



# Otego-Unadilla Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2013 – May 14, 2015

2015M-245



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**

January 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 Otego-Unadilla Central School District, entitled Financial Condition. 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 Otego-Unadilla Central School District (District) is located in seven towns<sup>1</sup> in Otsego and Delaware Counties. 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<sup>2</sup> (Superintendent) is the District's chief executive office and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. The Business Official<sup>3</sup> plays a key role in the budget development process and the District's daily administration.

The District operates three schools with 911 students and 198 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$22.1 million, funded primarily with State aid, real property taxes and grants.

## Objective

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

- Did District officials properly manage the general fund's financial condition?

## Scope and Methodology

We examined the financial condition of the District's general fund for the period July 1, 2013 through May 14, 2015. We extended our scope back to July 1, 2012 to examine the District's financial condition and to provide additional information for perspective and background.

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

<sup>1</sup> Towns of Otego, Unadilla, Laurens, Oneonta, Butternuts, Sidney and Franklin

<sup>2</sup> The current Superintendent was appointed July 1, 2014.

<sup>3</sup> The Business Official retired as of July 31, 2015.

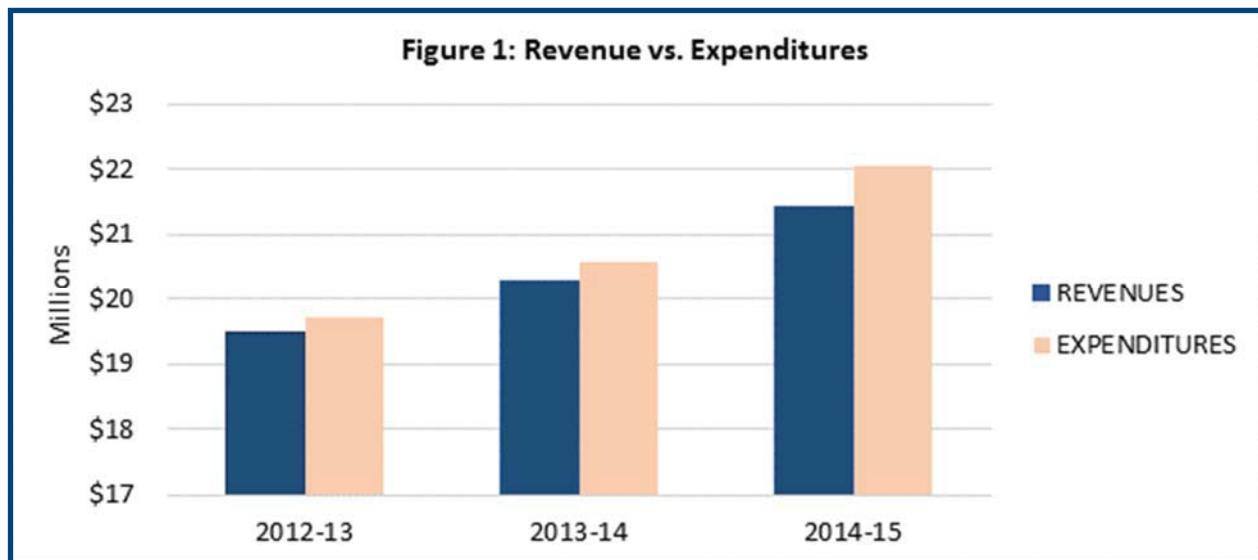
generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of 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 Condition

A school district's financial condition affects its ability to provide public educational services for its students. The Board, Superintendent and Business Official are accountable to District taxpayers for the use of District resources and are responsible for effective financial management of District operations. District officials should seek opportunities to identify cost savings that may minimize expenditures and reduce the burden to taxpayers. Proper management of District funds includes financing recurring expenditures with recurring revenues and not relying on fund balance to finance operations. Combining a reasonable level of unassigned fund balance with specific legally established reserve funds provides resources for both unanticipated events and other identified or planned needs.

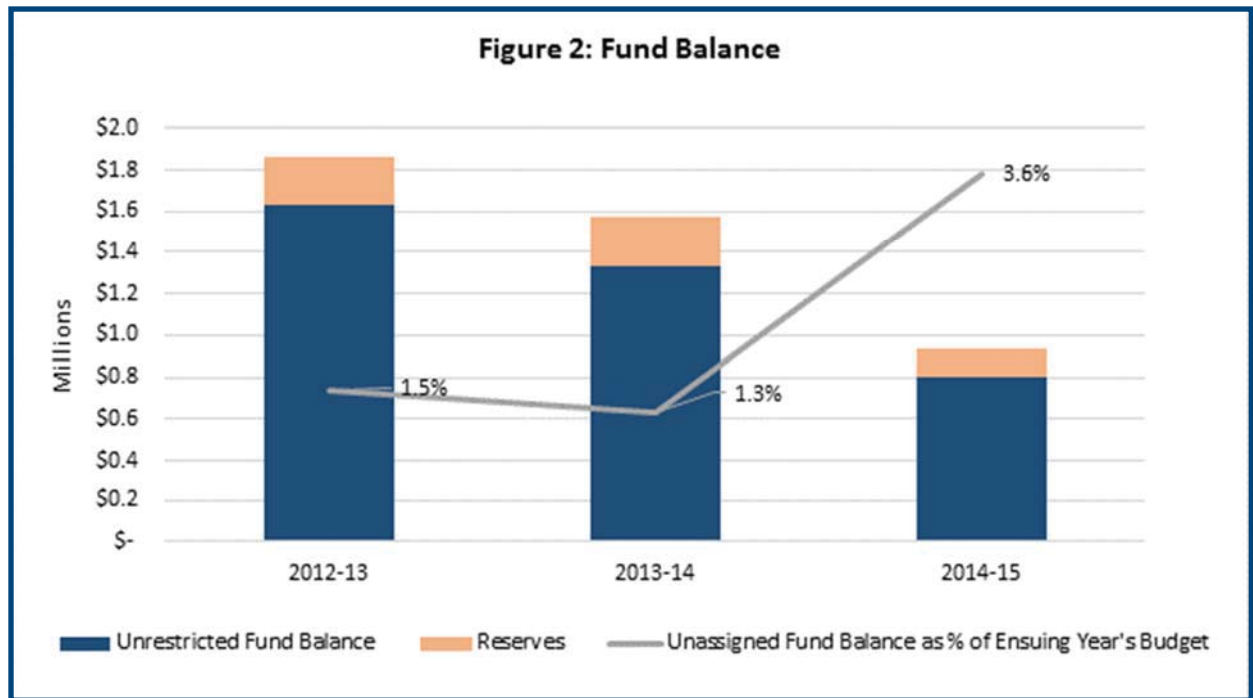
Although District officials have recently started to take measures to improve their financial condition, they did not properly manage the general fund's financial condition. Expenditure growth outpaced revenue growth by 20 percent from 2012-13 through 2014-15. While revenues increased an average of 5 percent annually, expenditures increased by 6 percent over the same period.



This expenditure growth was primarily caused by increases in personal service costs (8 percent) and employee benefits (17 percent). Personal service increases were due to negotiated pay increases as specified in employee contracts, while employee benefits increases were due to a significant rise in health insurance costs and contributions to the New York State Teachers' Retirement System (NYSTRS). For 2012-13 through 2014-15, health insurance expenditures on average made up almost 60 percent of employee benefit costs and increased by 10 percent over these years. NYSTRS contributions made up 20 percent

of the employee benefits and increased by 56 percent from 2012-13 through 2014-15.

Moreover, the District's total fund balance<sup>4</sup> dropped by 50 percent or \$931,000 from 2012-13 through 2014-15.



Although District officials estimated revenues and expenditures in the 2012-13 through 2014-15 budgets that were reasonable,<sup>5</sup> the adopted budgets were not structurally balanced. The 2012-13 and 2014-15 budgets included \$3.5 million of fund balance as a financing source to keep real property tax levies artificially low. This resulted in using \$1.2 million or 50 percent of fund balance to fund recurring expenditures. While the level of fund balance at the end of 2014-2015 was reasonable, further appropriations of fund balance could cause financial stress. The Board did not appropriate fund balance in its adopted 2015-16 budget and District voters approved overriding the tax levy limit.<sup>6</sup>

District officials are currently working on implementing cost-saving measures. For example, District officials converted to a less expensive health insurance plan which will save at least \$2.9 million<sup>7</sup> from the

<sup>4</sup> Unassigned fund balance went up to 3.6 percentage (\$786,753) of the next year's budget as of June 30, 2015 because fund balance was not appropriated in the 2014-15 fiscal year.

<sup>5</sup> For revenues, the average percentage difference from estimated amounts was less than 1 percent. For expenditures, the average percentage difference from budgeted amounts was approximately 5 percent.

<sup>6</sup> The law precludes school districts from adopting a budget that requires a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless 60 percent of District voters approve a budget that requires a tax levy that exceeds the statutory limit.

<sup>7</sup> This amount includes savings for active employees only.

2015-16 through 2018-19 fiscal years. Moreover, District officials contracted for a feasibility study in August 2015 to review the possibility and cost savings associated with closing school buildings. District officials told us there is sufficient space available and that they hope to avoid making at least \$2 million in repairs to one elementary school building.

If the decline in fund balance continues, the District's financial stability could become a concern. Recurring revenues are not sufficient to finance recurring expenditures. Without reducing expenditures or raising additional revenues, the District's fund balance will continue to deteriorate and may lead to the inability to provide adequate educational services to its students.

## **Recommendations**

District officials should:

1. Develop and adopt structurally balanced budgets with sufficient recurring revenues to finance recurring expenditures.
2. Continue to review and seek alternative ways to lower expenditures.



## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# UNATEGO CENTRAL SCHOOL

PO BOX 483  
2641 STATE HIGHWAY 7  
OTEGO, NEW YORK 13825-9795  
www.unatego.org  
FAX (607) 988-1039

Dr. David S. Richards  
Superintendent of Schools  
(607) 988-5038

Amber Birdsall  
District Treasurer  
(607) 988-5020

January 5, 2016

New York State Office of the State Comptroller  
Division of Local Governmental and School Accountability  
110 State Street  
Albany, NY 12236-0001

Ref: Otego-Unadilla CSD Audit Response Letter & Corrective Action Plan (CAP)

The Otego-Unadilla School District is in receipt of the Draft Audit Report *Financial Condition* for the period of July 1, 2013 through May 23, 2015, prepared by the Office of the New York State Comptroller. On behalf of the Board of Education and District Administration, we would like to thank the Comptroller's Staff for their professionalism and courtesy in conducting their duties associated with this audit.

It should be noted that the Otego-Unadilla Central School District has suffered financially during the Great Recession. The State imposed "Gap Elimination Adjustment" cost the District more than \$4 Million through the 2013-2014 school year, while state aid stayed relatively flat from 2008-2009 through 2013-2014. Moreover, the District had to absorb unfunded mandates which were imposed during the transition to the Regents Reform Agenda. As a result, the District had to make difficult decisions while trying to remain accountable to hard-pressed taxpayers. In addition to extensive use of fund balance to keep the local tax levy within reasonable bounds, the District eliminated more than twenty-five positions over the past five years. Class sizes were increased and field trips eliminated.

Since that time, actions have been taken within the past two years to further decrease expenditures including sharing with other school districts (shared business official, shared school psychologist), privatization of the Transportation Maintenance function, a move to lease buses rather than purchase them, and district administrators assuming more responsibilities as positions were eliminated. For example, our Transportation Director is also our Director of Technology/CIO and within the past year, has also assumed the role as Director of Buildings and Grounds. As noted in the Audit Report, the District negotiated a less expensive health insurance plan during the 2014-2015 school year which should provide substantial savings in this high-cost area.

We are also faced with a transient high-needs student population, which makes accurately predicting expenditures, particularly in the area of Special Education and related services a difficult proposition. As a largely poor, rural district with relatively no commercial tax base, our options are very limited. As noted in the Audit Report, we were forced to break the Tax Cap last year and this year, the Tax Cap is projected to be near 0%. Nevertheless, we continue to endeavor to provide an outstanding educational experience for our children. For example, this school year we instituted a Business Administration program in conjunction with DCMO BOCES and Tompkins Cortland Community College where our students can earn an Associate's Degree without any cost to them or the District.

The Otego-Unadilla Central School District has reviewed the report of Examination covering the period of July 1, 2013- May 14, 2015 and the District agrees with the findings of the audit. This audit response is also serving as the Corrective Action Plan. The District's corrective actions follows below.

**Finding:**

If the decline in fund balance continues, the District's financial stability could become a concern. Recurring revenues are not sufficient to finance recurring expenditures. Without reducing expenditures or raising additional revenues, the District's fund balance will continue to deteriorate and may lead to the inability to provide adequate educational services to its students.

**Recommendations:**

1. Develop and adopt structurally balanced budgets with sufficient recurring revenues to finance recurring expenditures.
2. Continue to review and seek alternative ways to lower expenditures.

**Corrective Action:**

1. As noted in the Audit Report, the District was able, through the means mentioned in this response letter, to adopt a structurally balanced budget without the use of fund balance during the current school year. It is our intention to do so in the future, if at all possible, while keeping any tax increase to a minimum.
2. With the change in the District and Business Office staff (new Superintendent in 2014, new Business Manager and District Treasurer in 2015), the budget procedure will be changed with regard to the timing and transparency of the budget. The District plans to have a preliminary budget developed by February 2016, thus allowing for an in-depth review of expenses and revenue to uncover possible savings strategies.



3. The district has currently contracted a study of school facilities and the possibility of restructuring. The final report will include information on enrollment history and projections, instructional and extracurricular programs, facilities, transportation, staffing, and finances and will make recommendations to the School Board that will help the District develop an informed five year plan.
4. The District continues to evaluate all positions as they become vacant and determine the need to either replace vacant positions or to re-structure current teaching assignments.
5. In the 2015-2016 school year, one school-bus mechanic retired and the other resigned. The District chose to go out with an RFP and ultimately signed an agreement with a private contractor for transportation maintenance through the competitive bidding process. The District believes this will provide significant savings, particularly as the fleet transitions from school-owned to leased (see below).
6. In the 2014-2015 school year, the District started to lease buses in lieu of purchasing new buses. This continued in 2015-2016. The leased buses will be phased in to a fully leased fleet within the next few years. As the payments will be lower and all the buses in the fleet will be covered under an extended warranty, this should also lower maintenance expenditures while not compromising quality of our student transportation function.
7. The Superintendent and the Board of Education have met and discussed an intention to develop a Board Policy on the creation of Reserve Funds and will work to create budgets that provide funding for the Reserve Funds that are approved.

The district feels these seven changes will improve the District's overall financial condition and allow the district to become more financially stable.

Sincerely,

Dr. David Richards, Superintendent

Rene' Treffeisen, President of the Board of Education

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

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

- We interviewed District officials to determine if the District had any written long-term financial plans, document why the District was fiscally stressed and determine if there were any current plans or ideas the District has implemented or may implement to reduce costs.
- We reviewed the general fund's revenues and expenditures from the 2012-13 through 2014-15 fiscal years to determine trends and identify specific expenditures causing increases in total expenditures.
- We analyzed the District's general fund's total fund balance including the use of fund balance for the 2012-13 through 2014-15 fiscal years.
- We compared the District's general fund's budgeted revenues and expenditures to the actual results for the 2012-13 through 2014-15 fiscal years to determine if variances were reasonable.
- We verified the potential savings to the District for the 2015-16 through 2018-19 fiscal years that could be realized by changing health insurance plans for active employees.

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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