



# North Bellmore Union Free School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2012 — June 30, 2013

2014M-47



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

June 2014

Dear District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage district resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support school district operations. The Comptroller oversees the fiscal affairs of school districts statewide, as well as 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 costs and to strengthen controls intended to safeguard school district assets.

Following is a report of our audit of the North Bellmore Union Free School District, entitled Financial Condition. 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.

This audit's results and recommendations are resources for school 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*

# Introduction

## Background

The North Bellmore Union Free School District (District) is located in the Town of Hempstead in Nassau County. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs, including budget development.

The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Assistant Superintendent of Business plays a key role in the budget development process and the Business Office's daily administration.

The District operates five schools, with approximately 2,100 students and 550 employees. For the 2013-14 fiscal year, the District's operating budget is approximately \$50.5 million, funded primarily with State aid, real property taxes and grants.

## Objective

The objective of our audit was to examine the District's financial operations and the use of fund balance. Our audit addressed the following related question:

- Did the Board adequately manage the District's budget and financial condition?

## Scope and Methodology

We examined the Board's management of the District's financial condition and budgeting practices for the period of July 1, 2012 through June 30, 2013. We extended our scope back to July 1, 2009 to evaluate the District's financial condition and to provide additional information for perspective and background.

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 is included in Appendix C 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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated that they plan to initiate corrective action. Appendix B includes our comments on issues raised in the District's response letter.

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 provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. 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.

## Financial Condition

The Board is responsible for adopting budgets that contain estimates of actual and necessary expenditures that are funded by planned realistic revenues. Sound budgeting provides sufficient funding for necessary operations. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. Once the Board has addressed those issues, any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences, should be used to fund District operations and reduce or minimize tax increases.

The District reported year-end unexpended surplus fund balance<sup>1</sup> at levels that essentially complied with the 4 percent limit for fiscal years 2009-10 through 2012-13. This was accomplished by appropriating fund balance. The Board's appropriation of fund balance aggregated to more than \$11 million over the past four years, which should have resulted in planned operating deficits. However, because the District significantly overestimated expenditures in its adopted budgets, it experienced large operating surpluses in two of the four years and needed less than \$270,000 of the appropriated fund balance. For that period, total actual revenues exceeded expenditures by more than \$4.7 million.

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<sup>1</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54) and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

| <b>Table 1: Unexpended Surplus Funds at Year End</b>                           |                |                |                |                |
|--|----------------|----------------|----------------|----------------|
|  | <b>2009-10</b> | <b>2010-11</b> | <b>2011-12</b> | <b>2012-13</b> |
| Beginning Fund Balance <sup>a</sup>  | \$4,479,404    | \$5,048,945    | \$5,097,670    | \$4,860,863    |
| Plus: Operating Surplus/(Deficit)  | \$2,951,919    | \$2,027,118    | (\$156,465)    | (\$111,683)    |
| Unexpended Surplus Funds – Subtotal  | \$7,431,323    | \$7,076,063    | \$4,941,205    | \$4,749,180    |
| Less: Appropriated Fund Balance  | \$3,125,000    | \$3,000,000    | \$2,550,000    | \$2,550,000    |
| Less: Transfers to/(from) Reserves   | \$2,382,378    | \$1,978,393    | \$80,342       | (\$190,992)    |
| Less: Encumbrances   | \$43,767       | \$179,101      | \$393,607      | \$370,276      |
| Total Unexpended Surplus Funds at Year End                                     | \$1,880,178    | \$1,918,569    | \$1,917,256    | \$2,019,896    |
| Ensuing Year's Budget  | \$47,004,482   | \$48,029,117   | \$48,101,775   | \$50,498,245   |
| Reported Unexpended Surplus Funds as a Percentage of the Ensuing Year's Budget | 4%             | 4%             | 4%             | 4%             |
| Actual Unexpended Surplus Funds  | \$5,005,178    | \$4,918,569    | \$4,467,256    | \$4,569,896    |
| Actual Unexpended Surplus Funds as a Percentage of the Ensuing Year's Budget   | 11%            | 10%            | 9%             | 9%             |

<sup>a</sup> Beginning fund balance includes prior year's encumbrances

From 2009-10 through 2012-13, the District overestimated appropriations by a total of \$14.3 million. Officials did not use prior year actual results as a guide to prepare budget estimates. As a result, each year the budgeted appropriations were higher than necessary to fund District operations.

| <b>Table 2: Expenditure Variance – Fiscal Years 2009-10 through 2012-13</b> |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
|   | <b>2009-10</b> | <b>2010-11</b> | <b>2011-12</b> | <b>2012-13</b> |
| Appropriations  | \$45,869,517   | \$47,048,249   | \$48,208,218   | \$48,495,382   |
| Actual Expenditures   | \$41,251,366   | \$42,123,754   | \$45,174,364   | \$46,771,947   |
| Variance  | \$4,618,151    | \$4,924,495    | \$ 3,033,854   | \$1,723,435    |

The employee benefits, programs for children with handicapping conditions and teaching—regular school categories account for more than \$10 million of the over-appropriations for the period.

**Table 3: Overestimated Appropriations**

|   | 2009-10      | 2010-11      | 2011-12      | 2012-13      | Total              |
|---|--------------|--------------|--------------|--------------|--------------------|
| <b>Employee Benefits</b>                                  |              |              |              |              |                    |
| Budget  | \$9,642,274  | \$10,346,170 | \$10,914,146 | \$10,935,098 |                    |
| Actual  | \$7,914,038  | \$8,971,105  | \$10,036,807 | \$10,498,135 |                    |
| Variance  | \$1,728,236  | \$1,375,065  | \$877,339    | \$436,963    | <b>\$4,417,603</b> |
| <b>Programs for Children with Handicapping Conditions</b> |              |              |              |              |                    |
| Budget  | \$7,930,298  | \$8,217,204  | \$8,185,797  | \$8,101,482  |                    |
| Actual  | \$6,646,966  | \$6,832,011  | \$7,450,570  | \$7,952,439  |                    |
| Variance  | \$1,283,332  | \$1,385,193  | \$735,227    | \$149,043    | <b>\$3,552,795</b> |
| <b>Teaching-Regular School</b>                            |              |              |              |              |                    |
| Budget  | \$15,365,774 | \$15,291,946 | \$15,451,120 | \$15,666,268 |                    |
| Actual  | \$14,892,876 | \$14,288,129 | \$15,245,050 | \$15,196,528 |                    |
| Variance  | \$472,898    | \$1,003,817  | \$206,070    | \$469,740    | <b>\$2,152,525</b> |

Had District officials used more realistic budget estimates, they could have avoided the accumulation of excess fund balance. The District’s practice of consistently appropriating fund balance that was not needed to finance operations in effect circumvented the statutory limitation of unexpended surplus fund balance to no more than 4 percent of the ensuing year’s appropriations.

### Recommendations

1. The Board should develop and adopt budgets that include realistic estimates for expenditures and unexpended surplus funds.
2. The Board should ensure that the amount of the District’s unexpended surplus fund balance is in compliance with the Real Property Tax Law statutory limits.
3. The Board should review the District’s fund balance and develop a plan to reduce the balance to an appropriate level. Such uses could include, but are not limited to:
  - Reducing real property taxes,
  - Increasing necessary reserves,
  - Paying off debt or
  - Financing one-time expenditures.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# NORTH BELLMORE UNION FREE SCHOOL DISTRICT ADMINISTRATION OFFICES

*Our mission is to inspire all students to be confident, passionate learners with the courage and skills to lead their lives with integrity, while contributing to our global community with creativity and compassion.*

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Re: North Bellmore Union Free School District  
Report No. 2014M-47

Dear McCracken:

We are in receipt of the above referenced Report, containing the preliminary draft findings of your recent audit of the District. I have shared the Report with the Board of Education, and the District has undertaken a careful analysis of the report and the underlying data. Please accept this letter as the District's response.

Initially, we thank you for your efforts to review and offer suggestions on ways to improve the District's procedures. We take our obligation to the students, residents and taxpayers of our community very seriously, and any input that allows us to better serve them is always welcome. We understand that the audit is required by the State Constitution and State law, and we were happy to fully cooperate with your representatives so as to ensure that our procedures are appropriate.

We accept and agree with the findings in the report and were pleased that after reviewing the District's records going back to July 1, 2009, the issue of the fund balance for the 2012-13 fiscal year was the only area you chose to audit. The fact that the Report acknowledged that the District complied with the four percent (4%) cap on unexpended surplus fund balance for the 2009-10 through the 2012-13 fiscal years was consistent with the District's expectations.

Please be advised that the Board asserts that it had routinely given clear direction to the former Superintendent and the Assistant Superintendent for Business to ensure that the budget was properly planned to accommodate only those expenditures that were necessary and

See  
Note 1  
Page 11

appropriate. Despite its best efforts to require proper budgeting, and as a result of personnel changes made by the Board, the District now has better procedures in place.

According to the Report, the crux of the issue is the variance between the District's appropriations and the actual expenditures from previous years. The Report notes that actual expenditures were not sufficiently used as a guide to prepare budgeting estimates. The Board shared exactly that concern and insisted that the District's responsible administrators address the issue. As a result, the variance has decreased dramatically over the past few years, beginning before your audit. Most notably, the variance decreased from \$4,924,495 in 2010-11 to \$3,033,854 in 2011-12. The variance decreased again, almost by half, to \$1,723,435 for 2012-13. As was discussed in our exit conference, the current level of variance is within the appropriate range, clearly establishing that the District had fully addressed the issues raised in the Report prior to your findings.

See  
Note 2  
Page 11

See  
Note 3  
Page 11

We appreciate your consideration of the foregoing in finalizing the Report. Upon receipt of the final version, the District will prepare and file any necessary corrective action plan. Thank you for your efforts to ensure sound fiscal practices. We have every intention to continue to request that our administrators budget to accommodate only those expenditures that are necessary and appropriate and to implement any other appropriate measures as suggested by your audit.

Very truly yours, /

Marie Testa  
Superintendent of Schools

Nina Lanci  
Board President

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

According to the District's financial statements, the District appeared to comply with the 4 percent cap on the unexpended surplus fund balance for fiscal years 2009-10 through 2012-13. However, the actual unexpended surplus funds as a percentage of ensuing years' budgets were 11 percent, 10 percent, 9 percent and 9 percent for the aforementioned years.

#### Note 2

As stated in the report, the Board's appropriation of fund balance aggregated to more than \$11 million over the past four years, which indicates that the Board planned to have operating deficits during those years. However, because the District significantly overestimated expenditures in its adopted budgets, it experienced large operating surpluses in two of the four years and needed to use less than \$270,000 of the \$11 million in appropriated fund balance.

#### Note 3

Although the actual variances for 2011-12 and 2012-13 showed an improvement, the District has not fully addressed this issue by the end of the 2012-13 fiscal year. Based on the District's financial statements, the actual unexpended surplus funds as a percentage of the ensuing year's budget was nine percent for both fiscal years. At the exit conference, District officials informed us that the District's expenditure variance for the 2013-14 fiscal year will be reduced from what was reported for the 2012-13 fiscal year.

## APPENDIX C

### 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, payroll and personal services and information technology.

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 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 or professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected the Board's management of the District's financial condition and budgeting practices for further audit testing.

To accomplish our audit objective, our examination included the following:

- We interviewed District officials and employees to gain an understanding of District operations.
- We reviewed District policies and procedures.
- We reviewed reserve funds to determine if they were adequately funded and in compliance with applicable laws.
- We obtained an understanding of the District's internal control environment and specific controls that are significant to the District's budget process.
- We reviewed recent annual financial statements, the accompanying management letters prepared by the District's independent public accountant and relevant budget reports.
- We compared the amounts reported in the District's externally audited financial statements with a trial balance, Treasurer's reports and bank statements to verify their reliability.
- We analyzed revenue and expenditure trends and budget-to-actual comparisons for the operating funds for the fiscal years 2009-10 through 2012-13 and calculated the percentage of unexpended surplus funds compared with budget appropriations.
- We reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets.
- We reviewed the District's multiyear financial plan.

We conducted this performance audit in accordance with 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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