

# East Islip Union Free School District

## Financial Condition Management

**MAY 2020**



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

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# Report Highlights

## East Islip Union Free School District

### Audit Objective

Determine whether the Board and District officials provided adequate oversight and management of the District's budget and financial condition.

### Key Findings

- The District's general fund balance increased by \$12.9 million (141 percent) from 2015-16 through 2018-19, due to appropriations being overestimated by an average of \$5.1 million (4.7 percent) per year.
- Over the last four completed fiscal years, the District reported unassigned fund balance equal to 4 percent of the ensuing year's appropriations. However, when unused appropriated fund balance is added back, unassigned fund balance exceeds the statutory limit by up to 4.2 percentage points.

### Key Recommendations

- Review the District's financial plan to maintain an unassigned fund balance at a level that complies with the statutory limit.
- Develop and adopt budgets with realistic estimates for revenues, expenditures and unassigned fund balance based on historical data and known trends.
- Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

District officials disagreed with some of our findings but indicated they will take corrective action. Appendix B contains our comment on an issue raised in the District response.

### Background

The East Islip Union Free School District (District) is located in the Town of Islip in Suffolk County.

The five-member Board of Education (Board) is responsible for managing the District's financial and educational affairs. The School Superintendent is responsible for the District's day-to-day management and budget development. The Assistant Superintendent for Business (ASB) is responsible for the District's business operations.

#### Quick Facts

For the 2018-19 Year

Employees	853
Enrollment	3,740
General Fund Expenditures	\$110,213,927
General Fund Balance	\$22,087,259

### Audit Period

July 1, 2015 – June 30, 2019

# Financial Condition Management

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## What Is Effective Financial Condition Management?

To effectively manage financial condition, a board must adopt reasonably estimated and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, a board and district officials must estimate the district's spending, revenue and available fund balance at fiscal year-end to determine the expected tax levy. Accurate estimates help ensure that the real property tax levy is not greater than necessary.

Fund balance represents the cumulative residual resources from prior fiscal years. New York State Real Property Tax Law (RPTL)<sup>1</sup> currently limits the amount of unassigned fund balance that can legally be retained to no more than 4 percent of the next year's budget. Any fund balance over this percentage must be used to fund needed reserves or reduce the upcoming year's real property tax levy. When fund balance is appropriated for the ensuing year's budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated. Additionally, a board should adopt a fund balance policy to ensure that sufficient funding for necessary operations is available and that the real property tax levy is not greater than necessary.

## The Board and District Officials Need to Improve Budgeting Practices

The Board adopted general fund budgets that significantly overestimated appropriations over the last four fiscal years. Because the Board did not adjust ensuing years' budgets based on prior years' results, a pattern of over-budgeting developed. This resulted in unplanned operating surpluses totaling \$12.9 million, instead of the budgeted deficits.

Over the past four completed fiscal years, the District reported unassigned fund balance equivalent to 4 percent of the ensuing year's appropriations, in accordance with its policy<sup>2</sup> and RPTL. However, when unused appropriated fund balance is added back, unassigned fund balance exceeds the statutory limit by as much as 4.2 percentage points (Figure 1).

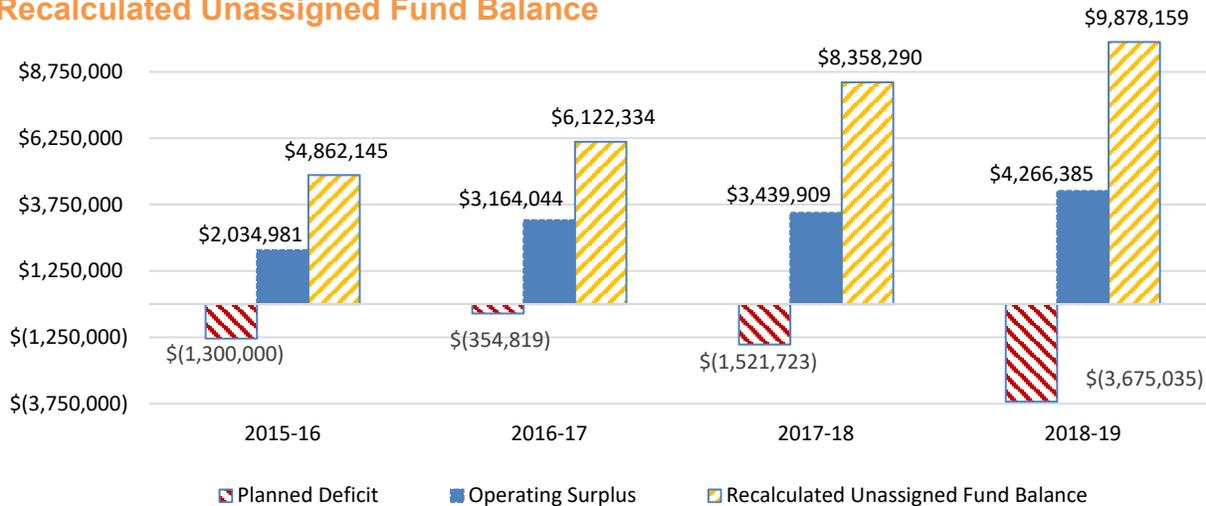
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1 New York State Real Property Tax Law (RPTL), Section 1318

2 The Board adopted a combined reserve fund policy and multiyear financial plan that requires the District to maintain unassigned fund balance no greater than 4 percent of the ensuing year's budget.

**FIGURE 1**

**Planned Deficit vs. Actual Operating Surplus and Recalculated Unassigned Fund Balance**



Due to the repeated operating surpluses, the District did not use appropriated fund balance totaling nearly \$6.9 million. Annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and circumvents the statutory limit imposed on the level of unassigned fund balance (Figure 2).

**Figure 2: Unused Fund Balance**

	2015-16	2016-17	2017-18	2018-19
<b>Reported Unassigned Fund Balance at Year-End</b>	\$4,507,326	\$4,600,611	\$4,683,255	\$4,813,393
<b>Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget</b>	\$354,819	\$1,521,723	\$3,675,035	\$5,064,766 <sup>a</sup>
<b>Total Recalculated Unassigned Fund Balance</b>	\$4,862,145	\$6,122,334	\$8,358,290	\$9,878,159
<b>Ensuing Year's Budget</b>	\$112,683,147	\$115,015,282	\$117,081,377	\$120,334,922
<b>Recalculated Unassigned Fund Balance as Percentage of Ensuing Year's Budget</b>	4.3%	5.3%	7.1%	8.2%

<sup>a</sup> As of February 27, 2020, District officials expect 2019-20 to end with another operating surplus.

We reviewed the District's budgets for the 2015-16 through 2018-19 fiscal years and found that District officials overestimated appropriations by an average of \$5.1 million (4.7 percent) each year, spending a total of approximately \$20.5 million less than budgeted (Figure 3). This generated operating surpluses each year and increased the total fund balance by \$12.9 million over the four year period, from \$9.2 million at July 1, 2015 to \$22.1 million at June 30, 2019. If the Board continues its current budgeting practices, fund balance in the general fund will continue to exceed the statutory limit and property taxes will continue to be higher than needed to fund operations.

**Figure 3: General Fund Budget-to-Actual Comparison**

	2015-16	2016-17	2017-18	2018-19
<b>Appropriations</b>	\$111,216,232	\$112,858,349	\$115,086,364	\$117,493,463
<b>Actual Expenditures</b>	\$107,207,564	\$108,556,474	\$110,174,984	\$110,213,927
<b>Variance</b>	\$4,008,668	\$4,301,875	\$4,911,380	\$7,279,536
<b>Percentage Variance</b>	3.7%	4.0%	4.5%	6.6%
<b>Estimated Revenues</b>	\$107,076,458	\$109,929,465	\$112,690,142	\$113,276,342
<b>Actual Revenues</b>	\$109,242,545	\$111,720,518	\$113,614,893	\$114,480,312
<b>Variance</b>	\$2,166,087	\$1,791,053	\$924,751	\$1,203,970
<b>Percentage Variance</b>	2.0%	1.6%	0.8%	1.1%
<b>Operating Surplus</b>	\$2,034,981	\$3,164,044	\$3,439,909	\$4,266,385

The District expended less than budgeted, in part, because the Board adopted budgets with overly conservative estimates for certain appropriations. Over the four-year period, appropriations for employee benefits were overestimated annually by an average of \$2.2 million (7.7 percent). Teaching – regular school<sup>3</sup> was overestimated by an average of \$1.1 million (2.9 percent) and the appropriations for programs for students with disabilities were overestimated by an average of \$738,043 (5.5 percent). The District has reduced certain teaching salary and employee benefit appropriations in its 2019-20 budget, which may address some of these variances. However, the costs of employee salaries and related benefits are driven by contractual agreements and contribution rates established by, and available from, the retirement systems. Therefore, these amounts are reasonably predictable and should not be overestimated by such significant amounts.

By consistently overestimating expenditures, District officials have levied more taxes than necessary to sustain District operations and may have compromised the transparency of District finances.

### **What Do We Recommend?**

The Board should:

1. Review its financial plan to maintain the District’s surplus of unassigned fund balance at a level that complies with the statutory limit in a manner that benefits District taxpayers. Surplus funds can be used as a financing source for:

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<sup>3</sup> This includes, among other things, teacher salaries.

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- Funding one-time expenditures;
  - Funding needed reserves;
  - Paying off debt; and
  - Reducing District property taxes.
2. Adopt budgets that include realistic estimates for revenues, appropriations and unassigned fund balance based on historical data and known trends.
  3. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

District officials should:

4. Develop budgets that include realistic estimates for revenues, appropriations and unassigned fund balance based on historical data and known trends.

# Appendix A: Response From District Officials

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Assistant Superintendent  
for Business



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250 Veterans Memorial Highway  
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4/16/2020

Dear Mr. McCracken:

Please allow for this correspondence to serve as the official response from the East Islip UFSD relating to the Report of Examination on Financial Condition (2020M-24) conducted by your office for the period of July 1, 2015 through June 30, 2019. The East Islip UFSD is appreciative of the efforts of your staff while conducting the audit and welcomes the opportunity to strengthen fiscal controls based upon the procedural recommendations included in the report.

Before addressing the specifics of the recommendations, there are two items worth noting. The first is within the key findings of the report. It is stated that the District's general fund balance increased by \$12.9 million from 2015-16 through 2018-19. Upon District review, it appears that the increase noted actually compares year end 2014-15 through 2018-19. If in agreement, please adjust both the dollar and percentage comparisons of fund balance contained in the Key Findings section of the report.

See  
Note 1  
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The second item worth noting is the characterization of the District possibly circumventing the statutory limit imposed on the level of unassigned fund balance, which is noted in the audit as being a result of overly conservative estimates of certain appropriations. The District has been in compliance with the statutory limit of 4%, however the report indicates that by incurring annual operating surpluses and not using appropriated fund balance, the District may have exceeded the statutory amount and compromised the transparency of District finances.

The Board of Education and Administration makes every attempt to be transparent and adopts budgets that consider both foreseeable and unforeseeable expenditures, while at the same time keeping tax levy increases to a minimum and acting prudently on behalf of the taxpayers. In fact, the average annual tax levy increase for the District, during the period of this audit is .56%, which is significantly below the average annual calculated NYS Tax Levy Cap of 1.80% for the same period of time.

Below is the response to specific recommendations contained within the Report of Financial Condition that covers the time period of July 1, 2015 through June 30, 2019:

**Audit Recommendation:** Review the District's financial plan to maintain an unassigned fund balance at a level that complies with the statutory limit.

**Response:** The Board of Education and Administration maintains that the amount retained as unassigned fund balance is in compliance with the statutory limit of 4%. The District appreciates the value of the calculation being done in this report and will consider the impact of unused appropriated fund balance on the overall financial plan of the District. It should be noted that the District has contracted with a vendor that will assist the District with the creation of a five-year plan. This plan will be used to guide the District in making decisions that impact the use of fund balance.

**Audit Recommendation:** Develop and adopt budgets with realistic estimates for revenues, expenditures and unassigned fund balance based on historical data and known trends.

**Response:** The Board Education and Administration does adopt budgets with realistic estimates that are based upon historical data and known trends. The development of a five-year plan, as mentioned above, will be based upon past data and trends and will help ensure that realistic budgeting is continued. However, uncertainty will remain a part of any budget process due in part to the following:

John V. Dolan  
Superintendent of Schools

- 
- Uncertainty regarding state aid, amplified by inclusion in the 2020-2021 state budget of a mechanism that would allow the Governor to lower the amount of state aid promised, based upon results at the state level.
  - Special Education BOCES tuition costs continue to be volatile, ranging from a low of \$2.7 million to a high of \$3.3 million over the past several years. This area of the budget will continue to be planned conservatively based upon this volatility in order to be able to accommodate the needs of our special education students.
  - The District has been involved in long and protracted labor negotiations with several of its bargaining units. While there is uncertainty in any one year regarding potential settlements, the annual budget must be crafted in such a way to accommodate settlements, should they occur.
  - Health Benefits continue to be a huge unknown when crafting a budget. Rate increases for the second six months of any year are not known until well after the budget has been adopted by the Board of Education. This unknown is an example of the need to budget conservatively.
  - The District has been proactive in analyzing staffing levels in relation to the consistent downward trend in enrollment. Substantial reductions in staff have been achieved, while at the same time shifting savings towards investment in infrastructure and technology.

**Audit Recommendation:** Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

**Response:** The Board of Education and Administration will review the practice of appropriating fund balance in support of the adopted budget, however it is not known until after the completion of any given year, whether or not a surplus is achieved, and hence the need to use funds appropriated. As noted above, amounts appropriated are used to support the contingencies and unknowns in a budget, while at the same time protecting the taxpayers from year to year volatile fluctuations.

The last audit conducted by your office was in 2014/15 and at that time the District had been designated by the Office of the NYS Comptroller, for three years running, as being in moderate fiscal stress. Due to prudent financial planning by the Board of Education and Administration, the District has been able to reverse this trend and is now categorized as no designation in relation to financial stress.

The Board of Education and District Administration remain committed to improving not only the financial condition of the District but also the underlying procedures that govern financial operations, while at the same time providing essential educational programs to the students of East Islip UFSD. This is further evidenced by the District embarking on the development of a five-year financial plan that will consider the items in this audit. Over the next couple of months, the District will be developing the required corrective action plan based upon recommendations made by your office.

Sincerely,

Mr. John Dolan  
Superintendent of Schools

Sincerely,

Mr. William Earpluk  
President, BOE

## Appendix B: OSC Comment on the District's Response

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### Note 1

We calculated the change in fund balance from the July 1 opening balance of 2015-16 through the closing balance of 2018-19. Because the fund balance as of July 1, 2015 would equal the June 30 closing balance of 2014-15, the numbers presented are correct.

## Appendix C: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board minutes, policies and procedures, and documentation relevant to short- and long-term planning to gain an understanding of the budgeting and financial management processes and procedures, including the rationale for determining the levels to maintain for unassigned fund balance and reserves.
- We compared budgeted appropriations and estimated revenues to actual results for the last four completed fiscal years and identified significant variances.
- We reviewed the adopted 2019-20 general fund budget to determine whether District officials had addressed the significant appropriation variances we identified in previous years.
- We calculated general fund operating results for the past four years and assessed the use of budgeted appropriated fund balance.
- We calculated unassigned fund balance as a percentage of the next year's appropriations to assess District compliance with statute.

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-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The CAP should be posted on the District's website for public review.

## Appendix D: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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### **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](http://www.osc.state.ny.us/localgov/academy/index.htm)

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