

Watkins Glen Central School District

Financial Management

JULY 2019



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

Contents

- Report Highlights 1**

- Financial Management. 2**
 - What Is Effective Financial Management?. 2
 - The Board’s Actions to Manage Fund Balance Lacked Transparency. 3
 - The School Food Service Fund Budget Is Unrealistic 6
 - Officials Did Not Develop Formal Multiyear Financial and Capital Plans 6
 - What Do We Recommend? 6

- Appendix A – Response From District Officials 8**

- Appendix B – OSC Comments on the District’s Response 11**

- Appendix C – Audit Methodology and Standards 12**

- Appendix D – Resources and Services. 13**

Report Highlights

Watkins Glen Central School District

Audit Objective

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

Key Findings

- Conservative budgeting resulted in operating surpluses, negating the use of appropriated fund balance. In the last three completed fiscal years, the District generated \$2.3 million in unplanned operating surpluses instead of \$1.4 million in planned deficits.
- Certain reserve balances were excessive or not needed. Of \$3.7 million in seven reserves, three reserves totaling \$636,665 may be unnecessary because related expenses were paid from operating funds.
- District officials did not develop comprehensive written multiyear financial or capital plans.

Key Recommendations

- Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
- Review reserve balances and develop a plan to reduce balances to reasonable levels in accordance with applicable statutes.
- Develop multiyear financial and capital plans that set long-term objectives and goals.

District officials disagreed with some of our recommendations, but indicated they would take corrective action as stated in their response letter.

Background

The Watkins Glen Central School District (District) serves the Towns of Dix, Hector, Orange, Reading and Tyrone in Schuyler County and the Town of Catlin in Chemung County.

The District is governed by a seven-member Board. The Superintendent of Schools (Superintendent) is responsible, along with other administrative staff, for managing day-to-day operations under the Board's direction. The Business Manager is responsible for the administration and supervision of financial activities, including working with the Superintendent as budget officer to develop and administer the budget.

Quick Facts

Employees	442
Enrollment	1,027
2018-19 Appropriations	\$27.2 million
Unused Appropriated Fund Balance 2015-16 to 2017-18	\$1.44 million

Audit Period

July 1, 2015 – February 27, 2019

Financial Management

What Is Effective Financial Management?

A school district's board and officials are responsible for effectively managing financial operations. One of the most important tools for managing a district's finances is the budget process. Boards should adopt structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained.

The board and district officials are responsible for estimating revenues, expenditures and available fund balance at fiscal year-end so they can determine the expected tax levy. Budget estimates should be based on prior years' operating results, past expenditure trends and anticipated future needs. Accurate budget estimates help ensure the tax levy is not greater than necessary.

Fund balance represents the cumulative residual resources from prior fiscal years. New York State Real Property Tax Law (RPTL)¹ currently limits surplus fund balance² to no more than 4 percent of the next year's budget. Any surplus fund balance that exceeds the statutory limit should be used to pay for one-time purchases, fund needed reserves, pay down debt or reduce the real property tax levy. When fund balance is appropriated to finance operations, there is an expectation of a planned operating deficit equal to the amount of fund balance that was appropriated. Additionally, the board should adopt a fund balance policy to ensure sufficient funding for necessary operations so that the real property tax levy is not greater than necessary.

Districts are legally allowed to establish reserves and accumulate reasonable funds for certain future purposes (e.g., capital projects, retirement expenditures). District officials should plan for the funding and use of reserves by balancing the accumulation of funds for future needs with the obligation to make sure real property taxes are not higher than necessary. Ideally, amounts to be placed in reserves should be included in the annual budget to ensure taxpayers are aware of the board's intent to fund reserves in the upcoming year.³ A board-adopted reserve policy establishes reporting requirements to assist the board in providing adequate oversight and maintenance of reserve funds.

In addition, the school food service fund's budgeted appropriations must balance with its estimated revenues. This fund may be charged for direct program costs, such as food purchases, food service workers' salaries and benefits and, to the extent funds are available, indirect costs such as utilities and custodial

1 New York State Real Property Tax Law, Section 1318

2 Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

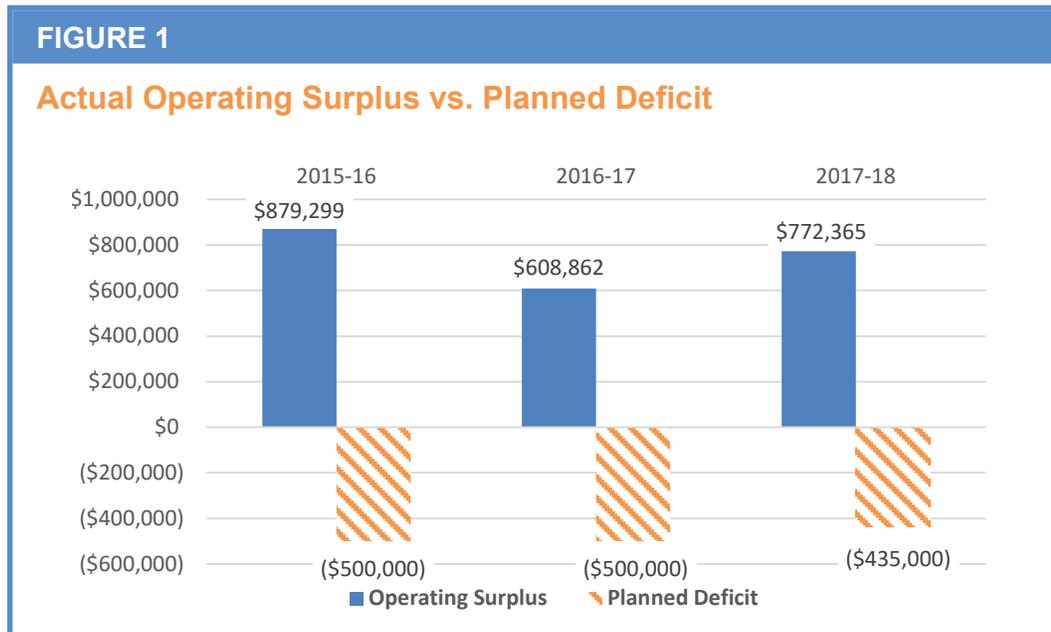
3 Refer to our publication Reserve Funds, available at www.osc.state.ny.us/localgov/pubs/lmgm/reservefunds.pdf

and administrative expenditures.⁴ Its budget is not submitted to the voters for approval; only the budgeted subsidy, if any, from the general fund requires voter approval.

Prudent fiscal management also requires the board to establish long-term financial plans that include plans for maintenance and use of both unexpended surplus funds and reserve funds. Planning on a multiyear basis allows district officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budget decisions on future fiscal years. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Continually monitoring and updating these plans provides a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.⁵

The Board’s Actions to Manage Fund Balance Lacked Transparency

The Board adopted budgets that conservatively estimated revenues and appropriations over the last three fiscal years, which resulted in unplanned operating surpluses totaling \$2.3 million instead of planned deficits.



⁴ The New York State Education Department must approve indirect cost allocation.

⁵ Refer to our multiyear financial planning resources available at www.osc.state.ny.gov/localgov/planbudget/index.htm

Due to the unplanned operating surpluses, appropriated fund balance totaling \$1.44 million was not used. Annually 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 circumvents the statutory limit imposed on the level of surplus fund balance.

Over the past three completed fiscal years, the District reported surplus fund balance that ranged from 3.9 percent to 4 percent of the ensuing year's appropriations, which is within the 4 percent limit allowed by RPTL. However, when unused appropriated fund balance is added back, surplus fund balance exceeds the statutory limit.

Figure 2: Recalculated Surplus Fund Balance Including Unused Appropriated Fund Balance

	2015-16	2016-17	2017-18
Total Unrestricted Fund Balance at Year-End ^a	\$1,060,966	\$1,059,935	\$1,085,829
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$500,000	\$435,000	\$285,000
Total Recalculated Surplus Fund Balance	\$1,560,966	\$1,494,935	\$1,370,829
Ensuing Year's Budget	\$26,560,014	\$27,220,209	\$27,220,200
Recalculated Surplus Fund Balance as a Percentage of Ensuing Year's Budget	5.88%	5.49%	5.04%

^a Minus encumbrances

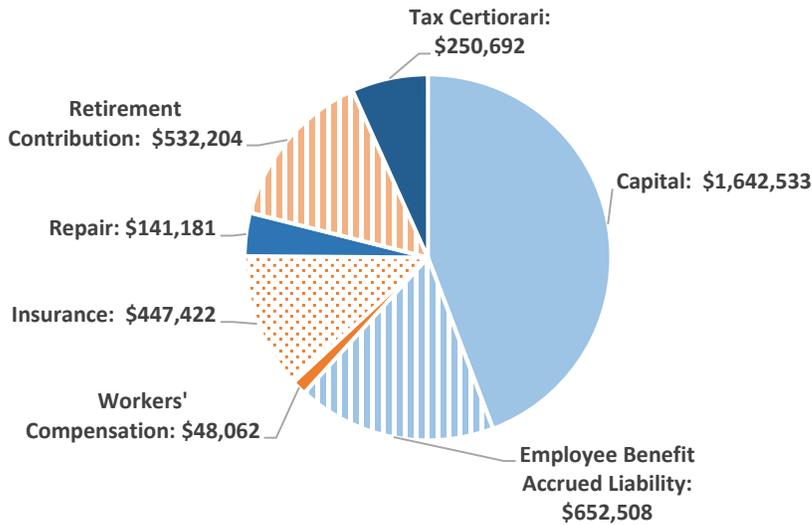
District officials transferred money to reserves from operating surpluses at the end of each fiscal year to stay within the 4 percent limit. For example:

- \$968,196 was transferred to the capital reserve on August 1, 2016 effective June 30, 2016;
- \$464,000 was transferred to the capital reserve and \$150,000 to the employee benefit accrued liability reserve on June 30, 2017; and
- \$925,000 was transferred to a capital reserve on June 30, 2018.

Ideally, reserve financing should be included in the annual budget so taxpayers are given an opportunity to know the Board's plan for funding its reserves. The District's current method of funding reserves by transferring money from operating surpluses is not transparent. Further, these transfers occurred generally without adequate Board approval because the related Board resolutions did not specify amounts for the transfers. As of June 30, 2018 the District reported \$3.7 million in seven reserves.

FIGURE 3

Reserve Fund Balances as of June 30, 2018



Our review of the reserves' activities determined the employee benefit accrued liability reserve totaling \$652,508 was overfunded by \$248,735 because District officials incorrectly calculated the liability for various leave accruals that were not allowed by contract and included the subsequent years' earned leave accruals. In addition, the tax certiorari reserve totaling \$250,692 was overfunded by \$151,983 because the District did not return the reserve balance to the general fund after four years as required by law.⁶ After this was brought to the District's attention, the Board approved returning the tax certiorari money to the general fund at its February 2019 board meeting.

In addition, we question the need for the insurance (the District has insurance coverage for known risks), repair and workers' compensation⁷ reserves totaling \$636,665 as of June 30, 2018. District officials have not used the reserves to fund related expenditures during the last three completed years. Instead, expenditures were paid out of the operating budget. The Board can discontinue these reserves if it determines they are unnecessary. However, money from the discontinued reserves has to be transferred in compliance with statute.

By maintaining overfunded and/or unnecessary reserves, District officials have levied more taxes than necessary to sustain District operations and may have compromised the transparency of District finances.

⁶ New York State Education Law Section 3651[1-a]

⁷ The District belongs to a self-funded workmen's compensation plan negating the need to use this reserve, but because the plan is self-funded District officials have not taken action to dissolve the reserve.

The District's adopted budget for the 2018-19 fiscal year again conservatively estimated revenues and appropriations. Although the budget had a planned operating deficit, our review of year-to-date operations found that the District will likely again experience an operating surplus.

The School Food Service Fund Budget Is Unrealistic

District officials significantly overestimated school food service appropriations in the last two fiscal years, underestimated revenues in two of the years and did not recover general fund indirect costs, resulting in operating surpluses in each of the last three fiscal years totaling \$180,077. As a result, the total assigned unappropriated fund balance increased \$179,080⁸ from a deficit balance of \$11,706 as of June 30, 2015 to \$167,374 as of June 30, 2018, which was 46 percent of the 2017-18 actual expenditures. District officials continued their overly conservative budgeting when adopting the 2018-19 school food service budget. As of February 8, 2019, the school food service fund has an operating surplus of \$50,000, which is expected to double by year end.

Officials Did Not Develop Formal Multiyear Financial and Capital Plans

District officials have not developed comprehensive written multiyear financial or capital plans. The District instead uses the District's building conditions survey for the capital plan. Furthermore, the Business Manager stated that the District's financial plan is mostly historical information at this point.

Well-designed multiyear plans that include specific estimates for revenues, expenditures, reserves, fund balance and long-term capital needs can assist the Board and District officials in effectively managing the District's finances, addressing the use of excess fund balance and planning for the reasonable and proper use of reserve funds.

What Do We Recommend?

The Board should:

1. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
2. Develop a fund balance policy and a plan to reduce the amount of surplus fund balance in a manner that benefits District residents. Surplus funds can be used as a financing source for:

⁸ The difference between the \$180,077 operating surplus and the increase in total assigned unappropriated fund balance was due to \$997 in consumable inventories.

-
- Funding one-time expenditures;
 - Funding needed reserves;
 - Paying off debt; and
 - Reducing District property taxes.
3. Adopt a comprehensive reserve policy that clearly communicates the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund, and the optimal or targeted funding levels and conditions under which each fund's assets will be used or replenished.
 4. Review reserve fund balances and develop a plan to reduce balances to reasonable levels in accordance with applicable statutes.
 5. Develop a plan to reduce excess school food service fund balance.
 6. Develop, monitor and update on an ongoing basis comprehensive multiyear financial and capital plans that set long-term objectives and goals.

District officials should:

7. Prepare an estimate of year-end fund balance to assist in developing and adopting budgets that include reasonable estimates for appropriations and the amount of fund balance needed to fund operations.

Appendix A: Response From District Officials

Watkins Glen Central School District
303 12th Street.
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Superintendent of Schools
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Business Manager
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May 20, 2019

Office of the State Comptroller
Attn: Edward V. Grant, Jr., Chief Examiner
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608

Dear Chief Examiner Grant:

The Watkins Glen Central School District is in receipt of the draft audit report of Financial Management for the period of July 1, 2015 – February 27, 2019. It is important to note that this is the second time this district has been audited by the Office of the State Comptroller (OSC) in the last three years, with the previous audit period overlapping this audit period, addressing the same financial management, while arriving at different recommendations. Please accept this correspondence as the official Audit Response as well as the Corrective Action Plan.

See
Note 1
Page 11

On behalf of the Watkins Glen Board of Education and the District Administration, we would first like to thank the local staff of the Comptroller's Office for their professionalism while conducting the audit. They were patient, courteous, and highly communicative. During the exit conference attended by Board of Education President Gloria Brubaker, Superintendent Greg Kelahan, and Business Manager Gayle Sedlack, we were able to discuss and evaluate our conservative management of finances. This District's conservative philosophy has protected this community from wild financial swings resulting from variability in state aid funding and unanticipated significant operational costs.

See
Note 2
Page 11

Since the completion of the last audit by the Office of the Comptroller less than three years ago, this District has been exceptionally responsive to the needs of this community through sound fiscal management, including:

- leveling and reducing annual expenditure budgets;
- remaining at 0% increase or staying well below the tax levy limit;
- seeking new cost containment strategies including bus leasing;
- identifying shared service opportunities through intermunicipal agreements; and,
- reducing staffing through attrition and program restructuring.

Still, we appreciate the recommendations of the audit staff if such recommendations lead to further improvements in fiscal management and cost containment for our school community. Regarding the specific recommendations:

"Watkins Glen: From Ingenuity Comes Triumph"

Discontinue the practice of appropriating fund balance that is not needed or used to fund operations

The District makes exceptionally conservative estimates of fund balance needed as revenue in response to changing annual State Aid and limited opportunity for tax levy increases due to the tax cap. In order to cover expenditure costs that can be highly unpredictable, the District encumbers fund balance that is often less than one percent of the total District budget. Given the volatile financial climate, we believe this margin of error is remarkably good. We will continue to monitor the encumbered fund balance and make adjustments as necessary.

See
Note 2
Page 11

Develop a fund balance policy and a plan to reduce the amount of surplus fund balance in a manner that benefits District residents

The District will seek legal counsel in developing a fund balance policy. The District has already taken steps to reduce the fund balance to OSC acceptable levels. The District has reduced the expenditure budget over the last two years and has transferred fund balance into capital reserve to offset the local share of a four-phase capital project.

Adopt a comprehensive reserve policy that clearly communicates the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund, and the optimal or targeted funding levels and conditions under which each fund's assets will be used and replenished

It is the District's practice to substantiate reserve balances when reserves are established or adjusted. The District will establish and communicate optimal funding levels as well as the conditions under which each fund's assets will be used and replenished.

Review reserve fund balances and develop a plan to reduce balances to reasonable levels in accordance with applicable statutes

The District will seek legal counsel in developing a reserve fund balance policy. The District maintains that reserves are properly funded to prepare for planned and unplanned expenses so that the school community is protected from catastrophic losses or unanticipated immediate needs.

Develop a plan to reduce excess school food service fund balance

The District has already taken steps to reduce the food service fund. The District has reduced the food service budget projection for 2019-2020 and we have been successful in our bid to participate in the Community Eligibility Provision, thereby eliminating meal cost intake from our students in the elementary school.

See
Note 3
Page 11

Develop, monitor and update on an ongoing basis comprehensive multiyear financial and capital plans that set long-term objectives and goals

"Watkins Glen: From Ingenuity Comes Triumph"

The District will work with our financial planners, architect, and construction manager to improve our long-range planning.

Prepare an estimate of year-end fund balance to assist in developing and adopting budgets that include reasonable estimates for appropriations and the amount of fund balance needed to fund operations

As has always been our practice, the District will continue to closely examine expenditures throughout the year so that we can make reasonable estimates of appropriations during budget-development months. We will work to improve our practice of determining actual costs, identifying opportunities for efficiencies and line item reductions, and aligning estimates for the coming year so that quarterly estimates of year-end fund balance can be made.

In conclusion, the Watkins Glen School District Board of Education and District Administration remain committed to continuously reviewing and improving our practices and policies that govern District financial management. We acknowledge and appreciate the recommendations given to us by the Office of the State Comptroller and will move forward always with our intent of supporting the learning needs of our students.

Sincerely,



Gloria Brubaker
Board of Education President



Greg Kelahan
Superintendent of Schools

"Watkins Glen: From Ingenuity Comes Triumph"

Appendix B: OSC Comments on the District's Response

Note 1

The previous audit referred to did not address the same financial management functions. The audits had different objectives and therefore had different recommendations.

Note 2

The District's State aid revenues have remained consistent at approximately 60 percent and there were no significant unanticipated operational costs during the last five years. The District's salaries/wages and debt payments did increase during this period; however, these amounts were known far in advance for budgeting purposes.

Note 3

Our review of the 2019-20 lunch fund budget showed an increase in appropriations to \$481,945. This is significantly overestimated, considering expenditures have decreased from \$433,016 during the 2015-16 fiscal year to \$360,808 for the 2017-18 fiscal year and are projected to be less than \$350,000 for 2018-19. As a result, the lunch fund will most likely have another operating surplus at the end of the 2019-20 fiscal year and continue to increase fund balance instead of reducing it. School officials can reduce fund balance by appropriating it as a funding source and/or reimbursing the general fund for indirect costs.

Appendix C: 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, our audit procedures included the following:

- We interviewed District officials and reviewed policies and procedures to gain an understanding of the budgeting and financial management processes and procedures, including the rationale for determining the levels to maintain for unrestricted fund balance and reserves.
- We compared budgeted appropriations and estimated revenues to actual results for the last completed three fiscal years and identified significant variances.
- We calculated general fund and school food service operating results for the past three years and assessed the use of budgeted appropriated fund balance.
- We calculated unrestricted fund balance as a percentage of the next year's appropriations to assess District compliance with statute.
- We recalculated unrestricted fund balance as a percentage of the next year's appropriations after adding back unused appropriated fund balance.
- We analyzed reserve fund balances to determine whether balances were reasonable and/or used as intended.

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 Clerk's office.

Appendix D: 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/pubs/cyber-security-guide.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

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