



# Newark Valley Central School District Financial Management

## Report of Examination

Period Covered:

July 1, 2014 – October 13, 2015

2016M-3



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**

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 Newark Valley Central School District, entitled Financial Management. 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 Newark Valley Central School District (District) is located in 10 towns<sup>1</sup> located in Broome, Cortland, Tioga and Tompkins Counties. 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 (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 Administrator and other department heads play a key role in the budget management process and long-term planning.

The District operates three schools with approximately 1,250 students and 215 employees. The District's budgeted appropriations for the 2015-16 fiscal year are more than \$24.7 million, which are funded primarily with State aid and real property taxes.

## Objective

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

- Did District officials effectively manage the District's financial condition?

## Scope and Methodology

We examined various documents and records concerning District officials' management of the District's financial condition for the period July 1, 2014 through October 13, 2015. We extended our scope back to July 1, 2012 and forward through June 30, 2019 to trend and project financial condition, budgeted amounts and fund balance.

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 and recommendation have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our recommendation and indicated they plan to initiate corrective action.

<sup>1</sup> Towns of Maine and Nanticoke in Broome County; Towns of Harford and Lapeer in Cortland County; Towns of Berkshire, Candor, Newark Valley, Owego and Richford in Tioga County; and Town of Caroline in Tompkins County

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 Management

A school district's financial condition is a factor in determining its ability to provide educational services to its students. The Board, Superintendent and Business Administrator are responsible for accurate and effective management of the District's finances. To fulfill this responsibility, sound financial decisions should be made that are in the best interests of the District, the students it serves and the taxpayers who fund its programs and operations. To that end, it is essential that District officials use sound budgeting practices and develop and monitor comprehensive multiyear plans.

District officials have effectively managed the District's financial condition. District officials are using sound practices when planning, monitoring and controlling budgets, and they have developed and monitored long-term capital and financial plans. We encourage District officials to continue to update and monitor these plans and take appropriate actions when necessary, as their current long-term financial plan projects a deficit unrestricted fund balance of \$935,226 by 2018-19.

## Budgeting

Fund balance represents the cumulative residual resources from prior fiscal years that can be used to lower real property taxes for the ensuing fiscal year. District officials should adopt budgets that are based on historical trends, known or anticipated revenues and expenditures and input from department heads. In addition, District officials should prepare year-end fund balance projections and establish goals for reserve balances to determine the amount, if any, that these one-time revenues can be used to finance operations.

To fulfill their monitoring responsibilities, District officials should periodically review budget-to-actual revenue and expenditure reports and monitor year-end fund balance projections. Finally, effective financial management requires District officials and the Board to control their budgets. This involves ensuring that spending stays within budgeted appropriations and that necessary actions are taken to meet budgeted plans. For example, department heads should be requesting budget transfers, as appropriate, prior to making purchases.

Budget Planning – District officials have an adequate budget planning process. They use historical trends, known or anticipated revenues and expenditures and input from department heads to create reasonable budgetary estimates. District officials also prepare comprehensive analyses of fund balances, including year-end unrestricted fund balance projections, and a review of current reserve balances and

projections for the next fiscal year. These analyses assist District officials in determining the amount, if any, of reserves, unrestricted fund balance or both that should be used to finance appropriations.

District officials also prepare other analyses to help make decisions on spending levels for the next year. For example, District officials compare the District's costs per pupil and tax levy to other districts within their region for the last 10 years. District officials also project student population for the next three years, including the number of students with free or reduced lunch and students with disabilities. These analyses help District officials in their decision making process for staffing and program levels for the next school year.

Budget Monitoring – District officials adequately monitored the budget throughout the year. Each month, Board members received budget-to-actual revenue and expenditure reports prior to Board meetings. The Board discussed these reports during the meetings when necessary. Department heads also receive these reports and monitor their budget lines. Each month, the Superintendent and Business Administrator develop fund balance projections to ensure that budgeted goals are projected to be met and, if they are not, take appropriate action to bring projections back in line with goals.

Budget Controlling – District officials adequately controlled the budget. The District uses purchasing software that does not allow requisitions to be entered if there are no funds remaining in the appropriation line. Therefore, budget transfer requests must be approved prior to department heads making purchases that would exceed a budgeted amount.

As a result of adequate planning, monitoring and controlling of the budgets, the District's results of operations were in line with budgeted amounts. From 2012-13 through 2014-15, the average variance between budgeted appropriations and actual expenditures was 3 percent and the average variance between budgeted revenues and actual revenues was 2 percent. Furthermore, for this same timeframe, the Board met its goals of staying within the New York State Real Property Tax Cap limit (tax cap)<sup>2</sup> and maintaining the unrestricted fund balance within the statutory limit.<sup>3</sup>

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<sup>2</sup> The tax cap precludes a school district from adopting a budget that requires a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless 60 percent of District voters approve a budget that requires a tax levy that exceeds the statutory limit.

<sup>3</sup> New York State Real Property Tax Law requires that unrestricted fund balance not exceed 4 percent of an ensuing year's budgeted appropriations.



## Long-Term Planning

Planning on a long-term basis enables District officials to identify developing fund balance trends and alter their plans to meet long-term priorities and goals. Long-term planning should include plans for fiscal stability and infrastructure to remain in good condition. Long-term plans should be monitored and updated on a continual basis to provide a reliable framework for preparing budgets.

Capital Planning – District officials adequately developed and monitored capital plans. These plans include purchasing new buses each year so that the bus fleet is maintained in the best possible condition. Each year, the Transportation Director prepares a listing of all buses owned by the District, including the make, model, year and mileage for each bus. He also gives the Board a written recommendation as to which buses should be retired and which buses should be moved from the active fleet to the reserve fleet.

District officials’ goal is to replace up to three buses per year and to maintain the fleet of buses at no more than 10 years old. We reviewed the listing of the District’s 28 buses and determined that one bus was over 10 years old in the fleet; therefore, District officials are generally meeting their goals. District officials also obtain a building survey every five years<sup>4</sup> and use the recommendations from the survey for planning building repairs and upgrades. District officials have addressed 78 percent of the most recent survey’s recommended repairs or upgrades as of 2015.<sup>5</sup>

Financial Planning – District officials have developed and monitored adequate long-term financial plans. For example, District officials have developed multiyear fund balance projections that are updated each year. These projections are based on historical revenue and expenditure trends and also consider the Board’s goal of staying within the tax cap. District officials currently project a deficit unrestricted fund balance of \$935,226 by June 30, 2019, as indicated in Figure 1.

**Figure 1: District Officials’ Long-Term Projections**

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Projected Revenues	\$23,424,854	\$23,950,594	\$24,147,716	\$24,509,177
Projected Expenditures	\$23,554,146	\$24,300,157	\$25,073,597	\$25,872,397
Projected Operating (Deficit)	(\$129,292)	(\$349,563)	(\$925,881)	(\$1,363,220)
Projected Year-End Unrestricted Fund Balance	\$1,703,438	\$1,353,875	\$427,994	(\$935,226)
Projected Year-End Total Fund Balance	\$5,505,914	\$5,156,351	\$4,230,470	\$2,867,250

<sup>4</sup> The last survey was completed in 2010. According to District officials, a new building survey is in progress.

<sup>5</sup> The District’s capital project approved in May 2015 addresses 46 percent of the recommendations in the building survey, and 32 percent of the recommendations have been addressed over the last five years.



While the projections above show an out-year deficit, District officials' development of these projections afford them the opportunity to begin addressing the risk of the deficits actually occurring. We encourage District officials to continue to update and monitor these plans and take appropriate actions when necessary to ensure they maintain fiscal stability and up-to-date infrastructure.

**Recommendation**

1. The Board and District officials should utilize their long-term projections as a long-term financial planning tool to make informed decisions, such as identifying additional revenues, reducing expenditures or both, to avoid their projected deficit.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

**NV** Newark Valley Central Schools  
*Home of the Cardinals*

March 22, 2016

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

Dear Mr. Eames:

Please accept this correspondence as the official response from the Newark Valley Central School District to the Report of Examination covering the period July 1, 2014-October 13, 2015. Please also accept this as our corrective action plan. We would like to thank you for taking the time to carefully review our financial management for this period.

We are very pleased that your auditors noted that Newark Valley Schools adequately manages finances and employs adequate budgeting practices. As per your office's recommendation, District officials will continue to carefully monitor our long-term projections in order to identify actions we can take now in order to maintain long-term fiscal stability. It is reassuring that the District's financial controls are functioning appropriately in the safeguarding of our assets.

We would like to thank you for the work of your examiners, and would especially like to note their courteous and professional manner throughout this process.

Respectfully,

  
Ryan Dougherty  
Superintendent of Schools

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## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we interviewed District officials and employees, tested selected records and examined pertinent documents for the period July 1, 2014 through October 13, 2015. We expanded our scope back to July 1, 2012 and projected forward through June 30, 2019 to analyze the District's financial condition, budgeting trends and fund balance projections. We performed the following procedures:

- We interviewed District officials to gain an understanding of the budget process and documents used, including staffing level analyses, historical trends and inquiry of department heads when developing the budget. We also inquired about the Board's goals when developing the budget, such as staying within the tax cap limit.
- We reviewed reserve balances to determine if amounts were reasonable and reviewed documentation of District officials' annual review of reserve balances to determine if they were reviewing reserve balance levels and usage.
- We reviewed monthly Board packets to determine if Board members were receiving adequate documentation to monitor the budget throughout the year and interviewed Board members to determine how they use the information they receive. We also interviewed department heads to determine if they received monthly reports so that they could adequately monitor their respective appropriations.
- We reviewed documentation and interviewed District officials to determine if they were preparing and utilizing fund balance projections to ensure that they were on track to meet their budgeted goals.
- We reviewed and assessed controls over budgeted appropriation lines to determine if funds were available for purchases of goods and services and that budget transfers were made in a timely manner.
- We compared budgeted revenues and appropriations to actual revenues and expenditures to determine if results of operations were within budgeted amounts. We also calculated unrestricted fund balances at year-end to determine if they were within the statutory limit.
- We interviewed District officials to determine if they had developed capital plans, such as a schedule to replace buses and for building repairs and upgrades, including the financing of items called for in the plans. We then reviewed documentation regarding the replacement of buses and building repairs and upgrades to determine if the plan's goals were met.
- We interviewed District officials to determine if they projected long-term fund balance and if the Board used the projections for long-term planning. We then reviewed the projections to determine their reasonableness and if they addressed the Board's long-term goals, such as maintaining real property tax levies within the tax cap limit and maintaining unrestricted fund balance within the statutory limit.

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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