



# Malverne Union Free School District Fund Balance

## Report of Examination

Period Covered:

July 1, 2014 – March 1, 2016

2016M-120



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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

July 2016

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 Malverne Union Free School District, entitled Fund Balance. 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*

# Introduction

## Background

The Malverne Union Free School District (District) is located in the Town of Hempstead in Nassau County. The District is governed by a five-member Board of Education (Board) 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 District's day-to-day management under the Board's direction. The Business Administrator plays a key role in budget development and oversees the finances and daily accounting duties.

The District operates four schools with approximately 1,700 students and 400 employees. The District's 2015-16 general fund budgeted appropriations were \$53.5 million, funded primarily with real property taxes and State aid.

## Objective

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

- Did the Board and District officials effectively manage the District's fund balance?

## Scope and Methodology

We examined the District's general fund balance and reserves for the period July 1, 2014 through March 1, 2016. We extended our scope back to July 1, 2012 and forward to June 30, 2016 to trend and project revenues, expenditures and fund balance.

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 our recommendations and indicated they planned to initiate corrective action

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.

## Fund Balance

Fund balance represents resources remaining from prior fiscal years that can be used to finance the next fiscal year's budget, set aside in legally established reserve funds for specific purposes, or both. Part of effectively managing fund balance is adopting reasonable budgets to ensure real property levies are not greater than necessary and that unrestricted fund balance is within the statutory limit.<sup>1</sup> Additionally, districts are legally allowed to establish reserve funds and accumulate funds for certain future purposes (e.g., capital project, retirement expenditures). A reasonable level of unrestricted fund balance and reserve funds provides resources for unanticipated events and identified or planned needs. The Board is responsible for developing a formal plan for the use of its reserves, including optimal or targeted funding levels.

In general, District officials effectively managed the District's fund balance, including reserves. As of June 30, 2015, the District's unrestricted fund balance and reserves totaled \$2.1 million and \$8.2 million, respectively. District officials monitored the unrestricted fund balance and reserve balances on a regular basis to provide assurance they were staying within the statutory limit and maintaining reasonable reserve balances. The Board also adopted a formal reserve plan, including optimal funding levels, which District officials regularly updated. However, for the last three years, District officials adopted overly conservative budgets that, as a result, included the use of fund balance that was not needed and maintained a reserve that was overfunded.

From 2012-13 through 2014-15, District officials budgeted to use \$5 million of unrestricted fund balance. However, because the District experienced cumulative surpluses totaling \$1.5 million, the District used \$136,700. We compared budgeted revenues and appropriations to the actual revenues and expenditures<sup>2</sup> for 2012-13 through 2014-15 and found that certain expenditures, such as health insurance and out of District tuition costs, were consistently overestimated. In addition, the 2015-16 budget included overestimations for these expenditures. District officials told us they adopt conservative budgets to have some provision for unanticipated expenditures.

<sup>1</sup> Currently, the amount of unrestricted surplus funds that can be legally retained by a school district is no more than 4 percent of the next fiscal year's budgeted appropriations.

<sup>2</sup> The average variances were 2.4 percent for revenues and 2.5 percent for expenditures.

As a result, the unrestricted fund balance was slightly above or at the statutory limit for the last three years, and when the unused appropriated fund balance was added back, the District's recalculated unrestricted fund balance exceeded the statutory limit for 2012-13, 2013-14 and 2014-15 by 3.9, 2.7 and 2.0 percentage points,<sup>3</sup> respectively.

Additionally, District officials had seven reserves<sup>4</sup> with balances as of June 30, 2015 totaling \$8.2 million, which were used to fund applicable expenditures. We analyzed the District's reserves for reasonableness and found the unemployment insurance reserve to be excessive. The unemployment insurance reserve had a balance of \$881,900, which could fund almost 28 years of unemployment expenditures. District officials were aware this reserve was overfunded and told us they will continue to use this reserve and consult with their accountants to consider reducing the balance further.

While it is prudent to have some provision for unanticipated expenditures, it can be done by adopting a conservative budget, maintaining reserves or maintaining ample fund balance. Doing all three of these consistently may result in unnecessary increases in real property taxes.

## **Recommendations**

The Board and District officials should:

1. Continue to closely monitor the level of unrestricted fund balance to ensure that it complies with the statutory limit.
2. Continue to adopt budgets with more realistic expenditure estimates based on prior years' actual results and anticipated operations and discontinue the practice of adopting budgets that result in the appropriation of fund balance that is not used to finance District operations.
3. Review the unemployment insurance reserve balance and transfer excess funds to fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.

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<sup>3</sup> The recalculated unrestricted fund balance for 2014-15 is based on our projected results of operations for 2015-16.

<sup>4</sup> Unemployment insurance, retirement contribution, liability, compensated absences, capital, repairs and debt

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

**MALVERNE UNION FREE SCHOOL DISTRICT**  
**ADMINISTRATION BUILDING**  
**301 Wicks Lane**  
**Malverne, NY 11565**  
**516-887-6405**  
**FAX: 516-596-2910**



*Dr. James H. Hunderfund*  
*Superintendent of Schools*

Mr. H. Todd Eames, Chief Examiner  
Office of the State Comptroller  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, New York 13901-4417

Dear Mr. Eames,

This correspondence will serve as the official response from the Malverne Union Free School District regarding your draft Report of Examination during the period of July 1, 2014 – March 1, 2016. Please be assured that the Malverne Board of Education appreciates the efforts of your staff and the recommendations made to further strengthen fiscal controls. We will carefully consider the recommendations provided by your office in the audit report. The District will prepare and submit a corrective action plan within the required time period and implement corrective actions within an appropriate timeframe.

The District agrees with your recommendations to continue to closely monitor fund balance, reserves and budgeting. The Malverne Board of Education has been proactively and judiciously decreasing the amount of appropriated fund balance in the District's annual budgets over the last few years and also in the 2016-17 approved budget; it has been an ongoing goal of the Board to continue to improve the budgeting process and completely eliminate the use of appropriated fund balance. The District will continue to review its reserve funds and will transfer excess funds from the unemployment reserve to fund balance or other reserves established and maintained in compliance with statutory directives.

The Malverne Union Free School District wishes to express its gratitude for the Comptroller's assistance and guidance during the audit process, which will benefit the District and its

taxpayers. The District looks forward to future opportunities to work with the Comptroller's office.

Very truly yours,

  
Dr. James Hunderfund  
Superintendent of Schools

CC: Malverne Board of Education  
Mr. Christopher Caputo, Business Administrator

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and Board members and reviewed the District's reserve plan to gain an understanding of the District's budget process and plans for funding and usage of reserves.
- We compared budgeted revenues and appropriations to actual revenues and expenditures for the general fund for 2012-13 through 2014-15 to determine if budget estimates were reasonable and if any specific lines were consistently over or underbudgeted.
- We calculated the results of operations for the 2012-13 through 2014-15 fiscal years and compared our results to the appropriated fund balance to determine the amount of appropriated fund balance actually used to finance operations. We also projected revenues and expenditures to June 30, 2016 to project the results of operations using actual revenues and expenditures as of April 30, 2016.
- We calculated the general fund's unrestricted fund balance as a percentage of the ensuing year's appropriations to determine if the District was within the statutory limit during fiscal years 2012-13 through 2014-15 and the additional percentage amount when unused appropriated fund balance was added back.
- We analyzed the general fund's reserves and related expenditures for July 1, 2014 through March 1, 2016 to determine if the reserves were used and reasonably funded.

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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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Tracey Hitchen Boyd, Assistant Comptroller

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