

# Ossining Union Free School District

## Financial Management

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OCTOBER 2017

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

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# Report Highlights

## Ossining Union Free School District

### Audit Objective

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

### Key Findings

- The Board adopted budgets with estimated appropriations that exceeded actual expenditures by a total of \$23.7 million, or an average of \$4.7 million (4 percent), during fiscal years 2012-13 through 2016-17, which resulted in appropriated fund balance not being used.
- Recalculated unrestricted fund balance ranged between 5 and 9 percent of ensuing years' appropriations, exceeding the 4 percent statutory limit.

### Key Recommendations

- Adopt budgets that include realistic estimates for expenditures.
- Formulate a plan to use excess fund balance to benefit District residents.

District officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix B includes our comment on an issue District officials raised in their response.

### Background

The Ossining Union Free School District (District) is located in the Village of Ossining, in Westchester County. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is responsible, along with other administrators, for the District's day-to-day management and for the budget's development and administration.

#### Quick Facts

Employees	1,166
Enrollment	4,978
2016-17 Budgeted General Fund Appropriations	\$125.2 million

### Audit Period

July 1, 2015 – June 8, 2017

We extended our audit period back to July 1, 2012 for financial trends.

# Financial Condition

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## How Does a Board Effectively Manage Financial Condition?

To effectively manage financial condition, the Board should adopt realistic and structurally balanced budgets based on historical or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, the Board must estimate what the District will spend and what it will receive in revenue (e.g., State aid), how much fund balance will be available for use at fiscal year-end and, to balance the budget, what the expected tax levy will be. Accurate estimates help ensure that the real property tax levy is not greater than necessary.

In addition, the Board must also maintain reasonable fund balance levels. Fund balance is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law (RPTL) limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the ensuing fiscal year's budget. Additionally, school districts are allowed to legally set aside or reserve portions of fund balance to finance future costs for specific purposes (e.g., capital projects or retirement expenditures), and may also appropriate a portion of fund balance to help finance the next year's budget (referred to as appropriated fund balance). Sound budgeting practices provide that the Board should not routinely appropriate significant amounts of fund balance that will not be used.

## The Board Overestimated Expenditures and Appropriated More Fund Balance Than Needed

We compared budgeted revenues and appropriations with actual operating results for fiscal years 2012-13 through 2016-17. While revenue estimates were generally reasonable, the Board overestimated appropriations by an average of \$4.7 million annually, or a cumulative total of more than \$23.7 million (4 percent), as indicated in Figure 1.

**Figure 1: Overestimated Appropriations**

	Actual	Overestimated	Percentage	
	Appropriations	Expenditures	Appropriations	Overestimated
<b>2012-13</b>	\$106,588,570	\$101,454,330	\$5,134,240	5%
<b>2013-14</b>	\$110,433,452	\$105,745,283	\$4,688,169	4%
<b>2014-15</b>	\$114,546,793	\$110,841,492	\$3,705,301	3%
<b>2015-16</b>	\$117,213,394	\$111,772,087	\$5,441,307	5%
<b>2016-17</b>	\$125,231,125	\$120,464,320	\$4,766,805	4%
<b>Total</b>	<b>\$574,013,334</b>	<b>\$550,277,512</b>	<b>\$23,735,822</b>	<b>4%</b>

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We reviewed the District's budget to actual reports showing individual accounts for fiscal years 2012-13 through 2016-17 and found that some of the overestimated expenditures were for New York State and Local Retirement System (NYSLRS) contributions, Special Education and Hospital and Medical Insurance. For example, in four of the five years reviewed, NYSLRS expenses were over budgeted by approximately \$1.5 million (21 percent). In three of the five years, Special Education costs were over budgeted by approximately \$2.4 million (24 percent) and Hospital and Medical Insurance expenses by approximately \$5.4 million (14 percent). The remaining overestimated expenditures were distributed throughout the budget.

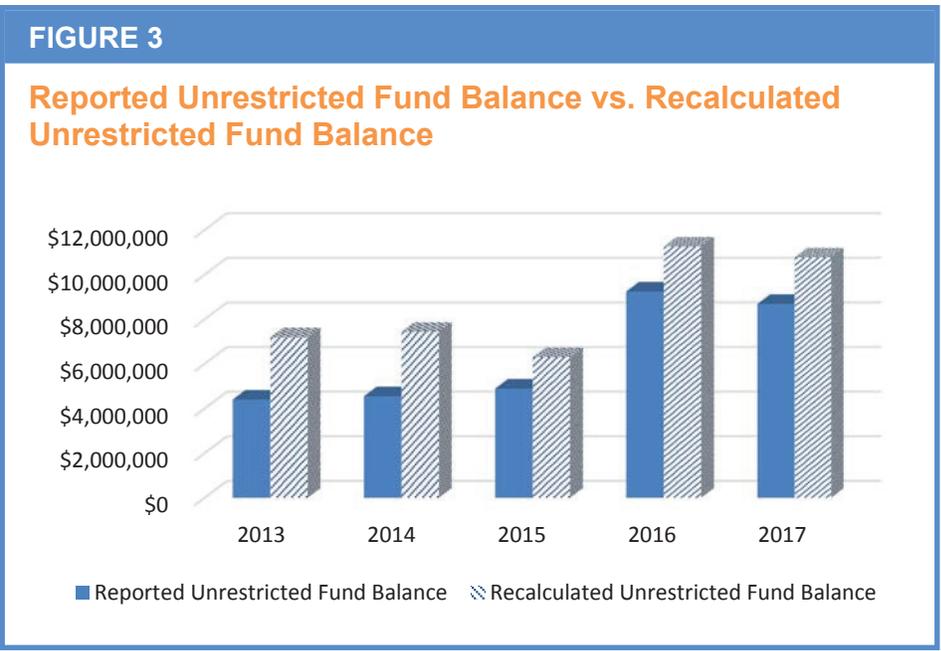
Because the Board overestimated appropriations, it appeared that the District needed to both increase its tax levy and use appropriated fund balance to close projected budget gaps. The Board increased the real property tax levy by approximately \$9.6 million (11 percent) from 2012-13 through 2016-17 and appropriated \$11.1 million (a yearly average of \$2.2 million) in fund balance from the 2012-13 through 2016-17 budgets. 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. By including significant amounts of appropriated fund balance in the budgets that were not needed, the Board made it appear that the District had less unrestricted fund balance than it actually had.

Over the last five years, the District reported unrestricted fund balance that ranged from 4.0 percent to 7.4 percent of the ensuing year's appropriations. These amounts were above the 4 percent statutory limit in the three years reviewed. During the same period, the Board also appropriated an average of \$2.2 million of fund balance annually to finance District operations in the ensuing year, but did not use it. This allowed the District to circumvent the statutory limit on unrestricted fund balance in all years. After adding back the appropriated fund balance that was not used, the recalculated amount of unrestricted fund balance at year end ranged from 5.4 to 9.0 percent of the ensuing year's appropriations (Figures 2 and 3).

**Figure 2: Unused Fund Balance**

	2013	2014	2015	2016	2017
<b>Total Reported Unrestricted Funds at Year End</b>	\$4,403,747	\$4,549,427	\$4,891,051	\$9,247,070	\$8,689,588 <sup>a</sup>
<b>Reported Unrestricted Funds as Percentage of Ensuing Year's Budget</b>	4.0%	4.0%	4.2%	7.4%	6.9%
<b>Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget</b>	\$2,787,351	\$2,890,871	\$1,400,000	\$2,010,945	\$2,074,748
<b>Total Recalculated Unrestricted Funds</b>	<b>\$7,191,098</b>	<b>\$7,440,298</b>	<b>\$6,291,051</b>	<b>\$11,258,015</b>	<b>\$10,764,336</b>
<b>Ensuing Year's Budgeted Expenditures</b>	\$110,443,452	\$114,546,793	\$117,213,394	\$125,231,125	\$125,675,900
<b>Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget</b>	6.5%	6.5%	5.4%	9.0%	8.6%

<sup>a</sup> 2016-17 amounts are estimated, the District's audited financial statements were not available as of the end of fieldwork.



Given these recalculated fund balance levels, the Board may have levied more taxes than necessary to sustain District operations. The Superintendent and District officials told us that a portion of the unrestricted fund balance for the

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2016-17 fiscal year will be put into reserves, such as the newly established capital reserve, which was created June 28, 2017.

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

The Board and District officials should:

1. Develop and adopt budgets that include realistic estimates for expenditures and the amount of fund balance that will be available and used to fund operations.
2. Formulate a plan for the use of excess unrestricted fund balance in the general fund in a manner that benefits District residents. Such uses include financing sources for:
  - Funding one-time expenditures
  - Funding needed reserves
  - Reducing District property taxes.

# Appendix A: Response From District Officials



## Ossining Union Free School District

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October 17, 2017

Tenneh Blamah,  
Chief Examiner  
Office of the State Comptroller  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

Dear Tenneh Blamah,

The Ossining UFSD Board of Education and administrative team thanks the Office of the Comptroller for its review of the district's financial practices and overall health. We appreciate the professional work of [REDACTED] and believe this effort was fruitful and will benefit the taxpayers of the Ossining UFSD.

As the report noted, the Ossining UFSD has already implemented recommendations in the report by dedicating fund surplus to a capital reserve. In addition, the Board of Education has set a tax levy for the current school year that is lower than projected by applying fund surplus to the current year's budget. These items directly address the report's conclusion that the Board of Education should formulate a plan to use excess fund balance to benefit district residents.

Detail:

As written in the report, there were two assessment objectives of the audit:

1. Did the Board adopt reasonable budgets?
2. Did the Board and district officials adequately manage the district's financial condition?

The report indicates that Boards should adopt 'realistic and structurally balanced budgets based on historical or known trends' and that the Board 'must also maintain reasonable fund balance levels.' We are pleased to note that the report concludes our revenue estimates were 'generally reasonable,' despite the legislative uncertainties associated with state funding. We also note that by implication, the report identified no structural deficits or fiscal stress associated with the district's budgeting.

The report highlights over budgeting in the areas of transportation, health insurance and special education. The District believes that its budgeting practices are reasonable in the areas of transportation, health insurance and special education for the following reasons.

Transportation:

In 2011 the district conducted a transportation efficiency study. The study helped to identify savings resulting from a student ridership audit and consolidating bus routes. A new Request for Proposals (RFP) was also developed for bus contracting services which brought about lower costs.

The budget preparation process for transportation is based on bus routes at a point in time. Over the summer, after the budget is voter-approved, new routes are developed based on student enrollment changes. These routes are crafted in the most economical way possible. Additionally, throughout the course of the year routes are examined even further to identify any potential savings. These proactive steps have resulted in lower costs causing a surplus.

See  
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Special Education:

In special education, where costs can vary dramatically year-over-year, changes in students' Individualized Education Programs (IEP) and some students moving out of the district led to lower-than-anticipated costs, which accounted for significant surpluses in these codes. Historical trends are hard to rely upon to project special education costs. We believe it is always important to create enough budget flexibility in these codes to account for unknown, high-cost services that could occur at any time.

Health Insurance:

A major contributing factor as to why health care costs were below budget was due to the significant savings from the District's switch from a self-funded health insurance plan to the New York State Health Insurance Plan (NYSHIP). These savings caused a surplus in this budget code. Additionally, there were less employees enrolled in the health insurance than projected.

The report's silence on the question of effective management of our financial condition leads us to believe that in general, our Board of Education and district officials are doing a capable job in managing the financial condition of our school district.

Sincerely,

Lisa Murray  
President of the Board of Education

CC: Board of Education members  
Ray Sanchez, Superintendent of Schools  
Alita Zuber, Assistant Superintendent for Business

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

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### Note 1

Appropriations were overestimated by \$23.7 million from fiscal years 2012-13 through 2016-17, an average of \$4.7 million (4 percent) annually. We used transportation, special education and health insurance as examples, as these items were continually overestimated in the years we examined. The District had 633 individual line items budgeted for appropriations in the 2016-17 budget, of which 466 items were overestimated; 339 of these items were overestimated by 10 percent or more.

## 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, we performed the following audit procedures:

- We reviewed and analyzed the District's financial records and reports for the general fund, including annual budgets, annual reports, bank statements, budget status reports and general ledgers.
- We calculated the unrestricted fund balance as a percentage of the ensuing year's appropriations to determine whether the District was within the statutory limitation during fiscal years 2012-13 through 2016-17.
- We interviewed District officials about the level of fund balance the District currently has and whether they have a plan to use its reserve funds. We also analyzed the activity in all of the reserves during our audit period.
- We analyzed the trend in fund balance for fiscal years 2012-13 through 2016-17. This included comparing the amount of appropriated fund balance to the amount of appropriated fund balance used.
- We analyzed the District's 2016-17 budget and compared it to the prior year's actual results to determine whether the District is overestimating budgeted 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 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 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/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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

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

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