

Greenburgh-North Castle Union Free School District

Financial Management

NOVEMBER 2018



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Greenburgh-North Castle Union Free School District

Audit Objective

Determine whether the Board and District officials effectively managed the District's financial condition.

Key Findings

The District's financial recovery may be impacted due to decreased enrollment, resulting in decreased revenues.

District officials did not:

- Perform budget transfers resulting in appropriations exceeding budgeted line items averaging \$3.2 million over the five years tested.
- Provide the Board with budget status reports.

Key Recommendations

- The Board should monitor the budget to ensure that expenditures do not exceed revenues.
- District officials should perform budget transfers after appropriate Board approval and provide the Board with budget status reports.

Officials agreed with our recommendations and indicated they plan to initiate corrective action.

Background

The Greenburgh-North Castle Union Free School District (District) is located in Dobbs Ferry, Westchester County. The District was created as a Special Act public school by New York State Legislature for students with special education needs. The District works in collaboration with St. Christopher's Inc. (Agency), a private, not-for-profit corporation, to provide educational services to day students and students in residential programs.

The Board is responsible for general management and controls of District 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.

Quick Facts

Employees	305
Enrollment	456
2017-18 Budgeted General Fund Appropriations	\$26 million

Audit Period

July 1, 2016 – November 13, 2017. We extended our audit period back to July 1, 2012 for financial trends.

Financial Condition

As a special act school, the District is not allowed to maintain a fund balance. At the beginning of the 2012-13 fiscal year, the District had nearly a \$7.7 million negative fund balance. Through increasing the enrollment, District officials were able to reduce the deficit by more than \$7 million. However, they were not meeting State Education Department (SED) regulations as they did not also increase staff. Therefore, the District is in the process of reducing enrollment and is under new management having a new Superintendent and Business official as of February 1, 2017.

How Does a Board Effectively Manage 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 services on a continuing basis. A school district in good financial condition has the ability to maintain service levels during fiscal downturns. Conversely, a school district in fiscal stress struggles to balance its budget, may suffer through disruptive service level declines, has limited resources to finance future needs and has minimal cash available to pay current liabilities as they become due.

A board is responsible for oversight of the district's operations and safeguarding its resources. This includes monitoring district expenditures to ensure they stay within total budgeted appropriations. Budget transfers allow the Board to move funds from one appropriation account to another to avoid overdrawing an appropriation account. Further, district officials must provide the Board with budget status reports at least quarterly to assist them in monitoring the budget. It is essential for the Board and District officials to monitor actual expenditures against budgeted appropriations to ensure that appropriations are not overspent.

The District's budget remains fluid from month-to-month as revenues are determined by the number of students enrolled monthly. As the District is not allowed to maintain a fund balance, it makes it challenging to ensure the District's financial stability. Therefore, it is especially important that District officials and the Board monitor finances and make adjustments to the budget as necessary to ensure there are sufficient revenues to fund expenditures.

Fiscal Recovery May Be Impacted by Declining Student Enrollment

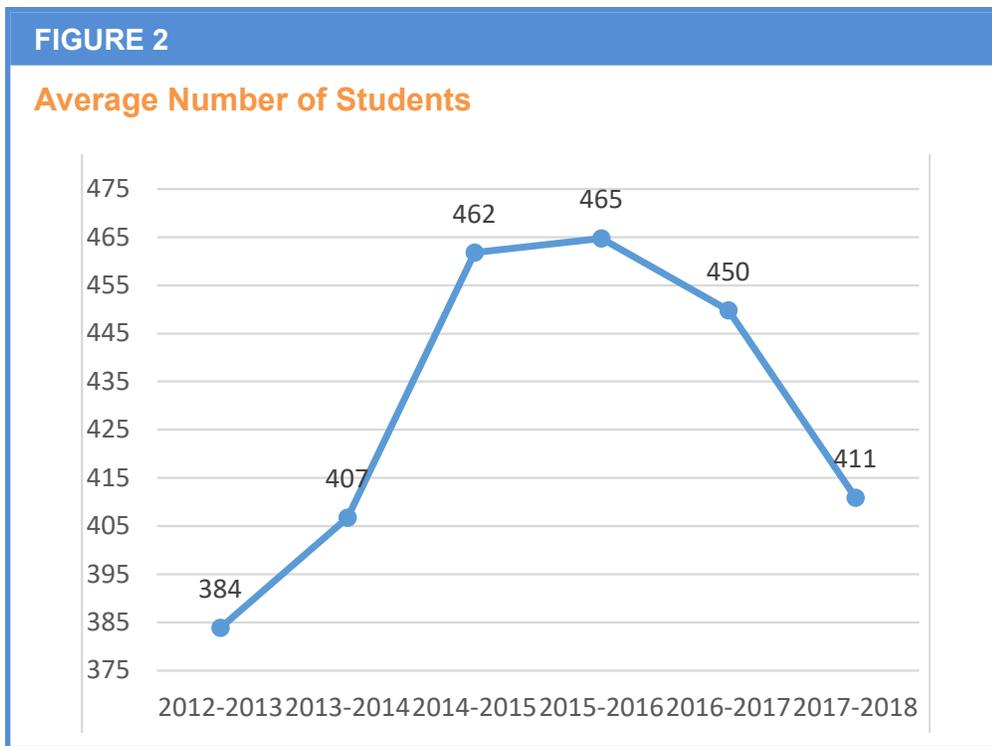
The District's enrollment increased during the years prior to 2015-16 from an average of 384 students in 2012-13 to 465 in 2015-16. This resulted in additional revenue totaling \$6.1 million. During this same time period, the District reported an operating surplus in each of the five years allowing the District to resolve the majority of its deficit. This was primarily due to the increase in students. While the District expenditures increased during their period of growth, they have remained

relatively stable from 2014-15 to 2016-17. The operating surpluses allowed the District to reduce the fund balance deficit of \$7.5 million to a deficit of \$437,000.

Figure 1: Fund Balance Deficit

Account Narrative	2013	2014	2015	2016	2017
Beginning Fund Balance	(\$7,765,436)	(\$7,506,273)	(\$4,757,851)	(\$3,313,001)	(\$1,542,635)
Actual Revenue	\$23,347,253	\$27,170,931	\$27,277,771	\$27,733,698	\$26,850,938
Actual Expenditures	\$23,088,090	\$24,422,509	\$25,832,921	\$25,963,332	\$25,745,895
Operating Surplus/ Deficit	\$259,163	\$2,748,422	\$1,444,850	\$1,770,366	\$1,105,043
Ending Fund Balance	(\$7,506,273)	(\$4,757,851)	(\$3,313,001)	(\$1,542,635)	(\$437,592)

In an effort to meet SED regulations regarding maximum student teacher ratios, the District has begun reducing the number of students they are accepting (Figure 2). The average number of students for the 2017-18 fiscal year was 411 which will result in a corresponding reduction of revenues.



For the 2017-18 fiscal year, the District adopted a budget of \$25,970,996 which is consistent with expenditures for the past three years. As a special act district with no fund balance to rely on, there is a risk that the decreasing revenue without a corresponding reduction to expenditures may prevent the District from making a full financial recovery or cause the District financial condition to deteriorate. District officials indicated that they expect a minimal surplus¹ for fiscal year 2017-18. However, due to the number of students graduating and leaving the District, they have already had to reduce the 2018/19 budget by approximately \$2.0 million to address the shortage of students in the coming year. As of August 1, 2018 District had not taken steps to reduce costs to be able operate within the reduced budget. Additionally, the District is faced with the ongoing challenge of keeping appropriate staffing levels to fulfill the requirements of each students' IEP while operating within available guidelines. Going forward, as the number of students change and the District works to comply with SED guidelines, the District will need to adjust the budget and make changes in operations consistent with the budget, and then monitor the budget to adjust the number of staff, as necessary, to meet both SED guidelines and revenue restrictions.

District Officials Did Not Perform Budget Transfers or Provide Reports to the Board

We reviewed the District's budgeted expenditures and found that they did not perform budget transfers resulting in appropriations exceeding budgeted line items as shown in Figure 1:

Figure 3: Line Items Exceeding Budget

Fiscal Year	Number of Budget Lines Exceeding Appropriations	Dollar amount exceeded
2012-13	106	\$2,783,170
2013-14	125	\$3,394,132
2014-15	138	\$4,420,155
2015-16	92	\$2,590,843
2016-17	102	\$2,897,606
Average	113	\$3,217,181

The District exceeded appropriation line items on a recurring basis because of a lack of properly monitoring the budget. Without monitoring the budget to make sure expenditures were kept within amounts appropriated District officials did not exercise appropriate financial oversight. In addition, during the audit period, District officials did not prepare and give the Board budget status reports as

¹ This information was obtained subsequent to the audit period and was not verified.

required by law.² Had they required the reports to be provided they would have known that accounts were going to be over expended and could have taken action to either reduce costs or make budget transfers. Going forward, with fewer students and lower revenues it will be increasingly important to budget appropriately and then to monitor operations to make sure that expenditures are kept with budgetary provisions.

What Do We Recommend?

The Board should:

1. Take steps to reduce costs for 2018-19 to operate within the reduced budget.
2. Monitor the budget to ensure expenditures do not exceed revenues.

District officials should:

3. Provide the Board with monthly budget to actual reports
4. Perform budget transfers only after appropriate Board approval.

² CRR-NY 170.2

Appendix A: Response From District Officials

GREENBURGH-NORTH CASTLE UNION FREE SCHOOL DISTRICT

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Dobbs Ferry, NY 10522

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CAROLYN MCGUFFOG, PH.D., ED.D.
Superintendent of Schools

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October 4, 2018

Chief Examiner
Newburgh Regional Office
33 Airport Center Drive Suite 103
New Windsor NY 12553

Greenburgh North Castle UFSD would like to thank the Comptroller's Office, especially the auditors for the professional manner in which this audit was conducted. The individuals assigned to our program were detailed in their work yet professional, respectful and helpful. The District feels that this was a positive experience and has benefitted by the process.

The key findings of this audit are accurate, however, the District would like to emphasize that as a Special Act school District our census is variable, as it is predicated on the needs of students in our referring school districts. Consequently, we must continuously make budget adjustment in response to decreases and increases in our student population. New business practice, implemented since June 2017, includes regular census and staffing adjustments in concert with administrative cabinet.

As a Special Act School District, GNC UFSD cannot carry a surplus. In prior years, the District operated under a "Variance by Notification" which allowed the classroom ratios to exceed up to 20% capacity, with a "waiver" granted by the Rate Setting Unit for every dollar spent to repay NY State entities such as NYSHIP, NYSTRS, and NYSERS. Since the district reconciled its debts with these State entities as of June 2017, SED recommended that the district reduce census in order to comply with mandated staffing ratios.

The District also agrees that the previous business office did not make the appropriate budget transfers resulting in a negative budget lines for the five year period tested. The Superintendent has restructured the business office and brought in a new team directing them to follow generally accepted accounting principles. Beginning in June 2017, and in response to discussions with internal and external auditors the District has required that the Business Department do the following:

- Conducting Monthly Reports to the BOE
 - Treasurer's Report
 - Claims Auditor Report
 - Cash Flow Statements
 - Budget Updates
- Monitor, Review & Sign the Following Documents
 - Bi-Monthly Payroll Reports
 - Monthly Appropriation Status Reports
 - Monthly Bank Reconciliations
 - Monthly Journal Entries
- Holding Budget Workshops
- Presenting District-wide Budget Updates at least annually

Once again the District would like to emphasize that it values the input from the examiners, this report and the Comptroller's Office. The District has taken the approach that this was a "learning experience" and have used the discussions with the examiners to help shape "best-practice" approaches in our business department and the following corrective action plan has already been put into place.

Corrective Action Plan:

Recommendations	Action	Date Implemented
<i>Take steps to reduce costs for 2018/19 to operate within the reduced budget.</i>	On August 31, 2018 the BOE approved a balanced budget that addressed a reduction in census	August 31, 2018
<i>Monitor the budget to ensure expenditures do not exceed revenues</i>	<ul style="list-style-type: none"> • Conducting Monthly Reports to the BOE <ul style="list-style-type: none"> ○ Treasurer's Report ○ Claims Auditor Report ○ Cash Flow Statements ○ Budget Updates • Review & Sign the Following <ul style="list-style-type: none"> ○ Bi-Monthly Payroll Reports ○ Monthly Appropriation Status Reports ○ Monthly Bank Reconciliations ○ Monthly Journal Entries • Holding Budget Workshops • Presenting District-wide Budget Updates at least annually 	June 1, 2017
<i>Provide the Board with Monthly budget to actual reports</i>	<ul style="list-style-type: none"> • Conducting Monthly Reports to the BOE <ul style="list-style-type: none"> ○ Treasurer's Report ○ Claims Auditor Report ○ Cash Flow Statements ○ Budget Updates • Provide the BOE with the following <ul style="list-style-type: none"> ○ Appropriation Status Reports ○ Revenue Status Reports 	June 1, 2017 October 18, 2018
<i>Perform Budget Transfers Only after appropriate approval</i>	<ul style="list-style-type: none"> • Will review the budget transfer Policy with the BOE and adhere to it 	October 18, 2018

Dr. Carolyn McGuffog
 Superintendent of Schools
 Greenburgh North Castle UFSD

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed Board minutes, policies and procedures for the audit period January 17, 2013 through September 20, 2017.
- For fiscal years 2012-13 to 2016-17, we prepared a budget versus actual analysis for the fiscal years 2012-13 to 2016-17. We also calculated the District's operating results and analyzed fund balance. We analyzed select balance sheet items such as due to/due from, accounts payable, encumbrances to determine if they were reasonable.
- We interviewed District officials to determine what processes were in place and gain an understanding of the District's financial condition and budget process.
- We reviewed, analyzed and established trends of tuition collected, student enrollments and respective care days billed on a weekly basis for the 2012-13 through 2016-17 fiscal years.
- We reviewed the District's financial records and reports for all funds, including trial balances, balance sheets, budget reports and statements of revenues and expenditures for the 2012-13 through 2016-2017 fiscal years.
- We prepared a cash flow analysis and interviewed District officials about the RAN and procurement process and reviewed Board minutes for approval of RAN thresholds.
- We compared the State Education Department rates and dates of rate changes.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c)

of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the 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. We encourage the Board to make the CAP available for public review in the District Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

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