



Cohoes City School District Budgeting

Report of Examination

Period Covered:

July 1, 2012 – June 30, 2015

2016M-111



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
BUDGETING	4
Unrestricted Fund Balance	4
Budgeting Practices	5
Reserves	7
Recommendations	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	12
APPENDIX C How to Obtain Additional Copies of the Report	13
APPENDIX D Local Regional Office Listing	14

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2016

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 Cohoes City School District, entitled Budgeting. 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 Cohoes City School District (District) is located in the City of Cohoes in Albany County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. 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 District operates five schools with approximately 1,900 students and 360 employees. The District's budgeted appropriations for the 2015-16 school year were \$40.3 million, which were funded primarily with State aid, real property taxes and grants.

Objective

The objective of our audit was to examine the District's budgeting practices to determine if District officials properly managed fund balance and reserves. Our audit addressed the following related question:

- Did the Board and District officials properly manage the District's fund balance and ensure reserve balances and budget estimates were reasonable?

Scope and Methodology

We examined the District's budgeting practices, fund balance and reserves for the period July 1, 2012 through June 30, 2015.

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 are included in Appendix B of this report.

Comments of District Officials and Corrective Action

The results of our audit 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.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of 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.

Budgeting

A school district's financial condition is a factor in determining its ability to fund public educational services for students within the district. District officials are responsible for managing fund balance, which represents resources remaining from prior fiscal years. A district may retain a portion of fund balance within the limits established by New York State Real Property Tax Law (RPTL). Developing accurate budgets is an effective way to ensure fund balance is reasonable.

Accordingly, it is essential that District officials develop reasonable budgets to balance recurring expenditure needs with recurring revenue sources while providing desired services on a continuing basis and manage fund balance responsibly. A district can also establish reserves to restrict a reasonable portion of fund balance to finance future costs for a variety of specified purposes. District officials should ensure that reserve fund balances do not exceed the amounts necessary to address long-term obligations or planned expenditures.

The Board and District officials did not properly manage fund balance or ensure reserve balances and budget estimates were reasonable. For the 2012-13 through 2014-15 fiscal years, the District's unrestricted fund balance exceeded the statutory limit, ranging from 5.5 to 7.6 percent of the ensuing year's budget appropriations. During this same period, the Board significantly overestimated District expenditures by a combined total of approximately \$7.2 million, which resulted in annual operating surpluses totaling approximately \$2.1 million.

In addition, the Board appropriated approximately \$1.1 million of fund balance during these years to finance operations but none of the amounts appropriated were used. Furthermore, despite experiencing operating surpluses, District officials increased the real property tax levy by an average of approximately \$397,000 each year. Finally, the District's retirement contribution reserve had a balance of more than \$1.6 million. Based on the District's average annual retirement contribution of about \$579,000, its current balance is sufficient to pay these costs for almost three years.

Unrestricted Fund Balance

The District may retain a portion of fund balance, but must do so within the limits established by RPTL, which currently limits the amount of unrestricted fund balance that the District can retain to 4 percent of the ensuing fiscal year's budgeted appropriations.

For the 2012-13 through 2014-15 fiscal years, unrestricted fund balance increased by \$704,300, or 30 percent, and exceeded the

statutory limit each year, ranging between 5.5 and 7.6 percent of the next year's budget. As of June 30, 2015, the District's unrestricted fund balance totaled approximately \$3 million, or 7.6 percent of the ensuing year's budget, which exceeded the statutory limit by approximately \$1.5 million (Figure 1).

	2012-13	2013-14	2014-15
Total Unrestricted Funds at Year-End	\$2,375,619	\$2,189,660	\$3,079,919
Ensuing Year's Budgeted Appropriations	\$39,577,256	\$39,563,149	\$40,290,105
Unrestricted Funds as Percentage of Ensuing Year's Budget	6.0%	5.5%	7.6%

Budgeting Practices

District officials are responsible for preparing and adopting reasonable budgets based on historical or known trends for appropriations and revenues. In preparing the budget, it is essential that District officials use the most current and accurate information available to ensure that budgeted appropriations are reasonable and not overestimated. When fund balance is appropriated to finance operations, the budget's total estimated revenues will be less than the total appropriations, and thus an operating deficit will occur if the actual revenues and expenditures are in line with the budgetary estimates.

During the 2012-13 through 2014-15 fiscal years, the Board adopted budgets that included the use of fund balance to finance operations. Although the Board's adopted budgets included the appropriation of fund balance during those three fiscal years, the District experienced annual operating surpluses totaling approximately \$2.1 million over this period and did not use the appropriated fund balance to finance operations (Figure 2), resulting in operations variances of over \$3.2 million.

Based on the 2015-16 adopted budget, the District budgeted similarly to previous years and most likely will not use the \$399,560 it appropriated in fund balance. Therefore, the District's fund balance will likely continue to exceed the statutory limit. The 2016-17 budget followed the same pattern, and if the results of operations during the fiscal year follow the same trends as in past years, the District may realize an additional operating surplus.

	2012-13	2013-14	2014-15	Totals
Appropriated Fund Balance (Planned Deficit)	(\$175,000)	(\$488,826)	(\$451,939)	(\$1,115,765)
Results of Operations	\$431,231	\$828,655	\$880,159	\$2,140,045
Total Budget Variance	\$606,231	\$1,317,481	\$1,332,098	\$3,255,810

The District experienced significant operating surpluses because the Board overestimated appropriations by an average of 6 percent in the District’s annual budgets each year, while generally providing realistic revenue estimates. We compared the District’s budgeted appropriations and actual expenditures for the 2012-13 through 2014-15 fiscal years and found that the District overestimated expenditures by a combined total of approximately \$7.2 million in these budgets (Figure 3).

Fiscal Year	Budgeted Appropriations	Actual Expenditures	Overestimated Appropriations	Percentage
2012-13	\$38,713,159	\$36,638,661	\$2,074,498	5.7%
2013-14	\$40,192,141	\$37,291,626	\$2,900,515	7.8%
2014-15	\$40,332,352	\$38,123,871	\$2,208,481	5.8%
Total	\$119,237,652	\$112,054,158	\$7,183,494	6.4%

While the total annual expenditure variances were relatively small, ranging from 5.7 to 7.8 percent, in aggregate they contributed to a 73 percent increase to total fund balance (from \$3.8 million in 2012-13 to \$6.7 million in 2014-15). The overestimated expenditures generally occurred throughout general fund budget lines during these years. However, we found certain accounts were overestimated during all three years.

For example, health insurance costs were overestimated by a combined total of more than \$1.2 million (7 percent), New York State Teachers’ Retirement System (TRS) costs were overestimated by a combined total of \$882,942 (12 percent) and heating and electricity costs were overestimated by a combined total of \$589,334 (36 percent). These are items that should be budgeted accurately.

Subsequent to our field work, we reviewed the District’s accounting records to determine if these budget practices continued in 2015-16. As of March 31, 2016, District officials had expended 78 percent of available appropriations for health insurance, 72 percent of available appropriations for electricity and 32 percent of available appropriations for heating. In addition, officials have recorded the District’s TRS expenditure. For 2015-16, the District expended approximately \$155,000 more than estimated in its original budget.

As a result of these budgeting practices, the Board adopted unrealistic budgets, appropriated fund balance was not used to fund operations and incurred annual operating surpluses that made it appear the District needed to both raise taxes and use fund balance to close projected budget gaps. However, because the District experienced surpluses and appropriated fund balance that was not used, unrestricted fund balance exceeded the statutory limit all three years.

Despite these operating surpluses, District officials increased the real property tax levy by an average of approximately \$397,000 each year, an increase of 3 percent. The Board-adopted 2015-16 tax levy totaled approximately \$14.7 million, which represents a 1 percent increase from the previous year, and there was no proposed increase in the tax levy for the 2016-17 fiscal year but also no decrease in the levy funded by the excess balance on hand. Furthermore, the District's practice of appropriating fund balance in the budgets each year that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit imposed on the level of unrestricted fund balance.

Reserves

When District officials establish reserve funds, it is important they develop a plan for funding the reserves, determining how much should be accumulated and how and when the funds will be used to finance related costs. Such a plan should guide the Board in accumulating and using reserve funds and would help inform District residents about how their tax dollars will be used. Funding reserves at greater than reasonable levels essentially results in real property tax levies that are higher than necessary.

The District did not have a formal plan for funding reserves, determining how much should be accumulated and how and when the funds will be used to finance related costs. From 2012-13 through 2014-15, District officials increased the balance in the reserves by more than \$2.2 million, or 555 percent. As of June 30, 2015, the District had five reserves (capital, compensated absences, retirement contribution, tax certiorari and unemployment insurance) totaling approximately \$2.6 million.

We analyzed the balances of the reserve funds and found that the balances for the capital, compensated absences, unemployment insurance and tax certiorari reserves were reasonable. However, the amount retained in the retirement contribution reserve was significantly more than the amount necessary to pay employee retirement costs each year. This reserve's balance as of June 30, 2015 was more than \$1.6 million. However, the District's expenditures paid to the New York State and Local Retirement System (NYSLRS) for 2012-13, 2013-14 and 2014-15 averaged about \$579,270 each year, or 64 percent less than the reserve balance. Based on the District's average annual retirement contribution, its current balance is sufficient to pay these costs for almost three years.

District officials told us that they funded this reserve based on the three previous year's expenditures to the NYSLRS. The District's 2015-16 retirement costs were funded through an appropriation from the reserve and District officials used reserve funds to pay for this

expenditure. Furthermore, the District's 2016-17 budget includes an appropriation from the reserve to fund this expenditure.

The Board established this reserve in August 2014 in the amount of \$1.635 million. However, District officials recorded this amount as the reserve balance in the accounting records as of June 30, 2014 and reported this amount on the District's financial reports as of this date, even though the reserve was established after the 2013-14 fiscal year ended.

Had District officials not erroneously reported the retirement reserve balance in this manner, the District's unrestricted fund balance at the end of the 2013-14 fiscal year would have been approximately \$3.8 million, or 9.7 percent of the ensuing year's appropriations (instead of the 5.5 percent shown in Figure 1), further exceeding the statutory limit. By recording the reserve in the accounting records before it was established, the District's unrestricted fund balance appeared to be 43 percent lower than it actually was that year.

District officials did not have a plan for the reserve funds that includes the types of reserves established, how reserves will be funded or the balances to be accumulated. As a result, the Board and District officials may have missed the opportunity to use fund balance as a financing source to fund one-time expenditures, fund needed reserves or reduce the tax levy.

Recommendations

The Board should:

1. Develop a plan that details funding levels and planned uses of reserve funds.

The Board and District officials should:

2. Use surplus funds as a financing source for:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.
3. Ensure that reserves are properly established prior to funding them.
4. Adopt realistic budgets for expenditures to ensure that the tax levy is not higher than required

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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July 13, 2016

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RE: Cohoes City School District Response & Corrective Action Plan of the Budgeting Report,
Period Covering 7/1/12 – 6/30/15

Ladies and Gentlemen,

Cohoes City School District is in receipt of the Draft Budgeting Report of Examination for the period of July 1, 2012 to June 30, 2015. Please consider this letter as both the response to the audit and the required corrective action plan, as pursuant to General Municipal and NYS Education Law.

On behalf of the Board of Education and administration, we would first like to thank the local field staff of the Comptroller's Office for their professionalism while conducting the audit. The staff was courteous and extremely helpful throughout the process.

The district is pleased that the audit resulted in no findings of a material weakness, operational improprieties, waste or abuse. As a result, the primary focus of the audit was budgeting, which resulted in recommendations regarding budget forecasting, surplus funds and reserves.

Our response to these recommendations are as follows:

1) Develop a plan that details funding levels and planned uses of reserve funds. Ensure that reserves are properly established prior to funding.

District Response and Corrective Action Plan:

It is the district's practice to substantiate reserve balances when the reserves are established and/or the balance is adjusted. Further, unappropriated fund balance and reserve levels are analyzed during both the budgetary and year-end processes.

The district is actively working to develop a comprehensive five-year financial plan. The financial plan shall be inclusive of planned use and establishment of reserve funds. We anticipate the completion of this plan in the fall of 2016.

Administration Center, 7 Bevan Street, Cohoes, New York 12047

2) Use surplus funds as a financing source for funding: one time expenditures, needed reserves or reducing property taxes.

District Response & Corrective Action Plan:

The district has historically utilized operating surpluses to fund much needed reserves such as the tax certiorari and compensated absences reserves.

The district intends to continue to implement a conservative budget approach, supported by tax levies at or below the property tax cap limit. We anticipate that this practice will result in a manageable correction of surplus funds. Additionally, the district also plans to implement a fund balance policy in the 2016-17 school year.

3) Adopt realistic budgets for expenditures to ensure the tax levy is not higher than required.

District Response & Corrective Action Plan:

The district's practice has been to budget conservatively when estimating specific variable expenditures over which there is limited control. Responsible budgeting requires contingencies for unexpected expenditures in such areas as facilities management, special program and charter school placements and health/pharmacy claims.

The district has consistently adopted tax levies at or below the property tax cap limit. The district implemented a 1% tax levy change in 2016 and a 0% change in 2017.

While the budget results for the years reviewed during the audit period did produce operating surpluses, the overall annual expenditure variances were relatively small. The district has recently made some modifications to our budget practices, including the establishment of a budget committee made up of various stakeholders. We have also moved to a new budget software database, and eliminated the "rollover budget" process. Beginning with the 2016-17 budget, the district implemented the practice of creating a line item budget from the ground up. This has resulted in a more efficient budget development process. These revisions will further enhance budget developments whereby expenditures are identified and appropriate allocations can be made.

In closing, I would like to once again thank the field staff of the Comptroller's Office for their assistance throughout the review. If you have any questions regarding our response, please feel free to contact me.

Respectfully,

Jennifer Spring, Ed.D.
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our audit objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed officials to gain an understanding of the District's budgeting process.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund for the audit period.
- We compared the adopted budgets to the modified budgets and actual operating results to determine if the budget assumptions were reasonable.
- We reviewed the appropriation of the District's reserves and fund balance for the audit period.
- We reviewed revenues and expenditures based on the District's budget categories to identify significant revenues and expenditures and analyze trends.
- We tested the reliability of the accounting records by reviewing bank reconciliations and compared them to the annual financial reports filed with the Office of the State Comptroller and to the District's independently audited financial statements.
- We reviewed budget and revenue status reports.
- We reviewed Board minutes and interviewed officials to determine the extent to which District management was involved in financial matters by determining if they received and reviewed financial reports, analyzed the need for and established reserves or otherwise monitored the District's financial condition.
- We reviewed Board minutes and resolutions to verify the establishment of reserve funds.
- We reviewed the balances of the reserves for reasonableness.

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.

APPENDIX C

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