



# Schenevus Central School District Budgeting

## Report of Examination

Period Covered:

July 1, 2012 — December 18, 2013

2014M-69



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

July 2014

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 Schenevus Central School District, entitled Budgeting. 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 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 Schenevus School District (District) is located in the Towns of Decatur, Maryland, Milford, Rosenboom and Westford in Otsego County. The District is a component district of the Otsego Northern Catskills Board of Cooperative Education Services, which provides various services to the District including central business office (CBO) functions. The District is governed by the Board of Education (Board) which comprises five 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Superintendent and CBO Business Official develop the budget and along with the Board monitor the budget throughout the year.

There is one school in operation within the District, with approximately 365 students and 75 employees. The District's budgeted appropriations for the 2013-14 fiscal year were \$7.73 million, which were funded primarily with State aid and real property taxes.

## Objective

The objective of our audit was to review the budgeting practices of the District. Our audit addressed the following related question:

- Did the Board adopt realistic budgets?

## Scope and Methodology

We examined the District's budgeting practices for the period July 1, 2012 through December 18, 2013. We expanded our scope back to July 1, 2008 and forward to February 11, 2014 to trend fund balances, budgets, revenues and expenditures.

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 is included in Appendix B of this report.

## Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c)

of the 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.

## Budgeting

A school district's financial condition is a primary factor in its ability to continue providing public educational services for its students. To fulfill this responsibility, it is essential that officials develop reasonable budgets and manage fund balance responsibly and in accordance with statute. The estimation of fund balance is an integral part of the budget process. Real Property Tax Law limits the amount of unexpended surplus funds<sup>1</sup> that can be legally retained by District officials to no more than 4 percent of the next fiscal year's budget. For taxpayer transparency District officials should provide actual information at budget voting time and should not appropriate fund balance that will not be used, in an effort to circumvent the statutory limit. Any fund balance in excess of 4 percent of the ensuing year's budget must be used to lower property taxes or transferred to reserve funds that are reasonable and in compliance with statutory directives. Districts may also establish reserves to restrict a portion of fund balance for a specific purpose, but must do so in compliance with statutory directives.

During the audit period, the Board did not adopt realistic budgets and, as a result, actually exceeded the 4 percent legal limit for the 2008-09 through 2012-13 fiscal years.<sup>2</sup> This was caused, in part, by the transfer of a portion of fund balance to a tax reduction reserve that was not formally established by the Board. In addition, the Board has excess money of \$85,440 in the debt service fund and \$33,000 in the capital projects fund; also, a portion of the \$239,000 in the insurance reserve could be excessive.

Actual expenditures were far less than budgeted. While the aggregate revenue variances were minor at \$47,990 (or 0.21 percent), during

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<sup>1</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54) and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

<sup>2</sup> The balance sheets for 2010-11 through 2012-13 show unexpended surplus funds to be within the statutory requirements. However, as described in our finding, the District's certified public accountants inappropriately transferred unexpended surplus funds into a tax reduction reserve that they created. This and other factors occurred, which would cause the true amount of unexpended surplus funds to exceed the statutory requirements.

fiscal years 2008-09 through 2012-13, the District had a total expenditure variance of approximately \$1.95 million (5.02 percent). The variance in expenditures was driven primarily by overestimating the accounts for the operation of plant, District transportation, students with disabilities and health insurance.

Furthermore, for each fiscal year between 2008-09 and 2012-13, the Board adopted general fund budgets that had planned deficits, meaning that the total estimated revenues were less than the total planned expenditures. However, the general fund generated surpluses instead of deficits for 2008-09 and 2009-10 and generated deficits that aggregated to about \$750,000 less than the planned deficits for the remaining three years (as shown in Table 1).

<b>Table 1: Results of Operations</b>						
	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14<sup>a</sup></b>
Revenues	\$7,568,448	\$7,929,911	\$7,521,063	\$6,844,887	\$6,998,393	\$7,442,637
Expenditures	\$7,343,101	\$7,546,460	\$7,800,343	\$7,129,077	\$7,185,773	\$7,619,410
Operating Surplus/(Deficit)	\$225,347	\$383,451	(\$279,280)	(\$284,190)	(\$187,380)	(\$176,773)
Budgeted Appropriated Fund Balance and Use of Reserves - Planned Operating Deficit	\$222,000	\$340,000	\$371,000	\$635,086	\$505,000	\$496,773

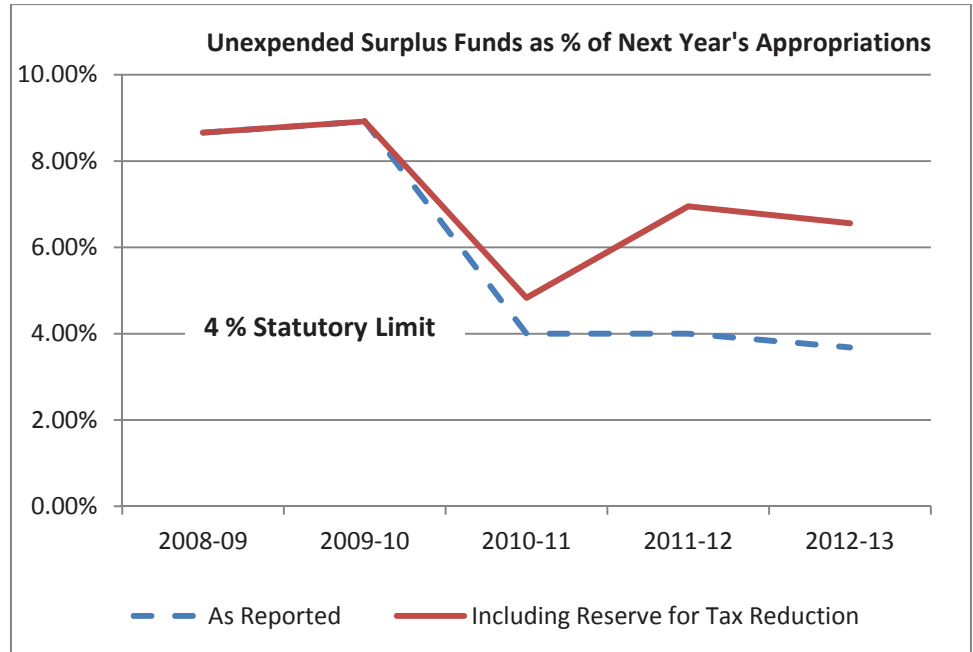
<sup>a</sup> 2013-14 are projected results based on most recent financial information at the completion of our fieldwork.

The 2013-14 budget is the first one prepared by the current Superintendent; however, based on our analysis, prior budgets were not based on previous years' actual figures. The Business Official and Superintendent told us that they overestimated various expenditures in the budget in case of unforeseen circumstances. Furthermore, when the budgets were put up for budget voting, the taxpayers were not provided with the previous year's actual revenues and expenditures for them to be able to make informed decisions during the budget voting process.

As a result, the District accrued unexpended surplus funds that were higher than the allowable 4 percent of the next years' budget for 2008-09 and 2009-10 and would have reported excess fund balance for the last three fiscal years had the District's certified public accountants (CPAs) not transferred a portion of the surpluses generated to a tax reduction reserve.<sup>3</sup> The Business Official informed us that the CPAs created this reserve to keep the funds over the 4 percent statutory limit in a separate reserve, which was then to be used to offset the next year's tax levy. However, there was no support in the Board minutes to indicate this reserve was formally established, and this

<sup>3</sup> In 2010-11, this reserve was referred to as other restricted fund balance.

reserve was not funded according to statutory requirements.<sup>4</sup> Further, this money was not used to reduce real property taxes until the 2013-14 fiscal year budget.



In addition to the tax reduction reserve, the District maintains a reserve for insurance with \$239,000 (as of June 30, 2013) that has no apparent purpose because, during our audit period, there were no expenditures that could have been paid from this reserve. In addition, as of June 30, 2013, there was a debt service fund with \$85,000 and a capital projects fund with \$33,000 from surplus debt proceeds that were no longer needed to pay off debt. The CBO Business Official confirmed the excess moneys noted above.

For 2013-14, the Board adopted a budget with a planned deficit of nearly \$500,000. However, based on the remaining expenditures and revenues received for the fiscal year, the District should generate a deficit of \$177,000. This will not reduce the District's unexpended surplus funds as much as planned.

District officials have accumulated excessive fund balances and not adequately reported the District's financial condition to the taxpayers. As a result, they have withheld significant funds from productive use and prevented taxpayers from making informed decisions during the budget voting process.

<sup>4</sup> This reserve is only authorized to be funded from sale of or appropriation of real property, after being used for any other legally required purpose.



## Recommendations

The Board should:

1. Adopt realistic budgets that are consistent with the District's actual revenues and expenditures,
2. Consider providing the taxpayers with the previous year's actual revenues and expenditures when the budget is put up for taxpayer approval,
3. Ensure that the District's unexpended surplus fund balance is in compliance with the legally allowed limit, which is currently 4 percent,
4. Review all reserve balances and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements; to the extent that they are not, transfers should be made to unexpended surplus fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives and
5. Develop a plan to reduce the amount of total fund balance in a manner that benefits District taxpayers, Such uses could include, but are not limited to:
  - Paying off debt,
  - Financing one-time expenditures and
  - Reducing District property taxes.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# SCHENEVUS CENTRAL SCHOOL

THOMAS G. JENNINGS  
Superintendent  
COLEEN M. LEWIS  
Pre-K-12 Principal

ANDREW S. DRAPER C.S.  
159 MAIN STREET



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KRISTEN M. SHEARER  
Guidance Director  
ROSE C. SHULGAY  
District Treasurer

July 14, 2014

Mr. Todd Eames  
Office of the State Comptroller  
Division of Local Government and School Accountability  
Binghamton Regional Office, Suite 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

Dear Mr. Eames:

This letter serves as the official response and action plan regarding the audit report covering July 2012 to December 2013. We recognize the time and effort of the audit staff in their review of the District's financial management procedures and welcome suggestions for improvement as we continue our efforts toward operational efficiency and programmatic efficacy. Each numbered recommendation will be addressed below.

1. The draft audit report recommends that the the Board of Education adopt realistic budgets that are consistent with the District's actual revenues and expenditures.

The District currently uses a standard of zero-based budgeting when developing budgets. These budgets reflect actual revenues and expenditures but also, prudently, plan for the unanticipated costs school districts are often faced with. The District has worked to improve the budgeting process and will continue to so.

2. The draft audit report recommends the Board of Education provide taxpayers with previous year's actual revenues and expenditures when the budget is put up for taxpayer approval.

The Board of Education reviews previous years' actual revenues and expenditures when developing budgets during its public budget workshops in March and April each year. This information will be made available to residents as a part of the budget book provided at the budget hearing preceding the budget vote and on the district website.

3. The draft audit report recommends that the Board of Education ensure the District's unexpended surplus fund balance is in compliance with the legally allowed limit, which is currently 4 percent.

The District will comply with regulations regarding unexpended surplus funds.

4./5. The draft audit report recommends that the Board of Education review all reserve balances and determine if the amounts reserved are necessary, reasonable, and in compliance with statutory requirements. To the extent that they are not, transfers should be made to unexpended surplus fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives. It is also recommended that the Board of Education develop a plan to reduce the total amount of fund balance in a manner that benefits District taxpayers.

The District has been running on an operating deficit ranging from \$175,000 to \$285,000 each budget year since the 2010-11 school year using fund balance and reserves to overcome state aid shortfalls. This was part of a thoughtful, planned, longterm approach to maintain programming for students. The District also significantly reduced spending by sharing services, postponing building maintenance and upgrades, making strategic reductions in faculty and staff and other efforts to reduce personnel costs including combining positions.

The District is currently reviewing its reserve balances and will continue to develop strategic plans for expending and funding its reserves in the future.

The Schenevus Central School District would again like to thank the audit staff for their suggestions.

Sincerely,

Thomas G. Jennings, Superintendent

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate District officials and employees, tested selected records and examined pertinent documents for the period July 1, 2012 through December 18, 2013. We expanded our scope back to July 1, 2008 and forward to February 11, 2014 to trend fund balances, budgets, revenues and expenditures.

Our examination included the following:

- We interviewed District officials and reviewed the meeting minutes, resolutions and budget newsletters to gain an understanding of the District's budget development process including fund balance and budget monitoring.
- We reviewed the District's audited financial statements and documented the trends in results of operations (revenues minus expenditures) for the general fund for 2008-09 through 2012-13.
- We compared budgeted revenues and expenditures to the actual revenues and expenditures for the general fund for 2008-09 through 2012-13. We also compared the 2013-14 budgeted revenues and appropriations to the previous year's actual revenues and expenditures to determine if District officials were budgeting reasonably.
- We analyzed the trend in total fund balance, including the use of appropriated fund balance and reserves in the general fund for 2008-09 through 2012-13. We also compared the unexpended surplus fund balances to the ensuing years' budgeted expenditures to determine if the District was within the statutory limit.
- We analyzed the reserves, debt service fund and capital projects fund for 2008-09 through 2012-13 to determine if they were properly established and used, if they were reasonably funded and if their ending balances were excessive. We also inquired to determine if District officials had any plans to use the excess balances.

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 C

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Gabriel F. Deyo, Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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