



# Hamburg Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2006 — November 30, 2007

2008M-2



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

February 2008

Dear School District Officials:

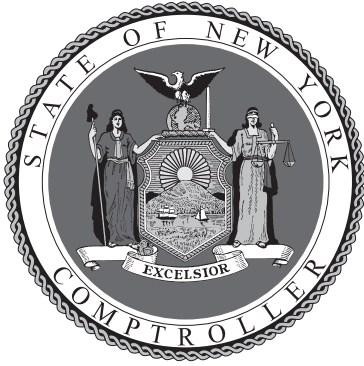
A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Hamburg Central School District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and to the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

The Hamburg Central School District (District) is governed by the Board of Education (Board) which comprises seven elected members. 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

### **Scope and Objective**

The objective of this audit was to examine the District's financial condition for the period July 1, 2006 to November 30, 2007. Our audit addressed the following related questions:

- Does the Board adequately monitor the District's financial condition and take the necessary action to address identified financial condition problems?
- Have the Board's actions demonstrated that the financial condition problems will be alleviated?

### **Audit Results**

We found that the former Superintendent and the current Business Administrator failed to provide the Board with adequate and timely financial data. As a result, the Board apparently was not aware of the severity of the District's financial condition problems. Audited financial statements were presented to the Board on September 19, 2006 indicating that the District had a general fund unreserved, unappropriated fund balance deficit of more than \$200,000 on June 30, 2006. The Board President stated that during the preparation of the 2006-07 budget he was aware that the general fund balance was being projected to be in a deficit position at June 30, 2006. Nevertheless, the 2006-07 budget relied on the use of \$875,000 in fund balance that would not be available. There was no indication in the minutes that the Board President informed the other Board members that there was a deficit. As a result, the Board passed a budget that was fiscally irresponsible. Furthermore, the Board did not take action to address the funding gap in the budget after being made aware of the deficit when the audited financial statements were presented. Moreover, during the course of the year the Board was not notified of the District's worsening financial condition. The District ended the 2006-07 fiscal year with a general fund unreserved, unappropriated fund balance deficit of approximately \$2 million.

District officials were not properly recording the budget in the accounting system, since only appropriations were posted. Estimated revenues were not recorded and therefore were not compared against actual revenue in the accounting system, as the fiscal year progressed. For the 2006-07 fiscal year, District revenues were more than \$1.2 million overestimated, substantially contributing to the fund balance deficit at June 30, 2007. This overestimation included approximately \$450,000 in Use of Money and Property, \$215,000 in State Aid, \$160,000 in Sales Tax, and \$450,000 in other miscellaneous revenues. If budgeted revenues had been properly posted, District officials would have been in a better position to routinely monitor revenue and bring these matters to the attention of the Board so that appropriate action could be initiated to address these shortfalls in a timely manner.

As of November 30, 2007, the Board did not have a written plan to alleviate the District's poor financial condition. District officials indicated that they intend to address the deficit by raising taxes and reducing staff through attrition. The District's estimates for 2007-08 revenues and expenditures project that the District's general fund unreserved, unappropriated fund balance deficit will be decreased by June 30, 2008 by approximately \$800,000, to \$1.2 million. Based on the results of our audit we found that the District's significant revenue and expenditure projections for 2007-08 were reasonable.

### **Comments of District Officials**

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 that they are taking corrective action.

# Introduction

## Background

The Hamburg Central School District (District) is located in the Towns of Hamburg, Boston, Eden and Orchard Park in Erie County. The District is governed by the Board of Education (Board) which comprises seven elected members. 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are six schools in operation within the District, with approximately 4,150 students and 725 employees. The District's budgeted expenditures for the 2007-08 fiscal year are \$49.9 million, which are funded primarily with State aid, sales tax, and real property taxes.

In addition to this audit report, we will subsequently issue another audit report addressing internal controls over claims processing and related purchasing activities, and the safeguarding of private purpose trust funds.

## Objective

The objective of this audit was to examine the District's financial condition. Our audit addressed the following related questions:

- Does the Board adequately monitor the District's financial condition and take the necessary action to address identified financial condition problems?
- Have the Board's actions demonstrated that the financial condition problems will be alleviated?

## Scope and Methodology

We examined the financial condition of the Hamburg Central School District for the period July 1, 2006 to November 30, 2007.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

## 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 that they are taking corrective action.

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*.

## Financial Condition

A school district's financial condition is a factor in evaluating its ability to provide public educational services to its students. The Board and District officials are responsible for effective financial planning and management activities, which include maintaining and reporting timely and accurate financial information, preparing and adopting reasonable budgets, and monitoring actual revenues and expenditures against the approved budget. The Board and District management must also ensure that policies, procedures, and competent personnel are in place to ensure that financial information is recorded correctly and timely. The Treasurer also plays a role in the financial management of the District by reporting financial information to the Board.

We found that the former Superintendent and the current Business Administrator failed to provide the Board with adequate and timely financial data. As a result, the Board apparently was not aware of the severity of the District's financial condition problems. Audited financial statements were presented to the Board on September 19, 2006 indicating that the District had a general fund unreserved, unappropriated fund balance deficit of more than \$200,000 on June 30, 2006. The Board President stated that during the preparation of the 2006-07 budget he was aware that the general fund balance was being projected to be in a deficit position at June 30, 2006. Nevertheless, the 2006-07 budget relied on the use of \$875,000 in fund balance that would not be available. There was no indication in the minutes that the Board President informed the other Board members that there was a deficit. As a result, the Board passed a budget that was fiscally irresponsible. Furthermore, the Board did not take action to address the funding gap in the budget after being made aware of the deficit when the audited financial statements were presented. Moreover, during the course of the year the Board was not notified of the District's worsening financial condition. Although the Business Administrator stated that he was aware in April 2007 that there would be a deficit of at least \$1 million at fiscal year end, he stated that this projected deficit was not reported to the Board because there was no process for him to report such information directly to the Board. The District ended the 2006-07 fiscal year with a general fund unreserved, unappropriated fund balance deficit of approximately \$2 million.

The District's deteriorated financial condition resulted from District officials' poor budgeting practices, their failure to establish policies and procedures to ensure that the Board receives accurate and adequate financial information and the lack of timely action to address developing financial condition problems.

## Use of Fund Balance

In the 2001-02 and 2002-03 fiscal year budgets the Board appropriated \$3.9 million and \$3.8 million in fund balance, respectively, as a financing source, which reduced the District's tax levy. However, actual revenues and expenditures for these two years were more favorable than the budgetary estimates and therefore only about \$90,000 of fund balance was actually used as a financing source. The Board continued this budgetary practice of appropriating fund balance in fiscal years 2003-04 through 2006-07. However, in these more recent fiscal years, the District used significantly more fund balance to finance operations, as expenditures substantially exceeded revenues. These operating deficits resulted in the District's general fund balance dwindling from over \$5 million at July 1, 2003 to a deficit<sup>1</sup> of approximately \$2 million at June 30, 2007, a reduction of more than \$7 million.

<b>Operating Deficits and Declining Fund Balance from Fiscal Year 2001-02 to 2006-07</b>						
	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
Revenues and Transfers In	\$40,982,076	\$41,408,763	\$42,177,857	\$42,523,650	\$44,142,406	\$46,164,465
Expenditures and Transfers Out	41,012,095	41,472,450	43,984,473	45,162,358	45,053,571	47,957,856
Operating Surplus (Deficit)	(30,019)	(63,687)	(1,806,616)	(2,638,708)	(911,165)	(1,793,391)
<b>Total Fund Balance</b>	<b>\$5,359,880</b>	<b>\$5,296,195</b>	<b>\$3,489,580</b>	<b>\$850,878</b>	<b>(\$60,287)</b>	<b>(\$1,853,678)</b>

District officials stated that the Board wanted to limit real property tax increases. However, consistently using fund balance is not a long-term solution to balancing a budget. The Board and District officials needed to identify other budget balancing strategies to fund the level of services they chose to provide.

## Budgetary Accounting

At the beginning of each fiscal year a journal entry should be posted to the accounting system for the estimated revenues and appropriations included in the adopted budget. These amounts act as controls, against which actual revenues and expenditures should be compared on a routine basis, to provide vital information regarding the District's operations. A budget entry has been posted to the District's financial software annually; however, it only reflected appropriations, estimated revenues had not been recorded.

Formal budgetary accounting is a management control technique used to monitor revenues and expenditures. Budgetary accounting techniques are important because the annual budget is a legal compliance standard against which the operations of government are evaluated. The failure to enter estimated revenues into the financial software significantly affects the District's ability to compare revenue

<sup>1</sup> Includes reserved fund balance

realized against the amount anticipated in the budget to fund operations. Without entering budgetary information into the accounting records, District officials could not readily monitor the District's finances.

In fiscal year 2006-07, the District's revenues were approximately \$1.2 million less than anticipated, contributing to the fund balance deficit. This overestimation of revenues included approximately \$450,000 in Use of Money and Property, \$215,000 in State Aid, \$160,000 in Sales Tax and \$450,000 in other miscellaneous revenues. If budgeted revenues had been properly posted, District officials would have been in a better position to routinely monitor revenue and bring these matters to the attention of the Board so that appropriate action could be initiated to address these shortfalls.

District officials stated that beginning in fiscal year 2007-08 they would record estimated revenues in the accounting system. We noted that, at the November 6, 2007 Board meeting, the revenue reports given to the Board did include estimated revenues.

### **Multi-Year Financial Planning**

Multi-year financial planning is a critical tool for school districts and particularly important for districts that are financially stressed. Planning on a multi-year basis helps identify structural imbalances between revenues and expenditures and allows school district officials to set long-term priorities and goals. Projecting operations for several years into the future provides a basis for assessing the impact and merits of alternative approaches to addressing financial problems. It also helps in projecting financial activity to avoid sudden and severe cost-cutting measures. Any long-term financial plan should be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

Although the District's fund balance has been dwindling over the past six fiscal years, as of November 30, 2007, the District had not developed a long-term financial plan. As of November 30, 2007, the Board and District officials did not have a written plan to alleviate the District's poor financial condition. Officials indicated that they intend to address the deficit by raising taxes and reducing staff through attrition.

### **Monitoring Financial Condition**

Our audit disclosed that the Board was not provided with timely and adequate financial information and that District officials did not comply with the District's adopted policies and procedures for amending the annual budget. As a result, the Board could not effectively monitor District finances and budget transfers, which were only made at year-end.

Good management practices dictate that the Superintendent and the Business Administrator periodically update the Board on the financial

operations of the District. District administrators have a responsibility to proactively communicate to the Board when events occur that will impact the District. According to the Business Administrator, he was aware in April of 2007 that there would be a deficit of at least \$1 million at fiscal year end (June 30, 2007). Despite knowing this crucial information, he did not inform the Board, because there was no process in place for him to report such information directly to the Board. He indicated that this was the responsibility of the former Superintendent, whom the Business Administrator had informed of the impending deficit. In our review of Board meeting minutes we found no indication that the former Superintendent had alerted Board members about the deficit or that Board members had asked for information about the District's finances.

Timely Financial Reports — The Board needs adequate and current information to effectively oversee the District's financial operations. Without such information, the Board cannot make informed decisions about the annual budget or other fiscal matters. The Commissioner of Education's regulations for school districts require that school district treasurers provide the Board with monthly cash balance and reconciliation reports. The treasurer must also present the Board with budget status reports at least quarterly; monthly if budget transfers were made. The purpose of these reports is to help ensure that the Board receives the timely information it needs to monitor spending and revenues against the annual budget and to stay apprised of the District's cash position and financial condition throughout the fiscal year.

We reviewed the District's internal financial reporting activity for the period July 1, 2006 through September 2, 2007 and found that the Board frequently did not receive cash balance and reconciliation reports on a timely basis and was never provided with budget status reports during the period reviewed. For example, our review of the minutes of Board meetings indicated the following:

- Treasurer's reports for October 2006 and November 2006 were not presented to the Board until March 6, 2007.
- Treasurer's report for February 2007 was not presented to the Board until May 1, 2007.

Beginning at the November 6, 2007 School Board meeting, the Board began receiving budget status reports, including revenues, as well as a presentation by the Business Administrator on the District's financial condition with projected revenues and expenditures for the remainder of the fiscal year.

Interim financial reports and budget status reports are important tools that the Board can use to monitor District finances. The lack of such reports prevented the Board from having the information needed to accurately assess the District's financial condition and to take preemptive steps that might have addressed the financial difficulties now being experienced.

Budget Transfers — According to the Board minutes, the Superintendent is allowed to approve budgetary transfers within the limits prescribed by the Commissioner of Education's regulations. However, the regulations do not set a limit for budgetary transfers, but rather require that the Board establish these limits. The Board adopted policy designates the Director of Administrative Services (i.e., Business Administrator) as having the responsibility to transfer funds necessary to maintain a positive balance in all budget accounts and that transfers be reported to the Board every three months beginning with the last meeting in September. This current policy for budget transfers is not adequate; a District official responsible for the District's financial activities should not be approving budget transfers, the responsibility for approving budget transfers should rest with the Board or the Superintendent.

Numerous budgetary accounts were adjusted at fiscal year end. This action, which was approved by the Board, adjusted appropriations by increasing those that were overspent and decreasing those that were under-spent. Given that these adjustments did not occur until the end of the fiscal year is an indication that the Board did not actively monitor and control its budget. The purpose of monitoring and adjusting the budget is to control District finances; making these transfers after the fact, at year-end, is pointless. Beginning in the 2007-08 fiscal year, budget transfers were prepared more timely with the first presented to the Board for approval on November 6, 2007.

Policies and procedures for amending the budget ensure that the Board, collectively responsible for the District's fiscal management, remains an integral part of that process. When there is an inadequate policy or procedure, there is an increased risk that the Board's authority may be circumvented and that inappropriate and/or unapproved budgetary transfers may be made.

Budget transfer reports are the mechanism that the Board uses to review, approve and confirm the approval of budgetary amendments. These reports also help the Board in monitoring the District's budget and its spending. However, when these reports are not done regularly, the Board is effectively removed from the approval function for substantial changes in the District's adopted annual spending plan.

## **2007-08 Fiscal Year Projections**

As of October 31, 2007, District officials prepared a projection of revenues and expenditures for the 2007-08 fiscal year. The Board was provided with these projections at its November 6, 2007 meeting. According to these projections, the District's 2007-08 revenues will be \$49.1 million and expenditures will total \$48.5 million. The projected 2007-08 fiscal year end unreserved, unappropriated fund deficit will be \$1.4 million, a decrease of approximately \$600,000 from June 30, 2007.

Based on the results of our audit, with the exception of the condition noted below, we found that the District's significant revenue and expenditure projections were reasonable.

Since the District's analysis was initially performed, one significant event occurred. District officials stated that in mid-November 2007, the District received the health insurance rates for 2008 from its providers. The rates were much higher than anticipated and as a result anticipated expenditures would be substantially greater for health insurance, if it remained with these providers. In late November 2007, all of the District's employee unions voted to enroll in the local BOCES<sup>2</sup> Health Trust. According to District officials, this change in carriers will allow the District to reduce health insurance expenditures to \$3.4 million for 2007-08, a decrease of \$200,000 from the October 31, 2007 projection.

This changes total projected expenditures for 2007-08 to \$48.3 million and decreases the projected unreserved, unappropriated fund balance deficit to \$1.2 million, a decrease of approximately \$800,000 from June 30, 2007.

## **Recommendations**

1. District officials should develop a written plan to address the District's remaining general fund deficit.
2. The Board should develop and adopt balanced budgets that are realistic.
3. In order to properly monitor the District's fiscal affairs, the Board should require that timely and complete financial and budgetary information be presented for its review throughout the year.
4. The Board should revise its policy for amending the budget. If the Board chooses to delegate certain responsibilities to the

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<sup>2</sup> Board Of Cooperative Educational Services

Superintendent, the policy should establish dollar thresholds and identify monitoring and reporting procedures to ensure the transfers are made in a timely manner and reported to the Board.

5. The Board should develop and implement a multi-year financial plan. Multi-year financial plans should be updated annually and reviewed/evaluated by the Board. The Board should modify the plans and projections as necessary and use them to measure the District's progress toward achieving and sustaining fiscal stability.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



*Pursuing Excellence Through Partnership*

February 1, 2008

[REDACTED]  
Office of the State Comptroller  
Division of Local Government and School Accountability  
295 Main Street, Room 1050  
Buffalo, New York 14203-2510

Dear [REDACTED]

Thank you for conducting the audit and sharing valuable information with our district. It is our hope that this letter serves as insight into future financial planning, as well as the forthcoming Corrective Action Plan. Since I began as Superintendent of Schools on October 15, we have begun to change the way in which the district has managed its finances. Upon learning of the budget deficit, notification was immediately given to board of education members and district administrators. A press conference was held and two public meetings for the Hamburg community were conducted. Meetings took place with Senator William Stachowski and Assemblyman Jack Quinn. These actions were taken to explain the history of the budget deficit, illustrate the five-year deficit spending practice which involved over \$7 million in deficit spending, and ask for support in solving the problem. As a result of the financial decisions of the previous administration, the stress that was placed on classroom materials and supplies, staff development opportunities and building and district facilities was significant.

Since early October, our business official has provided monthly financial reports that highlight revenues and expenses, and indicate our efforts to retire the deficit. Along with a recently adopted budget transfer policy, the board has also taken measures to implement an annual report by the external auditor. This report will be presented at a school board meeting before accepting the final audit. Currently, we are projecting to recoup \$1 million of the \$1.8 million deficit. This has been achieved through reduced payroll, higher state aid received, and the adoption of a single health insurance carrier by all district employees, resulting in an estimated savings of \$400,000 in health insurance on an annual basis.

In addition, we have reconstituted our budget ambassadors, a community based advisory group. In the past, the budget ambassadors have functioned as a sounding board for the district's planned expenses involving program, staff and capital. As with staff members, the ambassadors were not aware of the five-year deficit spending plan. They also knew nothing about the depletion of the fund balance. We have a number of people on the ambassadors' group who have considerable financial acumen. In the new process, the ambassadors are actively participating in discussions about the expenditure and revenue sides of the budget.

**Hamburg Administration Building**  
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Hamburg, NY 14075-1699  
Telephone (716) 646-3200 • Fax (716) 646.3209

February 1, 2008

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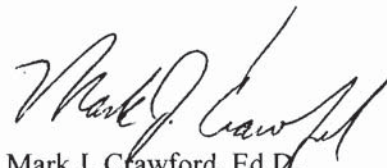
Our overarching goal in the Hamburg Central School District is to be as transparent as possible so that all stakeholders will have a solid understanding of the district's status regarding revenues and expenses. The Superintendent has realigned three central office administrative positions in order to develop a more inclusive educational environment. As a result, daily meetings take place to discuss district initiatives as well as the financial condition of the school district. For the first time in years, the district administrators are actively participating in the budget process. A budget timeline was developed that implements an open and collegial relationship with administrators in an effort to have building level input into the actual budget development. Between February and March, board of education members will be participating in budget workshops and the administrative team will be invited to workshops to continue participating in budget development for their buildings and programs. In addition, central office administrators have consulted with colleagues throughout the region and will be utilizing a budget plan and template from another school district.

We recognize the value of the recommendations made by the New York State Auditors. Most importantly and perhaps fundamentally, this school district will not overestimate revenues again. We understand that one measure to move out of deficit spending will be to increase taxes that will not unduly place financial stress on taxpayers, but at the same time, help the district move toward solvency and good financial health.

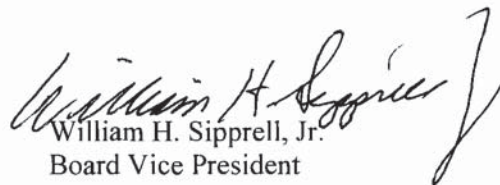
Finally, it is clear that a few individuals tightly held financial controls. You should know that it is the intent of this administration and the will of the Hamburg School Board that financial matters will be an open book to those interested in our financial position.

Thank you very much for your support.

Very truly yours,



Mark J. Crawford, Ed.D.  
Superintendent of Schools



William H. Sipprell, Jr.  
Board Vice President

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected financial condition, claims processing and related purchasing activities, and private purpose trust funds for further audit testing. In addition to this audit report, we will subsequently issue a related audit report addressing internal controls over claims processing and related purchasing activities and the safeguarding of private purpose trust funds.

With regard to the District's financial condition, we analyzed financial data from the annual financial reports (ST-3) for the 2001-02 through 2006-07 fiscal years to determine trends in the District's financial activity. We compared historical budget-to-actual financial data of major revenues and expenditures and reviewed the District's anticipated revenues and expenditures for the 2007-08 fiscal year to determine if they were reasonable. We also reviewed financial information provided to the Board and interviewed Board members and appropriate School officials and employees. We reviewed minutes of the proceedings of the Board, relevant policies and procedures, and financial and budgetary information pertinent to our audit objective. Additional testing of claims processing and related purchasing activities, as well as testing of private purpose trust funds will be described in the subsequent report addressing those objectives.

We conducted our performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

## APPENDIX C

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Steven J. Hancox, Deputy Comptroller  
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