



# Rome City School District Financial Management

## Report of Examination

Period Covered:

July 1, 2013 – January 31, 2015

2015M-215



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**

December 2015

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 Rome City 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 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

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### EXECUTIVE SUMMARY

The Rome City School District (District) is located in the City of Rome and Towns of Annsville, Lee, Verona and Western in Oneida County. The District is governed by the Board of Education (Board), which is composed of nine elected members. The Superintendent of Schools is the District's chief executive officer and is responsible, along with the Director of Business and Finance, for the District's day-to-day management under the Board's direction.

The District operates nine schools with approximately 5,500 students and 1,100 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$110.4 million, which are funded primarily with State aid, real property taxes and grants.

#### **Scope and Objective**

The objective of our audit was to examine the District's financial management practices for the period July 1, 2013 through January 31, 2015. We expanded our scope back to the 2011-12 fiscal year for trend analysis. We also reviewed the 2015-16 budget and the results of operations for 2014-15. Our audit addressed the following related question:

- Did the Board and District officials adequately manage the District's financial condition?

#### **Audit Results**

The District reported year-end unassigned fund balance at levels that essentially complied with the 4 percent fund balance limit for fiscal years 2011-12 through 2013-14. However, the mechanism for maintaining the District's unassigned fund balance close to or at the legal limit was not transparent to District residents. District officials appropriated fund balance that was not needed to fund the 2011-12 and 2012-13 budgets. Of \$11.2 million of fund balance appropriated in these two years, the District used about \$32,000. In addition, to reduce the unassigned fund balance to near the statutory limit in 2011-12, the Board retroactively approved transfers totaling about \$4.2 million to reserve funds after the fiscal year-end, rather than including such transfers in the proposed budget.

In 2013-14, the District adopted more realistic expenditure estimates and used \$5.6 million of the \$6.8 million of fund balance appropriated in the budget (82 percent). However, District officials closed out five of the District's seven reserve funds after year-end and transferred the moneys to unrestricted fund balance, reducing the total reserve balance from \$6.4 million (as of June 30, 2015) to \$1.9 million. These retroactive transfers were not transparent to the public because they were not made through the

budgeting process. Further, we found that nearly \$1.9 million of the transfers did not comply with legal requirements.

In the 2014-15 budget, the Board appropriated \$6.2 million of fund balance to help finance operations. However, as of June 30, 2015, the District did not need to use any of this appropriated fund balance and actually generated an operating surplus of over \$1.4 million. The District's practice of consistently appropriating significant amounts of fund balance that are not used diminishes the transparency of the budget process and potentially withholds those funds from being used to reduce taxes.

### **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 most of our findings and recommendations and indicated they would develop a corrective action plan.

# Introduction

## **Background**

The Rome City School District (District) is located in the City of Rome and Towns of Annsville, Lee, Verona and Western in Oneida County. The District is governed by the Board of Education (Board), which is composed of nine 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 the Director of Business and Finance (Director), for the District's day-to-day management under the Board's direction.

The District operates nine schools and has approximately 5,500 students and 1,100 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$110.4 million, which are funded primarily with State aid, real property taxes and grants.

The District received New York State education grants of \$200,000 each from the State Senate and Assembly during the 2014-15 fiscal year. The grants were to restore teaching positions and preserve programs at the high school. This audit was initiated as a condition of those grants.

## **Objective**

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

- Did the Board and District officials adequately manage the District's financial condition?

## **Scope and Methodology**

We examined the District's financial management practices for the period July 1, 2013 through January 31, 2015. We expanded our scope back to the 2011-12 fiscal year for trend analysis. We also reviewed the 2015-16 budget and the results of operations for 2014-15.

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 are 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 most of our findings and recommendations and indicated they would develop a corrective action plan.

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

# Financial Management

A school district's financial condition is a factor in determining its ability to provide educational services to students. The Board, Superintendent and Director are accountable for the use of District resources and are responsible for effective financial planning and management of District operations. District officials are responsible for developing reasonable budgets and managing fund balance in accordance with statute<sup>1</sup> and must manage the District's finances in a prudent manner, accurately depicting and reporting the District's financial activity while using available resources. Sound budgeting practices and fund balance management help ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and support long-term obligations or future expenditures. Districts may also establish reserves to restrict a portion of fund balance for a specific purpose and must use these reserves in compliance with statutory directives.

Although the District reported year-end unassigned fund balance at levels that essentially complied with the 4 percent fund balance limit for fiscal years 2011-12 through 2013-14, the mechanism for maintaining the District's unassigned fund balance close to or at the legal limit was not transparent to District residents. In the first two years of our audit period, District officials appropriated fund balance that was not needed, due to an operating surplus and a negligible operating deficit. When fund balance is appropriated as a funding source, it should finance a planned operating deficit<sup>2</sup> in the ensuing fiscal year. In addition, for two fiscal years, the Board retroactively approved transfers to reserve funds after year end (in 2011-12) and transfers from reserve funds to unrestricted fund balance (in 2013-14), rather than including such transfers in the proposed budget. We also found that \$1.9 million of transfers did not comply with legal requirements.

## Budgeting and Use of Fund Balance

The Board is responsible for preparing and presenting the District's budget to the public for approval. The proposed budget should include reasonable estimates of revenues, expenditures and the amount of fund balance that will be available at fiscal year-end (some or all of which may be used to fund the ensuing year's appropriations and reduce the tax levy).

<sup>1</sup> New York State Real Property Tax Law limits the amount of fund balance that can be legally retained by District officials to no more than 4 percent of the next fiscal year's budget.

<sup>2</sup> A planned operating deficit occurs when a board purposely adopts a budget in which appropriations are greater than anticipated revenues, with the difference to be funded with appropriated fund balance.

We compared the District’s budgeted revenues and expenditures with actual results of operations for 2011-12 through 2013-14. District officials consistently underestimated revenues during the three-year period, and they overestimated appropriations during the first two years. During 2013-14, the District overexpended the original budget, excluding carried-over encumbrances, by about \$506,000. According to District officials, this was partly due to an early retirement incentive offered by the District and payouts of accrued benefits, of about \$1 million.

**Figure 1: General Fund Budget-to-Actual Comparison**

	FY 2011-12	FY 2012-13	FY 2013-14	Totals
Actual Revenues	\$94,117,332	\$98,066,337	\$100,130,078	\$292,313,747
Estimated Revenues	\$92,167,754	\$96,526,906	\$98,471,325	\$287,165,985
Variance – Actual vs. Estimated Revenues	\$1,949,578	\$1,539,431	\$1,658,753	\$5,147,762
Percentage Variance – Actual vs. Estimated Revenues	2.1%	1.6%	1.7%	1.8%
Appropriations	\$98,711,180	\$101,227,415	\$105,236,015	\$305,174,610
Actual Expenditures	\$92,864,370	\$98,098,334	\$105,742,617	\$296,705,321
Variance – Appropriations vs. Expenditures	\$5,846,810	\$3,129,081	(\$506,602)	\$8,469,289
Percentage Variance – Appropriations vs. Expenditures	5.9%	3.1%	(0.5%)	2.8%
Overall Budget Variance	\$7,796,388	\$4,668,512	\$1,152,151	\$13,617,051
Operating Surplus/(Deficit)	\$1,252,962	(\$31,997)	(\$5,612,539)	(\$4,391,574)

As a result of the positive revenue and expenditure budget variances during 2011-12, the District generated an operating surplus of nearly \$1.3 million and did not use any of the \$6.5 million of fund balance that was appropriated in the budget. In 2012-13, expenditures exceeded revenues by about \$32,000, which was still significantly less than the District’s planned operating deficit (appropriated fund balance) of \$4.7 million. For the 2013-14 fiscal year, the District’s actual expenditures were closer to the adopted budget, so it used \$5.6 million of the \$6.8 million of fund balance appropriated in the budget.

The Board appropriated fund balance of \$6.2 million to help finance the 2014-15 budget. As of June 30, 2015, the District did not need to use any of this appropriated fund balance and actually generated an operating surplus of over \$1.4 million for the 2014-15 fiscal year. The District’s practice of consistently appropriating significant amounts of fund balance that are not used diminishes the transparency of the budget process and potentially withholds those funds from being used to reduce taxes.

Figure 2 shows the impact of the District’s annual operating results on fund balance and the level of reported unassigned fund balance from 2011-12 to 2013-14.

<b>Figure 2: Reported Unassigned Fund Balance</b>			
	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>
Beginning Fund Balance <sup>a</sup>	\$17,685,814	\$18,938,773	\$18,906,772
Revenues	\$94,117,332	\$98,066,337	\$100,130,078
Expenditures	\$92,864,370	\$98,098,334	\$105,742,617
Operating Surplus/(Deficit)	\$1,252,962	(\$31,997)	(\$5,612,539)
Year-End Fund Balance	\$18,938,776	\$18,906,776	\$13,294,233
Less: Appropriated Fund Balance for the Next Year	\$4,700,509	\$6,764,690	\$6,167,610
Less: Reserves	\$8,626,527	\$6,465,085	\$1,904,932
Less: Encumbrances	\$638,829	\$1,467,560	\$890,750
Unassigned Fund Balance	\$4,972,911	\$4,209,441	\$4,330,941
Ensuing Year's Budgeted Appropriations	\$101,227,415	\$105,236,015	\$107,473,835
Reported Unassigned Fund Balance as Percentage of Ensuing Year's Budgeted Appropriations	4.9%	4%	4%
<sup>a</sup> Including minor prior-period adjustments in beginning fund balances each year			

Although the District reported an unassigned fund balance that essentially complied with the 4 percent limit, the revenue and expenditure variances in 2011-12 and 2012-13 resulted in the District using little, if any, of the fund balance appropriated for those years. When the unused appropriated fund balance is added to the District's reported unassigned fund balance, the total fund balance maintained was, in effect, over the 4 percent limit at the end of 2010-11 and 2011-12. For example, in 2012-13 the District did not use \$4,668,512<sup>3</sup> of the fund balance it appropriated at the end of 2011-12 for the 2012-13 budget. When this unused fund balance is added to the reported June 30, 2012 unassigned fund balance of \$4,972,911, the effective unassigned fund balance is \$9,641,423, or 9.5 percent of the ensuing year's budgeted appropriations.

To maintain an unassigned fund balance close to the 4 percent limit at the end of 2011-12, the Board also retroactively approved transfers in October 2012 totaling \$4,167,429 to various reserve funds effective June 30, 2012, which increased the total reserve funds to about \$8.6 million at the close of the 2011-12 fiscal year. Although this reduced the unassigned fund balance as intended, transfers to reserve funds should be included in the annual budget and not funded at year-end through unassigned fund balance. Making clear provisions to raise resources for reserve funds explicit in the proposed budget will inform District residents of the Board's plan for funding reserves, which increases transparency.

District officials told us it is their goal to maintain an unassigned fund balance at the maximum statutory limit of 4 percent as a means to address unexpected cost increases relating to those items which may

<sup>3</sup> The District used \$31,997 of the \$4,700,509 of the fund balance appropriated in the 2012-13 budget.

have an impact on future budgets. When the District incurred a \$5.6 million operating deficit in 2013-14, the Board retroactively passed a resolution in October 2014 to close out five reserve funds as of the end of the 2013-14 fiscal year and transfer those balances – totaling \$4 million – to unrestricted fund balance. However, District officials did not comply with the statutory requirements when it transferred some of the money. In addition, they compromised the transparency of the budget process by using the reserve funds to finance most of the operating deficit rather than using the appropriated fund balance as indicated in the 2013-14 budget. While District officials disclosed, during a May 2014 budget presentation, that four of these reserves were projected to be depleted to \$0 as of June 30, 2014, they did not show the intended use of the reserves in the 2013-14 adopted budget.

## Reserves

A board may establish reserve funds in accordance with applicable laws to provide financing for specific purposes. Generally, the amount of money school districts can maintain in reserve funds is not limited. District officials may not withdraw or expend money from these reserve funds for any purposes other than those provided by law. When appropriations for transfer or use of reserve funds are not anticipated in the annual budget, a board resolution is generally necessary to authorize the transfer of reserve funds to another reserve fund or, when permitted, to apply excess funds to the budget appropriation for the next fiscal year. To ensure public transparency and guide its financial decisions, it is important that the Board adopt a written policy clearly communicating its rationale for maintaining reserve funds. Such a policy should address the establishment of reserve funds, objectives for each reserve established, optimal or targeted funding levels and conditions under which each fund's assets will be used, replenished and discontinued, even when not required by law.

The Board adopted a fiscal practices policy that states the District should have a healthy balance in reserve funds, but did not establish a percentage or specific dollar amount for each reserve. As of July 1, 2013,<sup>4</sup> the District had seven reserve funds: retirement contribution, employee benefit accrued liability reserve (EBALR), tax certiorari, workers' compensation, liability, unemployment insurance and insurance, with balances totaling over \$6.4 million. The District reduced the reserve balances to a total of \$1.9 million, as shown in Figure 3, at the end of the 2013-14 fiscal year.

We analyzed reserve activity for adherence to statutory requirements and found that the use of the EBALR<sup>5</sup> and tax certiorari reserve<sup>6</sup> was reasonable. However, five reserves (retirement contribution, workers'

<sup>4</sup> The school's fiscal year runs from July 1 to June 30.

<sup>5</sup> The District reported \$353,698 of compensated absences during the year and appropriately expended \$229,308 from this reserve.

<sup>6</sup> The District's records indicate current tax certiorari liabilities to be about \$530,000.

compensation, liability, unemployment insurance and insurance) had withdrawals totaling almost \$1.9 million that did not comply with statute.

**Figure 3: Reserve Funds**

Reserve Fund	Beginning Reserve Balances 2013-14	Appropriate Expenditures 2013-14	Inappropriate Reserve Transfer <sup>a</sup>	Ending Reserve Balances 2013-14
Retirement Contribution	\$2,076,834	\$1,649,556	\$427,278	\$0
EBALR	\$1,619,194	\$229,308	\$0	\$1,389,886
Tax Certiorari	\$844,057	\$329,011	\$0	\$515,046
Workers' Compensation	\$800,000	\$440,467	\$359,533	\$0
Liability	\$600,000	\$0	\$600,000	\$0
Unemployment Insurance	\$275,000	\$26,993	\$248,007	\$0
Insurance	\$250,000	\$0	\$250,000	\$0
<b>Totals</b>	<b>\$6,465,085</b>	<b>\$2,675,335</b>	<b>\$1,884,818</b>	<b>\$1,904,932</b>

<sup>a</sup> Transferred to unrestricted fund balance

Retirement Contribution Reserve – As authorized by General Municipal Law (GML), this reserve can only be used to pay retirement contributions to the New York State and Local Retirement System (NYSLRS). If the Board determines that the reserve is no longer needed, it may terminate the reserve fund by resolution. The resolution must transfer any moneys remaining to one or more reserve funds established pursuant to New York State Education Law (Education Law) or to a repair reserve fund established pursuant to GML.

As of July 1, 2013 the retirement contribution reserve fund had a balance of \$2,076,834. During the 2013-14 fiscal year, the District spent \$1,649,556 of its operating funds to pay NYSLRS contributions. On October 22, 2014, the Board authorized the transfer of the remaining balance of \$2,076,834 from this reserve to unrestricted fund balance. \$427,278<sup>7</sup> of this transfer was not in compliance with GML because it was not used to fund NYSLRS contributions and was not transferred to another reserve fund allowed by the statute. The Director told us that the Board decided to close this reserve due to reductions in the NYSLRS rates and to help offset expenditures in the 2014-15 and 2015-16 budgets. If the Board intended to use the remaining reserve balance of \$427,278 toward the 2015-16 budget, it should have left the money in the reserve fund and formally budgeted to fund contributions to NYSLRS from it.

Workers' Compensation Reserve – GML authorizes the District to establish a reserve fund to pay for workers' compensation benefits; medical, hospital or other expenses authorized by the New York State Workers' Compensation Law; and the expenses to administer a workers' compensation self-insurance program. If, at the end of a

<sup>7</sup> \$2,076,834 - \$1,649,556 = \$427,278

fiscal year, the amount of the fund exceeds the amounts required to be paid for benefits and expenses, plus any additional amount required to pay all pending claims, the excess balance can be transferred to another reserve fund or applied to the ensuing year's budgeted appropriations. The decision to transfer must occur within 60 days of the close of the fiscal year.

As of July 1, 2013, the workers' compensation reserve fund had a balance of \$800,000, and during the 2013-14 fiscal year the District spent \$440,467 from its general fund on related claims. On October 22, 2014, the Board authorized the transfer of the total \$800,000 balance to unrestricted fund balance. The Director told us the Board decided the reserve was no longer necessary because the District purchased a policy for stop-loss coverage.<sup>8</sup> We question \$359,533 of this transfer<sup>9</sup> because the District has \$1.4 million of pending claims. It is not clear that the stop-loss coverage and the annual appropriations will be sufficient to pay all pending claims.

Liability Reserve – Education Law<sup>10</sup> authorizes boards to establish and maintain a liability reserve<sup>11</sup> to cover payments for liability claims. Once established, this reserve may not be reduced below the total amounts estimated to be necessary to cover incurred but unsettled claims or lawsuits, including related expenses. Payments may not be made for purposes other than those for which the reserve was established, unless authorized by public vote. A board may authorize use of the reserve funds (other than amounts allocated for unsettled claims or suits including related expenses) to pay premiums for insurance policies purchased to insure subsequent losses in areas previously self-insured, in the event of dissolution of the self-insurance plan.<sup>12</sup>

The District established a liability reserve for claims related to asbestos removal from the former high school building. On October 22, 2014, the Board authorized the transfer of the reserve balance totaling \$600,000 to unrestricted fund balance without acquiring voter approval. The Director told us there are no outstanding or pending liability claims related to the asbestos removal and, therefore, District officials thought a vote to close the reserve was unnecessary. He also

<sup>8</sup> Under a "stop-loss insurance" policy, an insurer generally agrees to pay claims or indemnify the employer for losses incurred under a self-insured employee benefit plan in excess of specified loss limits.

<sup>9</sup> \$800,000 - \$440,467 = \$359,533

<sup>10</sup> Education Law Sections 1709(8-c) and 2503(1)

<sup>11</sup> The maximum amount allowed is 3 percent of the annual budget (exclusive of any planned balance), which equates to \$3,157,080 (3 percent of the District's 2014 budgeted appropriations of \$105,236,015).

<sup>12</sup> Pursuant to GML, a school district may also discontinue the liability reserve fund and transfer the unexpended balance to an insurance reserve fund.

told us that the transferred amount could be applied to pay for the annual general liability insurance premium costing about \$388,000. However, there is no indication that the purpose of this liability insurance would be to insure subsequent losses in areas previously self-insured, as required by Education Law. Without voter approval, this was an inappropriate transfer of \$600,000 of reserve funds.

Unemployment Insurance Reserve – GML authorizes this reserve fund to reimburse the State Unemployment Insurance Fund (SUIF) for payments made to claimants when a school district has elected the “benefit reimbursement” method of funding the cost of unemployment benefits. If, at the end of any fiscal year, the amount of the fund exceeds the amounts required to be paid into the SUIF, plus any additional amount to pay all pending claims, the Board, within 60 days of the close of the fiscal year, may elect to transfer all or part of the excess amount to another authorized reserve fund or apply the excess to the ensuing year’s budgeted appropriations.

As of July 1, 2013 (the beginning of the 2013-14 fiscal year), this fund had a balance of \$275,000. During that year, the District spent \$26,993 from the general fund on unemployment claims reimbursement. On October 22, 2014, the Board authorized the transfer of the total balance of \$275,000 to unrestricted fund balance. The Director told us that the Board decided to close this reserve fund as the District had been annually budgeting for the unemployment reimbursement expenditures and had substantially increased this appropriation in the 2014-15 budget. Although \$26,993 expended from this reserve was for an appropriate expenditure, the District had pending claims of approximately \$59,200 at the time of the transfer. Therefore, the Board did not leave sufficient money in the reserve fund to cover the liability, as required. Further, the Board authorized the balance transfer 114 days after the close of the year. Therefore, it was an inappropriate transfer of reserve funds.<sup>13</sup>

Insurance Reserve Fund – GML authorizes this reserve fund to fund certain uninsured losses, claims, actions or judgments for which the district is authorized or required to purchase or maintain insurance. This reserve may be used to fund the payment of judgments and the uninsured portion of certain losses to property owned by a school district, as well as expenses for certain services. It may also be used to pay the cost of actions or claims that have been compromised or settled with judicial approval. If the amount of the settlement or compromise does not exceed \$25,000, then judicial approval is not required to

<sup>13</sup> The beginning balance of \$275,000 less pending claims of \$59,200 leaves a balance of \$215,800 which would have been allowed if the Board had transferred it within the required 60 days. Because the Board did not do so, only the current year’s expenditure of \$26,993 was appropriate.

fund the payment. GML authorizes the transfer of insurance reserve fund money to certain other reserve funds upon a determination that the fund is no longer needed and the discontinuance of the insurance reserve, but only to the extent that the money in the fund exceeds a sum sufficient to satisfy all liabilities incurred or accrued against the fund, as certified to the board by a district's fiscal and legal officers.

As of July 1, 2013, this reserve fund had \$250,000 and had no expenditures during the year. The Director told us there were no pending claims against this reserve. Although no certification of the sums sufficient to pay liabilities incurred or accrued against the fund was made to the Board, on October 22, 2014 the Board authorized the balance of \$250,000 to be transferred to unrestricted fund balance. The Director told us that the District was not using the reserve as designed and the Board decided to use the reserve fund to offset the annual insurance premium. This transfer was not a permitted use of an insurance reserve fund under GML, as money from this reserve cannot be transferred to fund general fund operations and can only be transferred to certain other reserve funds.

## **Recommendations**

The Board should:

1. Discontinue unnecessarily appropriating fund balance solely as a means of keeping unassigned fund balance within the statutory limit.
2. Ensure that budgets presented to District residents for approval are transparent and inform them of the District's intent to increase reserves by including appropriations that quantify such increases.
3. Update its fiscal practices policy to clearly communicate the Board's rationale for establishing reserve funds, objectives for each reserve fund established, optimal or targeted funding levels and conditions under which each reserve fund's assets will be used, replenished and discontinued in accordance with legal requirements.
4. Ensure that money is expended from reserve funds only for the purposes for which the reserve funds were established or as otherwise provided by law.
5. Discontinue its reliance on unbudgeted, retroactive transfers to or from reserve funds and include such transfers in the pending year's proposed budgets, as appropriate.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

The response letter references a specific page number in the report. Because the draft reviewed by District officials has been subsequently reformatted for final release, page numbers have changed.

# BOARD OF EDUCATION

## ROME CITY SCHOOL DISTRICT

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### MEMBERS

*Louis Daniello, President ♦ Jacqueline Favata, Vice President ♦ Karen Fontana, Clerk*  
*Paul Fitzpatrick, Paul Hagerty, John Leonard, Richard Miller, Timothy Safin, Larry Posselt*

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December 8, 2015

*Via E-Mail: [muni-syracuse@osc.state.ny.us](mailto:muni-syracuse@osc.state.ny.us)*  
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**Re: Rome City School District  
Audit Response and Corrective Action Plan**

Dear Ms. Wilcox and Taxpayers of the Rome City School District:

The Rome City School District is in receipt of the Draft Audit Report *Financial Condition* for the period of July 1, 2013 through January 31, 2015, prepared by the Office of the State Comptroller. On behalf of the Board of Education and the District administration, we would like to thank the Comptroller's staff for their professionalism and courtesy in conducting their duties associated with this audit.

The Rome City School District is committed to providing an excellent educational program that prepares students for college and career success in the 21<sup>st</sup> century. To this end, our budget development is guided by the following principles, reviewed and adopted by the Board during each year's budget calendar:

- Provide a strong educational program that prepares students for college and / or career success
- Improved student achievement
- Maximize available resources
- Seek savings through efficiencies
- Staffing based on enrollment and program needs
- Affordability to taxpayers
- Do not use one time funding sources for ongoing expenses
- Focus on long-term financial well-being of district

These principles have allowed us to maintain both educational excellence and financial stability through challenging economic times.

The Rome City School District has always welcomed the opportunity to review and strengthen our financial practices and oversight. We have worked diligently over the past several years to update policies, strengthen internal controls, and develop budgets that balance short term financial priorities with the long term financial well-being of the District. To that end, we have developed and maintained long term financial projections that guide our decision making. We communicate clearly and often with the public about our financial strategies, and our annual budget materials seek to provide a transparent and engaging environment.

The State Comptroller's office spent eight months at Rome City School District reviewing our procedures, processes, and policies. As expected, the audit did not uncover any instances of fraud, or malfeasance with the School District Financial Management. The scope of the audit was to examine the District's financial management practices for the period July 1, 2013 through January 31, 2015. We work closely with our outside independent auditors to review our financial management practices, oversight procedures and financial condition. The District has reviewed the Comptroller's findings and recommendations of this audit and will take corrective action in certain areas. These will be outlined in our Corrective Action Plan.

This audit was required as a result of the District receiving grants in aid, in the amount of \$400,000, from Senator Joseph A. Griffo and Assemblyman Anthony Brindisi for the 2014-15 school year. The District welcomed the grant and the audit. The grant was necessary because the District had a shortfall of \$5.6 million in the 2013-14 school year and faced potential fiscal stress going forward. The financial shortfall was the reason the District decided to close various reserves. The District had 50 fewer positions in 2014-15 in order to help cope with this fiscal shortfall going forward. The scope of the audit was going to concentrate on the fiscal health of the District. The audit does not mention the grant, except for stating the district had a surplus of \$1.4 million in the 2014-15 year. We would like it noted that this surplus was due to successful contract negotiations by the Board of Education, federal grant monies, bond refinancing and the above mentioned grants in aid. If these events had not occurred, the District would have suffered another shortfall in 2014-15 and faced additional staff cuts, elimination of programs and/or a tax levy increase for the 2015-16 school year. It should also be noted that the Board of Education used this surplus to have zero cuts to staff and program and a zero percent tax levy increase for the 2015-16 school year. The children and taxpayers of the Rome City School District have lost over \$20 million in state aid due to the Gap Elimination Adjustment and much more due to the Foundation Aid being frozen.

The audit report focused on the District's budgeting and use of appropriated fund balance, a topic on which the District and the Comptroller's office have a difference of opinion. The Comptroller is of the opinion that the School District should deplete its appropriated fund balance annually. The School District and its external auditors respectfully disagree. The audit report contains a number of conclusions and broad statements that we believe reflect subjective opinions of the Comptroller's Office with respect to the District's financial management, specifically as they relate to financial planning, appropriated fund balance, and appropriate reserves. The Rome

City School District utilizes a long term budgeting strategy in which the appropriated fund balance mentioned in Comptroller's audit play an important role. Schools in New York State continue to be underfunded by State Aid and face additional limits to their revenue posed by the New York State property tax cap. The Rome City School District lost \$21.5 million dollars in state aid revenue due to the States gap elimination adjustment from 2009-10 through 2014-15 school years.

The School District Board of Education and Administration have made it clear to the voters and residents of the District that they do indeed utilize an appropriated fund balance as a budget tool, and that it is available in the event of unanticipated events such as special education increases, increased student enrollments, and unanticipated shortfalls of District revenues. This information is communicated in the popular budget document, the School District website, Board of Education meetings, and community presentations throughout the budgeting process. The District utilized, in fact, during the 2013-14 school year, \$5.6 million dollars of appropriated fund balance (see, figure "1", pg. 9 of Comptroller's report) for unanticipated expenditures. Absent the availability of the appropriated fund balance, the School District would have been required to reduce the subsequent year budget by program or staff cuts or increase real property taxes. Rather than impact the 2014-15 budget, the Board of Education and Administration depleted reserves to restore appropriated fund balance. As has been seen throughout the State, District's that have not had adequate fund balance and reserves have been forced to make drastic cuts to programs and services and or levy tax increases that exceed the tax cap.

The taxpayers from our School District recognize that the School Board and Administration are transparent with the public regarding the budget and finances of the District. The Board and Administration hold numerous public meetings concerning the budget and long term financial plans throughout the year. These meetings routinely include discussions about long term financial projections and the use of fund balance and reserves. The Board and Administration takes great pride in having open discussions with the public regarding the finances of the district. ([www.romecsd.org](http://www.romecsd.org))

#### **Comptroller Recommendation 1:**

Discontinue unnecessarily appropriating fund balance solely as a means of keeping unassigned fund balance within the statutory limit.

#### **District Response:**

The School District does not unnecessarily appropriate fund balance. The appropriated fund balance is a lawful budget tool along with estimated revenues to support the appropriations (expenditures) in the adopted budget. Throughout the budget process, The Board of Education and the Administration explain that appropriated fund balance is used to support any shortfall in revenues and/or unexpected increases in expenditures. During the 2013-14 school year, the School District utilized \$5.6 million of the appropriated fund balance to support expenditures in excess of revenues. Absent appropriated fund balance, estimated revenues would need to increased (including real property taxes), or budget reduction which would negatively impact the students, staff and taxpayers of the District.

However, the School District is aware of the Comptroller's recommendation and the Business Administrator will continue to monitor the amount of appropriated fund balance as an integral part of the budget process.

The District budgets for expenses that may be volatile and subject to external forces beyond the District's control. The budget is expected to fund educational programs to meet the needs of the students and community regardless of any changes in external factors which can lead to unexpected increases in the budget.

The Board of Education systematically reviews every budget line of the appropriations and adopts realistic estimates for expenditures. In addition, the Board of Education has built contingencies in to the budget to account for unexpected expenses. The contingencies allow the District to be prepared for unforeseeable increases to the budget due to various items such as increases in the number of special education students, fluctuations in utility prices, or health insurance premium increases, etc. The Board's philosophy is to leave enough flexibility in the budget to meet any worst case financial demands which may arise during the school year.

**Comptroller Recommendation 2:**

Ensure that budgets presented to District residents for approval are transparent and inform residents of the District's intent to increase reserves by including appropriations that quantify such increases.

**District Response:**

The District respectfully disagrees with the Comptroller's allegation that the School District is not "transparent" as it relates to the School District budget process. The School Board and administration hold over fifteen (15) meetings each budget year with the public and staff to review the School budget. At each of those meetings, the presentation discloses the estimated amount of appropriated fund balance and the estimated amount of the School District reserves.

The Comptroller recommends that "the District must convey its intent to increase reserves by including appropriations that quantify such increases."

The Office of the State Comptroller's Local Government Management Guide for Reserve Funds states that "Ideally, amounts to be placed in reserve funds should be included in the annual budget.... When appropriations for transfers to reserve funds are not anticipated in the annual budget, a governing board resolution is generally necessary to authorize the transfer of unexpended balances or surplus money into a reserve fund."

While Board resolutions were adopted, the District will strive to do so in a more timely manner.

Information regarding the District's use of reserve funds is made publicly available and posted on the District website. The Board takes pride in engaging the community in open discussions regarding all aspects of district finances, including planning and use of reserve funds. ([www.romecsd.org](http://www.romecsd.org))

**Comptroller Recommendation 3:**

Update its Fiscal Practices policy to clearly communicate the Board's rationale for establishing reserve funds, objectives for each reserve fund established, optimal or targeted funding levels, and conditions under which each reserve fund's assets will be used, replenished and discontinued in accordance with legal requirements.

**District Response:**

The Board's current policy 4003(1)(B) communicates the Board's rationale for establishing reserve funds, which is "To maintain the District's creditworthiness and protect it from unforeseen financial events and cyclical economic changes, the Board of Education supports maintaining a healthy balance in reserve funds and fund balance." District Policy 4003(1)(B).

As reported, the OSC Fiscal stress monitoring for 2014 [Link], the fund balance comparison (indicator 2) percentage of total fund balance of gross expenditures for the District was 12.5%. The average for comparable school districts was 24.1%, which demonstrates that the School District does not unnecessarily accumulate fund balance.

However, the Board will follow the Comptroller's recommendation and review its policies and update where the Board deems appropriate.

**Comptroller Recommendation 4:**

Ensure that money is expended from reserve funds only for the purpose for which the reserve fund was established or as otherwise provided by law.

**District Response:**

The District wants to be certain that the voters understand that the money that was transferred from the reserves remained within the District's appropriated fund balance. The District accepts this recommendation and will establish proper procedures to transfer funds out of and/or between properly established District reserves. The District acknowledges that the process followed to liquidate the reserves was not in accordance with the Comptroller's recommendations. However, the funds from the reserves remained in the School District's fund balance and allowed the School District to maintain staffing levels and educational programs in the subsequent year's budget without a significant tax levy increase.

For instance, two such transfers as a result of reserve retirements include the Workers' Compensation and Unemployment Reserves, which were closed since sufficient amounts were budgeted annually for these expenditures. Additionally, the purpose for which the Liability Reserve was established no longer applied, thus this reserve was retired. Another example includes the insurance reserve. This reserve was not used, and the premium for the insurance was budgeted for annually, necessitating the reserve fund's retirement and transfer.

Thus, the Audit Report's reference to expending money for purposes other than that for which the reserve fund was established does not accurately reflect the reserve transfers used as a basis for the criticism.

**Comptroller Recommendation 5:**

Discontinue its reliance on unbudgeted, retroactive transfers to or from reserve funds and include such transfers in the pending year's proposed budgets, as appropriate.

**District Response:**

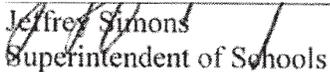
The School District accepts the Comptroller's recommendation and the Board will assure that its procedures and policies comply with all applicable timing requirements associated with reserve fund transfers.

**Conclusion:**

We would like to thank the Comptroller's Office for their thoroughness and professionalism over the course of the eight months that they spent in Rome.

The audit provides us with best practices associated with reserve funds, including the recommended mechanism and timing for reserve fund transfers. We have addressed in this response our plans to implement these recommendations. However, the District does not believe that the purpose of the Comptroller's Audit should be to substitute their judgment for that of the Board of Education and its administration in terms of overall financial management for the District. We reassert that Rome City School District has a transparent and prudent approach to utilizing reserves and fund balance to maintain the financial stability and program opportunity in our District, now and in the future. While we respect the Comptroller's opinions as to appropriate reserve levels, we strongly feel that our approach has and will continue to provide the best possible education for our students in a fiscally responsible manner.

  
Louis D'Amelio  
Board President

  
Jeffrey Simons  
Superintendent of Schools

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial management practices for the period July 1, 2013 through January 31, 2015. We expanded our scope back to the 2011-12 fiscal year for trend analysis. We also reviewed the 2015-16 budget and the results of operations for 2014-15. To accomplish the objective, we performed the following procedures:

- We interviewed Board members and District officials to obtain an understanding of the District's financial management practices, including budgeting, use of reserve funds and multiyear budgeting.
- We reviewed the general fund's results of operations for fiscal years 2011-12 through 2013-14.
- We compared the District's accounting records to the annual report (form ST-3) and the audited financial statements for reliability.
- We compared budgeted revenues and expenditures with actual revenues and expenditures for fiscal years 2011-12 through 2013-14.
- We evaluated the level of unassigned fund balance in the general fund for fiscal years 2011-12 through 2013-14 to determine whether the District complied with applicable statutes.
- We reviewed the District's 2014-15 fund balance projections and discussed the financial condition and related events with District officials to gain perspective on the District's current financial condition.
- We reviewed the District's reserve accounts and related expenditures to determine if reserves were being used according to statute and if reserve balances were reasonable.

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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