



Fort Plain Central School District

Financial Operations

Report of Examination

Period Covered:

July 1, 2007 — January 31, 2012

2012M-135



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	3
FINANCIAL OPERATIONS	5
Budgeting and Fund Balance	5
Reserves	7
Recommendations	8
APPENDIX A Response From District Officials	10
APPENDIX B Audit Methodology and Standards	13
APPENDIX C How to Obtain Additional Copies of the Report	14
APPENDIX D Local Regional Office Listing	15

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2012

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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Fort Plain Central School District, entitled Financial Operations. 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 Fort Plain Central School District (District) serves parts of the Towns of Minden, Palatine, and Canajoharie in Montgomery County, parts of the Town of Danube in Herkimer County, and parts of the Town of Ephratah in Fulton 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 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 two schools in operation within the District, with approximately 830 students and 300 employees.¹ The District's budgeted expenditures for the 2012-13 fiscal year were \$18.6 million, funded primarily with State aid and real property taxes.

Objective

The objective of our audit was to evaluate the District's financial operations. Our audit addressed the following related question:

- Did the Board adopt realistic budgets and retain only the amount of unexpended surplus funds allowed by law?

Scope and Methodology

We assessed financial operations related to fund balance and reserves for the period July 1, 2007 to January 31, 2012. We also reviewed the 2011-12 and 2012-13 budgets and preliminary financial statements for 2011-12 fiscal year results.

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 the General Municipal Law, Section 2116-a (3)(c) of the Education Law, and Section 170.12 of the Regulations of the

¹ Including both full-time and part-time employees

Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded 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 Operations

The Board, Superintendent, and Business Manager are accountable to taxpayers for the use of District resources, and are responsible for effective financial planning and management of District operations. District officials have a responsibility to taxpayers to ensure that their tax burden is not greater than necessary. In order to fulfill this responsibility, it is essential that officials develop reasonable budgets and manage fund balance responsibly and in accordance with statute. Sound budgeting practices coupled with prudent fund balance management ensure that sufficient funding will be available to sustain operations, address unexpected occurrences, and satisfy long-term obligations or future expenditures. Once the Board has addressed those matters, surplus fund balance remaining should be evaluated and appropriately used to reduce the property tax levy.

The Board did not adequately use excess surplus fund balance² or reserves as funding sources. As a result the Board levied more real property taxes than necessary, and retained unexpended surplus funds in excess of the amount allowed by law.

Budgeting and Fund Balance

In preparing the budget, the Board is responsible for estimating what the District will receive in revenue (e.g., State aid) and how much fund balance will be available at fiscal year-end (some or all of which may be used to fund the ensuing year's appropriations) and, to balance the budget, determining what the expected tax levy will be. Accurate estimates help ensure that the levy of real property taxes is not greater than necessary.

Fund balance represents the resources remaining from prior fiscal years that can be assigned as a funding source in the budget or retained as unassigned. Real Property Tax Law only allows a district to retain up to 4 percent of the ensuing year's budget as unassigned fund balance. Fund balance in excess of that amount must be used to fund a portion of next year's appropriations, thereby reducing the tax levy, or used to fund legally established reserves.

² The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

When fund balance is assigned as a funding source, it reduces the fund balance included in the 4 percent calculation. The expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the assigned fund balance. It is important that District officials not assign fund balance that will not be used in an effort to circumvent the statutory limit.

The Board has taken steps to reduce unexpended surplus funds by appropriating unexpended surplus funds annually. However, as shown in the following table, the amounts appropriated during the period reviewed have not been used in full, if at all. For example, the District appropriated unexpended surplus funds in the amount of \$185,000 towards the budget for the 2008-09 fiscal year. However, the District ended the year with an operating surplus, increasing the fund balance by \$498,109 instead of using \$185,000 of fund balance as planned. The District appropriated \$750,000 of unexpended surplus funds for the 2011-12 fiscal year, but once again ended the year with an operating surplus. Preliminary financial information showed the District had an operating surplus for that year in excess of \$500,000.

Although the District is appropriating \$850,000 for the 2012-13 fiscal year, historically, the District's appropriated unexpended surplus funds have not been fully used, resulting in the retention of surplus funds in excess of the statutory limit.

Table 1: Operating Results and Surplus Funds

	2007-08	2008-09	2009-10	2010-11
Beginning Surplus	\$1,372,923	\$2,853,988 ^a	\$3,352,098 ^a	\$3,251,570
Actual Revenues	\$16,611,065	\$16,872,214	\$17,093,758	\$17,826,275
Actual Expenditures	\$15,626,892	\$16,374,105	\$17,194,286	\$17,849,658
Operating Surplus/(Deficit)	\$984,173	\$498,109	(\$100,528)	(\$23,383)
Ending Surplus	\$2,357,096	\$3,352,097	\$3,251,570	\$3,228,187
Less: Restricted	\$785,481	\$1,805,420	\$1,619,147	\$1,540,896
Less: Appropriated	\$185,000	\$325,000	\$550,000	\$750,000
Unexpended Surplus Funds	\$1,386,615	\$1,221,677	\$1,082,423	\$937,291
Percentage of Next Year's Appropriations	8.03%	7.00%	5.84%	5.16%
Amount Over Statutory Limit	\$696,015	\$523,477	\$340,423	\$211,291

^a Includes prior period adjustment

As a result, the balance of the unexpended surplus funds continued to be in excess of the amount allowed by law at the end of each fiscal year. For example, at June 30, 2008, the unexpended surplus funds were almost \$1.4 million, or 8 percent of the ensuing year's

appropriations. At June 30, 2011, the unexpended surplus funds balance of \$937,291 was still over the statutory limit at 5 percent of the ensuing year's appropriations. Preliminary financial information showed that unexpended surplus funds at the end of the 2011-12 fiscal year totaled almost \$1,334,000. This represented over 7 percent of the next year's appropriations, or almost \$590,000 over the statutory limit.

This practice of appropriating unexpended surplus funds that are not actually used to finance operations is, in effect, a reservation of fund balance that circumvents the statutory limit for unexpended surplus funds, and may have caused the District to levy more real property taxes than needed. Instead of using these balances to reduce the property taxes, the District's budgetary practices have resulted in a retention of resources that could have been used for the benefit of District taxpayers.

Reserves

Reserve funds are established by Board action, pursuant to various laws, and are used to provide financing only for specific purposes such as employee benefits or unemployment insurance. The statutes under which reserves are created determine how the reserves may be funded, expended, or discontinued. Generally, school districts are not limited as to how much money can be held in reserves. However, it is important that school districts maintain reserve balances that are reasonable.

The Board can reduce the unassigned fund balance by transferring surplus moneys to legally established reserve funds. Because this action reduces the amount of fund balance that can be used to reduce taxes, the Board must ensure that funds are not reserved in excess of the District's needs.

To reduce the unassigned fund balance as of June 30, 2009, District officials transferred surplus moneys into the retirement contribution reserve and a newly created unemployment insurance reserve. District officials have neither used the money in the reserves, nor do they have a formal plan for its use.

Retirement Contribution Reserve – A retirement contribution reserve is intended to pay retirement contributions to the New York State and Local Retirement System. An Employee Benefit Accrued Liability Reserve (EBALR) is used to make cash payments to employees for accrued or accumulated unused sick leave, holiday leave, vacation leave, and any other forms of payment for accrued leave time and benefits due upon separation from service.

The Board established a retirement contribution reserve, effective June 30, 2008. However, it would appear that the Board intended it to be an EBALR, since the purpose of the reserve is to pay employees for compensated absences (the cash value of accrued leave time) when they separate from District employment. The reserve was initially funded with \$560,000, which was justified by the related long-term liability of the compensated absences. As of June 30, 2011, the balance in the reserve was \$610,000. The Board consistently budgets for planned payouts for accumulated leave time owed to employees leaving employment with the District and utilizes non-reserve fund moneys in the general fund (e.g., taxes) to make the payments to the departing employees; the District has not used the reserve to fund such payments since its establishment. Additionally, the Board lacks formal plans for use of moneys in the reserve fund.

Unemployment Insurance Reserve – This reserve is intended to reimburse the State Unemployment Insurance Fund for payments made to claimants. The Board established an unemployment insurance reserve in the amount of \$430,000 during the fiscal year ended June 30, 2009. The District’s justification for the amount was that it was “reflective of the amount necessary to cover the cost of maximum benefits for 20 individuals or approximately 10 percent of the District’s work force.” However, for the fiscal year ended June 30, 2011, the cost to the District for unemployment insurance totaled only \$42,129, and its average annual unemployment expenditures for the last five years were only about \$16,800. Additionally, the Board lacks formal plans for the use of the reserve, and has also annually budgeted for this appropriation directly from the general fund without using moneys from the reserve as a funding source.

The lack of formal plans and activity in the reserves suggests that District officials may be inappropriately holding money in these reserves as a method to circumvent statutory limits on unassigned fund balance. Had the District used these moneys to fund District operations, real property taxes could have been reduced.

Recommendations

1. The Board and District officials should develop realistic expenditure and fund balance estimates for the annual budget.
2. District officials should develop a plan for the use of surplus fund balance identified in this report in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - Increasing necessary reserves
 - Paying off debt

- Financing one-time expenditures
 - Reducing District property taxes.
3. District officials should develop a plan for the future funding and use of reserve funds and ensure amounts reserved are reasonable and necessary, and that the reserves are used as intended.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

FORT PLAIN CENTRAL SCHOOL

Douglas C. Burton, Superintendent of Schools

To whom it may concern,

We are in receipt of your audit and have the following comments:

The Ft. Plain CSD has done everything it can to use taxpayer funds appropriately and simultaneously secure a sound educational program for our children. Our actions have been guided by long range plans that have taken into account previous and future massive state aid cuts, the loss of significant amounts of temporary federal funds and our desire to lower our tax rate to assist residents of this below average wealth school district. As with all plans, adjustments have been made to ensure educational goals are met even when unanticipated and unknown expenses are absorbed by the district due to considerable costs escalations resultant from our continuous bombardment by the state with unfunded mandates, the tax cap restrictions and an absence of mandate relief or state aid adjustments.

Your audit has provided findings for our consideration. We have examined your findings and recommendations. Your audit revealed clearly, as contained in Table 1 Data, a planned and distinct trend in the District's progress toward:

- Tighter budgeting and the use of Appropriated Fund Balance to relieve the local tax burden.
- The districts reallocated accumulated additional surplus funds in 2007-08 and 2008-09 to reduce the tax burden in 2009-10 and 2010-11.
- Also reserve establishment and management decreased unappropriated fund balances from 8.03% in 2007-08 down to 5.13% of budget in 2010-11.

Upon reflection of your findings and recommendations and discussions with auditors we noted that:

- Fiscal year 2011-12 saw a series of unusual occurrences that caused unexpected increases in revenue and decreases in expenditures from the General Fund that resulted in an unanticipated increase in unexpended surplus funds. For instance:
 - An unusually warm winter with almost no snow accumulations resulted in savings on snow removal including lower overtime salaries for snow crews, lower fuel usage in snow vehicles, and lower unit costs for fuel.
 - General heating costs were less than projected due to both lower gas usage and lower unit costs for energy in general.
- Additional savings realized after Budget was in place by further streamlining the Transportation department.
- A one-time infusion of EJP and ARRA money to save Teacher positions moved certain expenses out of the General and into the Special Aid Fund.
 - Unanticipated Revenues included Lump sum payment of previous year's ARRA aid and Medicaid payments including some retroactive starting up after a year's moratorium.
- District received double the amount of previous year's BOCES refund for services.
- We received over \$50,000 for one time sale of buses.

The Board has taken the steps to make adjustments in reserve funds to accurately reflect the districts liabilities and our long range educational and fiscal plan:

- Reallocate the appropriate amount from the (ERS) Retirement Contribution Reserve to the fund Employee Benefit Accrued Liability Reserve (EBALR) effective June 30, 2012.
 - This fund adjustment reflects an amount covering approximately one quarter of the projected NYS Employee Retirement System assessment.
 - These funds would be used to defray the cost of large increases in that assessment in future years as needed to help the District stay within the Statutory 2% Tax Levy Cap.
- The District has planned to utilize the funds in the EBALR to cover the cost of making cash payments to employees for accrued or accumulated leave time owed to those employees leaving employment with the District.
 - In addition, the EBALR will be adjusted at the end of every fiscal year (with available funds as needed) to maintain a level commensurate with that of the amount of “Compensated Absences” reflected in the Statement of Non-Current Governmental Liabilities at that time.
- Unemployment Reserve adjusted to reflect the amount necessary to cover the cost of maximum benefits for two (2) individuals.
 - These funds would be used to defray the cost of increases in that assessment in future years that exceeded the annual budgetary appropriation.
 - In addition, the Unemployment Reserve will be adjusted at the end of the fiscal year (with available funds as needed) to maintain a level commensurate with current maximum benefits for two individuals.
- Capital Reserve will reflect a tentative 10 year plan to get the district bus fleet from the previous 5 year replacement schedule.
 - Thus the new schedule will eventually keep the maximum age of full size fleet buses to 10 years. This smoothes out and reduces the annual replacement schedule.
- As part of this plan the District will be proposing to the voters that the Capital Reserve be increased to approximately \$1,387,000 (The exact amount is still under review).
 - By using this method (and future transportation aid as needed – with voter approval), the fleet requirements of the District could be met for at least the next ten years without incurring any additional debt and without creating any tax levy for that purpose.
- This entire fiscal plan will also bring the District’s Unrestricted Fund Balance under 4% and into compliance.
- District management and the Board of Education will continue to tighten estimates for expenditures and appropriated fund balance for proposed annual budgets to try to hold District Property Tax Levy as appropriate for our educational obligations to students and fiscal obligations to residents.

Thank you for this opportunity to respond and address the findings of the audit.

Respectfully,

Douglas C. Burton

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, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedure manuals, Board minutes, and financial records and reports. 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 areas we reviewed. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected financial operations related to fund balance and reserves.

To accomplish our objective we reviewed accounting records and financial reports to determine whether fund balance was in excess of amounts allowed by law. We compared budgets with actual results for fiscal years 2007-08 thru 2010-11,³ to assess whether the budgets were realistic and identify significant trends. We reviewed Board minutes, Board resolutions, accounting records, financial reports, applicable statutes, and activity within the reserves to determine if reserves were properly established, funded, and used.

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.

³ We also reviewed 2011-12 budget to actual information as of January 31, 2012.

APPENDIX C

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