

Mount Sinai Union Free School District

Financial Condition Management

JUNE 2018



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

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Report Highlights

Mount Sinai Union Free School District

Audit Objective

Determine whether the Board and District officials effectively managed general fund balance.

Key Findings

- District officials overestimated expenditures by more than \$7.5 million and underestimated revenues by \$1.7 million from 2014-15 through 2016-17. The District generated operating surpluses each year, which resulted in appropriated fund balance not being used and total fund balance increasing from \$12.4 million to \$16.6 million (35 percent) for the period.
- The District's year-end unrestricted fund balance exceeded the 4 percent statutory limit during our audit period. It totaled \$11.5 million at the end of 2016-17.

Key Recommendations

- Develop and adopt budgets that include realistic estimates for revenues, expenditures and unrestricted fund balance.
- Ensure that unrestricted fund balance complies with the statutory limit.

District officials generally agreed with our findings and recommendations and indicated they will take corrective action.

Background

The Mount Sinai Union Free School District (District) is located in the Town of Brookhaven in Suffolk County.

The Board of Education (Board) is responsible for managing the District's financial and educational affairs. The School Superintendent (Superintendent) is responsible, along with the Assistant Superintendent of Business (ASB), for the District's day-to-day management and developing and administering the budget.

Quick Facts

2017-18 Appropriations	\$59.3 million
Enrollment	2,328
2016-17 Year-End Unrestricted Fund Balance	\$9.8 million

Audit Period

July 1, 2014 - October 31, 2017

Financial Condition Management

What Is Effective Financial Condition Management?

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. The Board must estimate what the District will spend and the amounts it will receive in revenue (e.g., State aid), how much fund balance will be available at year end, and the expected tax levy needed to balance the budget. Accurate estimates help ensure that the real property tax levy is not greater than necessary.

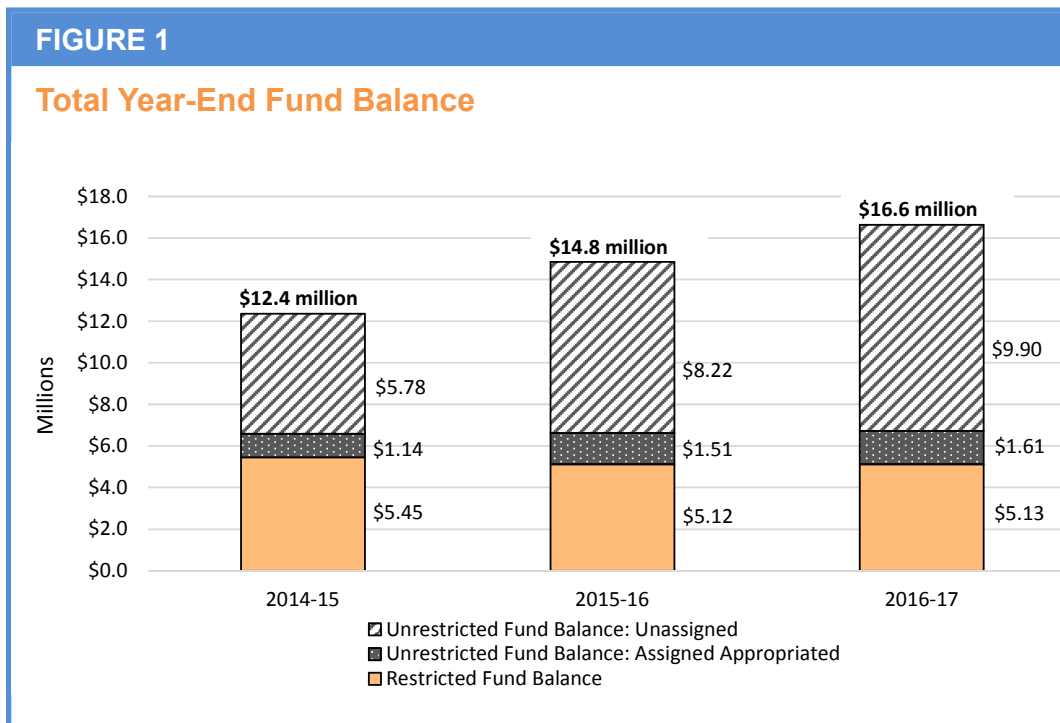
The Board must also maintain reasonable levels of fund balance, which is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law¹ limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the next 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. The Board should adopt a formal written plan that indicates how reserves will be funded, how much should be accumulated and when the money will be used to finance related costs. While school districts are generally not limited as to how much money can be held in reserves, the balances should be reasonable. The Board should consider the accumulation of fund balance for future needs against their obligation to ensure that the District's real property tax levy is not greater than necessary.

Multiyear financial planning is a tool school districts can use to improve the budget development process. It enables District officials to identify revenue and expenditure trends, establish long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years, and assess the merits of alternative approaches (such as using surplus funds or establishing and using reserves) to finance operations. Multiyear financial planning can also help District officials project the future costs of employee salaries and benefits provided for in collective bargaining agreements. Any long-term financial plan should be continually monitored and updated to provide a reliable framework for preparing budgets and ensure that information used to guide decisions is current and accurate.

¹ New York State Real Property Tax Law Section 1318

Unrestricted Fund Balance Exceeded the Statutory Limit

District officials need to improve budgeting practices to effectively manage the District's financial condition. The District generated annual operating surpluses averaging more than \$1.4 million over the last fiscal three years. As a result, total fund balance increased 35 percent: from \$12.4 million as of June 30, 2015 to \$16.6 million as of June 30, 2017 (Figure 1). While approximately \$5.1 million of fund balance was restricted in reserve funds at the end of the 2016-17 fiscal year, \$11.5 million was unrestricted. During the period, unrestricted fund balance exceeded the statutory limit by \$3.6 million to \$7.6 million, or 6.5 to 13 percentage points.



The Board appropriated fund balance averaging \$1.4 million in the adopted budgets for the three years examined. However, with each year resulting in an operating surplus,² none of the appropriated fund balance was actually used. With unused appropriated fund balance added back, the District's recalculated unrestricted fund balance ranged from 12.5 to 19.8 percent of the subsequent year's budget (Figure 2).

² As of February 9, 2018, District officials project they will end 2017-18 with an operating surplus and will not use the appropriated fund balance.

Figure 2: Unused Fund Balance

	2014-15	2015-16	2016-17
Reported Unrestricted Fund Balance	\$5,780,314	\$8,218,579	\$9,897,976
Ensuing Year's Budget	\$55,137,322	\$56,892,453	\$58,054,485
Reported Fund Balance as a Percentage of Ensuing Year's Appropriations	10.5%	14.4%	17.0%
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$1,136,052	\$1,508,210	\$1,607,065
Recalculated Unrestricted Fund Balance	\$6,916,366	\$9,726,789	\$11,505,041
Recalculated Unrestricted Fund Balance as Percentage of Ensuing Year's Appropriations	12.5%	17.1%	19.8%

Adopting budgets appropriating fund balance that will not be used causes the District to retain more fund balance and levy more real property taxes than needed. As a result, the District continued to accumulate unrestricted fund balance in excess of the statutory limit during our audit period.

We reviewed the District's budgets for the 2014-15 through 2016-17 fiscal years (Figure 3) and found that, while revenue estimates were generally close to the actual revenues received, District officials overestimated appropriations, spending \$7.6 million less than planned. Even though actual expenditures remained relatively stable – increasing a total of 2 percent in three years – District officials continued to overestimate appropriations, which increased by 5.4 percent over the same period. The overall budget variances each year contributed to a 35 percent (\$4.3 million) increase in total fund balance from 2014-15 through 2016-17. If the Board continues its current budget practices, fund balance in the general fund will continue to accumulate.

Figure 3: General Fund Budget-to-Actual Comparison

	2014-15	2015-16	2016-17
Appropriations	\$55,137,321	\$56,892,453	\$58,102,555
Actual Expenditures	\$53,743,608	\$53,889,996	\$54,910,233
Variance	\$1,393,713	\$3,002,457	\$3,192,322
Percentage Variance	2.6%	5.6%	5.8%
Estimated Revenues	\$53,367,807	\$55,416,343	\$56,341,275
Actual Revenues	\$53,753,948	\$56,372,978	\$56,693,898
Variance	\$386,141	\$956,635	\$352,623
Percentage Variance	0.7%	1.7%	0.6%
Operating Surplus/(Deficit)	\$10,340	\$2,482,982	\$1,783,665

The District expended less than budgeted, in part, because the Board adopted budgets with overly conservative estimates for certain appropriations. Over the period, the annual average of overestimated appropriations was \$639,839 (8.4 percent) for special education, \$517,915 (14 percent) for central services and \$392,281 (1.9 percent) for teaching—regular school.³

The Board has approved inaccurate budgets with underestimated revenues and overestimated appropriations. As of February 8, 2018, District officials project a \$2.4 million operating surplus for the 2017-18 fiscal year. However, in 2016-17, they implemented a five-year financial plan to better manage fund balance and gradually reduce unrestricted fund balance to the statutory limit. This included creating and funding a retirement contribution reserve of not more than \$500,000 in 2017-18. In addition, on May 15, 2018, District voters approved a \$5 million transfer to the capital fund for repairs to the high school roof and athletic turf field and increasing security measures, and the transfer of \$750,000 to a newly established capital reserve to fund future capital improvements.

What Do We Recommend?

The Board should:

1. Develop and adopt budgets that include realistic estimates for revenues, expenditures and unrestricted fund balance.
2. Discontinue the practice of adopting budgets that result in appropriating fund balance that will not be used to sustain District operations.

The Board and District officials should:

3. Ensure that the amount of unrestricted fund balance complies with the statutory limit.

³ This includes, among other things, teachers' salaries.

Appendix A: Response From District Officials



Mount Sinai Union Free School District

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Maureen Poerio
District Clerk/Executive Assistant

Gordon Brosdal
Superintendent of Schools

Lynne Kirchenko
District Treasurer

May 2, 2018

Mr. Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788

RE: Mount Sinai UFSD Response to Financial Condition Report of Examination

Dear Mr. McCracken:

The Mount Sinai Union Free School District acknowledges receipt of the Report of Examination (2018M-34)-Financial Condition (draft). The Board of Education and District Administration thank the Office of the State Comptroller's staff for their professionalism and courtesy in conducting the audit. We have reviewed and appreciate the findings and recommendations outlined in your report. The District is both responding to the Report of Examination and providing its Corrective Action Plan associated with recommendations.

The District is pleased that the extensive work of the auditors from your office resulted in no findings of operational improprieties, fraud, waste or abuse. Accordingly, the focus of the examination was on the Financial Condition, which resulted in recommendations concerning budgeting and fund balance.

The Mount Sinai UFSD adopts budgets that reflect its operating needs based on historical trends, contractual obligations and program costs while staying within the tax cap. The District budgets conservatively, especially in the areas of special education services, building operations, and maintenance. These areas are subject to large increases in costs during the school year. The area of teaching regular school was subject to negotiations during budget which resulted in net savings due to a large number of retirements. There are many other challenges in the budget process, such as continuing unfunded mandates, significant increases in health insurance costs, and increases in retirement systems contribution costs. This year we were fortunate to have funds available to increase our security needs after the incident in Parkland, Florida. The Board of Education also decided to approve a five million capital project that covers reconstruction of projects that warrant immediate attention and cannot wait for a bond. The transfer of these funds to the capital project diminishes our fund balance by more than half and we will be within the 4% statute within two years.

Michael Riggio, Vice President
Kerri Anderson, Trustee
Lynn Jordan, Trustee

Board of Education
Lynn Capobianco, President

Edward Law, Trustee
Robert P. Sweeney, Trustee
Peter Van Middlelem, Trustee

We recognize and understand the importance of preparing more accurate budget estimates that would allow the District to strike a balance of preserving our educational programs, endeavoring to stay within the property tax cap, and maintaining a fund balance level that is reasonable and allows the District to avoid falling into fiscal stress.

The District has always strived to be transparent about its financial condition. The District's five year fund balance plan, audited financial statements and audited reports are posted on the District's official website. During our budget process we continually update the community on our fund balance.

We will use your recommendations to assist us in improving our budgeting process and long-range strategic planning in order to manage the District's finances more effectively while meeting the expectations of our community.

The District's corrective action plan, in order of recommendations received, is as follows:

1. The Board of Education will continue its long-standing practice of developing and adopting fiscally prudent budgets based on appropriation estimates that are founded on the best information and expectations available at the time of budget development.
2. The Board of Education will continue to make every effort to adopt budgets that result in the decrease in appropriating fund balance, eventually reducing the reliance on the appropriations. This does become difficult with so many unpredictable variables such as not knowing the future tax caps and state aid.
3. The Board of Education will make every effort to ensure the amount of unrestricted fund balance complies with the statutory limit of 4%. The District plans on using the funds for a one time Capital Project expenditure of \$5,000,000 and establishing a Capital Reserve of \$750,000 which will reduce the fund balance by more than half. Also, the District's five year plan reflects the fund balance will be below the statutory limit of 4% within two years.

The District's Five Year Fund Balance Plan will be addressing the items above and will comply with the recommendations listed in the report. The District's approved five year plan to follow shortly.

Again, the Board of Education and District Administration thank the Office of the State Comptroller for the efforts extended on behalf of the District.

Gordon Brosdal
Superintendent of Schools

Lynn Capobianco
Board of Education President

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 and employees to gain an understanding of District operations.
- 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 recent annual financial statements, the accompanying management letters prepared by the District's independent public accountant, and relevant budget reports.
- 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 the fiscal years 2015-2017 and calculated the percentage of unexpended surplus funds compared with budget appropriations.
- We analyzed the trend in total fund balance in the general fund from 2015-2017 fiscal years. We compared unrestricted fund balance with the next years' budgeted appropriations to determine whether the District was within the statutory limit.
- We reviewed the District's multiyear financial plan.

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 C: Resources and Services

Regional Office Directory

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

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

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

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

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

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

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

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

Contact

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