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September 4, 2008

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

Report 2008M-179

Dear Superintendent Harris and Members of the Board:

In March 2007, State Comptroller DiNapoli initiated a real-time fiscal monitoring of the Roosevelt Union Free School District (District) to ensure that the District would not over-expend its 2007-08 budget. Our on-going monitoring was in response to the District's continuing fiscal problems and budget deficits. Our objective was to conduct a real-time examination of financial operations to determine whether District spending was in compliance with the constraints of budgeted appropriations. The following is our report of the Roosevelt Union Free School District's results of operations for the 2007-08 fiscal year, which ended on June 30, 2008. Our review was limited to revenue and expenditure transactions for the 2007-08 fiscal year that were recorded as of July 31, 2008 and to certain other transactions, such as unpaid claims, which had not been reflected in the accounting records at that date. We also estimated certain other revenues not yet quantified by the District that are accruable as of June 30, 2008. Therefore, actual results of operations may differ after all transactions are recorded, the accounting records are closed, and the District's audited financial statements for the 2007-08 fiscal year are issued.

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

Background

The 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, 224 of whom attend 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 (Commissioner), including the Commissioner appointing 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 District officials to issue debt totaling \$5,813,072 to fund the District's accumulated deficit as of June 30, 2002. District officials made the final payment on that debt in June 2007. The legislation further provided for the District to receive increased State aid of \$6 million annually to improve students' academic performance and granted the District an apportionment or an advance on future State aid of \$4 million.¹

The District sustained recurring general fund and school lunch fund operating deficits in recent years. For the fiscal year ended June 30, 2007, the District reported an accumulated general fund deficit of \$4.9 million. In addition to the deficit, \$3 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 \$7.9 million as of June 30, 2007.

In January 2008, the State Legislature authorized an \$8 million grant to eliminate the District's existing deficit and an annual increase in State aid of an additional \$6 million² as an academic improvement grant (AIG). The additional \$14 million, received in March 2008, significantly improved the District's cash position and positively affected results of operations for the 2007-08 fiscal year.

Summary of 2007-08 Fiscal Year Results

We reviewed the District's general fund revenues and expenditures,³ as recorded at June 30, 2008, and determined that the District has a potential operating surplus for the year ending June 30, 2008 of over \$21 million. If this surplus is realized, the District will end the 2007-08 fiscal year with a projected accumulated fund balance of over \$13 million. The District's general fund balance of \$13 million may decrease by \$766,000 at June 30, 2008 if District officials act to subsidize the school lunch fund operations with a general fund inter-fund transfer to eliminate the school lunch fund's accumulated 2006-07 deficit of \$573,000, and to subsidize the 2007-08 operating deficit of \$192,000.

The District did not receive a \$4 million cash advance on future State aid to which it was entitled because District officials failed to prepare and file a five-year financial plan with the Commissioner of Education for approval, as required by the 2002 legislation.

¹ At June 30, 2007, the District reported the \$4 million advance as a Due to Other Governments liability.

² As a result of the January 2008 legislation, the District will receive \$12 million in additional State aid to be used annually for AIG purposes.

³ As of July 31, 2008, the District's financial records were not closed and had not been audited by the District's independent accountants. Therefore, the revenue and expenditure amounts cited in this report are not final, and are subject to change pending the independent accountants' audit.

Generally, revenues should equal expenditures in the Special Aid fund. There was approximately \$6 million of grant money available during the 2007-08 fiscal year, of which \$4.5 million was expended as of June 30, 2008. The difference, if still available, would be carried forward into the 2008-09 fiscal year.

General Fund

We reviewed the District's un-audited general fund revenues and expenditures,⁴ as recorded at June 30, 2008, to determine if the District realized revenues and expended resources in accordance with its 2007-08 budget. District officials took aggressive action to stay within their financial constraints. Expenditures were under budget by \$4 million. Additionally, management's action to collect revenues for Foster Tuition receivables from other school districts contributed to an increase in total revenues of \$3.2 million. As a result, the District had a general fund operating surplus of about \$7.3 million. The \$14 million additional State aid funding improved the District's financial position significantly, allowing District officials to eliminate the prior year's deficit of \$7.9 million and to realize a general fund balance of \$13.4 million at June 30, 2008. The following schedule presents the District's budget to actual results at June 30, 2008, based on information available at the District as of July 31, 2008.

⁴ As of July 31, 2008, the District's financial records were not closed and had not been audited by the independent accountants. Therefore, the revenue and expenditure amounts cited in this report are not final, and are subject to change pending the independent accountants' audit.

Roosevelt UFSD			
General Fund - 2007-08 Fiscal Year			
	Amended Budget	Actual	Variance
Real Property Taxes / STAR	\$19,418,355	\$19,466,538	\$48,183
Charge for Services	\$455,000	\$1,118,249	\$663,249
Use of Money & Property	\$125,000	\$445,919	\$320,919
Miscellaneous	\$31,453	\$402,447	\$370,994
State Sources	\$43,223,597	\$45,418,266	\$2,194,669
Enhanced State Aid		\$14,000,000	\$14,000,000
Federal Sources	\$465,000	\$114,599	(\$350,401)
Total Revenues	\$63,718,405	\$80,966,018	\$17,247,613

Expenditures

General Support	\$7,674,210	\$6,640,792	\$1,033,419
Instructional	\$36,383,912	\$35,515,379	\$868,533
Pupil Transportation	\$3,317,524	\$2,920,336	\$397,188
Employees Benefits	\$12,407,634	\$10,922,626	\$1,485,008
Debt Service Principal	\$0	\$0	\$0
Debt Service Interest	\$1,403,235	\$1,128,601	\$274,634
Transfers to Other Funds	\$2,947,066	\$2,947,066	\$0
Total Expenditures	\$64,133,581⁵	\$60,074,799	\$4,058,781

Operating Surplus / (Deficit)	\$7,306,395
Enhanced State Aid	\$14,000,000
Unreserved/Undesignated Fund Balance - June 30, 2007	(\$7,861,766)
Add: Prior Year Encumbrances	\$415,176
Unreserved Fund Balance - June 30, 2008	<u>\$13,444,629</u>
Less:	
Fund Balance - Appropriated in the 2008-09 Budget	(\$2,000,000)
Unreserved/Undesignated Fund Balance - June 30, 2008	<u><u>\$11,444,629⁶</u></u>

Revenues - The District's 2007-08 general fund revenues totaled \$81 million or \$17 million more than budgeted. Most of the additional revenues were attributable to the \$14 million of enhanced State aid authorized by the State Legislature in January 2008. The remainder of the additional revenues related mainly to unexpected increases in other State aid of \$2 million and \$700,000 in increased collections of Foster Tuition revenues.

⁵ Appropriations reflect encumbrances of \$415,176 carried forward from prior year.

⁶ Includes \$6 million in AIG

Expenditures - District officials' efforts to control and maintain spending within the budget constraints were very effective. Total 2007-08 general fund expenditures of \$60 million were \$4 million under budget estimates. A significant portion of this positive variance resulted from the fact that health insurance and other fringe benefits costs were \$1.5 million less than budgeted. In addition, expenditures in the general support and instruction categories were \$1 million and almost \$900,000 less than budgeted, respectively. The District also spent about \$700,000 less than expected for pupil transportation and interest on debt expenditures.

In prior reports, we cautioned District officials to monitor appropriations for special education services because they tend to be volatile and unpredictable. Our review disclosed that District officials did not provide sufficient appropriations in the 2007-08 adopted budget to fund special education services, which were provided primarily through Nassau BOCES, and they did not effectively monitor the cost of such services during the year. The District overspent the budget for BOCES by approximately \$1 million. Despite this over-expenditure, total general fund expenditures were still \$4 million less than budget estimates.

Fund Balance - The Board appropriated \$2 million of the \$13 million fund balance expected at June 30, 2008 to fund the 2008-09 budget. Although the Board may take additional action to apply a portion of the remaining undesignated fund balance at June 30, 2008 to fund legal reserves, no action was taken as of July 31, 2008. Consequently, the District will likely report and carry forward into the next fiscal year approximately \$11.4 million of unreserved-undesignated fund balance. The unreserved fund balance will decrease by \$766,000 if the District acts to subsidize the school lunch fund's prior year deficit of \$573,000 and the 2007-08 operating deficit of \$192,000.

Academic Improvement Grant - District officials had planned to use \$3 million of the \$6 million AIG money received in March 2008 to enhance student academic programs in the 2007-08 school year. However, they were not effective in formulating and executing a plan to expand eligible academic improvement programs during the 2007-08 fiscal year. As a result, none of the \$6 million was expended in the 2007-08 fiscal year to improve academic programs and the unused \$6 million of AIG aid will become part of fund balance at June 30, 2008.⁷ It is incumbent on District officials and the Board to ensure that the unused AIG aid is not used for ineligible purposes, but is earmarked and segregated within fund balance and appropriated to enhance academic programs in future budgets.

Cash Advance - The 2002 legislation also granted the District a \$4 million cash advance in State aid for salary expenses and fringe benefits incurred between April 1 and June 13, 2002 and thereafter.⁸ Generally, the District repays the cash advance to the State in the subsequent fiscal year by receiving reduced State aid payments. The State then replenishes the loan toward the end of the year with a new \$4 million apportionment. To qualify for the advance, the District is

⁷ Subsequent to our review, District officials encumbered over \$1.4 million of AIG money to purchase new textbooks and educational services for the 2008-09 fiscal year. This will increase reserved fund balance and decrease unreserved-undesignated fund balance by the same amount.

⁸ The 2002 legislation required the repayment of the cash advance by \$1 million each year starting with the 2008-09 fiscal year. However, the 2008 legislation extended the repayment date to the 2011-12 fiscal year.

required each fiscal year to submit an application to the Commissioner of Education and to have a five-year financial plan in effect that is approved by the Commissioner.

As of July 31, 2008, the District had not received the \$4 million cash advance for the 2007-08 fiscal year. Although District officials applied for the advance, they failed to prepare and file the required five-year financial plan. As a result, the District had \$4 million less cash than anticipated at June 30, 2008. Had the District not received the additional \$14 million in State aid authorized in January 2008 to eliminate the deficit and improve academic programs, the District would have had cash flow problems at the end of the 2007-08 fiscal year. District officials should prepare and the five-year financial plan and file it with the Commissioner in a timely manner.

School Lunch Fund

We reviewed the District's un-audited school lunch fund revenues and expenditures at June 30, 2008 and identified an operating deficit of approximately \$192,000 for the 2007-08 fiscal year. District officials had hoped that the lower cost of sales with a new vendor would help them avert potential over-expenditures. Although expenditures were under-budget by \$128,000, revenues were under-budget by \$321,000, resulting in an operating deficit of \$192,000 for 2007-08. This increased the fund deficit from \$573,000 at June 30, 2007 to \$766,000 at June 30, 2008.

District officials should improve the process for estimating revenues in the school lunch fund budget. If sufficient revenues cannot be generated from within the fund to sustain operations, District officials should either reduce costs or provide an appropriation in the general fund budget to subsidize the school lunch program. We note that District officials appropriated \$336,000 in the 2008-09 general fund budget as a transfer to the school lunch fund to subsidize operations. The Board should develop a long-term plan for eliminating the accumulated deficit and eliminating the ongoing operating deficits.

Special Aid Fund

The Special Aid fund comprises revenues derived from Federal and State grants, and is legally restricted to fund expenditures for specified grant programs. The District recognizes the grant revenues when the related expenditure is incurred and, as a general rule, grant expenditures will equal grant revenues at the end of the fiscal year. When expenditures exceed revenues, the difference becomes a general fund obligation.

There was approximately \$6 million of grant money available to the District during the 2007-08 fiscal year. As of the date of our review, District officials recorded expenditures of approximately \$4.5 million. The difference of \$1.5 million, if still available, should be carried forward into the 2008-09 fiscal year. District officials should continue to closely monitor grant expenditures. In addition, District officials must ensure that grant moneys are expended within the grant period for the expenditures to be eligible for reimbursement. We caution that, in the two prior fiscal years, the general fund absorbed approximately \$300,000 in excess expenditures from this fund.

Internal Control Issues

During the fiscal year, we met with management on a periodic basis to apprise them of internal control issues and other matters that needed immediate attention. Management has been cooperative and instrumental in taking action to correct these issues. For example, to prevent over-expenditure of appropriations, additional controls were instituted within the financial accounting system to limit and control the issuance of purchase orders. We also found that employees' user permissions to access the District's financial accounting system were generally limited and tailored to each individual's position or business responsibilities. However, additional steps need to be taken in this area to segregate the duties and responsibilities of the District Treasurer, who is also the District's accountant. The functions of these two positions are incompatible and should be segregated. User permissions of other personnel who recently left District employment are still active. Their permissions should be deactivated immediately and a process instituted to ensure that such permissions are deactivated when an individual leaves District employment or is reassigned to other duties.

Recommendations

1. District officials should earmark and segregate the \$6 million in AIG funds within the general fund balance and appropriate it only to enhance academic programs.
2. District officials should review expenditures for special education services to determine the cause for over-expending appropriations. Since these types of costs tend to be unpredictable, the impact of unexpected events could continue to adversely affect results of operations in future budgets.
3. District officials should prepare and file the five-year financial plan with the Commissioner, as required.
4. District officials should develop a long-term plan for eliminating the accumulated deficit and the ongoing operating deficits in the school lunch fund.
5. District officials should continue to monitor Special Aid fund expenditures to ensure that individual grants are not over-expended, and that expenditures are incurred only for approved grant purposes within the grant period.
6. District officials should review the incompatible functions performed by the District Treasurer and take corrective actions.
7. District officials should deactivate user permissions of inactive employees and institute a process that ensures the deactivation of permissions for individuals who are no longer employed by the District or who have been reassigned to other duties.

Comments of District Officials and Corrective Action

The results of our examination and recommendations have been discussed with District officials and their comments were considered in preparing this report.

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.

Sincerely,

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
Roxanne Garcia France, Assistant Superintendent for Curriculum and Instruction
Diane Battle, District Clerk
Jeffrey Leonard, Chief Examiner, Hauppauge Regional Office

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
Robert Summerville
Frank Scott

Robert-Wayne Harris
Superintendent of Schools

August 19, 2008

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

Hauppauge Regional Office
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, NY 11788-5533

Dear [REDACTED]

I am writing in response to your report of the examination of the "2007-2008 Roosevelt Union Free School District Adopted Budget" for the period of July 1, 2007 to June 30, 2008.

I would like to extend my appreciation for the time spent reviewing the business operations of our district and for meeting with staff on August 18, 2008. The District is appreciative of the explanations and guidance offered during that meeting. The District agrees with your recommendations in the report and will outline the required actions in our Corrective Action Plan. Thank you for the opportunity to respond to your report. The following provides additional information on the list of recommendations.

To begin, we are very pleased that your audit confirmed our success in controlling expenses during the 2007-2008 school year. We were successful in monitoring all expenses and maximizing revenues. This "continuous improvement" approach has yielded success as it can be measured by Roosevelt Union Free School District currently having a fund balance. We expect to continue this strong fiscal management for the upcoming school year.

Recommendation #1

District officials should earmark and segregate the \$6 million Academic Improvement Grant funds within the general fund balance and appropriate it only to enhance academic programs

Response

The district has already segregated the 6 million dollars received from NYS. These funds carry their own code so that all expenses can be tracked and expended only on academic improvement programs.

Recommendation #2

District officials should review expenditures for BOCES services to determine the cause for over-expending appropriations. Since these types of costs tend to be unpredictable, the impact of unexpected events could continue to adversely affect results of operations in future budgets.

Response

While the district increased expenses in this area during the 2007-2008 school year, they were necessary expenses. As we develop future expenditure plans for BOCES purchasing, we will continue to track expenses closely. Additionally, we have already embarked on a close analysis of all past and future BOCES expenditures along with any contributing factors. We expect that with this careful analysis we will continue to improve the fiscal operations of RUPFS.

Recommendation #3

District officials should prepare and file the five-year financial plan with the Commissioner as required.

Response

Due to transition in the School Business Official role at the end of the 2007-2008 Fiscal Year, completing this task was delayed. We are currently finalizing this report and it will be distributed on August 22, 2008.

Recommendation #4

District officials should develop a long term plan for eliminating the accumulated deficit and the ongoing operating deficits in the school lunch fund.

Response

As we close out the 2007-2008 school year, the Board of Education anticipates allocating surplus fund balance to eliminate the current deficit. Our next steps will include reviewing the overall operations, claim forms submitted for Free and Reduced Lunch Price Applications, and the current vendor contract. We are planning a full analysis of the program and vendor as a basis for future decisions.

Recommendation #5

District officials should continue to monitor Special Aid fund expenditures to ensure that individual grants are not over expended, and expenditures are incurred only for approved grant purposes within the grant period.

Response

The district has recently hired a Director of Funded Programs so she will provide critical oversight in this area. This will provide coordinated leadership for our grant programs of the district.

Recommendation #6

District officials should review incompatible functions performed by the District treasurer and take corrective actions.

Response

As part of the 2008-2009 budget, the Board of Education allocated funds for an accountant. We anticipate that this new position will allow us to implement all internal control recommendations.

Recommendation #7

District officials should take action to deactivate user permissions of inactive employees and institute a process that ensures the deactivation of permissions for individuals no longer employed by the District or reassigned to other duties.

Response

At this point, we believe that the list of all current users is up-to-date and correct. We have already begun an audit of currently held permissions by level so that we can confirm that only the appropriate staff has access. This will be completed by August 29, 2008. The current system will be updated to ensure future compliance.

In closing, the Roosevelt Union Free School District appreciates the independent review and involvement of the Office of the State Comptroller. It has been very helpful to the fiscal integrity and turnaround of the district. The District has already begun to comply with the recommendations and we view them as part of our continuous improvement.

We look forward to completing the final corrective action plan, reviewing the final report, and working with the newly assigned auditors for the 2008-009 school year.

Sincerely,

A handwritten signature in black ink, appearing to read 'RW Harris', with a long horizontal flourish extending to the right.

Robert Wayne Harris
Superintendent of Schools

cc: Board of Education
David Weiser, Fiscal Administrator