



# Oswego City School District

## Financial Management and Nonresident Foster Student Tuition

### Report of Examination

Period Covered:

July 1, 2014 – December 31, 2015

2016M-224



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**

September 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 Oswego City School District, entitled Financial Management and Nonresident Foster Student Tuition. 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

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### EXECUTIVE SUMMARY

The Oswego City School District (District) is governed by the Board of Education (Board), which is composed of 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 District's day-to-day management under the Board's direction. Responsibilities relating to the District's finances are largely those of the Business Administrator.

The Business Administrator along with the Superintendent's office staff (Registrar) is responsible for identifying all foster students. The Business Administrator is also in charge of nonresident foster student tuition billing and the Delaware-Chenango-Madison-Otsego Board of Cooperative Educational Services assists the District with the billing process.

#### **Scope and Objectives**

The objectives of our audit were to review the District's financial condition and nonresident tuition for foster students for the period July 1, 2014 through December 31, 2015. We extended our scope back to July 1, 2012 to analyze the District's historical fund balance, budget estimates and financial trends and to identify nonresident tuition for foster students attending District schools. We also reviewed the 2016-17 adopted budget. Our audit addressed the following related questions:

- Did the Board effectively manage the District's finances and plan for future operational needs?
- Did District officials properly identify and bill for nonresident students in foster care attending District schools?

#### **Audit Results**

The District has maintained its unrestricted fund balance at the statutory limit in two of the last three fiscal years, and budgeted revenues and expenditures were generally reasonable. From 2012-13 through 2014-15, the Board appropriated fund balance and incurred planned operating deficits totaling \$7.4 million to avoid significantly raising taxes and to maintain education programs and staffing levels. As a result, the total fund balance declined from \$19.5 million at the beginning of 2012-13 to \$12.1 million at the end of 2014-15 (38 percent). To halt the decline and maintain fund balance at a healthy level, District officials took a number of steps in both the 2015-16 and 2016-17 budgets. For example, in 2015-16, District officials curtailed purchases and planned to use reserve moneys to cover a planned \$2.9 million operating deficit. As of February 2016, the District projected a significantly reduced

operating deficit of \$1.8 million for 2015-16. The Board also reduced appropriations by about \$3.3 million in the 2016-17 adopted budget, increased property taxes by 2.5 percent, and did not appropriate any fund balance or reserve funds to finance the budget.

While District officials have prudently managed the District's financial condition and taken appropriate action over the past three years, they will need to plan for a number of factors that will affect the District's finances in the coming years. These include declining revenue from payments in lieu of taxes, contract negotiations with labor unions, likely increases in health insurance costs and a general-fund receivable from the school lunch fund that is expected to be largely uncollectible. However, the Board does not have a multiyear financial plan to help it manage these issues. Such a plan is essential if the District is to maintain financial health and continue offering essential programs to its students.

We also found that the District does not have an effective process to identify all nonresident foster students receiving educational services and bill their school districts for those services. Foster students were not tracked in the Student Information System (SIS) and social service forms received at registration were not being used for foster student identification or billing. As a result, the District did not bill and collect about \$237,000 in reimbursement for students. Further, the District had 10 nonresident foster students eligible for tuition reimbursement for the 2015-16 fiscal year. Unless District officials take prompt action to bill the districts of origin for these students, it could potentially forgo another \$47,000 to \$125,000 in tuition reimbursements.

### **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 that they will initiate corrective action.

# Introduction

## Background

The Oswego City School District (District) is located in the City of Oswego, the Towns of Minetto, Oswego, Scriba and Volney in Oswego County and the Town of Sterling in Cayuga County. The District is governed by the Board of Education (Board), which is composed of 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 (Superintendent) 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 District operates seven schools with approximately 3,800 students and 680 full-time employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$82.8 million, funded primarily with real property taxes, payments in lieu of taxes (PILOT) and State aid.

The Business Administrator plays a key role in the daily administration of the District's finances including the budgeting process and identifying and billing for nonresident foster tuition. Several employees assist the Business Administrator with these functions. The Delaware-Chenango-Madison-Otsego Board of Cooperative Educational Services (BOCES) assists the District with the nonresident foster student tuition billing. The Superintendent's office staff (Registrar) is responsible for the registration of new students. The Special Program Department is responsible for the administration of special education services and programs.

## Objectives

The objectives of our audit were to review the District's financial condition and nonresident tuition for foster students. Our audit addressed the following related questions:

- Did the Board effectively manage the District's finances and plan for future operational needs?
- Did District officials properly identify and bill for nonresident students in foster care attending District schools?

## Scope and Methodology

We examined the District's financial condition and nonresident tuition for foster students for the period July 1, 2014 through December 31, 2015. To analyze the District's historical fund balance, budget estimates and financial trends and to identify nonresident foster students, we extended our scope period back to July 1, 2012.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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 that they will 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.

## Financial Management

The Board and District management are responsible for making sound financial decisions in the best interests of the District, the students it serves and the residents who fund its programs and operations. It is essential that officials develop reasonable budgets and long-term plans and manage fund balance responsibly. Sound budgeting practices coupled with prudent fund balance management can help ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. School districts may retain a portion of fund balance within the limits established by New York State Real Property Tax Law (law), which limits the amount of unrestricted fund balance a school district can retain to no more than 4 percent of the next year's budgeted appropriations.

The District has maintained unrestricted fund balance in the general fund at the statutory limit for the past two fiscal years. The Board used appropriated fund balance to finance its adopted budgets and incurred planned operating deficits totaling \$7.4 million from 2012-13 through 2014-15. As of February 2016, the District projected a \$1.8 million operating deficit for the 2015-16 fiscal year, which it plans to finance with reserve funds instead of appropriated fund balance. In an effort to end the decline in fund balance and maintain it at a healthy level, the Board also reduced appropriations by about \$3.3 million in the 2016-17 adopted budget and did not appropriate any fund balance or reserve funds to finance the budget.

Going forward, the District will need to plan for a number of factors that will affect its future finances, including declining PILOT revenue, contract negotiations with labor unions, likely increases in health insurance costs, and a receivable from the school lunch fund that is expected to be largely uncollectible. However, the Board currently does not have a formal multiyear financial plan, which would help guide the Board as it faces future economic and environmental challenges.

### Fund Balance

It is essential that the Board adopt structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. Districts are legally allowed to establish reserves and accumulate funds for certain future purposes (for example, capital projects or retirement expenditures). An appropriation of fund balance or reserves is the use of unexpended resources from prior years to finance budget appropriations and is considered a nonrecurring or "one-shot" financing source. Continued



use of fund balance to finance recurring annual operating deficits<sup>1</sup> will eventually deplete fund balance, forcing a district to find new revenue sources or cut costs.

Figure 1 illustrates the general fund’s operating results and fund balance over the last three completed fiscal years. The District has maintained its unrestricted fund balance at the statutory limit in two of the last three fiscal years, and budgeted revenues and expenditures were generally reasonable.

<b>Figure 1: General Fund Operating Results and Fund Balance</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Beginning Fund Balance <sup>a</sup>	\$19,459,761	\$16,458,346	\$14,513,093
Plus: Operating Surplus/(Deficit)	(\$3,001,411)	(\$1,945,270)	(\$2,440,984)
<b>Ending Fund Balance</b>	<b>\$16,458,350</b>	<b>\$14,513,076</b>	<b>\$12,072,109</b>
Less: Restricted Fund Balance	\$11,357,237	\$7,959,735	\$7,959,735
Less: Encumbrances	\$337,920	\$215,554	\$151,578
Less: Non-Spendable Fund Balance <sup>b</sup>	\$729,433	\$681,803	\$659,981
Less: Appropriated Fund Balance for the Ensuing Year <sup>c</sup>	\$2,740,263	\$2,460,000	\$0 <sup>d</sup>
<b>Unrestricted Ending Fund Balance</b>	<b>\$1,293,497</b>	<b>\$3,195,984</b>	<b>\$3,300,815</b>
Ensuing Year’s Budgeted Appropriations	\$78,240,412	\$79,900,000	\$82,847,354
Unrestricted Fund Balance as a Percentage of Next Year’s Appropriations	1.7%	4.0%	4.0%
<sup>a</sup> Includes minor prior-period adjustments <sup>b</sup> The general fund has loaned money to the school lunch fund over the past several years. Because the school lunch fund has a deficit fund balance and is unable to pay off the loans, the District has categorized \$659,981 of the accumulated \$951,300 accounts receivable from the school lunch fund as non-spendable fund balance in the general fund. <sup>c</sup> The Board appropriated fund balance of \$1.6 million at the end of the 2011-12 year for the 2012-13 budget. <sup>d</sup> The Board appropriated \$2.9 million of reserves for the 2015-16 budget.			

The Board appropriated fund balance in the 2012-13, 2013-14 and 2014-15 adopted budgets totaling \$1.6, \$2.7 and \$2.5 million, respectively, to finance planned operating deficits totaling nearly \$7.4 million over those three years. As a result, the total fund balance declined by 38 percent from about \$19.5 million at the beginning of 2012-13 to \$12.1 million at the end of 2014-15. District officials told us they appropriated fund balance in the District’s budgets to avoid significantly raising taxes while maintaining educational programs and staffing levels. District officials also told us it is the Board’s goal to maintain unrestricted fund balance at the 4 percent statutory limit. Accordingly, to increase unrestricted fund balance from 1.7 percent in 2012-13 to 4 percent at the end of 2013-14, the Board approved the liquidation of up to \$4.5 million excess funds in the tax certiorari

<sup>1</sup> Operating deficits occur when actual expenditures in a given year exceed actual revenues. An operating deficit can be planned for in the budget and financed by appropriating fund balance or reserve funds.

reserve to unrestricted fund balance as of June 30, 2014.<sup>2</sup> The District transferred \$3.4 million of the \$4.5 million from the tax certiorari reserve to unrestricted fund balance to get to the 4 percent limit.

As of June 30, 2015, the tax certiorari reserve had approximately \$2.3 million in excess funds available to appropriately transfer to unrestricted fund balance.<sup>3</sup> The Board appropriated \$2 million from the tax certiorari reserve in the 2015-16 budget, leaving a projected excess of about \$300,000 remaining in the reserve fund. Since the Board has not budgeted to use the entire excess from the tax certiorari reserve in the 2015-16 fiscal year, District officials should review and estimate the amount reasonably deemed necessary to settle current tax claims and take action to return any remaining excess to the unrestricted fund balance.

The Board did not appropriate any fund balance to finance the 2015-16 budget, but instead appropriated \$2.9 million in combined reserve funds (including the \$2 million budgeted from the tax certiorari reserve)<sup>4</sup> to balance the budget, and increased real property taxes by about \$2.7 million or 10.5 percent.<sup>5</sup> Further, in January 2016, the Business Administrator implemented a purchasing cut-off to control spending by limiting purchases to only those that are necessary for the remainder of the fiscal year. The Business Administrator also receives monthly fund balance projections from the Treasurer to monitor fund balance. As of February 2016, District officials projected a \$1.8 million operating deficit for the 2015-16 fiscal year (a significant reduction of the planned \$2.9 million operating deficit). They plan to use reserve moneys to cover the deficit so as to maintain an unrestricted fund balance that is close to the 2014-15 level.

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<sup>2</sup> New York State Education Law authorizes school districts to establish a reserve fund for the payment of claims in tax certiorari proceedings. A tax certiorari is a legal proceeding whereby a taxpayer who was denied a reduction in a property tax assessment, by either a local assessment review board or small claims procedure, challenges the assessment on various grounds. The District's tax certiorari reserve balance was \$6.6 million as of June 30, 2013 with potential tax certiorari claims totaling \$1.1 million as of March 2014 leaving approximately \$5.5 million in excess funds.

<sup>3</sup> The tax certiorari reserve balance was \$3.2 million as of June 30, 2014. With potential tax certiorari claims totaling \$884,280 as of April 2015, this reserve balance has an approximate excess of \$2.3 million.

<sup>4</sup> The Board also appropriated \$650,000 from the liability reserve, \$230,000 from the retirement contribution reserve, \$45,000 from the unemployment reserve and \$11,028 from the workers' compensation reserve.

<sup>5</sup> This increase in real property taxes was due, in part, to the District receiving about \$2.5 million less revenue in 2015-16 than in the prior year pursuant to a PILOT agreement executed in 2014-15 with Constellation Nuclear. Constellation Nuclear paid real property taxes in 2014-15 and began making PILOT payments in 2015-16. Because the payment method changed, we excluded the portion of the 2014-15 tax levy attributable to Constellation Nuclear when calculating the change in the tax levy from 2014-15 to 2015-16.

In an effort to end the trend of declining fund balance and to maintain fund balance at a healthy level, the Board again did not appropriate any fund balance in the 2016-17 adopted budget, and also did not appropriate any reserves. It reduced appropriations by about \$3.3 million (4 percent) from \$82.8 million in 2015-16 to \$79.5 million in the 2016-17 adopted budget. The Board’s plan to achieve the budget reductions includes cutting about 50 positions and eliminating certain sports teams. The Board also increased real property taxes by about \$704,000, or 2.5 percent in the 2016-17 budget. The District will continue to face additional financial challenges. Therefore, it will be important for District officials to continue to cut costs and increase revenues to balance future budgets.

## Long-Term Planning

It is important for District officials to develop a multiyear financial operating plan to estimate the future cost of ongoing services. Planning on a multiyear basis allows District officials to identify revenue and expenditure trends and set long-term priorities and goals. It also allows them to assess the impact and merits of alternative approaches to financial issues, such as accumulating money in reserve funds and using fund balance to finance operations. Any long-term financial plan should be approved by the Board and monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The District is facing a number of current and future challenges that it will need to address in the coming years:

- The District’s revenues will be reduced by a six-year PILOT agreement that was executed with the Nine Mile Point nuclear power plant (Constellation Nuclear) in 2015-16. Under the agreement, the PILOTs will continually decrease, totaling about \$8.9 million over five years.

Fiscal Year	Payment to District	Decrease
2014-15 <sup>a</sup>	\$25,534,686	
2015-16	\$23,000,000	\$2,534,686
2016-17	\$21,000,000	\$2,000,000
2017-18	\$17,000,000	\$4,000,000
2018-19	\$16,605,857	\$394,143
2019-20	\$16,605,857	\$0
<b>Total</b>	<b>\$119,746,400</b>	<b>\$8,928,829</b>

<sup>a</sup> The 2014-15 payment was included in the District’s real property tax levy. Constellation Nuclear began making PILOT payments to the District in 2015-16.

- The District has factored in the PILOT reductions into the 2015-16 and 2016-17 adopted budgets, but the revenue decrease of \$4 million in the 2017-18 fiscal year will have an even greater impact on the District’s next budget.

- The District is self-insured for health benefits. Over the past three completed fiscal years (2012-13 through 2014-15), the District's health insurance costs have increased from \$13.8 million to \$15.5 million (12 percent). These costs are expected to continue to increase.
- All four of the District's collective bargaining agreements expired on June 30, 2016. A multiyear plan could be useful in conducting labor negotiations; such plans would illustrate the projected effects of collective bargaining agreements on the District's bottom line.
- An interfund receivable is due from the school lunch fund totaling \$951,300.<sup>6</sup> As of June 30, 2015, the school lunch fund had a deficit fund balance of \$659,981 and officials told us it is unlikely the lunch fund will be able to repay the general fund the total amount due. As a result, these moneys transferred to the school lunch fund, or any moneys transferred in the future, will likely remain unavailable for general fund operations.

The Business Administrator told us she has developed long-term financial projections for the 2016-17 through 2020-21 fiscal years, for budgeting purposes, which she has informally discussed with the Board. However, the Board has not developed and approved a formal multiyear plan. In addition, the projections include comparisons to budgeted revenue and expenditure amounts for the 2013-14 and 2014-15 fiscal years rather than the actual results of operations, which would be more useful for estimating revenues and appropriations in long-term plans.

We encourage the Board and District officials to formalize a multiyear financial plan that includes actual historic results and to monitor and update the plan on an ongoing basis. A well designed plan can assist the Board in making timely and informed decisions about the District's programs and operations.

## Recommendations

The Board should:

1. Continue to closely monitor the District's financial condition and to explore and pursue opportunities where savings could be achieved or revenues increased.
2. Return any remaining excess funds in the tax certiorari reserve to the unrestricted fund balance in the general fund.

<sup>6</sup> \$659,981 has been classified as non-spendable fund balance in the general fund balance.

3. Develop and adopt a multiyear financial operating plan to provide a framework for future budgets and to facilitate the District's management of financial operations.
4. Develop a plan for the school lunch fund to pay back the outstanding interfund loans from the general fund or, if the Board determines the interfund loans cannot be repaid, either transfer (give) funds from the general fund to the school lunch fund to reduce the loans or write off the general fund receivable for the uncollectible school lunch amount.

## Nonresident Foster Student Tuition

Students typically attend public schools in the district in which they reside. However, school districts sometimes educate nonresident students, such as foster children who are placed in a district by a social service agency. The costs for services provided to nonresident foster children are initially borne by the district that provides the services (educating district). To recoup its costs, the educating district must seek reimbursement from the district of origin.<sup>7</sup> Accordingly, it is the educating district's responsibility to identify all nonresident foster students receiving services, determine which district of origin to bill, accurately calculate costs, and prepare and submit the necessary documentation in a timely manner.

The District does not have an effective process in place to identify all nonresident foster students receiving educational services from the District. Foster students were not tracked in the Student Information System (SIS) and social service forms received at registration were not being used for foster student identification or billing. District records on file identified 15 nonresident foster students eligible for reimbursement from July 1, 2012 through December 31, 2015, whereas 25 nonresident foster students were in fact eligible. As a result, due to weaknesses in the District's identification and billing process, the District did not bill and receive about \$237,000 from other school districts for eligible nonresident foster children who received educational services during the 2012-13 through 2014-15 fiscal years. Additionally, the District had 10 nonresident foster students eligible for tuition reimbursement for the 2015-16 fiscal year. If the District takes prompt action to bill the districts of origin for these students, we estimate the District could receive between \$47,000 and \$125,000 in tuition reimbursements, depending on the length of time the students remain enrolled during the 2015-16 school year.

### Identifying Nonresident Foster Students

The first step in the reimbursement process is to properly identify all nonresident foster children registered in the District. The District assigned two individuals as the District's Registrars who are responsible for ensuring that all required residency documentation is collected and reviewed and a student's status (as a foster child) is properly recorded in the SIS, which tracks and stores information and attendance data for all students who attend District schools. If the child's foster care status is not correctly documented at registration, there is a risk that proper reimbursement may never occur. In addition,

<sup>7</sup> The school district where the pupil resided prior to being placed in a foster home, agency boarding or group home

registration is the ideal point in time to collect certain documents that are necessary for reimbursement purposes for nonresident foster students. For example, a social services form that identifies the district of origin must be obtained before billing can occur for a nonresident foster child.

The District does not have an effective process in place to identify nonresident students who are in foster care. The District's registration process does not require the Registrars to obtain the social services form for foster children when they are first enrolled at the District, and the District does not use the SIS to identify or track students who are in foster care. When a social services form is provided to the District during registration, the Registrars forward the form to the Business Administrator who keeps it on file. The Business Administrator also receives an electronic list of foster students from Oswego County (County); however, because this list does not include students with a district of origin outside the County, it does not identify all the District's nonresident foster students. Although the Business Administrator retains the social services forms and also maintains various electronic files, there is no formal tracking process to identify nonresident foster students eligible for tuition reimbursement and most of the documentation kept by the Administrator was not used to initiate billings (see the Billing section).

We reviewed all available records (hardcopy and electronic) provided by the District<sup>8</sup> and requested foster student information from Oswego County and BOCES to identify the nonresident foster students who attended District schools from July 1, 2012 through December 31, 2015. In total, we identified 25 nonresident foster students who attended District schools during this period.<sup>9</sup> The Administrator had documentation for 15 of the 25 foster students. We identified the 10 additional foster students by reviewing information from the County, BOCES correspondence to the Business Administrator, and guardian and foster parent information captured in the SIS. To properly bill school districts of origin for nonresident foster tuition, the District must first develop an effective system to identify all nonresident foster students and to obtain the required social services forms.

To receive reimbursement, District officials must bill the school district of origin for all nonresident foster children who receive educational services at the District. The New York State Education Department (SED) publishes nonresident tuition rates (NRT) specific to each school district that can be used to calculate general education

## **Billing**

<sup>8</sup> See Appendix B for our methodology.

<sup>9</sup> We provided a list of the students to the Administrator, who confirmed the list was accurate.

and special education costs.<sup>10</sup> Because the final NRT rate is released after the completion of the fiscal year and is based on the actual data for the year, SED also publishes an estimated NRT rate (NRT EST), which is based on projected financial and attendance data. The NRT EST is appropriate for preliminary billing purposes; however, the preliminary billing should be adjusted once the final NRT rate is published.

The Business Administrator and County typically provide copies of the social service forms to BOCES. BOCES uses the forms it receives from the District, and any information it may receive from the County or other districts of origin, to estimate students eligible for reimbursement, calculate bills and provide them to the Business Administrator for review and mailing. The Business Administrator does not provide BOCES with a list of students eligible for reimbursement and there is limited communication between the Business Administrator, BOCES and Special Programs to help identify accurate enrollment periods of students requiring special services, which is information needed for proper billing. As a result, the accuracy, consistency and completeness of the bills estimated by BOCES is limited.

We determined that the District could have billed other school districts for educational services provided to 20 students during the 2012-13 through 2014-15 fiscal years,<sup>11</sup> but actually billed other districts for four students totaling \$40,805.<sup>12</sup> The District could have billed approximately \$221,000 for the 16 students who were not covered in the billings.

District officials used the estimated NRT rate to calculate the bills for the four students, and received payments for two of the students totaling \$30,876. District officials did not adjust all of the preliminary bills once the final NRT rate was published, and did not collect any payments for two of the students. As a result, the District might be eligible to re-bill and collect additional reimbursement of over \$16,000 for three of the foster students. In total, the District could have collected an additional \$237,000<sup>13</sup> in nonresident tuition for the 2012-13 through 2014-15 fiscal years had it established an effective billing process and monitored billings against payments received.

For the 2015-16 school year, the District had 10 nonresident foster students eligible for tuition reimbursement. Based on the estimated

<sup>10</sup> The calculation of these rates is based upon a formula prescribed by State regulation.

<sup>11</sup> In addition to the 20 eligible nonresident foster children who attended District schools during the 2012-13 through 2014-15 fiscal years, five more eligible foster children began attending District schools during the current fiscal year (2015-16).

<sup>12</sup> \$37,751 in the 2013-14 fiscal year and \$3,054 in the 2012-13 fiscal year. In addition to the four students whom the District did bill for, BOCES provided the District with billing information for three other students in foster care. We found no indication that the District sent the bills.

<sup>13</sup> \$221,000 + \$16,000 = \$237,000



NRT rate, we estimate the education costs eligible for reimbursement are approximately \$47,000 as of December 31, 2015. If all of these nonresident foster students remain enrolled at the District until the end of the 2015-16 school year, the District could potentially receive an additional \$78,000.

## **Recommendations**

District officials should:

5. Develop and communicate procedures to ensure that nonresident foster students are properly identified and that accurate bills are prepared and submitted to school districts of origin in a timely manner.
6. Bill or re-bill the appropriate school districts for services provided in past years to nonresident foster students. District officials should contact SED to determine if there is any limitation on previous years that can be billed.
7. Send estimated bills for nonresident foster tuition for the 2015-16 year as soon as possible, using the estimated NRT rate, and adjust preliminary billing calculations to reflect the actual NRT rate for final billings once those rates become available.
8. Develop procedures to monitor future billed invoices and ensure that moneys due are collected in a timely manner.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



August 17, 2016

Ms. Rebecca Wilcox  
Chief Examiner  
Office of the State Comptroller  
Syracuse Regional Office  
State Office Building, Room 409  
333 East Washington Street  
Syracuse, New York 13202-1428

Dear Ms. Wilcox,

Oswego City School District is in receipt of the draft report, Financial Management and Nonresident Foster Student Tuition for the period covered July 1, 2014 through December 31, 2015. The draft report was reviewed by the examiner with the Board President, Superintendent and Business Administrator on August 11, 2016. The District appreciates the time and due diligence spent on the review conducted. Your staff was courteous, professional and respectful throughout this process.

The District has been facing serious challenges in the last few years, due to a declining PILOT agreement with Constellation Nuclear Power. While the district is cognizant of the financial implications of declining revenue, we have taken steps to plan for this contingency. The Education Center has been put on the market, positions have been eliminated and the District is looking at health insurance options to mitigate continued use of reserves. While these steps have proven difficult, they have not affected the quality of education in the Oswego School District.

The District's financial plan was limited due to financial difficulties facing the district and bargaining contracts which have expired. However, the district has not been shortsighted with regards to future spending. Fiscal Stability and Sustainability is at the forefront of the Board of Education and Administration. Oswego School District is forward thinking in collaborating with other municipalities for cost savings measures. We have worked with the Oswego County Board of Elections to facilitate our school vote when levered machines were phased out and we are now working with the County of Oswego to facilitate walk in tax collections. Due to these and other cost savings measures the District was able to plan the 2016-2017 budget with no use of Fund Balance or Reserves.

While we appreciate the advisement on the tax certiorari reserve, we acknowledge that tax certiorari proceedings are not static. The District, with the help of their legal counsel, closely monitor all tax certiorari proceedings and have been drawing down on the Tax Certiorari Reserve to reflect potential judgements. The projected excess of \$300,000 will be reviewed pending

current tax certiorari cases. It may be necessary to maintain the current level of funding in this reserve.

Nonresident tuition billing has been a challenge in the District. We greatly appreciate the time that the examiners put into validation of our Foster Student population. The District is formulating procedures to ensure that all Nonresident Tuition has been billed to appropriate districts. The District has also back billed for all nonresident tuition identified for past years and to date has collected over \$90,000.00 in revenue. This process has been challenging in the face of a changing transient population. However, we will continue to closely monitor these students and have taken billing back into the Finance Department. The District is implementing a system for the identification of foster students at the point of central registration.

The District will develop a multi-year financial plan with consideration of the challenges associated with collective bargaining, Pilot agreements and the instability in the State Aid formula for Small City Schools. Finally the District will include in the long-range plan, the determination of the outstanding interfund loans from the school lunch fund.

The Oswego School District once again would like to thank the Comptroller's office for their fair and thorough examination of the District finances. We appreciate their acknowledgement of the steps the School Board and Administration has taken in halting the decline of its fund balance and reserves over the past three years. We continue to be diligent and thoughtful in sustaining our current educational standards. In closing, the District is respectful of the recommendations provided by the State Comptroller's office and will provide a corrective action plan to comply with the guidance provided. In our critical financial climate it remains the District's objective to maintain and support quality education for our students.

Sincerely,

Dr. Dean F. Goewey  
Superintendent of Schools

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed and analyzed the District's financial records and reports for the general fund, including annual budget documents, budget status reports and general ledgers. We analyzed the trend in total fund balance, including the use of appropriated fund balance and reserves in the general fund for the period 2012-13 through 2014-15. We also compared the unrestricted fund balance to the ensuing years' budgeted appropriations to determine if the District was within the statutory limit.
- We interviewed District officials and reviewed Board minutes to gain an understanding of the District's financial management procedures, including the budgeting process, budget monitoring, establishing long-term plans and using fund balance and reserves and to determine the cause of the fund balance decline.
- We reviewed the June 30, 2015 interfund loan balances, interviewed District officials and reviewed financial reports to assess fund repayment.
- We calculated the results of operations over the last four fiscal years by comparing actual revenues to actual expenditures. We determined whether the annual operating deficits were planned or unplanned.
- We compared general fund adopted budgets to actual revenues and expenditures for the fiscal years 2012-13 through 2014-15 to determine if the District's revenue and expenditure budget estimates were realistic. We also reviewed the District's fund balance projections as of February 18, 2016, and the 2016-17 adopted budget.
- We interviewed District officials to gain an understanding of who is responsible for each phase of identifying foster students and the associated billing process for nonresident foster students. We reviewed the social service forms on file at the District to identify 15 nonresident foster students eligible for District billing from July 1, 2012 through December 31, 2015. We also reviewed the electronic lists of all foster students provided by Oswego County and any BOCES correspondence to the Business Administrator to identify an additional seven students not included in the District's files. Lastly, we reviewed the District's SIS for foster parent, guardian and student information to identify three additional students.
- We reviewed information from the District's SIS to determine dates of attendance for use in calculating amounts billable. We also reviewed the bills for three foster students that the District generated in the 2013-14 fiscal year for accuracy and adherence to SED guidelines.
- We obtained SED approved tuition rates for nonresident students and calculated the reimbursement cost for the nonresident foster students we identified who were eligible for District reimbursement and billing.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX C

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