

Deposit Central School District

Financial Condition

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

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Report Highlights

Deposit Central School District

Audit Objective

Determine whether District officials took action to effectively manage the financial condition of the general and cafeteria funds.

Key Findings

District officials have:

- Implemented measures to contain costs in the general fund. Over the last three fiscal years, general fund expenditures have increased 8 percent while revenues have increased 5 percent.
- Not implemented plans to improve operating results in the cafeteria fund. It has had three successive operating deficits in each of the last three fiscal years totaling over \$100,000.

Key Recommendations

- The Board should continue to examine the cost-effectiveness of special education services and offer programs in-house when it is cost-effective to do so.
- District officials should examine ways to gain more control over cafeteria menu options in an effort to increase student participation.

District officials disagreed with certain aspects of our findings and recommendations. Appendix B includes our comments on issues raised in the District's response letter.

Background

The Deposit Central School District (District) is located in the Towns of Deposit, Masonville and Tompkins in Delaware County and the Town of Sanford in Broome County.

The Board of Education (Board) is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is responsible, along with other administrators, for the District's day-to-day management and for developing and administering the budget.

The District is a component district of the Broome-Tioga Board of Cooperative Educational Services (BOCES). The Business Official, shared through BOCES with another district, plays a key role in the daily administration of the Business Office. The Cafeteria Manager, a BOCES employee, is in charge of the day-to-day cafeteria operations.

Quick Facts

2018-19 General Fund Appropriations	\$16.3 million
2017-18 Enrollment	488
2017-18 General Fund Expenditures	\$15.2 million
2017-18 Cafeteria Fund Expenditures	\$489,869

Audit Period

July 1, 2016 – April 9, 2018

We extended our audit period back to July 1, 2014 and forward to July 1, 2018 to analyze financial trends.

Financial Condition

How Should District Officials Manage Financial Condition?

A school district's financial condition is a determining factor in its ability to provide educational services to its students. The board, superintendent and business official are responsible for making sound financial decisions in the best interest of the district, the students they serve and the taxpayers who fund the district's programs and operations. District officials should identify cost savings to minimize expenditures and reduce the taxpayers' burden. To minimize and control expenditures, District officials should obtain as much pertinent data as possible to perform cost-benefit analyses for all programs, services and benefits offered before implementing changes.

Additionally, officials should monitor and analyze cafeteria operations to identify efficiencies. For example, officials should compare costs-per-meal equivalent (ME)¹ to meal prices to help identify potential cost savings.

Officials Have Begun to Address the General Fund's Financial Condition

Although the District has experienced operating surpluses totaling over \$1 million over the last three fiscal years, expenditure increases are outpacing revenue increases. Expenditures have increased by 8 percent while revenues have increased by only 5 percent over the same period. The increases in expenditures were primarily driven by personnel costs (8 percent) and BOCES services (8 percent). Personnel costs were due to salary increases from contracts. BOCES costs increased because of special education and related services as well as school enrichment services provided to the District.

The District has explored numerous options to address the increasing costs. For example, District officials have hired a special education teacher which has allowed them to offer an additional class in-house. Officials calculated potential savings of over \$150,000 per year by taking this action. Additionally, the District shares various services with a neighboring district. Furthermore, officials negotiated a change in the employee contracts to reduce the District's share of health insurance costs for new employees and retirees as of July 2018. The District used to pay 100 percent of the cost of retiree health insurance. As employees retire, the District will recognize a savings ranging from \$922 to \$2,604 per retiree, depending on coverage.²

¹ An ME includes a conversion of the number of breakfasts and a la carte revenues into an equivalent number of lunches. A single lunch is the standard by which any measures are calculated.

² New retirees will contribute 10 to 15 percent towards health insurance. Teachers will contribute 15 percent towards health insurance.

Officials Did Not Fully Address the Cafeteria Fund’s Financial Condition

The cafeteria fund has experienced increasing operating deficits in each of the last three years totaling over \$109,000 (See Figure 1). Total expenditures in the cafeteria fund have increased 24 percent over the last three fiscal years while revenues have only increased 6 percent. The main cost increases were associated with salaries and food price increases. Additionally, the District is receiving, on average, \$3.84 per meal equivalent (ME), but it costs the District \$4.18 per ME to operate the cafeteria, resulting in a deficit of \$0.34 per ME.

Figure 1: Results of Cafeteria Operations

	2015-16	2016-17	Unaudited 2017-18	Totals
Revenues	\$390,508	\$413,946	\$412,721	\$1,217,175
Expenditures	\$395,670	\$441,370	\$489,869	\$1,326,909
Operating Surplus/(Deficit)	(\$5,162)	(\$27,424)	(\$77,148)	(\$109,734)
Interfund Transfers	\$25,000	\$25,000	\$40,603	\$90,603
Results of Operations (including interfund transfers)	\$19,838	(\$2,424)	(\$36,545)	(\$19,131)

As of the 2017-18 school year, the District joined a national program³ that provides free breakfast and lunch to all District students. The program increased student meal participation by 13 percent for lunch and resulted in an increase of 10 percent in revenues received from federal and State reimbursements from the previous school year. However, breakfast participation decreased 16 percent. District officials told us this was partially attributable to no longer providing students with “grab and go” breakfast options because the District could not accurately account for the number of students taking these bagged breakfasts in order to apply for federal and State reimbursements.

We reviewed menus and associated production and sales records and found that several main menu items served at the District resulted in low meal participation. Based on these records, average lunch participation at the elementary and middle/high school buildings was 191 and 202 meals per day, respectively. Average lunch participation at the two buildings for the main menu item was 130 and 135 meals per day, respectively. However, each building continually served main menu items with below average participation. Overall, the District served unpopular main menu items 52 times from September 2017 through June 2018 which equates to over two months of meals. For instance, at the elementary school, pulled pork meal participation was, on average, 68 meals/day (overall

³ Community Eligibility Provision of the National School Lunch Program

lunch participation was 177 meals/day) and the fruit and yogurt parfait meal participation was, on average, 102 meals/day (overall lunch participation was 169 meals/day). Each time these main menu items were served, main menu item participation was far less than average. At the middle/high school, grilled cheese (meal participation averaged 118 meals/day and overall lunch participation was 202 meals/day) was on the menu eight times and seven of the eight times main menu meal participation was less than average.

District students do have other meal options at the cafeteria when these unpopular main menu items are served. However, these unpopular choices were continually on menus because the District has no control over the main menu items. Instead, BOCES controls the menu for all the districts serviced in its cafeteria program with no consideration to District-specific preferences. As a result, we estimate potential lost revenue of over \$3,400 in 2017-18 based on overall lunch participation on days main menu meals had 25 percent less than average participation (52 meals in total) calculated using the District's meal reimbursement rate⁴ for lunch. Had the District had the opportunity to explore more enticing menu options to replace these meals or different ways to serve these existing main menu items, it could have potentially increased revenues with participation closer to daily averages.

We also compared the total cost paid to BOCES for its services to the salary and fringe benefit costs that could be paid directly to the Cafeteria Manager as a District employee to determine which option was more cost-effective. The District pays BOCES an average of \$102,815 annually for menu planning, completing free and reduced price lunch applications and the Cafeteria Manager's personnel costs. The cost of using in-house services or a BOCES employee were relatively the same. However, if cafeteria operations were managed in-house, the District would have more control over cafeteria food choices which could potentially increase revenues.

Furthermore, with potential revenue increases from increased student participation, the cafeteria fund may need a smaller future subsidy from the general fund.

What Do We Recommend?

The Board should:

1. Continue to examine the cost-effectiveness of providing special education classes and offer programs in-house when it is cost-effective to do so.

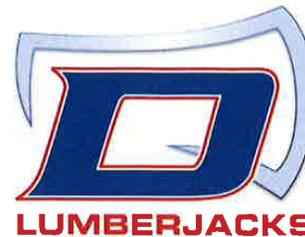
⁴ The District receives reimbursement for meals at a unique rate based on the Community Eligibility Provision of the National School Lunch Program. The District receives reimbursement for 83.392% of meals at the free rate of \$3.3699 and 16.608% of meals at the paid rate of \$.04499.

District officials should:

2. Examine ways to gain more control over menu options in an effort to increase participation and cafeteria revenues, including ways to make breakfast more accessible to students.

Appendix A: Response From District Officials

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Response to OSC Audit 2018M-204

This letter serves as both the district's response and corrective action plan.

Quick Facts

The District notes that the reported student count as listed for the 2017-2018 school year does not reflect student enrollment in alternative placements. These placements (25) account for a major portion of district expenditures.

See
Note 1
Page 7

General Fund

As noted, the District has implemented cost saving strategies by implementing in-house special education classes, sharing services with other districts, and modifying retirement benefits. The administration and Board of Education will continue to explore cost effective measures to save money in the future.

Cafeteria Operations

The District has the highest rate of participation in the breakfast and lunch programs in the Broome County. Further, the district's participation is 30% higher than the State average for breakfast and 20% higher for lunch. The district has implemented several new initiatives over the past few years to increase participation. These include additional opportunities for participation by providing vending machines for easy meal access, using grant funds to purchase equipment for more appealing alternatives (such as smoothies), and providing attractive alternatives to less popular main menu options. Planning the menu options is a complex process, which includes a number of variables. The district must meet USDA's average weekly nutritional regulations. In order to meet these requirements, the cost of the items, availability of staff to prepare, and the use of federal donated foods are considered. The menu items noted in the report all contain federal donated commodities; therefore, the use of these foods saves the district on food costs in comparison with competitively purchased food items. In the future, the district will participate in the menu planning meetings held by BOCES and will consider implementation of the Breakfast in the Classroom Program.

See
Note 2
Page 7

Further, The District believes the costs of running an in-house cafeteria program would be significantly greater when considering legacy costs of personnel (health insurance in retirement) and the need to hire additional employees to manage dietary planning and administrative tasks (policy/regulations/applications). The cost and availability of products would most likely diminish if the District were to run an in-house program due to lowered purchasing power outside of the cooperative service.

Denise Cook, Superintendent

Dean Price, President, Board of Education

Appendix B: OSC Comments to District's Response

Note 1

We obtained the "Total K-12 Public School Students" enrollment for the District from the New York State Education Department's (SED) public data site: <https://data.nysed.gov/>

Note 2

We compared rates of participation of Broome County districts using the reported SED student enrollment and the Average Daily Participation for breakfast and lunch figures submitted to SED by the respective districts. For the 2017-18 school year, the District did not have the highest participation for the breakfast or lunch programs when compared to other districts in Broome County.

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 to gain an understanding of the processes for reviewing financial condition and cafeteria operations.
- We calculated the average expenditures per pupil for 2014-15 through 2016-17 and compared the District to all other BOCES component districts, neighboring districts and districts with similar enrollment (those with 100 students greater or less than the District) in Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Sullivan, Tioga and Tompkins counties.
- We determined the shared services the District utilized and the associated cost savings achieved.
- We calculated the results of operations from 2014-15 through 2016-17 for the general fund and cafeteria fund.
- We determined whether the District was analyzing BOCES services costs and utilizing the most cost-effective option by reviewing special education costs at the BOCES compared to in-house District costs.
- We calculated the MEs⁵ from 2014-15 through 2016-17. We used this figure to determine the average daily participation for 2014-15 through 2016-17 assuming a 180-day school year. We analyzed the trends in participation rates and the MEs for both the elementary and middle/high schools.
- We analyzed trends in total cafeteria fund revenues and expenditures and results of operations, revenues and expenditures per ME and results of operations per ME from 2014-15 through 2016-17.
- We reviewed production records and menus to determine whether the District considered past participation when planning future meals. We calculated the average participation based on menu item purchases. Using that average participation, we calculated the potential revenue if the District had served different items on days when participation was low.

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

⁵ See the University of Mississippi Institute of Child Nutrition's Financial Management Information System, at <https://theicn.org/resources/119/financial-management-a-course-for-school-nutrition-directors-2nd-edition/103036/8-hour-participants-workbook.pdf> page 38 for the calculation steps to determine MEs.

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

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 2116-1(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 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

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