



Sachem Central School District Fund Balance

Report of Examination

Period Covered:

July 1, 2011 – February 28, 2017

2017M-151



Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
FUND BALANCE	4
Recommendations	5
APPENDIX A Response From District Officials	7
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2017

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 Sachem Central School District, entitled Fund Balance. 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 New York State 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 Sachem Central School District (District) is located in the Towns of Brookhaven, Islip and Smithtown in Suffolk County. The District is governed by an elected nine-member Board of Education (Board) that is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools 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's direction. The Assistant Superintendent for Business and Operations¹ (ASBO) plays a key role in budget development and is responsible for maintaining the District's accounting records, preparing financial reports and supervising Business Office functions.

The District operates 15 schools with approximately 13,300 students and more than 2,100 employees. Budgeted appropriations for the 2016-17 fiscal year were approximately \$306.4 million, funded primarily with State aid, real property taxes and grants.

Objective

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

- Did the Board and District officials appropriately manage the District's fund balance?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2011 through February 28, 2017.

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 are included in Appendix B of this report. 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.

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

¹ Prior to July 2016, this position was Associate Superintendent for Business.

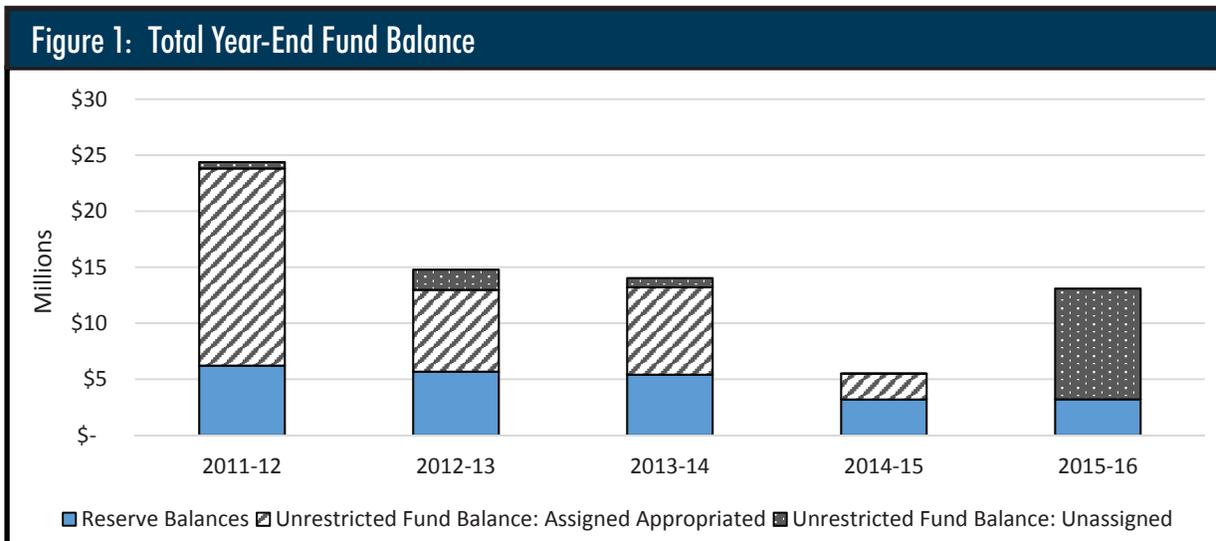
The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings 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.

Fund Balance

The Board and District officials are accountable to District residents for the use of financial resources and for planning and managing financial operations. While fund balance and reserves can be used to finance operations, continually financing operating deficits with fund balance and reserves can negatively impact financial condition. Fund balance management includes adopting a fund balance policy for the maintenance and use of unrestricted fund balance and reserves to assist in creating realistic budgets, monitoring budgets and monitoring and updating a multi-year plan to help ensure that funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures.

The Board needs to continue improving its management of fund balance to ensure financial stability. From 2011-12 through 2014-15, total fund balance decreased by \$18.9 million (77 percent), from \$24.4 million as of June 30, 2012 to \$5.5 million as of June 30, 2015 (Figure 1). Although fund balance has since improved, the Board should adopt a fund balance policy, adopt and monitor sound budgets and monitor and update its multi-year plan.

From 2011-12 through 2014-15, unassigned fund balance decreased to \$16,577, or 0.01 percent of the ensuing year’s budget. In 2015-16, the Board adopted a budget that enabled the unassigned fund balance to recover to \$9.9 million, or 3.2 percent of the 2016-17 budget.



From 2011-12 to 2015-16, the Board kept the real property tax increase to a yearly average of 2.9 percent by appropriating fund balance. For example, the 2012-13 budget appropriated \$17.6 million of unrestricted fund balance to fund the next year’s budget, or 72

percent of the total fund balance as of June 30, 2012. In total, the Board balanced the 2012-13 through 2015-16 budgets by appropriating \$35 million of unrestricted fund balance. Although the District did not use as much fund balance as planned, the unrestricted fund balance was reduced by \$15.9 million (87 percent). The Board also used \$2.8 million (46 percent) of the District’s reserve funds. Continually using the limited resource that is fund balance to finance recurring expenditures can result in fiscal instability.

In 2015-16, District officials began to rebuild fund balance by closing buildings, reducing staff, and refunding bonds to reduce debt. After four years of operating deficits, these efforts resulted in a \$7.6 million operating surplus in 2015-16.

Figure 2: Operating Results					
Fiscal Year	2011-12	2012-13	2013-14	2014-15	2015-16
Revenues	\$266,214,043	\$275,520,233	\$277,164,420	\$285,159,677	\$298,040,767
Expenditures	\$278,579,016	\$285,119,337	\$277,918,943	\$293,684,510	\$290,456,892
Operating Surplus/(Deficit)	(\$12,364,973)	(\$9,599,104)	(\$754,523)	(\$8,524,833)	\$7,583,875

The District ended 2016-17 with an operating surplus of \$12.5 million,² which District officials intend to use to further rebuild fund balance and reserves.

Continuing to finance operating deficits with fund balance and reserves negatively impacted the District’s financial condition. The Board and the Superintendent and ASBO appointed July 2016 have revised budgeting practices to ensure recurring revenues finance recurring expenditures, developed a multi-year plan and started to rebuild fund balance and reserves. However, the Board should adopt a written fund balance policy for the maintenance and use of unrestricted fund balance and reserves. Also, they must continue to monitor the District’s budget and multi-year plan to ensure future financial stability.

Recommendations

The Board and District officials should:

1. Adopt a written fund balance policy for the maintenance and use of unrestricted fund balance and reserves.
2. Continue to adopt and monitor budgets in which recurring revenues finance recurring expenditures.

² Unaudited figure

3. Continue to monitor and update the District's multi-year plan to reflect long-term goals for funding operating and capital needs.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

The District's response letter includes an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.



Sachem Central School District

Samoset Administrative Office • 51 School Street • Lake Ronkonkoma, New York 11779

September 27, 2017

Mr. Ira McCracken, Chief Examiner
Office of the State Comptroller
Division of Local Government & School Accountability
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

The Sachem Central School District is in receipt of the draft report titled "*Fund Balance – Report of Examination – Period Covered: July 1, 2011 – February 28, 2017 – 2017M-151.*"

The Board of Education and Administration have reviewed the findings in this draft report and have given significant consideration to the information contained within. Please know that we accept the findings, and agree with the accuracy of the calculations contained in this report. We appreciate the fact that your findings formally recognized that the Board of Education and current Administration "*have revised budgeting practices to ensure recurring revenues finance recurring expenditures, developed a multi-year plan and started to rebuild fund balance and reserves.*"

The following is the response to the draft audit report and the required corrective action plan.

Audit Recommendation:

1. Adopt a written fund balance policy for the maintenance and use of unrestricted fund balance and reserves.

Corrective Action:

The Board of Education and District Administration recognize the importance of maintaining proper levels of fund balance and reserves. Additionally, we agree that it would be appropriate to memorialize the District's intent with a written policy. As the field work for this audit concluded the District's Administration already took action and drafted a written "Fund Balance / Reserve Plan." This draft was provided to the Senior Examiner to maintain with the audit file. The intent is for the Board to formally adopt the plan each year once the closing balances and recommended funding levels have been calculated. Furthermore, the District has already acquired multiple fund balance policy templates from NYSSBA and is working with our external auditing firm and Counsel on developing a draft policy for Board of Education consideration later this school year.

Audit Recommendation:

2. Continue to adopt and monitor budgets in which recurring revenues finance recurring expenditures.

Corrective Action:

The Board of Education and District Administration are very cognizant of its financial position and will remain diligent and prudent. Unfortunately, the constraints of the tax cap coupled with challenges created by reduced state aid due to the Gap Elimination Adjustment (GEA) led the District, in the short-term, to increase its utilization of fund balance and reserves as a funding mechanism. This was not done in haste or without considerable deliberation, but in an effort to balance the programmatic needs of the students with the financial reality. With the GEA behind us and a more stable revenue horizon ahead the Board has already taken bold corrective action in development of the 2016-17 and 2017-18 budgets. Utilization of fund balance was completely excluded as a funding source when drafting each budget. The Board is very mindful of the perils of deficit spending and has made the long-term fiscal stability of the District a top priority.

Audit Recommendation:

3. Continue to monitor and update the District's multi-year plan to reflect long-term goals for funding operating and capital needs.

Corrective Action:

The District has long used the Office of the State Comptroller Long Range Planning Template and will continue the practice of updating it during the annual budget building process so that it remains a current and valuable long-range projection tool. The District's Audit Committee is very involved in the analysis of the District's financial position, especially at the conclusion of the annual audit process. The Business Official is charged with providing timely updates to any material changes in the expenditure or revenue budgets that could have an unanticipated impact on the District's finances. The Board of Education and District Administration will continue to carefully monitor our budgets versus actual expenditures and revenues with an eye towards sustainability and fiscal stability.

On behalf of the Schem Central School District Board of Education and Administration, we would like to acknowledge the professionalism of our field auditors who thoroughly explained each step of the audit, were courteous and cooperative throughout the process, and had the utmost respect for our time and workflow while in district. Thank you for the opportunity to provide this written response, as well as our corrective action plan. Please feel free to contact me should you require any additional information.

Sincerely,

/Kenneth E. Graham, Ed.D.
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed District officials and reviewed policies and procedures to gain an understanding of the budget process.
- We reviewed and analyzed fund balance in comparison to appropriations in the 2011-12 through 2015-16 budgets.
- We analyzed the general fund financial records for 2011-12 through 2015-16 to determine financial trends.
- We compared general fund budgeted appropriations to expenditures for 2011-12 through 2015-16 to determine whether budgets were realistic and structurally balanced.
- We obtained and reviewed projected operating results for 2016-17 and the District's multi-year plan.

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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