OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

# Greenburgh Eleven Union Free School District

## Financial Condition

### Report of Examination

**Period Covered:**

**July 1, 2013–April 21, 2015**

**2015M-194**

Thomas P. DiNapoli

# Table of Contents

# State of New York
# Office of the State Comptroller

**Division of Local Government
and School Accountability**

November 2015

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for money 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 Greenburgh Eleven Union Free School District, entitled Financial Condition. 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*

# Introduction

**Background**

The Greenburgh Eleven Union Free School District (District) is a special act school district located on the campus of the Children's Village in Dobbs Ferry, Westchester County. The District provides educational services to students with special education needs from the Children's Village (a residential and intensive treatment center) and students from neighboring school districts.

The District operates in accordance with provisions of New York State Education Law. The District is governed by the Board of Education (Board), which is composed of seven members. Five Board members are appointed from the Children's Village Board of Directors and two are public members appointed by the New York State Commissioner of Education.

The Board is responsible for the District's general management and overall operation. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the Board's direction. The Deputy Superintendent is responsible for preparing the District's financial budget, with input from the Superintendent, and providing financial reports to the Board.

The District operates one school with 117 employees and 186 students. The District's budgeted appropriations for the 2014-15 fiscal year totaled approximately $14 million, funded primarily by tuition charged to students' home school districts or referring agencies. Tuition rates are established by the New York State Education Department (SED) and approved by the New York State Division of Budget.

**Objective**

The objective of our audit was to review the District's financial condition. Our audit addressed the following related question:

- Do District officials adequately monitor the District's financial operations to ensure fiscal stability?

**Scope and Methodology**

We examined the District's financial condition for the period July 1, 2013 through April 21, 2015. We extended our scope back to July 1, 2010 to review past financial trends.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the District's response letter.

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 forwarded 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

Financial condition may be defined as a school district's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A school district in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a school district in fiscal stress usually struggles to balance its budget, may suffer through disruptive service level declines, has limited resources to finance future needs and has minimal cash available to pay current liabilities as they become due.

We reviewed the District's reported financial condition from 2010-11 through 2013-14 and found a steady decline in tuition revenue in each year. During this period, District officials managed to consistently decrease expenditures to offset the declines in revenues. However, we found that tuition accounts receivable records and the District's financial reports were inaccurate. For example, as of June 30, 2014, District officials reported accounts receivable of more than $5 million, which was not accurate because a $1.5 million tuition receivable payment collected in 2012-13 was incorrectly treated as a prior period revenue. In addition, in 2013-14 District officials inappropriately accrued $2.1 million in tuition revenue based on tuition rates that were not approved and tuition that was not actually billed until the 2014-15 fiscal year. As a result, the District reported a small operating surplus that year, instead of an operating deficit of approximately $2 million, which made the District's reported financial position appear better than it actually was.

**Operating Results**

As a special act district, the District is not allowed to maintain a fund balance, which makes it challenging to ensure the District's financial stability. Therefore, it is important that the District has sufficient revenues to fund its expenditures to continue to provide services to its students.

The District reported an operating surplus in each of the four years from 2010-11 through 2013-14. However, these operating surpluses were not large enough to have a significant effect on the District's financial condition and help it meet its liabilities. The District reported fund balance deficiencies in 2010-11 and 2011-12 and small positive fund balances of $2,780 in 2012-13 and $15,595 in 2013-14.

District officials told us that the District's financial condition instability was due to the decline of student enrollment in recent years. For example, enrollment declined from 250 students in 2011-12 to 186 in 2012-13, a reduction in revenue of approximately $2.3 million.

Revenue over the four year period declined from $16.4 million in 2010-11 to $13.6 million in 2013-14.

**Figure 1: Operating Results and Fund Balance**

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|
| Revenues | $16,387,222 | $16,596,247 | $14,268,567 | $13,612,813 |
| Expenditures | $16,378,289 | $16,485,402 | $14,212,274 | $13,599,998 |
| Operating Surplus | $8,933 | $110,845 | $56,293 | $12,815 |
| Beginning Fund Balance/ (Deficiency) | ($173,287) | ($164,354) | ($53,509) | $2,784 |
| Ending Fund Balance/(Deficiency) | ($164,354) | ($53,509) | $2,784 | $15,599 |

## Tuition Receivable

The District receives most of its revenue through tuition payments. To ensure fiscal stability, it is essential the District has an efficient tuition collection process including the monitoring of unpaid tuition. Proper monitoring of tuition receivable requires updating individual agency/district accounts and control accounts with each bill and each payment made to ensure the balance in the control account agrees with the total of individual agencies accounts and that results of operations and fund balance reported on the financial statements accurately reflect the District's financial position.

From July 1, 2014 through March 31, 2015, the District reported approximately $8.2 million in revenue, of which tuition represented 99 percent. District officials billed agencies and home school districts on a monthly basis for their students. The three largest agencies that the District bills for tuition are the New York City Administration for Children's Services (ACS), the New York City Board of Education (BOE) and Westchester County (County), and they accounted for 90 percent of total tuition received. Specifically, District officials billed ACS approximately $5.4 million, BOE $2.4 million and the County $439,000 for tuition during this period.

Once ACS and BOE agree with their invoiced amounts, they pay through wire transfer. If there is a disagreement with the amount invoiced, such as length of stay for a student or missing child identification number, they will only pay the items that they agree with. District officials must then reconcile the invoiced amount with the payment and re-bill for the unpaid items. The other agencies and school districts pay by check. Therefore, District officials rely on the ACS and BOE payments to cover urgent liabilities such as payroll. Unpaid amounts become accounts receivable.

We examined approximately 33 percent of bills to these three agencies[1] and found that the District's tuition collection process was generally effective. Despite having an effective collection process, the District

[1] See Appendix B for information on our sample selection.

reported accounts receivable ranging from approximately $3 to $5 million during the period July 1, 2010 through June 30, 2014.

| Figure 2: Tuition Accounts Receivable | |
|---|---|
| 2010-11 | $3,166,621 |
| 2011-12 | $4,269,666 |
| 2012-13 | $3,886,599 |
| 2013-14 | $5,209,548 |

As of June 30, 2014, the District's accounts receivable control account showed a balance of $5.2 million, while the aged accounts receivable report (generated by the District's financial computer system) showed the amount outstanding to be $3.6 million.[2] Our analysis identified several issues that contributed to this discrepancy.

In 2012-13, District officials received a $1.5 million payment from BOE, which officials incorrectly treated as a prior period revenue and did not credit (decrease) the individual tuition receivable accounts or the accounts receivable control account. In another instance, officials accrued approximately $2.1 million for cost waivers as of June 30, 2014 when formal approval was not obtained from SED until one year later (June 2015). Even though District officials did not bill the agencies for additional tuition until July 2015, they increased the accounts receivable control account by the $2.1 million. This added to the difference between the control account and the individual tuition receivable accounts. Further, the reported accounts receivable includes uncollectible items which have been carried forward for several years.

District officials told us that management decided to treat the $1.5 million payment as a prior period revenue because of a decline in the District's financial position due to enrollment decline. In addition, they were confident that they would receive formal approval for the $2 million in cost waivers within a reasonable time after the 2013-14 year-end and that the treatment of these two transactions was discussed with the Board and the District's independent accountants. Although the District's analysis showed that the $1.5 million in revenue related to prior periods, not adjusting the individual tuition accounts led to inaccurate accounting and financial reporting.

Because District officials included the $2.1 million as accounts receivable and revenue in 2013-14 at a rate that was not yet authorized by SED's rate setting unit and without billing the agencies for increase in tuition rates for these transactions, the District's reported financial position appeared better than it actually was. For example,

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[1] See Appendix B for information on our sample selection.

had officials not accrued the $2.1 million as additional revenue in 2013-14, the District would have reported an operating deficit of approximately $2 million at year-end, instead of a $12,815 operating surplus.

**Recommendations**

District officials should:

1. Continue to closely monitor revenues, expenditures and fund balance throughout the year and take corrective action, when necessary, to avoid incurring expenditures in excess of available revenues.

2. Reconcile the individual accounts to the control account of accounts receivable and rectify any differences identified.

3. Implement procedures to eliminate long outstanding receivables from the accounting records and ensure that tuition revenue is accurately accounted for.

# APPENDIX A

## RESPONSE FROM DISTRICT OFFICIALS

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

**Greenburgh Eleven**
**Union Free School District**
P.O. Box 501
Dobbs Ferry, New York 10522-0501
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October 20, 2015

Ms. Tennah Blamah
Chief Examiner of Local Government and School Accountability
Office of the New York State Comptroller
Newburgh Regional Office
33 Airport Center Drive Suite 103
New Windsor, New York 12253

Dear Ms. Blamah:

The following is a response to the preliminary draft findings contained in the Report of Examination of the Financial Condition of the Greenburgh Eleven School District for the period from July 1, 2013 through April 21, 2015 by the Office of the New York State Comptroller. This response will also serve as the Corrective Action Plan for the District.

The Greenburgh Eleven Board of Education thanks the NYS Comptroller's Office for its acknowledgement of the District's effective tuition collection process, expenditure reduction efforts, and revenue monitoring procedures. It is the Board's continuing goal to improve District operations and ensure the District's long-term financial viability.

As a Special Act School District, Greenburgh Eleven is subject to a rate-setting methodology which largely determines its financial condition. The methodology establishes the tuition rate used by the District to bill sending school districts for the revenue used to support District operations. As the District's 10-month enrollment has decreased over the past eight years (from 376 students in 2008-2009 to 190 projected for 2015-2016), revenues have plummeted. This has resulted in inadequate revenues to support operations, and has required drastic reductions in the District's expenditures, from more than $19.1 million in 2008-2009 to a projection of $13.6 million for 2015-2016, a reduction of over $5.4 million. Changes in foster care and the reduced referral of students to residential treatment, combined with the retention of special education students by community schools, has limited our ability to increase enrollment. The District currently has $4.25 million in outstanding Revenue Anticipation Notes resulting from past borrowings to address revenue shortfalls, and cannot borrow additional dollars to support operations. Several tuition rate increases have been granted by the Rate Setting Unit of the New York State Education Department to address our revenue shortfalls, including one in June 2015, but they have not provided the total revenue needed to support District operations over the last four years. Each year, in light of reduced enrollment and inadequate revenues, the District carefully reviews all available financial alternatives, transparently selects options, and makes decisions in good faith.

The Comptroller's Office preliminary review of District operations focused on two findings: (1) the District retained prior-year revenue received from the NYC Board of Education to support current year operations and did not offset existing receivables; and (2) the District recorded the receivable of $2.1 million in revenue from the 2011-2012 cost screen waiver in its financial statements prior to receipt of an approved rate letter and did not record the revenue in the subsidiary accounts of districts to be billed for the tuition. These findings are factually correct. Although the New York State Comptroller's Office disagrees with the District's accounting practices, these actions were taken to protect the District's financial well-being after careful review by District management, the Board of Education, and the District's external auditors.

See Note 1 Page 12

In reference to the retention of prior year revenue from the NYC Board of Education, the District reviewed all outstanding Board of Education receivables for the five-year period covered by the revenue before utilizing it in 2013-2014 to support critical payroll and other operating expenses. Following retention of the revenue in 2013-2014, it was the District's intention to offset Board of Education receivables for the periods covered by the revenue during the 2014-2015 fiscal year. This action has been completed. The report indicates that District's financials were inaccurate due to a decision to retain the revenue and not reduce receivables. The District was transparent in its recording of the total amount of outstanding receivables at the end of the 2013-2014 and has correspondingly reduced outstanding receivables in its 2014-2105 financial statements.

In the matter of the recording of the cost screen waiver tuition rate increase in the District's financials, recording of the revenue was completed following communication between the District's external auditors and the Rate-Setting Unit of the NYS Education Department regarding approval of the tuition rate increase. Finalization of the approval was subsequently delayed due to an unexpected change in personnel at the Rate Setting Office. If the rate increase had not been approved during the 2014-2015 fiscal year, District revenue would have been reduced accordingly. Such a reduction was not required, however, as the cost screen waiver tuition rate increase was received and billed in June of this year, addressing all outstanding issues. Finally, the report's findings included that these revenues were not recorded in subsidiary school district accounts. This process was not permitted until invoices were generated for each sending school district, which has now been completed.

**Recommendations and Corrective Action Plan**

The report included three recommendations:

**Recommendation**: Continuation of the District's tuition collection, revenue monitoring and expenditure tracking activities to ensure that expenditures do not exceed revenues.

**Corrective Action:** This has historically been completed by the District on a monthly basis and will be continued.

**Recommendation:** Reconciliation of individual accounts to the control account of accounts receivable and rectify any difference noted.

**Corrective Action:** Reconciliations are routinely completed on a monthly basis and are reviewed with the District's external auditor at the end of every fiscal year. Reconciliation of the cost screen waiver to the subsidiary accounts was completed in June 2015.

**Recommendation:** Implementation of procedures to eliminate long-outstanding receivables.

**Recommendation:** Implementation of procedures to eliminate long-outstanding receivables.

**Corrective Action**: As planned, long-standing receivables were substantially reduced at the conclusion of the 2014-2015 fiscal year. Monthly receivables monitoring procedures have been enhanced, and now include planning for the further reduction of outstanding receivables by the end of the 2015-2016 fiscal year.

As described above, corrective action related to the report's primary findings has been completed. Revenue from the NYC Board of Education payment has been applied against open receivables. Revenue from the cost screen waiver has been billed to sending school districts and recorded in the subsidiary accounts. Written documentation of the completion of corrective action was submitted to your office on October 1, 2015.

In conclusion, we thank the New York State Comptroller's Office for its recognition of the historic challenges faced by Greenburgh Eleven to ensure its financial stability. It is our hope that changes in the rate-setting methodology will permit Greenburgh Eleven, and all Special Act School Districts, to achieve financial stability and obtain the full financial support required to educate our at-risk students.

Sincerely yours,

David D. Howe
School Board President

## APPENDIX B

## OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

As a result of District officials' treatment of tuition receivable, the amount of accounts receivable reported on its financial statements was inaccurate.

## APPENDIX C

## AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the District's financial condition for the period July 1, 2013 through April 21, 2015. We extended our scope back to July 1, 2010 to review past financial trends. To accomplish our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed Board minutes for the audit period July 1, 2013 through April 21, 2015.

- We reviewed the District's policies and procedures for developing and reporting information relevant to financial and budgeting activities. This included gaining information on the fiscal responsibilities of District officials.

- We interviewed District officials to determine what processes were in place and gain an understanding of the District's financial condition and budget process.

- We reviewed, analyzed and established trends of tuition collected and respective care days billed on a weekly basis by verifying rates and enrollments for the 2010-11 through 2014-15 fiscal years.

- We reviewed the District's financial records and reports for all funds, including trial balances, balance sheets, budget reports and statements of revenues and expenditures for the 2010-11 through 2014-2015 fiscal years.

- We traced all bank transfers during our audit period from originating to destination banks.

- We verified tuition rates and revenue collected for the three largest institutions and traced paid invoices and respective rates to accounts receivable schedules. We examined approximately $2.5 million in tuition bills paid during the period July 1, 2014 through March 31, 2015, from a total of approximately $7.4 million that these institutions paid the District. We examined approximately 30 percent of the bills to the three institutions and selected three bills for each of the three largest agencies from the completed nine months during the 2014-15 fiscal year, which represented approximately 33 percent of the total tuition.

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

# OFFICE OF THE STATE COMPTROLLER
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Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller

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