

# Harrison Central School District

## Financial Condition

JULY 2019



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

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# Report Highlights

## Harrison Central School District

### Audit Objective

Determine whether the Board and District officials adopted budgets with reasonable estimates.

### Key Finding

The Board and District Officials:

- Did not reasonably estimate certain general fund appropriations in the annual budget in each of the past five years (2013-14 through 2017-18).

### Key Recommendation

- Adopt annual budgets that contain reasonable estimates for appropriations based on historical and/or other known factors.

District officials generally disagreed with our findings and recommendation. Appendix B includes our comments on issues raised in the District's response letter.

### Background

The Harrison Central School District (District) serves the Towns of Harrison, Rye and North Castle in Westchester County. A seven-member Board of Education (Board) is responsible for the general management of financial and educational affairs.

The Superintendent of Schools is the chief executive officer and is responsible, along with other administrative staff, for day-to-day management under the Board's direction.

#### Quick Facts

Employees	622
Enrollment	3,604
2018-19 General Fund Appropriations	\$116.7 million

### Audit Period

July 1, 2016 – July 19, 2018. We extended our audit period back to July 1, 2013 and forward through July 19, 2018 to analyze budget trends.

# Financial Condition

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## **How Does a Board Effectively Manage District Finances?**

A board, with assistance from the superintendent and business manager, is responsible for effectively managing school district finances. These officials should prepare, and the board should adopt, annual budgets that contain realistic estimates of revenues and appropriations and reasonably estimate the use of fund balance as a funding source for operations.

## **The Board Overestimated Certain Appropriations**

The Board did not reasonably estimate certain general fund appropriations in the annual budget each year we reviewed. We compared budgeted revenues and appropriations to actual revenues and expenditures for 2013-14 through 2017-18 and found that while revenue estimates were generally reasonable, certain appropriations were overestimated each year.

We analyzed the budget-to-actual expenditure reports individual accounts or line items for 2013-14 through 2017-18 and found that the Board and District officials did not reasonably estimate appropriations for three line items, Board of Cooperative Educational Services (BOCES) special education, health insurance, and social security each year (Figure 1) by cumulative totals of approximately \$6.45 million. We also reviewed the 2018-19 budget and found that, except for BOCES special education, the Board and officials continued these budget practices which resulted in property taxes being higher than needed.

Although the Board and officials were aware that certain appropriations were overestimated in previous budgets, they continued to allocate significant funds to these items in the annual budgets.

**Figure 1: Overestimated Appropriations**

BOCES Special Education			
Year	Budgeted	Actual	Excess
2013-14	\$1,075,944	\$568,671	\$507,273
2014-15	\$1,105,786	\$750,132	\$355,654
2015-16	\$1,637,000	\$744,978	\$892,022
2016-17	\$1,259,100	\$595,802	\$663,298
2017-18	\$1,071,000	\$530,118	\$540,882
2018-19	\$811,000		
<b>Cumulative Total Excess BOCES Special Education Appropriations</b>			<b>\$2,959,129</b>
Health Insurance			
Year	Budgeted	Actual	Excess
2013-14	\$10,660,851	\$10,290,925	\$369,926
2014-15	\$11,122,063	\$10,426,389	\$695,674
2015-16	\$11,502,215	\$10,865,914	\$636,301
2016-17	\$11,660,611	\$11,347,697	\$312,914
2017-18	\$12,156,752	\$11,704,954	\$451,798
2018-19	\$12,679,656		
<b>Cumulative Total Excess Health Insurance Appropriations</b>			<b>\$2,466,613</b>
Social Security			
Year	Budgeted	Actual	Excess
2013-14	\$4,311,079	\$4,088,480	\$222,599
2014-15	\$4,266,268	\$4,128,335	\$137,933
2015-16	\$4,474,509	\$4,207,020	\$267,489
2016-17	\$4,507,962	\$4,255,644	\$252,318
2017-18	\$4,658,759	\$4,513,713	\$145,046
2018-19	\$4,780,542		
<b>Cumulative Total Excess Social Security Appropriations</b>			<b>\$1,025,385</b>

The Board and District officials told us that they base the budget appropriation for BOCES special education on current or actual students' placement service levels and two unanticipated placements, should new students move into the District or existing students require placements.

They contributed the excess of budget over actual to the District's commitment to managing and controlling costs and success in creating in-house special

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education programs during the school year and encouraging parents to have their children remain in the District and the in-house programs. They also stated that during the school year, some students may leave the District or have their service levels reclassified, resulting in cost reduction.

The Board and District officials pointed out that they reduced the estimate for BOCES special education program in the 2018-19 budget based on their analysis of trends and historical data. With health insurance and social security, the Board and District officials stated that the estimates are based on current employees' choices and anticipated cost of health insurance for employees they expect to hire during the school year.

Although the Board and officials told us they used historical or known trends during their budget development process, they annually overestimated these appropriation items during the past five years. We believe, officials could have calculated more reasonable projections for these appropriations.

By not estimating certain appropriations conservatively, the Board created annual operating surpluses, resulting in the accumulation of significant fund balance. However, the District's tax levy has remained fairly consistent over the last five years, in spite of the consistent surpluses.

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

The Board should:

1. Adopt annual budgets that contain reasonable estimates for appropriations based on historical or other known factors.

# Appendix A: Response From District Officials

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**HARRISON CENTRAL SCHOOL DISTRICT**  
**50 UNION AVENUE**  
**HARRISON, NEW YORK 10528**

(914) 630-3023  
FAX# (914) 835-5893  
super@harrisonsd.org

LOUIS N. WOOL, Ed.D.  
SUPERINTENDENT OF SCHOOLS

**To:** Cole Hickland, Director  
[REDACTED]

**From:** Dr. Louis N. Wool, Superintendent of Schools

**RE:** Response to Revised Draft Audit dated June 13, 2019

**Date:** June 21, 2019

On behalf of Board President, Kelly Mulvoy Mangan, and Assistant Superintendent for Business, Robert Salierno, I would like to respond to the revised draft audit report dated June 13, 2019.

During our exit conference, we expressed concerns about the Key Finding that the Board and District Officials did not reasonably estimate certain general fund appropriations in the annual budget in each of the past five years (2013-14 through 2017-18).

Additional information and documentation provided substantive evidence that the District used reasonable estimates for health insurance and social security appropriations. The actual expenditures in the areas of health insurance and social security were within 96% of the budgeted appropriations that are developed almost a full year prior. We requested that this information and documentation be reviewed and that the Key Finding be reconsidered in light of this additional comprehensive information.

We do not believe or accept that the Board overestimated appropriations in the annual budget in any of the five years cited in the audit. We believe it is a gross misunderstanding of the parameters under which school budgets are constructed when much of the critical information must be estimated and not based on data but rather on projections.

See  
Note 1  
Page 8

## **Key Finding & Key Recommendation in the draft audit report**

**Draft Audit Key Finding:** The Board and District Officials did not reasonably estimate certain general fund appropriations in the annual budget in each of the past five years (2013-14 through 2017-18).

**Draft Audit Key Recommendation:** Adopt annual budgets that contain reasonable estimates for appropriations based on historical and/or other known factors.

## **The District's Perspective:**

The draft audit states that the Board overestimated certain appropriations in the annual budget each year.

The District agrees with the audit recommendation that reasonable estimates for appropriations should be based on historical or other known factors. We believe reasonable estimates for appropriations based on historical and other known factors are in fact the basis for all planned budget items and/or appropriations. The following narrative and supporting documentation previously provided illustrate our methodology in the areas cited in the audit.

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As the information will show these appropriations are reasonable, carefully considered, and rooted in hard evidence and actual experience. We respectfully disagree with your conclusion in the draft audit.

### **Health Insurance**

The draft audit indicates that the District should develop reasonable estimates for appropriations based on historical and/or other known factors in the area of health insurance. We provided five years of documentation to demonstrate that we develop our budget appropriations for health insurance based on reasonable information based on historical factors.

In reviewing employee hiring between the 2013-2014 school year and the 2017-2018 school year, it is important to note that District has offered a teacher retirement incentive in each of those five years to control salary growth. The incentives have yielded significant retirements and an influx of new employees. During those five years, the total employee population has turned over ranging from a low of 7.1% in 2018-2019 to a high of 10.8% in 2015-2016. The five-year average turnover rate is 8.9%.

The District reasonably estimates for health insurance appropriations. The budget is developed anticipating that new employees will follow a similar selection pattern to current employees. Approximately 50% of current employees select a family or two-person plan, and approximately 50% selects an individual plan or chooses a waiver of the health plan. During each of the five years audited, the District hired between 44 and 67 new employees, requiring the District to budget for the predicted health plan choices of employees not yet hired six months in advance of the actual budget. These are reasonable estimates based on our actual employee usage patterns, and provide the best prediction of yet unknown employees. The actual expenditures are within 96% of the budgeted appropriations.

See  
Note 2  
Page 8

### **Social Security**

The budget line for Social Security contains the same challenges as the health insurance appropriation. This section of the budget is also developed a full six months in advance of knowing who our new employees will be and what contribution amounts for Social Security will be required. As the Comptroller's office is aware, the FICA limits are set by the Social Security Administration annually. These rates are set after the adoption of the budget.

The budget appropriation rate for Social Security is established on the effective rate, which we believe is more reasonable than using the full 7.65. We examine the availability of teachers and estimate that some shortage areas, like physics, chemistry, and dual-certified teachers are likely to cost more and hence have a higher salary, while more readily available tenure areas are likely to cost less. These assumptions are based on both local and national trends. The District holds several teacher recruitment fairs throughout the course of the year, and uses information obtained at the fairs to inform its development of salaries for potential new employees in various tenure areas. We respectfully submit that this is a highly reasonable, thoughtful method, and backed is by actual information. The actual expenditures are within 96% of the budgeted appropriations.

See  
Note 3  
Page 8

### **BOCES Special Education**

The draft audit report concludes that appropriations are overestimated in the area of BOCES special education programs.

The District provided evidence that these estimates were based on the actual and/or anticipated placements of current students. The budgets projected maintaining the current special education placement of existing students based on the assessment of the director of special education and CSE committee chairpersons.

The District provided five years of documentation that identifies the actual students upon whom the estimated appropriations were based. Estimated appropriations were based on actual tuition rates in place at the time that the budget was constructed and based on actual students enrolled in those placements and/or anticipated to be enrolled in those placements.

See  
Note 4  
Page 8

The District begins to prepare its special education budget for the upcoming school year in October of the year prior. It is important to note that the appropriations for special education outplacements are constructed as much as six months in advance of the actual adopted budget and approximately six months ahead of the final determination of the CSE based on annual federally mandated reviews. The assistant superintendent for business carefully monitors all current special education outplacements, as well as potential special education outplacements based on the best available information from the director of special education. Monitoring includes ongoing meetings throughout the course of the year with the director of special education and the

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assistant superintendent for business, and ongoing monitoring of current preschool students who might require out of District placements as they enter kindergarten.

The District has successfully created internal special education programs and when possible maintains students in the District. In examining the special education outplacements over the last five years, it can be seen that some students leave the District during the period leading up to the academic year, some have CSE determined reclassifications, and some students, based on newly devised and implemented in-District programs, remain in the District, further reducing cost.

It is not possible to know whether parents will accept an alternative placement, nor whether students' classification requirements will change. Our budget appropriations are based on current classifications of students when developing the outplacement budget. The appropriations are built around the assumption that students will maintain their current placement and level of service. Any deviations from these outcomes could not be known or assumed by the District six months in advance of the actual IEP placement of the student. Our planning is based on what is known about individual student placement at the time of the budget development.

If the District were to develop a budget ignoring known information for current special education students it would be derelict in its duty. A failure to plan and fund for special education outplacements would create an untenable financial circumstance and be ethically unacceptable.

In addition to actual current student placements, the District budgets for two unanticipated placements. These unanticipated placements are planned in the event that students move into the District, or that existing students or incoming kindergartners require outplacements. We believe it is prudent and reasonable to plan for two unanticipated students. As the Comptroller is aware, state and federal education law mandate that services required for special education students as dictated through the CSE process must be fully funded and met. This line was reduced by \$260,000 in the 2018-2019 budget year based on our analysis of trends and historical data.

In summary, we believe that we are budgeting using reasonable estimates as our planned appropriations are based on actual students and two unanticipated outplacements. We agree with the recommendation of budgeting more conservatively and will do so by continuing to reduce appropriations for unanticipated outplacements.

#### Summary

In the areas of health insurance and social security, we are reasonably estimating our appropriations as evidenced by the fact that actual expenditures are within 96% of the budgeted appropriations.

We accept the recommendation that we should budget more aggressively and continue reducing appropriations for unanticipated BOCES special education students.

Any indication that property taxes are higher than needed does not accurately represent the District's budget practices. From the 2013-2014 budget through the 2017-2018 budget, we have returned \$11,864,788 to the taxpayer in appropriated fund balance thereby reducing tax levy increases in each of those five years. These funds were returned to the taxpayer because of excellent planning and management, and a commitment not to spend money simply because it was appropriated. The District's management team works tirelessly to manage effectively and efficiently. We have worked diligently over many years to demonstrate our commitment to financial oversight.

See Note 5 Page 8
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We are a District that has been recognized for excellence in financial management at every level, including from Standard & Poor's, who has maintained our AAA rating throughout the economic downturn. We have been recognized for this excellence because we work diligently to bring our budgets in ahead of plan whenever possible, capitalizing on all opportunities to protect the taxpayer dollars.

Sincerely,

Louis N. Wool, Ed.D.  
Superintendent of Schools  
Harrison Central School District

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

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### Note 1

Our analysis of budget-to-actual expenditure reports for 2013-14 through 2017-18 shows that the Board and District officials overestimated BOCES special education, health insurance, and social security in the annual budget in each of these years by a cumulative total of approximately \$6.45 million. Except for BOCES special education, the Board and officials continued these budget practices in the 2018-19 budget.

### Note 2

The Board and District officials were aware that health insurance actual expenditures were less than the budgeted amounts each year. However, they continued to increase the budget by between 3 and 5 percent from 2013-14 to 2017-18. As a result, overall expenditures were less than estimated appropriations by nearly \$2.5 million over this five-year period.

### Note 3

Although the Board and District officials were aware that actual social security expenditures from 2013-14 through 2017-18 were less than budgeted amounts, they continued to budget nearly the same amounts each year. As a result, overall actual expenditures were less than budgeted appropriations by more than \$1 million over this five-year period.

### Note 4

While the Board and District officials were aware that actual expenditures for BOCES special education were less than budgeted from 2013-18 by an average of \$591,826 each year, they continued to budget the same amounts each year. As a result, the overall actual appropriations for BOCES special education from 2013-14 through 2017-18 were less than estimates by about \$3 million over this five-year period.

### Note 5

It is misleading for officials to suggest that they returned more than \$11.8 million to taxpayers from 2013-14 through 2017-18. The financial records show that during this five-year period, officials appropriated fund balance totaling \$12.4 million. However, because of the overestimated appropriations, appropriated fund balance was not used to fund operations. Except for 2014-15, when the District reported a deficit of \$115,726, operating surpluses were reported in each of the other four years. Therefore, only \$115,700 was used to reduce the tax levy or returned to taxpayers over the five-year period.

## 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 the Board minutes, resolutions and District policies to gain an understanding of the budget process, fund balance and reserves.
- We calculated the unassigned fund balance as a percentage of the ensuing year's appropriations to determine whether unrestricted fund balance was within the statutory limitation for 2013-14 through 2017-18.
- We compared appropriations and estimated revenues to trends in actual expenditures and revenues from 2013-14 through 2017-18 and investigated variances of more than \$200,000 in at least two of the past five years. In the audit team's professional judgment, we determined that variances of less than \$200,000 were immaterial.
- We analyzed the 2018-19 budget and compared it to the prior year's actual results to determine if the District is overestimating appropriations.

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 relevant population size and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendation in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(3) (c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the Clerk's office.

## Appendix D: Resources and Services

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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)

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

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

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: [localgov@osc.ny.gov](mailto:localgov@osc.ny.gov)

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

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

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**NEWBURGH REGIONAL OFFICE** – Tenneh Blamah, Chief Examiner

33 Airport Center Drive, Suite 103 • New Windsor, New York 12553-4725

Tel (845) 567-0858 • Fax (845) 567-0080 • Email: [Muni-Newburgh@osc.ny.gov](mailto:Muni-Newburgh@osc.ny.gov)

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