



Floral Park-Bellerose Union Free School District

Financial Management

Report of Examination

Period Covered:

July 1, 2011 — June 30, 2013

2013M-359



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	3
FINANCIAL MANAGEMENT	5
Budgeting	5
Unexpended Surplus Funds	6
Recommendations	7
APPENDIX A Response From District Officials	8
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage district resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of school districts statewide, as well as 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 costs and to strengthen controls intended to safeguard school district assets.

Following is a report of our audit of the Floral Park-Bellerose Union Free School District, entitled Financial Management. 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 school 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 Floral Park-Bellerose Union Free School District (District) is located in the Village of Floral Park in Nassau County. 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 District's chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the direction of the Board. The Assistant Superintendent for Business plays a key role in the budget development process and daily administration of the Business Office.

The District operates two elementary schools with approximately 1,600 students and approximately 185 employees. The District's general fund expenditures for fiscal year 2012-13 were approximately \$24.9 million, which were funded primarily with State aid and real property taxes.

Objective

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

- Have District officials effectively managed finances by ensuring that budget estimates and reserve balances are reasonable?

Scope and Methodology

We examined the District's financial management for the period July 1, 2011 through June 30, 2013. We expanded our scope to 2008-09 to analyze budgeting practices and fund balance 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 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 take 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 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 Management

The Board is responsible for making sound financial decisions that are in the best interests of the District, the students it serves and the taxpayers who fund the District's programs and operations. The Board, Superintendent and Assistant Superintendent for Business are responsible for accurately estimating budgetary appropriations. Surplus funds may be returned to the taxpayers by reducing the real property tax levy or may be transferred to the District's reserve funds. Prudent fiscal management ensures that reserve balances do not exceed what is needed to address long-term obligations or planned expenditures.

Over the past five years, District officials have consistently overestimated expenditures, totaling \$12.5 million. Although the Board appropriated unexpended surplus funds¹ each year (approximately \$10.3 million over a five-year period) to help finance the ensuing year's operations, District officials actually used \$2.5 million (24 percent) of unexpended surplus funds for District operations. The consistent overestimation of expenditures resulted in the District not using fund balance that was appropriated. This allowed District officials to make it appear that they were in compliance with the 4 percent statutory limit when, in fact, they were not.² As a result, the Board and District officials have not adequately reflected the District's financial condition to the taxpayers, and the District may have levied and collected more taxes than necessary to fund District operations.

Budgeting

The Board is responsible for preparing and presenting the District budget for voter approval. Budget preparation includes estimating revenues, expenditures and the amount of unexpended surplus funds available at fiscal year-end and determining the expected tax levy amount. Accurate estimates help ensure that the real property taxes levied are not greater than necessary.

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: non-spendable, 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, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

² Real Property Tax Law limits school district unexpended surplus funds to a maximum of 4 percent of the ensuing year's budget.

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. Unrealistic budget estimates can mislead District voters and significantly impact the District's year-end unexpended surplus funds and financial condition.

For fiscal years ending 2008 through 2013, the Board adopted budgets that overestimated expenditures by more than \$12 million (Table 1). Overestimated expenditures were spread throughout budget line items, but the largest variances were for instructional costs³ which were overestimated by approximately \$6.1 million (8 percent), employee benefits⁴ by approximately \$3.85 million (13 percent) and general services⁵ by approximately \$2 million (12 percent). Budgeted revenue estimates were more accurate, varying by only \$700,000, or one-half of 1 percent, over the five-year period.

Fiscal Year	Appropriations ^a	Actual Expenditures	Variances	Variance Percentage
2008-09	\$25,285,866	\$22,917,892	\$2,367,974	9.4%
2009-10	\$26,608,537	\$24,049,803	\$2,558,734	9.6%
2010-11	\$26,999,930	\$24,546,471	\$2,453,459	9.1%
2011-12	\$26,634,740	\$23,541,197	\$3,093,543	11.6%
2012-13	\$27,347,327	\$25,278,778	\$2,068,549	7.6%
Total Variance			\$12,542,259	

^a The appropriation figures used were obtained from the District's audited financial statements and include prior year's encumbrances.

Unexpended Surplus Funds Estimating unexpended surplus funds is integral to the budget process because it represents resources remaining from prior fiscal years that can be used to benefit District taxpayers. Any unassigned funds that exceed the statutory 4 percent limit should be used to lower real property taxes, increase necessary reserve funds, pay for one-time expenses or pay down debt.

District officials appropriated unexpended surplus funds that aggregated to approximately \$10.3 million over the past five years, which should have resulted in planned operating deficits each year. However, because expenditures were routinely overestimated, the District experienced smaller than expected operating deficits in three years and operating surpluses in two years. For that period, actual expenditures exceeded revenues by \$344,000, and \$2.5 million (24 percent) of appropriated unexpended surplus funds was used to finance operations, not the \$10.3 million that was budgeted.

³ Includes salaries, equipment and textbooks

⁴ Includes retirement contributions, social security, workers' compensation and health insurance

⁵ Includes expenditures for operation and maintenance of the school

Table 2: General Fund Operating Results and Appropriated Fund Balance

Fiscal Year	Revenues	Expenditures	Operating Surplus/(Deficit)	Fund Balance Appropriated	Fund Balance Used
2008-09	\$22,515,845	\$22,917,892	(\$402,047)	\$2,069,159	\$402,047
2009-10	\$22,613,452	\$24,049,803	(\$1,436,351)	\$2,930,604	\$1,436,351
2010-11	\$23,843,365	\$24,546,471	(\$703,106)	\$2,200,000	\$703,106
2011-12	\$24,865,218	\$23,541,197	\$1,324,021	\$1,260,000	\$0
2012-13	\$26,152,095	\$25,278,778	\$873,317	\$1,870,000	\$0
Total	\$119,989,975	\$120,334,141	(\$344,166)	\$10,329,763	\$2,541,504

The Board routinely overestimated expenditures and appropriated unexpended surplus fund balance that was not actually needed to sustain District operations. This made it appear that the District was staying within the 4 percent statutory fund balance limit. As a result, the District maintained more excess unexpended surplus funds than needed to fund future District operations. Because of this, the District levied and collected more taxes than necessary to fund District operations. The District maintained reasonable balances for both its employee benefit accrued liability reserve and retirement contribution reserve for the fiscal year ending June 30, 2013.

Recommendations

1. The Board should develop and adopt budgets that include realistic estimates for expenditures and unexpended surplus funds.
2. The Board should discontinue the practice of adopting budgets that result in appropriating unexpended surplus fund balance that will not be used to sustain District operations.
3. The Board should review the District's fund balance and develop a plan to reduce the balance to an appropriate level. Such uses could include, but are not limited to:
 - Increasing necessary reserves,
 - 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.

**Floral Park-Bellerose
Union Free School District**
ADMINISTRATION BUILDING
ONE POPPY PLACE
FLORAL PARK, NEW YORK 11001

TELEPHONE
(516) 434-2725

JAMES J. OPIEKUN
SUPERINTENDENT OF SCHOOLS

MICHAEL FABIANO
ASSISTANT SUPERINTENDENT FOR
BUSINESS

February 4, 2014

Mr. Ira McCracken, Chief Examiner
Office of the State Comptroller
Division of Local Government and School Accountability
New York State Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

Thank you to the Office of the State Comptroller and staff for their professional demeanor and conscientious review of the District's practices throughout this audit. Please consider this to be in response to the Audit Report completed by the Office of the State Comptroller for the period July 1, 2011 – June 30, 2013.

The District has reviewed the findings and recommendations set forth within the Report of Examination and agree with the findings in this report. The District is committed through its budgetary practices and strategic planning to sustain and enhance those programs and educational initiatives that serve as the basis for the Board of Education's commitment to the students of our community. The District is in agreement that it is important to develop realistic budget estimates in order to assure the efficient allocation of scarce educational resources. The Board has reviewed the District's fund balance and beginning with the 2012-13 operating budget has developed a multi-year plan to reduce the reliance on appropriated fund balance.

As stated, beginning with the development of the 2012-13 budget, the Board of Education working in conjunction with the Audit Committee and the Citizens' Budget Advisory Committee initiated a five-year strategic budget plan to address the observations highlighted in the Report of Examination. The goal of the District's fiscal plan is to continue to provide high quality education programs; to be accountable to the District's taxpayers; and to maintain a financially healthy District over the long term.

In an effort to maintain the long-term financial viability of the District, the Board of Education working with our administrative team has taken a three-pronged approach. The use of conservative budget practices and the surpluses that have been generated have been used to stabilize the tax rate by returning over \$2.5 million dollars back to the community in subsequent year's budgets; adding more than \$2.5 million to our reserves; and undertaking nearly \$7.0 million dollars in capital projects without the need to issue additional debt to finance these projects.

It is, as a practical matter, challenging to anticipate budgetary needs from year to year considering the many variables that affect the capacity of the District to estimate the revenues that may be available. It is the goal of the District that its five-year plan provide a capacity to sustain, as well as, enhance its curriculum and programs while seeking to prevent a fiscal shock to the budget.

Thank you for your consideration.

Sincerely,

Laura Ferone
President, FPBSD Board of Education

cc: Mr. James Opiekun, Superintendent
Mr. Michael Fabiano, Assistant Superintendent for Business
District Clerk

RECEIVED
OFFICE OF THE NEW YORK STATE COMPTROLLER
JAN 10 2013 10:00 AM

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objectives and scope by selecting for audit the area most at risk. We selected the Board's management of the District's financial and budgeting practices for further audit testing.

To accomplish our audit objective, we performed the following procedures:

- We interviewed District officials and employees to gain an understanding of District operations.
- We reviewed the policies and procedures regarding the District's budgeting process, reserve balances and fund balance.
- We obtained an understanding of the District's internal control environment and specific controls that are significant to the District's budgeting process.
- We reviewed recent annual financial statements, the accompanying management letters prepared by the District's independent public accountant and relevant budget reports.
- We compared the amounts reported in the District's externally audited financial statements with budget-to-actual reports to verify their reliability.
- We analyzed revenue and expenditure trends and budget-to-actual comparisons for the District's operating funds for the fiscal years 2008-09 through 2012-13 and calculated each year's unexpended surplus fund as a percentage of budgeted appropriations.
- We reviewed District reserve accounts and supporting documentations to determine the appropriateness of funding levels.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313