

Bayport-Blue Point Union Free School District

Fund Balance Management

DECEMBER 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Bayport-Blue Point Union Free School District

Audit Objective

Determine whether the Bayport-Blue Point Union Free School District (District) Board appropriately managed the District's fund balance.

Key Findings

The Board did not appropriately manage the District's fund balance, overstated budgeted appropriations and improperly backdated encumbrances. The Board also improperly established and funded reserve accounts.

- On average, the Board annually appropriated \$2.4 million of fund balance that was not needed to pay operational expenses because operating surpluses of about \$1 million were realized.
- When unused appropriated fund balance is added to the surplus fund balance, the recalculated surplus fund balance exceeded the statutory limit each year ranging from \$1.9 million to \$3.7 million or 2.5 to 4.9 percentage points.
- Although we informed officials of the excess fund balance during our audit fieldwork, this pattern continued in the 2021-22 budget.

Annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance not provided for by statute, resulting in higher than necessary tax levies.

Key Recommendation

- Discontinue appropriating fund balance that is not needed and adopt realistic budgets.

District officials disagreed with certain aspects of our findings and recommendations but indicated they have initiated corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Background

The District, located in the Towns of Brookhaven and Islip in Suffolk County, is governed by an elected seven-member Board of Education (Board) responsible for the general management and control of financial and educational affairs.

The Superintendent of Schools is the chief executive officer responsible for day-to-day management under the Board's direction, which includes developing and administering the budget. The Assistant Superintendent for Finance and Operations (Assistant Superintendent) assists with these duties.

General Fund Quick Facts

2020-21 Appropriations	\$75,603,645
Operating Surpluses from 2016-17 through 2019-20	\$4,337,441
2017-18 through 2019-20 Assigned Fund Balance for Encumbrances	\$2,207,299
June 30, 2020 Restricted Fund Balance	\$7,261,438

Audit Period

July 1, 2016 – December 31, 2019

We extended our audit period forward through June 30, 2021 for financial analysis.

Fund Balance Management

How Can a Board Effectively Manage Fund Balance?

Fund balance is the difference between revenues and expenditures accumulated over time. To effectively manage a district’s fund balance, a board must adopt realistic and structurally balanced budgets based on historical trends or other known factors in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained.

In preparing the budget, a board must estimate the amounts the district will spend and receive, the amount of fund balance that may be available at year-end to use toward the next year’s budget, and the expected real property tax levy. Accurate estimates help ensure that the tax levy is not greater than necessary.

A board is permitted to retain a specified amount of fund balance for cash flow needs or unexpected expenditures. New York State Real Property Tax Law, Section 1318 currently limits the amount of surplus fund balance that a school district can retain to no more than 4 percent of the next year’s budget. Any surplus fund balance over this percentage must be used to reduce the upcoming year’s tax levy, pay for one-time purchases, fund needed reserves or pay down debt.

When fund balance is appropriated to finance operations, a district is budgeting for a planned operating deficit equal to the amount of the fund balance district officials appropriated. If the district instead experiences a surplus, the amount of appropriated fund balance will not actually be used to finance operations.

Accurate estimates help ensure that the tax levy is not greater than necessary.

The District Had Results of Operations Better Than Budgeted

The Board annually appropriated average fund balance of \$2.4 million as a financing source in each of the four years reviewed (Figure 1). This should have resulted in annual operating deficits equal to the funds appropriated. Despite appropriating fund balance each year, the District realized annual operating surpluses from 2016-17 through 2019-20 because total revenues exceeded expenditures. Consequently, none of the amounts appropriated were needed to finance operations.

Figure 1: Results of Operations and Appropriated Fund Balance

	Revenues	Expenditures	Operating Surplus	Appropriated Fund Balance (Budgeted Deficit)	Operations Better than Budgeted
2016-17	\$67,152,297	\$66,174,232	\$978,065	(\$2,164,483)	\$3,142,548
2017-18	\$68,771,476	\$67,265,555	\$1,505,921	(\$2,131,469)	\$3,637,390
2018-19	\$70,609,326	\$70,584,135	\$25,191	(\$3,231,694)	\$3,256,885
2019-20	\$72,086,874	\$70,258,610	\$1,828,264	(\$2,263,302)	\$4,091,566
		Average	\$1,084,360	(\$2,447,737)	\$3,532,097

The District generated total combined operating surpluses of approximately \$4.3 million during these four years. For example, in 2019-20, the District appropriated \$2.3 million in fund balance but realized an operating surplus of \$1.8 million, resulting in operations better than budgeted totaling \$4.1 million (Figures 1 and 2).

The District realized annual operating surpluses from 2016-17 through 2019-20 because certain appropriations were overestimated. The four-year expenditure variance totaled almost \$12.8 million.

The most significant overestimated appropriation

was plant operations with appropriations of approximately \$14.5 million while actual expenditures were about \$11.9 million, overestimated by almost \$2.6 million (18 percent). District officials were unable to provide us with an explanation for this variance.

These budgeting practices continued to the 2020-21 and 2021-22 budgets. The 2020-21 budget totaled approximately \$76 million, an increase of about \$2.2 million, with appropriated fund balance of \$1.9 million. Similarly, the 2021-22 budget totaled approximately \$77 million, an increase of about \$1.4 million, with appropriated fund balance of \$2.5 million.

Annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance not provided for by statute. For perspective, when we added the unused appropriated fund balance amounts back to surplus fund balance, the District recalculated surplus fund balance ranged from 6.5 to 8.9 percent of the next year's budget, exceeding the statutory limit each year by 2.5 to 4.9 percentage points (Figures 3 and 4). Although we informed officials of the excess fund balance during our audit fieldwork, this pattern continued in the 2021-22 budget.

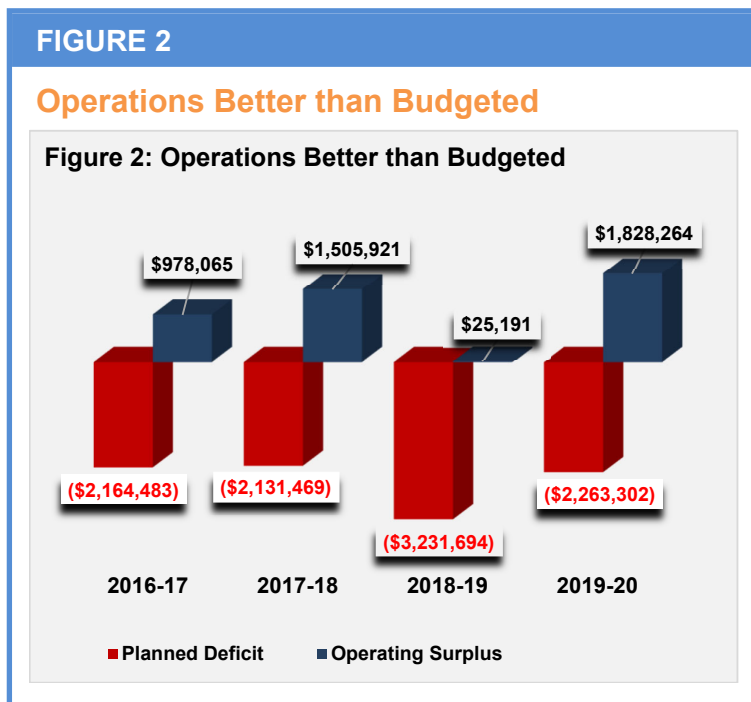


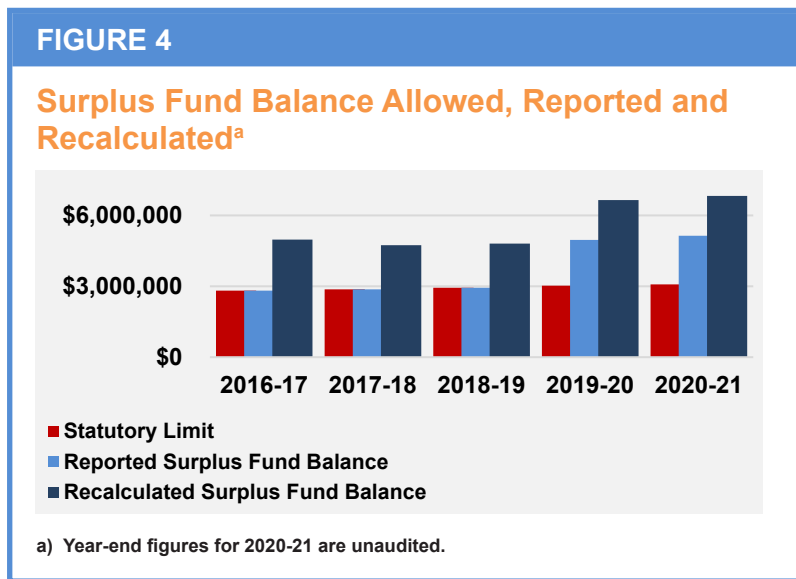
Figure 3: Recalculated Surplus Funds at Year End

	2016-17	2017-18	2018-19	2019-20	2020-21 ^a
Surplus Fund Balance	\$2,813,554	\$2,870,456	\$2,937,760	\$4,964,232	\$5,137,923
Add: Unused Appropriated Fund Balance	2,163,717	1,867,583	1,867,583	1,684,000	1,684,000
Recalculated Surplus Fund Balance	\$4,977,271	\$4,738,039	\$4,805,343	\$6,648,232	\$6,821,923
Reported Fund Balance as Percentage of Next Year's Appropriations	4.0%	4.0%	4.0%	6.6%	6.7%
Recalculated Fund Balance as Percentage of Next Year's Appropriations	7.1%	6.6%	6.5%	8.8%	8.9%
Next Year's Budget	\$70,339,132	\$71,761,393	\$73,443,966	\$75,603,645	\$76,972,535

a) Year-end figures for 2020-21 are unaudited.

District officials told us the District experienced deficits from 2011-12 through 2015-16 and reserves were expended to finance operations. Officials said fund balance had since been increasing and the District experienced operating surpluses over the past few years. Additionally, officials believed reducing fund balance any more could be dangerous for the District.

Maintaining surplus funds more than the statutory limit results in tax levies that are higher than necessary. From 2016-17 through 2020-21, the Board increased the tax levy by approximately \$6.3 million.



How Can District Officials Ensure Reserves For Encumbrances Are Reasonable?

Encumbrances are commitments related to unfulfilled contracts for goods or services that are already ordered but not yet received and are intended to help prevent a school district from exceeding appropriations. At year-end, a portion of fund balance is set aside to carry forward appropriations for these commitments to the next year so that the following year's budget may be increased by these amounts.

Open purchase orders (OPOs) are used for the purchase of goods or services that are needed on a repetitive basis or for priced contractual purchases. Generally, OPOs, that are for specific purchases ordered but not received, are encumbered at the start of each year.

Encumbrances that reserve fund balance at year end must represent valid commitments for specific future expenditures and should not be established to artificially reduce available year-end fund balance. Expenditures for the next year should not be encumbered using the prior year's budget.

District Officials Reserved Encumbrances At Year End That Were Not Commitments

During 2017-18 through 2019-20, the District encumbered 60 purchase orders totaling more than \$2.2 million for the three years reviewed. In addition, the District frequently used OPOs.

We reviewed 22 purchase orders totaling approximately \$1.3 million (seven from June 30, 2017 totaling \$123,347, nine from June 30, 2018 totaling \$829,790 and six from June 30, 2019 totaling \$368,072). One of these 22 purchase orders totaling \$52,730 (4 percent) was not a valid commitment for specific future expenditures.

In December 2017, the Buildings and Grounds Director created a \$5,000 OPO for floor repairs and refinishing. Officials paid three related invoices for these services (two in January 2018 and one in April 2018) reducing the available encumbered balance to \$136.

In July 2018, we found that accounting entries to record three additional proposals were backdated to June 30, 2018 to increase the OPO encumbered balance by \$56,442. We were unable to determine who backdated these proposals. However, only one additional proposal totaling \$3,712 (to refinish the middle school gymnasium floor) was dated on or before June 30, 2018 and therefore a valid commitment.

The dates of the other two proposals (July 18, 2018 – \$7,512 to furnish and install elementary school flooring and August 15, 2018 – \$45,218 to furnish and install middle school classroom flooring) indicated the work was not planned and negotiated until after the 2017-18 year ended.

As a result, officials reserved \$52,730 of unrestricted fund balance for encumbrances that were not yet commitments. Encumbrances that are established without a genuine purchase or contractual commitment for the year in which they originate cause surplus funds to be understated and inflates assigned fund balance at year end. Recording proposals received in July and August as encumbrances of committed funds as of June 30 gives the appearance of intentional misstatement of business records to make available fund balance appear to meet the legal limit of 4 percent.

How Should a Board Ensure Reserves Are Established and Reasonably Funded?

School districts can restrict and accumulate general fund balance for certain future purposes. Generally, school districts are not limited to how much money can be held in reserves. However, reserve balances should be reasonable. Combining a reasonable level of unrestricted fund balance with specific legally established reserves provides for both unanticipated events and other identified or planned needs.

To ensure reserves are not overfunded, officials should plan for funding and using reserves by balancing the desire to accumulate funds for future needs with the obligation to ensure real property taxes are not higher than necessary. Therefore, it is important that a board adopt a written policy or plan that states its rationale for establishing each reserve fund, objectives for the reserve, optimal or maximum targeted funding levels and conditions under which the reserve will be used or replenished.

A board should periodically review reserves to ensure that reserve amounts are reasonable. District officials are required to include a schedule of all reserve funds in their annual budget document. This schedule must include the name of each reserve fund, a description of its purpose, the balance as of the close of the third quarter of the current year, and a brief statement explaining any plans for the use of each reserve for the next year.

... [O]fficials should plan for funding and using reserves by balancing the desire to accumulate funds for future needs with the obligation to ensure real property taxes are not higher than necessary.

District Officials Did Not Comply with Board Policy or Legal Requirements

In October 2011, the Board adopted a fund balance and reserve policy indicating the District may establish and maintain reserve funds in accordance with State laws, the Commissioner of Education's Regulations and the rules and/or opinions issued by the State Comptroller's office, as applicable. The policy further states that reserve fund balances should be in line with formulas reviewed and approved by the Board and directs the District to prepare and submit an annual report to the Board of all reserve funds.

District financial statements, as of June 30, 2020, reported restricted fund balance totaling more than \$7.2 million in the following five reserves: the New York State and Local Retirement System (NYSLRS) – \$2.8 million, employee benefits accrued liability reserve (EBALR) – \$2.8 million, workers' compensation – \$1.1 million, the New York State Teachers Retirement System (NYSTRS) – \$294,441, and unemployment insurance – \$176,750.

District officials provided us with an August 20, 2019 Board resolution establishing the NYSTRS reserve. However, the District reported a \$291,526 balance in this reserve for June 30, 2019, two months before the resolution. Further, although there were several Board resolutions to increase the balances of the NYSLRS, EBALR, workers' compensation and unemployment reserves, officials were unable to provide Board resolutions establishing these reserve funds. Officials did not offer an explanation for why the establishing resolutions could not be located or found in the Board minutes or why the NYSTRS reserve was established after funds were restricted.

Officials did not provide the Board with an annual report of the reserves to comply with policy and the annual budget document does not include a schedule with reserve information as legally required. The Assistant Superintendent said he presents publicly to the Board about five or six times each year to provide awareness and believed these presentations educated the public and the Board on fund balance components in addition to the information contained in the annual budget documents. However, the annual budget documents for 2015-16 through 2021-22 did not include any detailed information on reserve funds.

Further, additional documents available on the District's website, (such as the Property Tax Report Card) listed only the title and current balance of each reserve. There was no description outlining the purpose of each or any statement explaining the Board's intentions for funding, planned use or replenishment. None of these additional documents identified the date reserves were established, the amount paid into the funds, the amount of interest earned or the total amount and date of each withdrawal.

We reviewed all reserve balances from 2016-17 through 2019-20 to determine whether they were reasonable when compared to expenditures. We found the Board did not include provisions in the annual budgets for funding reserves. Instead, resolutions were adopted that transferred money to reserves from operating surpluses at year end.

Restricted general fund balance increased by more than \$2.3 million over the four years reviewed. Although the balances in four of the five reserves were reasonable when compared to expenditures (NYSLRS, NYSTRS, EBALR and workers' compensation), the unemployment insurance reserve was overfunded.

As of June 30, 2018, the unemployment insurance reserve had a balance of \$345,792. In August 2019 the Board authorized a transfer of \$175,979 from the reserve to fund prior year expenditures. The balance in the reserve as of June 30, 2020, with interest was \$176,750. Over the past three years (2017-18 through 2019-20), unemployment expenditures averaged about \$9,700 each year. However, no reserve funds were used for these expenditures, which were paid from general fund appropriations.

The current reserve balance could fund approximately 18 years of expenditures. Although, since 2018-19, the Board reduced the reserve fund balance by almost one-half, this was still not enough of a decrease to deem the balance reasonable. The Assistant Superintendent told us the balance is too high at \$350,000, he said it should be about \$150,000. The Assistant Superintendent's reserve presentations indicated that the basis for the reserve balance was a funding level four times more than annual expenditures. However, based on this funding level and average annual expenditures of \$9,700, the reserve balance should be about \$38,800, further evidence that this reserve was significantly overfunded.

The Board's ability to effectively manage reserve funds and appropriately inform taxpayers of the need for reserves was limited because officials did not submit annual reports to the Board as required by policy. Also, annual budget documents lacked the detail necessary to comply with the legal requirements. Further, while it is prudent to plan and save for unforeseen circumstances, overfunding and/or not using reserves for their intended purpose results in real property taxes being higher than necessary because the funds are not being used to fund related expenditures.

Although the balances in four of the five reserves were reasonable when compared to expenditures. (NYSLRS, NYSTRS, EBALR and workers' compensation), the unemployment insurance reserve was overfunded.

What Do We Recommend?

The Board should ensure:

1. Adopted budgets contain realistic estimates and discontinue the practice of appropriating fund balance that will not be used to fund operations.
2. Year-end encumbrances are a valid purchase or contractual commitment for the year in which they originate and are properly supported.
3. All reserves are established by resolution. Refer to our publication Reserve Funds available at www.osc.state.ny.us/files/local-government/publications/pdf/reservefunds.pdf.
4. Reserve fund balances are necessary and reasonable and use any excess funds identified to benefit residents in accordance with statutory requirements.
5. District officials provide an annual report of all reserve funds, as required by the policy.
6. Annual budget documents include a schedule detailing reserve funds, as required.

Appendix A: Response From District Officials¹

Dr. Timothy P. Hearney
Superintendent of Schools
Dr. Theodore Fulton
*Assistant Superintendent for
Curriculum and Instruction*
Mr. Louis S. Frontario
*Interim Assistant Superintendent
for Finance and Operations*



Bayport-Blue Point Union Free School District

Board of Education
Michael Miller, *President*
Brian Johnson,
Vice President
Jason Borowski
Daniene Byrne
Adrienne Cirone
John Kroog
Julia Pendola

October 29, 2021

Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
Attention: Mr. Ira McCracken, Chief Examiner

RECEIVED
OFFICE OF THE STATE COMPTROLLER
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LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Dear Mr. McCracken:

The purpose of this letter is to formally respond to the New York State Comptroller's **Report of Examination** for the Bayport-Blue point Union Free School District (Report 2021M-116).

First and foremost, thank you for the time you and your associates invested reviewing our financial position for the period July 1, 2016 through June 30, 2021. The staff from your office were courteous and professional in their interactions with District personnel. Further, I appreciate your comments, suggestions and recommendations relative to this review and will take same under advisement. This response will focus on the six recommendations that appear on pages 9 and 10 of the report. It will also serve as a framework for crafting the Corrective Action Plan (CAP).

Comptroller's Recommendation Number One:

Adopted budgets contain realistic estimates and discontinue the practice of appropriating fund balance that will not be used to fund operations.

District Response:

All of our budgets are designed to be realistic, cost effective and, at the same time, balance the needs of our students and all stakeholders and taxpayers. We develop budget proposals in good faith that support a wide breath of programs and serves for our students. We continue to enjoy public trust and support because our budgets consistently pass. We have a formal Budget Advisory Committee (BAC) appointed by the Board of Education and charged with providing input and making recommendations regarding the proposed budget. The BAC members represent a wide cross section of individuals, some with children in the district and some who are retirees that have been in the community for generations. The process is completely transparent and certainly helps to insure that community is aware of the school district budget and their right to vote. We will continue to build budgets that are in the best interest of all stakeholders. In speaking with representatives from the OSC we had asked about what a

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¹ The District's response letter refers to attachments that support the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachments in Appendix A.

“perfect” budget would look like. Unfortunately there was no clear or definitive answer to that question.

See
Note 1
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Given the uncertainties that are always at play during budget development, the one conclusion that a person can make is that there is no such thing as a perfect budget. We are consistently spending about 96% of our budget (i.e. 2019-20 Actual vs. budget). By most measures (including the opinion of our outside auditors) spending at the 96% level is indicative of the fact that reasonable and accurate estimates of expenditures were made during the budget development process. I take exception to the notation that we over appropriate our expenditures without considering what is actually needed. Obviously some items in a budget are very readily predictable like certain contractual salaries and debt service. However, when we build a budget it must also withstand unknowns. We must estimate what health insurance costs will be for half of the fiscal year because health insurance rates are set on a calendar year not a fiscal year. We must anticipate the movement in and out of high cost special education placements and to some extent be at least mindful that natural disasters can and have occurred. If a district is spending 88% of budgetary appropriations, year in and year out, then I might conclude that budget appropriations are excessive but not at 96% level. The revenue side, which the OSC report does not mention, must also be estimated. Keep in mind that revenues also contribute to fund balance. Certain revenues will lead to fund balance when a higher than budgeted amount is actually realized. Conversely, certain revenues may not be realized at the anticipated level which would reduce fund balance. It is important to note that in our exit interview the examiners indicated that our revenue estimates were very accurate, however the report does not mention that fact. I have attached two charts that reflect the increases to budget and tax levy over the past twelve years. Chart A is the year by year budget and tax levy increases from 2010-11 through 2021-22. Chart B is the average of the same twelve year period. You will note that our average budget to budget increase is 2.06% and our average tax levy increase is 2.70%. It is surprising that in its analysis the OSC does not mention the effects of the Tax Cap legislation, which was designed to limit tax levy and budget growth. I am proud to say that in the ten years that the Cap has been in place, seven of those ten years BBP did not exceed the cap and three of those ten years it levied taxes below the cap. I believe these events speak volumes about the reasonableness and effectiveness of our budget development on both the expenditure and revenues sides. Lastly, the report does not mention the extreme difficulties faced by the district during the Pandemic. Even with federal funds to help cover unanticipated expenditures, it was an unprecedented event and reminder of how challenging the budget development process can be.

See
Note 2
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Note 3
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Note 5
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With respect to use of appropriated Fund Balance, we will explore reducing some of this appropriation and backfilling with appropriations from the Workers Compensation and Employees’ Retirement System Reserve accounts.

We explained to your audit staff (and it is reflected in the report) that we had experienced deficits from 2011-12 through 2015-16 and appropriated fund balance and reserves were used to finance operations. We felt that operating in this manner is a danger to the long term fiscal health of the district. At one point we were even identified as in danger of being on the fiscal stress list. We took steps to systematically rebuild our fund balance and reserves so we are no longer running deficits. We truly believe that this is a far better position to be in and we believe our stakeholders and our entire community agree with this premise. It has taken many budget

See
Note 6
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cycles to improve our financial position and It is ironic that now were are being cited for improving our financial stature.

Comptroller's Recommendation Number Two:

Year-end encumbrances are a valid purchase or contractual commitment for the year in which they originate and are properly supported.

District Response:

Prior year encumbrances must be reviewed, validated and accepted by our external auditors before a total dollar value of prior encumbrances can be set and the audit can be completed. If a purchase order does not meet the auditor's test for prior year encumbrance, the purchase order in question is cancelled and the funds return to fund balance. In your findings it seems that one open purchase order was increased and claimed to be a prior year encumbrance. However, this transaction really involved the new budget year. This single instance was back in the 2017-18 school year and there were no citations except for this one item for the entire audit period of July 1, 2016 through June 30, 2021. To put this citation in perspective this audit test involved one purchase order out of twenty-two, representing 4% of the aggregate total dollar value of all twenty-two subject purchase orders. I would characterize this as statically insignificant and reiterate that it was one isolated incident in the five years reviewed by OSC. It is unfortunate that the tone of the report makes this matter sound so dire.

See Note 7 Page 15

Comptroller's Recommendation Number Three:

All reserves are established by resolution.

District Response:

It appears that finding the resolutions that originally established our reserves proved to be very challenging. Going forward, and as a best practice, the Board of Education will be asked each year to re-affirm the establishment of each reserve. Immediately following this adoption the BOE will continue the practice of approving resolutions that will set the additional funding limits for each of the reserves. The additional funding will come from the available fund balance which will be established at the end of the Audit. When the Audit is accepted in October/November the exact amount being added to selected reserves will also be formally approved through resolution.

Comptroller's Recommendation Number Four:

Reserve fund balances are necessary and reasonable and use any excess funds identified to benefit residents in accordance with statutory requirements.

District Response:

After reviewing the report I agree with the finding that the Unemployment Reserve is over funded. No further funding additions will be recommended for this reserve. We can explore redirecting some of these Unemployment Reserve funds to another reserve fund or seed money to start a capital or repair reserve. However, we need to continue to add funding to the Employee' Retirement System (ERS), Teachers' Retirement System (TRS) and Workers Compensation (WC) reserves. The ERS reserve has less than three years of payments, the worker compensation about two years and the TRS about one month based on the reserve balance at June 30, 2020. The ERS has a June 30, 2020 balance of 2.8 million dollars and the 2019-20 expense was \$1,058,820. The Worker Comp has a June 30, 2020 balance of \$1.1 million dollars and the 2019-20 expense was \$538,492. The TRS has a June 30, 2020 balance of \$295,000 and the 2019-20 expense was \$2,767,376. The Employee Benefits Accrued Liability Reserve (EBLAR)

is currently funded at \$2,824,997. A best practice is to fund this liability as close to 100% as possible. Our current funding level is about 75% and we will continue to add available funds as appropriate. Given our philosophy for responsible budget development, we expect to have available fund balance to increase these reserve balances to safer and longer range levels.

See Note 6 Page 15

Comptroller's Recommendation Number Five:

District Officials provide an annual report of all reserve funds, as required by policy.

District Response:

This finding has already been addressed. At the June 8, 2021 Board of Education Meeting a Fund balance and Reserve Accounts presentation was made. A copy of this presentation is attached to this response. We will continue to make annual presentations to the Board of Education and the public regarding our reserves. We will explore changing the format of the report to provide even greater detail about each reserve account.

Comptroller's Recommendation Number Six:

Annual budget documents include a schedule detailing reserve funds, as required.

District Response:

We will include a schedule of Reserve balances in our budget documents. An example is attached as part of this response. See Chart C.

Thank you for the opportunity to respond to your audit findings. Please let me know if you have any questions regarding this submission. Once this response is accepted we will begin preparing the Corrective Action Plan (CAP) with the appropriate and required specificity.

Best regards,

Dr. Timothy P. Hearney
Superintendent of Schools

Appendix B: OSC Comments on the District's Response

Note 1

Although there is no clear or definitive answer as to what a perfect budget would look like, every good annual budget begins with sound estimates and well supported budgetary assumptions. Furthermore, consistently appropriating fund balance to finance operations but not actually using any of the fund balance due to overestimated appropriations is an indication the District has opportunities to improve their budgetary practices. Our website has a wide array of guidance related to budgeting including the Financial Toolkit for Local Officials in 2020 and Beyond (www.osc.state.ny.us/local-government/financial-toolkit), which includes links to numerous publications, tools, resources, guidance, and webinars to assist officials with proposing budgets.

Note 2

The District appropriated fund balance to account for planned operational deficits in each of the four years examined. However, the District realized annual operating surpluses from 2016-17 through 2019-20 because the District consistently overestimated appropriations. Consequently, none of the amounts appropriated were needed to finance operations (Refer to Figures 1 and 2 in our report), a practice resulting in tax levies that were higher than necessary.

Note 3

The District's annual operating surpluses from 2016-17 through 2019-20 were the result of certain appropriations being overestimated. Revenue estimates were examined for reasonableness and is noted in the audit methodology (Appendix C).

Note 4

The Board increased the tax levy from 2016-17 through 2020-21 by approximately \$6.3 million. By overestimating appropriations each year to the extent none of the fund balance appropriated to finance operations was actually used resulted in the District levying taxes in excess of what was necessary to fund operations each year.

Note 5

District officials did not identify or convey to us any unique circumstances COVID had on the District's financial condition or budget process during our audit fieldwork or at the exit conference. We considered all explanations and support officials provided in regard to the District's budgetary estimates.

Note 6

The consistent appropriation of fund balance that is not needed clouds the District's financial position and can be misleading to District residents. Building the District's fund balance should be a transparent process.

Note 7

We reviewed reserve for encumbrances as of July 1, 2017, July 1, 2018 and July 1, 2019. Although we expanded our audit period through June 30, 2021, we did so to complete a financial trend analysis, and did not review reserve for encumbrances as of July 1, 2020 or July 1, 2021.

As described in Appendix C, the sample we selected of 22 purchase orders represented 37 percent of the number of purchase orders carried forward to subsequent budget years. Any encumbrance established without a genuine purchase or contractual commitment for the year in which it originates causes surplus funds to be understated at year end and inflates assigned fund balance at year end. Recording proposals received in July and August as an encumbrance backdated to June 30 gives the appearance of intentional misstatement of financial records which by no means can be considered insignificant.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board minutes, relevant laws, District policies and audited financial statements to gain an understanding of fund balance management, procedures and budgeting practices.
- We traced financial software reports to audited financial statements and accounting records to determine whether figures reported were accurate and reliable.
- We analyzed the trend in total general fund balance for 2016-17 through 2019-20. We compared surplus fund balance with the next year's budgeted appropriations to determine whether the District complied with the statutory limit. We recalculated surplus fund balance by including appropriated fund balance not needed as a financing source. We compared the recalculated amount to the next year's budgeted appropriations.
- We analyzed results of operations for 2016-17 through 2019-20 using total actual revenues collected and total actual expenditures disbursed and assessed whether appropriated fund balance was used to fund operations as planned.
- We calculated the change in tax levies for 2016-17 through 2019-20 years.
- We compared the general fund's estimated revenues and appropriations with actual revenues and expenditures for 2016-17 through 2019-20 to determine whether estimates were reasonable. We performed a detailed budget to actual expenditure analysis for these years. For any significant variances, we reviewed the data to determine whether there was a trend. We also reviewed the 2020-21 general fund budget to determine whether it had trends similar to previous years.
- We reviewed the reserve for encumbrances from 2016-17 through 2018-19. We used our professional judgment to select a sample of 22 purchase orders of 60 purchase orders issued totaling approximately \$2.2 million. We reviewed the purchase orders and invoices for our sample to determine whether year end encumbrances were supported by a valid purchase or contractual commitment for the year in which they originated. For our sample, we selected the two highest and two lowest encumbrances in each of the three years. In addition, we selected nine purchase orders from seven vendors because the authorizations were dated on or near the last day of a year or had descriptions that were inconsistent with unfulfilled year-end commitments. We included one additional purchase order that was encumbered two years in a row. Our sample represented 37 percent of the number of purchase orders and 60 percent of total annual encumbrance amounts and we believe the size of our sample is sufficient on which to base our conclusions.

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- We analyzed all reserve fund balances, activity, establishing Board resolutions and increases, and annual budget documents during 2016-17 through 2019-20 to assess whether District officials properly established, funded and used reserves, these reserves were supported by a formalized adopted policy or plan, and funding and use were transparent. We obtained and reviewed the District's actuary report for the workers' compensation reserve.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

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Division of Local Government and School Accountability
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