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October 31, 2008

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 Number: 2008M-235

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 in response to the District's continuing fiscal problems and 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 financial monitoring, an additional \$14 million in special State aid and tighter spending constraints by District officials, helped improve the District's general fund balance from a deficit of \$7.9 million as of June 30, 2007, to a projected balance of more than \$13 million as of June 30, 2008.¹

We are continuing our real-time fiscal monitoring during the 2008-09 fiscal year. The following is our report on the District's 2008-09 first quarter results of operations. Our review was limited to revenue and expenditure transactions that were recorded between July 1 and September 26, 2008, and to certain other transactions, such as unpaid claims, which had not been reflected in the accounting records as of September 26, 2008.

Our examination 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. This report contains opportunities for improvement for consideration by District officials.

¹ This fund balance was projected in our fourth quarter report for the 2007-08 fiscal year. The District's June 30, 2008, audited financial statements were not prepared at the time of this report.

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 Kindergarten through Grade 12, of which 226 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). Also, the Commissioner appointed 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 the 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 an apportionment, or an advance, on future State aid of \$4 million.

The District sustained recurring general fund and school lunch fund 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 of fund balance had been reserved for future liabilities, but was not available to be used for future operating expenditures because there was no offsetting restricted cash to cover the reserved fund balance. Thus, in effect, the District had a total 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, and combined with an operating surplus of \$7.3 million for the 2007-08 fiscal year, resulted in an unreserved fund balance of approximately \$13 million as of June 30, 2008.

The District's adopted budget for the 2008-09 fiscal year is \$78.8 million, which is an increase of \$15 million over the 2007-08 fiscal year budget of \$63.7 million. The \$15 million increase is due mainly to a budgeted transfer from the general fund to the debt service fund to retire debt. The District budgeted \$11.7 million to be transferred to the debt service fund, an increase of \$8.9 million from the previous year's budget to pay for debt issued associated with capital projects.

The following table shows the original budget, amended budget, expenditures, encumbrances and available balances as of September 26, 2008.

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.

General Fund Appropriations Budget as of September 26, 2008							
	Original Budget	Adjustments	Adjusted Budget	Expenditures	Percentage Expended	Encumbered	Available
Personal Services costs	\$29,871,000	\$15,000	\$29,886,000	\$3,485,364	11.66%	\$0	\$26,400,636
Other Than Personal Services costs	\$48,955,850	(\$15,000)	\$48,940,850	\$7,092,612	14.49%	\$5,941,134	\$35,907,104
	\$78,826,850	\$0	\$78,826,850	\$10,577,976	13.42%	\$5,941,134	\$62,307,740

Summary of First Quarter Results

At the completion of the first quarter of the 2008-09 fiscal year, the District's spending has generally been within the limits established by the Board in its enacted budget. However, we identified several areas of concern that should be addressed by District officials. For example, we found that the District is not making adequate use of its encumbrance system³ to control expenditures. Many known expenditures have not been encumbered and some budgetary accounts have not been accurately established.

Personal Service Costs

The adopted budget contains appropriations of \$29.9 million for personal services costs. Unlike the prior fiscal year, the District has not encumbered personal services costs to help control and maintain expenditures within budget appropriations. Although District officials believe expenditures will be within budget appropriations, encumbering for personal services could further help the District achieve this goal.

The District has made 27 budget transfers related to salary appropriation codes, aggregating approximately \$22 million. Most of the transfers were necessary to reconcile and reallocate personal services costs to the correct appropriation codes, because they had been previously incorrectly allocated in the adopted budget. However, we note that certain personal services budget account codes are still shown as over-encumbered by about \$441,000 as of September 26, 2008. This resulted mainly from encumbering personal services obligations against budget accounts that have no appropriations. Additional budget transfers are still necessary to eliminate these over-encumbered balances. The fact that approximately 75 percent of the appropriations for personal services had to be transferred and reallocated so early into the fiscal year suggests that appropriations in the adopted budget were inaccurately coded. Additionally, as mentioned in our 2007-08 first quarter report, the budget transfers were not reported to the Board on their next scheduled meeting, as required by Board policy.

Other Than Personal Service (OTPS) Costs

Appropriations for OTPS costs aggregated \$49 million, representing 62 percent of the budget. While District officials have appropriated \$5.9 million for OTPS expenditures, they have not

³ Encumbrances commit budget appropriations for known obligations and help to prevent over-expending individual line item amounts in the budget and in the total amount of the overall budget.

encumbered any appropriations for Board of Cooperative Educational Services (BOCES)⁴ shared services costs even though the District spent approximately \$5.1 million for such services in the prior year, nor have District officials encumbered known expenses for such items as debt obligations and transportation costs.

An ongoing concern is whether the District's appropriation for BOCES shared services is sufficient. In the 2007-08 fiscal year, the District appropriated \$4.3 million for BOCES shared services. The District's unaudited records show that the appropriations for BOCES services were over-expended by a total of \$805,284 in 2007-08. BOCES requires that a "letter of intent" be executed between the BOCES and each member district to determine which services are required and to establish their estimated costs. Although the District appropriated approximately \$4.8 million in the 2008-09 budget for BOCES services, District officials have not yet submitted a signed "letter of intent" to the BOCES. As a result, there is an increase risk that District officials will not be able to adequately control expenditures for BOCES services and ensure that they stay within budgeted appropriations.

The appropriation status report also shows that District officials encumbered only about \$826,000 for fringe benefits. The expenditures for fringe benefits total \$12.6 million, which comprise about 26 percent of total OTPS costs.

Special Aid Fund

The special aid fund is used to account for revenue sources derived from Federal and State grants which are legally restricted to fund expenditures for specified grant purposes. As of September 26, 2008, the District had budgeted for six grants totaling \$1,041,168.⁵

As stated in our first quarter audit report for the 2007-08 fiscal year, District officials need to address special aid appropriations, because expenditures for salaries incurred in the current fiscal year are charged to prior year fiscal codes. There are instances in which the appropriation balances in the appropriation status report are negative, because the available appropriations from the 2007-08 year have not been closed out and carried forward into the 2008-09 year.⁶ Additionally, there are instances in which expenses are being charged in the 2008-09 year for grants that have expired as of June 30, 2008.

Furthermore, there were instances in which the revenue and appropriation balances were not updated to reflect the current status of the grants. We identified one grant in which the District was approved to receive \$1,023,481. However, the District's records show estimated revenues and appropriations of only \$115,118. Records indicate that as of September 26, 2008, the District has already received \$511,740 for this grant. The District applied for and recorded estimated revenues of \$225,645 for another grant. However, the District was actually awarded only \$105,671, or \$119,974 less than the amount budgeted for this grant. These deficiencies make it

⁴ BOCES were established by an act of the State Legislature for the purpose of providing shared educational services to member school districts more efficiently and economically.

⁵ District records show that as of October 2, 2008, the District budgeted for nine grants totaling \$1,846,641.

⁶ In many instances, the grant 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.

difficult for District officials to manage and monitor this fund's activities, and unless corrected, these disparities could lead to over-expenditures of grant proceeds.

Academic Improvement Grant

Although District officials had planned to use \$3 million of the \$6 million in AIG money received in March 2008 in the 2007-08 fiscal year, they were not effective in formulating and executing a plan to expand eligible academic improvement programs. District officials stated in their response to our fourth quarter audit report for the 2007-08 year that they have created budget codes in the 2008-09 budget to segregate the \$6 million and allow for the tracking of expenditures to ensure that they are expended only on academic improvement programs. However, as of September 26, 2008, District officials have created three budget account codes and encumbered only \$694,107 to expend on academic improvement programs. Our review of District records show that these encumbrances are against account codes with no budgeted appropriations, and therefore, show negative balances. It is incumbent on District officials and the Board to ensure that AIG money is used for its intended purposes and is earmarked and appropriated in a manner to enhance academic programs.

Employee Benefit Accrued Liability Reserve

An employee benefit accrued liability reserve (EBALR) fund may be created under General Municipal Law. Moneys from this reserve may be used to make cash payments to employees upon separation of service for unused sick leave, holiday leave, vacation time, time allowances granted in lieu of overtime compensation and any other forms of payment for accrued leave time due. Interest earned on money in the EBALR becomes part of the reserve fund. Should a school district determine that the EBALR is no longer needed, the moneys in the fund may be transferred to certain reserve funds authorized by law, but only to the extent that the moneys in the fund exceed a sum sufficient to pay all liabilities incurred or accrued against the fund, as certified by the fiscal and legal officers of the local government or district.

School districts are required to file annual financial reports (ST-3 reports) with the State Education Department and the State Comptroller. For the year ended June 30, 2007, the District's ST-3 report⁷ showed an EBALR balance of \$2.6 million and current and long-term liabilities for EBALR-related costs totaling \$95,528. As a result, the ST-3 indicated that the EBALR was overfunded by \$2.5 million. However, our review of the District's audited financial statements for the period ending June 30, 2007, indicated that while the EBALR reserve balance was \$2.6 million, current and long-term liabilities for EBALR-related costs actually totaled \$3.1 million. Therefore, as of June 30, 2007, the District's EBALR was not overfunded, as indicated by the ST-3 report.

⁷ School districts self-report this financial information on ST-3 forms submitted to the State Comptroller and are responsible for its completeness and accuracy.

Recommendations

1. District officials should ensure that budget transfers are submitted to the Board at their next regularly scheduled meeting.
2. 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.
3. District officials should submit a letter of intent to BOCES to establish estimated costs for the 2008-09 year.
4. District officials should ensure that available appropriations for grant programs from the 2007-08 year are carried forward into the 2008-09 year.
5. District officials should update the records for grant programs that were awarded to reflect the current status of anticipated revenues and expenditures.
6. District officials should earmark and appropriate AIG funds in a manner that ensures that the funds are used for their intended purposes.
7. District officials should ensure that they adequately report the current and long-term liabilities associated with EBALR-related costs on the ST-3 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 they planned to initiate corrective action. Appendix B contains a response from State Education Department 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, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft

audit report. The Board should make the CAP available for public review in the District Clerk's office.

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
David Weiser, State Education Department Official/Purchasing Agent
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) 345-7000 Fax: (516) 379-0178 www.rooseveltsd.com

Board of Education
Gale Stevens-Haynes, Chairperson
Carl DeHaney, Jr.
Bishop J. Raymond Matkey
Frank Scott
Robert Summerville

Robert-Wayne Harris
Superintendent of Schools

October 24, 2008

Office of the State Comptroller
Division of Local Government and School Accountability
Steve J. Hancox
Deputy Comptroller
110 State Street
Albany, NY 12236

Dear Mr. Hancox:

I am writing in response to your report on the examination of the first quarter of the "2008-2009 Roosevelt Union Free School District Adopted Budget" for the period of July 1, 2008 to September 30, 2008.

I would like to extend my gratitude for the time that your staff spent reviewing the business operations of our District. The District Executive Staff have reviewed the report, and we are in agreement with the recommendations. We will provide a detailed explanation of our responses and the appropriate actions to be implemented in the Corrective Action Plan. Please know that we appreciate the opportunity to respond to the report in order that we can clarify a few items in the list of recommendations.

To begin, we are very pleased that the OSC 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 measured by Roosevelt Union Free School District currently having a fund balance. We expect to continue this strong fiscal management for the current school year.

Recommendation #1

District officials should ensure that budget transfers are submitted to the Board at their next regularly scheduled meeting.

Response

All budget transfers will be submitted to the Board of Education on a monthly basis.

Recommendation #2

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.

Response

All known commitments and obligations will be encumbered by November 30, 2008.

Recommendation #3

District officials should submit a letter of intent to BOCES to establish estimated costs for the 2008-09 year.

Response

The District is in the process of evaluating our needs and will submit a letter of intent to BOCES by November 15. District officials have been in contact with BOCES officials to estimate costs for the 2008-09 school year.

Recommendation #4

District officials should ensure that available appropriations for grant programs from the 2007-08 year are carried forward into the 2008-09 year.

Response

Left over appropriations for grant programs from the 2007-08 school year will be carried forward into the 2008-09 school year by November 30, 2008.

Recommendation #5

District officials should update the records for grant programs that were awarded to reflect the current status of anticipated revenues and expenditures.

Response

The Special Aid Fund will be updated on a monthly basis to reflect grant awards and the current status of anticipated revenues and expenditures.

Recommendation #6

District officials should earmark and appropriate AIG funds in a manner that ensures that the funds are used for their intended purposes.

Response

The district has already segregated the most recent 6 million dollars received from NYS in March 2008. These funds will carry their own code so that all expenses can be tracked and expended only on academic programs. In addition, the district will continue this approach for future AIG funds.

In closing, the Roosevelt Union Free School District appreciates the professional manner in which the audit was conducted and the constructive working relationship that has been reinforced with the Office of the State Comptroller. It should be noted that 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 Corrective Action Plan and a continued collaborative relationship with the newly assigned auditors for the 2008-09 school year.

Sincerely,



Robert Wayne Harris
Superintendent of Schools

cc: Board of Education
Johanna Duncan-Poitier, Senior Deputy Commissioner of Education, P-16
Jeffrey Leonard, Chief Examiner, Hauppauge Regional Office

APPENDIX B

RESPONSE FROM STATE EDUCATION DEPARTMENT OFFICIALS

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



THE STATE EDUCATION DEPARTMENT | THE UNIVERSITY OF THE STATE OF NEW YORK | ALBANY, NY 12234

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

October 24, 2008

Stephen J. Hancox
Deputy Comptroller
Office of the State Comptroller
Division of Local Government and School Accountability
110 State Street
Albany, NY 12236

Dear Mr. Hancox:

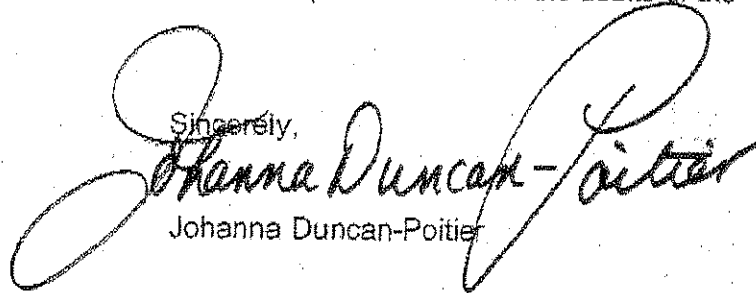
This is in response to your report of the examination of the first quarter of the "2008-2009 Roosevelt Union Free School District Adopted Budget" for the period of July 1, 2008 to September 30, 2008.

The Department agrees with the recommendations in the report. Department staff has been assigned to work with the District to ensure that the District's Corrective Action Plan addresses the issues cited in the report.

Superintendent Harris has replied to the report under separate cover. I concur with his responses to the audit.

I would like to express my continued appreciation for the professional and collaborative manner in which the Office of the State Comptroller conducts the audits of the Roosevelt School District.

Sincerely,


Johanna Duncan-Poitier

cc: Robert Wayne Harris, Superintendent
Members of the Roosevelt Board of Education