



Cornwall Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2013 – June 30, 2015

2015M-148



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2015

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 Cornwall Central 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 New York State 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*

Introduction

Background

The Cornwall Central School District (District) is located in Orange County in the Villages and Town of Cornwall and Cornwall-on-Hudson, and a portion of the Villages of Woodbury, Highland Mills and New Windsor. The District is governed by the Board of Education (Board) which is composed of nine 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 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 for Business is responsible for supervising and managing the District's financial affairs.

The District operates five schools, with approximately 3,200 students and 480 employees. The District's budgeted expenditures for the 2014-15 fiscal year were \$65,043,619, which were funded primarily with State aid and real property taxes.

Objective

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

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

Scope and Methodology

We examined the District's financial condition for the period July 1, 2013 through June 30, 2015. We extended our audit period back to July 1, 2011 to analyze the District's fund balance, operating results and financial trends.

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 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 they plan to initiate 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 New York State 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

A school district's financial condition is a primary factor in determining its ability to continue providing public educational services for students in the district. The Board, Superintendent and Assistant Superintendent for Business are accountable to taxpayers for the use of District resources and are responsible for effective financial planning and management of District operations. A key measure of a district's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance can provide cash flow, help finance the next fiscal year's operations, or help manage unexpected costs. New York State Real Property Tax Law limits the amount of unrestricted unappropriated fund balance a school district can retain to no more than 4 percent of the next year's budget appropriations.

District officials enacted budgets with planned operating deficits and used approximately \$1.9 million of fund balance to finance District operations in fiscal years 2011-12 through 2013-14. The Board and District officials initiated actions to reduce expenditures and maintain financial stability beginning in the 2012-13 fiscal year. The Assistant Superintendent for Business projected 2014-15 year-end unrestricted, unappropriated fund balance to be approximately \$2.7 million, or 4 percent of the next year's budget appropriations, which is the maximum allowable by law.¹

We reviewed budget-to-actual results for fiscal years 2011-12 through 2013-14 and found that the Board adopted budgets with realistic revenue and expenditure estimates. However, the Board has relied on appropriated fund balance as a financing source in the annual budgets, which reduced the District's unrestricted, unappropriated funds during that period. As a result, the District used approximately \$1.9 million of fund balance during the last three fiscal years. The Assistant Superintendent for Business stated that the District increased the amount of fund balance and reserves used to balance its annual budget because of the New York State property tax cap² and reduced State aid funding levels. However, officials expect that the District's unrestricted fund balance will return to the maximum permitted by law at the end of the 2014-15 fiscal year.

¹ We reviewed operating results for the 2014-15 fiscal year and determined they appear to be accurate.

² With some exceptions, the State's property tax cap legislation limits the amount local governments and most school districts can increase property taxes to the lesser of 2 percent or the rate of inflation.

District officials took the following steps to reduce expenditures to offset the effects of reduced State aid and to adopt balanced budgets without significant increases in real property tax levies:

- Change in employee health benefits management effective August 1, 2012. District officials are projecting to save approximately \$189,000 in 2014-15.
- Staff reductions of six full-time employees in 2013-14. District officials are projecting a savings of approximately \$253,000 in 2014-15.
- Conversion of fuel oil boilers to natural gas boilers, which will save the District approximately \$159,000 annually in fuel costs.

The 2014-15 budget appropriated \$3 million of fund balance to fund operations. However, with the additional cost savings the District has initiated, officials project that they will not use any of this amount and may actually have an operating surplus of approximately \$700,000. The District's 2015-16 budget appropriated \$2.4 million of fund balance.

Recommendation

1. District officials should closely monitor the level of unrestricted fund balance to stay within the maximum allowable by law, while continuing to evaluate and explore ways to reduce expenditures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Cornwall Central School District

Neal S. Miller
Superintendent of Schools

Harvey Sotland
Assistant Superintendent for Business

Gail Duffy
Assistant Superintendent for Instruction

August 17, 2015

Ms. Tenneh Blamah
Chief Examiner of Local Government
and School Accountability
Newburgh Regional Office
NYS Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Ms. Blamah:

On behalf of the Cornwall Central School District, we would like to thank you and your staff for providing this review, as we believe such initiatives only serve to strengthen and reinforce the District's internal controls. With regards to your preliminary draft report, the following addresses your findings and recommendations, along with any corrective action plan necessary.

Fund Balance and Cost Saving Initiatives

With respect to the level of unrestricted/unassigned fund balance, the District will continue to monitor this amount to insure we stay within the maximum allowable by law. Additionally, the District will continue to remain vigilant in seeking out efficiencies and cost saving measures.

Sincerely,

Neal S. Miller
Superintendent of Schools

Harvey Sotland
Assistant Superintendent for Business

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our audit objective was to review the District's financial condition for the period July 1, 2013 through June 30, 2015. We extended our audit period back to July 1, 2011 to analyze the District's fund balance, operating results and financial trends. To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed District officials to determine the processes that were in place for, and to gain an understanding of, the District's financial condition and budget.
- We analyzed three years of data filed with the Office of the State Comptroller to evaluate fund balance trends.
- We compared budget-to-actual revenues and expenditures and investigated significant variances.
- We evaluated the District's operating results and resulting fund balance for the audit period.
- We obtained and reviewed District officials' cost savings initiatives.
- We obtained and reviewed District officials' projected 2014-15 year-end unrestricted unappropriated fund balance.

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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