New York State Comptroller
THOMAS P. DiNAPOLI

Long Beach City School District

Financial Management

2023M-147 | August 2024

Division of Local Government and School Accountability

Contents

Report Highlights

Long Beach City School District

Audit Objective

Determine whether the Long Beach City School District's (District) Board of Education (Board) and District officials effectively managed the District's fund balance.

Key Findings

The Board and District officials did not effectively manage the District's fund balance and did not present the District's spending plans in a transparent manner. While real property tax levies remained the same since 2020-21, the District's budgeting practices resulted in tax levies being higher than necessary. The Board and officials:

- Reported surplus fund balance that exceeded the statutory 4 percent limit in three of the four years reviewed by as much as 5 percentage points.
- Transferred a total of $17.3 million of the general fund's excess fund balance at the end of two of the four fiscal years reviewed to the capital projects fund; however, this was not clearly stated in annual budget documents for voter approval. Prior to the non-transparent and unbudgeted fiscal year-end transfers that totaled about $13.4 million, the surplus fund balance exceeded the statutory limit by as much as 9 percentage points.
- Overestimated appropriations by an average of approximately $2.5 million annually and underestimated revenues by an average of $1.6 million annually for a three-year period.
- Adopted budgets that appropriated fund balance, which gave taxpayers the impression the District would have an operating deficit. Instead, the District realized operating surpluses ranged between $1.7 million and $4.1 million, totaling more than $8.5 million for a three-year period.

Key Recommendations

- Develop budgets that include reasonable estimates for revenues and appropriations that will be used to fund operations.
- Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

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

Audit Period

July 1, 2018 – June 30, 2022. We expanded our scope to include the operating results of the 2022-23 fiscal year.

Background

The District is located in Nassau County and serves students in the City of Long Beach and the communities of East Atlantic Beach, Lido Beach and Point Lookout.

The District is governed by the five-member Board which is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's 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 Assistant Superintendent for Finance and Operations (Assistant Superintendent) oversees the District's business operations. The Board, Superintendent and the Assistant Superintendent are responsible for developing the budget.

Quick Facts (Millions)	
2021-22 Total Revenues and Other Sources	$147.4
Four-Year Cumulative General Fund Operating Surplus	$5.3

Financial Management

How Should School District Officials Effectively Manage Fund Balance?

To effectively manage a school district's fund balance (the difference between revenues and expenditures accumulated over time) a school board and school district officials should develop and adopt realistic and structurally balanced budgets. Budgets should be based on historical data or known trends in which recurring revenues finance recurring expenditures. Reasonable budget estimates should be used to help ensure the tax levy is not greater than necessary and the budget is presented transparently to the public. When fund balance is appropriated in the budget to finance operations, a school district is budgeting for a planned operating deficit (expenditures exceeding revenues) equal to the amount of fund balance appropriated.

School districts may retain a portion of surplus fund balance[1] for unexpected occurrences and fluctuations in cash flow. However, officials must comply with New York State Real Property Tax Law Section 1318, which limits the amount of surplus funds that a school district can retain to no more than 4 percent of the budget. Officials must apply any surplus fund balance in excess of the 4 percent limit to reduce the upcoming year's real property tax levy or appropriately fund needed reserves.

The Board and District Officials Appropriated Fund Balance That Was Not Needed

The Board appropriated more than $2.3 million of fund balance over four years (2018-19 through 2021-22 fiscal years) to finance operations. As a result, the District should have incurred operating deficits in each of the four years if revenue and expenditure budgetary estimates were reasonable. Instead, the District realized operating surpluses in the 2018-19 through 2020-21 fiscal years totaling more than $8.5 million for the three-year period, or an average of about $2.9 million annually. For the three-year period, operating surpluses ranged between $1.7 million and $4.1 million (Figure 1). In 2021-22 the District planned on an operating deficit of $485,000 but instead realized an operating deficit of $2.7 million.

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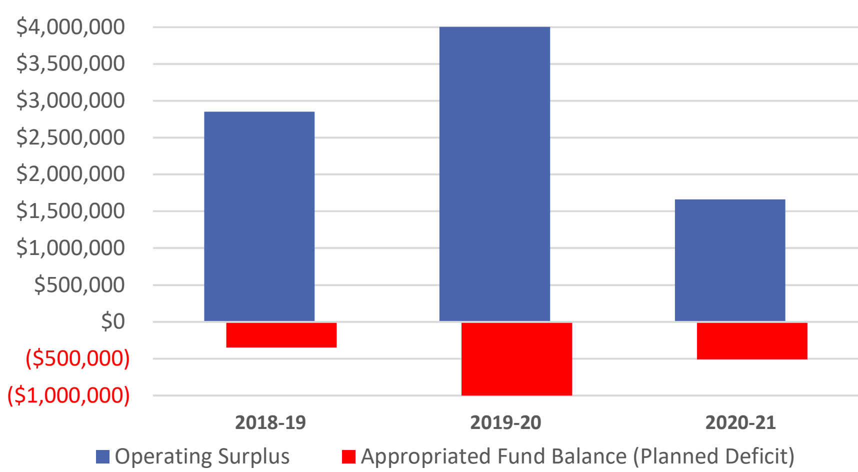
1 For guidance on fund balance classification and reporting see https://www.osc.ny.gov/files/local-government/publications/pdf/gasb54.pdf

FIGURE 1

Planned Deficit vs. Actual Operating Results



The significant variances between planned operating deficits and actual results were due to unreasonable budgetary estimates. From 2018-19 through 2020-21, actual revenues exceeded budgeted revenues by a total of $5 million, an average of $1.6 million annually. Additionally, appropriations were overestimated by a cumulative total of approximately $7.4 million, an average of approximately $2.5 million annually. There were three expenditure accounts with a cumulative average variance of more than $3.1 million in each of the three fiscal years. The Board overestimated appropriations for:

- Employee benefits[2] by almost $5 million for the three years reviewed (more than 8 percent), or annually by an average of about $1.7 million.
- Teaching regular school (including teachers' salaries) by approximately $3.8 million (more than 3 percent) for the three years reviewed, or annually by an average of $1.3 million.
- Programs for students with disabilities (including special education teachers' salaries) by about $643,000 (more than 1 percent) for the three years, or annually by an average of more than $210,000.

The Assistant Superintendent told us that over the past several years, health insurance costs increased at a high rate annually. Therefore, District officials try to anticipate the new rate by increasing the appropriation by at least 10 percent

2 Hospital, medical and dental insurance.

annually. However, annual increases with health insurance expenditures actually averaged only 0.2 percent over the years reviewed, and District officials could have used this historical data to better estimate the health insurance costs.

In fiscal years 2020-21 and 2021-22, actual expenditures exceeded the adopted budget appropriations by a cumulative total of $6.4 million. However, this occurred only because at the end of both fiscal years, the Board authorized and District officials transferred a total of $17.3 million ($7.8 million at the end of 2020-21 and $9.5 million at the end of 2021-22) from the general fund to the capital projects fund. Instead of including funding for projects in the annual budget, the Board authorized year-end transfers from the general fund balance to finance capital project costs. Seventy-seven percent of these transfers, about $13.4 million, were not budgeted. Prior to these non-transparent and unbudgeted fiscal year-end transfers, the surplus fund balance exceeded the statutory limit by as much as 9 percentage points. If the transfers had not been made, adopted appropriations would have exceeded actual expenditures by $7 million for these two years. Despite the transfers to the capital projects fund, the District realized a $1.7 million operating surplus for 2020-21 (or $6.7 million if the transfers had not been made) after originally adopting a budget with a planned deficit of about $510,000.

The Assistant Superintendent told us that the District ended the 2020-21 year with a larger than usual operating surplus because District officials anticipated needing extra funds for added measures related to the COVID-19 pandemic such as additional staff and other related expenditures. However, the District spent less in the 2020-21 fiscal year than expected. Although the COVID-19 pandemic created a degree of financial uncertainty, the Board and District officials consistently overestimated appropriations that were not needed prior to the pandemic as well.

The property tax levy increased each year from 2018-19 to 2020-21 by a total of $6.8 million (an average increase of approximately $2.3 million per year for the three years, or 2.24 percent). However, there was no increase in 2021-22 and 2022-23 fiscal years. Even though there was no property tax levy increase since the 2020-21 fiscal year, the District had a cumulative total of $19 million of surplus fund balance, which exceeded the statutory limit in three of the four years reviewed. Therefore, the Board and District officials could have reduced the tax levy by appropriating more fund balance than they did.

Had the Board and officials used historical trend analysis and previous years' actual results of operations to develop their budget estimates, they would have likely estimated more accurately, used an amount of fund balance more closely in line with what they appropriated to finance operations and been more transparent with the public and taxpayers.

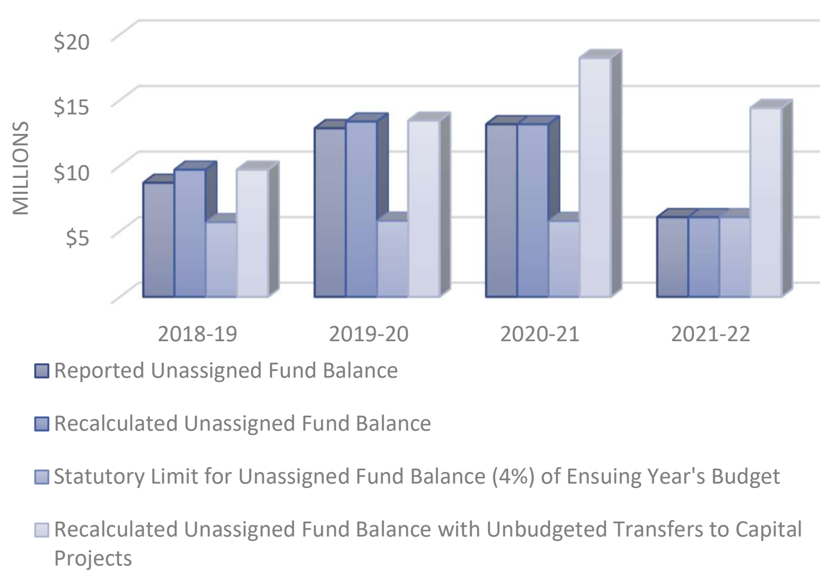
Surplus Fund Balance Exceeded the Statutory Limit

The District reported year-end unrestricted fund balance at levels that exceeded the 4 percent statutory limit in three (2018-19 through 2020-21) of the four fiscal years reviewed by as much as 5 percentage points. For its fiscal year ended June 30, 2022, the District complied with the 4 percent limit by appropriating over $5.4 million to finance the subsequent year's operations and by transferring $9.5 million to the capital projects fund, of which $8.3 million was not planned. The Board authorized almost $6.3 million two weeks before the end of the fiscal year to be transferred from the general fund's excess fund balance.

As previously noted in this report, appropriated fund balance was not used in three of the four years reviewed and the District realized operating surpluses instead of planned deficits in each of the three years. When unused unappropriated fund balance was added back, the recalculated surplus fund exceeded the 4 percent statutory limit by even more than what the District reported in three of the four fiscal years. For example, for the 2020-21 fiscal year, while the statutory limit for unassigned fund balance was about $5.8 million, the surplus fund balance was about $13 million, or more than two times the limit. Additionally, when unbudgeted transfers to the capital projects fund were added back, the recalculated surplus fund balance exceeded the 4 percent statutory limit in all four years reviewed by as much as 9 percentage points. For example, for the 2021-22 fiscal year, the statutory limit for unassigned fund balance was about $6.1 million. When the unbudgeted transfer to the capital project fund was added back, the surplus fund balance was about $14.4 million, more than two times the limit (Figure 2).

FIGURE 2

Surplus Fund Balance



By maintaining surplus fund balance at more than the statutory limit, District officials are withholding funds from productive use. Had the Board and District officials developed and adopted more reasonable budgets, they could have considered using these excess funds to fund one-time expenditures or needed reserves, pay off debt or reduce the tax levy.

The Assistant Superintendent told us that District officials intentionally overestimated appropriations and maintained surplus fund balance above the statutory limit over the past eight years to fund required restoration expenditures related to the aftermath of Hurricane Sandy[3] which occurred in October 2012. He also told us that as of June 30, 2021, the District had been reimbursed $27.6 million of the $31.1 million project costs. Therefore, the difference of about $3.5 million was maintained to shield the District from the financial risk of unreimbursed storm restoration expenditures due from State and federal aid. However, the Board and District officials do not have the discretion to disregard the statutory fund balance limit as they did in three of the four fiscal years we reviewed.

In addition, at year-ends June 30, 2021 and June 30, 2022, the District's surplus fund balance was $13.2 million and $6.1 million, respectively. Therefore, even if the District was not reimbursed for the $3.5 million of Hurricane Sandy expenditures, it had more than enough funds to avoid any financial burden. The Board and District officials maintained fund balance at the 4 percent statutory limit at the end of the 2021-22 fiscal year by appropriating a portion of fund balance for the 2022-23 fiscal year and transferring excess funds to the capital projects fund.

By using budgeting practices that are not based on historical data, known trends and anticipated needs, and by making unbudgeted year-end transfers, the Board and District officials are not presenting the District's spending plan, budget and fund balance in a transparent manner to the public and taxpayers.

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for revenues and appropriations that will be used to fund operations.

2. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

3 Hurricane Sandy was an extremely large and destructive Category 3 Atlantic hurricane which ravaged the Caribbean and the coastal Mid-Atlantic region of the United States in late October 2012. The City of Long Beach was heavily damaged by the hurricane.

3. Continue to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:

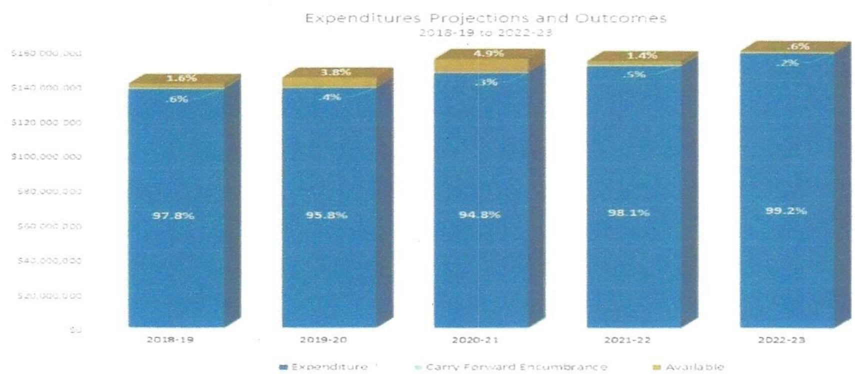
    - Reducing District property taxes,
    - Funding one-time expenditures,
    - Funding needed reserves, and
    - Paying off debt.

Long Beach Public Schools
235 Lido Blvd., Lido Beach NY 11561

Jennifer Gallagher, Ed.D.
Superintendent of Schools

NYS OSC Audit Response

1. **Budget to Expenditure Variances**: The audit report focuses on the variances between the district's budget and expenditures during the audit years. It is important to unpack the various annual budget to expenditure variances to understand the amount of the variance for each of the five years examined in the audit, and especially the context for the variances during two of the subject years (2019-20 and 2020-21) which occurred during the covid-19 pandemic.



a. The first year of the audit (**2018-19**), the district spent 97.8% of the amount budgeted which yielded an expenditure variance of 1.6% (0.6% of the budget is carried forward to be expensed in the following year). Based on an adjusted (for carry forward encumbrances from the prior year) budget of $140.4 million, leaving $2.3 million (1.6%) unspent demonstrates careful budgeting, particularly if the culture of the district is to budget for what is reasonably expected and to spend what is needed at the time. We do not have a district culture where staff spend every dollar allocated for fear that they will not receive what is reasonable the following year.

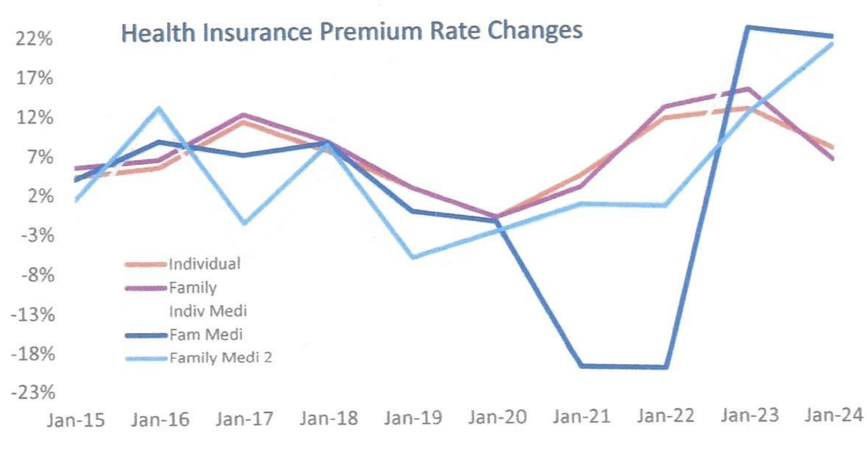
   i. For the category employee benefits [A9010, A9020, A9030, A9040, A9050, A9055, A9060 and A9089], the variance between original budget and expenditures was 4.8% or ~$1.6 million. The audit report states that the district should have budgeted based on historical data, but that methodology proves difficult with benefits since health insurance premiums, the main cost component in the benefits category, do not follow a trend. The chart below shows the see-saw of health insurance premium rate changes over a ten-year period for the five coverage categories. If the district used an historical average of expenditure (either a three-year or five-year average) methodology, it would not have had enough funding for the expenditures in 2018-19. If the district used an historical average of the annual expenditure percentage change, it is true that the district would have had enough funding for 2018-19, as well as 2019-20 and 2020-21, but <u>not</u> enough for 2021-22 or 2022-23.

Phone: (516) 897-2104 ● Fax: (516) 771-3944 ● Email: jgallagher@lbeach.org 1

With a desire to be conservative so that the district had sufficient funding for the large health insurance premium, in 2018-19 the district budgeted for a 10% premium increase for the second six months of the fiscal year only. Although the premium rate decreased in January 2019, a review of the chart below shows that the premium rate did, in fact, increase over 10% in various coverage categories over the five years of the subject audit.

It is important to note that during the budget preparation process, the health insurance premium change is unknown to the district until shortly before the following January 1st. The district maintains a census of all the employees and retirees for which health insurance is a contractual benefit and sorts each beneficiary in one of the five coverage categories. For the first six months of the fiscal year, the district knows exactly what the cost will be unless there is a change of coverage. It is the second six months that the district must estimate the premium rate change.

Furthermore, during the budget preparation process it is expressed clearly that if the premium rate does not increase to 10% or greater, any remaining funds could be used for unexpected expenses during that year. The district does not budget an amount for unexpected contingent expenses in the various line items, but openly states during the budget presentations that if the health insurance costs do not rise to the level of the budget, then the available funds may be used for this purpose. If there are insufficient funds in the health insurance line, then it has been clearly stated that the budget will need to be modified and unassigned fund balance might be used. In fact, the district had to do a budget modification in 2022-23 in the amount of $1,571,184 for special education and facilities expenses due to the fact that there was no other source for these unexpected contingent expenses. If available funds in this function are not needed during the year for unanticipated expenses, then the funds become part of fund balance and used either to offset the following year's tax levy or transferred to designated reserve funds for future use. During 2018-19, the majority of the available funds, $947,826 were used for unexpected contract transportation [A5540] expenses.



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ii. For the category general education teaching [A2110], the variance between the original budget and expenditures was 2.7% or ~$1.1 million while the variance for the category special education teaching [A2250] was 2.82% or ~$0.5 million. If we add both functions together [A2110 and A2250], the variance is 2.74%. The draft audit report highlighted the variances for "teacher salaries" and "special education aides" which are different from the data for the entire function, but subsequent discussions with the OSC audit team clarified that the report was intended to highlight the variances of the entire function of A2110 and A2250, not solely the teacher salaries or the special education aides.

See Note 1 Page 17

During budget presentations, the Assistant Superintendent, Finance and Operations, specifically stated that an allocation for PreK teacher salaries was included in the budget in case the Universal PreK grant application was not approved since the Universal PreK grant was not yet submitted or approved. The Assistant Superintendent was clear that this was a conservative approach to ensure that the PreK program could continue. If the expenditure for PreK teacher salaries was included in an approved UPK grant, then the allocation could be used for other unexpected instructional needs, particularly in special education since the district only budgets for the students of which we are aware and not for possible new students who transfer to the district who subsequently have a special education placement or existing students who receive unplanned services mid-year. In 2018-19, the district's UPK grant application was approved so the general fund allocation was transferred to A5510 to fund a new compressor for the transportation department's compressed natural gas station that unexpectedly failed during the year and was not funded in the original budget. If this funding was not available, the district would have sought a budget modification. If we review special education teacher salaries only, we see a negative variance of ~$600, but the positive variance for the entire function is due mostly to an over allocation for teaching assistants. The district budgeted for the teaching assistant slots that were needed but was not always able to fill the vacancies based on staff shortages.

b. During **2019-20** the district was closed from mid-March through the end of the school year so there were three- and one-half months when there weren't regular operations with standard spending. Although we maintained our contractual payroll expenses for staff throughout the school closure period, allocations for standard additional staff pay, vendor payments and other typical expenses for the remaining third of the school year were unspent. Unsurprisingly, the variance between budget and expenditures was relatively higher (3.8%) based on the fact that when the budget was created there was the expectation that the district would be in full operation the entire year.

i. For the category employee benefits [A9010, A9020, A9030, A9040, A9050, A9055, A9060 and A9089], the variance between original budget and expenditures was relatively higher due to the fact that it was unexpected that the health insurance premium rates in the coverage categories, where we have the overwhelming majority of staff and retirees, would decrease below 0%.

ii. For the specific category general education teaching [A2110], the district did not budget for PreK teachers because we needed to budget for an eRate reimbursable internet connectivity purchase. Some of the funding in the function was transferred to cover other salary shortfalls, specifically, special education [A2250] needed additional funding for unanticipated needs throughout the year and funds were transferred from A2110 into A2250. The variance between the original budget and expenditures for special education [A2250] was (1.29%) or ($247,142). If we review general education teacher salaries only, the variance between the original budget and expenditures is 1.51% or $526,056 which is much lower than the A2110 function as a whole which shows that the additional pay that was budgeted, as opposed to the contractual pay for salaries, was not needed due to the March 2020 shut down. In addition, in this particular year, allocations for separation pay, unused leaves and

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reclassifications were not used in the same manner as in the past due to the unusual circumstances of the school district closure and the covid-19 pandemic.

c. In **2020-21**, the district was able to shift budgeted instructional staff salary expenses to one of the federal grants (CRSSA) enacted to assist school districts with additional covid-19 related expenditures. $1.4 million of the ~$7.6 million operating surplus is due to the grant offset. It is important to mention that this grant was not expected when the district created the 2020-21 budget during the winter-spring of 2020. Furthermore, the district modified its budget in November 2020 because it expected an increase in expenditures of ~$4 million based on the additional teachers hired for the new virtual school and other pandemic related measures but those costs didn't materialize in the way expected which led to a relatively larger operating surplus. Considering the unprecedented nature of trying to ensure that there was sufficient funding to pay for the related costs of allowing students to return to class with social distancing and additional cleaning protocols, it is reasonable that the variance for this particular year was relatively higher than the other five years examined. It is important to state that all of the information was communicated openly to the community during public meetings. Specifically, there was a public presentation on October 13, 2020 when the district discussed the additional funds needed and how it would use the operating surplus from 2019-20 to fund the budget modification.

   i. For the category employee benefits [A9010, A9020, A9030, A9040, A9050, A9055, A9060 and A9089], the variance between original budget and expenditures was 5.2% or ~$1.8 million. The three-year average variance for the entire category was 5.9% or ~$2 million. It is true that the three-year average of the health insurance expenditure change was ~0.2%, but the average for the three years prior was 6.2%. If we review the three years prior to 2017-18, the average expenditure increase was 4.4%. If the district used the three-year average suggested in the draft report for 2017-18, the budget allocation would have been insufficient by ~$400,000.

   ii. For the category general education teaching [A2110], the variance was 3.83% or $1,570,857. If the district was not able to offset salaries to the federal grant, the variance would have been 0.4% or $170,857. If both general education [A2110] and special education [A2250] functions are combined, the variance (with the $1.4 million grant offset) would have been 0.86% or $524,987. Although the three-year variance for the entire general education teaching function [A2110] is ~$3.8 million or ~3%, the three-year variance for A2250 is 1.10% or $642,716 which shows how the allocation for A2110 was needed to help offset the short-falls in A2250. If we review the special education salaries only, the variance was (3.77%).

d. In **2021-22**, the 1.37% or ~$2.1 million variance between the adjusted budget and expenditures was even lower than the pre-pandemic level.

   i. For the category employee benefits [A9010, A9020, A9030, A9040, A9050, A9055, A9060 and A9089], the variance between original budget and expenditures was 4.2% (~$1.5 million) which is smaller than the prior two years. If the district had used historical data to estimate the health insurance budget (either a three-year or five-year average of the expenditure change), the allocation would have been significantly insufficient [see chart below]. For 2021-22, the health insurance budget line would have been short $555,445.

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Health Insurance	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-2024
Original Budget	$12,963,475	$13,445,906	$14,525,731	$15,004,577	$16,257,052	$16,848,158	$16,202,752	$15,818,348	$16,858,900	$18,836,339
Expenditures	$12,168,465	$12,624,196	$13,555,165	$14,519,539	$14,944,948	$14,616,855	$14,480,736	$15,026,688	$16,413,717	$18,450,633
Auditor Recommended Budget: 3-Year Average	$12,424,430	$12,450,303	$12,930,822	$14,152,391	$15,402,041	$15,812,693	$14,999,280	$14,471,242	$15,058,925	$17,074,062
Expenditure to 3-Year Average Budget Variance	255,965	(173,893)	(624,343)	(367,148)	457,093	1,195,839	518,544	(555,445)	(1,354,792)	(1,376,571)
Auditor Recommended Budget: 5-Year Average	$12,406,160	$13,108,702	$13,093,316	$14,044,996	$15,151,880	$15,640,248	$15,171,379	$14,894,660	$15,347,897	$16,834,038
Expenditure to 5-Year Average Budget Variance	$237,695	$484,505	($461,849)	($474,543)	$206,932	$1,023,393	$690,643	($132,027)	($1,065,821)	($1,616,595)

See Note 2 Page 17

ii. For the specific category general education teaching [A2110], the variance of 3.43% or ~$1.4 million was based on unused leave, teacher reclassifications and separation pay that was not used at the same level as in previous years perhaps due to the fact the pandemic altered staff behavior in regard to retirement and enrollment in credit earning coursework. It was unknown at the time of budget adoption exactly how much of these line items would be used since retirements and teacher movement across the salary schedule based on coursework taken during the school year was hard to predict. The PreK allocation was used to support various unexpected student needs such as an out of state competition, student software purchases as well as salary short falls in other functions, special education rate adjustments and summer school expenditures that turned out to be higher than forecasted. For A2250, the overwhelming majority of the positive variance was used to fund unexpected transportation costs for special education students attending BOCES programs. As previously stated, the district does not budget for unexpected contingent expenses in every line item but uses funds in A2110 and A2250 to supplement related unplanned costs in functions such as A5581.

e. In **2022-23**, the variance between adjusted budget and expenditures reduced even further to 0.61% or $966,330 and included a budget modification of $1,571,184, for some unplanned facilities and special education expenses.

i. For the category employee benefits [A9010, A9020, A9030, A9040, A9050, A9055, A9060 and A9089], the variance between original budget and expenditures was 1.5% (~$0.5 million) which was the smallest of all five years of the audit. Although the five-year average is 4.7% or ~$1.6 million, the clear trend post-pandemic is a dramatic reduction in the variances with 5.2% [2020-21], 4.2% [2021-22] and 1.5% [2022-23]. If the district had used historical data to estimate the health insurance budget (either a three-year or five-year average of the rate change), the allocation for actual expenses would have been seriously insufficient. If the district used the three-year average change, the health insurance budget line would have been under-funded in the amount of $1,354,792 and if the district used a five-year average change the code would have been under-funded in the amount of $1,065,821. The forecast for 2023-24 is a very small variance between budget and expenditure, and if the district used historical data for the current year, the funding for this category would have been significantly insufficient again in an amount of $1,616,595.

ii. For, the specific category general education teaching [A2110], funding for the UPK program was included again for the reasons stated above, and clearly communicated to the community during the budget presentations. The 3.52% variance between the original budget and expenditures shifts to a combined variance of 1.57% or $981,474 when both the general education and special education teaching functions are taken together. If we review general education teacher salaries only, the variance is 2.58% or $957,723 which is lower than the A2110 function as a whole. Some of the PreK funding was transferred to support an unexpected special education need while other portions of the PreK allocation was used to support unexpected facilities and transportation needs. The relatively larger line-by-line variances between budget and expenditure can be found in the separation pay, unused leaves and reclassification areas. We budgeted for possible retirement related expenses (one year in advance of the retirements), and it was somewhat difficult to predict if the staff who are eligible to retire will, in fact, retire. These allocations were ultimately used to support unanticipated special education needs such as students shifting to an out-of-district placement after the budget was prepared as well as funding for emergency facility needs such as the plumbing failure at the middle school.

2. **Surplus Fund Balance**: It is true that the district's unassigned fund balance exceeded 4% during three of the five years reviewed. The district recognizes the importance of the 4% limit and did not casually disregard it, but there were two important reasons why that occurred: Superstorm Sandy and Covid-19. The district discussed this fact, and the plans to appropriate the surplus fund balance with the community in many public presentations over the audit years. These presentations are on the district website.

	2018-19	2019-20	2020-21	2021-22	2022-23
4% of budget in Unassigned Fund Balance at close of year	$5,695,661	$5,807,705	$5,791,232	$6,076,636	$6,065,250
Surplus above 4% at close of year	$3,000,000	$7,051,624	$7,371,168	$0	$0
Superstorm Sandy restoration expenses at risk of not being reimbursed	**$5,901,420**	**$4,677,427**	**$5,889,468**	**$4,539,902**	**$3,482,996**
Superstorm Sandy restoration expenses not yet included in project worksheet	*$1,548,105*	*$1,194,317*	*$1,185,623*	*$1,185,663*	*$0*
Deductibles amount	*$1,232,086*	*$1,232,086*	*$1,259,530*		
FEMA reimbursement owed based on costs in project worksheet	*$609,989*	*$542,253*	*$1,625,943*	*$1,558,053*	*$2,432,551*
NYS HUD block grant reimbursement owed	*$2,511,240*	*$1,708,771*	*$1,818,372*	*$1,796,186*	*$1,050,445*
Budget modification for anticipated COVID-19 expenditures after budget adoption		$4,051,624			
Capital Projects appropriation			$4,285,400		
Total amount available if district was not reimbursed for pending restoration expenses from 4% fund balance	($205,759)	$1,130,278	($98,236)	$1,536,734	$2,582,254

$4,051,624 of the **2019-20** annual surplus was used for a budget mod for covid-19 related costs not known prior to budget adoption; $3,000,000 was maintained to safeguard against a potential reimbursement shortfall

$4,285,400 of the **2020-21** annual surplus was appropriated for needed capital projects as a stop gap measure prior to proposing a comprehensive bond supported capital plan; $1,259,530 of the surplus amount was transferred to the capital fund to settle the insurance deductibles that FEMA and NYS stated that they were not going to reimburse

a. **Superstorm Sandy Reimbursement:** The district spent almost $40 million to repair its buildings and replace building contents due to the damage related to Superstorm Sandy. The district secured a revenue anticipatory note two years in a row in order to pay for the large majority of the expenses; otherwise, it used cash on hand. During the time that the district was seeking reimbursement for restoration costs, it maintained a negative fund balance in the Superstorm Sandy restoration line of the district's capital fund. FEMA's progress repayment system allowed for reimbursement of ~90% of the recovery expenses of the

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initial project worksheet estimates even though the claim review process and final closeout were still pending. At the end of 2018-19, ~ $6 million remained due to the district, and the negative fund balance listed on the district's financial statement did not reduce to ~$5 million until the end of 2022 and further to ~$4.5 million at the end of 2023.

Another way to look at the amount due to the district is shown in the table above. A review of the line items in the table shows that there were restoration expenses that were not yet included in the project worksheet estimates, insurance deductibles that were promised to be reimbursed that were still outstanding until the district was told that these deductibles would not be reimbursed (a transfer from fund balance was made prior to the close of 2021-22), as well as outstanding amounts owed to the district from FEMA and the NYS HUD block grant for expenditures posted to the project worksheets. A review of the five audit years shows that the total amount at risk changed as project worksheets were updated, reimbursement was received and the funds to cover the insurance deductibles were transferred.

Although the district was aware that it was not supposed to maintain an amount in the unassigned fund balance above 4%, the district also knew that if the ~$6 million was not reimbursed then the full amount of its unassigned fund balance would be wiped out which would have placed the district in serious financial risk. Based on the NYS Comptroller's own fiscal stress scorecard, such a loss would have placed the district in fiscal stress. It was the magnitude of the potential loss and the difficulty in seeking reimbursement that the district experienced with FEMA during the project worksheet review process, that prompted the district to develop the temporary protective measure to maintain a balance in the unassigned fund balance of ~$3 million above the 4%. With the support of its external auditor, the district developed this temporary measure in order to hedge the potential $6 million loss, and safeguard the district's fiscal health. Furthermore, this strategy to safeguard the district's unassigned fund balance was clearly expressed in public numerous times.

See Note 3 Page 17

It is important to note that during the multi-year claim reimbursement process there were disputes with FEMA regarding expenditures listed on the submitted project worksheets. In fact, there was even a federal audit conducted in regard to some disputed claims. At one point, FEMA and the federal audit office stated that it would "claw back" reimbursed funds besides not reimbursing the district for what was still outstanding. Fortunately, the federal auditors adopted the district's position, and the disputes were resolved in the district's favor.

During 2021-22, most of the outstanding disputes with FEMA had been resolved so the district was confident that it would receive a majority of the funds spent on restoration. It no longer needed to maintain any surplus fund balance above the 4% so appropriations and transfers were made prior to the close of 2021-22. A review of the chart above shows that the district transferred ~$1.3 million out of the surplus fund balance to cover the amount of the unreimbursed deductibles which reduced the negative fund balance of the Superstorm Sandy line in the capital fund. It is important to note that work on the last building was just completed less than one year ago, and the district is still seeking reimbursement of ~$1.2 million for that project worksheet.

b. **Covid-19 Operating Surplus:** It is no surprise that the district ended 2019-20 with an operating surplus considering the fact that the district suspended regular operations three-and-one half months prior to the end of the fiscal year. As the district was closing its books for the year ending June 30, 2020, the district began preparing for the operation of an additional virtual school with additional staff, and implementing

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enhanced safety protocols with additional costs. Believing that the district would need more funds, the district planned to use ~$4 million of the funds above the 4% in the unassigned fund balance [see chart above] to modify the 2020-21 budget in lieu of transferring those funds into a designated reserve account. At the close of the 2020-21 year, the district ended the year with an even greater surplus than expected partly because the district was able to post $1.4 million of salary expenses to an unanticipated grant.

The district had identified in public over the course of several years that the boilers and pipes at the Lido Complex (Lido Elementary and Long Beach Middle School) needed to be repaired. There were plans to include the conversion of steam to hot water, replace the malfunctioning boilers and install new pipes in a large-scale capital project supported by a new bond issue, but the Board of Education was hesitant to move forward with a bond vote in the midst of a pandemic. The transfer of the surplus funds in the unassigned fund balance was planned during the summer of 2021 in consultation with the district's external auditor. The district did exactly what the auditor's report suggests, appropriate the fund balance surplus for a one-time expenditure (capital work). Although the audit report contemplates reducing the tax levy with the fund balance surplus, it was prudent for the district to allocate the surplus funding for much needed capital work since the district already planned a 0% increase from the prior year tax levy.

See Note 4 Page 17

	2018-19	2019-20	2020-21	2021-22	2022-23
% tax levy increase from prior year	2.98%	1.92%	1.81%	0%	0%

3. **Appropriated Fund Balance:** The audit report states that the amount of appropriated fund balance is a critical component in determining whether there was an impression that the district would have an operating deficit instead of an operating surplus. The chart below shows the amount of appropriated fund balance used to offset the tax levy, and the percentage of that amount in relation to the adjusted budget for the years examined in the audit. Using between $351,269 to $1,079,246 or between 0.25% to 0.69% of the district's fund balance towards operating expenses for the following year did not create a misimpression of a deficit. To think otherwise would mean that the district needed to spend every dollar up until the amount shown below even if it didn't need to spend those funds at that time or else levy the full amount needed without having the opportunity to appropriate fund balance to keep the levy lower.

See Note 5 Page 17

	2018-19	2019-20	2020-21	2021-22	2022-23
Appropriated Fund Balance to support General Fund Operating Expenses	$351,269	$1,000,000	$510,142	$485,430	$1,079,246*
Appropriated Fund Balance % as a function of Budget	0.25%	0.69%	0.33%	0.32%	0.68%

See Note 6 Page 17

**The full amount of the 2022-23 appropriation of $5,364,646 listed on the 2022-23 financial statement was presented to the community in two categories: appropriation for the following year's operating costs [$1,079,246] and capital projects [$4,285,400]. Both amounts are listed above in the two different charts.*

4. **Projection to Revenue Earned Variances:** In 2018-19, the variance between the revenue projection and amount earned was ~0.4%, and in 2019-20 the variance was ~0.5%, both extremely low which indicates extremely careful and accurate estimation. The relatively higher variances during 2020-21 (2.6%) and 2021-22 (2.2%) were attributable to larger than expected tuition received from Island Park for a greater number of students attending the high school than expected, and unexpected reimbursements of funds expensed but returned to the district from prior years (i.e.: BOCES and excise tax).

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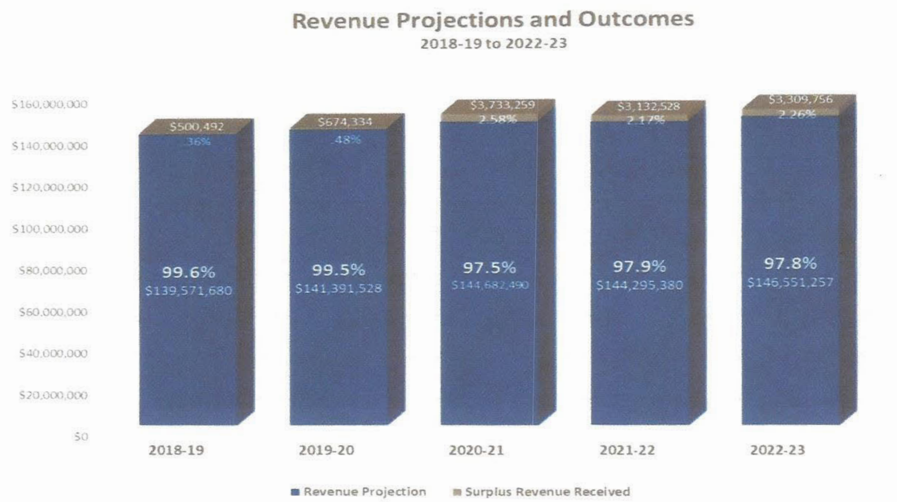

Conclusion: The district hopes that the detailed response contained above provides a greater understanding of the highlighted variances and fund balance, especially while it was dealing with the exceptional challenges of the Superstorm Sandy recovery effort and the Covid-19 pandemic. As stated above, the district has been committed to discussing all of its financial challenges, its strategies and ultimate solutions with the public openly as demonstrated in the numerous public presentations.

Jennifer Gallagher, EDD
Long Beach City Schoo l District

5/20/2024
Date

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Appendix B: OSC Comments on the District's Response

Note 1

We updated the audit report to clarify this point.

Note 2

The audit report does not recommend a specific amount or average health insurance cost estimate District officials should use; it states officials could have used historical data to better estimate health insurance costs.

Note 3

The OSC Fiscal Stress Monitoring System (FSMS) takes several factors into consideration when rating a school district's level of fiscal stress. Our Data Management Unit, who manages the FSMS database, reviewed the three fiscal years in our report and determined that while a $6 million reduction in fund balance in any of those years would have increased the FSMS score, it would not have caused the FSMS to designate the District as being fiscally stressed.

As indicated in the report, the District had more than enough funds to avoid any financial risk. When the unplanned capital project transfers are added back to the District's surplus fund balance it ranged from $9.7 million to $18.2 million during the audit period.

Note 4

District officials could have reduced the tax levy by appropriating more fund balance. Additionally, a more transparent method to fund capital reserves would be to alert taxpayers of the District's intention by including a provision in the budget to fund the reserve instead of transferring surplus fund balance at the end of the fiscal year.

Note 5

When fund balance is appropriated in the budget as a funding source, the expectation is that there will be a planned operating deficit, assuming budgetary estimates for revenues and expenditures are reasonable. The operating deficit would be financed by the appropriated fund balance. However, the District realized operating surpluses.

Note 6

The 2022-23 budget notices mailed to the taxpayers and the audited financial statements reported appropriated fund balance as a total of $5,364,646. It was not transparent to the voters that $4,285,400 was to fund capital projects.

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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed District officials and reviewed minutes of the Board's meetings, resolutions, relevant laws, District policies and audited financial statements to gain an understanding of fund balance management, procedures and budgeting practices.
- We analyzed the trend in total general fund balance for fiscal years 2018-19 through 2021-22. 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 as a percentage of the next year's appropriations after adding back appropriated fund balance not needed as a financing source to fund the next year's operations. We also recalculated surplus fund balance as a percentage of next year's appropriations after adding back unbudgeted transfers to the capital projects fund from the general fund.
- We analyzed results of operations for 2018-19 through 2021-22 using total actual revenues and expenditures and assessed whether appropriated fund balance was used to fund operations as planned.
- We compared the general fund's budgeted revenues and appropriations with actual revenues and expenditures for 2018-19 through 2021-22 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 reviewed the budgeted and actual appropriations from the District's audited financial statements and determined the difference between the budgeted and actual amounts to determine if the District overestimated their expenditures.
- We calculated results of operations for the fiscal years 2018-19 through 2021-22.
- We identified the budget codes that made up the overestimated appropriations and selected the largest for reporting.
- We reviewed the real property tax levy from 2017-18 through 2022-23 to determine the fluctuations and trends.

- We reviewed the District's unaudited 2022-23 results of operations as reported to OSC.

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. 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 2116-1(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. The CAP should be posted to District's website for public review.

Appendix D: Resources and Services

Regional Office Directory
www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas
www.osc.ny.gov/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems
www.osc.ny.gov/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management
www.osc.ny.gov/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans
www.osc.ny.gov/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders
www.osc.ny.gov/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.ny.gov/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers
www.osc.ny.gov/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics
www.osc.ny.gov/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

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https://www.osc.ny.gov/local-government

Local Government and School Accountability Help Line: (866) 321-8503

HAUPPAUGE REGIONAL OFFICE – Ira McCracken, Chief of Municipal Audits

NYS Office Building, Room 3A10 • 250 Veterans Memorial Highway • Hauppauge, New York 11788-5533

Tel (631) 952-6534 • Fax (631) 952-6530 • Email: Muni-Hauppauge@osc.ny.gov

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