

Schenevus Central School District

Financial Condition

AUGUST 2018



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

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Report Highlights

Schenevus Central School District

Audit Objective

Determine whether District officials adequately addressed the declining financial condition of the general and school lunch (cafeteria) funds.

Key Findings

- Total general fund balance decreased by \$567,000 (39 percent) in 2016-17, and officials appropriated \$300,000 of fund balance for 2017-18 when only \$226,400 was available. However, the Board has taken steps to increase the fund balance levels by not budgeting uncertain revenues, decreasing staffing costs through attrition and planning to use retirement reserves.
- The cafeteria fund incurred deficits totaling over \$48,700 and ended 2016-17 with a negative fund balance of \$57,300.

Key Recommendations

- Continue to monitor the financial plan for stabilizing the general fund and address any unforeseen expenditures changes to expected funding.
- Complete a cost-per-meal equivalent analysis and explore methods for increasing revenues and decreasing expenditures to reduce the cafeteria fund's reliance on the general fund.

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

Background

The Schenevus Central School District (District) serves the Towns of Decatur, Maryland, Milford, Roseboom and Westford in Otsego County.

The District is governed by the five-member elected Board of Education (Board). 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 responsible, along with other administrative staff, for day-to-day management and developing the general fund budget. The District contracts with the Otsego-Northern Catskills Board of Cooperative Education Services (ONC BOCES) for a Food Service Director who oversees the cafeteria operations and develops the budget.

Quick Facts

2016-17 Enrollment	365
2017-18 General Fund Appropriations	\$9 million
2017-18 Cafeteria Fund Appropriations	\$218,000

Audit Period

July 1, 2016 - January 17, 2018

We extended our audit period back to July 1, 2014 and forward to February 28, 2018 to analyze and project financial trends.

Financial Condition

How Should District Officials Manage Financial Condition?

A school district's financial condition is a determining factor in its ability to provide educational services to its students. The board and district superintendent are accountable to residents for the use of resources and should effectively plan and manage the district's financial condition. This includes maintaining a reasonable level of unrestricted fund balance for unforeseen circumstances and to provide cash flow for expenditure outlays pending the receipt of revenues. Unexpected revenue shortfalls and expenditure overruns can strain the district's resources; when this occurs, officials should develop and monitor plans to address and correct potential shortfalls.

Additionally, officials should monitor and analyze operations in the cafeteria fund to identify potential efficiencies. For example, comparing the cost-per-meal equivalent (ME)¹ helps officials set appropriate prices. Additionally, a meals-per-labor-hour (MPLH)² analysis provides officials with a measureable figure to gauge the productivity of the cafeteria operations. When meal costs and employee productivity are properly controlled and monitored, cafeteria operations may be able to achieve results closer to breakeven and reduce reliance on subsidies from other district funds.

Officials Have Addressed the General Fund's Declining Financial Condition

The District experienced revenue shortfalls in tuition and State aid along with expenditure overruns in special educational costs during 2016-17. The combination of these events caused the total general fund balance to decrease by over \$567,000 (39 percent) to \$889,800 at the end of 2016-17. While officials acknowledged fiscal concerns, they did not realize the full extent and incorrectly projected the 2016-17 ending fund balance. Accordingly, District officials budgeted to use \$300,000 of fund balance in the 2017-18 fiscal year, when only \$226,400 was available to appropriate as the remaining fund balance of \$663,400 was restricted in reserve funds.

Officials began taking corrective action during the 2017-18 budget development process to budget more conservatively. For example, they did not include revenue estimates for potential tuition students. They also planned to offset the insufficient fund balance by reducing staffing costs through attrition; when two guidance counselors resigned, officials hired replacement counselors at lower salary rates.

1 An ME includes a conversion of the number of breakfasts and a la carte revenues into an equivalent number of lunches. A single lunch is the standard by which any measures are calculated.

2 MPLH is the number of meals produced divided by the staffing hours to produce those meals. It is an industry-accepted standard used to determine the adequacy of staffing levels in a school food service operation.

Additionally, officials are planning on using reserves in 2017-18 for retirement incentives and payments. While we project that the total fund balance will decrease another \$272,000 in 2017-18, this operating deficit is less than the previous year's and will leave the District with an available fund balance that is 2.6 percent of its projected expenditures.³ Officials anticipate that it will take two to three years to improve the general fund's financial condition.

Officials Did Not Fully Address the Cafeteria Fund's Deficits

The cafeteria fund incurred operating deficits in the last three fiscal years totaling over \$48,700. As of fiscal year ending June 30, 2017, fund balance decreased to (\$57,300) and the cafeteria fund owed the general fund \$65,400, which is unlikely to be paid back. These deficits occurred even after the general fund transferred \$10,000 to the cafeteria fund each year from 2014-15 through 2016-17.

District officials decreased the number of days the Food Service Director was onsite in 2016-17, reducing expenditures by \$9,000 (19 percent). The operating deficits have decreased each of the past three years and would likely not have occurred in 2016-17 had officials not purchased needed equipment totaling over \$21,000. We project the fund will end 2017-18 with a small operating surplus of almost \$4,000, decreasing the deficit fund balance to \$53,300. However, this was achieved with a \$10,000 transfer from the general fund.

Furthermore, while the Food Service Director monitored cafeteria fund operations and staffed the cafeteria within MPLH industry standards, there has been no cost-per-ME analysis performed. We performed an analysis and found that, from 2014-15 through 2016-17, the cost-per-ME increased by a total of 7 percent and the revenue-per-ME increased by 20 percent; however, the costs continue to exceed the revenues partly because the Board has not raised meal prices in at least four years.

Without adequately addressing the financial condition of the cafeteria fund, deficits and reliance on the general fund will continue, potentially impeding the general fund's financial recovery.

What Do We Recommend?

The Board and District officials should:

1. Continue to monitor the plan for stabilizing the general fund and respond in a timely manner to any unforeseen expenditures or changes to expected funding.

³ The 2017-18 projected available fund balance is \$226,000 and projected expenditures are \$8.7 million.

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2. Periodically complete a cost-per-ME analysis and explore methods for increasing revenues and further decreasing expenditures to allow the cafeteria fund to reduce its reliance on the general fund.

Appendix A: Response From District Officials

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OUR MISSION

With our children as our focus, and with accountability and honesty as our guiding principles, Schenevus Central School will provide a caring, stable, secure and academically challenging environment; one that motivates each student to discover, practice and master the skills to pursue a productive lifetime of work and learning within our community, and the world.

July 31, 2018

Office of the State Comptroller Division of Local Government & School Accountability
PSU-CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

To Whom It May Concern:

The Schenevus Central School District Board of Education understands the findings and recommendations of the Report of Examination of School Lunch Fund Financial Condition for the period of July 1, 2016 through January 14, 2018. There was also a review of the General Fund deficit. Please accept this as the district's response and corrective action plan.

The district is cognizant of its responsibility to effectively manage the school lunch fund's financial condition and operate a self-sufficient program. However, federally established nutritional guidelines and regulations as well as contractual obligations impede the district's ability to annually generate sufficient revenue to cover costs. Prior to the school lunch fund audit the district examined multiple ways to reduce costs and implemented staffing changes to lessen labor costs.

Schenevus Central School District will take corrective action and specifically monitor operational costs by completing a cost-per-meal analysis and monitoring the MPLH. Additionally, it will continue to explore methods for increasing revenues and decreasing expenditures to a level that allows the fund to be self-sustaining.

The District also is aware of its need to continue to closely monitor the General Fund revenues and expenditures. The District has and will continue to take the necessary steps to decrease the General Fund deficit and operate at a fiscally sound basis.

Respectfully submitted,

Dr. Kelly Gallagher
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 and observed operations to gain an understanding of financial operations for the general and cafeteria funds. We also inquired about the cause of the fiscal decline of the funds and what, if any, action District officials have taken to improve financial condition.
- We compared the general fund's budgeted revenues and appropriations to actual revenues and expenditures for the 2016-17 fiscal year to verify the revenues and expenditure lines that contributed to the decline of the total fund balance. We also reviewed the 2017-18 adopted budget to determine whether the Board made corrections to the line items identified as the cause of the fiscal decline.
- We analyzed the general fund's total fund balance trends and compared appropriated fund balance to the amount available at year end to determine whether amounts appropriated were available for fiscal years 2014-15 through 2017-18.
- We projected the general fund's revenues and expenditures using actual revenues and expenditures as of February 28, 2018 to calculate the results of operations and the general fund balance for 2017-18.
- We calculated the results of operations for the cafeteria fund and analyzed the trends in the fund balance for fiscal years 2014-15 through 2016-17. We also projected the revenues and expenditures using actual revenues and expenditures as of February 28, 2018 to calculate the results of operations and fund balance for the cafeteria fund for the 2017-18 fiscal year.
- We reviewed the interfund transfers from the general fund to the cafeteria fund and the trend in the interfund loans from the general fund to the cafeteria fund for 2014-15 through 2016-17 to determine whether the general fund was subsidizing the cafeteria fund and whether the cafeteria fund was able to pay the general fund back.
- We calculated the MEs for 2014-15 through 2016-17. See the University Of Mississippi Institute Of Child Nutrition's Financial Management Information System, 2nd Edition at <http://www.theicn.org/documentlibraryfiles/PDF/20151012031820.pdf>, pages 59 through 61, for the calculation steps to determine MEs.
- We calculated the costs and revenues of school lunch operations for 2014-15 through 2016-17 and analyzed the results for trends in the per-ME revenues and cost. We also calculated the per-ME results of operations.

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- We calculated the District's MPLH to determine whether productivity levels were within the accepted school food service industry standards. See the University Of Mississippi Institute Of Child Nutrition's Financial Management Information System, 2nd Edition at <http://www.theicn.org/documentlibraryfiles/PDF/20151012031820.pdf>, pages 70 to 72, for the MPLH calculation. See the University Of Mississippi Institute Of Child Nutrition's Foundations for Effective Leadership in Child Nutrition Programs, Lesson Three, Foundation: the Business of Child Nutrition Programs at <http://www.nfsmi.org/Foundations/lesson3/FoundationsL3Pop.pdf>, page 35, for the staffing guidelines for on-site production.

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.

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 District 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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