Office of the New York State Comptroller

Division of Local Government & School Accountability

Susquehanna Valley Central School District

Budgeting Practices

Report of Examination

Period Covered:

July 1, 2012 — February 18, 2014

2014M-136

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

**Division of Local Government
and School Accountability**

September 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 Susquehanna Valley Central School District, entitled Budgeting Practices. 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 Susquehanna Valley Central School District (District) is located in the Towns of Binghamton, Conklin, Kirkwood, Vestal and Windsor in Broome County. The District is a component district of the Broome Tioga Board of Cooperative Educational Services (BOCES), which provides various services to the District including central business office functions. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are four schools in operation within the District, with 1,611 students and 330 employees. The District's budgeted expenditures for the 2013-14 fiscal year are approximately $35.7 million, which are funded primarily with State aid and real property taxes.

Objective

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

- Did the Board adopt realistic budgets and use fund balance to lessen the burden of taxpayers?

Scope and Methodology

We examined the District's budgeting practices for the period July 1, 2012 through February 18, 2014. We expanded our scope back to July 1, 2008 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 C of this report.

Comments of District Officials and Corrective Action

The results of our audit and our recommendation have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials disagreed with our recommendation. Our comment on the issues District officials raised in their response is included in Appendix B.

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 Practices

Proper budget development begins with identifying and estimating the necessary expenditures to carry out the educational and other programs the Board provides to the District's students. The Board must next identify and estimate the revenues, other than real property taxes, that should be available to finance planned expenditures. School districts are required to use any fund balance in excess of 4 percent of the following year's appropriations to reduce the real property tax levy for that year. The budget must be structurally sound: recurring expenditures should be financed by recurring revenues.

The Board did not adopt realistic budgets from fiscal years 2008-09 through 2012-13. While District officials maintained unexpended surplus funds[1] in compliance with the statutory limit each year, they consistently overestimated expenditures and appropriated fund balance that was not used. This negated any benefit the appropriation of fund balance would have in reducing fund balance or the property tax levy. These budgeting practices were not transparent to taxpayers. Consequently, the District's effective unexpended surplus funds ranged from 4.6 percent to 6.9 percent during the audit period, which exceeded the 4 percent statutory limit each year, as indicated in Figure 1.

[1] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, committed, assigned and unassigned. 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).

Figure 1: Unexpended Surplus Fund Balance

Fiscal Year	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning Fund Balance	$3,470,316	$4,916,751	$6,711,105	$7,425,251	$7,800,811
Revenues	$32,267,331	$33,015,495	$32,410,073	$32,824,752	$33,269,744
Expenditures	$30,820,896	$31,221,240	$31,695,827	$32,449,190	$33,751,673
Operating Surplus/(Deficit)	$1,446,435	$1,794,255	$714,246	$375,562	($481,929)
Year-End Fund Balance	$4,916,751	$6,711,006	$7,425,351	$7,800,813	$7,318,882
Less: Unexpended Surplus Funds Appropriated for the Next Fiscal Year	$500,000	$700,000	$1,000,000	$1,000,000	$800,000
Less: Restricted Fund Balance	$3,092,928	$4,773,577	$5,198,046	$5,423,576	$5,212,394
Unexpended Surplus Fund Balance at Year End	$1,323,823	$1,237,429	$1,227,305	$1,377,237	$1,306,488
Unexpended Surplus Fund Balance as a Percent of the Ensuing Year's Appropriations	4.00%	3.72%	3.59%	3.97%	3.66%
Unexpended Surplus Fund Balance Plus Appropriated Fund Balance Not Used	$1,823,823	$1,937,429	$2,227,305	$2,377,237	$1,624,559
Ensuing Year's Appropriations	$33,115,124	$33,245,774	$34,171,638	$34,657,194	$35,695,248
Effective Unexpended Surplus Funds as a Percent of the Ensuing Year's Appropriations	5.51%	5.83%	6.52%	6.86%	4.55%

The District incurred operating surpluses ranging from $375,600 to $1.8 million in fiscal years 2008-09 through 2011-12. These operating surpluses occurred because the District spent $7.5 million less than budgeted and received $1.7 million more in revenues than anticipated. District officials stated that the budget results in these years were due to unanticipated savings in operations. The District achieved unanticipated savings primarily in health and dental insurance ($1.9 million), plant operations ($1.5 million) and special education ($1.3 million). The Board developed budgets based on the cost of anticipated staffing levels in the ensuing year; however, certain open positions were not filled.[2] District officials also continually budgeted for a potential increase in students with special needs that was not needed.

Although District officials budgeted revenues more consistently during the last five fiscal years, they continually underestimated certain items. For example, during this time the District received $758,000[3] more in refunds of prior year expenditures for BOCES and other items. District officials told us that they have difficulty

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2 District officials indicated that some of these open positions were for bus drivers and custodial staff that are difficult to fill due to lack of candidates.

3 $107,000 was a one-time refund of BOCES employee benefit accrued liability reserve funds.

projecting the BOCES refund and received unanticipated refunds from their health insurance consortium.[4]

From fiscal years 2008-09 through 2012-13, the Board adopted budgets that planned to use $3.7 million in fund balance to finance the budgets. Instead, the District generated operating surpluses totaling more than $4.3 million from fiscal years 2008-09 through 2011-12. In fiscal year 2012-13, the District incurred an operating deficit of $482,000 and used fund balance to finance the deficit. Therefore, the District actually used 13 percent of total appropriated fund balance in the five years reviewed. Due to the budgeted appropriation of fund balance to fund the ensuing year's operations, the District's unexpended surplus fund balance appeared to be in compliance with statutory requirements each year. However, when adding back the appropriated fund balance that was not used, the District exceeded the 4 percent limit in each year; its effective unexpended surplus fund balance ranged between 4.6 percent and 6.9 percent of the ensuing year's appropriations.

Because the District realized operating surpluses and did not use appropriated fund balance in four of the five years reviewed, taxes were levied unnecessarily. For example, the total tax levy increase from fiscal years 2009-10 through 2012-13 was $1.8 million; however, the District generated net surpluses totaling $3.8 million, or more than double the levy increases. Thus, District officials may have asked taxpayers to fund operations that had already been funded with surpluses from prior fiscal years.

At the conclusion of our fieldwork, District officials projected to use approximately $1.3 million in fund balance and reserves for the 2013-14 fiscal year, and we project the operations will result in a deficit of approximately $1.5 million. Therefore, it is likely that the District's results of operations will be more in line with the budget than in previous years, which will bring effective unexpended surplus funds within statutory requirements. The District budgeted to use $750,000 in appropriated fund balance ($50,000 less than the prior year) for its 2014-15 budget.

Recommendation

1. The Board should adopt realistic budgets that are consistent with the District's actual revenues and expenditures.

[4] These refunds were not budgeted for during the 2008-09 and 2009-10 fiscal years but were in subsequent years.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

SUSQUEHANNA VALLEY
CENTRAL SCHOOL DISTRICT
Office of the
SUPERINTENDENT

P.O. BOX 200 Conklin, New York 13748 Telephone (607) 775-9100
FAX # (607) 775-4575

August 8, 2014

Mr. H. Todd Eames, Chief Examiner
State Office Building, Suite 1702
44 Hawley St.
Binghamton, NY 13901-4417

Dear Mr. Earnes:

The Susquehanna Valley Central School District Board of Education and Administration submit this letter as its official response for the audit report "Budgeting Practices – Report of Examination – Period Covered: July 1, 2012 – February 18, 2014".

We are appreciative of the time and effort expended by the Comptroller's staff and are always looking for ways to improve the District's procedures. However, after reviewing this report it is evident that the District and the Comptroller's Office have differing opinions regarding budgeting practices. At all times the District was within allowable statutory limits and the amounts appropriated were used to mitigate tax impact. The Board of Education continues to believe in long range planning that is both transparent to the public and will ensure the fiscal stability of a viable educational program.

See Note 1 Page 11

The Comptroller's report states that the District consistently overestimated expenditures and appropriated fund balance that was not used. Budgeting is a process of estimating future expenditures based upon the information available at the time. Plain and simple there are a lot of variables and unknowns districts must account for when budgets are being developed. Susquehanna Valley along with other school districts across the state has encountered various levels of fiscal distress in a challenging environment. During the period reviewed districts experienced reductions in state aid through the Deficit Reduction Assessment and Gap Elimination Adjustment, reductions to yet be fully restored. The ability to raise revenue is limited by tax cap Legislation and is now complicated with new property tax freeze provisions enacted this year. Sustaining fiscal balance requires planning on a multiple year basis while anticipating and accounting for unfunded mandates, changes to regulations, reductions in state aid, and unanticipated expenditures. Given these fluctuating financial variables and reliance on state aid districts such as Susquehanna Valley are challenged to maintain stable budgets without criticism of having "too much" or "too little" as we contend with short and long term financial planning.

The District is in a downward trend as can been seen in the report issued. In the earlier years referenced to in the report, the District has had areas in the budget where expenditure savings were achieved and additional unanticipated revenues were received creating operating surpluses. Each year as part of the budget development process, the District has reviewed these areas and made adjustments by comparing actual expenditures to budgeted amounts. The amount of operating surplus has decreased over the past four years to a projected deficit of $1.5 million in 2013-14. Furthermore, during this time the District will have reduced appropriated fund balance from $1 million in 2010-11 to $750,000 in the 2014-15 budget.

If the District had not levied taxes during these periods, the District would have in fact created a more significant deficit position. Through the use of fund balance, the Board of Education has strived to mitigate peaks and valleys in an effort to stabilize taxes and to maintain educational programs.

Sincerely,

Gerardo Tagliaferri, Superintendent of Schools

Robert Strick, Board of Education President

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APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

Our report acknowledges that the District was technically within the 4 percent statutory limit for unexpended surplus fund balance. However, the District stayed within this limit by appropriating fund balance in the budget to fund the ensuing year's operations. Because the District achieved operating surpluses each year due to overestimated expenditures, it did not actually use all of the appropriated fund balance to fund operations. This negated any benefit the appropriation of fund balance would have in reducing fund balance and resulted in unnecessarily high property tax levies.

APPENDIX C

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 February 18, 2014. We expanded our scope back to July 1, 2008 to trend fund balances, budgets, revenues and expenditures. Our audit procedures 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 fiscal years 2008-09 through 2012-13.

- We compared budgeted revenues and expenditures to the actual revenues and expenditures for the general fund for fiscal years 2008-09 through 2012-13.

- We compared the 2013-14 budgeted revenues and expenditures to the average actual revenues and expenditures from fiscal years 2008-09 through 2012-13 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 fiscal years 2008-09 through 2012-13. We also compared the unexpended surplus fund balance to the ensuing year's budgeted expenditures to determine if the District was within the statutory limit.

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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