



Greenport Union Free School District Financial Condition

Report of Examination

Period Covered:

July 1, 2012 — March 31, 2014

2014M-203



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Greenport Union Free School District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Greenport Union Free School District (District) is located in the Village of Greenport in Suffolk County. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general 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, along with other administrative staff, for the District's day-to-day management under the Board. The Business Administrator plays a key role in the budget development process and is responsible for maintaining the District's accounting records, preparing financial reports and supervising all Business Office functions.

The District operates one school with approximately 645 students and 125 full-time employees. The District's budgeted general fund appropriations for 2013-14 were approximately \$15.5 million, funded primarily with State aid, real property taxes and grants.

Objective

The objective of our audit was to examine the District's financial condition. Our audit addressed the following related question:

- Did the Board and District officials adopt reasonable budgets and adequately manage the District's financial condition?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2012 through March 31, 2014. We extended our scope period to the 2008-09 fiscal year to analyze budgeting practices and fund balance trends.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our report and indicated that they plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, 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, with a copy forwarded to 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 Board should make the CAP available for public review in the District Clerk's office.

Financial Condition

The Board and Superintendent are responsible for adopting budgets that contain estimates of actual and necessary expenditures that are funded by realistic revenues. Sound budgeting provides sufficient funding for necessary operations. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. Once the Board has addressed those issues, any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences,¹ should be used to reduce the local tax levy.

Accurate historic and current information should be used to ensure that budgeted appropriations are not overestimated and that fund balance assigned as a funding source is actually used in the next fiscal year to cover expenditures. Similarly, revenue estimates should be based on known sources of revenue reflective of any identified trends. Unreasonable budgetary practices or lack of information about actual budget performance can mislead District taxpayers and can significantly impact the District's year-end unexpended surplus funds² and financial condition.

The Board and District officials need to improve their oversight of the District's budget process and financial condition. District officials adopted budgets that included plans to use fund balance totaling \$1.4 million between 2008-09 and 2012-13. The District did use \$612,400 of this amount in the 2008-09 and 2009-10 fiscal years while it incurred planned operating deficits in trying to avoid increasing its tax levy and the taxpayers' burden during the economic downturn. During these two years, the District depleted its unexpended surplus funds to 1 percent of the subsequent year's budget, and it also used more than \$500,000 from its reserve funds. However, the District incurred operating surpluses from 2010-11 through 2012-13 that

¹ New York State Real Property Tax Law limits the amount of unexpended surplus funds that can be legally retained by District officials to no more than 4 percent of the next fiscal year's budgeted appropriations.

² The Governmental Accounting Standards Board (GASB) issued Statement 54 which replaces the fund balance classifications of reserved and unreserved with new classifications: non-spendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54) and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (post-Statement 54).

resulted in it not using the remaining \$787,600 of appropriated fund balance.

Beginning in 2010-11, the District gradually increased its tax levy and budget. In each of the three years from 2010-11 to 2012-13, the District incurred operating surpluses and grew its fund balance from 1.1 percent in 2010-11 to 5.6 percent in 2012-13. The District's external auditor informed officials that they exceeded the statutory limit of 4 percent in 2012-13, despite transferring more than \$350,000 to reserve funds. When considering unused appropriated fund balance the actual unexpended surplus fund balance was 5.7 percent in 2011-12 and 7.5 percent in 2012-13.

Figure 1: Unexpended Surplus Funds at Fiscal Year End					
	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning Fund Balance ^a	\$479,439	\$554,324	\$406,230	\$451,500	\$910,993
Plus: Operating Surplus/(Loss)	(\$2,062)	(\$610,338)	\$70,523	\$942,637	\$674,261
Unexpended Surplus Fund Balance - Subtotal	\$477,377	(\$56,014)	\$476,753	\$1,394,137	\$1,585,254
Less: Appropriated Fund Balance	\$250,000	\$275,000	\$300,000	\$300,000	\$350,000
Less: Transfers to/(from) Reserves	(\$76,947)	(\$463,508)	\$25,253	\$483,144	\$358,571
Less: Encumbrances from Current Year	\$879	\$948	\$2,050	\$59,712	\$7,322
Total Unexpended Surplus Funds at Year End	\$303,445	\$131,546	\$149,450	\$551,281	\$869,361
Ensuing Year's Budget	\$13,820,704	\$13,835,534	\$14,100,005	\$14,914,713	\$15,500,673
Reported Unexpended Surplus Fund Balance as a Percentage of Ensuing Year's Budget	2.2%	1.0%	1.1%	3.7%	5.6%
Unused Appropriated Fund Balance from Prior Fiscal Year	\$272,938	\$0	\$275,000	\$300,000	\$300,000
Actual Unexpended Surplus Funds Resulting From Unused Appropriated Fund Balance	\$576,383	\$131,546	\$423,186	\$851,281	\$1,169,361
Actual Unexpended Surplus Funds as a Percentage of Ensuing Year's Budget	4.2%	1.0%	3.0%	5.7%	7.5%

^a Beginning fund balance includes prior year's encumbrances

Over the last three fiscal years, District budgets overestimated expenditures by approximately \$3.3 million.

Figure 2: Overestimated Appropriations			
Fiscal Year	Budgeted Appropriations	Actual Expenditures	Difference
2010-11	\$13,836,482	\$13,202,047	\$634,435
2011-12	\$14,102,055	\$12,594,735	\$1,507,320
2012-13	\$14,974,425	\$13,815,708	\$1,158,717
Totals	\$42,912,962	\$39,612,490	\$3,300,472

Overestimated expenditures were primarily in the categories of teaching – regular school (\$777,640) and programs for children with handicapping conditions (approximately \$1.5 million). Had District officials used more realistic budget estimates, they could have avoided the accumulation of excess fund balance. The District’s practice of consistently appropriating fund balance that was not needed to finance operations, in effect, circumvented the statutory limitation of unexpended surplus fund balance to no more than 4 percent of the ensuing year’s appropriations.

Recommendations

The Board should:

1. Develop and adopt budgets that include realistic estimates for revenues and expenditures based on all information available at that time, including historical data.
2. Not adopt budgets that result in the appropriation of unexpended surplus funds that will not be used.
3. Ensure that the District’s unexpended surplus fund balance is in compliance with the Real Property Tax Law statutory limits.
4. Develop a plan to reduce the unexpended surplus fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to, increasing necessary reserves, paying off debt, financing one-time expenditures and reducing property taxes.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.

Greenport Union Free School District

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David Gamberg
Superintendent

Mr. Ira McCracken, Chief Examiner
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Re: Greenport Union Free School District
Financial Condition, Report of Examination 2014M-203
July 1, 2012 – March 31, 2014

Dear Mr. McCracken:

The Greenport Union Free School District acknowledges receipt of the above referenced report containing the preliminary draft findings of your recent audit of the District. The District would like to thank the Office of the State Comptroller (OSC) for their review of the District's financial condition and will consider recommendations offered, as resources for use in effectively managing operations and in meeting the expectations of constituents.

A corrective action plan will be developed, adopted by the Board of Education, and filed with OSC as well as with the New York State Commissioner of Education, no later than 90 days after the release of the final audit report.

We agree with the recommendation that the District should "develop and adopt budgets that include realistic estimates for revenues and expenditures based on all information available at the current time, including historical data"; and in fact, feel that has been the practice of the Board in the past and will continue to be in the future. The District is committed to efficient management of operations, maintaining and improving our educational program, and providing accountability for tax dollars spent.

The Board also supports use of unexpended fund balance to increase necessary reserves and to keep property tax increases to below the property tax levy cap levels. Although the period covered by the audit was from July 1, 2012 – March 31, 2014, the District requested the scope be extended, to include the four prior years back to 2008-09, to present a clearer picture of the District's depletion of reserves and fund balance to historically low levels in times of economic downturn, and the subsequently successful, multi-year plan to re-attain healthy reserve balances. We believe this reflects the long term financial strategic plan of the district. The district will ensure that the unassigned fund balance remains in compliance with the Real Property Tax Law statutory limits.

Sincerely,

David Gamberg
Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We interviewed appropriate District officials to obtain an understanding of the organization and the accounting system and reviewed pertinent documents, such as District policies and procedure manuals, Board minutes and financial records and reports. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we evaluated the District's internal controls for the risk of potential fraud, theft or professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected financial condition for further audit testing. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We reviewed District policies and procedures regarding budgeting and level of fund balance to be maintained.
- We obtained an understanding of the District's internal control environment and specific controls that are significant to the District's budget process.
- We reviewed annual financial statements and the accompanying management letters prepared by the District's independent public accountant.
- We compared the amounts reported in the District's externally audited financial statements with a trial balance, Treasurer's reports and bank statements to verify their reliability.
- We analyzed revenue and expenditure trends and budget-to-actual comparisons for the operating funds for fiscal years 2008-09 through 2012-13 and calculated the percentage of unexpended funds compared with budget appropriations.
- We reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets.

We conducted this performance audit in accordance with 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.

APPENDIX C

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