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May 5, 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 2008M-86

Dear Superintendent Harris and Members of the Board:

In March 2007, State Comptroller DiNapoli announced that we would initiate real-time fiscal monitoring of the Roosevelt Union Free School District (District) to ensure that the District stays within its 2007-08 budget. This monitoring, which will be an ongoing audit, is in response to the District's continuing fiscal problems and budget deficits. The objective of our audit is to conduct a real-time examination of financial operations to determine whether District spending is in compliance with the constraints of budgeted appropriations. The following is our report on the Roosevelt Union Free School District — Third Quarter Report on the 2007-08 Adopted Budget for the period July 1, 2007 through March 31, 2008.

This audit 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. The 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, of which 224 students 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, including the appointment of a new five-member Board and a new Superintendent of Schools (Superintendent). The District has struggled with fiscal issues for many years. In 2002,

the State Legislature authorized 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 this debt in June 2007. Furthermore, the legislation provided for the District to receive an additional \$6 million of State aid annually to improve student performance.

The District has 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, or \$1.5 million more than the prior year. In addition to this 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 addition, the school lunch fund reported an unappropriated fund deficit of \$573,000 at 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 \$6 million, which the Governor approved. The infusion of this additional State aid, received during March 2008, has significantly changed the District's cash position and has positively influenced its financial prospects for the 2007-08 fiscal year.

Summary of Third Quarter Results

The District adopted a 2007-08 general fund budget of \$63.7 million. We analyzed the District's general fund revenues and expenditures as of March 31, 2008 and determined that, if the District maintains current revenue and expenditure trends, it could potentially have an operating surplus for the 2007-08 fiscal year of approximately \$4.8 million. This potential surplus is attributable to the fact that the District will receive \$3.2 million more in operating revenue than it budgeted and that expenditures are currently on pace to be \$1.6 million less than budgeted. Notably, the District could realize \$2.35 million more in State aid than was originally estimated in the 2007-08 budget, and \$850,000 more in other revenues compared to amounts originally budgeted. Most of the \$1.6 million positive expenditure variance results from projected expenditures being less than amounts budgeted for the Instructional and Employees' Benefits accounts. Although the operating surplus would help reduce the general fund deficit of \$7.9 million, a deficit fund balance of \$3.1 million would still remain at June 30, 2008.

In addition, the infusion of the additional \$14 million in State aid, recently authorized by the State Legislature, will significantly increase the District's potential general fund operating surplus at June 30, 2008 from an expected \$4.8 million to \$18.8 million, thus significantly improving the District's financial picture. As a result, District officials have more flexibility and options available to them for educational improvement projects in the current and future years. For example, pending Board approval, District officials will use \$2 million of the additional State aid this year for educational improvement projects. If the Board approves these additional expenditures, the potential surplus will decrease to \$16.8 million at June 30, 2008. Another effect of the additional State aid is the elimination of the \$7.9 million fund deficit that existed at June 30, 2007, leaving a potential positive general fund balance of approximately \$9 million at the end of this year. The \$9 million expected general fund balance may decrease by an additional

\$704,000 if the Board resolves to subsidize and eliminate the projected deficit in the school lunch fund at June 30, 2008.

Our analysis of the school lunch fund shows a potential 2007-08 operating deficit of approximately \$130,000, which would increase the existing accumulated deficit to \$704,000 at June 30, 2008. The main reason for the deficit is that revenues are not sufficient to cover the cost of meals. The projected operating surplus in the general fund, resulting from the additional State aid, could allow for a transfer of general fund moneys to eliminate the deficit in the school lunch fund. District officials have included appropriations for subsidizing the school lunch fund in the 2008-09 proposed budget.

Based on current spending trends, revenues should equal expenditures in the special aid fund for the 2007-08 fiscal year. However, District officials should continue to closely monitor this fund's expenditures to ensure that grant appropriations are properly allocated and that expenditures are incurred only for approved grant purposes.

General Fund

We reviewed the District's general fund revenues and expenditures reported at March 31, 2008 to determine if the District is realizing revenues and expending resources in accordance with its 2007-08 financial plan. We found that District officials have taken action to stay within their financial constraints. For example, a cut-off date restricting the ability to initiate new purchase requisitions was implemented in February 2008. This process, if not circumvented by management overrides, will prevent the over-expenditure of budget appropriations. Furthermore, management's action to collect amounts due to the District for Foster Tuition receivables from other school districts resulted in increased revenues.

We analyzed the District's general fund revenues and expenditures reported at March 31, 2008 and determined that the District is on track to stay within its budgeted expenditure limits. We estimate that the District could potentially realize an operating surplus at June 30, 2008 of approximately \$4.8 million. This positive result is mainly attributable to the realization of \$2.35 million¹ in State aid in excess of the original estimates, other positive revenue variances of \$850,000, and positive expenditure variances of \$1.6 million. In addition, the \$14 million in additional State aid received in March 2008 could increase the potential surplus to about \$18.8 million. Although not yet acted upon by the Board, District officials intend to expend \$2 million of the additional State aid this year, reducing the estimated surplus to \$16.8 million. As a result, the District will be able to eliminate the \$7.9 million fund deficit that existed at June 30, 2007, leaving a potential general fund balance of approximately \$9 million at June 30, 2008.

Our projections are based on a combination of known factors, such as the increased State aid; the current rate of spending and revenue collection; and prior years' revenue and expenditure trends. The District's actual operating results may differ somewhat from the projection based on actions District officials take between April and June 2008, and if unforeseen events occur that have an adverse effect on the results of operations.

¹ The \$2.35 million of state aid surplus is mostly attributable to increased building and excess cost aid in comparison to original estimates.

	Roosevelt UFSD			
	General Fund			
	2007-08	Actual as of	Projected	Variance
	Amended Budget	3/31/08	to 6/30/08	(Negative)
<u>Revenues</u>				
Real Property Taxes / STAR	\$19,418,355	\$11,006,174	\$19,434,247	\$15,892
Charge for Services	\$455,000	\$1,084,718	\$1,084,718	\$629,718
Use of Money & Property	\$125,000	\$271,806	\$406,222	\$281,222
Miscellaneous	\$31,453	\$124,322	\$324,322	\$292,869
Budgeted State Aid	\$43,223,597	\$21,961,991	\$45,570,850	\$2,347,253
Enhanced State Aid		\$14,000,000	\$14,000,000	\$14,000,000
Federal Sources	\$465,000	\$93,130	\$93,130	(\$371,870)
Total Revenues	\$63,718,405	\$48,542,141	\$80,913,489	\$17,195,084
<u>Expenditures</u>				
General Support	\$7,364,780	\$4,859,838	\$7,179,973	\$184,808
Instructional	\$36,352,782	\$21,653,765	\$35,530,532	\$822,250
Pupil Transportation	\$3,339,084	\$1,558,299	\$3,216,341	\$122,743
Employees Benefits	\$12,726,634	\$6,724,606	\$12,297,004	\$429,630
Debt Service Principal	\$0	\$0	\$0	\$0
Debt Service Interest	\$1,403,235	\$669,934	\$1,382,096	\$21,138
Transfers to Other Funds	\$2,947,066	\$2,743,913	\$2,947,066	\$0
Total Expenditures	\$64,133,581	\$38,210,354	\$62,553,012	\$1,580,569
	(b)			
Expected Operating Surplus				\$4,775,653
Enhanced State Aid				\$14,000,000
Unreserved/Undesignated Fund Balance - Beginning of Year				(\$7,861,766)
Potential Unreserved/Undesignated Fund Balance - End of Year				\$10,913,887
Planned expenditure of the additional State aid in 2007-08			(a)	(\$2,000,000)
Potential Unreserved/Undesignated Fund Balance - End of Year, as adjusted				\$8,913,887

(a) Subject to Board approval, District officials intend to appropriate funds to pay for new textbooks, software application services, and musical equipment.

(b) Appropriations reflect encumbrances of \$415,176 carried forward from the prior year.

Although we project a negative variance of \$372,000 in Federal funding, we estimate that other District revenues will exceed the budget estimates by approximately \$17.2 million. Most of this

positive variance is attributable to additional State aid². Other net positive revenue variances are expected to aggregate \$850,000 over budget estimates.

District officials' efforts to control spending appear to be effective. As a result, total District expenditures could potentially be under-budget by \$1.6 million. This expected positive variance could change significantly if District officials do not stay the course and maintain the same rate of spending, or commit resources for other than those purposes already included in the budget. Additionally, District officials should monitor appropriations for special education costs, since they tend to be volatile and unpredictable. Unexpected costs could jeopardize the potential for positive results of operations.

In addition, if the general fund absorbs the school lunch fund's reported deficit of \$573,483 at June 30, 2007 and the additional operating deficit of \$130,000 expected at June 30, 2008, the expected general fund surplus at June 30, 2008 could be reduced to approximately \$8.2 million.

School Lunch Fund

We reviewed the District's school lunch fund revenues and expenditures reported at March 31, 2008 and project a potential operating deficit of approximately \$130,000 for 2007-08. District officials established a budget for the school lunch fund in which estimated revenues exceeded appropriations by \$238,500. Additionally, the budget was not presented to the Board for review and approval. Without accurate budget data, District officials cannot effectively monitor the activities of the school lunch fund and take action to avert potential over-expenditures. The school lunch fund reported an unreserved, undesignated fund deficit of \$573,482 at June 30, 2007. We used historical data to project results of operations for the 2007-08 year as follows:

² An SED official indicated that the amount of State aid allocated to the District may change based on future filings by the District.

Roosevelt UFSD				
School Lunch Fund				
	2007-08	Actual as of	Projected	Variance
	Amended Budget	3/31/08	to 6/30/08	(Negative)
<u>Revenues</u>				
Sales	\$230,000	\$62,164	\$158,626	(\$71,374)
Use of Money and Property	\$15,000	\$2,199	\$16,447	\$1,447
Miscellaneous	\$18,500	\$2,869	\$2,869	(\$15,631)
State Sources	\$95,000	\$26,107	\$50,799	(\$44,201)
Federal Sources	\$1,100,000	\$392,562	\$785,124	(\$314,876)
Surplus Food	\$100,000	\$44,265	\$92,850	(\$7,150)
Total Revenues	\$1,558,500	\$530,165	\$1,106,714	(\$451,786)
<u>Expenditures</u>				
Cost of Sales	\$1,320,000	\$635,567	\$1,236,413	\$83,587
Total Expenditures	\$1,320,000	\$635,567	\$1,236,413	\$83,587
Budget Differences	\$238,500			(\$368,199)
Projected Operating Surplus / (Deficit)			(129,699)	
Unreserved/Undesignated Fund Balance - Beginning of Year			<u>(573,482)</u>	
Unreserved/Undesignated Fund Balance - End of Year, as Projected			<u><u>(703,181)</u></u>	

Based on prior historical data, the current rate of activity in this fund, and expectations that conditions will not change significantly for the remainder of the year, we anticipate that the District will not generate sufficient revenues to offset the cost of operations in the current year. District officials indicated that the fund deficit will be eliminated by an inter-fund subsidy from the general fund. To prevent a recurrence of operating deficits, District officials plan to include an appropriation in the 2008-09 general fund budget to subsidize the lunch fund in the event revenues are not sufficient to cover operating costs. The Board should continue to subsidize this fund's activities in subsequent years' budgets if it does not become self-sufficient.

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 of the special aid fund exceed its revenues, the shortfall becomes a general fund obligation.

There is approximately \$6 million in new grants that have been awarded to date, of which \$360,000 is pending approval or subject to reimbursement, and \$440,000 in grant balances were carried forward from the prior year, for a total budget of slightly under \$6.5 million. As of March 31, 2008, District officials expended approximately \$2.6 million, of which \$1.9 million was for personal services. The amount expended to date is approximately \$1 million less than the \$3.6 million spent last year at this time. If expenditures continue at the same rate, the District will

potentially spend approximately \$4.3 million this year. The difference, if still available, would be carried forward into the 2008-09 fiscal year. However, District officials should closely monitor grant expenditures and recognize that, in the event expenditures are incurred above the grant limits or for other than grant purposes, such expenditures would have to be absorbed by the general fund. We caution that, in the two prior fiscal years, the general fund absorbed approximately \$300,000 in excess expenditures from this fund.

Cash Flow

The Board authorized the issuance of \$24 million in revenue anticipation notes (RAN) for 2007-08 operations. During July 2007, District officials issued a RAN in the amount of \$11 million, maturing on June 27, 2008, to provide for the District's short term cash flow needs. Earlier projections (October 5, 2007) had shown that, despite the issuance of the RAN, the District would have exhausted its cash balances in January 2008. However, the latest cash flow projection (January 23, 2008) showed that the District's cash position had improved, showing positive balances through May 2008 with a potential negative balance of \$1.5 million at June 30, 2008. As of April 15, 2008, District officials have not updated their cash flow projection. Therefore, the \$14 million in additional State aid received in March 2008 has not been reflected in the cash flow.

Recommendations

1. District officials should maintain the same rate of spending and not commit resources for purposes not otherwise included in the adopted budget.
2. District officials should continue to closely review revenues budgeted from Federal sources and determine whether they will be attainable and available to finance District operations.
3. District officials should continue to monitor appropriations for special education costs. Since these types of costs tend to be unpredictable, the impact of unexpected events could affect the positive results of operations projected to the end of the year.
4. District officials should correct the imbalance in revenues and appropriations in the school lunch fund budget and present the corrected budget to the Board for review and approval.
5. District officials should review the revenues generated by the school lunch fund to determine whether they are sufficient to offset the cost of meals. If they are not sufficient and no other resource is available, the Board should establish an appropriation in the general fund budget to subsidize the school lunch fund operation.
6. The Board should eliminate the expected deficit in the school lunch fund by appropriating and transferring general fund appropriations to this fund.

7. 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.

Comments of District Officials and Corrective Action

The results of our audit 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
Karen Chapman, Ed. D., Interim Assistant Superintendent for Business and Operations
Roxanne Garcia, Interim Associate Superintendent for Curriculum and Funded Programs
Diane Battle, District Clerk
Jeffrey Leonard, Chief Examiner, Hauppauge Regional Office