With Mandatory Audits Complete, Fiscal Reforms are Needed

by Marianne Van Duyne, CPA, Audit Partner, R.S. Abrams & Co.

Now that the State Comptroller has completed its audits required by the "5-Point Plan," what have we learned – and what can we expect in future state audits?

The focus of the initial round of audits, which took five years, was on improving the internal controls of school districts. Audits by the Office of State Comptroller (OSC) will continue but with a different focus: cost savings and revenue enhancements.

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These upcoming audits will cover administrative staffing, energy savings, purchasing, employee benefits, transportation and other operational areas. They will also focus on best practices for cooperative and consolidated school services.

On the revenue side, OSC auditors will focus on Medicaid reimbursements, out of district billings for health and tuition and special education billings as well as state aid and capital project reporting.

The first round of OSC audits began in 2005 and concluded in March 2010. More than 5 percent of the audits resulted in favorable audits, 19 audits identified fraud and theft, and the vast majority of the audits identified areas for improvement. Many of the audits in this last category focused on computer controls, segregation of duties, salary and separation payments, procurement, claims auditing, budgeting, travel expenses, inventory controls and fund balance management.

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The state audit reports have not only provided recommendations for school officials, but also recommended improvements for policy makers to address in future legislation. This includes requiring school boards to approve changes in reserves, retirement and severance payments,

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stream-lining the claims audit and internal audit process, providing school districts and BOCES more opportunities for sharing services and allowing school districts to establish various reserves to plan for future expenses. None of these recommendations were adopted by the legislature in the 2010 legislative session.

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One of the most important proposed recommendations was to establish various reserve funds to plan for expenses such as teachers' retirement, other post-employment benefits, tax stabilization and bond indebtedness.

While school districts have addressed many of the recommendations from the OSC audits, others can only be addressed by modifying existing statutes. One of the more pressing issues is the $615.4 million of excess funds stranded in the Employee Benefit Accrued Liability Reserve (EBALR) that could be used to benefit taxpayers.

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Current statutes do not allow schools to transfer excess reserve funds back to the general fund, or to another post-employment benefits (OPEB) trust. Legislation has been proposed in the past and supported by many of the school affiliated associations, including but not limited to, the New York State School Boards Association, the New York State Council of Superintendents, the New York State Association

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of School Business Officials and the New York State Society of Certified Public Accountants. It is imperative that these groups continue to push for further legislation as this would greatly enhance the financial stability of our school districts.

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Legislation allowing the establishment of OPEB trusts would provide a mechanism to begin funding for future other post-employment benefits which is currently reported on the school district financial statements. Since districts currently do not have a mechanism for funding these liabilities, school district financial statements are negatively impacted. This may impact interest rates for borrowings in the future. OPEB trusts are permissible in several states and should be available to New York State as well.

Given the current economic climate, school districts should continue to support pending legislation and continue to monitor current school district operations for cost efficiencies and revenue enhancements.

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If both of these goals are met it would result on a win-win situation for the taxpayers as well as our educational programs.

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