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October 23, 2007

Mr. Robert-Wayne Harris, Superintendent of Schools
Members of the Board of Education
Roosevelt Union Free School District
240 Denton Place
Roosevelt, NY 11575

Report 2007M-267

Dear Superintendent Harris and Members of the Board:

In March 2007, State Comptroller DiNapoli announced that we would initiate real-time fiscal monitoring of the Roosevelt Union Free School District (District) to ensure that the District stays within its 2007-08 budget. This monitoring, which will be an ongoing audit, is in response to the District's continuing fiscal problems and budget deficits. The objective of our audit is to conduct a real-time examination of financial operations to determine whether District spending is in compliance with the constraints of budgeted appropriations. The following is our report on the Roosevelt Union Free School District — First Quarter Report on the 2007-08 Adopted Budget for the period July 1, 2007 through September 28, 2007.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by school District officials.

Background

The Roosevelt Union Free School District (District) is located in a geographically small (two square miles) residential area – that has limited taxable commercial property – in southern Nassau County. The District operates five schools with a workforce of about 500 employees, and has an enrollment of approximately 3,000 students in Grades K-12 with an additional 224 students attending a charter school. In March 2002, after persistent concerns with Board of Education (Board) governance, facility conditions, student performance, and financial condition problems at the District, the State Legislature formally removed the existing Board and authorized additional oversight by the Commissioner of Education, including the appointment of a new five-member Board and a new Superintendent of Schools (Superintendent). The District has struggled with fiscal issues for many years. In 2002, the State Legislature authorized the District to issue debt totaling \$5,813,072 to fund the District's accumulated deficit as of June 30,

2002. The District made the final payment on this debt in June 2007. Furthermore, the legislation provided for the District to receive an additional \$6 million of State aid annually to improve student performance.

Our March 2007 audit of the District’s financial condition reported that the District has sustained recurring general fund and school lunch fund operating deficits in recent years and that for the fiscal year ended June 30, 2006, the District reported an accumulated general fund deficit of \$3.4 million. In addition to this deficit, \$2.8 million had been reserved for future liabilities and was not available to be used for future operating expenditures because there was no restricted cash to cover the reserved fund balance. In effect, the District had an unreserved, unappropriated general fund deficit of \$6.2 million as of June 30, 2006. Our report also projected an operating deficit at June 30, 2007 of \$6.1 million, resulting from a revenue shortfall of \$3.3 million and over-expended appropriations of \$2.8 million. Since the release of our March 2007 report, the District took steps to reduce the projected operating deficit. However, as of September 28, 2007, District officials had not prepared nor filed the District’s annual financial statements with the Department of Education (SED) nor had the independent auditors prepared the District’s audited financial statements. Therefore, District officials could not determine at this time how they ended operations for the 2006-07 fiscal year.

In April 2007, we reviewed the District’s 2007-08 proposed budget and informed the Board that the budgeted expenditures of \$63.7 million were significantly less than expenditures incurred in previous years. Given the District’s prior spending patterns and its inability to function within the constraints of previous budgets, we questioned the reasonableness of the 2007-08 budget appropriations. A revised budget, which restored previously eliminated positions by reallocating but not increasing existing appropriations, was approved by the Board at the end of May 2007.

As of September 28, 2007, the District made 32 budget transfers aggregating about \$5 million. The net effect was to increase Personal Services (PS) costs by \$217,000 and decrease Other than Personal Services¹ (OTPS) costs by the same amount. The following schedule shows the original budget, the amended budget, expenditures, encumbrances and available balances as of September 28, 2007.

General Fund Appropriations Budget, as of September 28, 2007							
	Original Budget	Adjustments	Adjusted Budget	Expenditures	Percentage Expended	Encumbered	Available
Personal Services Costs	\$27,926,216	\$217,707	\$28,143,923	\$2,255,772	8.02%	\$23,620,769	\$2,267,382
Other than Personal Services	35,792,189	(217,707)	35,574,482	5,307,403	14.92%	5,056,254	25,210,824
	\$63,718,405	\$0	\$63,718,405	\$7,563,175	11.87%	\$28,677,023	\$27,478,207

Summary of First Quarter Results

At the completion of the first quarter of the 2007-08 fiscal year, the District’s spending has generally been within the limits established by the Board in its enacted budget. However, we have identified several areas of concern that, if not addressed by District officials, could lead to the District overspending its budget later in the fiscal year. For example, while the District has encumbered personal service costs for the year to help prevent overspending, it has not

¹ OTPS includes equipment, contractual, pupil supplies, debt service, fringe benefits and interfund transfers.

established budget appropriations for several budget accounts. District officials' ability to monitor compliance with the budget is diminished by the failure to establish accurate budget appropriations even after one quarter of the fiscal year has ended. In addition, while District officials have encumbered about \$5 million of expected OTPS expenditures, they have not encumbered any appropriations for BOCES shared service costs even though it spent over \$4.8 million for such services in the prior year, nor have they encumbered known expenses for such items as debt obligations, transportation costs, fringe benefits, etc., which will comprise about 60 percent of total OTPS costs.

We also note that while the District has already borrowed \$11 million to finance cash flow needs, it may need to borrow additional amounts later in the year to address expected cash flow difficulties. District officials will need to carefully monitor their cash position to ensure that funds are available to meet obligations.

Estimated Revenues

Budgeted revenues have not been recorded in the District's accounting records. As of September 28, 2007 the District had not entered the 2007-08 general fund estimated revenues of \$63.7 million in its accounting records. Also, the estimated revenues for the cafeteria and federal grants funds were not recorded. Without revenue estimates, the budget status reports do not show a comparison between budgeted revenues and actual revenues received to date. Therefore, District officials and the Board cannot adequately monitor the revenue portion of the budget.

In addition, we found that the Board is not provided with budget status reports on a regular basis. Board members informed us that they only receive budget status reports during their annual budget preparation process. This lack of periodic budget monitoring may preclude the Board from taking timely action to reduce its spending in response to decreases in expected revenue.

Personal Services Costs

The adopted budget includes appropriations of \$27.9 million for personal services (PS) costs covering 437 positions. This amount is approximately 48 percent of the general fund budget. The District has encumbered PS costs in an effort to control and maintain expenditures within budget appropriations. While it appears that there are sufficient appropriations in the adopted budget to cover existing contracted personal service costs for the 2007-08 fiscal year, we did identify two areas of concern. First, the amount appropriated for the Director of Business and Finance does not support the rate of current spending and may be over-expended by as much as \$140,000 by year end. This is occurring because the District is paying for the positions of Director of Business and Finance and Assistant Superintendent for Business Operations out of the same appropriation code. Also, the budget includes \$483,000 for substitute teacher services and custodial overtime. Since these items are for unplanned events, extra care should be exercised in monitoring these costs to ensure that appropriations are not over-expended.

The District has already made 32 budget transfers mostly related to salary appropriation codes, aggregating approximately \$5 million. Most of the transfers were necessary to reconcile and reallocate personal service costs to the correct appropriation codes, which had been previously incorrectly allocated in the adopted budget. However, we note that certain PS budget account codes are still shown as over-encumbered by about \$568,000 at September 28, 2007. This

resulted mainly from encumbering PS costs against budget accounts that have no appropriations. Additional budget transfers are still necessary to eliminate these over-encumbered balances. We note that these budget transfers do not increase or decrease the total budget; they only reallocate appropriations within the adopted budget codes. The fact that approximately 18 percent of the appropriations for PS had to be transferred and reallocated so early into the fiscal year, suggests that the appropriations in the adopted budget were inaccurately coded. Additionally, the budget transfers were not reported to the Board on their next scheduled meeting, as required by Board policy.

Other than Personal Service Costs

Appropriations for Other than Personal Service² (OTPS) costs aggregated \$35.8 million, representing 56 percent of the budget. While the District did not encumber most of these appropriations, \$5 million was encumbered as of September 28, 2007. Encumbering OTPS costs commits budget appropriations to known obligations and may prevent District officials from over-expending the budget as was the case in prior years.

One area of concern is whether the District's appropriation for BOCES shared services is sufficient. In 2006-07 the District appropriated \$4.2 million for BOCES³ shared services. The District's unaudited records show that the appropriations for BOCES services were over-expended in total by \$680,000 in 2006-07. BOCES requires that a "letter of intent" be executed between the BOCES and the member district to determine which services are required and to establish their estimated costs. Although the District appropriated approximately \$4.2 million in the 2007-08 budget for BOCES services, District officials have not yet submitted a signed "letter of intent" to BOCES. A BOCES official also indicated that the District will be procuring shared services as needed. District records show that none of the BOCES services were encumbered as of September 28, 2007, although certain appropriations were reduced by \$38,500. We note that the District has received and not yet paid two of the BOCES monthly billings for services rendered during July and August 2007 aggregating \$292,016. If the District does not encumber the appropriations for the shared services as they are procured, the District may not be able to manage and control this portion of the budget and runs the risk that appropriations may become over-expended over time.

We also note that the District has not encumbered other known obligations such as transportation costs, fringe benefits, debt obligations, and interfund transfers, which comprise about 60 percent of total OTPS costs. This increases the risk that budget appropriations could be overspent.

Cash-flow

Because of prior years' fund deficits and the anticipated 2006-07 operating deficit the District is experiencing cash flow problems. As a result, the Board authorized the issuance of \$24 million in revenue anticipation notes (RAN) for 2007-08 operations. During July 2007, the District issued a RAN in the amount of \$11 million, maturing on June 27, 2008, to provide for the

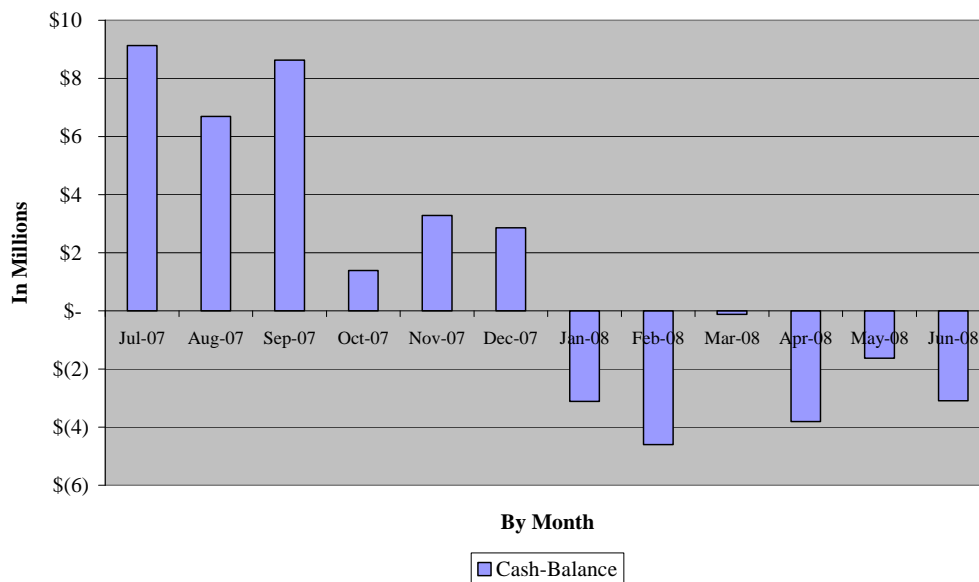
² OTPS includes appropriations for equipment, contractual, pupil supply, debt service, fringe benefits and interfund transfers.

³ BOCES – Board of Cooperative Educational Services – was established by an act of the State Legislature for the purpose of providing shared educational services to member school districts more efficiently and economically.

District's short term cash-flow needs. Early in the fiscal year the State Legislature was considering special legislation to address the District's financial situation. However, to date, the State Legislature has not provided any fiscal relief to the District.

A draft of the District's latest cash-flow projection (October 5, 2007) which includes the \$11 million RAN, shows positive monthly cash-flow balances through December 31, 2007. A cash deficit of \$3.1 million is expected by the end of January 2008, which will grow to over \$4.6 million by the end of February and is expected to remain at about \$3 million at June 30, 2008. District officials are authorized to issue an additional RAN of up to \$13 million to provide for these cash deficits. However, the RAN may not be necessary if special State legislation is adopted to provide additional financial assistance to the District. Given the District's ongoing cash flow problems, officials need to carefully monitor the District's cash position throughout the year. However, we note that to date, District officials have not routinely submitted the cash-flow projections to the Board.

**Cash Flow Projection
July 2007 through June 2008**



Special Aid Fund

The special aid fund is used to account for revenue sources derived from federal and State grants, which is legally restricted to fund expenditures for specified grant purposes. The Board did not establish a special aid fund budget until September 27, 2007, when it budgeted for 17 grants totaling \$4.8 million. However, as of the current date, the District has only been awarded or substantially awarded \$3.5 million. The difference of \$1.3 million relates to four grant requests that are still under review by the State Education Department. District officials are incurring and charging personal services costs against these four grants because the District has in the past received these grants. Given the District's ongoing fiscal problems, we believe that the District should not incur expenses for grant programs until a definitive funding commitment is received.

In the event that these grants are not approved, the District would have to absorb such expenditures from general fund appropriations which could result in an operating deficit.

In addition, District officials need to address special aid fund appropriations because expenditures for salaries incurred in the current fiscal year are charged to prior years' grant codes. In many instances, appropriation balances in the appropriation status report are negative. The negative balances result from the District's failure to enter the appropriations related to the 2007-08 grants in its accounting records and because negative balances of prior years' grants, which should have been closed out at the end of the grant year, are carried forward. District officials are attempting to resolve the negative grant appropriations balances issue by establishing new budget codes that will match the grant's⁴ fiscal year to the District's fiscal year. However, as of September 28, 2007, only \$344,992 of 2007-08 grant appropriations have been established under the new budget codes. These deficiencies make it difficult for District officials to manage and monitor this fund's activities and unless corrected, could lead to over-expenditure of grant limits.

School Lunch Fund – Although personal services costs are incurred and charged to this fund, the District has not entered the school lunch fund budget in its accounting records, resulting in negative appropriation balances. The school lunch fund reported an undesignated fund deficit at June 30, 2006 of \$322,484. The 2006-07 budget, as recorded in the accounting records, does not balance; appropriations exceeded estimated revenues by \$207,600, suggesting that this fund will incur an operating deficit for the fiscal year ended June 30, 2007. Without a balanced budget that accurately reflects the estimated revenues that are required to fund appropriations, District officials cannot effectively monitor the activities of this fund and take action to avert over-expending of appropriations.

Recommendations

1. District officials should finalize the results of operations for the 2006-07 fiscal year and file the District's annual financial report with SED.
2. District officials should submit budget status reports for all funds to the Board on a regular basis.
3. District officials should submit all budget transfers to the Board on their next regularly scheduled meeting, as required.
4. The Board should address and resolve the situation related to the Director of Business and Finance and the Assistant Superintendent for Business Operations and identify expenditure reductions in other areas to compensate for this unexpected expense.
5. District officials should monitor appropriations for substitute teacher services and custodial overtime to ensure that those appropriations are not over-expended.
6. District officials should encumber the cost of all known commitments and obligations as a means to monitor the budget and prevent appropriations from becoming over-expended.
7. District officials should update the cash-flow schedule and submit it to the Board monthly.

⁴ In many instances, the grant's fiscal year differs from the District's fiscal year. This may cause grant balances to be carried forward into the District's ensuing fiscal year.

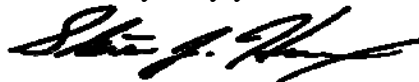
8. District officials should record the 2007-08 budget for the special aid fund in its entirety and make all necessary adjustments to liquidate all prior years' negative balances.
9. District officials should not incur expenses for grant programs until definitive funding commitments are received.
10. District officials should record the 2007-08 budget for the school lunch fund at the earliest and monitor this fund's activities to prevent operating deficits from recurring.

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. Appendix B contains a response from SED officials, who generally agreed with our recommendations.

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, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled Local Government Management Guide.

Very truly yours,



Steven J. Hancox
Deputy Comptroller
Office of the State Comptroller
Division of Local Government and
School Accountability

cc: Richard Mills, Commissioner of Education
Johanna Duncan-Poitier, Senior Deputy Commissioner, State Education Department
Karen Chapman, Ed. D., Assistant Superintendent for Business Operations
Stanley Bronski, Director of Business and Finance
Roxanne Garcia, Coordinator of Federal and State Funded Programs
Diane Battle, District Clerk
Richard Rennard, Regional Chief
Honorable Owen Johnson, Chairman, Senate Finance Committee
Honorable Herman D. Farrell, Jr., Chairman, Assembly Ways and Means Committee
Honorable Earlene Hooper, Assemblywoman
Honorable Charles J. Fuschillo, Senator
Paul E. Francis, Division of the Budget

APPENDIX A
RESPONSE FROM DISTRICT OFFICIALS

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


Roosevelt Union Free School District

ADMINISTRATIVE OFFICES 240 Denton Place Roosevelt, NY 11575 Tel: (516) 345-7001 Fax: (516) 379-0178 www.rooseveltufsd.com

Board of Education
Gale Stevens-Haynes, Chairperson
Carl DeHaney, Jr.
Bishop J. Raymond Mackey
Heather M. Palmore
Robert Summerville

Robert-Wayne Harris
Superintendent of Schools

October 22, 2007

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Below are the responses to the recommendations from the Office of the State Comptroller Report to the Roosevelt Union Free School District. Please feel free to contact us if you have any questions or concerns.

Robert-Wayne Harris
Superintendent of Schools

Roosevelt Union Free School District Responses

The Roosevelt community appreciates the significant time and effort that the Office of the State Comptroller has and continues to invest in the Roosevelt Union Free School District. This effort is an integral part of solving Roosevelt's fiscal challenges so that we may better serve the children of the community. Please accept the following in response to the audit recommendations.

RECOMMENDATION 1

The district has targeted October 19th to finalize the results of operations for the 2006-07 fiscal year. At that point it will be the independent auditor's responsibility to complete and provide their report to the district so that the general purpose financial statements may be submitted to the State Education Department. The district uploaded the ST-3 report into the state education department's state aid management system ("SAMS") on October 8th. The district is currently addressing the edits identified and is targeting October 19th to clear all edits.

RECOMMENDATION 2

The Treasurer will ensure that all budget status reports for all funds are submitted to the Board of Education for the November board meeting and thereafter on a monthly basis.

RECOMMENDATION 3

The district will submit a summary of all budget transfers approved by the superintendent to the Board of Education at the November board meeting and each month thereafter, where applicable.

RECOMMENDATION 4

All legal obligations of the district will be resolved through the transfer of current budgetary appropriations.

RECOMMENDATION 5

District officials will ensure that all substitute teacher services associated with approved absences will result in a reduction in compensated absence accruals. Consistent with contractual provisions and/or as required by the district as additional training, the district will monitor substitute services arising from professional development. Non-teaching substitute services will be covered by current district staff. Custodial overtime will only be authorized to assure the health and safety of students and staff.

RECOMMENDATION 6

The target date for mass encumbrance of all known obligations (including salaries) is November 30th. The mass encumbrances will help to ensure that the budget is not over spent, to project and arrive at a June 30th fund balance and to maintain budgetary controls. The obligations that are currently mass encumbered are salaries, district insurance, internal and external audit services, workers compensation, copier costs, charter school tuition, telephone costs, software and technology services. The mass encumbrance process will be completed after all obligations are known and liquidated as they are expended, payroll by payroll and claim by claim. It will be necessary to make adjustments periodically to the encumbrances to reflect where expenditures are processed above or below expectation.

RECOMMENDATION 7

Beginning in November, the business official with the assistance of the treasurer will update on a monthly basis the cash flow schedule and provide a copy to the board at its regularly scheduled meeting.

RECOMMENDATION 8

The district targets October 31st for completing the process of recording the special aid fund budgets and addressing the negative balances.

RECOMMENDATION 9

The district generally applies and receives the same grants every year. Form FS-10 is submitted to the State Education Department. Consistent with the uniform system of accounts, these grants are budgeted and accounted for in the special aid fund. Traditionally, state education department approval is granted after the necessary services must be provided. This is a common industry practice, not a situation unique to Roosevelt.

RECOMMENDATION 10

The district has developed budgets where required. Currently, the district has a contract with an outside vendor whereby the food service program is operated at no cost to the district. The district will audit and monitor the contractor's billings to ensure that no overpayment to the vendor will be made. The district will work with the vendor to ensure that the program is running cost effectively, while still meeting the needs of the students.

APPENDIX B

RESPONSE FROM THE STATE EDUCATION DEPARTMENT OFFICIALS

The State Education Department's response to this audit can be found on the following page.



SENIOR DEPUTY COMMISSIONER OF EDUCATION - P-16
Office of Elementary, Middle, Secondary and Continuing Education
Office of Higher Education

October 22, 2007



Office of the State Comptroller
Division of Local Government
and School Accountability
110 State Street
Albany, NY 12236

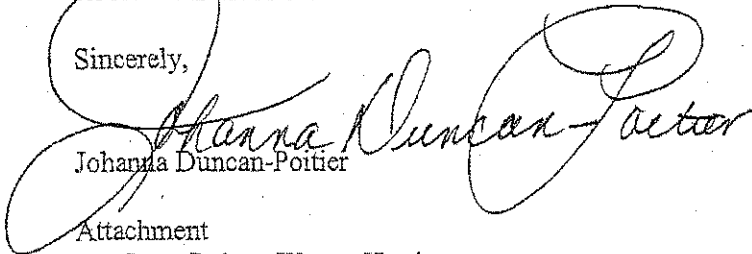
Dear [REDACTED]:

I am responding your October 15 Draft Quarterly Report concerning the Roosevelt Union Free School District's 2007-08 budget. We agree with the recommendations in the report and have worked with Superintendent Harris and our Fiscal Administrator on the district's plan to address your recommendations. We concur with the plan Superintendent Harris has sent to your field auditors, [REDACTED] and [REDACTED], a copy of which is attached.

Department staff will monitor the implementation of the district's plan. If you have any additional questions, please call me at 518-474-3862.

Thank you for your review and recommendations regarding Roosevelt's Budget. I appreciate the involvement of the Office of the State Comptroller in protecting the fiscal integrity of the Roosevelt School District and the education of the students in the district.

Sincerely,


Johanna Duncan-Poitier

Attachment

cc: Supt. Robert-Wayne Harris