

Red Creek Central School District

Financial Management

SEPTEMBER 2020



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

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Report Highlights

Red Creek Central School District

Audit Objective

Determine whether the Board and District officials adequately managed the District's financial condition.

Key Findings

Actions taken by the Board and District officials to manage financial condition were not transparent and more taxes were levied than necessary to sustain operations.

- Approximately \$1.5 million (72 percent) of appropriated fund balance from 2016-17 through 2018-19 was not used as planned.
- The Board did not adopt multiyear financial and capital plans.

Key Recommendations

- Adopt budgets that include reasonable estimates for appropriating the amount of fund balance that will be used to fund operations.
- Develop multiyear financial and capital plans.

District officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Subsequent Event

Our audit fieldwork was completed during the COVID-19 pandemic (pandemic). The District's 2019-20 projections and our audit work do not factor in the pandemic's financial effects.

Background

The Red Creek Central School District (District) serves the Towns of Butler and Wolcott in Wayne County and the Towns of Victory, Conquest and Sterling in Cayuga County. The District is governed by the Board of Education (Board) composed of seven elected members.

The Superintendent of Schools (Superintendent) is the chief executive officer responsible, along with other administrative staff, for day-to-day management under the Board's direction. The current Superintendent was appointed in January 2019. The Business Administrator is responsible for overseeing the financial operations, under the Superintendent's and the Board's direction. The current Business Administrator was appointed in August 2019.

Quick Facts

2019-20 General Fund Appropriations	\$23.3 million
Employees	275
Students	850

Audit Period

July 1, 2018 – March 16, 2020. We extended our audit period back to July 1, 2016 to review budgeting and financial trends.

Financial Management

What Is Effective Financial Management?

To effectively manage a school district's financial condition, a board should adopt realistic and structurally balanced budgets based on historical data or known trends, in which reasonable levels of fund balance are maintained. Accurate budget estimates help ensure the tax levy is not greater than necessary.

Fund balance is the difference between revenues and expenditures accumulated over time. A district may retain a portion of surplus fund balance to provide a cushion against unforeseen events and to provide for fluctuations in cash flow.¹ New York State Real Property Tax Law (RPTL) currently limits unassigned fund balance to no more than 4 percent of the next year's budget.² 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 next year's budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated.

A board may establish reserves to restrict a portion of fund balance that it can use for specific purposes (e.g., capital projects or retirement contributions) in compliance with statutory requirements. However, reserve balances must be reasonable and should be routinely monitored by the board and district officials, which can be accomplished in part by adopting a comprehensive reserve policy addressing funding methods, optimal levels and use.

Prudent fiscal management requires the board to establish long-term financial and capital plans. Planning on a multiyear basis allows district officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budget decisions on future fiscal years. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Continually monitoring and updating these plans provides a reliable framework for preparing budgets and ensures that information used to guide decisions is current and accurate.³

Given the economic uncertainties that have resulted from the pandemic, accurate transparent budgeting supported by regular reporting and effective long-term planning is essential.

1 Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf

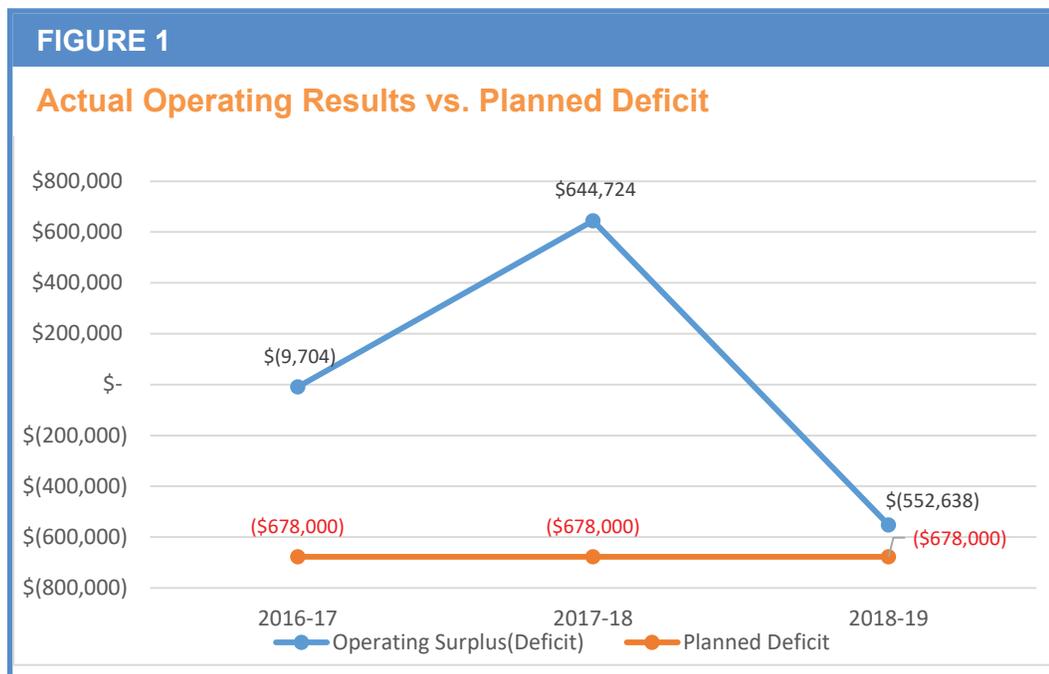
2 New York State Real Property Tax Law, Section 1318

3 Refer to our publications Multiyear Financial Planning and Multiyear Capital Planning available on our website. www.osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf
www.osc.state.ny.us/localgov/pubs/lgmg/capital_planning.pdf

The Board and District Officials' Actions to Manage General Fund Balance Were Not Transparent

The Board, under the guidance of District officials, annually appropriated fund balance of \$678,000 as a financing source in each of the last three fiscal years (2016-17, 2017-18 and 2018-19), which should have resulted in annual operating deficits equal to the amounts of funds appropriated. However, the Board adopted budgets that conservatively estimated revenues and appropriations over these years, which resulted in net operating surpluses of \$82,382, instead of planned deficits totaling approximately \$2 million. Therefore, appropriated fund balance totaling approximately \$1.5 million was not used as planned.

...[A]ppropriated fund balance totaling approximately \$1.5 million was not used as planned.



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 a circumvention of the statutory limit imposed on the level of surplus fund balance. These budgeting practices also diminished financial transparency to taxpayers.

Over the past three completed fiscal years (2016-17, 2017-18 and 2018-18), the District reported surplus fund balance that was 4 percent of the next year's appropriations each year, or within the statutory limit allowed by RPTL. However, when unused appropriated fund balance is added back, surplus fund balance exceeded the statutory limit by as much as 3 percentage points. Additionally, the District was advised to discontinue this practice in our prior audit report.⁴

⁴ Refer to *Red Creek Central School District – Financial Condition (2016M-365)*, issued in December 2016 <https://www.osc.state.ny.us/localgov/audits/schools/2016/redcreek.pdf>

Figure 2: Recalculated Surplus Fund Balance at Fiscal Year End

	2016-17	2017-18	2018-19
Surplus Fund Balance	\$848,920	\$863,856	\$930,401
Add: Unused Appropriated Fund Balance	\$668,296	\$678,000	\$125,362
Total Recalculated Surplus Fund Balance	\$1,517,216	\$1,541,856	\$1,055,763
Next Year's Appropriations	\$21,223,000	\$21,610,000	\$23,260,000
Recalculated Surplus Fund Balance as a % of the Next Year's Appropriations	7.2%	7.1%	4.5%

The Board increased the tax levy from \$3.49 million in 2016-17 to \$3.73 million in 2018-19, for an average annual increase of 3.3 percent and a total increase of 6.79 percent. Based on historical and year-to-date operating results through January 31, 2020, it is unlikely that the District will use all of the fund balance appropriated for fiscal year 2019-20, resulting in continued excess fund balance. Due to the financial effect of the pandemic, this projection may not be accurate. However, we included it to show the effect of the Board's inaccurate budgeting.

Ultimately, the Board's general fund budgeting practices made it appear that the District needed to both increase taxes and use appropriated fund balance to close projected budget gaps. However, the District realized operating surpluses or deficits that were less than budgeted and appropriated fund balance was not needed to finance operations. Given the District's budgeting practices and fund balance levels, the Board levied more taxes than necessary to sustain operations and may have missed opportunities to more effectively manage fund balance.

The Board Did Not Receive Adequate Financial Information

At the time of our audit fieldwork, the Board did not receive or request financial information to adequately monitor the adopted budget, fund balance levels and reserves. For example, the most recent reserve plan report provided to the Board was dated March 2017 even though the reserve fund policy required District officials to provide an annual report of all reserve funds.

The annual report is required to include the type and description of each reserve, the date the reserve was established, the total amount paid to fund the reserve, interest earned and the total amount and date of withdrawals.

Our review of the 2017 report revealed that it included only a description of each reserve, the date established, activity for the most recent year and the general intended long-range funding goal. In addition, officials stopped providing the Board with budget status reports after August 2019.

When the Board does not receive adequate periodic financial reports, it is prevented from making informed decisions and oversight is limited.

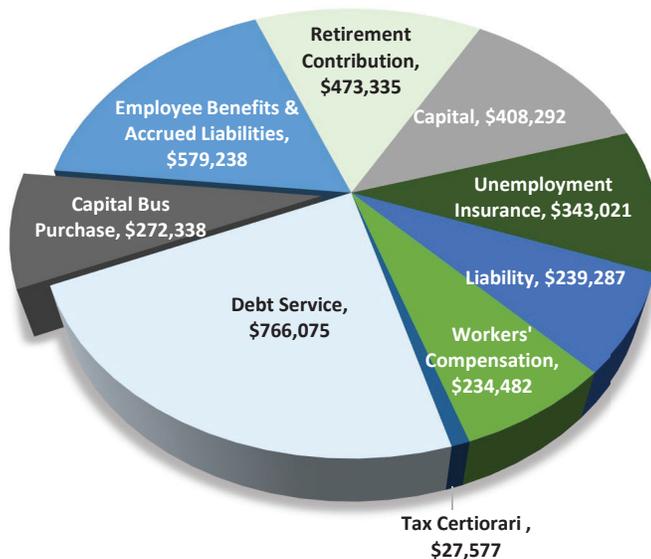
...[T]he Board did not receive or request financial information to adequately monitor the adopted budget, fund balance levels and reserves.

The Capital Bus Purchase Reserve Was Excessive and Potentially Unnecessary

As of June 30, 2019, the District had nine reserves totaling approximately \$3.3 million.

FIGURE 3

Reserve Fund Balances as of June 30, 2019



Our review found that the capital bus purchase reserve totaling \$272,338 was overfunded and/or potentially unnecessary. Potentially excessive balances in the capital bus purchase reserve was also identified in our prior audit.⁵ While the District reduced the balance in this reserve since our prior audit, the necessity of the current balance remains questionable without an adequate reserve plan and analysis. More specifically, we determined balances in these reserves were unreasonable based on the following:

- Based on the 2018-19 cost of a 65 passenger bus totaling approximately \$127,411 and the District's State aid reimbursement rate of 90 percent, the local share to the District to replace a bus is approximately \$12,741.

⁵ Ibid.

Therefore, the balance of the capital bus purchase reserve totaling \$272,338 is sufficient to fund the District's share of 21 bus purchases. District officials used this reserve for bus purchases during the audit period, and told us that bus replacement is being assessed to determine the District's actual future needs. While the balance of this reserve and funding levels are currently within statutorily authorized limits, officials have not developed formal bus replacement plans to support District needs.

While it is prudent to plan and provide for unforeseen circumstances, overfunding and/or not using reserves for their intended purpose could result in more real property taxes being levied than necessary, and the transparency of District finances could be compromised.

The Board Did Not Adopt Multiyear Plans

District officials did not develop written multiyear financial and capital plans or long-term bus or equipment replacement schedules. Officials told us that long-term needs are discussed and considered, but not included in a formalized plan. The District is currently undergoing an \$18.5 million capital project which includes many improvements and upgrades to its facilities. Further, District officials told us that the next building condition survey will be completed in 2022, which they will use to plan the next capital project.

Well-designed multiyear plans, which include specific estimates for revenues, expenditures, reserves, fund balance and long-term capital needs can assist the Board and District officials in effectively managing finances, addressing the use of surplus fund balance and planning for the reasonable and proper use of reserve funds.

Our fieldwork was completed in March 2020, during the pandemic. Given the negative financial effect of the pandemic, it is even more important for District officials to develop and monitor appropriate annual budgets and begin multiyear financial and capital planning.

What Do We Recommend?

The Board should:

1. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
2. Review and update the reserve plan, ensuring it includes long-term intentions for the accumulation and use of reserve funds, analysis of existing reserve fund levels against the plan and, if necessary, make statutorily allowed transfers between reserve funds to better align reserves with long-term needs.

District officials did not develop written multiyear financial and capital plans or long-term bus or equipment replacement schedules.

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3. Develop comprehensive multiyear financial and capital plans to provide a framework for future budgets, guide District officials' management of financial condition and identify future capital needs. The plan should be periodically reviewed and updated.

District officials should:

4. Prepare an estimate of year-end fund balance to assist in developing and adopting budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
5. Prepare and submit to the Board an annual report on reserve funds in compliance with District policy.

Appendix A: Response From District Officials

RED CREEK CENTRAL SCHOOL DISTRICT

ADMINISTRATION CENTER, P.O. BOX 190, RED CREEK, NEW YORK 13143

Telephone (315) 754-2010
Fax (315) 754-8169



BRIAN M. COREY
Superintendent of Schools

August 8, 2020

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608

Dear Mr. Grant:

This letter will serve as the official response from the Red Creek Central School District to the initial draft audit report prepared by your office for the period July 1, 2016 through March 16, 2020. First, I would like to commend your staff, [REDACTED] and [REDACTED], for conducting this audit in a very thorough, professional and courteous manner. They were very respectful of the business office and other district staff. The district appreciates the recommendations, both written and verbal, that were offered as part of the audit.

FINDINGS

The District and our auditors have carefully reviewed the findings and understand and recognize the recommendations of the reports. The audit report's key findings state that:

1. Approximately \$1.5 million dollars of appropriated fund balance from 2016-17 through 2018-19 was not used as planned.
2. Two reserve funds with balances totaling \$1.1 million dollars as of June 3, 2019, were over funded or potentially unnecessary.

We are always seeking to improve, and feel that these recommendations are appropriate to examine further. While the District respects the recommendations made in the audit, the Red Creek Central School District believes that our financial management practices provide long-term financial stability of the school district.

The Board of Education reviews the District's financial management practices and positions regularly, taking advice and counsel from our external auditors and financial advisors. These advisors examine our financial position regularly and make recommendations to the Board of Education and District Administration, which we act appropriate on to best serve our district and taxpayers.

In order to ensure that Red Creek Central School District remains financially secure, we have always budgeted on the conservative side. With a limited tax base, due to the small size of our

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district, we must always plan for decreased revenue and unanticipated expenses. The reserves are set aside in case of emergencies or unexpected, unbudgeted expenses. The Board and Administration are committed to using tax payer funds reasonably and prudently.

The District will be submitting a separate Corrective Action Plan to address the recommendations outlined in your report. Again, the District would like to thank you and your staff for your time and effort.

Very truly yours,

RED CREEK CENTRAL SCHOOL

Brian M. Corey
Superintendent of Schools

BMC/ak

cc: Members, Board of Education
William McDonald, Business Administrator
Phyllis Moore, District Treasurer

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 to gain an understanding of budgeting practices.
- We reviewed Board minutes, relevant policies and procedures and long-term plans.
- We analyzed general fund operating results for fiscal years 2016-17 through 2018-19.
- We assessed general fund appropriated fund balance for fiscal years 2016-17 through 2018-19, and recalculated unassigned fund balance to include any unused appropriated fund balance amounts to determine whether the District exceeded the statutory fund balance limit in any year.
- We analyzed reserve fund activity and balances for 2016-17 through 2018-19 for reasonableness.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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 to the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

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

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

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

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/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/local-government/required-reporting

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/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

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

www.osc.state.ny.us/local-government

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

ROCHESTER REGIONAL OFFICE – Edward V. Grant Jr., Chief Examiner

The Powers Building • 16 West Main Street – Suite 522 • Rochester, New York 14614-1608

Tel (585) 454-2460 • Fax (585) 454-3545 • Email: Muni-Rochester@osc.ny.gov

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