



Wantagh Union Free School District Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – June 30, 2016

2016M-363



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 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 Wantagh 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 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 Wantagh Union Free School District (District) is located in the Town of Hempstead, Nassau County. The District is governed by the Board of Education (Board), which is composed of five 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. These responsibilities include developing and administering the budget.

The District operates five schools with 3,057 students and 743 employees. The District's general fund expenditures totaled approximately \$72.1 million in fiscal year 2014-15 and \$74.9 million in fiscal year 2015-16. Expenditures are funded primarily with State aid, sales tax, real property taxes and grants. Budgeted appropriations for the 2016-17 fiscal year are \$76.2 million.

Objective

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

- Did the Board and District officials effectively manage the District's financial condition by ensuring that fund balance was within legal requirements and that budget estimates were reasonable?

Scope and Methodology

We examined the District's financial records for the period July 1, 2014 through June 30, 2016. We expanded our scope back to July 1, 2012 to analyze the District's fund balance, budget practices and reserve fund 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 are 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 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 Condition

The Board and District officials are responsible for properly managing the District's finances. This responsibility includes adopting budgets with realistic expenditure estimates, ensuring that unrestricted fund balance does not exceed the amount allowed by law and appropriating fund balance only to the extent necessary to fund District operations. Accurate estimates help ensure that the real property tax levy is not greater than necessary.

The Board and District officials did not always effectively manage the District's financial condition by ensuring budget estimates were reasonable and adopting realistic budgets based on historical costs and trends. As a result, the District overestimated expenditures by a total of \$11.96 million (4 percent) from July 1, 2012 through June 30, 2016. Additionally, to stay within the year-end statutory limit for unrestricted fund balance, District officials appropriated a total of \$9.4 million of fund balance. However, this appropriated fund balance was not needed to finance operations because the District had a total of \$2.9 million in operating surpluses in three of the four fiscal years. When adding back unused appropriated fund balance, the District's recalculated unrestricted fund balance exceeded the statutory limit.

Fund Balance

Fund balance represents the cumulative residual resources remaining from prior fiscal years that can, and in some cases must, be used to finance operations in the ensuing fiscal year. The District may retain a portion of fund balance at year-end, known as unrestricted fund balance, for cash flow purposes or unexpected expenditures. New York State Real Property Tax Law requires that unrestricted fund balance not exceed 4 percent of the ensuing year's budgeted appropriations. Any excess amount should be used to lower real property taxes, increase necessary reserve funds, pay for one-time expenditures or pay down debt.

When fund balance is appropriated as a funding source, it reduces the fund balance included in the 4 percent statutory limit calculation. The expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the appropriated fund balance. Conversely, an operating surplus (when budgeted appropriations are not fully expended, expected revenues are greater than estimated or both) increases the total year-end fund balance. It is not sound practice for the Board to adopt annual budgets that appropriate fund balance or reserve funds to circumvent exceeding the statutory limit.

The Board adopted a Fiscal Management Goals policy in July 1994, which was revised in August 2014. The policy does not require that the District maintain unrestricted fund balance at the legally established limit. Instead, the policy indicates that the District should do so whenever possible. The District reported year-end unrestricted fund balance at levels that essentially complied with the 4 percent fund balance limit for fiscal years 2012-13 through 2015-16. This was accomplished, in part, by appropriating fund balance and funding reserves (Figure 1).

Figure 1: Unrestricted Funds at Year-End				
	2012-13	2013-14	2014-15	2015-16
Beginning Unrestricted Fund Balance	\$6,004,541	\$6,229,468	\$6,718,657	\$6,029,144
Operating Surplus/(Deficit)	\$977,733	\$1,585,433	\$371,088	(\$1,807,719)
Unrestricted Funds Subtotal	\$6,982,274	\$7,814,901	\$7,089,745	\$4,221,425
Less: Reported Appropriated Fund Balance for the Ensuing Year ^a	\$3,125,000	\$3,475,000	\$2,780,000	\$2,580,000
Less/(Plus): Transfer to/(from) Reserves	\$752,806	\$1,096,244	\$1,060,601	(\$1,552,544)
Less: Encumbrances	\$137,486	\$224,388	\$220,703	\$145,929
Total Unrestricted Funds at Year-End	\$2,966,982	\$3,019,269	\$3,028,441	\$3,048,040
Ensuing Year's Budget	\$74,174,625	\$75,481,754	\$75,711,069	\$76,204,655
Unrestricted Funds as Percentage of Ensuing Year's Budget	4%	4%	4%	4%

^a The District's reported appropriated fund balance inappropriately included appropriated reserves for the 2012-13 fiscal year totaling \$713,600 and \$601,000 for 2013-14.

The Board's appropriation of fund balance to fund the 2013-14 through 2015-16 budgets aggregated to approximately \$9.4 million over the three fiscal years, an average of more than \$3.1 million per year, which should have resulted in planned operating deficits. However, because the Board had a long standing practice of significantly overestimating expenditures in its adopted budgets, the District used just 19 percent (\$1.8 million) of the \$9.4 million appropriated fund balance. The District experienced operating surpluses in 2012-13 through 2014-15 totaling \$2.9 million and did not need all the appropriated fund balance included in its budgets during those fiscal years.

Further, the District's audited financial statements for the 2012-13 and 2013-14 fiscal years erroneously included appropriated reserves with the appropriated fund balance to fund operations for the ensuing years. This made it appear that unrestricted fund balance was less than it actually was. Without the appropriated reserves, the District's unrestricted fund balance would have been 5 and 4.5 percent of the ensuing year's budget for each of those two years, respectively. In the

2015-16 fiscal year, the District experienced a lower than expected operating deficit and, therefore, did not need \$972,281 (35 percent) of the appropriated fund balance.

The practice of consistently planning operating deficits by appropriating unrestricted fund balance that was not needed further exacerbated the amount of unrestricted fund balance retained in excess of the statutory limit. When adding back unused appropriated fund balance, the District’s recalculated unrestricted fund balance was as much as 8.6 percent of the ensuing year’s budget, more than two times the legal limit (Figure 2).

Figure 2: Unrestricted Funds at Year-End			
	2012-13	2013-14	2014-15
Unrestricted Fund Balance:	\$2,966,982	\$3,019,269	\$3,028,441
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$3,125,000	\$3,475,000	\$972,281
Total Recalculated Unrestricted Fund Balance	\$6,091,982	\$6,494,269	\$4,000,722
Ensuing Year's Budget	\$74,174,625	\$75,481,754	\$75,711,069
Recalculated Fund Balance as Percentage of Ensuing Year's Appropriations	8.2%	8.6%	5.3%

The Board appropriated \$2.6 million to fund the 2016-17 fiscal year, which is a reduction of \$200,000 from the prior year. However, unless the planned deficit of \$2.6 million actually materializes, unrestricted fund balance will remain in excess of the statutory limits. The Board’s practice of appropriating fund balance 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.

Overestimated Expenditures

Revenue and expenditure estimates should be developed based on prior years’ operating results, past expenditure trends, anticipated future needs and available information related to projected changes in significant revenues or expenditures. Unrealistic budget estimates can mislead District residents and can significantly impact the District’s year-end unrestricted fund balance and financial condition.

We compared the District’s budgeted revenues and appropriations with actual results of operations. Revenue estimates were reasonable and generally close to the actual revenues received. However, District officials consistently presented, and the Board approved, budgets which significantly overestimated appropriations from 2012-13 through 2015-16. Appropriations were overestimated by a total

of \$11.96 million over these four years, an average of about \$2.99 million each year, or about 4 percent of actual expenditures (Figure 3).

Figure 3: Overestimated Appropriations				
	Appropriations^a	Actual Expenditures	Overestimated Appropriations	Percentage^b
2012-13	\$71,844,299	\$68,714,710	\$3,129,589	5%
2013-14	\$74,312,111	\$70,144,842	\$4,167,269	6%
2014-15	\$75,706,142	\$72,094,597	\$3,611,545	5%
2015-16	\$75,931,772	\$74,879,802	\$1,051,970	1%
Total	\$297,794,324	\$285,833,951	\$11,960,373	4%
Four-Year Annual Average	\$74,448,581	\$71,458,488	\$2,990,093	4%

^a Includes year-end encumbrances from the prior fiscal years totaling \$692,757.
^b Overestimated Appropriations divided by Actual Expenditures

The majority of overestimated expenditures during the four-year period were for employee benefits (\$5.1 million, or 7.6 percent), programs for children with disabilities (\$3.6 million, or 10.7 percent), teachers’ salaries (\$1.5 million, or 1.6 percent) and pupil transportation (\$1.3 million, or 10.8 percent). District officials told us that the employee benefits variance occurred because the District anticipated that several nonparticipating members of the health insurance plan would accept the District’s offer to take the health benefit.

District officials told us that the teachers’ salaries variance occurred because there were contract negotiations between the District and all bargaining units. For programs for children with disabilities, District officials implemented cost savings measures, including eliminating certain pending positions and budgeting for lower-cost programs when available. District officials also told us that they plan on reducing the cost for pupil transportation by soliciting a new transportation provider in fiscal year 2017-18.

The overestimation of appropriations contributed to the District spending an average of about \$3 million less than planned each year. This practice reduces transparency to District residents and may result in the District’s tax levies being higher than necessary.

Recommendations

The Board and District officials should:

1. Discontinue the practice of adopting budgets that result in the appropriation of unrestricted fund balance not needed to fund District operations.

2. Revise the District's Fiscal Management Goals policy to require the unrestricted fund balance to be maintained at the statutory level.
3. Adopt budgets with realistic expenditure estimates based on historical trends or other identified analysis.
4. Ensure that the amount of unrestricted fund balance is in compliance with the statutory limit.
5. Continue to reduce the amount of unrestricted fund balance in a manner that benefits District residents. Such use could include a financing source for:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



WANTAGH UNION FREE SCHOOL DISTRICT

Superintendent of Schools

DISTRICT ADMINISTRATIVE OFFICES

3301 BELTAGH AVENUE • WANTAGH, NEW YORK 11793 • (516) 679-6300 • FAX (516) 679-7806

Maureen Goldberg
Superintendent of Schools

December 1, 2016

Mr. Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken,

The Wantagh UFSD is in receipt of the *Draft Audit Report – Financial Condition* for the period July 1, 2014 to June 30, 2016. The Board of Education and District Administration wish to thank the Office of the State Comptroller's (OSC) staff for their professionalism in conducting the audit. The District is pleased that this thorough audit did not reveal any instance of fraud, waste, misuse, or impropriety.

The District takes pride in providing high quality, well-rounded, education for our students, while paying vigilant attention to our fiscal responsibilities to the community. Wantagh consistently receives excellent audit reports from our external and internal auditors, and Moody's affirmed the District's excellent credit rating in 2016 based on our proven fiscal management. Specifically, the report states, "the District has a very healthy financial position" and "indicators show...strong financial management." As a result of our excellent credit rating, we were able to refund debt in 2014 and in 2015 for a net savings of more than \$1 million in future interest payments over the remaining terms of old bonds.

Wantagh UFSD is a fiscally conservative school district, and has never presented a budget to the community with a levy that exceeded the tax levy cap. In fact, the District's tax levies have decreased in each of the past two years. Wantagh is one of very few school districts on Long Island to accomplish this notable result. This was achieved through prudent multi-year budgeting and cost-savings efficiencies, all without reducing any services. The community's support for the District's financial oversight is evidenced by their input into the planning process during public budget workshops and other financial forums, in the expertise of the community members of the Audit Committee, and by the overwhelming community support for the District's budgets.

In March of 2014, Wantagh's voters approved the establishment of a Capital Reserve Fund which enabled the District to perform much needed capital improvements without issuing new debt or increasing the tax levy. Phase I of that construction has been completed. Additionally, the District is completing energy performance projects which will reduce future energy costs.

In August of 2014, the Board of Education proactively adopted measurable financial targets in Board Policy #6000 "Fiscal Management Goals." Wantagh is one of only a few districts in the state to adopt such targets, and the District continues to annually meet those targets. The Board also regularly reviews and updates its reserves plan, which describes the justifications and multi-year targets for its reserves and fund balance. In recent years, the Board has been reducing its historical reliance on an assigned fund balance, and it is committed to its elimination through sustainable budget reductions. We take pride in the fact that Wantagh's policy and reserves plan have been shared with the NYS Association of School Business Officials as models for other school districts to follow.

Wantagh UFSD is committed to maintaining strong fiscal controls, and we strive to continually improve our operations for the benefit of our students and our community. We welcome recommendations from our auditors that will strengthen our efforts.

Sincerely,

Anthony Greco
President, Wantagh Board of Education

Maureen Goldberg
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and employees to gain an understanding of the budget process and determine reasons for large expenditure variances.
- We reviewed District policies and procedures.
- We reviewed Board minutes and resolutions to gain an understanding of the District's budget control process and monitoring procedures.
- We compared appropriations to actual expenditures for fiscal years 2012-13 through 2015-16. We also reviewed the expenditures for 2012-13 through 2015-16 for the account codes with the four largest expenditure variances (employee benefits, teachers' salaries, program for children with disabilities and pupil transportation).
- We reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets for fiscal years 2012-13 through 2014-15, in addition to unaudited fund balance as of year-end 2015-16.
- We restated unrestricted fund balance and calculated the unrestricted fund balance as a percentage of the next year's budget.
- We reviewed the District's budget booklet for fiscal years 2012-13 through 2015-16 to determine if reserves budgeted to be appropriated in the budget were documented.
- We reviewed transfers from fund balance into reserves and reserve balances used to fund budgeted appropriations to determine that these budgeted appropriations were used.
- We reviewed annual financial statements from 2012-13 through 2014-15, the accompanying management letters prepared by the District's external auditors and relevant budget reports.

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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