

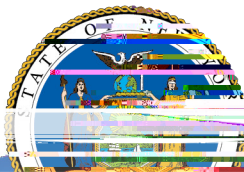
# East Islip Union Free School District

## Financial Condition Management

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**MAY 2020**

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## What Is Effective Financial Condition Management?

To effectively manage financial condition, a board must adopt reasonably estimated and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, a board and district officials must estimate the district's spending, revenue and available fund balance at fiscal year-end to determine the expected tax levy. Accurate estimates help ensure that the real property 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)<sup>1</sup> currently limits the amount of unassigned fund balance that can legally be retained to no more than 4 percent of the next year's budget. Any fund balance over this percentage must be used to

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**FIGURE 1**

**Planned Deficit vs. Actual Operating Surplus and Recalculated Unassigned Fund Balance**





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Funding one-time expenditures;

Funding needed reserves;

Paying off debt; and

Reducing District property taxes.

2. Adopt budgets that include realistic estimates for revenues, appropriations and unassigned fund balance based on historical data and known trends.
3. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

District officials should:

4. Develop budgets that include realistic estimates for revenues, appropriations and unassigned fund balance based on historical data and known trends.

# Appendix A: Response From District Officials

[Redacted]

**Stephen D. Harrison**



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See  
Note 1  
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[Redacted]



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- Uncertainty regarding state aid, amplified by inclusion in the 2020-2021 state budget of a mechanism that would allow the Governor to lower the amount of state aid promised, based upon results at the state level.
  - Special Education BOCES tuition costs continue to be volatile, ranging from a low of \$2.7 million to a high of \$3.3 million over the past several years. This area of the budget will continue to be planned conservatively based upon this volatility in order to be able to accommodate the needs of our special education students.
  - The District has been involved in long and protracted labor negotiations with several of its bargaining units. While there is uncertainty in any one year regarding potential settlements, the annual budget must be crafted in such a way to accommodate settlements, should they occur.
  - Health Benefits continue to be a huge unknown when crafting a budget. Rate increases for the second six months of any year are not known until well after the budget has been adopted by the Board of Education. This unknown is an example of the need to budget conservatively.
  - The District has been proactive in analyzing staffing levels in relation to the consistent downward trend in enrollment. Substantial reductions in staff have been achieved, while at the same time shifting savings towards investment in infrastructure and technology.

**Audit Recommendation:** Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

**Response:** The Board of Education and Administration will review the practice of appropriating fund balance in support of the adopted budget, however it is not known until after the completion of any given year, whether or not a surplus is achieved, and hence the need to use funds appropriated. As noted above, amounts appropriated are used to support the contingencies and unknowns in a budget, while at the same time protecting the taxpayers from year to year volatile fluctuations.

The last audit conducted by your office was in 2014/15 and at that time the District had been designated by the Office of the NYS Comptroller for three years under the Education Law, Section 3020.1.

[REDACTED]



# Appendix C: Audit Methodology and Standards

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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 Board minutes, policies and procedures, and documentation relevant to short- and long-term planning to gain an understanding of the budgeting and financial management processes and procedures, including the rationale for determining the levels to maintain for unassigned fund balance and reserves.

We compared budgeted appropriations and estimated revenues to actual results for the last four completed fiscal years and identified significant variances.

We reviewed the adopted 2019-20 general fund budget to determine whether District officials had addressed the significant appropriation variances we identified in previous years.

We calculated general fund operating results for the past four years and assessed the use of budgeted appropriated fund balance.

We calculated unassigned fund balance as a percentage of the next year's appropriations to assess District compliance with statute.

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.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office.

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