

NASSAU-SUFFOLK SCHOOL BOARDS ASSOCIATION

FINANCIAL LITERACY 101: BEYOND THE MANDATE FOR SCHOOL BOARD MEMBERS



February 8, 2023

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**Safeguarding the Financial Health
of a School District**

Board of Education

Audit Committee

**Claims
Audit**

**External
Audit**

**Internal
Audit**

**NYSOSC
Audit**

Controls and Reporting

Business Office

*Governance
& community
representation*

*Independent
review
& support*

*Policy &
segregation of duties*

Claims Audit

- Weekly audits on all expenditures “claims” against the district and BOCES;
- Ensuring claims are in compliance, authorized, properly documented, and “true and correct;”
- Provides monthly Claims Report to the BOE for review.

External Audit

- Annual Audit of Financial Statements to render an opinion on whether they are adhering to Generally Accepted Accounting Principles (GAAP);
- Formal School District response to the management letter and Corrective Action Plan (CAP);

Internal Audit

- Annually performs risk assessment of financial policies, procedures & practices;
- Annual Testing and evaluation of one or internal controls to identify risk;
- Recommends changes to improve controls and reduce financial risk;

NYSOSC

NYS Office of Comptroller

- “Five Point Plan;”
- State Audit every five years with a Focus: Internal controls, policies, practices & operations to ensure adequate protection against fraud, waste, & abuse;
- Ad-hoc reporting and audits based on a risk-assessment and previous audits.

IV Pillars...

BEYOND THE MANDATE – FISCAL RESPONSIBILITIES OVERVIEW

- **Fiscal Oversight:**

- Fiduciary Responsibility – Stewards of public tax dollars to ensure monies are properly accounted for & protected;
 - Supervision of district’s financial practice and policy implementation;
 - Review and monitor financial transactions, and reports.

- **Key Questions for Monitoring:**

- What Information Do You Need?;
- How Do You Interpret It (Qualitative or Quantitative)?;
- What Questions Do You Ask, and Why?;
- How Frequently Do You Receive Financial Reports?

NEW YORK STATE BOARD MEMBER FISCAL RESPONSIBILITY



WHAT IS MANDATED? WHAT DO I REALLY NEED TO KNOW?

- Since 2005 (Roslyn Scandal), Section 2102-a of the Education Law requires board members to obtain a minimum of six (6) hours of training on the financial oversight, accountability, and fiduciary responsibilities of school district and BOCES board members:
 - How school districts are funded;
 - Qualifications and responsibilities of key financial positions - claims auditor, treasurer, and audit committee, and the relationship of these positions to the board;
 - Importance of independence and segregation of duties in preventing fraud, waste and abuse;
 - Necessary reports (whom, and how often). Use of reports to assess your district's financial condition;
 - Examine findings and recommendations from statewide audits to better understand your districts compliance to key laws such as those regulating fund balance and other reserve funds;
 - Explore fraud, waste and abuse, and actions your board should take if you suspect irregularities.
- This is the extent of mandated fiscal training. However, knowledge school finance is far greater...

BOARD MEMBERS DO NOT NEED TO RE-TAKE THE COURSE, ONCE COMPLETED!

BEYOND THE MANDATE – BUDGET OVERSIGHT



- **Budget Oversight:**
 - Board members annually approve a budget presented by the Superintendent. Several Long Island budgets exceed \$100MM, with local taxes as the majority of generated revenue. BOE members - fiscal stewards of a community's tax money and oversight of expenses;
 - Responsibility extends beyond budget adoption – understanding of staffing & benefits costs, tax-levy limit, use of reserves and fund balance incorporated in the budget, areas/components of the budget, budget-to-budget increases, tax increases, reasonable understanding of major cost drivers (increases/decreases), and other revenue sources (PILOT, tuition, etc.);
- **Oversight vs. Overstep:**
 - Potential fine line. Oversight occurs through regular review of submitted BOE reports (Treasurers, Appropriation, Revenue, G/L). Understanding variances, spending patterns, budget transfers...reading reports and asking questions;
 - Administration (Superintendent and Business Official) manages the budget, and report/provide recommendations. Overstepping by Board members includes directing staff how to manage expenses/revenue, instructing how to develop reports, going around Administrators and staff with regard to fiscal decisions.

BEYOND THE MANDATE – BUDGET PROCESS AND AWARENESS



- **Board Member Input (Budget Development Process)**
 - **KEY REMINDER** – The Board adopts the Superintendent’s budget;
 - Primarily development occurs on the District level:
 - Cognizance of “development” – contractual obligations, debt service, fringe benefit trends, BOCES services and costs;
 - Knowledge of existing programs, understanding of educational and fiscal trends – provides basis of discussion and potential recommendations during public session, or discussion with Superintendent;
 - Increased focus of late on revenue, and taxation matters – sources, State Aid, levy-limit, rentals, etc. Public monies;
 - **Questions** – where (if any) are large swings present? What are their causes? What’s the year-to-year contractual obligation increase? Where does debt-service stand (along with Building Aid)? What’s included in the capital/facilities lines for enhancements? CPI?;
 - Critical to read, and re-read the budget books and materials provided. Inquire, because OSC may ask you the same questions.
- **“Budget” is a year-round effort**
 - How to read Budget Status/ Appropriation Status Report(s). Revenue Status Reports. General Ledger (G/L);
 - Example: Account – Description – Budget – Adjustments – Adj. Budget – Expensed – Encumbered – Available;
 - What do these terms mean? What information is relevant and important to understand as BOE member, and what to use as input in the process?;
 - Effectively – where are we from when we adopted the budget in May of the prior school year?

BEYOND THE MANDATE – ASSESSING ACCURACY OF BUDGET NUMBERS?

Budget 18/19	Budget 19/20	Budget 20/21	Budget 21/22	Proposed Budget 22/23
\$7,700,000	\$7,845,000	\$7,975,000	\$8,095,000	\$8,200,000

Actual 18/19	Actual 19/20	Actual 20/21	Projected Actual 21/22
\$7,180,000	\$7,290,000	\$7,400,000	\$7,520,000

❖ Review three-years of actual expenditures - don't compare budget to budget!

BEYOND THE MANDATE – POTENTIAL ATYPICAL FINANCIAL SHOCKS



1. ESSER is boosting spending but the program ends abruptly September of 2024;
 - Most at risk: Districts using ESSER for recurring financial commitments via budget backfilling, new hires or permanent raises;
2. Enrollment declines mean fewer revenues in the long-run;
 - Most at risk: Urban districts. Districts closed longer. Northern states.;
3. Inflation, labor scarcity, & new hiring are driving up recurring commitments;
 - Most at risk: Those offering permanent raises that are larger than typical (typical is ~1-2% on top of 3% via step/column increases) and those growing their staff payrolls;
4. An economic slowdown would affect growth in state revenues;
 - Most at risk: Districts that are more dependent on state revenue (or in states more affected by economic slowdowns).

BEYOND THE MANDATE – COMPREHENDING STATE AID REPORTS



● State Aid Reports (Runs)


- Annually the Governor (Executive) publishes their iteration of proposed State Aid in mid-to-late January;
- Toward the end of March, the Legislature publishes the finalized State Aid amounts (Legislative);
- Typically, the latter results in a higher amount due to negotiations, updated databases, or included changes;
- These are projections!;
- Basis of comparison is not a typical “apples-to-apples,” not an Executive-Executive report comparison over a one-year period;
 - Rather, State Aid reports are compared from “Base-Aid,” which is calculated AFTER report submission in the fall. That determines actual district aid;
 - A straight comparison of NYSED’s/Office of Budget publication(s) may be confusing, and not consistent with budgeted S/A amounts. Remember – each district is unique with respect to State Aid, and expense-base aids. Blanket percentages published are not indicative of the big picture.

● Grant-In-Aid / Bullet Aid

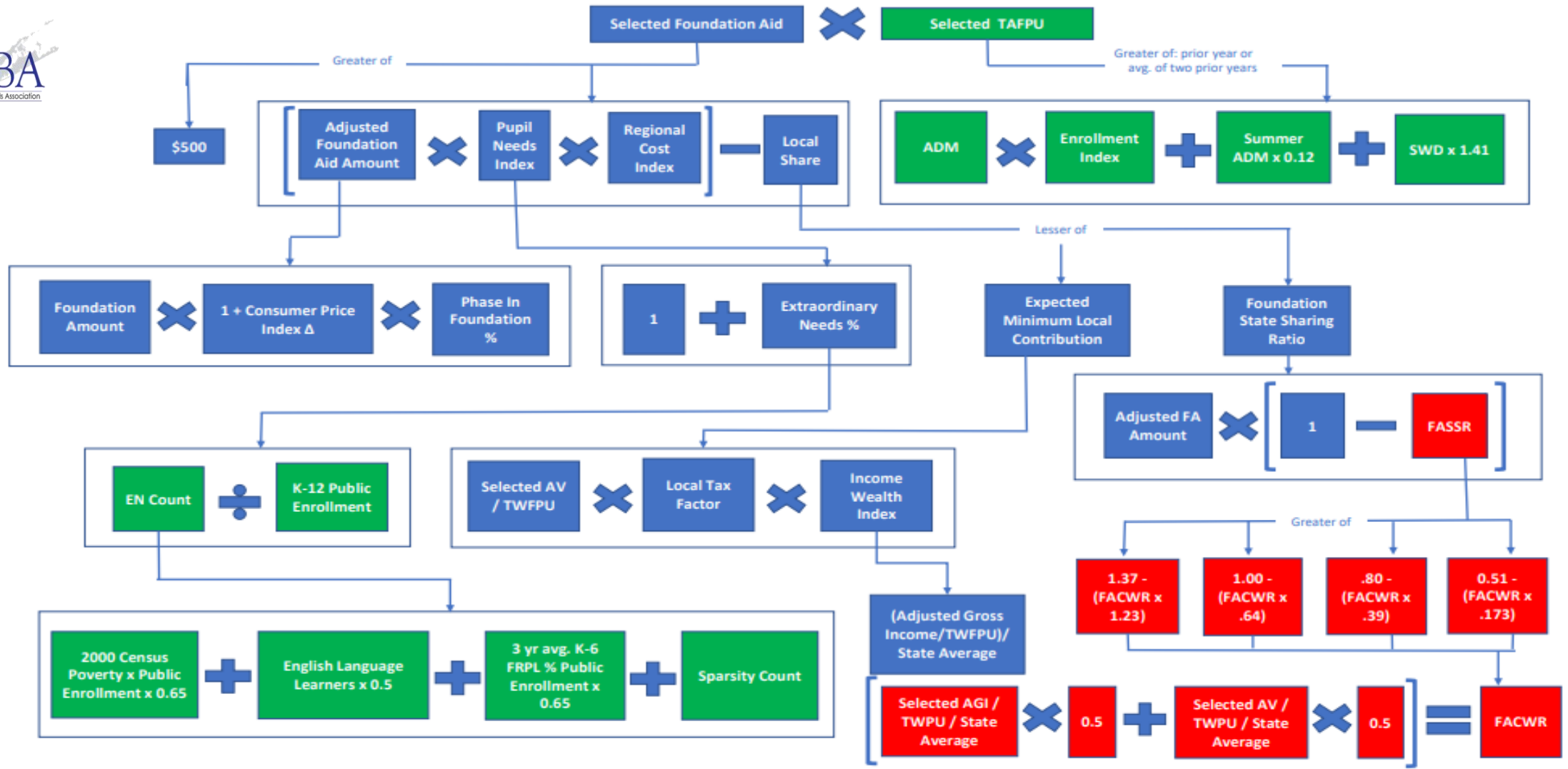
- Bullet aid - monies, appropriated each year in the budget by the Senate, Assembly and Executive, for specific purposes or projects to educational institutions, including libraries and library systems;
- Purposeful aid to fund special initiatives. NOT to be included as General, or expense-based aids. Non-formula monies (e.g., Teacher Center, Technology Grants, Classroom Redesign, etc.).

BEYOND THE MANDATE – COMPREHENDING STATE AID REPORTS (cont.)

- What to Look for with State Aid and Budgeting:

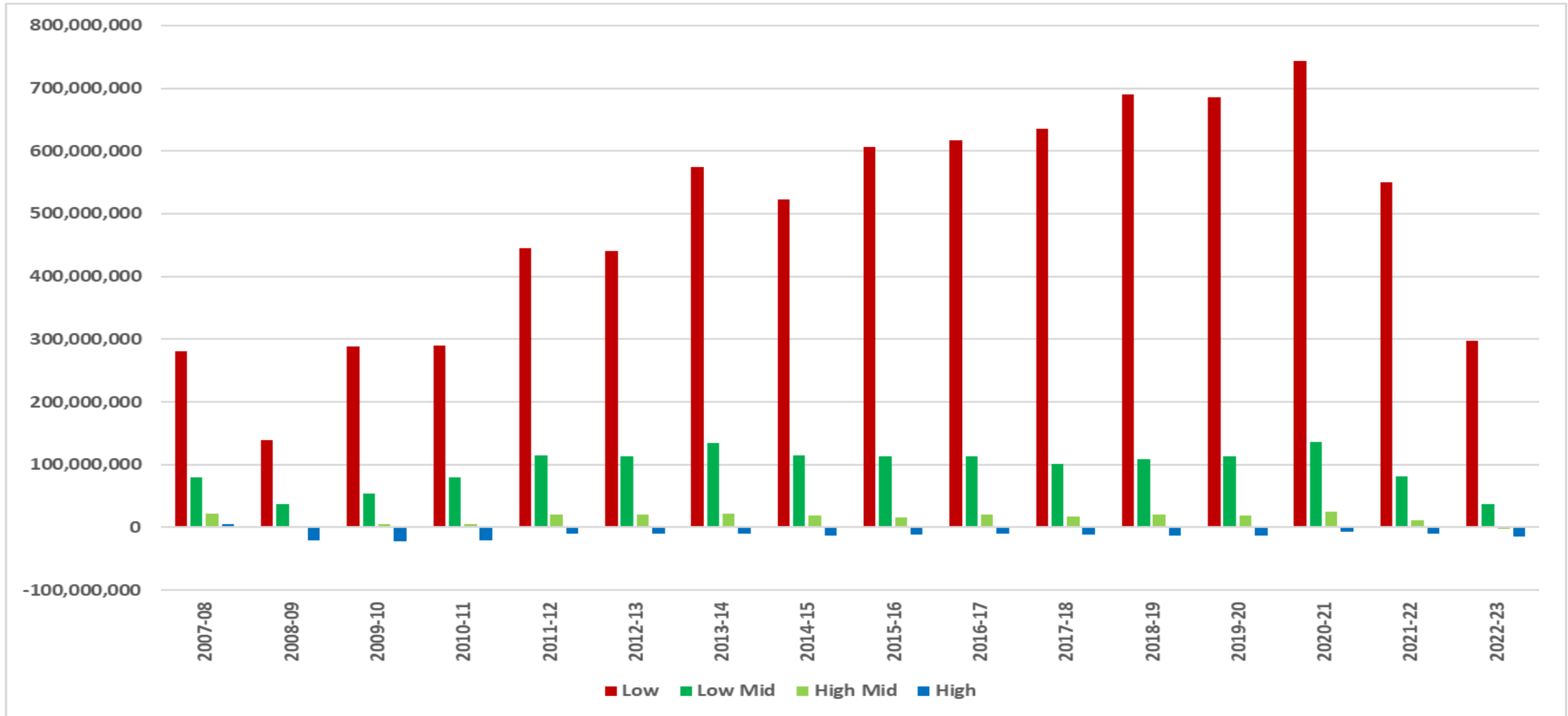
- Variances with Foundation Aid. Why the shifts ?; 
- Expense based aids – What are they? What is their role in State Aid?;
- Understand the differences between [Budget-to-Budget], and [Base Aid – to Budget];
 - Alleviate confusion as to why State Aid is different, or “not as promised;”
- Demographic trends affect State Aid categories, esp. expense-based. Examples:
 - Attendance & Enrollment;
 - Building Projects and Incurred Debt (relationship);
 - Transportation Ridership;
 - Special Ed. enrollment and services;
 - Textbook, Hardware & Software expenses;

BEYOND THE MANDATE – TOTAL FOUNDATION AID FORMULA



■ Pupil
 ■ Aid Ratio
 ■ Other

BEYOND THE MANDATE – FOUNDATION AID OWED BY WEALTH 2007-08 TO 2022-23



BEYOND THE MANDATE – AID REPORT

EXAMPLE #1 (PHASE-IN INCREASE)



Aid Description	February 2023 Run (Exec)		2022-23 Base Aids		Differences		% Change
Foundation	62,827,724.00		48,943,916.00		13,883,808.00		28.37%
UPK	3,065,585.00		3,065,585.00		-		0.00%
BOCES	1,682,921.00		1,633,945.00		48,976.00		3.00%
High Exces Cost	1,067,989.00		1,305,611.00		(237,622.00)		-18.20%
PECA	440,183.00		465,927.00		(25,744.00)		-5.53%
Hardware & Tech	92,319.00		94,828.00		(2,509.00)		-2.65%
Software, Library & Tech	505,140.00		489,901.00		15,239.00		3.11%
Transportation	4,809,185.00		4,677,800.00		131,385.00		2.81%
Building	2,350,742.00		2,631,390.00		(280,648.00)		-10.67%
High Tax	2,717,904.00		2,717,904.00		-		0.00%
Supplemental PECA	-		-		-		-
TOTALS	79,559,692.00		66,026,807.00		13,532,885.00		20.50%
TOTAL STATE (G/F)	76,494,107.00		62,961,222.00		13,532,885.00		21.49%
TOTAL STATE (UPK)	3,065,585.00						

BEYOND THE MANDATE – AID REPORT EXAMPLE #2 (MINIMUM INCREASE)



Aid Description	February 2023 Run (Exec)		2022-23 Base Aids		Differences		% Change
Foundation	1,919,212.00		1,863,313.00		55,899.00		3.00%
UPK	361,240.00		86,914.00		274,326.00		315.63%
BOCES	686,678.00		547,350.00		139,328.00		25.46%
High Exces Cost	72,167.00		80,634.00		(8,467.00)		-10.50%
PECA	136,494.00		89,477.00		47,017.00		52.55%
Hardware & Tech	-		-		-		0.00%
Software, Library & Tech	143,647.00		146,804.00		(3,157.00)		-2.15%
Transportation	194,787.00		190,258.00		4,529.00		2.38%
Building	156,667.00		227,200.00		(70,533.00)		-31.04%
High Tax	122,398.00		122,398.00		-		0.00%
Supplemental PECA	851.00		851.00		-		-
TOTALS	3,794,141.00		3,355,199.00		438,942.00		13.08%
TOTAL STATE (G/F)	3,432,901.00		3,268,285.00		164,616.00		5.04%
TOTAL STATE (UPK)	361,240.00						

BEYOND THE MANDATE – FUND BALANCE & RESERVES



• Fund Balance

- Simply Put → [Revenues] – [Expenditures] = Positive or Negative Fund Balance;
 - Explanation of Encumbrances as related to Expenditures; Projections;
- Board Policy dictates Fund Balance protocols;
 - Provides for an orderly provision of services;
 - Provides taxpayers with information about why resources have been set aside;
 - Provides a framework to help guide budgetary decisions and multi-year plans;
- Non-Instructional/Business Operations section of District’s Policy Book (e.g. Policy # 6420)
- Delineates- Unrestricted, Committed, Assigned, Unassigned, Non-Spendable, and Restricted FB’s;
- Included “Spending Policy,” as related to Fund Balance management;
- Key to a District’s fiscal health – appropriation, reporting, management, maintenance;
- OSC is very particular about fund balance usage, levels, and appropriation. Note the proverbial “4%.”

BEYOND THE MANDATE – AWARENESS & UNDERSTANDING OF FUND BALANCE & RESERVE POLICIES



- **Awareness & Understanding**

- Annual review of certain documents:
 - Board Policy and any associated regulations;
 - External Auditor's report (Internal, additionally, if area of focus);
 - Annual budget and revenue reports and publications);
 - Treasurers Report – accounting for reserves separately;
 - Any Fund Balance & Reserve reports presented to Board and community;

- **How to Properly Manage**

- District Administration manages Fund Balance and Reserves as part of regular operations;
- Board oversight as to the above. Understanding the purpose of each, establishment, use, etc.;
- NYSOSC publication on F/B and Reserves management – “Local Government Management Guide - Reserve Funds;”
- Understanding that these are limited sources of funds, and usage should be for specific purposes. Replenishment annually;
- READ THE REPORTS!

BEYOND THE MANDATE – SAMPLE RESERVE PLAN

SOMEWHERE IN NEW YORK CENTRAL SCHOOL DISTRICT
RESERVE PLAN
UPDATED SEPTEMBER 2022



Employee Benefit Accrued Liability Reserve (authorized under General Municipal Law)

Creation – This reserve was created on June 17, 2009.

Purpose – This reserve is used to pay for unused accumulated leave time contractually provided to certain groups of employees. This typically includes payment for unused sick and vacation pay. This fund cannot be used to pay for items such as: retirement incentives, FICA and Medicare payments and retiree health insurance. When GASB 45 was introduced, districts were advised that reserving for future liabilities created by GASB 45 in this reserve was appropriate.

Funding Methods – This reserve has typically been funded from excess fund balance.

Use of Reserve – This reserve is used when an employee separates from the District and payment of accumulated leave is required. These transactions flow through the budget from reserve transfer contributions. This reserve will continue to be used in this manner to make such payments.

Funding Level – This reserve should be funded at 100% of the accrued liability for unused accumulated leave time.

Monitoring of Reserve – This reserve is monitored by the Assistant Superintendent for Finance and Management Services.

6/30/21 Closing balance: \$6,255,210, including interest

6/30/22 Recommended balance: Up to \$6,092,075, including interest

Retirement Contribution Reserve (authorized under General Municipal Law)

Creation – This reserve was created on June 17, 2009.

Purpose – This reserve is used to pay for district expenses to the NYS Employees Retirement System only. Payments to the Teachers Retirement System from this reserve are not permitted.

Funding Methods – Funds are placed in this reserve from excess fund balance.

Use of Reserve – The intended use of this reserve calls for annual allocations from this fund, so not to create a budgetary shortfall. Funding Level – A funding level equal to approximately three years' worth of retirement system billings is desired. At current rates, that level is approximately \$4,275,000. The recommended balance below reflects an anticipated increase in future billings.

Funding Level – A funding level equal to approximately three years' worth of retirement system billings is desired. At current rates, that level is approximately \$4,275,000. The recommended balance below reflects an anticipated increase in future billings.

Monitoring of Reserve – This reserve is monitored by the Assistant Superintendent for Finance and Management Services.

6/30/21 Closing balance: \$4,284,749, including interest

6/30/22 Recommended balance: Up to \$4,229,774, including interest

BEYOND THE MANDATE – AUDIT COMMITTEE

● Purpose

- Every school district (except those employing fewer than eight teachers) must establish an Audit Committee by Board resolution;
- Audit Committee role - assist and advise the Board on issues relating to the district's external and internal audit function;
- Ultimate responsibility for review & action on audit reports remains with the full Board;
- Established by OSC's "Five Point Plan" (2005), resulting from the Roslyn UFSD scandal;
- Requirements include:
 - Minimum of three (3) committee members;
 - Develop and operate under a charter.
 - CPAs to present audit results directly to school boards;
 - Require a formal school district response to the management letter and *Corrective Action Plan* (CAP);
 - Provide guidance on internal controls and audit testing; specific types of testing and suggested detail(s).

● Charge, Role, & Duties of the Audit Committee

- Advisory only – committee's recommendations not binding on the Board of Education. Board retains full control & legal authority over financial matters.
- The Audit Committee is responsible for reviewing, overseeing & making advisory recommendations to the Board on the district's internal and external audit functions; and, provides recommendations on the selection and appointment of the internal and external auditors.

Areas of focus:

- External Audit;
- Internal Audit;
- Admin Matters.

BEYOND THE MANDATE – AUDIT COMMITTEE CHARTER



- **Charter**

- The Audit Committee Charter shall:
 - Define the purpose, powers, meetings, responsibilities; review independent auditors and financial statements, internal auditors, internal controls, compliance, risk assessment, special investigations;
 - Assess & report to the Board on the adequacy of its Charter no less than annually, or as necessary;
 - Charter modifications, as recommended by the Audit Committee, should be presented to the Board of Education in writing for their review and action;
 - Define composition of the Audit Committee (also by BOE Policy);
 - Conduct an annual self-evaluation of its performance, including its effectiveness and compliance with the charter and request the board approval for proposed changes.

Sample Audit Committee Charter Components

- Established and Approved by resolution on November 8, 2007;
 - Charter document reviewed periodically, since inception.

BEYOND THE MANDATE – AUDIT COMMITTEE CHARTER

● Interactions

- The Audit Committee will meet a minimum of twice a year, with the expectation that additional meetings may be required to adequately fulfill all the obligations and duties outlined in the charter;
- VERY IMPORTANT! Audit Committee recommends approval of audits and certain reports to the Board;
- Audit Committee may be comprised solely of Board members. Variations across the State as to makeup;
- Board members must be aware of auditor findings, management letters, and other financial information conveyed by the Audit Committee. Key component of Board member fiscal responsibility.

● Board Roles

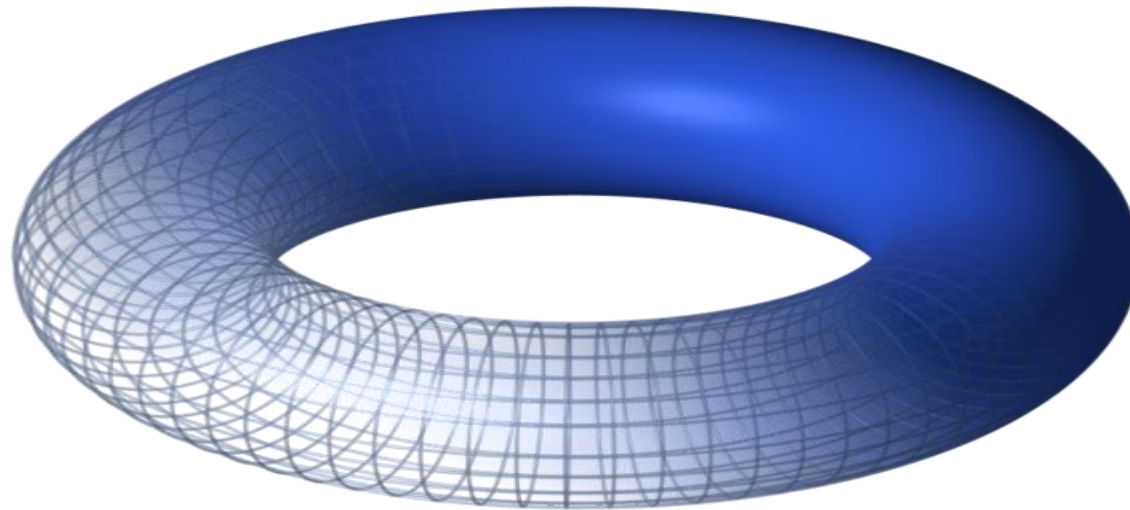
- Review and approval of all reports submitted by the Audit Committee;
- Review, understand and approve the Management Letter;
- Review, understand and approve any Corrective Action Plans (CAPs);
- Approve any policies, charters or governing actions related to the Audit Committee;
- Meet, or discuss audits or financial information with the Audit Committee, as needed.



THE AUDIT COMMITTEE HOLDS A SET OF THE FINANCIAL KEYS TO ANY SCHOOL DISTRICT!

BEYOND THE MANDATE – OSC AND BOARDS OF EDUCATION

Albert Einstein– “The universe is finite, but unbounded...”



The universe of OSC Audits are also finite, but unbounded...Board members are part of that universe, and their audits.

BEYOND THE MANDATE – BOE RELATED FINDINGS BY OSC



• Financial Information

- District websites did not always provide the public with transparent and comprehensive financial information. Often, required and important information was not posted or posted in hard to find locations. Therefore, taxpayers and other interested parties did not have readily available information to make informed decisions;
- An audit of multiple NYS districts found that certain financial information, such as comprehensive budgets, BOE adopted multi-year financial plans, external audits, and Corrective Action Plans were not posted to the website;

Schools must be clear as to how they display financial information on their websites.

• The Board:

- Must ensure a comprehensive original board-adopted budget posted to the website includes appended information as required;
- Should post to the website or provide further transparency by posting comprehensive budget-to-actual results in a website location easy to access by the public;
- Must ensure that the final annual budget is posted as required to the website and should ensure the document is comprehensive
- Must post a board-adopted comprehensive multiyear financial plan, or should prepare, adopt and post a comprehensive multiyear financial plan to the website to help residents, taxpayers and the public see the impact of financial decisions;
- Must post external audit reports and CAPs to the website, and should post all external and internal audit reports, and CAPs in a transparent location.

BEYOND THE MANDATE – SUCCESSFUL COMMUNICATION ON FINANCE

- Strategies

- Avoid business lingo;
- Reference students (and what a District or BOE will do for students);
- Citing dollar figures improves credibility. Explain tradeoffs with dollars;
- “Fair” tends to be received better than “Equitable;”
- When citing evidence/research, acknowledge local context;
- Provide opportunities for stakeholders to weigh in;
- Leverage the fact that principles generate the most trust;
- Emphasize a brighter future (vs a problematic past or present);
- Acknowledge good faith. Recognize criticisms.

BEYOND THE MANDATE – SUCCESSFUL COMMUNICATION ON FINANCE

Don't say:

- X – Reallocation;
- X – Efficiency;
- X - Do more with less;
- X - Acknowledge a cut as just that: a cut;
- X -“We were told we had to...”

Do say:

- ✓ Leveraging dollars to do more for students;
- ✓ Admit the tradeoff: “we could have done XX, or YY, and we chose YY because it helps us do ZZ for students;
- ✓ Spending smarter;
- ✓ Communicate with \$ amounts;
- ✓ We have the flexibility to make tradeoffs that meet the needs of our students.

BEYOND THE MANDATE – BOE RELATED FINDINGS BY OSC



Figure 1: Financial Information on the Website

Financial Information	Posted		Posting Required
	Yes	No	
Budget – Original, Board Adopted for Vote	X		Yes
Budget – Final Annual		X	Yes
Multiyear Financial Plan		X	No
Budget-to-Actual Reports	X		No
Audits	Posted		Posting Required
	Yes	No	
External Audit	X		Yes
External Audit - CAP	X		Yes
State Comptroller’s Audit (OSC)	X		Yes
OSC Audit - CAP	X		Yes
Internal Audit		X	No
Internal Audit - CAP		X	No

BEYOND THE MANDATE – BOE RELATED FINDINGS BY OSC

- **Financial Information**

- Financial Audits - most frequent subject of reports;
- Generally find issues, and comment about budget practices resulting in large budget/revenue variances;
- Many reports criticized size of reserves and fund balance;
- Many note district has excess “unassigned fund balance” – exceeding 4% limit.

Board members must be cognizant of approved budgets and financial information

- **The Board:**

- Must review all budget information, including regular reports and audits;
- Review, understand and decide accordingly on the recommendations related to fund balance(s) and reserves;
- Ensure budget and financial document transparency;
- Question unusual or large variances, and use as a basis for fiscal decision-making.

BEYOND THE MANDATE – THE NEED FOR FISCAL LITERACY

DiNapoli: State should improve financial literacy effort

N-SSBA
Nassau-Suffolk School Boards Association



In 2019, DiNapoli signed an executive order recognizing the need for more robust financial education in the state and providing New Yorkers with more tools to manage their finances.

**Safeguarding the Financial Health
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- Formal School District response to the management letter and Corrective Action Plan (CAP);

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- Annually performs risk assessment of financial policies, procedures & practices;
- Annual Testing and evaluation of one or internal controls to identify risk;
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- “Five Point Plan;”
- State Audit every five years with a Focus: Internal controls, policies, practices & operations to ensure adequate protection against fraud, waste, & abuse;
- Ad-hoc reporting and audits based on a risk-assessment and previous audits.

IV Pillars...

ACKNOWLEDGEMENTS/QUESTIONS



- Information, law(s) and relevant data pulled from the New York State Office of the State Comptroller, Schools Board Meetings, Eastern Suffolk BOCES, The New York Commissioners Rules and Regulations (NYCRR), and New York State Education Law, The Edumonics Lab at Georgetown University.



THANK YOU!



N-SSBA

Nassau-Suffolk School Boards Association