



# Rensselaer City School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2012 – May 31, 2016

2016M-286



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**

October 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 Rensselaer City 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 Rensselaer City School District (District) is located in the City of Rensselaer in Rensselaer 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 (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 District operates one school with approximately 1,200 students and 190 employees. The District's budgeted appropriations for the 2016-17 fiscal year are \$23.9 million, which are funded primarily with State aid and real property taxes.

Pursuant to a special act of the New York State Legislature (the Act),<sup>1</sup> the District was specifically authorized to enter contracts not to exceed 30 years with a private corporation,<sup>2</sup> whereby the private corporation was granted the right to undertake a school building facility project. Under the Act, contracts entered into for the project were funded by certificates of participation (COPs).<sup>3</sup> The Act also provides that ownership of the new school building may be held by the private corporation and the District may lease the new school facility from the private corporation. Pursuant to the Act, the District, as tenant, entered into a lease with the Rensselaer City School District Corporation (RCSD Corporation)<sup>4</sup> under which the District agreed to make lease payments in an amount sufficient to pay principal and interest on the COPs.

The Superintendent contacted our Office in January 2016 with concerns about the District's financial condition and operations. This was one of the risk factors that resulted in our scheduling an audit of the District.

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<sup>1</sup> Chapter 669 of the Laws of 2004, as amended by Chapter 741 of the Laws of 2004 and Chapter 109 of the Laws of 2009

<sup>2</sup> Among other entities

<sup>3</sup> A COP typically is a security or other instrument representing a proportionate interest in, or right to receive a share of, lease payments made by a local government.

<sup>4</sup> RCSD Corporation is a not-for-profit corporation created to act as a conduit for the issuance of COPs, the proceeds of which were to finance the construction, acquisition, rehabilitation and improvement of the District's facilities.

**Objective**

The objective of our audit was to determine if the Board had properly managed the District's financial operations for the period July 1, 2012 through May 31, 2016. Our audit addressed the following related question:

- Did the Board adopt realistic budgets and properly manage the District's fund balance and reserves?

**Scope and Methodology**

We examined the District's financial condition for the period July 1, 2012 through May 31, 2016.

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 recommendations and have initiated, or 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.

## Financial Condition

Financial condition may be defined as a school district's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired educational services on a continuing basis. The Board and District officials are responsible for the financial planning and management necessary to maintain the District's financial condition. The general fund's<sup>5</sup> financial condition depends on the Board's ability to develop realistic and structurally balanced budgets, monitor their effective implementation and manage fund balance responsibly and in accordance with statute. In preparing a realistic budget, the Board and District officials should develop revenue and expenditure estimates based on prior years' operating results, past expenditure trends, anticipated future needs and available information related to projected changes in significant revenues or expenditures.

The Board did not adopt realistic, structurally balanced general fund budgets. The Board appropriated a total of \$4.8 million of fund balance and reserve funds during the 2012-13 through 2014-15 fiscal years. However, the Board overestimated revenues by \$3.3 million (5 percent), resulting in operating deficits that were larger than planned and declining general fund and reserve fund balances.

General fund balance declined 84 percent, from \$8.4 million at the beginning of fiscal year 2012-13 to \$1.4 million at the end of fiscal year 2014-15. Combined reserve fund balances have declined by 58 percent, from \$3.5 million to \$1.5 million during the same period. The rapid deterioration of the District's fund balance and reserves has caused District officials to disburse \$2 million from a RCSD Corporation account to the District to fund operations. District officials also transferred \$1.3 million from two reserve funds to the general fund without appropriate support. Furthermore, the Board does not receive adequate or sufficient information to effectively perform its fiscal oversight responsibilities. Finally, the Board has not developed comprehensive multiyear financial and capital plans to assist in addressing future needs.

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<sup>5</sup> The general fund is the District's main operating fund, used to account for the financial transactions for educational programs and other operating activities, including the maintenance of buildings and grounds, transportation and administration.

## Budgeting

The Board is responsible for preparing and adopting reasonable budgets based on historical or known trends for revenues and appropriations. In preparing the budget, District officials should use the most current and accurate information available to ensure that budgeted revenues and appropriations are reasonable and not significantly underestimated or overestimated. It is essential that the Board adopt structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained.

An appropriation of fund balance is the use of unexpended resources from prior years to finance budgeted appropriations and is considered a nonrecurring or “one shot” financing source. This is an acceptable and reasonable practice when a school district has accumulated an adequate level of unrestricted fund balance. However, when a school district has recurring annual operating deficits, fund balance will be depleted and, ultimately, will go into a deficit position.

Unbalanced Budgets – The Board did not adopt structurally balanced budgets that funded recurring expenditures with recurring revenues from fiscal years 2012-13 through 2014-15. In each year, the Board planned for operating deficits by appropriating an average of \$1.6 million of fund balance and reserves to fund the District’s operations (Figure 1).

In addition, as part of the various agreements between the District, RCSD Corporation and the developer of the new school, the developer initially deposited \$8.1 million in an investment account. The District was authorized to make annual withdrawals of up to \$975,000 from this account during the years 2012 through 2018. However, according to 2012 resolutions of the Board and the RCSD Corporation Board of Directors, the bank terminated the investment agreement and remitted the remaining funds (approximately \$7.3 million) to the District. The District subsequently transferred these moneys to RCSD Corporation.

The District resolution provides that these funds are to be applied for the benefit of the payment of the COPs. The RCSD Corporation resolution indicates that RCSD Corporation accepted the receipt of these moneys and has applied them for the payment of the COPs. RCSD Corporation’s resolution also states that it will annually pay investment income derived from the investment of the funds to the District and will return all or part of the funds to the District as requested in writing by the Board within 10 days of notice.<sup>6</sup>

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<sup>6</sup> For purposes of this audit, we have assumed the legal propriety of the agreements among the District, RCSD Corporation and the developer, and actions taken by the District and RCSD Corporation in connection with the \$8.1 million.

The 2012-13 through 2016-17 adopted budgets contain revenue estimates for transfers from this RCSD Corporation account to pay a portion of the debt service payments<sup>7</sup> for the new school project (Figure 1). Similar to fund balance and reserves, transfers from the RCSD Corporation account represent nonrecurring revenues and, eventually, the balance in this account will be depleted.

**Figure 1: Appropriated Fund Balance and Reserves and Transfers**

	2012-13	2013-14	2014-15	2015-16	2016-17
Total Appropriations	\$21,740,752	\$21,721,200	\$22,624,700	\$22,868,600	\$23,880,296
Appropriated Fund Balance	\$800,000	\$725,000	\$725,000	\$685,000	\$0
Appropriated Reserves	\$750,000	\$825,000	\$925,000	\$415,000	\$0
Total Appropriated Fund Balance and Reserves	\$1,550,000	\$1,550,000	\$1,650,000	\$1,100,000	\$0
Estimated Transfers from RCSD Corporation	\$500,000	\$500,000	\$500,000	\$750,000	\$2,100,000
Percentage of Budget Funded by Appropriated Fund Balance, Reserves and Transfers from RCSD Corporation	9%	9%	10%	8%	9%

When the source of a non-recurring revenue is depleted, District officials must identify other revenue sources or decrease appropriations. Despite unrestricted fund balance<sup>8</sup> being in a deficit position at the end of 2014-15, the Board appropriated \$935,000<sup>9</sup> of nonexistent fund balance and reserve for tax reduction to finance appropriations in the 2015-16 budget. The Superintendent told us that the former Business Executive did not provide the Board with projections of year-end fund balance to use when determining how much fund balance to appropriate. The Superintendent told us that she was unaware that fund balance was in a deficit position and was not available to appropriate in 2015-16.

In the 2016-17 budget, the District was unable to appropriate fund balance to finance operations. Instead, the Board increased the revenue estimate for the transfer from RCSD Corporation, which will only shorten the time it takes for the RCSD Corporation account to be depleted. The RCSD Corporation account balance was \$5.9 million

<sup>7</sup> The District recognized \$4.4 million of principal and interest expenditures on the COPs annually from 2012-13 through 2015-16. Anticipated principal and interest on the COPs for 2016-17 is \$4.7 million.

<sup>8</sup> This includes the reserve for tax reduction. Effective for financial statements ending June 30, 2011, Governmental Accounting Standards Board Statement No. 54 required the reporting of the reserve for tax reduction in unrestricted fund balance. The District established a reserve for tax reduction on June 24, 2008 to be funded with \$1,500,000 from proceeds related to the impending sale of the Van Rensselaer Elementary School in September 2008.

<sup>9</sup> Including \$685,000 of appropriated fund balance and \$250,000 of appropriated reserve for tax reduction

at the end of the 2015-16 fiscal year and, if the District uses the \$2.1 million planned in the 2016-17 budget, the account balance will be decreased to \$3.8 million.

Furthermore, the District's 2012-13 and 2015-16 adopted budgets did not balance; total appropriations did not equal total revenues plus appropriated fund balance and reserves, as outlined further:

- District officials adopted the 2012-13 budget, which included a real property tax levy of \$7,193,630. However, in July 2012, the Board authorized the collection of \$7,137,290 in real property taxes. District officials did not authorize an increase to another planned revenue or decrease a planned appropriation accordingly. Consequently, the District operated with a \$56,340 budgetary imbalance during the year.
- The 2015-16 budget included three appropriations with negative amounts of \$25,000 each, totaling \$75,000. District officials inserted these appropriations to reduce total appropriations to balance the budget.<sup>10</sup> However, this did not actually result in a balanced budget and, instead, only concealed the fact that the budget was not balanced.

A balanced budget is intended to ensure that a school district does not spend beyond its means. Although the amounts by which the District's budgets did not balance were not significant in comparison to total appropriations, these imbalances, in combination with the structural imbalances created by using one shot revenues, diminish the District's financial condition.

Budget Estimates – We determined that budgeted appropriations from 2012-13 through 2016-17 were generally reasonable. Budgeted appropriations from 2012-13 through 2014-15 totaled \$66.1 million, which exceeded total combined expenditures of \$65 million by \$1.1 million (less than 2 percent). However, the 2012-13 through 2014-15 budgets contained revenue estimates that were overestimated, resulting in operating deficits that were larger than planned. For fiscal years 2012-13 through 2014-15, the District realized \$3.3 million (5 percent) less revenue than estimated.

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<sup>10</sup> Because the former Business Executive who prepared this budget was not available for us to interview, we discussed these negative appropriations with the Superintendent and Board President. They both were unaware that the negative appropriations were included in the budget.

<b>Figure 2: Budget-to-Actual Revenue Comparison</b>				
	<b>Budgeted Revenues</b>	<b>Actual Revenues</b>	<b>Amount Under Budget</b>	<b>Percentage Under Budget</b>
2012-13	\$20,134,413	\$18,646,052	(\$1,488,361)	(7%)
2013-14	\$20,171,200	\$19,168,045	(\$1,003,155)	(5%)
2014-15	\$21,002,200	\$20,221,735	(\$780,465)	(4%)
<b>Totals</b>	<b>\$61,307,813</b>	<b>\$58,035,832</b>	<b>(\$3,271,981)</b>	<b>(5%)</b>

From 2012-13 through 2014-15, we identified several overestimated budgeted revenues, as follows:

- The 2012-13, 2013-14 and 2014-15 budgets each included a \$500,000 revenue estimate for a transfer from RCSD Corporation.<sup>11</sup> RCSD Corporation did not disburse any amount to the District in 2012-13 or 2013-14, resulting in a \$500,000 revenue shortfall in each year. According to District officials, this likely occurred because the former Business Executive did not ensure funds were transferred from RCSD Corporation in accordance with the approved budget. However, RCSD Corporation disbursed \$500,000 as planned to the District in 2014-15.
- The 2012-13, 2013-14 and 2014-15 budgets contained revenue estimates for payments in lieu of taxes (PILOT) of approximately \$700,000, \$450,000 and \$450,000, respectively. However, the District realized \$417,015 (26 percent) less than planned during this time. District officials were unable to provide us with PILOT payment schedules or other documentation to support the revenue estimates.
- The 2012-13, 2013-14 and 2014-15 budgets contained State aid revenue estimates of \$10.2 million, \$10.4 million and \$11 million, respectively. While these estimates appear reasonable based on State aid projections provided by the New York State Education Department (NYSED), the District realized \$884,879 (3 percent) less than planned during this time. District officials were unable to explain why the amount of State aid realized was less than the amount estimated.

<sup>11</sup> According to a resolution passed by the Board of Directors of RCSD Corporation in 2012, RCSD Corporation was required to disburse investment income to the District annually plus any amount requested by the District in writing within 10 days' notice.

However, the District purchased three buses in 2014<sup>12</sup> but did not submit required documentation to NYSED to seek transportation State aid<sup>13</sup> for those purchases. This resulted in the District realizing less State aid than it was entitled to in 2014-15 and may result in the District forfeiting \$188,656 of transportation State aid over a six-year reimbursement period.

The Board did not adopt budgets that included realistic revenue estimates. Instead, it overly relied on fund balance appropriations and transfers from RCSD Corporation, which has caused the general fund's financial condition to decline.

## **Fund Balance and Reserve Funds**

Fund balance represents the differences between revenues and expenditures accumulated from prior years. In accordance with New York State Real Property Tax Law, the Board may retain up to 4 percent of the ensuing year's appropriations as unrestricted fund balance to serve as a financial cushion for unexpected events and maintain cash flow. Prudent fiscal management also includes establishing reserves to set aside a portion of fund balance (referred to as restricted fund balance) to address long-term obligations or planned future expenditures. An appropriation of fund balance is the planned use of unexpended resources from prior years to finance appropriations in the budget and reduce the necessary tax levy, as well as any excess unexpended funds.

Similarly, the Board may also appropriate reserve funds to finance expenditures in the budget that are directly related to the reserves' statutory purposes. However, when the Board continuously appropriates and uses fund balance, which results in planned operating deficits<sup>14</sup> for an extended number of years, surplus general fund and reserve fund balances will be exhausted and may not be available to finance successive budgets. As a result, the Board will need to increase revenues (such as property taxes), decrease appropriations (which could potentially reduce services) or both to adopt structurally balanced budgets.

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<sup>12</sup> One bus was purchased in April 2014 and two buses were purchased in October 2014.

<sup>13</sup> School districts receive transportation State aid on bus purchases over a five- or six-year period beginning 12 months after the purchase date. Aid payments are made over a five-year period if the bus is purchased during the first six months of the fiscal year (July 1 through December 31) and over a six-year period if the bus is purchased during the last six months of the fiscal year (January 1 through June 30).

<sup>14</sup> A planned operating deficit occurs when a board purposely adopts a budget in which appropriations are greater than anticipated revenues, with the difference to be funded with appropriated fund balance.

**Fund Balance** – The District has not generated sufficient revenues to finance recurring expenditures and has, instead, relied on the use of general fund and reserve fund balances to close budgetary gaps. This has negatively affected the District’s financial condition. District officials adopted budgets with planned budgetary deficits from 2012-13 through 2015-16. As a result of unrealistic revenue estimates, the District experienced greater operating deficits than planned from 2012-13 through 2014-15. Specifically, the District appropriated \$4.8 million of fund balance and reserves during this time but actual operating deficits were \$7 million, exceeding that amount by \$2.2 million (46 percent).

The general fund and reserve fund balances were reduced by more than what District officials planned. Total general fund balance has declined by approximately 84 percent, from \$8.4 million at the beginning of 2012-13 to \$1.4 million at the end of 2014-15 (Figure 3). During this same period, unrestricted fund balance declined from \$3.7 million at the beginning of 2012-13 to a deficit of \$300,000 by the end of 2014-15. Total reserve fund balances declined from \$3.5 million at the beginning of 2012-13 to \$1.5 million at the end of 2014-15 (58 percent).

Further, District officials appropriated \$935,000 of fund balance and reserve for tax reduction in the 2015-16 budget. However, unrestricted general fund balance was a deficit \$299,798 at the end of 2014-15. As a result, the 2015-16 adopted budget contained a \$935,000 budgetary deficit.

**Figure 3: Fund Balance**

	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$8,369,231	\$6,499,524	\$3,663,322
Less: Operating Deficit	(\$1,869,709)	(\$2,836,202)	(\$2,301,865)
Total Ending Fund Balance	\$6,499,522	\$3,663,322	\$1,361,457
Less: Restricted Fund Balance <sup>a</sup>	\$2,422,487	\$1,643,166	\$1,467,134
Less: Encumbrances	\$399,324	\$32,290	\$194,121
Unrestricted Fund Balance <sup>b</sup>	\$3,677,711	\$1,987,866	(\$299,798)
Less: Appropriated Fund Balance and Tax Reduction Reserve for Ensuing Year <sup>c</sup>	\$1,425,000	\$1,525,000	\$935,000
Budgetary Deficit for Ensuing Year	\$0	\$0	\$935,000

<sup>a</sup> This includes the following reserve funds: workers’ compensation, unemployment, retirement contribution, insurance, tax certiorari, repair, capital and employee benefit accrued liability.

<sup>b</sup> This includes the reserve for tax reduction.

<sup>c</sup> This includes \$725,000 of appropriated fund balance in 2012-13 and 2013-14 and \$685,000 of appropriated fund balance in 2014-15, and \$700,000, \$800,000 and \$250,000 of appropriated reserve for tax reduction for 2012-13, 2013-14 and 2014-15, respectively.

Reserves – The District’s combined reserve fund balances declined from \$3.5 million to \$1.5 million (58 percent) from June 30, 2012 through June 30, 2015 (Figure 4). This occurred because the District expended \$2 million of reserve funds in the last four fiscal years.

**Figure 4: Reserve Fund Balances on June 30**

	2012	2013	2014	2015
Workers' Compensation	\$275,804	\$276,079	\$236,079	\$196,079
Unemployment Insurance	\$134,379	\$134,499	\$120,178	\$109,145
Retirement Contribution	\$702,576	\$703,631	\$578,631	\$453,631
Insurance	\$90,657	\$90,702	\$90,702	\$90,702
Tax Certiorari	\$1,100,000	\$500,000	\$250,000	\$250,000
Capital	\$629,710	\$630,655	\$280,655	\$280,655
Repair	\$86,834	\$86,920	\$86,920	\$86,920
Employee Benefit Accrued Liability	\$486,264	\$0	\$0	\$0
<b>Total Reserve Fund Balances</b>	<b>\$3,506,224</b>	<b>\$2,422,486</b>	<b>\$1,643,165</b>	<b>\$1,467,132</b>

While some of these reserve funds were used for appropriate purposes, we also found that the District depleted other reserve funds inappropriately. Specifically, in 2012-13, the District closed its employee benefit and accrued liability reserve (EBALR) and transferred the total EBALR balance of \$486,264 to general fund balance. With certain restrictions, General Municipal Law allows for the transfer of unnecessary EBALR funds to other authorized reserve funds, but there is no provision to eliminate the EBALR and transfer the funds to the general fund. As a result, this transfer was not appropriate. District officials could not explain why they transferred EBALR funds to general fund balance.

Further, District officials reduced the tax certiorari reserve balance from \$1.1 million as of June 30, 2012 to \$250,000 as of June 30, 2014 by transferring \$850,000 to general fund balance. While it is acceptable to transfer tax certiorari reserve funds that are deemed unnecessary after tax certiorari proceedings were completed to general fund balance, District officials could not provide us with documentation to support these transfers or the estimated remaining tax certiorari liability. If the District had not reduced these reserve balances and transferred the funds to general fund balance, general fund balance would be further depleted.

The Superintendent and Board President told us that they relied on the former Business Executive to manage the District’s financial condition and were not made aware of the financial condition issues identified during our audit. In the 2015-16 budget, the District

appropriated \$685,000 of fund balance, \$250,000 of reserve for tax reduction and \$165,000 of other reserves. However, as of June 30, 2015, the District had a \$300,000 unrestricted fund balance deficit. Therefore, the District had a \$935,000<sup>15</sup> budgetary deficit for 2015-16.

The District included a \$750,000 revenue estimate for a transfer of investment proceeds from RCSD Corporation in the 2015-16 budget. In May 2016, at the District's request, RCSD Corporation transferred \$1.5 million to the District, \$750,000 more than budgeted. If the Corporation had not made this transfer, the District would not have had sufficient cash to pay an enlarged payroll<sup>16</sup> totaling \$1.6 million and a debt service obligation on the COPs totaling \$3.1 million<sup>17</sup> in June 2016.

The 2016-17 budget includes a \$1 million, or 4.4 percent, increase in spending from the prior fiscal year and contains a \$2.1 million appropriation of general fund balance, which was not available at fiscal year-end. However, the \$2.1 million appropriation of fund balance actually represents a planned transfer from the RCSD Corporation account to the District. District officials told us that they are facilitating this transfer to ensure the District can meet its debt service obligations<sup>18</sup> totaling \$4.7 million in 2016-17. The RCSD Corporation account balance was \$5.9 million at the end of the 2015-16 fiscal year and, if the District uses the \$2.1 million planned in the 2016-17 budget, the account balance will be depleted to \$3.8 million. If this occurs, the District will eventually have to raise taxes, seek alternate revenues or reduce appropriations in future fiscal years.

## Board Monitoring

District officials are required by New York Codes, Rules and Regulations to provide the Board with a budget-to-actual report at least quarterly (or monthly if budget transfers have been made since the last report) showing the status of the District's revenue and appropriation accounts. The Board should also require that District officials provide it with monthly financial reports, including a listing of each bank account showing the cash balance at the beginning of the month, receipts by source during the month, total disbursements

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<sup>15</sup> This amount includes \$685,000 of appropriated fund balance and \$250,000 of appropriated reserve for tax reduction.

<sup>16</sup> The Rensselaer Teachers Association collective bargaining agreement allows members to choose between a pay schedule that distributes all payrolls evenly during 21 pay periods or a schedule that distributes 26 biweekly payrolls evenly for periods one through 20, with an additional lump sum distribution in period 21 for the payroll periods 21 through 26.

<sup>17</sup> This amount included one semiannual interest payment on the COPs and the annual principal payment on the COPs.

<sup>18</sup> Principal payments are due on June 1, while interest payments are due on December 1 and June 1 of each year, ending in 2036.

during the month, the cash balance at the end of the month and the related monthly bank reconciliations for each account. Best practice would also include providing a trial balance report showing the status of the District's assets, liabilities and fund balance accounts, and a budget transfer report showing budgetary transfers among appropriation accounts.

Monthly, District officials provide the Board with bank reconciliation summaries, a claims audit summary report and an extraclassroom activity fund report. However, the bank reconciliation summaries are not adequate because they do not include source documentation, including bank statements, general ledger reports and documentation of outstanding checks or deposits in transit. Furthermore, the Board did not require District officials to provide it with budget-to-actual reports, trial balance reports or appropriation transfer reports monthly. As a result, the Board did not have the ability to properly monitor financial operations or manage fund balance and was unaware of the District's declining financial position until the 2014-15 fiscal year.

## **Multiyear Planning**

It is important for District officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and allow District officials to identify revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. Multiyear plans also allow District officials to assess the effect and merits of alternative approaches to address financial issues, such as the use of unrestricted fund balance to finance operations and the accumulation of money in reserve funds. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the financial priorities and goals set by the Board. Also, the Board must monitor and update long-term plans on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board and District officials did not develop and maintain formal, written multiyear financial or capital plans. The failure to develop and adopt adequate multiyear plans, which include specific estimates for revenues, expenditures, reserves, the use of debt service funds and fund balance, and long-term capital needs, inhibits officials' abilities to effectively manage District finances and address future needs. Without such plans, the District risks not being adequately prepared for adverse future economic or environmental changes which could potentially overburden residents. The development of adequate multiyear plans is increasingly important due to legislative changes in recent years, which limit school districts' ability to finance operations through tax increases. Consequently, District officials may not remain

aware of future needs and available revenue streams while working on strategic planning.

## **Recommendations**

The Board should:

1. Adopt structurally balanced budgets for the general fund that include realistic estimates for revenues and expenditures.
2. Evaluate and explore ways to cut costs and increase revenues for the general fund.
3. Ensure reserves are used only for appropriate purposes.
4. Require District officials to provide the Board with adequate and sufficient periodic information to allow the Board to perform its fiscal oversight responsibilities.
5. Develop and adopt comprehensive multiyear financial and capital plans for a three- to five-year period that address any economic or environmental factors which could affect the plans.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



October 25, 2016

Jeffrey Leonard, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear Mr. Leonard:

Rensselaer City School District (RCSD or the District) appreciates and heeds the content of the Audit from the Office of the New York State Comptroller (OSC). Since 2012 the District's Business Office has experienced both protracted transition and even periods where there was an absence of fiscal management and leadership in the business office due to retirement, illness, and other factors. This has created difficulty for the Board of Education to oversee and guide the District on its financial management, within budget cycles and over the course of time, for the past four fiscal years. For these reasons, the Superintendent and Board of Education requested an audit by your office in order to review and assess the fiscal condition of the District.

Fortunately, the District is now able to report that within the past several weeks it has hired a permanent, experienced Business Official with some direct experience in Rensselaer. Already, in just over a month, with new financial management, RCSD has identified and meaningfully begun the process of rehabilitating its financial condition. RCSD is confident that all of the fund and reserve balance, budgeting and monitoring, and other ongoing tools and practices of prudent financial management will place the District on firm financial ground within the current and next fiscal cycle alone. Highlights of these recent exercises and "self-help" measures are profiled in this letter.

With the recent appointment of a new Business Official, RCSD intends to return to using the robust financial software to its full capacity in order to maintain current-year budgetary information completely and appropriately. The District will also use the budgeting component

**Sally Ann Shields**  
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**BOARD OF EDUCATION:**  
John M. Mooney, President  
Edward Burns, Vice President  
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of the software to prepare annual budgets that contain data-driven expenditure estimates and revenue projections that accurately reflect property tax cap calculations as well as NYS executive budget school aid proposals.

For the current 2016-2017 fiscal year, the Board of Education is preparing to direct district administration to reduce planned expenditures by up to \$2,000,000 from the combination of measures enumerated below. For the 2017-2018 fiscal year, the Board of Education intends to adopt a budget for voter approval that is less than the original budget approved by the voters for 2016-2017.

During the 2016-2017 fiscal year RCSD intends to refund the 2006 debt on the District's Pre K-12 school building with a lower interest rate. It is anticipated that this action alone will reduce annual General Fund expenditures by \$450,000 to \$600,000. In the current fiscal year, and due to the unique nature of this debt program, the restructuring of principal amortization could create as much as \$1,000,000 or more in additional funds that will be able to inure to rebuild various fund balances, with only marginal impact to ongoing annual savings, over the subsequent 19.5 years.

There are a number of cost and revenue initiatives already underway just in the past month of renewed diligence of business office management. In anticipation of employee retirements by the end of the 2016-2017 fiscal year, the Business Official and Superintendent, with the assistance of the school principals, intend to review the staffing plan for the entire District and make significant recommendations to the Board of Education regarding staffing levels for the 2017-2018 fiscal year. The new Business Official has the necessary background and experience to use and project the district's collective bargaining agreements into multi-year financial planning tools. Since personnel costs make up 60-75% of a school district's annual operating budget, such projections are imperative to the District's sustainability planning.

The vast majority of the District's revenues are derived from NYS school aid and local property taxes, which limits the direct action that RCSD can take to enhance these two revenue streams. The new Business Official will, however, be working closely with Rensselaer City Officials to properly determine PILOT receivables and payments. Additionally, the District has filed prior year's state aid claims, including those associated with prior-year bus purchases, with the State Education Department (SED) that total over \$1,500,000. To date, SED has approved, but not yet paid, over \$1,200,000 of those prior year's claims. The District has been in direct contact with SED confirming all of the filings, calculations, and status of payment.

The District has engaged the services of a Questar III BOCES State Aid Planning Specialist to assist the District and provide oversight with SED's STAC system, which is used to monitor the

educational plans of all disabled students. Diligent monitoring of the District's STAC records will ensure that the District maximizes the public and excess cost school aid that it is due.

With the completion of the independent audit as of June 30, 2016, the District was able to confirm its actual General Fund balance at slightly more than the 4% target amount. The full independent audit report will be published in the near future.

The new Business Official intends to develop fund balance and reserve fund projection reports that will be shared with the Board of Education on a regular basis. Similarly, the Business Official will prepare a five-year fund balance projection plan to be presented to the Board of Education for its review and approval. Prior to fiscal year 2012-2013, the District shared such five-year plans with the Board of Education, so this will be a return to a successful past practice. The five-year plan will be updated on an annual basis so that the General Fund balance is properly managed and reserve funds are used appropriately.

The new Business Official has already modified and presented to the Superintendent and Board of Education a new, more informative, comprehensive, and dynamic treasurer's report format. It is the intention of the Board of Education to develop a policy that requires this type of detailed treasurer's report be provided to them on a regular basis. The District Clerk will have direct access to the report-generating function of the business office software so that periodic and regular, real-time budget status reports can be generated and provided to the Board of Education without assistance from the business office.

With a stable and capable business office, the Superintendent of schools intends to engage the development of a Smart Schools Investment Plan for the school district. An SED-approved Smart Schools Investment Plan will be the framework from which the District will develop future capital projects as well as instructional technology plans.

We appreciate the time and effort that was put forth by your team when conducting the audit, preparing the report, and presenting the findings. Please accept this response letter as the District's Corrective Action Plan.

Sincerely,

SallyAnn Shields  
Superintendent of Schools

John Mooney  
Board of Education President

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

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

- We compared the accounting records and reports to supporting documents to assess the accuracy of the accounting records.
- We compared realized revenues and expenditures against adopted budgets, interviewed District officials and reviewed supporting documentation to analyze budget estimates.
- We analyzed the District's transportation aid to determine whether the District requested reimbursement for eligible purchases.
- We interviewed District officials and reviewed reports periodically provided to the Board to gain an understanding of the Board's monitoring activities.
- We analyzed the District's fund balance and financial condition.
- We reviewed documents supporting the funding and use of reserve funds to determine if they were funded and used appropriately.
- We reviewed the agreements between the District and RCSD Corporation and interviewed District officials to gain an understanding of the new school project and the relationships between the District, the developer and RCSD Corporation.

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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