

Romulus Central School District

Financial Condition Management and State Transportation Aid

OCTOBER 2018



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

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Report Highlights

Romulus Central School District

Audit Objective

Determine whether:

The Board and District officials effectively managed the financial condition.

District officials applied for all entitled State transportation aid for new bus purchases.

Key Findings

- The Board-adopted 2014-15 through 2016-17 budgets overestimated appropriations by an average of 9 percent over these years and did not include more than \$3.7 million in intended reserve funding. In addition, the Board has not adopted comprehensive multiyear financial and capital plans.
- District officials retained an annual average of \$798,735 in the debt service fund over the past four years (2013-14 through 2016-17) without using this money for debt service payments.
- District officials did not apply for transportation aid in a timely manner. As a result, the receipt of aid totaling approximately \$148,672, which could have been used to reduce real property taxes or for other purposes, was delayed.

Key Recommendations

- Adopt budgets based on realistic estimates that include amounts intended to fund reserves and develop and adopt comprehensive multiyear financial and capital plans.
- Use money in the debt service fund to pay related debt service expenditures in compliance with statutory requirements.
- Implement procedures to ensure transportation aid is applied for in a timely manner.

Background

Romulus Central School District (District) serves the Towns of Romulus, Fayette and Varick in Seneca County.

A seven-member Board of Education (Board) is responsible for general management and control of the District financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible, along with other administrative staff, for the day-to-day management under the Board's direction. The Business Manager oversees business and transportation operations.

Quick Facts

Full-time Employees	101
Enrollment	399
2016-17 Appropriations	\$11.3 million

Audit Period

July 1, 2014 – April 16, 2018. We extended our audit scope period back to July 1, 2012 to review budget trends and bus purchases, and forward to June 30, 2018 to project current year operating results.

Financial Condition Management

How Does a Board Effectively Manage Financial Condition?

The board, with assistance from the superintendent and business manager, is responsible for effectively managing district finances. These officials should prepare and the board should adopt budgets that contain realistic estimates of revenues, appropriations and the use of fund balance as a funding source for operations. District officials must ensure that unrestricted fund balance does not exceed the amount allowed by law. New York State Real Property Tax Law¹ currently limits unrestricted fund balance to no more than 4 percent of the subsequent year's budget.

Districts are legally allowed to establish reserves for certain future purposes (e.g., capital projects, retirement expenditures). District officials should plan for the funding and use of reserves by balancing the desire to accumulate funds for future needs with the obligation to make sure real property taxes are not higher than necessary. Ideally, amounts to be placed in reserves should be included in the annual budget to ensure taxpayers are aware of the board's intent to fund reserves in the upcoming year.²

A debt service fund is used to account for the accumulation of resources to pay principal and interest on long-term debt. For example, a debt service fund must be established and maintained to account for the proceeds of a capital asset's sale that has outstanding debt or if State or federal aid is received for a capital improvement for which there is outstanding debt. Districts are also required to account for and restrict unexpended bond proceeds and related interest earnings in accordance with statutory provisions. Officials should use the money in this fund to make the related debt service payments.

Planning on a multiyear basis allows district officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budget decisions on future fiscal years. It also allows officials to assess the impact and merits of alternative approaches to address financial issues, such as the use of fund balance to finance operations and the accumulation of money in board-authorized reserve funds. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. These plans should be monitored and updated on an ongoing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.³

1 New York State Real Property Tax Law, Section 1318

2 Refer to our publication Reserve Funds available at www.osc.state.ny.us/localgov/pubs/lmg/reservefunds.pdf

3 Refer to our multiyear financial planning resources available at www.osc.state.ny.us/localgov/planbudget/index.htm

The Board Annually Overestimated Appropriations and Used Surpluses to Fund Reserves at Year-End

We compared general fund total budgeted revenues and appropriations with actual results of operations for 2014-15 through 2016-17 and found that District officials historically underestimated revenues and overestimated appropriations. Although budgeted revenues for the three-year period reviewed were reasonable with an approximate 2 percent variance, appropriations were overestimated between 4 and 14 percent each year or 9 percent on average.

Officials told us that these variances were mainly due to unfilled substitute positions, overestimated transportation expenditures,⁴ lower natural gas prices, unpurchased equipment and less than anticipated special education student enrollment.

We also reviewed the adopted 2017-18 budget totaling approximately \$11.9 million and project operating results through year-end to be on par with 2016-17.

Figure 1: Overestimated Appropriations

	2014-15	2015-16	2016-17	Totals
Appropriations	\$11,165,999	\$11,205,999	\$11,351,535	\$33,723,533
Expenditures	\$9,767,535	\$10,110,741	\$10,929,135	\$30,807,411
Overestimated Appropriations	\$1,398,464	\$1,095,258	\$422,400	\$2,916,122
Percentage Overestimated	14%	11%	4%	9%

District officials' budgeting practices generated almost \$3.7 million in surpluses over this three-year period. To reduce the unrestricted fund balance to within the statutory limit, officials transferred more than \$3.5 million⁵ to the capital building reserve and \$200,000 to the capital bus reserve over this same period. As a result, reserve fund transactions were not transparent to the public, because each year the funding transfers were not included in the adopted budgets but instead transferred at year-end.

Officials Did Not Use Debt Service Funds to Pay for Debt Service

The debt service fund balance as of June 30, 2017 totaled \$910,118. To close a completed capital project in 2015-16, District officials transferred \$219,820 from the capital projects fund to the debt service fund, which had a previous balance

⁴ These costs were overestimated due to fewer athletic trips, cheaper fuel prices and lower repair and maintenance costs.

⁵ Transfers to the capital reserve were as follows: \$1.7 million in 2014-15, \$1.3 million in 2015-16 and \$508,629 in 2016-17.

of \$688,496. The average balance in this fund over the past four years (2013-14 through 2016-17) was \$798,735. However, each year officials budgeted and paid for debt related principal and interest, totaling on average \$1.2 million,⁶ from the general fund rather than using the money available in the debt service fund. Using debt service funds for its intended purpose could allow general fund resources to be used for other purposes or to reduce real property taxes.

Officials Did Not Develop Formal Multiyear Financial and Capital Plans

District officials did not develop comprehensive written multiyear financial or capital plans. Officials told us that the Board often discusses long-term planning during budget preparation and throughout the year and that they have a two-year plan.⁷ However, they have not formally adopted any written multiyear plans, which would help officials address the use of fund balance and debt service and plans to fund reserve funds and prioritize and plan for future capital needs.

The lack of adequate multiyear plans, which include specific estimates for revenues, expenditures, reserves and fund balance and long-term capital needs, inhibits officials' abilities to effectively manage finances and address future needs. In addition, well designed long-term plans can assist the Board in making timely and informed decisions about programs and operations and fund balance management.

What Do We Recommend?

The Board and District officials should:

1. Adopt budgets that reflect the District's actual needs and include realistic estimates based on historical trends or other identified analysis.
2. Use money in the debt service fund to pay related debt service expenditures in compliance with statutory requirements.
3. Develop and adopt comprehensive multiyear financial and capital plans to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

⁶ Debt service principal and interest payments were made as follows: \$864,969 in 2014-15, \$1.3 million in 2015-16 and \$1.3 million in 2016-17.

⁷ The Business Manager maintains a two-year projection spreadsheet.

State Transportation Aid

The New York State Education Department (SED) provides school districts with transportation aid for the assumed debt service expenditures associated with the approved cost of purchased buses. SED establishes the approved bus purchase cost and calculates the assumed annual debt service expenditures based on amortization schedules. The assumed annual debt service expenditures (calculated by SED) multiplied by the District's annual State share ratio for transportation aid (which may vary from year-to-year) determines the amount of transportation aid a district is entitled to each year.

How Should District Officials Apply for and Monitor Transportation Aid?

Beginning in 2017-18 to receive transportation aid, district officials must submit each new bus purchase electronically through the State Aid Management System (SAMS).⁸ SAMS allows districts to electronically submit bus purchase details and the superintendent's certification. Once a bus purchase is successfully certified, the bus is automatically approved for aid. Districts generally receive aid on bus purchases over a five- or six-year period beginning 12 months after the purchase order date.

District officials should implement procedures to ensure that the aid applications are submitted in a timely manner and the amount of aid expected is annually reconciled to the amount received.

Officials Did Not Apply for Transportation Aid in a Timely Manner

District officials did not apply for all transportation aid to which the District was entitled for new bus purchases in a timely manner. Officials purchased eight buses during our audit period for a total cost of \$613,070. During our audit field work, the Business Manager used SAMS to claim aid for seven buses purchased from 2012-13 through 2013-14 and 2015-16 through 2017-18 with a total cost of \$491,657. Aid for one bus purchased during 2014-15 costing \$121,413 was submitted to SED before the start of our audit field work.⁹ In addition, the Business Manager did not prepare annual reconciliations for the amount of expected transportation aid and the amount of aid actually received.

Except for the bus purchased in 2017-18,¹⁰ aid for six bus purchases totaling \$345,855 was not claimed in a timely manner because the Superintendent

⁸ Before the implementation of SAMS, to receive aid officials submitted a paper form SA-16 (Application for approval of Bus Purchase for Purposes of State Aid) to SED and received letter notifications listing the buses approved and the approved aid amount. Effective in October 2017, for bus purchases in 2016-17, SED no longer accepts forms SA-16, requires districts to use SAMS to receive aid and no longer issues notification letters.

⁹ The Business Manager submitted Form SA-16 to SED for aid on this bus, which the Superintendent certified in December 2015.

¹⁰ The Superintendent certified the aid for this bus in December 2017.

certified these buses in December 2017. As a result, the receipt of transportation aid totaling approximately \$148,672,¹¹ which could have been used to reduce real property taxes or for other purposes, was delayed.

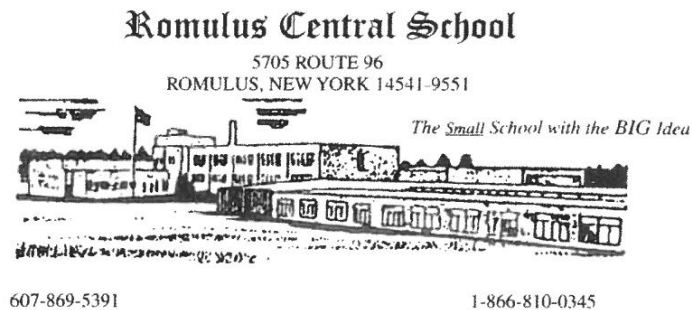
What Do We Recommend?

The Business Manager should:

4. Implement procedures to ensure that transportation aid for all bus purchases is applied for in a timely manner.
5. Prepare an annual reconciliation of expected transportation aid with the amount actually received.

¹¹ Aid for 2014-15 was \$23,508, for 2015-16 was \$49,934 and for 2016-17 was \$75,230.

Appendix A: Response From District Officials



September 6, 2018

Office of the New York State Comptroller
Rochester Regional Office
Edward V. Grant Jr., Chief Examiner
The Powers Building
16 West Main St. - Suite 522
Rochester, NY 14614-1608

Dear Mr. Grant,

We are in receipt of the OSC Report of Examination for the period of July 1, 2014 through April 16, 2018 and have no corrections to offer based upon the information in this report. Please accept the Romulus Central School District response and corrective action plan for the OSC Audit of Financial Condition Management and State Transportation Aid for the period of July 1, 2014 through April 16, 2018.

1. Recommendation - Adopt budgets based on realistic estimates that include amounts intended to fund reserves and develop comprehensive multi year financial and capital plans.

Corrective Action Plan - Efforts are already underway to adopt budgets based on more realistic estimates of fund reserves. Each budget year since 2014/2015, the district has decreased the overestimated appropriations and will continue doing so until fund balance is within the statutory limit. Currently, a multi year budgeting process exists. The Board of Education will approve a five year budget and capital plan when the yearly budget is approved.

2. Recommendation - Use money in the debt service fund to pay related debt service expenditures in compliance with the statutory requirements


Corrective Action Plan - The district budgeted \$50,000 in the 2018/2019 budget to pay off existing capital debt. The district will continue to use the debt service fund to pay remaining debt within the allowable period.

-
3. Recommendation - Implement procedures to ensure transportation aid is applied for in a timely manner.

Corrective Action Plan - All buses purchased between 2012-13 through 2018-19 have been claimed and approved for state aid. A Transportation Vehicle Purchasing Procedure has been put in place that covers from the long term replacement of the vehicle through the submission and reconciliation of state aid. This procedure was implemented with the purchase of a bus in July, 2018. As soon as the State Aid portal was opened, the bus purchase was submitted and has been approved for State Aid.

Martin D. Rotz - Superintendent
Romulus CSD

Robert McCann - President
Romulus CSD BOE

Rebecca Jessop  Chairperson
Romulus CSD BOE Audit Committee

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 reviewed and analyzed financial records and reports for the general fund, including annual budgets, annual reports, budget status reports and general ledgers.
- We calculated the general fund unrestricted fund balance as a percentage of the ensuing year's appropriations to determine whether fund balance retained was within the statutory limitation during 2014-15 through 2016-17.
- We compared the general fund's estimated revenues and budget appropriations with the actual revenues and expenditures for 2014-15 through 2016-17 to determine whether budgets were reasonable.
- We reviewed preliminary year end operating results for 2017-18 to determine whether budgeting practices were similar to previous years.
- We reviewed reserve fund balances to determine whether they were reasonable and whether they were funded in a transparent manner.
- We interviewed District officials about the debt service fund and whether they had a plan to use the funds to pay related expenditures.
- We interviewed Board members and District officials to determine whether the Board has long-term financial and/or capital plans.
- We interviewed District officials and reviewed various transportation aid documents and SED regulations to gain an understanding of the transportation aid process for bus purchases and the District's procedures over the purchase of buses.
- We reviewed and analyzed the procurement records for all bus purchases from July 1, 2012 through March 5, 2018, including purchase orders, canceled check images, bus inventory lists and SED reports obtained through SAMS to determine whether transportation aid was applied for in a timely manner.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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#lgmg

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

Office of the New York State Comptroller
Division of Local Government and School Accountability
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www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

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