

THOMAS P. DiNAPOLI
STATE COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 17, 2007

Mr. Ronald O. Ross
Superintendent of Schools and
Members of the Board of Education
Roosevelt Union Free School District
240 Denton Place
Roosevelt, New York 11575-1539

Report Number: B7-7-10

Dear Superintendent and Members of the Board of Education:

Chapter 33 of the Laws of 2002 authorizes the Roosevelt Union Free School District to issue debt totaling approximately \$5.8 million to liquidate the accumulated deficit in the District's general fund as of June 30, 2002. Chapter 33 requires the District's chief fiscal officer to submit the District's tentative budget to the State Comptroller within five days after its preparation. The State Comptroller must examine the tentative budget and make recommendations for any changes that are needed to bring the proposed budget into balance. Such recommendations are made after the examination of the estimates of revenues and expenditures of the District prior to the approval of the budget.

Our office has recently completed an audit of the District's budget for the 2007-08 fiscal year. The objective of the audit was to provide an independent evaluation of the tentative budget. Our audit addressed the following question related to the District's budget for the 2007-08 fiscal year:

- Are the significant revenue and expenditure projections in the District's tentative budget reasonable?

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS) with the exception of reporting views of responsible officials which were not solicited for this report due to the necessity of providing the District with this time-sensitive information. However, the results of this audit have been discussed with District officials and their comments have been considered in preparing this report. GAGAS require that we plan and perform our audit to adequately assess the estimates in the tentative budget. Further, those standards require that we understand the District's management controls and those laws, rules, and regulations that are relevant to preparing estimates for the tentative budget.

To accomplish our objectives in this audit, we requested your tentative budget along with other pertinent information. We analyzed the composition of revenues and expenditures in order to

determine if the revenue and expenditure estimates are reasonable. It was not our intent and we do not offer comments on public policy decisions, such as the type and level of services to be provided.

The tentative budget package for the fiscal year ended June 30, 2008, submitted for audit consisted of the following:

- Cover Letter
- 2007-2008 Tentative Budget
- Supplementary Information

The tentative budget submitted to our office is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues Other Than RPT	Appropriated Fund Balance	Real Property Taxes (RPT)
General	\$63,718,405	\$44,300,050	\$0	\$19,418,355

The observations and recommendations resulting from our audit are, to a great extent, influenced by the quality and quantity of materials submitted, and the time between submission and budget adoption.

The District’s budgeted expenditures are significantly less than expenditures made in previous years. Given the District’s prior spending patterns and its inability to function within the constraints of adopted budgets, we question whether the 2007-08 budget appropriations are reasonable. In addition, the District will likely complete the 2006-07 fiscal year with an accumulated general fund deficit of at least \$9.5 million. As of the completion of our audit, the District has not developed a viable plan to address the accumulated deficit.

Our audit disclosed the following findings which should be reviewed by the Board of Education for appropriate action. Good management practices require that District officials take prompt action concerning our recommendations. We believe that prompt action by District officials will help improve the District’s financial condition.

General Fund Deficit

In June 2007, the District is scheduled to make the final payment on the \$5.8 million debt authorized by Chapter 33 of the Laws of 2002 to fund the 2002 deficit fund balance. However, District officials have not taken appropriate action in recent years to monitor the budget and address recurring operating deficits in the general fund. As a result, the District’s general fund balance deteriorated from a surplus of \$990,095 on June 30, 2004 to a deficit of \$6.2 million on June 30, 2006. Consequently, the District is operating under severe fiscal stress. Furthermore, District officials project an operating deficit in the 2006-07 fiscal year of \$3.3 million, thus increasing the accumulated unreserved general fund deficit to approximately \$9.5¹ million on June 30, 2007.

¹ In our previous audit, we projected the accumulated unreserved general fund deficit to be \$12.3 million on June 30, 2007. This new projection is the result of the District levying \$913,916 more in property taxes than required to fund the 2006-07 contingent budget, and projecting positive revenue variances of \$1.25 million and \$518,600 for interest

District officials have not yet developed a plan to address the accumulated general fund deficit but informed us that they are considering several possible actions, including:

- Using \$2,030,000 of premium income received in the Debt Service Fund to reduce 2006-07 debt service expenses in the general fund, presumably freeing a like amount in the general fund to apply to the accumulated deficit.
- Under-estimating budgeting 2007-08 revenues so that actual revenue collected will be greater than budgeted, which could help eliminate the accumulated fund deficit.
- Providing expenditure appropriations in 2007-08 that are greater than necessary, thereby resulting in an expected 2007-08 surplus that will help reduce the accumulated deficit.
- Implementing purchasing controls to keep 2007-08 expenses below budget, thereby resulting in a surplus.
- Using the tax levy to bring in additional revenue to be used to reduce the fund balance deficit.
- Obtain deficit financing.

The District's potential actions for addressing the accumulated deficit are not sufficient. District officials and the Board should take immediate and appropriate actions to address the District's accumulated deficit fund balance to restore the District's fiscal health. We question whether the Board's plan to use the \$2 million in premium income to reduce debt service costs is appropriate. The premium income from the debt service fund may be used only to pay the debt service related to the bonds that generated the premiums.² In addition, it is unlikely that any future surplus will be generated from 2007-08 savings from conservatively estimating revenue and expense appropriations. Given the cuts that the District already plans to make in 2007-08, it is unlikely that the District will be able to realize additional savings. Also, the District cannot plan on using additional tax levy to reduce the accumulated deficit. It can only legally levy taxes in an amount sufficient to support the adopted budget. Finally, deficit financing can be initiated only when authorized by the State Legislature.

Budgeted Expenditures

As shown in the accompanying schedule, District expenditures increased at the annual average rate of more than 13 percent from fiscal years 2002-03 through 2006-07, as reported by the District.

	Actual 2002-03	Actual 2003-04	Actual 2004-05	Actual 2005-06	Projected 2006-07	Tentative 2007-08 Budget
Total Expenditures	\$40,040,103	\$47,871,060	\$53,018,053	\$59,744,464	\$66,455,607	\$63,718,405
Annual Change		\$7,830,957	\$5,146,993	\$6,726,411	\$6,711,143	(\$2,737,202)
Percentage of Change		19.56%	10.75%	12.69%	11.23%	-4.12%

However, the District's tentative 2007-08 budget provides for a decrease in the rate of spending of approximately 4 percent when compared with projected actual expenditures for the 2006-07

and foster tuition revenue on June 30, 2007 that was not previously anticipated. Additional negative expenditure variances also had an impact on the projection.

² Local Finance Law, Section 165.00

fiscal year. The decrease is primarily related to a reduction in instructional services, stabilization in the rate of growth of fringe benefit expenditures, and a reduction and reallocation of funding for debt service requirements.³ However, the District lacks a detailed plan to achieve spending cuts of this magnitude or, conversely, it lacks a detailed plan showing how it will operate within the proposed spending levels.

Given these expenditure trends and the District's inability over the last two years to operate within the constraints of its enacted budgets, we have serious doubts as to whether the expenditure cuts proposed for the 2007-08 fiscal year will be achieved. Before adopting the tentative budget, the Board should consider whether the proposed expenditures are sufficient to maintain funding for required programs and service levels. If the Board determines that there is a realistic plan for operating under this diminished level of funding, the Board must be vigilant in their oversight responsibility to continually monitor the budget to ensure that the total proposed budget appropriation of \$63,718,405 will not be over-expended.

Collective Bargaining Agreement

The collective bargaining agreement between the District and the Roosevelt Teachers' Association expired on June 30, 2005. A new agreement has not yet been negotiated. The tentative budget does not provide an appropriation to reflect a possible settlement for retroactive pay during the 2007-08 fiscal year. If such a settlement is reached, it will make the District's proposed spending cuts more difficult to achieve.

Format and Content of the Budget

Section 170.8 of the Regulations of the Commissioner of Education and Section 1716 of Education Law require that the annual budget be presented in three components: a program component, a capital component, and an administrative component. The District's 2007-08 proposed budget document was not presented in this format. Moreover, the budget document did not contain sufficient information to be a useful tool to assist District officials to plan and monitor the financial operations of the District – and to provide the public with sufficient information regarding the District's annual financial plan to allow meaningful input at the budget hearing.

The District's tentative 2007-08 budget document submitted to us included only the adopted budget from 2006-07 and the tentative 2007-08 budget. It did not include any information as to actual revenues and expenditures from the prior completed fiscal year and the current year. The absence of this information raises questions as to how the Board came to its conclusions that expenditures for 2007-08 can be reduced to the extent proposed.

In order for the District's budget document to be a useful tool to District officials and the residents of the District, it must contain sufficient information regarding the District's annual financial plan. We recommend that the Board of Education revise the budget format to include the following information for comparative purposes:

- Actual revenues and expenditures for the last completed fiscal year

³ Approximately \$628,000 of the 2007-08 debt service requirements will be funded from interest on the investment of bond proceeds.

- The current year's budget, showing revenue estimates and appropriations for the current year as amended to date
- Actual revenues and expenditures for the current year, year-to-date, and projected as of June 30, 2007
- The budget officer's tentative budget revenues and expenditures for the ensuing fiscal year.

The Board of Education has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. We encourage the Board to make this plan available for public review in the District clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents. We also request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt a budget for your District. If you have any questions on the scope of our work, please contact the Hauppauge regional office at (631) 952-6534.

Very truly yours,

Mark P. Pattison
Deputy Comptroller
Division of Local Government Services
and Economic Development

Attachments

cc: Mr. Stanley Bronski, Director of Business and Finance
Ms. Diane Battle, District Clerk
Hon. Owen H. Johnson, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee
Hon. Earlene Hooper, NYS Assemblywoman
Hon. Charles J. Fuschillo, NYS Senator
Mr. Paul E. Francis, Director, Division of the Budget
Mr. Richard P. Mills, Commissioner, State Education Department
Mr. Jeffrey T. White, Fiscal Administrator
Mr. James Conway, Director, Office of Audit Services, State Education Department
Mr. Burt Porter, Director of Education Finance, State Education Department
Mr. Richard Rennard, Regional Chief