

South Mountain Hickory Common School District

Financial Management

JUNE 2022



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

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Report Highlights

South Mountain Hickory Common School District

Audit Objective

Determine whether the South Mountain Hickory Common School District (District) Trustee and District Treasurer (Treasurer) demonstrated effective financial management.

Key Findings

The Trustee and Treasurer did not demonstrate effective financial management. The Trustee and Treasurer:

- Developed and adopted unrealistic budgets. Had more reasonable budgets been developed, the Trustee and Treasurer could have used surplus fund balance to reduce the tax levy, rather than increasing the 2021-22 school year levy by approximately 37 percent, or \$53,000.
- Allowed surplus fund balance as a percentage of the next year's appropriations to exceed the 4 percent statutory limit.
- Prepared unreliable annual financial reports.

Key Recommendations

- Establish budget appropriations based on historical expenditures that are adjusted for reasonably anticipated increases or decreases.
- Comply with the surplus fund balance limit established by New York State Real Property Tax Law Section 1318.
- Develop accurate and reliable annual reports and account for all District assets.

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

Background

Common school districts were created by legislation in 1812 to administer the common school fund. In addition, common school districts were enacted by chapter 242 of the laws of 1812 and were overseen by a superintendent.

Union free school districts were established in 1853, followed by central school districts in 1914. In 1947, schools were reorganized under a "Master Plan for School District Reorganization."

Currently, common school districts are governed by New York State Education Law Sections 1601-1619. However, there is no definitive language that clearly explains the purpose of common school districts.

Due to the increase in other types of school districts over the years, only nine common school districts remain.

Quick Facts

Students	24
2020-21 Actual Expenditures	\$201,381
2020-21 Ending Surplus Fund Balance	\$289,327
2021-22 Property Tax Warrant	\$196,450

Audit Period

July 1, 2020 – January 31, 2022. We extended our audit scope period to July 1, 2018 to evaluate budget trends.

Financial Management

The District is one of four common school districts in the State that contract out to other school districts for 100 percent of its educational services. The District serves an area with 263 parcels in the Town of Binghamton in Broome County and has no schools in operation. All students attend the Binghamton City School District on a tuition basis.

An elected Trustee is responsible for managing and overseeing the District's affairs. The Treasurer is responsible for properly accounting for all District funds. Both the Trustee and Treasurer develop the District's budget.

What Is Effective Financial Management?

To ensure proper financial management, a common school district trustee (trustee) should adopt budgets based on historical expenditures that are adjusted for reasonably anticipated increases or decreases. A trustee should estimate amounts that their school district will spend and determine the expected real property tax levy. Accurate estimates help ensure that the tax levy is not greater than necessary and that surplus fund balance amounts are not excessive and do not exceed the legal limit.

A school district can retain a specified amount of fund balance for cash flow needs or unexpected expenditures and other identified or planned needs. However, 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 budgeted appropriations. Any surplus fund balance over this percentage must be used to reduce the upcoming fiscal year's real property tax levy.

Financial reporting plays a major role in fulfilling a school district's duty to be publicly accountable. School district financial reports should be accurate and reliable.

Appropriations Were Unreasonable

The Trustee's and Treasurer's budgeting practices created unrealistic budgets for the 2018-19 through 2020-21 fiscal years. Appropriations for tuition and transportation expenditures comprised approximately 92 percent of the District's annual budget and were 131 percent higher than actual expenditures (Figure 1). As of fall 2021, the District potentially had approximately 36 to 38 students. However, only 24 attended tuition-based public school. The remainder attended private schools and provided their own transportation.

Figure 1: Budgeted Appropriations to Historical Actual Expenditures

Expenditures	School Years			3-Year Average	2022 Budget	Percentage Over 3-Year Average
	2018-19	2019-20	2020-21			
Tuition	\$138,068	\$141,965	\$183,279	\$154,437	\$309,950	101%
Transportation	42,137	7,210	3,555	17,634	88,000	399%
Totals	\$180,205	\$149,175	\$186,834	\$172,071	\$397,950	131%

Although the 2019-20 and 2020-21 school years' transportation costs were affected by the COVID-19 pandemic, 2021-22 budgeted appropriations for these expenditures were more than double the actual pre-pandemic expenditures. According to the Trustee, the District might experience higher tuition and related transportation expenditures if students who previously attended private school opted to attend public school and/or requested transportation to private school.

However, the Trustee also told us that the District has not experienced these changes in the past. Furthermore, at current nonresident tuition rates, the District's surplus fund balance would cover the cost of an additional 47 students attending public school.

The Trustee and Treasurer could not provide support to justify the 2021-22 tuition and transportation budget figures. We suggested that the Trustee and Treasurer adopt the practice of using actual expenditures, adjusted for reasonably anticipated increases or decreases, when preparing the budgets. Instead, they budgeted these costs at levels that would allow surplus fund balance and the current year's tax levy to cover expenditure increases without depleting surplus fund balance.

In addition, the District's budgets did not include estimated revenues. After creating the budget, the Trustee and Treasurer determined revenues before issuing a tax warrant. The Trustee told us that they determine the amount of taxes to be raised in a budget year by reviewing historical expenditures, including the most recent completed year, and comparing them to the prior year's tax levy.

The Trustee and Treasurer told us they considered the amount of the District's surplus fund balance when determining the tax levy. If actual historical expenditures exceeded the prior year's tax levy, they increased the current year's levy to approximate the level of current expenditures to avoid substantially affecting surplus fund balance. While officials should consider expenditure increases when developing the budget and determining the tax levy, they also have a responsibility to ensure surplus fund balance complies with the statutory requirement.

As of June 30, 2021, surplus fund balance totaled \$289,327 and was 68 percent of the 2021-22 budgeted appropriations, which exceeded the statutory limit by approximately \$272,200. Furthermore, the 2020-21 actual expenditures represented 47 percent of budgeted appropriations. Had the Trustee and Treasurer developed and adopted more reasonable budgets, they could have used these excess funds to reduce the tax levy for the 2021-22 school year, rather than increasing the levy by approximately 37 percent, or \$53,000.

The Treasurer Did Not Prepare Reliable Annual Reports

The District's annual financial report for the 2020-21 school year was unreliable due to the Treasurer's reporting errors. The reported cash and surplus fund balance amounts were understated by approximately \$49,200 because the Treasurer did not include a District savings account balance.

The Treasurer told us it was her understanding that this account should be held in reserve and not reported. However, the Treasurer is responsible for ensuring that all cash is properly and accurately accounted for and reported. Further, the District's actual revenues for the school year were overstated by approximately \$13,000 due to the Treasurer's recording error.

Unreliable annual financial reports undermine the District's duty to be transparent and publicly accountable to the taxpayers it serves. Further, when the District maintains an unreported cash balance, it has an increased risk that cash could be used for fraudulent purposes.

What Do We Recommend?

The Trustee and Treasurer should:

1. Develop and adopt budgets based on historical expenditures that are adjusted for reasonably anticipated increases or decreases and include estimated revenues.
2. Comply with the surplus fund balance limit established by law.
3. Develop accurate and reliable annual financial reports and account for all District assets.

Appendix A: Response From District Officials

South Mountain Hickory Common School District

Mr. Allen D. Buyck, District Superintendent of Schools
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June 06, 2022

Binghamton Regional Office
Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Ms. Singer:

Thank you for conducting your audit of the South Mountain Hickory Common School District to determine if “District Trustee and District Treasurer demonstrated effective fiscal management”. We are in receipt of your report and will address the three recommendations that were offered, including the corrective plan for each.

Recommendation #1 “Develop and adopt budgets based on historical expenditures that are adjusted for reasonably anticipated increases or decreases and include estimated revenues”

- The district acknowledges that it needs to improve the budget planning process. The volatile nature of enrollments has resulted in preparing a budget that attempted to cover all possible situations, and often resulted in a budget that was higher than needed. We have already begun a process that looks at the prior three years of expenses and revenues and will establish a budget that will much more closely match the actual history of expenses.
- The budget analysis will be reviewed by the trustee, the treasurer and the District Superintendent before a final budget is published.

Recommendation #2 – Comply with surplus fund balance limit established by law

- While we acknowledge the limit as set by law, we believe that a 4% limit is not practical for a school district of the size of South Mountain. As an example, the budget for 2022-2023 is set at \$370,197. An unappropriated fund balance of 4% would only amount to \$14,808, That amount would not even cover the possible cost of a single additional student who may move to the district and require additional services if they are a student with a disability. Historical enrollment trends will show that we could have a + or – enrollment change of 3-5 students from year to year. If the District were to maintain a fund balance at a 4% level, it is likely that the annual tax levy would, necessarily, be volatile to accommodate relatively minor changes in district annual expenditures. District officials believe this practice would be imprudent and promote taxpayer confusion and uncertainty.

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- District officials believe that with the adoption of more realistic annual budgets and the consideration of prudent fund balance requirements, the District can reduce the fund balance it maintains, while continuing to advocate for a change in the current legislation
 - We will also be looking at options for reserves for our district that have not been pursued in the past. All districts need funds for unanticipated expenses, and we will work with our attorney to determine options.

Recommendation #3 – “Develop accurate and reliable annual financial reports and account for all district assets”.

- We agree. There were errors in the reports and one bank account was not properly included in the financial records. We will have a new treasurer for the new school year, and we will be conducting extensive training for the new person. We will also be having the ST-3 report reviewed by another person before submitting to the State Education Department.

This document should serve as our acknowledgement of the audit by the Office of the State Comptroller (OSC) as well as our corrective action plan.

We would like to thank you for the comprehensive review undertaken by your staff. We appreciate the valuable feedback and guidance we have received.

Sincerely,

Allen D. Buyck
District Superintendent
South Mountain Hickory Common School District

cc: Jeannie Hammoud, Sole Trustee

Appendix B: 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 Trustee meeting minutes to gain an understanding of the budget process and to determine whether the Trustee adopted relevant policies.
- We compared budgeted revenues and appropriations to actual revenues and expenditures for the 2018-19 through 2020-21 school years to determine whether budgets were realistic.
- We compared the 2022 budgeted revenues and appropriations to historical, actual results of operations for the 2018-19 through 2020-21 school years to determine whether the 2022 budget was realistic.
- We reviewed surplus fund balance at the end of the 2020-21 school year to determine whether it was within the statutory limit.
- We compared the District's annual financial report for the 2020-21 school year to the Treasurer's records to determine whether the report was reliable.
- We summarized the activity in the District's bank accounts and compared the activity to the Treasurer's records to verify the accuracy of the records.

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.

The Trustee 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 made available for public review.

Appendix C: 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

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Contact

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