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Superintendent

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April 27, 2017

Mr. Ira McCracken
Chief Examiner
Office of the State Comptroller
NYS Office Building, Room #3A10
250 Veteran Memorial Highway
Hauppauge, New York 11788

RE: Corrective Action Plan (CAP) related to Audit Report Number: 2016M-402

Dear Mr. McCracken:

On behalf of Hewlett-Woodmere Union Free School District, thank you for the opportunity to submit this Corrective Action Plan (CAP) related to the Financial Condition Report of Examination (the "Draft Audit Report" or "Report") for the period from July 1, 2012 through May 31, 2016.

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed.

Audit Recommendation:

1. *Adopt general fund budgets that include realistic estimates for appropriations.*

Implementation Plan of Action: We began the process of addressing "contingencies" during the development of the 2016-2017 budget and will continue this process. Specifically, the business office has been analyzing actual expenditure data over the past five years in order to develop budgets more in line with actual expenses. In particular, we are looking closely at the codes associated with special education programs, teachers' salaries, employee health insurance, and transportation. It is important to keep in mind that those surpluses and contingencies did not accumulate over one budget year. However, we are being aggressive about addressing this matter and believe it will be completely rectified by the end of the 2018-19 fiscal year. We fully expect by the end of 2018-19 fiscal year to be spending about 97.48% of our budget. Also of note, over the past five years, the District's budget-to-budget

increases have averaged about 2%. This year, for the second year in a row, the District is planning a zero percent increase in the tax levy.

Please see Appendix A, **Aligning Budget Appropriations to Actual and Estimated Expenditures**, which specifically illustrates our program to yield more realistic estimates of appropriations.

Implementation Date: Implemented and ongoing.

Person Responsible for Implementation: Superintendent, Assistant Superintendent for Business, and Board of Education

2. *Discontinue the practice of including contingency appropriation accounts in the District's budget.*

Implementation Plan of Action: Contingency appropriation accounts have been completely eliminated with the development of the 2017-18 budget.

Please see Appendix B, **Adopted 2017-2018 Budget** which reflects all applicable budget codes. It should be noted that contingency accounts identified during the OSC audit appear as line items with zero appropriations. Next year and going forward, these contingent account codes will no longer appear on budgetary reports.

Implementation Date: Implemented and ongoing.

Person Responsible for Implementation: Superintendent, Assistant Superintendent for Business, and Board of Education

3. *Discontinue the practice of adopting budgets that result in the appropriation of unrestricted fund balance that is not needed to fund District operations.*

Implementation Plan of Action: This recommendation will be addressed as a natural result of "right sizing" budget codes and adoption of budgets with more realistic estimates for budget appropriations. The 2017-18 budget has been designed to address this concern as well. As mentioned in response to recommendation 1, we are being aggressive about addressing this matter and believe it will be completely rectified by the end of the 2018-19 fiscal year.

Please see Appendix A, **Aligning Budget Appropriations to Actual and Estimated Expenditures**, for detailed information.

Implementation Date: Implemented and ongoing.

Person Responsible for Implementation: Superintendent, Assistant Superintendent for Business, and Board of Education

4. *Ensure reserve funds are financed in accordance with District standards and use any excess funds identified to benefit District residents in accordance with statutory requirements.*

Implementation Plan of Action: As acknowledged by the OSC, the establishment of reserves is an integral part of managing the District's fiscal health. Prior to the completion of the State's audit, the District began developing a comprehensive Reserve Fund Management Plan that outlines the strategy for each of the District's reserve accounts. These strategies include closing certain accounts, adjusting fund levels, and transferring funds to other established reserves. It also includes establishing a new capital reserve fund that will be the one and only capital reserve maintained by the District. This new reserve will help with the transfer and redirection of funds from existing reserve accounts as well as facilitate the closing of selected reserves. We have a proposition on the ballot for the budget vote on May 16, 2017 to seek voter approval to establish this new capital reserve as well as identify the initial funding sources. Once approved, projects funded from this reserve can be accomplished without the need to borrow money or raise taxes. This action will also help to continue to "right size" any reserves that have been identified as overfunded.

Please see Appendix C, **Five Year Reserve Fund Management Plan**, for detailed information on each reserve account including dollar balances, disposition, notes, comments, and recommended actions through June 2021. Specifically, see page 16 of this plan which illustrates this course of action. Also see Appendix D, **Five Year Capital Projects Plan**, pages 6 -8, which illustrates the capital projects to be funded from this new reserve.

Implementation Date: Implemented and ongoing.

Person Responsible for Implementation: Superintendent, Assistant Superintendent for Business, and Board of Education.

5. *Transfer excess reserve funds to other legally established reserves, as applicable and permitted by statute, or use funds to reduce the tax levy.*

Implementation Plan of Action: We have worked with legal counsel to ensure that our reserve plan meets all legal requirements for the transfer of funds to other reserves. Counsel has also reviewed our reserve accounts to be sure they are being utilized as intended, as well as that reserve funds are used as they were intended under the law.

Please see Appendix C, **Five Year Reserve Fund Management Plan**, for detailed information on each reserve account including dollar balances, disposition, notes, comments, and recommended actions through June 2021.

Implementation Date: Implemented and ongoing.

Person Responsible for Implementation: Superintendent, Assistant Superintendent for Business, and Board of Education.

6. *Review insurance and liability coverages to identify potential gaps in coverage and evaluate the reasonableness of amounts in the property loss and liability reserve funds.*

Implementation Plan of Action: Hewlett-Woodmere Union Free School District, like many south shore Long Island school districts, suffered sizable losses due to Superstorm Sandy. Our insurance reserves assisted us in closing the coverage gaps that otherwise would have jeopardized our ability to make necessary repairs.

It is our understanding that the 3% maximum applies to the total in both the Property Loss/Insurance Reserve AND the Liability Loss/Insurance Reserve. We have reviewed our insurance requirements and are able to make adjustments in both reserves without placing the District at undue risk. As indicated on pages 5 and 6 of Appendix C, **Five Year Reserve Fund Management Plan**, the District will be transferring the excess dollars to help fund capital projects. The capital projects in question are included in a proposition to be approved by our voters on May 16, 2017. Also see Appendix D, **Five Year Capital Projects Plan**, pages 4 and 5, which illustrates the capital projects to be funded from transfer of reserves, existing reserves, and estimated fund balance at June 30, 2017. Once approved, projects funded from these reserves and other sources can be accomplished without the need to borrow money or raise taxes.

The Property Loss/Insurance Reserve will be reduced by \$2 million. These funds will be legally redirected to fund capital projects, leaving a remaining balance of approximately \$1.4 million.

In the Liability Loss/Insurance Reserve, \$1.5 million will be redirected to fund capital projects, resulting in a remaining balance of slightly more than \$1.5 million.

The resulting combined balances of these two reserves will not exceed 3% of our general fund budget, which is in keeping with the statutory requirements.

Implementation Date: Implemented and ongoing.

Person Responsible for Implementation: Superintendent, Assistant Superintendent for Business, and Board of Education.

7. *Review all reserves currently established and determine if the balances are necessary, reasonable and in compliance with statutory requirements. To the extent that they are not, the Board should reduce the balances in the reserves in the manner provided for by law to benefit taxpayers.*

Implementation Plan of Action: The reserve management plan reflected in Appendix C, **Five Year Reserve Fund Management Plan** addresses all of the recommendations by OSC. In developing the plan, we determined that balances are reasonable, necessary and in

compliance with the law. The result of this determination also includes transferring funds to other reserves as well as certain reserves being closed.

Please see Appendix C, **Five Year Reserve Fund Management Plan**, for detailed information on each reserve account including dollar balances, disposition, notes, comments, and recommended actions through June 2021.

Implementation Date: Implemented and ongoing.

Person Responsible for Implementation: Superintendent, Assistant Superintendent for Business, and Board of Education.

Recommendations from NYS Comptroller - District officials should:

8. *Ensure that all money expended from reserve funds is only for the purposes for which the reserve funds were established or as otherwise provided by law.*

Implementation Plan of Action: As the District begins to expend and draw down reserves as outlined in Appendix C, **Five Year Reserve Fund Management Plan**, expenses will only relate to the intended purpose of each reserve.

Implementation Date: Implemented and ongoing.

Person Responsible for Implementation: Superintendent, Assistant Superintendent for Business, and Board of Education.

9. *Develop a formal plan for the use of reserves, including how and when disbursements should be made and optimal or targeted funding levels.*

Implementation Plan of Action: The reserve fund management plan addresses all of the recommendations indicated here. It is important to note that this plan is a living document that will be reviewed regularly. It is expected that as situations and priorities change, adjustments will be made to this plan.

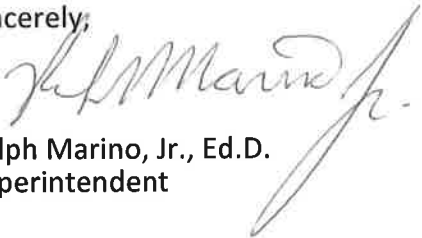
Implementation Date: Implemented and ongoing.

Person Responsible for Implementation: Superintendent, Assistant Superintendent for Business, and Board of Education.

The District appreciates and respectfully acknowledges the Comptroller's recommendations regarding our fiscal practices. As always, our goal is to maintain the exceptional education provided by Hewlett-Woodmere Union Free School District well into the future. Once again, thank you the opportunity to consider the recommendations made by your office and this resulting Corrective Action Plan.

Please feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ralph Marino, Jr.", written in black ink.

Ralph Marino, Jr., Ed.D.
Superintendent