



# West Hempstead Union Free School District Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – February 29, 2016

2016M-116



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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

July 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 West Hempstead 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 West Hempstead Union Free School District (District) is located in the Town of Hempstead in Nassau County. The District is governed by a seven-member Board of Education (Board) that is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Assistant Superintendent for Business and Operations plays a key role in budget development and the daily administration of the Business Office.

The District operates five schools with approximately 2,120 students and 420 employees. The District's general fund budgeted appropriations for the 2015-16 fiscal year were approximately \$59.5 million and were funded primarily with real property taxes and State aid.

## **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?

## **Scope and Methodology**

We examined the District's general fund's financial condition for the period July 1, 2014 through February 29, 2016. We extended our scope back to July 1, 2012 and forward through June 30, 2016 to analyze and project fund balance, budget estimates and financial condition.

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 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

The Board and District officials are responsible for making sound financial decisions in the best interest of the District, the students it serves and the taxpayers who fund its programs and operations. To effectively manage the District's financial condition, officials should adopt reasonable budgets, develop long-term financial plans and manage fund balance responsibly to ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. Additionally, districts are legally allowed to establish reserve funds and accumulate funds for certain future purposes (e.g., capital projects, retirement expenditures). Establishing and funding reserves helps provide the District with a degree of financial stability and can provide officials with additional budgetary options in difficult economic times.

District officials have effectively managed the District's financial condition. The District's unrestricted fund balance and reserve balances totaled almost \$2 million and \$2.5 million, respectively, as of June 30, 2015. However, the decline in those balances by \$667,600 and \$2.1 million, respectively, over the past three years suggests the District may be heading toward fiscal challenges.

Over the three-year period ending June 30, 2015, District officials budgeted for operating deficits of \$1.96 million.<sup>1</sup> However, the net result of operations was a total deficit of approximately \$957,000. District officials budgeted to use another \$960,000 of unrestricted fund balance in 2015-16; however, we project they will use \$292,000.<sup>2</sup> Further, budget estimates for general fund revenues and expenditures have been within a few percentage points from actual amounts over this period.<sup>3</sup> However, the District's revenues have not kept pace with expenditures, which have increased at rates of 4 and 8 percent, respectively (Figure 1).

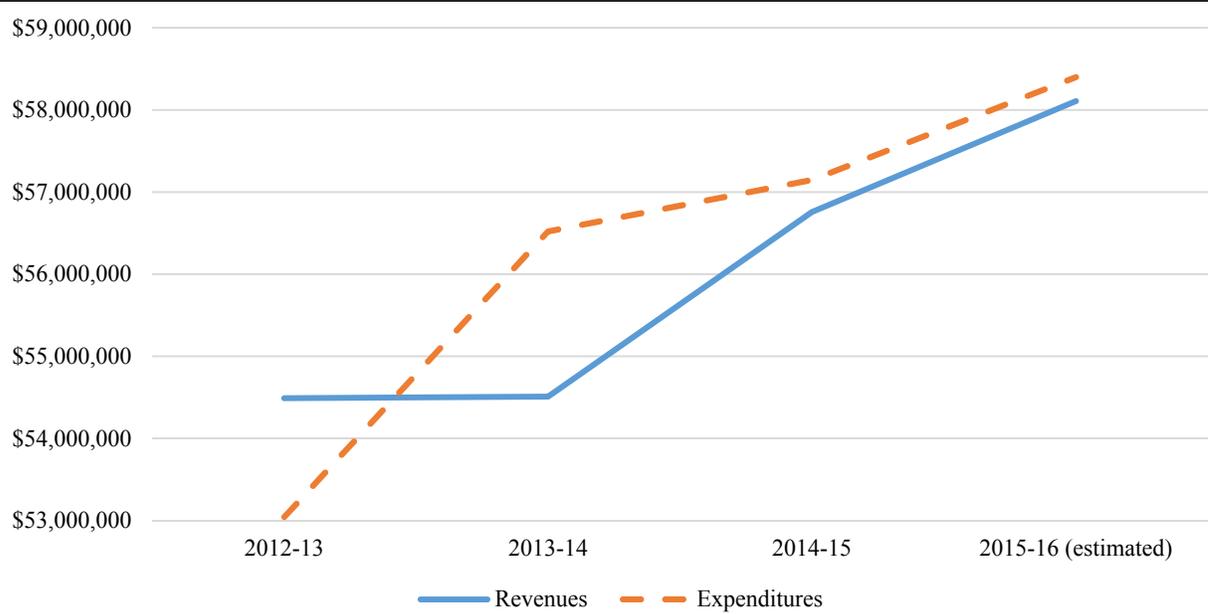
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<sup>1</sup> This does not include an appropriation of \$3 million from reserves.

<sup>2</sup> The 2015-16 projected results were estimated by applying the three-year average variance between budgeted and actual amounts from 2012-13 through 2014-15.

<sup>3</sup> From 2012-13 through 2014-15, the average variance between appropriations and expenditures was 1.8 percent and the average variance between budgeted revenues and actual revenues was 1.6 percent.

**Figure 1: Revenues vs. Expenditures**



Over the three-year period, the balance of the District’s three reserves decreased by almost \$2.1 million, or about 45 percent, to \$2.5 million as of June 30, 2015. Based on the continuous use of these reserves, supporting documentation and future plans, the balance of each of these reserves was reasonable. However, at this rate of decline, they will be depleted and unavailable for use as funding sources within three years.

Further, although the District’s 2012-13 year-end unrestricted fund balance was above 4 percent of the following year’s budgeted appropriations, it has since decreased by \$668,000 to just over \$2 million, or 3.5 percent of the following year’s budgeted appropriations, and, therefore, has dropped below the 4 percent statutory limit<sup>4</sup> in each of the last two years. District officials told us they stay within the tax levy limit while trying not to make significant cuts to educational programs and staffing levels. In addition, historically, the District has received a significant portion of its operating revenue from tuition reimbursement from a neighboring district for educational services provided for that district’s high school students. However, in recent years, that neighboring district has begun to allow its high school students to attend a different district, which has led to a steady decline in tuition revenue. Further, the current agreement with the neighboring district expires in June 2018 and District officials told us negotiations have not begun.

<sup>4</sup> According to New York State Real Property Tax Law, the amount of unrestricted surplus funds that can be legally retained by a school district is no more than 4 percent of the next fiscal year’s budgeted appropriations.

As a result of the revenue and expenditure trends and the continued use of fund balance, the District's total year-end fund balance declined by over \$2.4 million,<sup>5</sup> or 30 percent over the last three years. The Assistant Superintendent for Business started in July 2014 and has been mainly focused on developing short-term plans and solutions for managing the District's finances, including the use and funding levels of reserves. District officials are in the process of developing multiyear long-term plans to address their financial situation.

Without multiyear long-term financial plans to reduce expenditures or raise additional revenues, the District's fund balance will continue to decline and may lead to the inability to provide adequate educational services to its students.

## Recommendations

The Board and District officials should:

1. Continue to develop multiyear long-term financial plans, including projecting funding levels and use of reserve funds and update these plans periodically.
2. Explore and pursue opportunities to reduce expenditures or raise additional revenues to avoid overreliance on fund balance.

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<sup>5</sup> The District's unrestricted fund balance and reserve balances declined by \$667,600 and \$2.1 million, respectively, for a combined total of \$2.74 million over the last three years. The difference between \$2.74 million and \$2.4 million is due to an increase of \$460,000 in appropriated fund balance and a decrease of \$125,000 in assigned appropriated fund balance.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

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June 15, 2016

[REDACTED]  
Principal Examiner

Division of Local Government & School Accountability  
Office of the State Comptroller  
44 Hawley Street - Room 1702  
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Dear [REDACTED]

The West Hempstead Union Free School District is in receipt of the draft report titled "*Financial Condition – Report of Examination – Period Covered: July 1, 2014 – February 29, 2016 – 2016M-116.*"

The Board of Education and Administration have reviewed the findings in this draft report and have given significant consideration to the information contained within. Please know that we agree with and accept the findings, conclusions and recommendations contained in this report. We appreciate the fact that your findings formally recognized that "*District officials have effectively managed the District's financial condition.*" For each recommendation included in the audit report, the following is our proposed corrective action.

**Audit Recommendation:**

1. Continue to develop multiyear long-term financial plans, including projecting funding levels and use of reserve funds and update these plans periodically.

**Corrective Action:**

The Board of Education already reviews an updated appropriation status report and cash flow projection on a monthly basis, and will continue this important practice. The District's Audit Committee has historically included the full Board and they are very involved in the analysis of the District's financial position, especially at the conclusion of the annual audit process. The Business Official is charged with providing timely updates to any material changes in the expenditure or revenue budget that could have an unanticipated impact on the District's finances. During the budget process the Board and Administration will continue to carefully

examine any use of reserve funds with an eye towards sustainability and fiscal stability. The District has used the Office of the State Comptroller Long Range Planning Template in the past and will make it practice to update it during the annual budget building process so that it remains a current and valuable long-range projection tool.

**Audit Recommendation:**

2. Explore and pursue opportunities to reduce expenditures or raise additional revenues to avoid overreliance on fund balance.

**Corrective Action:**

The District is very cognizant of its financial position and will remain diligent and prudent. Unfortunately, the constraints of the tax cap coupled with challenges created by the Gap Elimination Adjustment and a shrinking material revenue stream led the District, in the short-term, to increase its utilization of fund balance and reserves as a funding mechanism. This was not done in haste or without considerable deliberation, but in an effort to balance the programmatic needs of the students with the financial reality. With the GEA behind us and a more stable revenue horizon ahead the Board has already taken bold corrective action in building the 2016-17 budget. Utilization of fund balance was reduced by 57%, and future budgets will continue to see similar action. The Board is very mindful of the perils of deficit spending and has made the long-term fiscal stability of the District a top priority.

On behalf of the West Hempstead Union Free School District Board of Education and Administration, we would like to acknowledge the professionalism of our field auditors who thoroughly explained each step of the audit, were courteous and cooperative throughout the process, and had the utmost respect for our time and workflow while in district. Thank you for the opportunity to provide this written response, as well as our corrective action plan. Please feel free to contact me should you require any additional information.

Sincerely,

John J. Hogan   
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 reviewed budgeting policies and procedures to gain an understanding of the District's budgeting process.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund from 2012-13 through 2014-15.
- We compared adopted budgets and actual operating results from 2012-13 through 2014-15 to determine the trend in revenues and expenditures. We investigated reasons for any significant variances.
- We reviewed the 2015-16 adopted budget and estimated the result of operations by applying the average variance between budgeted and actual results over the preceding three years.
- We reviewed the District's reserves and related expenditures for 2012-13 through 2014-15 to determine if reserves were being used and if their balances were reasonable.
- We determined if the District had developed any long-term financial plans regarding revenues, expenditures and fund balance, including the use and funding of reserves, and evaluated them for relevancy and reasonableness.

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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