

Oysterponds Union Free School District

Financial Management

JANUARY 2020



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

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Report Highlights

Oysterponds 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 Board overestimated general fund appropriations by a total of approximately \$1.6 million from 2016-17 through 2018-19.
- Over the past three completed fiscal years, the District reported unassigned fund balance that ranged from 16.5 percent to 27.8 percent of the ensuing year's appropriations, or four to seven times the statutory limit. Moreover, when unused appropriated fund balance is added back, unassigned fund balance exceeds the statutory limit by nearly 27 percentage points.

Key Recommendations

- Develop a plan to reduce its surplus of unassigned fund balance to comply with the statutory limit in a manner that benefits District taxpayers.
- Develop and adopt budgets that include 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 agreed with our recommendations and indicated they had either already taken, or planned to take, corrective action.

Background

The Oysterponds Union Free School District (District) is located in the Town of Southold, Suffolk County.

The seven-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 Treasurer is the chief financial officer.

Quick Facts

For the 2018-19 Year:

Employees	28
Pre-K – Grade 6 Enrollment	95
Grades 7-12 Enrollment Attending Greenport UFSD	64
General Fund Expenditures	\$5.4 million
Year-End Unassigned Fund Balance	\$1.6 million

Audit Period

July 1, 2016 – June 30, 2019

Financial Condition Management

What Is Effective Financial Management?

To effectively manage a school district's 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)¹ currently limits unassigned fund balance to no more than 4 percent of the next year's budget. Any unassigned 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 sufficient funding for necessary operations is available and that the real property tax levy is not greater than necessary.

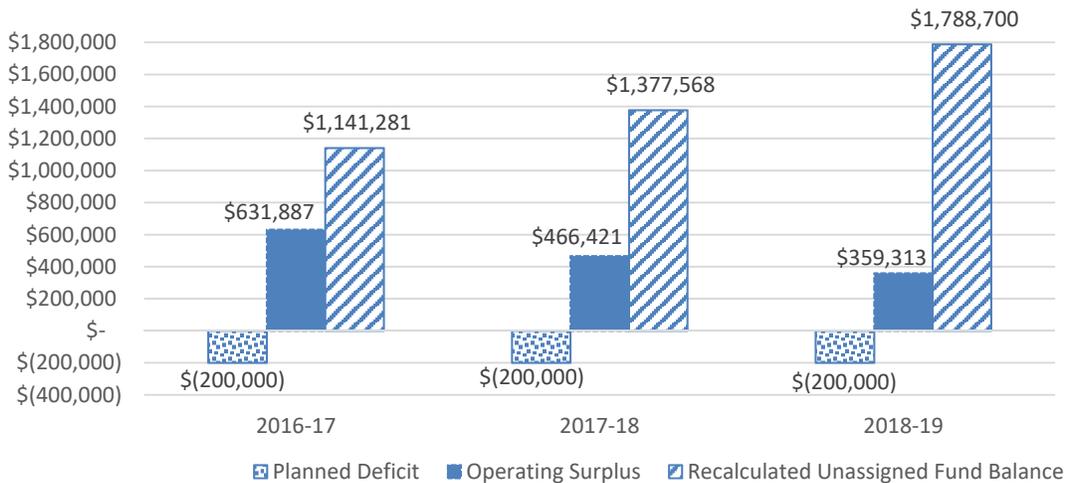
The Board and District Officials Need to Improve Budgeting Practices

The Board adopted general fund budgets that significantly underestimated revenues and overestimated appropriations over the last three fiscal years. Because the Board did not adjust ensuing years budgets based on prior year's results a pattern of over budgeting developed. This resulted in unplanned operating surpluses totaling nearly \$1.5 million, instead of the budgeted deficits. Although the operating surpluses decreased over the last three fiscal years, the recalculated unassigned fund balance continued to increase.

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

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 \$600,000. 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.

Over the past three completed fiscal years, the District reported unassigned fund balance that ranged from 16.5 percent to 27.8 percent of the ensuing year's appropriations, which is four to seven times the limit allowed by RPTL. Moreover, when unused appropriated fund balance is added back, unassigned fund balance exceeds the statutory limit by an even greater margin.

Figure 2: Recalculated Unassigned Fund Balance Including Unused Appropriated Fund Balance

	2016-17	2017-18	2018-19
Reported Unassigned Fund Balance at Year-End	\$941,281	\$1,177,568	\$1,613,700
Add: Appropriated Fund Balance Not Used to Fund Ensuig Year's Budget	\$200,000	\$200,000	\$175,000 ^a
Total Recalculated Unassigned Fund Balance	\$1,141,281	\$1,377,568	\$1,788,700
Ensuig Year's Budget	\$5,704,425	\$5,794,781	\$5,809,568
Recalculated Unassigned Fund Balance as Percentage of Ensuig Year's Budget	20.0%	23.8%	30.8%

^a Assuming that the District will end 2019-20 with another operating surplus

We reviewed the District’s budgets for the 2016-17 through 2018-19 fiscal years (Figure 3). We found that District officials underestimated revenues by nearly \$525,000 during this three-year period and also overestimated appropriations, spending approximately \$1.6 million less than budgeted. If the Board continues its current budgeting practices, fund balance in the general fund will continue to exceed the statutory limit and taxes will continue to be higher than needed to fund operations.

Figure 3: General Fund Budget-to-Actual Comparison

	2016-17	2017-18	2018-19
Appropriations	\$5,705,333	\$5,736,258	\$5,828,127
Actual Expenditures	\$5,003,501	\$5,198,770	\$5,444,317
Variance	\$701,832	\$537,488	\$383,810
Percentage Variance	14.0%	10.3%	7.0%
Estimated Revenues	\$5,480,052	\$5,504,425	\$5,594,781
Actual Revenues	\$5,635,388	\$5,665,191	\$5,803,630
Variance	\$155,336	\$160,766	\$208,849
Percentage Variance	2.8%	2.8%	3.6%
Operating Surplus	\$631,887	\$466,421	\$359,313

The District expended less than budgeted, in part, because the Board adopted budgets with overly conservative estimates for certain appropriations. Over the three-year period, appropriations for programs for students with disabilities were overestimated annually by an average of \$267,666 (25.3 percent). Teaching–regular school² was overestimated by an average of \$54,108 (2.4 percent) and central services were overestimated by an average of \$39,237 (14.4 percent).

Even with a multiyear strategic plan in place for 2015-2020, the Board approved budgets with underestimated revenues and overestimated appropriations and also increased the real property tax levy 2.6 percent from 2016-17 to 2019-20. District officials attributed much of the operating surpluses to unanticipated increases in non-resident enrollment in 2016-17 and 2017-18 and the actual non-resident tuition rates for those years being lower than the estimated rates provided by the NYS Education Department. However, these changes in enrollment and rates highlight the importance of District officials considering historical figures and other known trends when developing the budget.

The Board and District officials are currently discussing and preparing a new strategic plan for 2020-2025 that will address, among other things, financial condition and capital projects. District officials have indicated that they plan to reduce the District’s unassigned fund balance, at least in part, by using it

² This includes, among other things, teacher salaries.

to fund some of the planned capital projects, including updating the District's HVAC system and playground. However, they have not established and funded reserves to earmark funds for these projects, which would reduce the unassigned fund balance.

What Do We Recommend?

The Board should:

1. Develop a plan to reduce the District's surplus of unassigned fund balance in a manner that benefits District taxpayers. Surplus funds can be used as a financing source for:
 - 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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Richard C. Malone
Superintendent of Schools

January 6, 2020

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250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Sirs,

The Board of Education and the Administration of the Oysterponds U.F.S.D. in Orient are grateful to the representatives of the Hauppauge Regional Office for the time and effort they have expended to create the Report of Examination #2019M-217 covering financial management. We agree that all recommendations provide opportunities for improvement and to that end please accept this letter as a response and a Corrective Action Plan, representing both the Board of Education and the Administration of the district.

Unit Name: Oysterponds Union Free School District
Audit Report Title: Financial Management
Audit Report Number: 2019M-217

Audit Recommendation

The Board needs to develop a plan to reduce its surplus of unassigned fund balance, develop and adopt budgets that include realistic estimates for revenues, expenditures and unassigned fund balance, and discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

Implementation Plan of Action

The District, along with the Board of Education, is currently discussing and preparing a new strategic plan for the period 2020 to 2025. As part of the strategic plan district administration and the Board will review curriculum/program development, staffing, enrollment, capital projects, financial condition, and future budgets for the district.

The District continues to educate approximately 15% of the overall student population with non-resident students. We make every effort to budget the revenues accordingly and during the 2018-2019 budget preparation, increased the estimated tuition to be received. However, the district experienced an increase in non-resident student enrollment and incurred an approximate increase of 11% in revenue received over the prior year. The District will continue to review the trends and make necessary adjustments when preparing the future budgets.

The District also experienced an increase in revenue during the 2018-2019 school year due to reimbursement from our neighboring district for prior years' 4408 summer program in excess of amounts accrued. The district did not receive similar reimbursements in the prior year. After reviewing this with our neighboring district and creating a procedure for the proper reimbursements, we do not expect to continue to receive these reimbursements in the future.

The District continues to collaboratively work with our neighboring district for the education of our students in grades 7-12 in creating a multi-year instructional contract that will benefit our secondary students not only educationally but will benefit the district financially with a more concrete rate of tuition to be paid. At the time of budget preparation the district uses estimated Seneca Falls tuition rates. Over the last several years the district has had an unstable trend in tuition costs due to and from the neighboring district making future budgeting of these expenses very difficult to estimate. The District has in the past and will continue to make every effort to estimate these numbers and expenditures as accurately as possible.

With the approval of the Capital Reserve in May of 2014, the District continues to address capital improvements laid out in their prior long range plan, as well as their new five year strategic plan, in a manner that will not impact their budget or tax levy. The District makes every effort to avoid financing such projects by laying out a multi-year financial plan that makes it necessary for the District to allow fund balance to exceed statutory limits for a period of time while the planning phase is taking place.

With the close of the 2018-2019 district financials, the Board of Education has chosen to use an additional \$25,000, for a total of \$175,000, of the available June 30, 2019 unassigned fund balance to partially fund the 2019-2020 approved operating budget. The District has planned to review and make the necessary adjustments to the appropriated fund balance to offset and reduce property taxes for the 2020-2021 school year. The District is aware that they need to improve their budgeting practices to ensure fund balance is reasonable.

Implementation Date

The Board and Administration will continue to meet every month until the new strategic plan for the period 2020 to 2025 is implemented. In addition, the Board will finalize the budget for the 2020-2021 school year on April 14, 2020 and will meet by June 30, 2020 to review year end financials to determine if adjustments to the appropriated fund balance are necessary.

Person Responsible for Implementation

Board of Education & District Administration

Richard Malone, Superintendent

Jeffrey Demarest, President, Board of Education

cc: New York State Commissioner of Education

Appendix B: 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. 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 level of unassigned fund balance to maintain.
- We compared budgeted appropriations and estimated revenues to actual results for the last three completed fiscal years and identified the variances.
- We calculated general fund operating results for the past three 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.

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. We encourage the Board to make the CAP available for public review in the District Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

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

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

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#lgmg

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

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

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

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

Contact

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