



Liberty Central School District Financial Operations

Report of Examination

Period Covered:

July 1, 2014 – November 30, 2015

2016M-25



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 Liberty Central School District, entitled Financial Operations. 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 Liberty Central School District (District) is located in six towns¹ in Sullivan County. The District is governed by a nine-member Board of Education (Board). 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 Business Manager plays a key role in the budget development process and oversees the finances and daily accounting duties.

The District operates two schools with 1,625 students and 300 employees. The District's 2015-16 general fund budgeted appropriations are \$42.9 million, primarily funded through State aid and real property taxes.

Chapter 380 of the Laws of 2003 authorized the District to issue debt totaling \$1.3 million to liquidate the accumulated deficit in the District's general and lunch funds as of June 30, 2002. Local Finance Law Section 10.10 requires all school districts that have been authorized to issue obligations to fund operating deficits to submit to the State Comptroller each year, starting with the fiscal year during which the school district is authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, their proposed budget for the next succeeding fiscal year. The 2014-15 proposed budget was the last budget required to be reviewed by the State Comptroller's Office.

Objective

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

- Are District officials effectively managing the District's financial operations?

Scope and Methodology

We examined the District's financial operations for the period July 1, 2014 through November 30, 2015. We extended our scope back to July 1, 2012 to trend financial condition and budgeted amounts.

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.

¹ Towns of Bethel, Fallsburg, Liberty, Neversink, Rockland and Thompson

**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 findings and indicated they plan 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.

Financial Operations

The Board, Superintendent and Business Manager are accountable to District taxpayers for the use of District resources and are responsible for effectively planning and managing the District's financial operations. One of the most important tools for managing the District's finances is the budget process. Accurate budget development, monitoring and control ensures the District has available resources to benefit District taxpayers. Prudent fiscal management also includes maintaining sufficient and appropriate amounts of fund balance and reserves to address long-term obligations or planned future expenditures.

District officials are generally managing the District's financial operations effectively. Although the District has generated surpluses totaling \$2.5 million in two of the last three years, budgets have been within 2 percent of actuals for expenditures and 3 percent for revenues. District officials have used these surpluses to fund reserves² and minimized the need for significant real property tax increases. Although the unemployment insurance and retirement contribution reserves were overfunded by \$1.6 million, District officials stated they plan to transfer the excess to the capital reserve to help fund their ongoing capital project. Furthermore, the last significant increase in the real property tax levy, approximately \$563,000 (an increase of 3 percent), occurred with the 2013-14 budget. From 2014-15 through 2015-16, the real property tax increase was less than \$50,000 (an increase of .3 percent), and Board members told us they would like to continue this practice.

Due to the need for deficit financing in 2003 and subsequent years of budget oversight from our Office, District officials and the Board have taken a more pro-active role in effectively managing the District's financial operations. This includes adopting realistic budgets and reviewing expenditures for cost savings where possible. For example, District officials evaluated vacant positions and assessed whether to fill them or reallocate other resources, saving an estimated \$294,500 for 2014-15 and \$200,000 for 2015-16.

While the general fund has achieved some measure of fiscal stability since the District's deficit financing, the school lunch fund is not yet financially self-sufficient. From fiscal years 2012-13 through 2014-15, the school lunch fund received approximately \$188,000 annually from the general fund to maintain operations. Recognizing that this

² The District has seven reserves: unemployment insurance, retirement contribution, liability, tax certiorari, compensated absences, capital and encumbrances.

practice cannot continue at the current rate, District officials are taking steps to reduce the subsidy by participating in the National School Lunch Program Community Eligibility Provision.³ Starting in 2015-16, this has increased federal aid received by an average of \$11,000 per month for the first three months of the school year. If the federal aid continues at this rate, the school lunch fund should be less reliant on the general fund for operations. However, it is too early in the participation to determine whether the costs to implement the program are going to outweigh the benefits.

While we commend District officials for their prudent fiscal management, we caution that their intent to keep real property tax increases at a minimum may not align with the actual expenditure growth in the future. This includes continuing to finance the school lunch fund and determining whether participation in the National School Lunch Program Community Eligibility Provision is cost-effective.

Recommendations

District officials should:

1. Review all reserve balances and transfer excess funds to other needed reserves or unrestricted fund balance, where allowed by law, or use the reserve funds for their designated purposes.
2. Monitor cost-effectiveness of participation in the National School Lunch Program Community Eligibility Provision and make changes to operations as needed.

³ The Community Eligibility Provision is a program where schools serve all meals to all students at no cost and are reimbursed using a formula of the percentage of students identified as eligible for free meals.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



LIBERTY CENTRAL SCHOOL DISTRICT



OFFICE OF THE SUPERINTENDENT

Dr. William Silver, Superintendent of Schools

March 23, 2016

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Mr. Eames,

Please accept this correspondence as the official response from Liberty Central School District relating to the Report of Examination on the Financial Operations (2016M-25) conducted by your office for the period of July 1, 2014 through November 30, 2015. The objective of the audit was to evaluate the District's financial operations, and whether District officials are effectively managing those operations. Liberty Central School District is grateful for the opportunity to work with your staff during this audit and would like to recognize the professionalism exhibited by the auditors while conducting the review.

Liberty Central School District appreciates how you have commended the District officials for their "prudent fiscal management" and will continue to closely monitor fund balance, reserves, property taxes and expenditures to consistently maintain financial stability. In addition, officials will continue to monitor the School Lunch Program and the cost effectiveness of the Community Eligibility Program. We recognize that this audit report is an important tool in maintaining fiscal stability and stakeholder support for future budgets.

The Board of Education and the District Administration will remain committed to maintaining and improving the financial condition of the District. The Administration will develop a Corrective Action Plan based upon the recommendations made by your office.

Sincerely,

William D. Silver, Ed.D.
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the District's financial operations for the period July 1, 2014 through November 30, 2015. We extended our scope back to July 1, 2012 to trend financial condition and budgeted amounts. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and reviewed Board minutes to gain an understanding of the budgeting process for the general fund and the procedures for monitoring and controlling the budget.
- We compared the budgeted revenues and appropriations to the actual revenues and expenditures for the general fund for 2012-13 through 2014-15 to determine if the District's budget estimates were reasonable.
- We analyzed the general fund's reserves for 2012-13 through 2014-15 to identify the trends and to determine if they were properly supported, reasonably funded and used.
- We reviewed the District's tax levies, taxable assessments and tax rates for 2012-13 through 2014-15 to determine if the tax levies and rates had been increasing.
- We calculated the average inter-fund transfers from the general fund to the school lunch fund for 2012-13 through 2014-15.
- We calculated the increase in the school lunch fund federal aid for September 2015 through November 2015 compared to September 2014 through November 2014 to determine if the District has received more federal aid since participating in the National School Lunch Program Community Eligibility Provision.

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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