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April 2, 2019

Dr. Mary Jones, Superintendent of Schools
Wyandanch Union Free School District
1445 Dr. Martin Luther King Jr. Blvd
Wyandanch, NY 11798

Report Number: B19-7-1

Dear Superintendent Jones and Members of the Board of Education:

Our Office has recently completed a review of the general fund budgets at the Wyandanch Union Free School District (District). The objective of the review was to provide an independent evaluation of the adopted budgets. Our review addressed the following questions:

- Were significant revenues and expenditures in the adopted 2017-18 and 2018-19 budgets reasonable and effectively monitored?

- Are the significant revenue and expenditure projections in the District's proposed 2019-20 budget reasonable?

To accomplish our objective in this review, we requested your 2017-18 and 2018-19 adopted budgets, proposed 2019-20 budget, salary schedules, debt payment schedules and other pertinent information. We identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates, where appropriate. We identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimates were realistic and reasonable. We also requested and evaluated all Treasurer's reports, budget status reports and Board meeting minutes for each budget year reviewed to determine the information that was available to the Board and when it became available.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided.

2017-18 Adopted Budget

Significant estimated revenues and budgeted expenditures in the $68.8 million adopted 2017-18 budget were not reasonable. The District's audited financial statements for the period ending June 30, 2018 indicate that expenditures exceeded revenue by $3.4 million (5 percent). We reviewed the District's adopted budget for the year and noted the following causes for this deficit:

<u>State Aid</u> − Historically, the District receives State aid within 2 percent of the Governor's Budget.[1] However, the District did not use the $41.8 million figure included in the Governor's Budget. Instead, State aid, which accounted for 63 percent of the District's 2017-18 estimated revenues, was estimated for $43.2 million but actual revenue received was $41.6 million, resulting in a $1.6 million (4 percent) shortage.

District officials could not explain why State aid was overestimated, indicating that they anticipated receiving more State aid because the historical amounts provided have not been sufficient to cover mandates.

On February 13, 2019, the District hired an agency to perform a comprehensive review of State aid billing and records to determine whether the District can increase aid revenues. District officials indicated that the agency will only be compensated if additional aid is secured for the District.

<u>Outside Services</u> − Outside services accounted for 13 percent of the District's 2017-18 budgeted appropriations. The District budgeted $9.1 million for outside services but spent $11.5 million, exceeding appropriations by $2.4 million (26 percent). The two largest variances were transportation and special education, which exceeded budgeted appropriations by $1.4 million and $1.2 million, respectively.

The Superintendent told us that increases in student enrollment, the cost per student needing special services and transportation services contributed to this excess spending. We reviewed student enrollment and noted that the District had a 3 percent overall enrollment increase in the 2017-18 school year but a 13 percent increase in students with special needs. Although historical data was available, officials did not consistently use the data to prepare budgets, so the District's budget appropriations failed to keep pace with transportation and special education needs.

<u>Health Insurance Benefits</u> − Health insurance accounted for 11 percent of the District's 2017-18 expenditures. The District budgeted $7.5 million but spent $8.0 million, exceeding the budget appropriation by $481,944 (6 percent).

District officials told us that the collective bargaining agreement for aides and monitors was expanded to incorporate health insurance coverage for all employees. In addition, they had an increase in non-covered individuals opting for coverage and individuals opting for family coverage.

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[1]The Governor's Budget includes State aid to be disbursed to municipalities and can be used as a budgeting tool for estimating State aid, as it is available well before the budget adoption date.

Budget Monitoring − Effective management includes monitoring budgets during the course of the year and making any needed budgetary amendments to address revenue shortfalls or costs that exceed appropriations. Unplanned operating deficits usually indicate a failure to ensure that budgets are realistic and/or properly monitored. In addition, to ensure that cash is available as needed, District officials should develop cash flow projections to help identify potential cash deficiencies, and monitor cash balances throughout the year.

During the period January 1, 2018[2] through May 31, 2018, Board members received[3] timely monthly Treasurer's reports with cash balances and a bank reconciliation, as well as detailed budget status reports, 13 to 49 days after the closing of the corresponding month.

District officials and Board members claimed that they were provided inaccurate cash balances and mistakenly believed the District was in better financial health. However, the budget status reports provided to the Board included overspent budget lines that, upon review by Board members, should have raised questions and prompted action, such as budget transfers. For example, the budget status report for January 31, 2018, which the Board received March 14, 2018, identified the budget line for outside special education services was already overspent by $189,950 and that there was only $5,000 remaining available in the budget line for transportation. However, no budget transfers were presented or discussed for special education services or transportation expenses. A $400,000 budget transfer was approved for the transportation budget line in June 2018, but this was after the account had already been overspent.

District officials explained that there were unpaid invoices for transportation services that were not encumbered[4] upon receipt. Because Business Office personnel did not encumber these expenses, the financial reports presented to the Board did not reflect these expenditures until late in the fiscal year, and some were not processed until after the fiscal year had ended. When finally processed and paid, they contributed to the deficit.

Financial reports presented to the Board did not include statements of cash flow or fund balance projections. However, the information provided, which included year-to-date revenues and expenditures as well as anticipated revenues and encumbrances, would have allowed the Board to estimate operating results. For example, the projected year-end operating results declined steadily from $4.9 million in January 2018 to $1 million in May 2018. Had Board members reviewed the information provided to them each month, this downward trend would have alerted them to declining financial health.

The School Business Official formally notified the Board and the public about the 2017-18 fiscal year deficit on October 29, 2018, four months after the close of the fiscal year. However, Business Office employees said they became aware of the District's financial problems in late July 2018 and immediately notified management and Board members.

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[2]Being mid-year, the District has received a good portion of their revenues and should have an idea about its operating needs for the rest of the year.
[3]A messenger hand-delivers printed reports to the Board the week prior to Board meetings.
[4] An encumbrance is a "lock" placed on funds indicating the money is set aside for a specific use. It is a budgetary control to prevent budget lines from being overspent.

The District's external auditor formally informed the Board about the deficit on November 5, 2018. The auditor also cited the District for poor budget monitoring. The corrective action plan prepared by the District, to be effective for the 2019-20 fiscal year, includes a review of budgeting procedures, developing a realistic budget, ensuring adherence to the voter approved budget, and periodic monitoring of the budget status by the Business Office and presentation of reports to the Board.

2018-19 Adopted Budget

Significant estimated revenues and budgeted expenditures in the $71.3 million adopted budget for the 2018-19 fiscal year are not reasonable. The District now anticipates receiving $69.1 million in revenues, $2.2 million (3 percent) less than estimated, and projects spending $73.1 million, $1.8 million (3 percent) more than budgeted, for an anticipated operating deficit of $3.97 million.

We reviewed the same areas that caused the 2017-18 deficit in the 2018-19 budget to determine whether the District is likely to end the current fiscal year with similar deficits and noted the following:

State Aid – Again, the District did not use the $44.8 million figure included in the Governor's Budget. Instead, State aid, which accounted for 64 percent of the District's 2018-19 estimated revenues, was estimated for $45.5 million and the District has received $13.1 million as of January 2019. The District will likely only receive $44.8 million, which would result in a $733,166 (2 percent) revenue shortfall.

Outside Services − Outside services are 14 percent of the District's 2018-19 budgeted expenditures. The District budgeted $9.6 million, an increase of only $500,000 from the previous year's appropriation, and has paid $3.6 million as of January 2019. Officials project that the District will spend $8.9 million by the end of the fiscal year. However, this projection is likely inaccurate since expenditures totaled $11.5 million in 2017-18 and enrollment has not decreased. Officials could not provide examples of changes in policies or procedures that would result in a decrease in these costs as compared to 2017-18. Based on the trend, we project the District will spend $10.7 million, which exceeds appropriations by $1.1 million (12 percent). Special education and transportation expenses will likely exceed appropriations by $1.1 million (22 percent) and $147,000 (7.5 percent), respectively.

The School Business Official stated that the District is again behind in paying bills in this area and the accounts payable department has again not encumbered funds for all invoices received, so it is difficult to project these budget lines. Our projections are based on the information available.

Health Insurance Benefits − Health insurance benefits represent 12 percent of the District's 2018-19 budgeted expenditures. The District budgeted $8.3 million and has paid $6.4 million as of January 2019. Officials project spending $9.6 million through June 2019, $1.3 million (16 percent) over budget. Using actual invoices to project year-end results, we estimate the District will spend about $10.2 million, $1.9 million (23 percent) more than budgeted. The School Business Official told us he used the best available information to project the total and believes it to be accurate.

Budget Monitoring − Generally, the Board continues to receive timely budget status and Treasurer's reports between 44 and 46 days after the month ends. Three Board members indicated that since being informed about the 2017-18 deficit, they have been reviewing and questioning reports, sometimes even abstaining from accepting the reports.

We reviewed Treasurer's reports and budget status reports for the period July 1, 2018 through November 30, 2018 and noted that the format remains unchanged from the previous year. The Board still has sufficient information to determine cash flow and project year-end fund balance for the 2018-19 fiscal year.

In December 2018, the Board hired a consultant to analyze the District's financial condition. The consultant's report predicts that special education, transportation and employee benefits will again exceed budget appropriations. The consultant estimates the deficit for 2018-19 will be $3.8 million.

District officials told us that they implemented a spending freeze as of March 8, 2019, and communicated it to staff in a memorandum. In addition, the Superintendent indicated that although there is no Board-directed hiring freeze, they are not replacing departed or departing employees unless there is a need.

If the revenue shortfalls and over-expended budget appropriations mentioned above materialize, the District will face at least a $3.7 million deficit, which will leave the District with a negative fund balance of approximately $2.1 million.

2019-20 Proposed Budget

The 2019-20 proposed budget submitted to our Office is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenue	Appropriated Fund Balance	Real Property Taxes
General	$78,191,229	$47,116,978	$0	$22,094,518

Based on the results of our review, we found that the significant expenditure projections in the proposed 2019-20 budget are reasonable. However, the $47.1 million estimated revenues and $22 million property tax levy presented by the District are insufficient to finance the $78.2 million in expenditures. Adopting a $78.2 million budget would require the District to exceed the tax cap because it would need to levy an additional $9 million in real property taxes.

District officials indicated that the cost-cutting required to balance the budget would severely impact services provided to students so they are exploring other options such as reducing outside services costs by bringing some of the students back in-District, cutting back drastically on overtime in certain departments, cutting bus transportation costs,[5] and cutting sports programs, but no decisions have been finalized. Furthermore, officials could not provide a comprehensive plan

[5]Currently, the District provides bus transportation to all enrolled students. To reduce costs, officials would use the State's guidelines on qualifying students for transportation.

showing the items that would be cut and the procedures that would be implemented to reduce cost overtime, transportation and outside services enough to balance the budget.

State Aid − State aid is 65 percent of the District's 2019-20 estimated revenue. The $44.6 million the District estimated for 2019-20 appears reasonable, as it is in line with the $45 million included in the Governor's Budget.

Outside Services − The District included $11.9 million in appropriations for outside services, 16 percent of the District's 2019-20 budgeted expenditures. This estimate appears reasonable based on actual expenditure trends, particularly for special education and transportation, which are budgeted at $6 million (20 percent increase) and $3.2 million (67 percent increase), respectively.

Health Benefits − Health benefits still represent 12 percent of budgeted expenditures. The District's $9.0 million budget appears sufficient based on a three-year historical trend. The District estimates an 8 percent increase in 2019-20, which also appears reasonable.

Budget Monitoring − The District has implemented some of the corrective actions in response to the external auditor's recommendations. The School Business Official sought input from personnel when building the 2019-20 budget, and the Board continues to receive timely financial reports throughout 2018-19, as well as budget presentations for 2019-20.

Tax Cap Compliance

General Municipal Law Section 3-c establishes a tax levy limit on local governments and school districts, which was effective beginning with the 2012-13 fiscal year. The law generally precludes local governments and school districts from adopting a budget with a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless 60 percent of district voters approve a budget that requires a tax levy that exceeds the statutory limit.

We reviewed the District's proposed 2019-20 budget, as submitted, for compliance with the tax levy limit. District officials accurately estimated that they can expect to receive about $47.1 million in revenues but indicated that the property tax levy would be $22 million, stating they would not exceed the cap. However, a levy of $22 million is not sufficient to finance $78.2 million budgeted expenditures because it would result in a $9 million deficit. The proposed budget would require a property tax levy increase that exceeds the statutory limit or substantial cuts to expenditures. In adopting the 2019-20 budget, the District should be mindful of the legal requirement to maintain the tax levy increase to no more than the calculated limit, unless at least 60 percent of District residents vote to exceed this statutory limit. It is imperative that District officials pay careful attention to State aid estimates and other guidance, and make the appropriate changes to the budget and/or tax levy limit calculation.

We request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt the upcoming budget for the District. If you have any questions on the scope of our work, please feel free to contact Ira McCracken, Chief Examiner of the Long Island Regional Office, at (631) 952-6534.

Sincerely,

Andrew A. SanFilippo
Executive Deputy Comptroller

cc: Idowu Ogundipe, School Business Official
Stephanie Howard, District Clerk
Michael Flynn, Chief Operating Officer – BOCES
MaryEllen Elia, Commissioner, State Education Department
Thalia Melendez, Director, Office of Audit Services, State Education Department
Robert F. Mujica, Jr., Director, Division of the Budget
Hon. Phil Boyle, New York State Senate
Hon. Liz Krueger, Chair, Senate Finance Committee
Hon. Kimberly Jean-Pierre, New York State Assembly
Hon. Helene E. Weinstein, Chair, Assembly Ways and Means Committee
Ira McCracken, Chief Examiner, Long Island Regional Office