

# Poughkeepsie City School District

## Budgeting

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**NOVEMBER 2019**

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

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# Report Highlights

## Poughkeepsie City School District

### Audit Objective

Determine whether the Board and District officials adopted realistic budgets.

### Key Findings

- Appropriations were overestimated resulting in an operating surplus of \$6.2 million in 2016-17.
- District officials made excessive year-end budget transfers in 2016-17 and 2017-18 without Board Approval.
- The District had unrestricted funds totaling \$10.6 million and \$12 million at the end of 2016-17 and 2017-18, respectively, which exceeded the statutory limits of \$3.9 million and \$4 million.

### Key Recommendations

- Adopt budgets with reasonable revenue and appropriation estimates based on historical or other known trends.
- Ensure that transfers with approvals are made to avoid overexpended line items.
- Reduce the amount of unrestricted fund balance to comply with the statutory limit. 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.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

The Poughkeepsie City School District (District) is located in the City of Poughkeepsie (City) in Dutchess County. The District provides public education for the children who reside in the City limits.

The District is governed by a Board of Education (Board) that is composed of five members, a President, Vice President and three additional Board members. The Board is responsible for the 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 for the day-to-day management of the District.

The Assistant Superintendent for Finance and Operations (Assistant Superintendent) is directly responsible for managing the District's financial activities, including the budget.

#### Quick Facts

2018-19 Budget	\$99,806,415
2017-18 Budget	\$96,747,054
Employees	820
Enrollment	4,700

### Audit Period

July 1, 2016 – July 18, 2018. We extended our audit period back to July 1, 2013 to analyze budgeting.

# Budgeting Practices

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Sound budgeting practices based on accurate estimates along with prudent fund balance<sup>1</sup> management help ensure that the real property tax levy is not greater than necessary. Districts may use the surplus resources to lower real property taxes or establish reserves to restrict a reasonable portion of fund balance.

From July 1, 2013 through June 30, 2018, the District had high turnover in the Business Office (see Appendix A). The District had five Assistant Superintendents for Finance who were in charge of the budget and four Treasurers during the five-year period. This instability may contribute to poor budgeting practices and management.

## What are Effective Budgeting Practices?

The Board is responsible for making sound financial decisions that are in the best interest of the District, the students it serves and the residents who fund the district's programs and operations. This responsibility includes adopting and presenting budgets to the public that include realistic revenue and appropriation estimates and appropriating fund balance to the extent necessary to fund operations. Budget estimates should be based on prior years' operating results, past expenditure trends, anticipated future needs and available information related to projected changes. Unrealistic estimates could misinform residents about the District's operating needs and can significantly impact the District's year-end accumulated fund balance and financial condition.

The District policy states that the Superintendent, in accordance with the Regulations of the Commissioner of Education, is authorized to make budget transfers between line item accounts, so long as the transfer for any one item does not exceed \$25,000. All transfers in excess of \$25,000 require Board approval. The Superintendent will report any transfers to the Board as an information item at its next meeting. It is important for a board to review monthly reports to ensure that transfers with approvals are made to avoid line items that are over expended and to avoid year-end transfers for budget codes with negative balances.

District officials are responsible for ensuring that unrestricted fund balance does not exceed the amount allowed by the New York State Real Property Tax Law (RPTL), which currently limits unrestricted fund balance to no more than 4 percent of the following year's appropriations. Any unrestricted funds that exceed the statutory limit may be appropriated to partially fund the next year's appropriations, pay for one-time purchases or reduce debt. District officials should maintain a reasonable fund balance to help ensure that the real property tax levy is not greater than necessary.

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<sup>1</sup> Fund balance represents resources remaining from prior fiscal years.

## District Officials Did Not Adopt Reasonable Budget Estimates

The Board did not always adopt reasonable budget estimates. The Board overestimated expenditures by \$8 million (8 percent) in 2016-17, resulting in an operating surplus of more than \$6.2 million. We found that five budget line items accounted for \$7.8 million (or 98 percent) of the total overestimated expenditures (and significantly under-budgeted in two instances) Computer assisted instruction and New York State Teachers' Retirement System (NYSTRS) expenses were overestimated by \$4.9 million and special education, teaching-regular school and operation of plant were overestimated by \$2.9 million in 2016-17.

**Figure 1: Budget Lines Overbudgeted**

Account	2015-16	2016-17	2017-18	Total
Computer Assisted Instruction	\$1,201,516	\$3,392,642	(\$14,826)	\$4,579,332
NYSTRS	\$1,255,112	\$1,538,533	\$172,305	\$2,965,950
Special Education	\$582,055	\$1,196,632	(\$1,398,276)	\$380,411
Teaching-Regular School	(\$518,491)	\$1,193,009	\$2,681,196	\$3,355,714
Operation of Plant	(\$84,978)	\$502,726	\$40,844	\$458,592
Total Net	\$2,435,214	\$7,823,542	\$1,481,243	\$11,739,999
Total Overbudgeted	\$3,038,683	\$7,823,542	\$2,894,345	\$13,756,570
Total Under Budgeted	(\$603,469)	\$0	(\$1,413,102)	(\$2,016,571)

Most of the Board's inaccurate estimates are avoidable. For example, computer assisted instruction, NYSTRS and teaching-regular school can be reasonably predicted because they are all based on employment. Further, NYSTRS sends the District an estimate each year and bills the District for the NYSTRS contribution based on the number of employees in the system. More realistic projections could easily have been calculated by District officials and provided to the Board when developing the budget.

Although District officials knew that these expenditures had been overestimated in previous budgets, they continued to overestimate for these line items in subsequent years. We found no indication that District officials considered past expenditure trends and anticipated future needs when developing the annual budgets. By not using realistic estimates, the Board created annual operating surpluses totaling \$6.2 million in 2016-17 and \$1.3 million in 2017-18, resulting in the accumulation of excessive fund balance discussed later in this report. Although the District's tax levy has remained fairly consistent, by overestimating budget expenditures the Board is placing a higher tax burden on District taxpayers than is necessary to provide educational services.

The Assistant Superintendent told us that the 2016-17 surplus was due to the fact that District officials budgeted \$3,370,000 toward the smart bond. We found that the District budgeted \$4,570,000 (\$3,370,000 in 2016-17 and \$1.2 million

in 2015-16) for the smart bond initiative. However, the District did not file a plan with the New York State Education Department as part of the requirement for the smart bond. Because smart bond revenue is based on reimbursement, the smart appropriation was not expended and the smart bond revenue was not received. The Assistant Superintendent also told us that she inherited the 2016-17 budget from the previous administration, and since taking office, she has been trying to improve the reasonableness of the 2017-18 and future budgets. However, our review showed that the 2018-19 total budget increased from \$96.7 million to \$99.5 million from the prior year. In addition, the five line items identified above were overbudgeted by a total of \$3.2 million.

### District Officials Made Excessive Year-End Budget Transfers without Board Approval

Because District officials did not use historical trends to develop the budgets and instead relied on budget transfers, District officials made excessive adjustments to the budget, especially in the last five years when the budgets were adjusted on average of 12 percent:

**Figure 2: Budget Transfers**

	2013-14	2014-15	2015-16	2016-17	2017-18
Original Budget	\$86,464,000	\$87,343,356	\$88,777,761	\$94,784,944	\$96,747,054
Budget Transfers	\$13,900,275	\$13,115,952	\$3,071,334	\$12,685,590	\$10,162,169
Percentage of Budget	16%	15%	3%	13%	11%

During 2016-17 and 2017-18, District officials processed about \$23 million in budget transfers. However, approximately \$20 million of those budget transfers exceeded \$25,000 and were posted to the accounting records at the end of the fiscal year to correct over expended codes with negative balances. Those transfers were not timely and lacked Board approval. The operating budget is an important tool used to manage District finances during the year. When budget items are allowed to be significantly overspent and then adjusted after the fact at year-end, the Board loses the ability to control District finances.

**Figure 3: Budget Transfers**

	2016-17		2017-18		Total	
	Amount	Numbers	Amount	Numbers	Amount	Numbers
Total Transfers	\$12,685,590	325	\$10,162,169	389	\$22,847,759	714
Year-End Transfers for Budget Codes With Negative Balances	\$10,841,366	289	\$8,741,029	289	\$19,582,395	578

The Treasurer told us that she makes these entries to be able to properly report the District's financial operations to the State without any negative amounts. Therefore, the year-end budget status report does not show any over expended items for 2016-17 and 2017-18 fiscal years. She told us that prior to her being a Treasurer, line items were reported with negative amounts. We reviewed the last five years final budget status report and found that the fiscal years ending 2014, 2015, and 2016 had negatives as shown below. Although there were fewer budget transfers at year-end in those three years, we found that they had excessive negative line items. This proves that the Board was not reviewing the monthly Treasurer report to ensure that line items were not over expended.

**Figure 4: 2013 - 2016 Budget Transfers:**

Year	2013-14	2014-15	2015-16
Overexpended Items	(\$421,218)	(\$5,010,467)	(\$9,805,056)
Total Transfers	\$13,900,275	\$13,115,952	\$3,071,334
Total Year-End Transfers	\$2,818,175	\$2,852,459	\$1,421,059

Excessive budget transfers are evidence of poor budgeting and show that the budget's usefulness for monitoring operations and controlling finances was limited. In addition, they show that the budget lines presented to voters were very different from the actual spending that occurred. As a result, the informational value of the budgets presented to the voters was limited.

### **Fund Balance Exceeded the Statutory Limit**

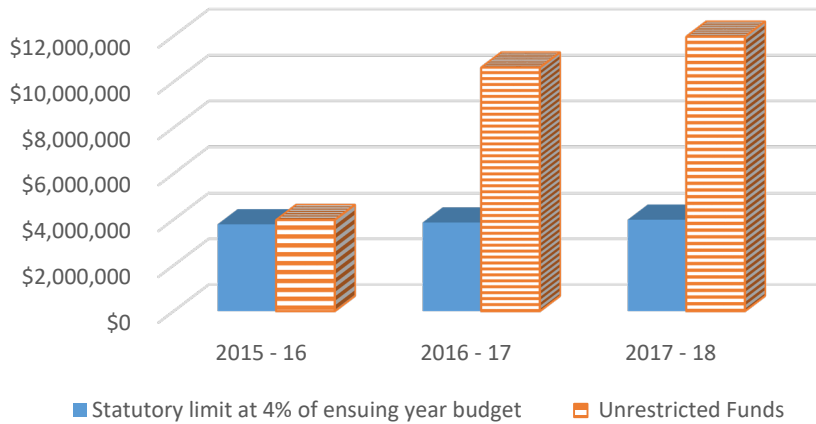
Fund balance is the difference between revenues and expenditures accumulated over time. Assigned fund balance is set aside for specific purposes and, therefore, is not available for other uses. We calculated the 2013-14 through 2017-18 unrestricted fund balances as percentages of the subsequent years' budgets and found that in 2015-16 and 2017-18, the Board accumulated high fund balances, which caused the unrestricted fund balance to be above the 4 percent statutory limit. In addition, in 2018, the budget presented to the public included an appropriation of \$1.3 million in fund balance. However, the budget amounts in the financial system did not include the appropriated fund balance amount in the budget, but instead included the increase in State aid of the exact amount. Therefore, the Board could have reduced the tax levy by \$1.3 million in the budget presented to taxpayers using the appropriated fund balance. The District's unrestricted fund balance as a percentage of the ensuing year's budget was 10.9 percent for 2016-17 and 11.9 percent for 2017-18 (calculated based on the budget status report provided to us), significantly more than the 4 percent statutory limits shown.

**Figure 5: Unrestricted Fund Balance at Year-End**

	2015-16	2016-17	2017-18
Total Unrestricted Fund Balance at Year-End	\$3,978,408	\$10,618,256	\$11,965,452
Ensuing Year's Budgeted Appropriations	\$94,784,944	\$96,747,054	\$99,806,415
Unrestricted Fund Balance as Percentage of Ensuing Year's Budget	4.2%	10.9%	11.9%

**FIGURE 6**

**Fund Balance**



The Board's overestimation of expenditures caused available fund balance to exceed the statutory limit. By retaining unassigned fund balance that exceeds the 4 percent threshold, the Board is not adhering to the RPTL and is placing an unnecessary tax burden on District taxpayers.

**What Do We Recommend?**

The Board should:

1. Adopt budgets with reasonable revenue and appropriation estimates based on historical or other known trends. All anticipated revenues, such as State aid, should be included for transparency.
2. Conduct a careful and thorough review of the monthly Treasurer reports to ensure that transfers with approvals are made to avoid line items that are overexpended and to avoid year-end transfers for budget codes with negative balances.



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3. Work with District officials to develop a plan to reduce the amount of unrestricted fund balance to comply with the statutory limit. Surplus funds can be used as a financing source for:
    - Funding one-time expenditures.
    - Funding needed reserves.
    - Paying off debt.
    - Reducing District property taxes.

District Officials should:

4. File a plan with New York State Education Department for the smart bond, include smart bond appropriations in the budget and file for reimbursement as required.

## Appendix A: Turnover of Key District Officials

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**Figure 7: Assistant Superintendent for Finance (ASF) Timeline**

	Start Date	End Date	Days
ASF 1	7/1/2014	7/13/2014	12
ASF 2 (Substitute)	7/14/2014	9/19/2014	67
ASF 3	9/22/2014	6/12/2015	263
ASF 4 (Substitute)	6/19/2015	6/30/2015	11
ASF 5	7/1/2015	5/4/2016	308
ASF 6 (Substitute)	7/1/2016	8/29/2016	59
ASF 7	8/30/2016	6/15/2017	289
ASF 8	6/22/2017	Present	

**Figure 8: Treasurer Timeline**

	Start Date	End Date	Days
Treasurer 1	7/1/2014	7/11/2014	10
Treasurer 2	8/4/2014	8/5/2016	732
Treasurer 3	8/8/2016	2/13/2017	189
Treasurer 4	2/14/2017	Present	

# Appendix B: Response From District Officials

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## Poughkeepsie City School District

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March 14, 2019

Office of the State Comptroller  
Division of Local Government and School Accountability  
110 State Street, 12<sup>th</sup> Floor  
Albany, NY 12236

Re: Corrective Action Plan  
Poughkeepsie City School District  
Budgeting  
Report 2018M-226

Office of the State Comptroller:

Thank you for the guidance provided within your report on Budgeting. The Board of Education agrees with your assessment and is working diligently to rectify the issues noted.

We have developed the following corrective action plan based upon the Budgeting recommendations in your report 2018M-226.

### Recommendations:

1. Adopt budgets with reasonable revenue and appropriation estimates based on historical or other known trends. All anticipated revenues, such as State aid, should be included for transparency.

**Corrective Action:** The District will adopt budgets with reasonable revenue and appropriation estimates based on historical or other known trends.

2. Conduct a careful and thorough review of the monthly Treasurer reports to ensure that transfers with approvals are made to avoid line items that are over-expended and to avoid year-end transfers for budget codes with negative balances.

**Corrective Action:** The District will review the Treasurer's reports more closely to ensure transfer approvals and avoid negative budget appropriation balances.

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3. Work with District officials to develop a plan to reduce the amount of unrestricted fund balance to comply with the statutory limit. Surplus funds can be used as a financing source for:

- Funding on-time expenditures
- Funding needed reserves
- Paying off debt
- Reducing District property taxes

**Corrective Action:** The District will be review available reserve fund options and dollar amounts available after the development of the 2019-20 budget. Management will also continue to monitor this situation.

4. File a plan with New York State Education Department for the Smart Bond, include Smart Bond appropriations in the budget and file for reimbursement as required.

**Corrective Action:** The District has created a Smart Bond team (Technology Committee) and have scheduled meetings to develop an action plan for future expenditures, under the supervision of the Assistant Superintendent for Technology and Innovation.

Sincerely,

Kathleen P. Farrell, PhD  
Interim Superintendent of Schools  
Poughkeepsie City School District

## 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 to obtain an understanding of the oversight and practices for budgeting and financial management.
- We reviewed Board minutes for budgeting and financial management procedures and Board actions.
- We compared appropriations and estimated revenues to the results of operations to determine whether there were any significant budget variances from 2015-16 through 2017-18.
- We reviewed the 2018-19 budget in comparison with the last two years actual figures.
- We compared budget transfers to the adopted budgets for 2013-14 through 2017-18 to determine whether the transfers were significant and whether year-end transfers in 2016-17 and 2017-18 had Board approval.
- We reviewed and analyzed reported fund balances in comparison to amounts appropriated in adopted budgets for 2013-14 through 2017-18. We compared the unrestricted fund balances to the subsequent years' budgeted appropriations to determine whether the unrestricted fund balances were within the statutory limit.

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.

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

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