be prepared for all money received from fundraising activities.

Each club elects an activity (student) treasurer to collect all money, pay bills and maintain a ledger with a running balance. A faculty advisor is appointed for each club to advise and assist the activity treasurer. The District's written guidelines to the ECA clubs requires the student treasurers and faculty advisors to deposit funds with the central treasurer within two weeks of receiving them. Although the District's guidelines do not specify when the central treasurer should deposit funds, deposits should be made as soon as possible to prevent loss and misuse.

The Board annually appointed a central treasurer[6] as the custodian of all extra-classroom activity funds. However, a clerk from the business office − not the central treasurer appointed for the 2016-17 fiscal year − performed many of the central treasurer's duties. The clerk received funds from the faculty advisors, signed the school deposit form in place of the central treasurer, recorded deposits, prepared bank

[6] There were two different central treasurers during our audit period. One was appointed in 2015-16 and one was appointed in 2016-17.

deposits and reconciliations and prepared quarterly reports. However, the central treasurer signs the bank reconciliation and reviews the quarterly report package for the Board. He also provides guidance to the clerk on ECA issues as needed. By allowing the central treasurer to not be accountable for his duties, District officials cannot be assured that ECA clubs' financial activities are adequately administered and all money is being accounted for. We also found that the Board did not appoint a faculty auditor. As a result, there is no independent comparison of the ECA club ledgers with the balance on the central treasurer's report.

The District's 44 ECA clubs had $269,000 in receipts for the 2015-16 fiscal year and $225,267 from July 1, 2016 - March 31, 2017. We reviewed receipts totaling $136,884 from six clubs[7] and found no discrepancy between the clubs' records and the central treasurer's report. While there was no indication that funds were misappropriated, we found that club records were not sufficiently documented, the central treasurer did not issue duplicate receipts, and deposits were not made in a timely manner.[8]

Club Records – The faculty advisors do not prepare a profit and loss statement as required by the District's policy and SED guidelines. Additionally, the faculty advisors in five of the six clubs reviewed, with deposits totaling $123,055, did not ensure that cash collections contained supporting documentation, such as a ledger with a daily running balance or applicable pre-numbered receipts, to document the source, date, amount and purpose of cash. The one club that did have supporting documentation had support for receipts totaling $10,850 in the 2015-16 fiscal year, while the deposits totaled $13,829. No other documentation was available for the additional $2,979. When faculty advisors do not maintain adequate documentation to support collections, the central treasurer is unable to ensure that all money collected for the ECA clubs is accounted for and properly remitted for deposit in a timely manner.

Central Treasurer's Receipts − The central treasurer did not issue duplicate receipts when money was collected from the club advisors. Although a clerk prepares electronic receipts, the faculty advisors do not receive a copy of the receipt for the money they turned over to the central treasurer. The clerk retains these receipts as part of her reports. The clerk also signs the school deposit form (form) when funds are collected and provides a copy to the clubs for their records. The form

7 See Appendix B for information on our sampling methodology.

8 The central treasurer and the ECA clubs not issuing pre-numbered receipts, funds not being deposited timely and the Board not appointing a faculty auditor were discussed in our previous report of the District, *2011M-32: Internal Controls Over Selected Financial Operations*, issued in August 2011.

indicates the name of the ECA club, the activity for which the funds were collected, and the total and the composition of the funds (i.e., bills, coins and checks). The form requires the date and signatures of the student treasurer and faculty advisor when they count funds. However, the former central treasurer did not always sign the form. We identified six deposits totaling $6,879 from 24 deposits totaling $71,430 in the 2015-16 fiscal year that were not signed by the former central treasurer. Without documentation of the collections, the central treasurer is unable to ensure that all money collected for the extra-classroom activities are accounted for and properly remitted for deposit.

<u>Timely Deposits</u> – The District issued guidelines to ECA club advisors requiring them to deposit funds with the central treasurer within two weeks. Since the central treasurer has to record and prepare deposits, these guidelines do not allow for funds to be deposited in the bank in a timely manner. Each form has a date to indicate when the student treasurer and club advisor count funds. Additionally, there is another date that the central treasurer told us usually represents the day when the ECA club brings the funds to the clerk in the business office. After an official count is made, the clerk signs the form. Because there is no supporting documentation of the initial collection of funds, the District did not have the exact dates that the ECA clubs collected the cash to determine whether the collections were remitted to and deposited by the central treasurer in a timely manner. Instead, we compared the date that the student treasurer and club advisor counted the funds with the bank deposit dates.

We reviewed a total of 36 deposits from six ECA clubs totaling $136,844 and found that money was not always deposited timely. Specifically, four deposits totaling $10,060 were made 12 to 14 days after the deposit forms were signed by the faculty advisor. For example, a deposit totaling $500 was signed by the faculty advisor on January 6, 2016, remitted to the central treasurer on January 15, 2016, and deposited by the central treasurer on January 19, 2016, four days later. Although the funds were remitted to the central treasurer within the 10 days required by the guidelines, the funds were held 13 days in total. Another deposit totaling $1,340 was signed by the faculty advisor on February 1, remitted to the central treasurer on February 14 and deposited on February 15. In this instance, the faculty advisor held the funds for 13 days before remitting them to the central treasurer. When funds are not deposited in a timely manner, there is an increased risk that ECA money could be lost or misused.

Recommendations

The Board should:

7. Have the faculty advisors ensure that pre-numbered receipts are issued when funds are collected. If not practical, the Board should devise a method to document the amount expected to be realized in advance.

8. Require the central treasurer to provide a copy of the treasurer's receipt to each faculty advisor.

9. Appoint a faculty auditor to reconcile the central treasurer's books with the ECA clubs' books.

10. Ensure that ECA clubs prepare the profit and loss statement.

District officials should:

11. Consider revising ECA guidelines to allow for receipts to be deposited in the bank in a timely manner. The guidelines should provide guidance from the time the ECA clubs initially collect funds to when the funds are deposited in the bank.

12. Ensure that the individual appointed as central treasurer signs the school deposit form when funds are collected from the ECA clubs.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

PLAINEDGE PUBLIC SCHOOLS

DISTRICT ADMINISTRATION BUILDING
241 WYNGATE DRIVE, N. MASSAPEQUA, NY 11758
(516) 992-7455 FAX (516) 992-7446

Edward A. Salina, Jr., Ed.D.
Superintendent of Schools

Catherine Flanagan
President
Plainedge Board of Education

-via electronic transmission and hand delivery-

December 7, 2017

Ira McCracken, Chief Examiner
Hauppauge Regional Office
Office of the State Comptroller
250 Veterans Memorial Highway
NYS Office Building, Room 3A10
Hauppauge, New York 11788-5533

Re: Plainedge Union Free School District
Response to Financial Condition and Extra Classroom Activity Funds Report of Examination, 2017M-189

Dear Chief Examiner McCracken:

On behalf of the Plainedge Union Free School District (the "District"), please accept this letter as the District's response to the Draft *Financial Condition and Extra Classroom Activity Funds, Report of Examination, 2017M-189* (the "Draft Audit Report" or "Report"). We take note of the fact that your review initially covered the period from July 1, 2015, through February 28, 2017. The time frame was expanded to cover the period from July 1, 2013 to examine the District's fund balance, budget practices, and reserve trends and extended forward to March 31, 2017 to review cash receipts for the extra-classroom activity funds. The District is pleased that this extensive review has resulted in no findings of material weaknesses, operations impropriety, fraud, waste, or abuse.

The District would like to acknowledge the New York State Comptroller's Audit Team for their professionalism during their review of the District's Financial Condition and Extra-Classroom Activity Funds, the exit interview and the subsequent telephone calls with District Administration post-exit interview, wherein the District was verbally informed that certain modifications were being considered to the Draft Report as a result of the engaging dialogue during the exit conference. We note that the revised Report reflecting those modifications was not provided to the District prior to the deadline for the District's response, i.e. December 7, 2017;

See Note 1 Page 38

however, we are relying upon the representations made to us by your Office as part of our response letter.

Our District is committed to the long-term practice of solid and sound fiscal responsibility in the management of the District's finances and accountability to our community. While the District acknowledges the opinions and recommendations contained in the Draft Audit Report, we remain concerned that the tone of the Report would mislead a reader, unfamiliar with the entirety of both the audit process and school district operations, to conclude that the District has overfunded reserves and over-estimated expenditures, which is a gross mischaracterization of the District's long-term fiscal approach as discussed further below. The District remains mindful of the long-term fiscal stability it has achieved and our responsibility to our students and community. We will continue to promote efficiencies and economies while maintaining the esteemed educational programs for our students.

See Note 2 Page 38

In developing its fiscal strategies, the District has relied upon multiple guidance documents published by the New York State Office of the State Comptroller ("OSC") in its Local Government Management Guides regarding Multiyear Financial Planning and Financial Condition Analysis. In these guides, the OSC cautions districts on the pitfalls of failing to plan for uncertainties and the danger of not planning for the future, or for contingencies. The District's philosophy of sound fiscal management and long-range financial planning and budgeting shares many of the same principals expressed in guidance documents issued by OSC.

Some of the principles contained in the OSC guidance documents relied upon, and followed by, the District include the following:

- *Multiyear planning can be a vital tool for local governments, especially those struggling with difficult financial conditions. It allows decision-makers to set long-term priorities and work toward goals, rather than making choices based only on the needs and politics of the moment. This is important when resources are limited, as they are in many fiscally strained localities, but can also be beneficial to all communities in avoiding future stress.*[1]

- *A plan can help residents and elected local government officials to see the impact of their fiscal decisions over time. They can then decide what program funding choices to make in advance, avoiding sudden tax increases or dramatic budget cuts.*[2]

- *Planning is also particularly helpful in identifying one aspect of fiscal stress that affects many of New York's local governments, regardless of apparent current fiscal health – structural imbalances between revenues and expenditures. Simply put, local government costs have been growing more quickly than revenues. Expenditures have grown, on average, fueled by upward pressures caused by wages and salaries, healthcare costs and other employee benefits. Yet, revenues have grown more slowly or even declined…*[3]

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[1] Office of the New York State Comptroller, "Multiyear Financial Planning, Local Government Management Guide" (Updated 2017), at p. 1.
[2] Id.
[3] Id.

- *Without planning, fiscally-stressed localities sometimes try to limp along from year to year, spending down reserve funds or using various one-time revenues to keep afloat. But the practicality of those strategies is limited. As local governments have discovered, putting off painful decisions doesn't make problems disappear – in fact, it usually makes them worse. Financial problems that remain hidden for a long time have a way of emerging suddenly as full-blown financial crises.*[4]

- *While these [long-term financial] plans are not currently required to receive State aid, the State promotes maintaining and updating multiyear financial plans to increase transparency and help to ensure a positive financial outlook. They should be viewed as a best practice with or without a requirement.*[5]

- *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.*[6]

The District also takes seriously the cautions of the OSC as they relate to inadequate planning. With respect to the same, the OSC has stated that "[f]iscal problems can arise when local officials neglect to plan ahead for future events or needs. For example, reductions in maintenance and upkeep can suddenly accelerate asset replacement timetables."[7] The OSC further cites to examples of inadequate planning that can produce fiscal problems, including:

- Neglect of deteriorating infrastructure
- Inadequate funding of long-term liabilities such as compensated absences
- Failure to properly account for multiyear obligations such as collective bargaining contracts, long-term contractual services, or indebtedness
- Failure to adjust for nonrecurring revenues or time-limited grants.[8]

The District also agrees that fiscal planning is essential for a vital governmental organization such as the District. As stated by the OSC, "[p]lanning helps identify future financial obligations so that sufficient funding for those obligations can be identified....[and] also helps identify the long-term implications of financial decisions –actions taken in one year can have implications over multiple years.

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[4] Id.
[5] Id.
[6] Office of the New York State Comptroller, Division of Local Government & School Accountability, Local Government Management Guide at p. 2.
[7] Id at p. 6.
[8] Id.

Multiyear financial plans and capital plans are increasingly viewed as essential for long-term fiscal health."[9]

The District expends considerable time and resources in the development of its multiyear plan. During its annual budget process, the District conducts extensive analysis and prepares its multiyear financial plan in accordance with the principals espoused in the OSC guidance documents. This plan is presented in a public forum annually during the budget process. The multiyear plan, in all instances, concludes that in future years, the District's ability to raise revenue does not keep pace with the projected increases in expenses. Despite this outlook, the District continues to take a balanced approach to its fiscal responsibility to the community. Significantly, *over the last three years, the average tax levy increase was 1.11% and more notably, in the 2017-2018 fiscal year, **the District's tax levy was 0%.***

See Note 3 Page 38

District Accomplishments

Although the District understands that the Comptroller is charged with reviewing and assessing the financial practices of the District, notably absent from the Draft Report are the accomplishments of the District and its students; i.e. *the product of our District's financial operations and expenditures.* To that end, before turning to the District's response to the recommendations contained in the Draft Report, the District wishes to highlight for your Office and our community, some of the recent accomplishments of our District and our students, as well as the capital undertakings underway at our facilities that serve to support the mission of the District – "Where Everyone Achieves."

Our District prides itself on its commitment to its mission and vision and educational philosophy. The mission of the Plainedge School District is to inspire in each student a passion for learning, living and contributing to our global society. As such, the Board of Education is dedicated to educating students to develop desired moral, ethical, and cultural values, to stimulate and expand a continual learning process and to cultivate an understanding and appreciation of the rights and responsibilities of American citizens, which will enable them to function effectively as independent individuals in a democratic society.

The District's educational program provides each child with the fundamental academic skills and basic knowledge required for his/her maximum educational development, the opportunity for each child to develop his/her interests and abilities to the fullest extent according to his/her individual potential, and special services to promote the physical, mental and emotional development of each child. It is the District's goal to foster in students good work habits, integrity, self-discipline, good sportsmanship, self-confidence and a sense of purpose. Extracurricular activities are offered when possible to enhance the academic program.

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[9] Id.

The Board of Education encourages parents and teachers to offer their expertise in helping to develop a school environment that is academically challenging, psychologically satisfying and socially fulfilling for students at all levels. The objectives of an educational program are best realized when mutual understanding, cooperation, and effective communications exist among the home, community and school.

The District each year continues to invest in its Curriculum & Instruction/Academics, Health, Physical Education & Athletics, Facilities, Transportation, Fine & Performing Arts, Students with Disabilities, Safety and Security, and its advanced Instructional Technology programs and infrastructure.

Our Students

The Plainedge Union Free School District prides itself on its proven track record of enhancing educational programs and opportunities for students while keeping tax increases low for our residents. The District offers many innovative educational programs that provide all students with the opportunity to realize their full potential and to be successful citizens in a 21st Century global economy.

The District continues to excel academically. Despite the challenges faced by the District as described further below, Plainedge Public Schools has achieved new heights. Our District proudly prepares students for college and career readiness as evidenced by the culture and pride that our students feel for our community and as demonstrated by quantitative measures. Those measures include SAT and ACT scores that exceed the averages by both New York State and the nation. For example, the SAT mean score for critical reading for 2017 in Plainedge was 543, as opposed to New York State's mean score of 530 and 538 across the nation. This is just one piece of data, among many, that demonstrates a District focused on student achievement and the social and emotional wellness of our students. Over 90% of our High School seniors move on to college, all of whom are prepared for their educational journey as early as kindergarten.

Our partnership with the Teachers College Reading and Writing Project outlines our commitment, both financially and philosophically to raising the academic performance and expectations of our students. Those efforts have resulted in students who are prepared for college level work in these areas. Significantly, Plainedge High School has, once again, been designated the prestigious honor as a New York State Reward School; an award reserved for a select number of high schools by the New York State Education Department.

Plainedge High School also offers its students a broad selection of Regents, Honors, College, and AP courses across the curriculum. Our students are encouraged to challenge themselves and do so at a level appropriate for them. To this end, we offer fifteen Advanced Placement courses and eighteen dual enrollment (college-level) courses. Over one-third of our students will graduate having succeeded in at least one AP course, while over half will have taken a college-level course. Students currently receive credits from colleges including Adelphi University, LIU Post, Syracuse University, Molloy College, SUNY Farmingdale and St. John's University. We regularly seek opportunities to expand these offerings, thus providing students meaningful and valuable access to postsecondary credits and material.

In addition to our core courses, we appeal to students' interests by offering a broad array of elective courses (over 36 new courses). Over the past few years, Plainedge High School has expanded its course offerings to appeal to students across grade and ability levels. Moreover, the District is extremely proud of the many academic, athletic, extra-curricular, arts, and technology achievements of our students.

Our Facilities

In addition to providing our students with a myriad of opportunities and educational programs, the District understands that our facilities must be maintained and enhanced to furnish our students and staff with the necessary tools to provide students with a learning environment that promotes these academic and extracurricular advancements. By way of example, the District recently established a comprehensive multiyear Capital Improvement Plan to improve its facilities. The following represent a sample of some of the capital projects funded through the use of existing capital reserves at no additional cost to the taxpayers.

- The District, in collaboration with its architect and construction team, have identified necessary roof replacements at all buildings. To date, roof replacements have been completed at the High School and John H. West Elementary School. The District plans to complete the replacement of the Charles E. Schwarting Elementary School before the 2018-2019 school year begins.

- The District is in the process of completing its new state of the art athletic complex at the High School. This facility is unique because it will serve a variety of athletic, community, and educational purposes. For example, students in our new television/video production elective at the High School will operate the advanced technological features of the facility, including the digital live streaming of events; as well as the new video display scoreboard.

- The District has initiated its continued expansion of our STEAM/STREAM initiatives at all levels. As part of our ongoing capital improvement plan (previously approved by community residents), the District will be constructing STEAM Centers at each elementary school that will include an indoor learning space, green house, and outdoor learning center. This will dramatically enhance the learning environment for students and continue to advance elementary students in Science, Technology, Research, Engineering, Arts, and Mathematics (STREAM).

- During the audit period, the District also undertook the following projects as part of the District's multi-year capital plan:

- Interactive Classroom Smartboards;
- Restroom Upgrades;
- Floor Replacements;
- ADA Compliance Upgrades;
- Door Replacements; and
- Health and safety projects, including asbestos abatement associated with these projects.

<u>The District's Financial Condition</u>

Our District is committed to the long-term practice of solid and sound fiscal responsibility in the management of the District's finances and accountability to our community. The District has consistently prepared efficient and cost-effective budgets while keeping the tax levy at or below the established tax cap limits. Our budget development is based on the District's goals, strategic plans, and guiding principles such as improving student achievement and increasing academic opportunities, maximizing available resources through economies and efficiencies, providing a strong innovative educational program, affordability to community members, and a continued focus on the long-term financial stability of the District.

The financial condition of Plainedge Public Schools has been applauded and recognized. Notably, our External Auditors have repeatedly commended the District during public audit committee meetings for maintaining an exemplary fiscal condition that includes well-funded reserves and fund balances. *In fact, although not covered by the term of the audit period, for the 2017-2018 fiscal year, the District presented, and the community approved, both a budget and tax levy with a 0% increase. Furthermore, over the last three (3) years, the average tax levy increase to community members was 1.11%.*

Our prudent fiscal management has also led to the highest bond rating in the history of the District. The District is proud of our Moody's "Aa2" bond rating, which demonstrates our excellent financial condition. Moody's Aa2 bond rating deems the District to have superior ability to repay short term debt obligations. In the summary and ratings rationale issued by Moody's Investors Service, Moody's states that "the Aa2 rating reflects the district's relatively sizeable tax base, healthy financial operations supported by sizeable reserves, manageable debt position, and above average socio-economic indicators." The upgrade to Aa2 is a result of the District's operating surpluses and strength of its reserves over the last five years. Due to our strong financial condition and our "conservative budgeting" as noted by Moody's, the District no longer needs annual short-term borrowings know as Tax Anticipation Notes (TANS) and Revenue Anticipation Notes (RANS). The conservative budget practices of the District are aligned with recent guidance issued by the OSC, which expressly recommends governmental entities, including school districts, to be conservative. More specifically, in the 2017 OSC Multiyear Financial Planning Management Guide it states: See Note 4 Page 38

- *Although it is good to be as accurate as possible, it is best to err on the side of being conservative. If history shows weakness in a source of revenue, interpret signs of economic recovery with caution. If the recent past shows stronger-than-average revenue growth, don't assume that such growth will last indefinitely. For example, if past history showed healthy revenue growth in non-property taxes, but the economy appears to be slowing down, non-property tax revenue is likely to slow as well. Or, if past growth was anemic, more robust growth projections should be well-justified. In expenditures, of course, the risk is that things will cost more than originally projected. Be particularly careful in budgeting cost savings from policy changes – these take time to be fully effective and can easily be overstated.*[10]

The Management's Discussion and Analysis (MD&A) statement, which is part of the annual financial statements during the period of time reviewed in the audit also consistently highlights the District's stable financial profile, low debt, and strong financial position. As a result, the District has received favorable borrowing at significantly reduced rates, which has served to dramatically reduce borrowing and operational expenses of the District.

The Office of the State Comptroller has recently implemented a "School District Fiscal Stress Monitoring System" in which both a declining fund balance and operating in a deficit will count against school districts when being classified with regard to fiscal stress. Since the inception of this monitoring system, Plainedge Public Schools has attained the top rating of "No Designation," which is considered the best rating that a school district can achieve under this rubric. The District maintains this rating due to its prudent financial practices.

See Note 5 Page 38

The District's Fiscal Philosophy Supports its Students, Facilities, Operations and Community

The District's mission is to provide the best educational programs and opportunities for our 3,000 students and to create long-term stability and predictability for our community. This mission is achieved through long-term fiscal planning, which addresses unpredictability and the increasing needs of our students. The philosophy of the District has always been to take a long-term view of both sound and stable fiscal and educational leadership. We believe we must maintain fiscal prudence and educational excellence that can withstand the tremendous uncertainties attached to State aid distribution and our inability to raise revenue due to the tax levy cap limitations and other factors identified in this Response Letter.

Some of the views expressed in the Draft Report are primarily the result of a difference in philosophy on financial planning and budgeting for a sound and secure educational program today and into the future.

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[10] Office of the New York State Comptroller, "Multiyear Financial Planning, Local Government Management Guide" (Updated 2017), at p. 6.

Factors that Continue to Impact the District

The Draft Report does not take into account the practical realities of the multiple challenges our District faces that impact, or potentially impact, the District's ability to fund an excellent educational program.

Respectfully, when criticizing the District for its well-funded reserves and fund balance, the audit fails to mention any of the profound challenges faced by the District during the years examined, namely, the implementation of the tax levy cap, frozen Foundation Aid, unfunded/underfunded mandates, collective bargaining negotiations, unaccompanied minors, English as a New Language (ENL) students, and students with disabilities (SWD), threat of tax certiorari proceedings and the elimination of the Nassau County Guarantee, increased and unpredictable payments-in-lieu of taxes (PILOTs) associated with LIPA properties in our District, Gap Elimination Adjustment (GEA), and the continued unpredictability of State aid as discussed in further detail in our response to the OSC Recommendations. The impact of the above factors may amount to millions of dollars in any given year.

With respect to aid to school districts, in order to balance the State deficit, the Gap Elimination Adjustment (GEA) was enacted by the State, the result of which cumulatively reduced our State aid by approximately $8.5 million beginning with the 2010-2011 school year. The initial goal was phase-in Foundation over a four-year period ending in fiscal year 2010-2011; however, economic downturn slowed implementation. As a result of not receiving fill phased in Foundation Aid amounts, the Plainedge School District suffered a staggering loss of an additional $25.2 million.[11] Due to the unpredictability of State aid, which includes reductions and unfulfilled Foundation Aid, we must protect our students' future, our educational programs and the facilities they are housed in, by being fiscally responsible.

Similarly, we must take a pragmatic approach when funding reserves and budgets. The District does not believe it is prudent financial management to operate on a declining fund balance or a deficit and spend down its reserves to lower levels. We fully believe the current reserves are reasonable and appropriately funded based on our philosophy, special circumstances, and ongoing discussions with our auditors and actuarial advisors.

See Note 6 Page 38

As identified above, during the period covered in this audit and prior, despite the economic climate and our increasing fiscal and educational challenges, the District managed to add instructional staff to meet the needs of our students, increase AP courses for our students advancement, expand programs at all levels, offer 36 new elective courses in the High School, and dramatically improved facilities, all of which directly relate to a better education for children.

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[11] "School District-Specific Foundation Aid History, 2007-08 through 2017-18", State Aid & Financial Planning Services, Questar III BOCES (April 2017).

The District takes pride in the actions it has taken to create a sound and secure future for our students through solid fiscal management and educational excellence. While the District appreciates any constructive recommendations made by the OSC, it is imperative that we explain once again, (and as previously explained in our discussions with your auditors during the audit process and the exit interview) the District's philosophy and the economic, financial, legislative, and political contexts which seriously impact our planning, purpose, and existence. With that in mind, we provide the following responses to the recommendations offered in the Draft Audit Report.

District Responses to the Office of State Comptroller Draft Audit Report

-Financial Condition-

OSC Recommendations:

1. **Adopt budgets that include reasonable estimates for appropriations.**
2. **Discontinue adopting budgets that result in the appropriation of fund balance that is not needed to fund District operations.**

District Response to Recommendation No. 1:

The District does not agree with the recommendation in the Audit Report concerning District budget estimations. The District believes that our budgets are realistic and in line with our budgeting philosophy, which has served our community by keeping the tax levy low. As your Office reiterated to the District throughout the audit process, and most recently during the exit interview, budgeting is not an exact science. Appropriating for potential unforeseen expenditures within the budget is an entirely appropriate strategy and one embraced by the District. For example, the District has encountered instances where meeting the needs of a single special education student can cost up to $300,000 per year. These expenses are out of the District's control, driven by the students' needs, and impact the budget without notice. Proper budgeting requires that we consider and anticipate the need for contingencies to avoid educational service disruptions and the erosion of our existing excellent student programs as identified above.

See Note 7 Page 39

Notably, and not mentioned in the Draft Audit Report is the District's annual levy over the last several years. Over the last three (3) years, the average tax levy increase to community members was 1.11%. In fact, although not covered by the term of the audit period, for the 2017-2018 fiscal year, the District presented and the community approved both a budget and tax levy with a 0% increase. The foregoing is a result of our fiscally prudent budget practices.

District Response to Recommendation No. 2:

Likewise, the District does not agree with the recommendation concerning the appropriation of fund balance as stated in Recommendation No. 2. At the time the budget is formulated, estimates must be made with regard to future expenditures. The District develops its budgets by balancing the financial responsibilities of the current year, and unknown costs, such as salaries and health benefits, retirement and social security, and long-term debt service, while also anticipating unknown financial responsibilities of future years, including, but not limited to, health insurance costs, transportation services, and ever-increasing utility costs. The District must budget keeping in mind unpredictable costs including but not limited to, the items referenced above, as well as unfunded/underfunded mandates, collective bargaining, implementation of Common Core Learning Standards and testing, Annual Professional Performance Review (APPR), revisions to educating ENL students, special education costs and any new requirements including the recent mandate to test all water outlets for lead, which is an unanticipated cost.

See Note 8 Page 39

Despite the unknown financial impacts the District may incur in a given year, the District carefully manages its budget in an effort to generate any possible savings for the community, while simultaneously anticipating unknown financial obligations in the upcoming school year. Any shortfall in funds or reserves can swiftly move a district into fiscal or educational insolvency; a situation from which it will take a district several years to recover. It is important in light of the tax levy cap and other constraints to plan wisely and protect student programs from the uncertainty of revenue streams and expenditures by creating predictability in the budgeting process. Absent appropriated fund balance and reserves, estimated revenues would need to increase or budget reductions would occur that would negatively impact the students, staff, community, operations, and the District facilities.

See Note 9 Page 39

The Report further ignores the unique and specific circumstances and challenges faced by the District when asserting that the District's budget estimates do not reasonably reflect our budgeting needs. All governmental agencies developing a budget understand a variety of uncertainties make it fundamentally impossible to precisely estimate the exact amount of money that will be needed to maintain current operations. The District must maintain liquidity despite any financial challenges. As a result, the District plans for the year ahead by prudently budgeting known predictable costs and cautiously projecting future estimated costs based on a thorough assessment of prior history of expenditures and current economic conditions. We believe this practice is consistent with the guidance issued by the OSC.

See Note 10 Page 39

See Note 4 Page 38

Further, it is nearly impossible to predict the extent of all of the fiscal challenges that our District will need to meet annually and to know which may, or may not be, offset by State aid. Below you will find some examples of the unique and specific challenges faced by our District that we take into account when developing our budget.

Approximately thirteen percent (13%) of our students require special education programming, which, in some instances exceeds $250,000 per student per year. Unplanned enrollments of students with special education programs and increased classifications of students with these types of programs place a financial and often unpredictable burden on the District. One family moving into the District midyear with multiple students can require services that can cost up to $500,000.

State Aid: There is a long history of New York State balancing its budget at the expense of school districts. In December 1990, school districts faced unprecedented cuts in State aid midyear, after it had been promised, leaving districts scrambling to make up the difference. After multiple State aid reductions, Governor Paterson attempted to, again, cut State aid midyear in 2009. Based upon these repeated occurrences, as well as other events concerning aid, it is highly plausible that the amount of State Aid provided annually is not guaranteed to be distributed during the year, despite the requirements for the State to finance school funding.

In addition, the State adopted the Foundation Aid formula with a promised four-year phase-in of $5.5 billion in State aid. In 2009, Foundation Aid was frozen and the plan was further deferred and there was an insignificant increase in Foundation Aid. School districts are still owed billions in Foundation Aid, and Plainedge continues to lose approximately $1,500,000 in Foundation aid every year.

The Foundation Aid formula, which was designed to help our District by New York State, has not materialized. Due to the formulas being frozen, the loss of aid otherwise due to the Plainedge School District is in excess of $25..2 million despite a partial restoration. Despite this loss, the District still managed to improve the educational program by carefully allocating resources, enacting efficiencies, aggressively pursuing competitive grants, and persistently planning to ensure all dollars spent "make a difference".

The Gap Elimination Adjustment (GEA), a penalty/assessment that reduced the amount of State aid each school district is entitled to receive, was implemented in the 2010-2011 school year to partially offset the State's own $10 billion cumulative deficit and lack of any reserves. The Plainedge School District has lost approximately $8,500,000 in State aid due to the elimination of the GEA. The GEA, along with continued State aid reductions, combined with insufficient mandate relief, and the enactment of the property tax levy cap, have created irreversible financial consequences for the Plainedge School District.

Suffice it to say, State aid continues to be unpredictable and despite legal obligations, may be withheld in whole or part on at any time to assist in balancing the State budget. Clearly, it is important to have the State budget and funds in good order; however, districts must take this unpredictability into account and have funds available to plan for these uncertainties this if needed.

Impact of Tax Levy Cap: The tax levy cap is a major drawback and a serious constraint to raising revenue. The tax levy cap is limited to the lesser of two percent

(2%) or the Consumer Price Index with certain exclusions. Without prudent financial management, the tax levy cap could negatively impact and devastate an educational system. Based on the fact that districts are now rated for fiscal stress, the State Comptroller's Office is aware this could happen. There is no additional State aid support for increased staffing, supplies, and special services costs. Unplanned enrollments of students with special education needs and increased classifications of students with these types of program costs should be excluded from tax levy cap calculation as well. They are not. LIPA payments-in-lieu-of taxes, which entered the District's budget process during the audit period as a result of the County of Nassau removing these properties from the tax roll, further complicates budget estimates, as these statutory assessment PILOTs are not provided to the District by the County or by LIPA.

At the very least, the "two percent tax levy cap" should be just that, a cap of two percent of total budget, and it should not be tied with the Consumer Price Index. The tax levy cap under current conditions may eventually eliminate completely the ability of the District to create additional reserves or fund balances. Without increases in State aid, and with limited taxing authority, the reserves serve as a mechanism to safeguard our students' future during challenging times as discussed further below.

Threat of Tax Certiorari: At the present time, the amount the District levies is the amount that the District receives. Whatever funds are not collected by Nassau County, the County is responsible to make up the difference so that the District receives the entire levied amount. However, for years there have been discussions and actions by the County to cease making up the difference (including during the audit period) therefore, potentially leaving school districts with a shortfall of revenue. The most recent attempt to eliminate the County Guarantee was stopped by the courts. In addition, over the last couple of years, it has been suggested that the school districts collect the taxes, which would be a labor intensive and high cost process. This potential loss in revenue, as well as additional expenses would further significantly impact the District. Since the District maintained an adequate financial position and considered these uncertainties as part of its planning process, it was able to reserve for this contingency without interruption to its educational programs.

Other Uncertainties: The District budgets for expenses that can be unpredictable and beyond the District's control. The budget is expected to fund educational programs to meet the needs of the students and community, regardless of any changes in external factors which can lead to unexpected increases to the budget. The federal mandate for health insurance under the Affordable Care Act requires the District to extend new coverage to specific classes of employees and/or face significant financial penalties. This uncertainty is revisited on a year-to-year basis. In addition, the federal government, in response to parent/student "opt-outs" has threatened the public schools with a loss of Title I and other essential aid. In 2015-2016, the District's opt-out rate was in excess of 70 percent; well over the five percent limit. The District has no control over this issue and could potentially be penalized.

Our budget also has to account for unexpected expenses, such as increases to the homeless student population and transportation costs associated with these students.

Plainedge Public Schools methodically reviews **every** budget line of the appropriations and adopts reasonable estimates for expenditures. Uncertainties that translate into increased expenses or a loss in revenue can only be offset by taxation, which is not possible under the tax levy cap, and/or the elimination of student programs and the excessing of staff. Provisions are therefore built into the budget to account for unanticipated expenses. This enables the District to plan long-term and to be prepared for unforeseeable increases to the budget due to various items mentioned above, as well as increases in the number of special education students/services, fluctuations in utility prices, and/or health insurance premium increases. Any of the aforementioned challenges could deplete our fund balance in just one year.

See Note 7 Page 39

OSC Recommendation:

3. **Ensure that each reserve fund is established by a Board resolution that includes the financial objective for the reserve and conditions under which it will be used.**

District Response to Recommendation No. 3:

The District does not fully agree with this recommendation. As to the financial objectives and conditions for use of the District reserve funds, the District will include the financial objectives and conditions where legally required. The District only maintains five (5) reserve funds as identified in the Audit Report. The Audit Report notes that the "District officials could not provide Board resolutions establishing the EBALR and workers' compensation reserves." With regard to these reserve funds, please be advised that the Board of Education reconstituted these existing reserves at its public meeting held on December 5, 2017.

See Note 11 Page 39

See Note 12 Page 39

Notwithstanding the foregoing, the District takes serious issue with the criticism in the Draft Audit Report, which infers that District reserves are overfunded and that funds were withheld from productive use, taxes were unnecessarily levied and transparency of District finances reduced. This is simply not accurate. First, the District prides itself in the transparency of its budget process. As explained in detail during the audit process and the exit interview, our budget process identifies all reserves maintained by the District. This information is shared during public presentations and is further posted on our website for community and public access. During the budget process, and during multiple public meetings, the District informs voters of the balance in each reserve fund, how much will be transferred into reserves, as well as how much will be used to fund District operations with accompanying information that explains the District's decisions.

In addition, the District engages in a consistent practice when funding and using reserves. The District looks at past patterns of expenditures and anticipated needs for long term liability, and funds the reserves accordingly. Based on these anticipated amounts, the Board of Education passes resolutions delineating a "not to exceed" amount to be transferred to each reserve at the end of each fiscal year an prior to the setting of the tax levy as required.

As stated above, the District has been applauded for the strength of its reserves. Accordingly, the District's practices concerning its reserves have contributed to significant savings to our District and community due to our above average Moody's rating.

OSC Recommendation:

4. Use surplus funds as a financing source for:
   a. Funding one-time expenditures
   b. Funding needed reserves
   c. Reducing District property taxes.
   d. Pay off debt

District Response to Recommendation No. 4:

The District agrees with the recommendation; however, it disagrees with the implication of the findings contained in the Draft Audit Report. The District takes particular issue with the assertion that it is attempting to circumvent the statutory limitation of retaining unexpended surplus funds to no more than four percent (4%) of the ensuing year's appropriations. This is extremely misleading and a mischaracterization of District practices. As stated in both the Draft Audit Report *and the law*, unexpended surplus funds that exceed the statutory limit can be handled in any of four ways: lower real property taxes, increase necessary reserve funds, pay for one-time expenses, or pay down debt.

See Note 13 Page 40

The District has used the surplus funds generated from its prudent and aggressive management of the budget in a legal and appropriate manner, namely, to lower real property taxes, and, with Board of Education approval, fund reserves. In addition, the District only makes use of five possible reserve funds out of the many available to it by law.

See Note 14 Page 40

Moreover, maintaining an adequate fund balance is a prudent fiscal practice that provides critical benefits for any school district. These include the ability to minimize educational service disruptions, stabilize educational performance, fund educational growth, and manage unforeseen expenditure demands and revenue shortfalls.

Additionally, the District has made one-time purchases to eliminate borrowing costs on large critical purchases such as technology infrastructure, security cameras and door access control, educational technology devices, and facilities maintenance. The District has and will continue to fund the voter-authorized Capital Reserve Fund on an annual basis to ensure our buildings and infrastructures remain sustainable and strong.

The District will continue to analyze anticipated revenues, expenses, and educational challenges on the horizon when considering its fund balance. The District's main goal has been, and will always be, to provide a strong educational program for our students to ensure they are college and career ready while keeping costs low for our residents. Our decisions are made thoughtfully and are aligned with the District goals and Strategic Plan to ensure a successful future for our students while not ignoring the challenges outlined above. Despite having to address the challenges mentioned earlier, the District utilized its reserve funds during the period of the audit. The District has also lowered its bond-debt balances by paying down debt, thereby, reducing long-term obligations which saves on interest costs. The District has and will continue to address the unrestricted fund balance and will continue to look for opportunities to lower the amount, while still maintaining vitally needed financial liquidity.

<u>**OSC Recommendation:**</u>

5. When statutorily allowed, charge related costs to reserves appropriated in the budget.

<u>**District Response to Recommendation No. 5:**</u>

See Note 15 Page 40

The District does not agree, nor does it believe, that it is fiscally sound to bind itself by including appropriations for the use of reserves in its budget. Irrespective of a difference in philosophy, voters are made aware and informed about the District's funding and use of reserves. As previously stated, proper budgeting requires that we consider and anticipate the need for contingencies to avoid educational service disruptions and the erosion of our existing excellent student programs. By definition, contingent items are future events or circumstances that are possible but cannot be predicted with certainty. The District believes that appropriating potential unforeseen expenditures in a realistic and prudent fashion within the budget is an acceptable strategy. In certain situations, the appropriated reserves are not required to be used, and thus returned to the reserve from which they originated.

See Note 16 Page 40

See Note 15 Page 40

As noted in the Draft Audit Report, over the three year period (2013-14 through 2015-16), the District utilized $2.4 million of the appropriated reserves (excluding capital reserves). Reserve funds are used thoughtfully by the District to benefit District residents, maintain our excellent financial condition, and secure the future of our students. In fact, during the 2014-2015 fiscal year, the District reallocated certain reserves to support capital project initiatives which would have otherwise been funded through the issuance of bonds resulting in an increased tax levy to our residents. Based on best practices, industry standards, economic realities, and discussions with our auditors and Board of Education on an ongoing basis, we review the balances of the reserves to ensure our reserves are appropriately funded for our current and future needs.

See Note 17 Page 40

Notwithstanding the foregoing, the District has and will continue to consult with its external auditor, as well as other financial advisors, to identify and analyze whether a reserve fund balance should be reduced.

OSC Recommendation:

6. **Ensure that annual proposed budgets include the amounts of appropriated fund balance planned to fund reserves as a way to enhance transparency to residents.**

District Response to Recommendation No. 6:

The District is not in agreement with OSC's recommendation to include provisions in the budget for funding reserves. The practice the OSC is recommending suggests that the District should levy taxes for the planned fund balance included in the annual budget. OSC also stated that a "more transparent" method would be to include an appropriation to increase reserves in the budget presented to residents for approval. The District prides itself on being fully transparent during the budgeting process as can be evidenced by the budget presentations and financial information presented at numerous public hearings, PTA meetings, published on the District's website, and in the District's budget brochure sent to every household in the District.

See Note 18 Page 40

See Note 16 Page 40

As is common practice with most school districts and legally permissible, prior to the adoption of the tax levy, the Plainedge Board of Education publicly adopts by resolution the maximum amount it intends to allocate to reserves. The District aggressively manages its budget throughout each fiscal year in an effort to generate any possible savings, which are used to lower the tax levy and fund reserves. We believe that a process whereby reserves are developed through efficiencies in the budget is a more financially responsible approach.

DISTRICT RESPONSES TO OSC DRAFT AUDIT REPORT

-Extra-Classroom Activity Fund-

The District is committed to improving its financial operations and properly carryout its fiduciary responsibilities. The Draft Audit Report concerning the Extra-Classroom Activity ("ECA") funds provides valuable feedback for the District to address and strengthen its operations. Many of the issues presented in the Report have already been addressed or are in the process of being addressed by the District. It is important to note that while the Report does make recommendations, the District is pleased that this extensive review of the District ECA has resulted in no findings of material weaknesses, operations impropriety, fraud, waste, or abuse.

OSC Recommendation:

7. **Have the faculty advisors ensure that pre-numbered receipts are issued when funds are collected. If not practical, the Board should devise a method to document the amount expected to be realized in advance.**

District Response to Recommendation No. 7:

The District has already purchased triplicate copy cash receipt books, which are being distributed to the club advisors with instructions directing them to issue cash receipts for all sales where practical. In situations where the issuance of cash receipt vouchers are not practical, the advisors will be expected to provide an estimate of the sales on the fundraising event application, which has been revised to include this information.

OSC Recommendation:

8. **Require the Central Treasurer to provide a copy of the treasurer's receipt to each Faculty Advisor.**

District Response to Recommendation No. 8:

Prior to the receipt of the OSC audit recommendations, the District had already taken steps to modify this procedure. The current process includes the Central Treasurer validating the Club Advisor-prepared deposit form and providing a signed and dated copy to the Advisor upon validation of the amount to be deposited. In addition, the Central Treasurer is issuing a pre-numbered (triplicate receipt) voucher to the Club Advisor at that time. Finally, once the funds are physically deposited, the Central Treasurer is now providing a copy of the treasurer's receipt to the Faculty Advisor. We will ensure that this process remains in place.

OSC Recommendation:

9. **Appoint a Faculty Auditor to reconcile the central treasurer's books with the ECA clubs' books.**

District Response to Recommendation No. 9:

Regarding the recommendation that the District appoint a Faculty Auditor to reconcile the Central Treasurer's books with ECA clubs' books, the District will appoint Faculty Auditors at both the High School and Middle School whose responsibilities will be in alignment with those suggested by the NYSED guidelines on the Extra-Classroom Activities Fund.

OSC Recommendation:

10. **Ensure that ECA clubs prepare the profit and loss statement.**

District Response to Recommendation No. 10:

The District acknowledges that not every club was preparing the profit and loss statements and has taken steps to ensure that this important learning opportunity for students takes place. Going forward, the Central Treasurer will be responsible for ensuring that the profit and loss statements are prepared.

<u>**OSC Recommendation:**</u>

11. Consider revising ECA guidelines to allow for receipts to be deposited in the bank in a timely manner. The guidelines should provide guidance from the time the ECA clubs initially collect funds to when the funds are deposited in the bank.

<u>**District Response to Recommendation No. 11:**</u>

The Central Treasurer has revised the ECA guidelines and forms to ensure that cash receipts are deposited in a timely manner. The guidelines have been revised to state that "funds must be brought to the Central Treasurer within one week of receipt." This allows the Central Treasurer ample time to deposit the funds in the bank and complete the process in a timely manner.

<u>**OSC Recommendation:**</u>

12. Ensure that the individual appointed as Central Treasurer signs the school deposit form when funds are collected from the ECA clubs.

<u>**District Response to Recommendation No. 12:**</u>

There is a recommendation by the OSC that the individual appointed as the Central Treasurer signs the school deposit form when funds are collected from the ECA clubs. This recommendation was addressed during the 2016-17 school year and continues to be the practice.

See Note 19 Page 40

Conclusion

The District recognizes the Office of the State Comptroller's role in guiding school districts towards prudent fiscal management, and understands the Draft Audit Report's comments and recommendations. The District again notes that many of these comments are the result of a difference in budgeting philosophy, as well as special circumstances faced by the District during the period examined. Further, as we have moved forward, many of the issues identified in the Draft Audit Report no longer exist to the extent set forth, and our current fiscal practices are in greater alignment with Comptroller recommendations, as well as many of the principles contained in the OSC guidance documents referenced in this Response Letter.

See Note 20 Page 41

In closing, the District is proud of its long term fiscal planning that has helped it achieve consistency and predictability in its budget. Our ongoing collective efforts have resulted in a tax levy average of 1.11% over the last three (3) fiscal years. Once again, we acknowledge for your efforts and professionalism throughout the audit process.

Sincerely,

Edward A. Salina, Jr., Ed.D. Superintendent of Schools Plainedge Union Free School District	Catherine Flanagan President Plainedge Board of Education

cc: Members of the Board of Education

APPENDIX C

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We did not modify the facts in the draft report; therefore, the issuance of a revised draft report was not necessary.

Note 2

Our audit included a review of the District's fund balance, budget practices and reserve fund trends, and the analysis of revenue and expenditure trends and results of operations. As stated in our report, District officials' practice of overfunding reserves, overestimating expenditures and appropriating fund balance that was not actually needed reduces the transparency of the District's budget and finances.

Note 3

Since the District did levy property taxes in fiscal year 2017-18, we assume that District officials intended to say that the tax levy increase was 0 percent.

Note 4

OSC's guidance regarding budgeting[9] recommends that local governments and school districts be conservative and consider historical trends and current economic factors. The guidance does not recommend employing budget practices such as trends of informing residents in budget documents that there will be a planned operating deficit and then not needing the appropriated fund balance due to ongoing overestimation of expenditures.

Note 5

The OSC Fiscal Stress Monitoring System takes a number of factors into consideration when rating a school district's level of fiscal stress. Regardless of whether or not a district is rated in a fiscal stress category, it should not circumvent Real Property Tax Law by appropriating fund balance that is not needed to fund operations and by increasing reserves that are overfunded.

Note 6

Our report does not suggest that the District should operate at a deficit. However, when fund balance is appropriated in the budget as a funding source, the expectation is that there will be a planned operating deficit, which is financed by the appropriated fund balance. Furthermore, although District officials do not believe it is prudent financial management to spend down reserves to lower levels, reserves levels must be reasonable. As stated in our report, four of the five reserves were overfunded in relation to the liabilities or trend of annual expenditures. Overfunded reserves are an indication of tax levies that were higher than necessary.

[9] http://www.osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf

Note 7

District officials should adjust their estimations of future costs based on an assessment of actual prior history of expenditures and current economic factors. The District's response acknowledges that appropriations for potential unforeseen expenditures are built into the budget. District officials should not conceal contingency amounts in inflated expense projections. These amounts have not been needed because appropriations were overestimated for the years we reviewed. Additionally, the routine appropriation of fund balance for contingencies is not appropriate. When those funds are not needed, the budget is misleading and reduces transparency because it indicated that the money would be used to finance operations.

Note 8

When fund balance is appropriated, the anticipation is that there will be an operating deficit. Appropriated fund balance has not been used for two of the three fiscal years reviewed. This budgeting practice is misleading and may have resulted in a tax levy that is higher than necessary.

Note 9

While the appropriation of fund balance is a lawful budget tool to support appropriations in the adopted budget, the expectation is that there will be a planned operating deficit which is funded by the appropriated fund balance. The District appropriated fund balance that was not needed to fund operations and has overfunded reserves.

Note 10

Regardless of the circumstances and challenges faced by the District, District officials should present annual budgets that are transparent to District residents. We also note that the circumstances and challenges faced by the District are similar to those faced by many, if not most, school districts.

Note 11

Our review of the reserve balances in relation to their annual expenditures and liabilities showed that four reserves were overfunded.

Note 12

After the end of our fieldwork, District officials provided us with additional budget documents at the exit conference. We reviewed these documents, which identified the itemized reserves to be used to fund related expenditures in the budget for the 2013-14 and 2015-16 fiscal years. We were not provided with any documents showing how much was planned to be transferred into any of the reserves. Although District officials indicate that the District's website and the budget documents provide information regarding the budget and the use of the reserves, the funding of the reserves was not included in the original budgets. Instead, the Board passed resolutions to fund reserves with operating surplus at the end of each fiscal year. As a result, transfers to the reserves were made without sufficiently informing residents of the Board's intent to increase reserve funds.

Note 13

Funding reserves which are not needed and appropriating fund balance which is not actually needed to fund operations because expenditures are overestimated − as District officials include contingency amounts in inflated expense projections − in effect results in the statutory limitation of unrestricted fund balance being circumvented.

Note 14

Appropriating fund balance should result in lower real property taxes. However, when the appropriated fund balance is not used because District officials inflate expense projections, property taxes are not effectively lowered.

Note 15

When reserves are appropriated as a funding source for expenditures, there is an expectation that they will be used for relevant expenditures. During the audit period, District officials appropriated funds from the reserves; however, they returned $849,725, $130,000, and $229,813 to the retirement, EBALR, and workers' compensation reserves, respectively. These amounts could have been used to pay for related costs. Instead, these additional costs were paid from the general fund.

Note 16

Including additional funding to the reserves in the budget enhances transparency to District residents. Although District officials indicate that the District's website and the budget documents provide information regarding the budget and the use of the reserves, the funding of the reserves was not included in the original budgets. Instead, the Board passed resolutions to fund reserves with operating surplus at the end of each fiscal year.

Note 17

Reserves should be funded based upon General Municipal Law and relevant statutes and should be reasonably funded based upon past expenditures and liabilities.

Note 18

Our recommendation is to enhance transparency to District residents by including an appropriation in the annual budget to fund reserves instead of including contingency amounts in inflated expense projections, resulting in surplus.

Note 19

During our audit period ending March 31, 2017, a clerk from the business office, not the Board-appointed central treasurer, signed the school deposit forms when funds were collected from ECA clubs.

Note 20

Comments in the report are not based upon budgeting philosophy but on Real Property Tax Law, laws relating to establishing, maintaining and funding reserve funds, and good business practice.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- Reviewed audited financial statements from fiscal years 2012-13 through 2015-16 for the ensuing year's budget, changes in reserve funds, unused reserves, appropriated fund balances and encumbrances, and operating surplus or deficit.

- Reviewed appropriation and revenue status reports for 2013-14 through 2016-17 for the individual function codes with five largest variances.

- Reviewed Board resolutions for the establishment of District reserves and approval for the funding of reserves.

- Reviewed the budget booklets for the 2013-14 through 2016-17 fiscal years to verify appropriated fund balance and reserves.

- Reviewed the revenue budget for the 2017-18 fiscal year to determine appropriated fund balance and appropriated reserves.

- Reviewed the District's 2016-17 projections to determine whether it is expecting an operating surplus or deficit.

- Projected unrestricted fund balance as of June 30, 2017 based upon the projected results of operations for 2016-17, appropriated fund balance, appropriated reserves and additional funding of reserves.

- Reviewed District regulations and guidelines and the Commissioner of Education Regulations regarding ECA funds to determine whether District officials monitored and enforced the required and recommended cash collection procedures.

- Interviewed the faculty advisors, central treasurer, clerk from the business office and Assistant Superintendent for Business to determine the processes regarding the collection and deposit of ECA funds.

- Obtained the population of cash receipts for the ECA clubs for the 2015-16 fiscal year and from July 1, 2016 through March 31, 2017. The total populations were $269,000 and $225,267, respectively.

- From the total population of cash receipts, we selected the clubs with the four highest dollar amount of receipts in the 2015-16 fiscal year and with the two highest dollar amount of receipts from July 1, 2016 through March 31, 2017. From each club selected, we selected the six receipts with the highest dollar amounts. We traced the receipts from the school deposit form through to the bank deposit receipt to determine whether amounts collected were intact, complete and timely.

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

APPENDIX D

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APPENDIX E

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