



Ripley Central School District Cost Savings and Budgeting

Report of Examination

Period Covered:

July 1, 2012 — August 28, 2014

2014M-361



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2015

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 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 Ripley Central School District, entitled Cost Savings and 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 New York State 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Ripley Central School District (District) is located in the Town of Ripley in Chautauqua 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 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. For 2012-13, the District had 308 students and 73 employees. For 2013-14, the District paid tuition for 134 students, grades 7 through 12, to attend a neighboring District and reduced staff to 35 employees.

Scope and Objective

The objective of our audit was to review cost savings and budgeting related to sending students to another school district for the period July 1, 2012 through August 28, 2014. We extended our review of certain financial records back to July 1, 2010 for projected tuition costs and the use of reserves. Our audit addressed the following related questions:

- Were overall costs to the District reduced by sending students to another school district?
- Did the Board adopt an appropriate budget reflecting the change in costs due to the tuition for students and the use of fund balance and reserves?

Audit Results

The District was able to reduce net costs by approximately \$452,000 by paying tuition and sending students in grades 7 through 12 to a neighboring school district. Due to the expected cost savings, the District decided to increase the in-house programming for students in kindergarten through sixth grade, costing approximately \$264,000, reducing the net cost savings to approximately \$188,000.

The Board adopted a budget for 2013-14 that reflected the change in costs due to tuition. The 2013-14 budget also reflected that the District anticipated having an operating deficit of \$200,000 and would, therefore, use available fund balance to fund expenditures. However, the District experienced a \$134,600 operating surplus, thus further increasing its fund balance. As a result, as of June 30, 2014, the District's unrestricted fund balance exceeded the statutory limitation¹ by \$491,912 or 6 percent.

¹ New York State Real Property Tax Law requires school districts to maintain their unrestricted fund balance at or below 4 percent of the ensuing year's appropriations.

Further, the District did not appropriate or use unemployment insurance reserve funds to pay for related expenditures or reevaluate its need to maintain such a substantial balance in the reserve, which totaled \$600,515 at the end of 2013-14. Finally, as of August 28, 2014, the Board had not yet adopted a multiyear financial plan.² The accumulation of fund balance beyond statutory limits and reserve funds without a reasonable plan increases the risk that funds may not be used in a manner that benefits District taxpayers.

Comments of District Officials

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.

² After fieldwork, the Board adopted a four-year plan on September 18, 2014.

Introduction

Background

The Ripley Central School District (District) is located in the Town of Ripley in Chautauqua 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 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.

For 2012-13, the District had 308 students and 73 employees. For 2013-14, the District paid tuition for 134 students, grades 7 through 12, to a neighboring District and reduced staff to 35 employees. The District's expenditures for 2012-13 and 2013-14 were approximately \$8 million and \$8.1 million, respectively, and were funded primarily with real property taxes, State aid and grants.

Objective

The objective of our audit was to review cost savings and budgeting related to sending students to a neighboring school district. Our audit addressed the following related questions:

- Were overall costs to the District reduced by sending students to another school district?
- Did the Board adopt an appropriate budget reflecting the change in costs due to the tuition for students and the use of fund balance and reserves?

Scope and Methodology

We examined financial records and reports for the period July 1, 2012 through August 28, 2014. We extended our review of certain financial records back to July 1, 2010 for projected tuition costs and the use of reserves.

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 New York State 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.

Cost Savings

District officials are responsible for managing the District's financial and educational needs. In 2011, the District began to investigate merging alternatives with other districts to offer more programs to students and decrease expenditures. After a vote by District residents in favor of paying tuition to send students to a neighboring district in February 2013, the District began sending students in grades 7 through 12 to the Chautauqua Lake School District for the 2013-14 school year. The District also began providing increased in-house programming for students in kindergarten through sixth grade, allowing for a net cost savings of approximately \$188,000.

Sending students to another district allowed the District to eliminate instructional, non-instructional and administrative positions along with stipends for extra-curricular activities and sports and to reduce salary, health insurance and retirement costs by approximately \$1.4 million.³ The tuition cost for 2013-14 was \$892,000,⁴ BOCES⁵ service costs increased by \$23,000, transportation costs increased by \$90,000 and unemployment costs increased by approximately \$68,000. The expected State aid increase for BOCES costs was \$19,000 and for transportation was \$81,000. Further, the District was able to lease excess space in the school building from December 1, 2013 through June 30, 2014 to the Town of Ripley for over \$9,000.⁶ In total, the District realized net cost savings of approximately \$452,000.

The District also reduced employee costs⁷ by approximately \$20,000 in the cafeteria fund. However, the cafeteria fund is still operating at approximately the same operating deficit⁸ as the fund was prior to transferring students, estimated at \$30,000, and continues to be subsidized by the general fund.

District officials indicated that, due to the expected cost savings, the Board decided to enhance in-house programming for students in kindergarten through sixth grade. The cost of these enhancements was approximately \$264,000, which includes new library books, a full time media specialist, a math specialist and additional teacher

³ Excludes transportation and cafeteria staff

⁴ Excludes payments made to Chautauqua Lake Central School District for special needs students billed by Boards of Cooperative Educational Services

⁵ Boards of Cooperative Educational Services

⁶ The Town of Ripley lease did not begin until December 2013.

⁷ Wages, FICA and retirement costs

⁸ An operating deficit occurs when expenditures exceed revenues.

aides.⁹ The net effect of the tuition savings and the enhancement costs was a cost savings of approximately \$188,000.

We commend the District for its cost savings initiatives.

⁹ A math specialist and teacher aides were originally planned to be laid off but were retained for programming needs. Enhancement costs are also expected to increase for 2014-15 with the addition of a summer program and two specialists.

Budgeting

The Board and District officials are responsible for adopting annual budgets that contain realistic estimates of expenditures and the resources available to fund them. The budgets should also reflect recent events, such as the cost savings discussed previously in this report. The Board and District officials must also ensure that fund balance does not exceed the amount allowed by law¹⁰ and that money is not held unnecessarily in reserves.

The Board adopted a budget for 2013-14 that reflected the change in costs due to the first year of tuition payments. However, even though the Board planned to use fund balance during 2013-14 to fund expenditures, the District instead experienced an operating surplus, thereby increasing unrestricted fund balance and exceeding the statutory limit by 6 percent. Further, the District did not appropriate or use unemployment insurance reserve funds to pay for related expenditures or reevaluate its need to maintain such a substantial balance. Finally, as of August 28, 2014, the Board had not yet adopted a multiyear financial plan.¹¹

Budgeting Estimates

The Board is responsible for preparing and presenting the District budget to the public for approval. In preparing the budget, the Board is responsible for reasonably estimating revenues and expenditures, determining how much fund balance will be available at the end of the fiscal year and determining the expected real property tax levy. Revenue and expenditure estimates should be developed based on prior years' operating results, past trends, anticipated future needs and projected changes in significant revenues or expenditures. Accurate estimates help ensure that the real property taxes levied are not greater than necessary. Unrealistic budget estimates can be misleading and have a significant impact on the District's year-end unrestricted fund balance and financial condition.

We compared the 2013-14 budget to the actual results and found that the budget reasonably reflected revenues and expenditures, including the changes due to the first year of tuition for students as discussed previously in this report.

Fund Balance

A school district may retain a reasonable portion of fund balance at year-end to use for cash flow, one-time expenditures or unexpected expenditures or to reduce the tax levy. However, New York State Real Property Tax Law requires school districts to maintain their

¹⁰ New York State Real Property Tax Law

¹¹ After fieldwork, the Board adopted a four-year plan on September 18, 2014.

unrestricted fund balance at or below 4 percent of the ensuing year's appropriations. Any unrestricted fund balance that exceeds the statutory limit must be transferred to legally established reserve funds or used to fund the next year's appropriations.

Prior to 2013-14, the District had unrestricted fund balance that exceeded the statutory limit by \$424,240.¹² For 2013-14, the Board anticipated an operating deficit and, therefore, budgeted to use \$200,000 to fund expenditures, but instead experienced an operating surplus that actually added \$134,635 to fund balance. This caused unrestricted fund balance to exceed the statutory limit by \$491,912 or 6 percent of the ensuing year's appropriations of approximately \$8.4 million.

Unemployment Insurance Reserve

The Board is authorized by statute to establish, by resolution, and to fund an unemployment insurance reserve to reimburse the New York State Unemployment Insurance Fund for payments made to claimants. The Board is responsible for ensuring that such a reserve, if established, is reasonably funded.

At the end of 2013-14, the District maintained an unemployment insurance reserve totaling \$600,515. Officials indicated this was to prepare for large expected expenditures relating to sending students to a neighboring District, which would cause employees to be laid off, thus increasing unemployment costs. However, the Board did not appropriate or use the reserve to pay related expenditures¹³ and the District did not incur the significant claims the Board and District officials anticipated.¹⁴ For 2014-15, the Board budgeted \$44,000 for unemployment expenditures without appropriating any reserve money to fund them. In addition, the Board did not reevaluate the need for the substantial balance in the reserve at the end of 2013-14.

Multiyear Financial Planning

Multiyear financial planning is a tool school districts can use to improve the budget development process. Planning on a multiyear basis will enable the Board and District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of near-term budgeting decisions on future fiscal years. It also allows the Board and District officials to assess the merits of alternative approaches, such as using fund balance to finance operations. Any long-term financial plan should be monitored and updated on a continuing basis to provide a reliable

¹² 2012-13 total unrestricted fund balance of \$748,882 was 9 percent of the ensuing year's (2013-14) appropriations of approximately \$8.4 million, exceeding the statutory limit by 5 percent.

¹³ Reported 2013-14 unemployment expenditures totaled \$70,500.

¹⁴ The District anticipated claims related to the significant number of positions that were abolished.

framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

As of August 28, 2014, the Board and District officials had not yet developed a written and detailed multiyear financial plan. However, District officials indicated they intended to decrease the tax rates each year by \$1.50 per \$1,000 of the equalized taxable assessed value of real property in the District by funding the budget with additional fund balance. We reviewed the decreases in the tax rates from 2013-14 through 2014-15 and found the decreases to be consistent with District officials' verbal plan.¹⁵ The Business Administrator stated that she was in the process of developing a written plan to be approved by the Board. Once a detailed plan is in place, it will be a useful tool for the Board to properly manage fund balance and reserves.¹⁶

The accumulation of fund balance beyond statutory limits and reserve funds without a reasonable plan increases the risk that funds may not be used in a manner that benefits District taxpayers.

Recommendations

The Board and District officials should:

1. Ensure that the amount of the District's unrestricted fund balance complies with the statutory limit.
2. Consider using unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - Reducing property taxes,
 - Increasing necessary reserves,
 - Paying off debt and
 - Financing one-time expenditures.
3. Ensure that the unemployment insurance reserve is reasonably funded and develop and implement a plan for using the excess in compliance with statutory provisions.
4. Monitor and periodically update the multiyear financial plan.

¹⁵ 2013-14 had a \$1.29 decrease and 2014-15 had a \$3.22 decrease. An additional decrease in the 2014-15 tax rate was due to a town-wide revaluation of town properties, completed in 2014, which increased assessed values by \$5.68 million.

¹⁶ After completing fieldwork, the Business Administrator created a four-year financial plan that was adopted by the Board on September 18, 2014. The plan also states that the Board intends to decrease the tax rate by an additional 1 percent for 2015-16 and then have the tax rate remain static through 2018-19.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Dr. Lauren J. Ormsby
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Every Day, Every Child, Every Minute Counts!

March 17, 2015

Mr. Jeffery D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Mr. Mazula;

The following is the response from the Ripley Central School District to the recommendations listed in your audit report covering the period between July 1st 2012 – August 28th, 2014.

Recommendation #1: Ensure the amount of the District's unrestricted fund balance complies with the statutory limit.

On September 18, 2014, the Ripley Central School Board approved a multi-year (4 year) financial plan. The plan will be monitored and updated regularly by the District.

Recommendation #2: Consider using unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include, but are not are limited to:

- *Reducing property taxes*
- *Increasing necessary reserves*
- *Paying off debt*
- *Financing one-time expenditures.*

The multi-year financial plan approved by the District includes plans to reduce property taxes. The District will consider all of these uses in future planning of expenditures.

Recommendation #3: Ensure the unemployment insurance reserve is reasonably funded and develop and implement a plan for using the excess in compliance with statutory provisions.

The District will review the unemployment insurance reserve and will develop a plan for using the excess in compliance with statutory provisions.

Recommendation #4: Monitor and periodically update the multiyear financial plan.

The District will follow recommendation and monitor and update the multi-year plan regularly.

Sincerely,

Lauren J. Ormsby, PhD
Superintendent

Ripley Central School District
12 North State Street, P.O. Box 688, Ripley, New York 14775

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our objective was to determine if the District realized cost savings by sending students to another district, if the Board developed budgets that reflect the change in the district's operations and if the Board properly managed fund balance and reserves.

To accomplish our cost savings objective and obtain relevant audit evidence:

- We reviewed and verified the reliability of expenditure and revenue status reports and stated cash balances.
- We interviewed officials and reviewed Board minutes to determine why the District pursued sending students to another district in grades 7 through 12.
- We calculated savings due to the change in operations using payroll registers, financial reports, contracts and interviews with District officials and employees.
- We calculated the cost of additional 2013-14 programs for kindergarten through sixth grade.

To accomplish our budgeting objective and obtain relevant audit evidence:

- We reviewed and verified the reliability of expenditure and revenue status reports and stated reserve transfers.
- We reviewed the budgeting practices for 2013-14 to determine if the budget accurately reflected the projected savings resulting from sending students to another district.
- We reviewed the budgeting practices for 2014-15 to determine if the budget was adjusted to reflect the actual results of 2013-14.
- We compared budget-to-actual reports for revenues and expenditures in the general and cafeteria fund for 2013-14 for large variances. We also compared the 2013-14 budget to the 2014-15 budget to determine if estimates were adjusted to reflect the prior year's actual results.
- We obtained financial reports and calculated unrestricted fund balance in excess of statutory provisions and analyzed reserve fund balances. We interviewed officials regarding their planned use of excess funds.

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.

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