



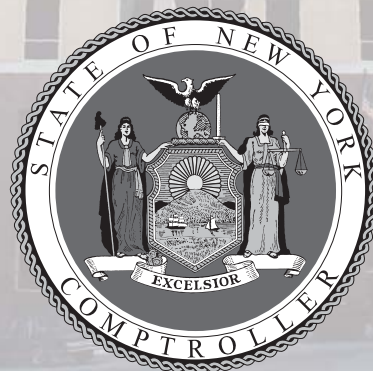
Amherst Central School District Employee Benefit Accrued Liability Reserve

Report of Examination

Period Covered:

July 1, 2007 — September 12, 2008

2008M-227



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2008

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 Amherst Central School District, entitled Employee Benefit Accrued Liability Reserve. 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 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 Amherst Central School District (District) is located in the Towns of Amherst and Cheektowaga, Erie County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) 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.

There are four schools in operation within the District, with approximately 3,025 students and 545 employees. The District's budgeted expenditures for the 2007-08 fiscal year were \$40.4 million, which were funded primarily with State aid, sales tax, real property taxes, and grants.

Objective

The objective of our audit was to examine the District's use of the Employee Benefit Accrued Liability Reserve. Our audit addressed the following related question:

- Did the District establish and maintain the Employee Benefit Accrued Liability Reserve in accordance with statutory requirements?

Scope and Methodology

We examined the Employee Benefit Accrued Liability Reserve of the Amherst Central School District for the period July 1, 2007 to September 12, 2008. For certain aspects of our audit, we extended our review back to the 2002-03 fiscal year.

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 would take corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 forwarded to our office within 90 days. 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.

Employee Benefit Accrued Liability Reserve

Districts may establish reserves to retain a portion of fund balance for a specific purpose, but must do so in compliance with statutory directives. It is the Board's responsibility to continually monitor the need for all reserves that have been established to ensure the best interests of the taxpayers are being met. An Employee Benefit Accrued Liability Reserve may be created under General Municipal Law (GML). Moneys from this reserve may only be used to make cash payments of the monetary value of accrued or accumulated but unused sick leave, holiday leave, vacation leave, etc. due to employees upon separation of service. Interest earned on money in the fund becomes part of the reserve. Should the Board determine that the fund is no longer needed, the moneys in the fund may be transferred to certain other reserve funds authorized by law.

There are three components of fund balance. Aside from the reserve for encumbrances, the reserved portion of fund balance represents moneys that the District may only use for specific purposes, as authorized by statute. Unreserved fund balance is uncommitted and therefore may be used (appropriated) to fund the ensuing year's expenditures. The portion of the unreserved fund balance that the District retains, which can be used for cash flow purposes and unanticipated expenditures, is referred to as unreserved, unappropriated fund balance. Real Property Tax Law limits the amount of unreserved, unappropriated fund balance to no more than 4 percent¹ of the current year's budget. Any fund balance over this percentage, must either be used to reduce the tax levy (appropriated) or used to fund legally established reserves.

An Employee Benefit Accrued Liability Reserve (EBALR) was first reported in the 2002-03 fiscal year; however, a Board resolution was not adopted to establish such a reserve. District officials stated that the EBALR was originally created as a method to reduce the District's unreserved, unappropriated fund balance to within the legal limit. If the District had not established this reserve, the \$1.2 million that was transferred to the reserve would have been required to be used to reduce the tax levy. It is apparent that this reserve was not intended to fund employee benefits because it was established in the amount of \$1.2 million, or about three times the amount of the reported liability. Instead, the reserve was used to avoid the statutory limit on fund

¹ Previously, unreserved, unappropriated fund balance could not exceed 2 percent of the current year's appropriations. As of June 30, 2007 the limit was 3 percent of 2007-08 appropriations and increased to 4 percent on June 30, 2008 and continues at 4 percent for years thereafter.

balance that would have required District officials to either establish and fund other statutorily authorized reserves or lower property taxes. The reserve fund was increased or decreased annually to maintain the District's unreserved, unappropriated fund balance at a level of approximately \$700,000. Beginning in fiscal year 2006-07 the District no longer had "excess" unreserved fund balance and the level of the EBALR has remained constant. There are no legal restrictions as to the balance carried in the EBALR. However, school districts should maintain reserve balances that are reasonable and supported. To do otherwise, by funding reserves at levels greater than necessary, results in real property tax levies that could be higher than needed. The total amount maintained in an EBALR should not be greater than the District's calculation of amounts due its employees for compensated absences. For the five-year period from fiscal year 2002-03 to fiscal year 2006-07 the EBALR balance has been greater than the amount necessary to fund the District's computed compensated absence obligations.

Fiscal Year	Increase	Decrease	EBALR Balance at Fiscal Year End	District's Computed Compensated Absences	Amount in Excess of Liability
2002-03	\$1,205,000	-	\$1,205,000	\$403,560	\$801,440
2003-04	-	\$422,686	\$782,314	\$437,554	\$344,760
2004-05	\$420,811	-	\$1,203,125	\$345,398	\$857,727
2005-06	\$186,835	\$754,486	\$635,474	\$331,694	\$303,780
2006-07	\$28,596	-	\$664,070	\$398,654	\$265,416
2007-08 ²	-	-	\$664,070	\$504,356	\$159,714

Additionally, the District is not adhering to statutory requirements to separately account for and allocate interest earned to the EBALR. District officials properly accounted for interest earnings, totaling \$28,596, only for the 2006-07 fiscal year.

The decreases to the reserve in 2003-04 and 2005-06 were effectively transfers back to unreserved fund balance. This is not an authorized use of the moneys set aside in an EBALR. Further, in 2007 the District began self-insuring for health insurance and determined that it would use the EBALR to provide funding for this purpose. However, this also is not an appropriate use of an EBALR.

The District improperly used the Employee Benefit Accrued Liability Reserve to circumvent statutory limitations on year end unreserved,

² 2007-08 financial information is unaudited data provided to us at the end of our fieldwork.

unappropriated fund balance and has maintained a balance in the reserve that is greater than necessary to finance future obligations.

Recommendations

1. The Board and District officials should ensure that reserves are properly established, used and maintained in accordance with applicable statute.
2. The Board should reduce the balance in the Employee Benefit Accrued Liability Reserve to a level that is necessary, reasonable, and reflects realistic future expenditure needs in accordance with legal restrictions.
3. District officials should account for and credit interest earned by the Employee Benefit Accrued Liability Reserve to that specific reserve fund.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Amherst Central School District

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55 Kings Highway
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Laura K. Chabe
Superintendent of Schools

(716) 362-3051

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

December 8, 2008

Office of the State Comptroller
ATTN: Robert Meller, Chief Examiner
295 Main Street, Rom 1050
Buffalo, NY 14203-2510

RE: **Response to New York State Comptroller's Report of Examination Regarding Employee Benefit Accrued Liability Reserve**

Dear Mr. Meller:

Thank you for conducting the audit which was discussed with the Amherst Central Board of Education on November 18, 2008. The information you have shared with us is invaluable. We hope this letter serves as an appropriate district response to your finding.

Your report highlights two issues with regard to a reserve that was established in 2003 for the purpose of paying liabilities related to employee benefits. One issue relates to the procedural aspect of formally establishing the reserve and the other pertains to the accounting and administrative management of the reserve.

The reserve was established in response to a recommendation from our independent auditor in 2003. At that time, our auditor had consulted with staff at the State Education Department, and advised us regarding the establishment of the reserve. As a result, we established the reserve, but we now realize that certain procedural requirements were not met by the district, and the reserve was not formally approved as required by the board of directors. Despite the oversight in passing a board resolution, the district's intention was to establish and maintain this reserve for the purpose of paying liabilities related to employee benefits.

Since the inception of the reserve, the district has exercised full disclosure of the reserve, reporting it each year on our ST-3 Annual Report as is required. Also, our financial statements, our ST-3 and this reserve were audited each year by our independent auditors. Several audits have occurred since that time, by two different audit firms. In fact, the independent audit for 2007-08 was the first to indicate that the reserve was incorrectly established. Your findings confirmed what had been brought to our attention through our regular audit, and we assure you that the situation will be corrected promptly.

The second issue relates to the accounting for the reserve; specifically, the level of the reserve, the accounting for the related interest, and the annual review of the reserve by the board. Your observations indicated that the level of the reserve exceeds what is reasonably required for the intended purpose, and you noted that interest related to the reserve was not being credited to the reserve account. In addition, you recommended that the board formally review all reserve accounts annually to ensure that reserve levels are appropriate.

As a result of your observations and recommendations:

- The board will pass a resolution to formally record the establishment of the reserve.
- The board will review all reserve accounts to ensure that reserve levels are appropriate to meet the intended need. We will also work with our attorney and independent accountant to establish a process for this review and a means by which we may address reserve levels in the event that our needs change over time.
- The board will consult with the district's attorney and independent accountant to determine an acceptable course of action that can be identified to reduce the reserve to a level that is aligned with our currently-projected needs.
- District officials will account for interest earned by the Employee Benefit Accrued Liability Reserve fund and ensure that interest is credited to the fund in an appropriate and timely manner.

We want to assure you that we have committed significant time and resources to ensure that our business practices are conducted in accordance with the guidelines established by the Comptroller's office. We have consistently been committed to our educational mission and respectful of our responsibility to our students and taxpayers. We believe that our frugal fiscal practices have been working effectively in order to provide the community with an outstanding education with modest budgets and equally modest tax levy changes. We believe that our performance from the mid-1990's through the current year compare extremely well both with other districts and especially with the Consumer Price Index for the same time period. We are committed to continuous improvement and take our responsibilities towards our community seriously. We are grateful for your efforts to help us improve our business practices and will follow up on our action items promptly.

Sincerely,



Laura K. Chabe
Superintendent of Schools

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, information technology, and payroll and personal services.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected the Employee Benefit Accrued Liability Reserve (EBALR) for further audit testing.

For the EBALR, we reviewed the District's annual financial reports for the six most recently completed fiscal years. In addition we interviewed the Business Administrator and District Treasurer and obtained journal entry activity related to this reserve. We also reviewed the compensated absences calculation to determine the reasonableness of the reserve and reviewed relevant statutory and regulatory provisions.

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

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