



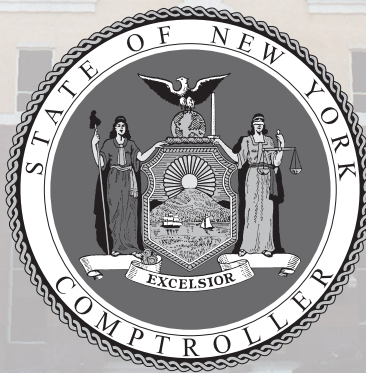
Catskill Central School District Financial Management

Report of Examination

Period Covered:

July 1, 2015 – March 28, 2017

2017M-134



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2017

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 Catskill Central School District, entitled Financial Management. 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 Catskill Central School District (District) is located in the Towns of Catskill, Athens and Cairo in Greene County. The District is governed by the Board of Education (Board) composed of nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates three schools with approximately 1,550 students and 422 employees. The District's budgeted appropriations for the 2016-17 fiscal year were \$39.4 million, which were funded primarily with State aid, sales tax, real property taxes and grants.

Objective

The objective of our audit was to review the District's financial management practices. Our audit addressed the following related question:

- Does the Board ensure budget estimates are reasonable and fund balance is in accordance with statutory requirements?

Scope and Methodology

We examined the District's financial management practices for the period July 1, 2015 through March 28, 2017. To analyze the District's historical trends, we extended our audit scope period back to July 1, 2011.

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 relevant population size 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 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 General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Financial Management

The Board, Superintendent and Business Administrator are responsible for accurate and effective financial planning which includes adopting realistic budgets and ensuring fund balance does not exceed the amount allowed by law. A school district's annual budget should include reasonable estimates of appropriations required to fund expenditures in the coming fiscal year.

Fund balance represents the cumulative residual resources from prior fiscal years that can, and in some cases must, be used to lower property taxes for the subsequent year. A school district may retain a portion of fund balance, referred to as unrestricted fund balance, but must comply with New York State Real Property Tax Law, which limits the amount of unrestricted fund balance to no more than 4 percent of the subsequent year's budget. The portion of fund balance used to finance the operating budget is referred to as appropriated fund balance.

The Board did not ensure that budget estimates or fund balance were reasonable and allowed unrestricted fund balance to exceed the statutory limit. Budget appropriations were overestimated by nearly \$11 million over the past five years (2011-12 through 2015-16). Additionally, unrestricted fund balance totaled \$5.5 million as of June 30, 2016 and was 14 percent of 2016-17 budgeted appropriations, exceeding the statutory limit by \$3.9 million (10 percentage points).

Budgeting and Fund Balance

The Board is responsible for preparing and presenting the budget to District residents for approval. It is essential that the Board prepares budgets based on historical or known trends. In preparing the budget, the Board must estimate revenues, expenditures, the amount of fund balance available at year-end (some or all of which may be used to fund the ensuing year's appropriations) and the expected tax levy. Accurate estimates help ensure that the levy of real property taxes is not greater than necessary.

We compared budgeted appropriations with actual expenditures for fiscal years 2011-12 through 2015-16 and found that the Board overestimated appropriations by a combined total of nearly \$11 million during that period.

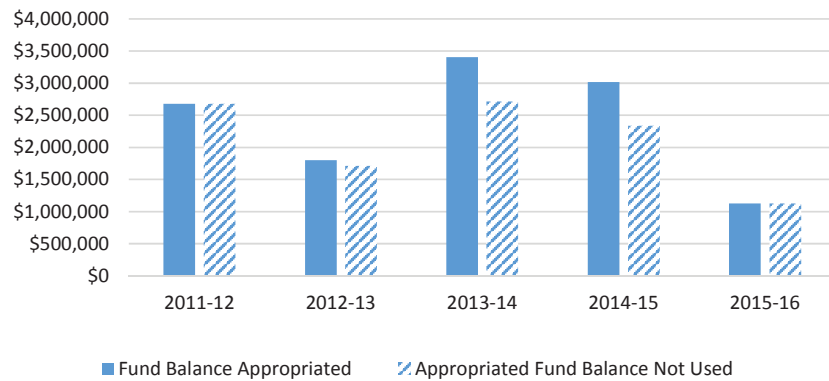
Figure 1: Overestimated Appropriations

| | Appropriations | Actual Expenditures | Overestimated Appropriations | Percentage Overestimated |
|---------------|----------------------|----------------------|------------------------------|--------------------------|
| 2011-12 | \$37,210,746 | \$34,065,098 | \$3,145,648 | 9.2% |
| 2012-13 | \$37,088,536 | \$35,244,679 | \$1,843,857 | 5.2% |
| 2013-14 | \$39,353,968 | \$37,564,842 | \$1,789,126 | 4.8% |
| 2014-15 | \$41,049,058 | \$38,642,945 | \$2,406,113 | 6.2% |
| 2015-16 | \$40,102,047 | \$38,323,664 | \$1,778,383 | 4.6% |
| Totals | \$194,804,355 | \$183,841,228 | \$10,963,127 | 6.0% |

The majority of budget variances during this five-year period related to personal services (overestimated by \$3 million, or 4 percent), health and dental insurance (overestimated by about \$3 million, or 16 percent), special education tutor/tuition (overestimated by \$997,268, or 26 percent), BOCES special education services (overestimated by \$792,728 or 13 percent), employee retirement system expenditures (overestimated by \$576,527, or 25 percent), Social Security (overestimated by \$460,052, or 8 percent) and operations–gas/heating (overestimated by \$480,367, or 75 percent).

This occurred because District officials prepared the ensuing year’s budget using the current year’s budget and did not compare estimates with actual revenues and expenditures. Additionally, the Board did not receive budget status reports at least quarterly, as required by law, to monitor budget activity. While some expenditures are often more difficult than others to accurately estimate, some of the Board’s overestimates were avoidable. For example, personal services are set by collective bargaining agreements and do not fluctuate between the time estimates are prepared and the budget is adopted. Therefore, the Board should be able to accurately estimate this appropriation.

Because annual budgets significantly overestimated appropriations each year, it appeared that the District needed to both increase its tax levy and use appropriated fund balance to close projected budget gaps. The Board increased the real property tax levy by a total of about \$3 million (20 percent) from 2011-12 through 2015-16 and annually appropriated an average of \$2.4 million in fund balance over the same period.

Figure 2: Appropriated Fund Balance Comparison

During the last five completed fiscal years, unrestricted fund balance averaged approximately \$3.9 million and exceeded the statutory limit by an average of \$2.3 million. As of June 30, 2016, unrestricted fund balance was approximately \$5.5 million or 14 percent of the subsequent year's budget. Although the District appropriated \$2.4 million of fund balance on average over the past five years, they did not use an average of \$2.1 million or 90 percent as planned. When unused appropriated fund balance was added back, the District's recalculated unrestricted fund balance exceeded the statutory limit each year from between 7.8 and 13.3 percentage points (Figure 3).

Figure 3: Recalculated Unrestricted Fund Balance

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|--|--------------|--------------|--------------|--------------|--------------|
| Unrestricted Fund Balance | \$4,871,565 | \$3,101,070 | \$2,743,649 | \$4,015,355 | \$5,606,356 |
| Less: Encumbrances | \$174,802 | \$281,156 | \$217,604 | \$217,603 | \$105,020 |
| Total Unrestricted Funds at Year-End | \$4,696,763 | \$2,819,914 | \$2,526,045 | \$3,797,752 | \$5,501,336 |
| Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget | \$1,713,488 | \$2,715,213 | \$2,336,135 | \$1,124,653 | \$88,000 |
| Total Recalculated Unrestricted Funds | \$6,410,251 | \$5,535,127 | \$4,862,180 | \$4,922,405 | \$5,589,336 |
| Ensuing Year's Budget | \$37,088,536 | \$39,353,968 | \$41,049,058 | \$40,102,047 | \$39,417,150 |
| Recalculated Unrestricted Funds as a Percentage of Ensuing Year's Budget | 17.3% | 14.1% | 11.8% | 12.3% | 14.2% |

Had the Board adopted realistic estimates for expenditures and used appropriated fund balance to finance operations, they could have accumulated less fund balance staying within the statutory limit and possibly reduced the tax levy.

Recommendations

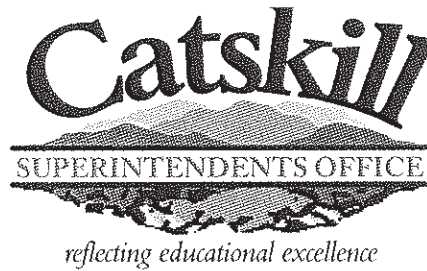
The Board and District officials should:

1. Ensure budgets include realistic estimates of appropriations based on actual needs to avoid levying taxes at a level greater than needed.
2. Ensure the estimates in the annual budget for the planned use of fund balance are accurate and reasonable.
3. Maintain unrestricted fund balance within the statutory limit.
4. Develop a plan to reduce unrestricted fund balance in a manner that benefits District residents. Such uses could include, but are not limited to:
 - Funding one-time expenditures;
 - Funding needed reserves;
 - Paying off debt; and
 - Reducing District property taxes.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Tenneh Blamah
Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

September 13, 2017

Response to Draft Audit 2017M-134

Dear Chief Examiner Blamah;

The Catskill Central School District is pleased to respond to your Draft Audit Report covering the Financial Management completed by the Office of the State Comptroller covering the time period of July 1, 2015 through March 28, 2017. This audit analyzed budget appropriations, expenditures, and fund balance from the 2011-12 school year through the 2015-16 school year.

The Board of Education and the School District Administration would like to thank the field examiners for their detailed examination and analysis of budget to actual variances and the growth of fund balance from 2011 to 2016.

The district agrees with the need for the budget to include “realistic estimates of appropriations based upon actual needs”, “ensure that the estimates for the use of fund balance are reasonable”, and the need to “develop a plan to reduce unrestricted fund balance”.

The district is developing a corrective action plan to address the efficacy and accuracy of budget and fund balance estimates to stop the growth of fund balance, and to reduce the existing fund balance. The district will do this in a manner that takes in the account the Property Tax Cap, and does not reduce fund balance through the direct annual use to support operations.

The district thanks the Office of the State Comptroller for the opportunity to respond to the audit report. We believe the auditing process to be a strong part of our continuous improvement efforts, so that we can ensure that our policies and procedures utilize district funds efficiently and effectively.

Sincerely,

Dr. Ronel Cook
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and reviewed Board policies to gain an understanding of the District's financial management practices.
- We analyzed the last five fiscal years of financial data and budgets to assess the results of operations and whether budget estimates were reasonable.
- We analyzed the trends in real property taxes to determine whether they increased over the last five years.
- We analyzed changes in fund balance over the last five years to assess whether fund balance was being used as budgeted.
- We calculated unrestricted fund balance as a percentage of the subsequent year's budget to assess whether the District was in compliance with statute.

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.

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