



# Springville-Griffith Institute Central School District Financial Management

Report of Examination

Period Covered:

July 1, 2008 — August 5, 2011

2011M-218



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	4
<b>FINANCIAL MANAGEMENT</b>	5
Recommendations	7
<b>APPENDIX A</b> Response From District Officials	8
<b>APPENDIX B</b> Audit Methodology and Standards	10
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	11
<b>APPENDIX D</b> Local Regional Office Listing	12

# State of New York Office of the State Comptroller

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

February 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 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 Springville-Griffith Institute Central School District, entitled Financial Management. 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 Springville-Griffith Institute Central School District (District) is located in the Towns of Aurora, Boston, Colden, Collins, Concord and Sardinia in Erie County and the Towns of Ashford, East Otto and Yorkshire in Cattaraugus 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. The District also employs a Business Administrator providing general oversight of the District's fiscal operations.

There are four schools in operation within the District, with approximately 2,000 students and 350 employees. The District's budgeted general fund expenditures for the 2010-11 fiscal year were \$35 million, which were funded primarily with State aid, real property taxes, and grants.

## Objective

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

- Does the Board properly manage District finances by ensuring budgets are realistic and supported?

## Scope and Methodology

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 a review of Board oversight and monitoring and evaluations of the following areas: financial condition, claims processing, purchasing, payroll, health insurance, transportation services, capital projects, buildings and grounds operations, energy consumption, and information technology. 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 did determine that risk existed in the area of financial management and, therefore, we assessed financial management for the period July 1, 2008 to August 5, 2011.

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 is 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 that they plan 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 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 Management

The Board, Superintendent, and Business Administrator are accountable to District taxpayers for the use of District resources, and are responsible for effectively planning and managing the District's financial operations. The Board and Superintendent are also responsible for ensuring that budgets are based on reasonable estimates of appropriations and revenues. Sound budgeting provides sufficient funding for needed operations and prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. However, the District also has a responsibility to taxpayers to realistically estimate appropriations to prevent real property taxes from being raised at levels greater than necessary to sustain operations. After the Board has addressed those issues, any remaining fund balance, exclusive of that allowed by law to be retained to address cash flow and unexpected occurrences, should be used in a manner that benefits District taxpayers.

Appropriated fund balance represents moneys that are anticipated to be used to help finance the ensuing fiscal year's budget. Unappropriated fund balance is used for cash flow purposes and as a hedge against unanticipated expenditures and/or revenue shortfalls. Real Property Tax Law currently limits unappropriated fund balance to be no more than 4 percent of the ensuing fiscal year's budget. When adopting the budget, District officials must estimate the fund balance that will be available. However, by August, when taxes are levied, District officials should know how much fund balance is available from the prior fiscal year ended on June 30th to offset taxes and adjust the levy accordingly.

We found that the District included more realistic estimates of appropriations in the 2010-11 budget than in prior years, and used fund balance and reserves to help fund operations. This resulted in the fund balance being reduced to an amount that was closer to the amount allowed by statute at the end of the 2010-11 fiscal year than in prior years. The 2011-12 budget also included more realistic estimates of appropriations than in prior years, and used fund balance and reserves to help fund operations.

From July 1, 2008 to June 30, 2010, the District's total unreserved fund balance grew from \$4.6 million to \$6.1 million. In the budgets presented to the voters for these two fiscal years, it appeared that the District needed to use accumulated fund balance to close projected budget gaps, which in effect resulted from overestimated appropriations.

<b>Table 1: Budgeted Appropriations vs. Actual Expenditures</b>			
	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
Appropriations	\$35,641,053	\$35,000,678	\$35,298,210
Actual Operating Expenditures	\$33,385,832	\$32,096,391	\$34,288,239
<b>Difference</b>	<b>\$2,255,221</b>	<b>\$2,904,287</b>	<b>\$1,009,971</b>

For fiscal years 2008-09 and 2009-10, the Board budgeted for a total of almost \$2.6 million in fund balance to offset appropriations. This should have resulted in planned operating deficits each year which would have reduced fund balance. However, because District officials consistently overestimated appropriations,<sup>1</sup> the District instead generated operating surpluses, totaling nearly \$3 million, for 2008-09 and 2009-10, increasing fund balance dramatically through June 30, 2010.

For the 2010-11 fiscal year, the District appropriated nearly \$1.8 million of fund balance and \$800,000 of reserves to offset appropriations. This resulted in reductions in fund balance of approximately \$1.3 million and in reserves of approximately \$500,000. At June 30, 2011, the District's unappropriated, unreserved fund balance was reported at \$1.4 million, which was approximately the statutory limit. By providing more realistic estimates of appropriations in its 2010-11 annual budget than prior years, the District experienced a planned operating deficit. In addition, the District lowered the tax levy from \$11.5 million in the 2008-09 fiscal year to \$11.4 million in the 2010-11 fiscal year.

<b>Table 2: Results of Operations</b>			
	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
Beginning Fund Balance	\$9,738,153	\$8,223,010	\$10,567,375
Actual Revenues	\$33,943,431	\$34,471,845	\$31,786,176
Actual Operating Expenditures	\$33,385,832	\$32,096,391	\$34,288,239
Operating Surplus (Deficit)	\$557,599	\$2,375,454	(\$2,502,063)
Transfer from Reserve to Capital Project	(\$2,072,742)	\$0	\$0
Net Prior Period Adjustments	\$0	(\$31,089)	(\$2)
<b>Year-End Fund Balance</b>	<b>\$8,223,010</b>	<b>\$10,567,375</b>	<b>\$8,065,310</b>
Less: Reserved Fund Balance	\$4,105,653	\$4,458,696	\$3,290,227
Less: Assigned Fund Balance Appropriated for Ensnuing Year's Budget	\$800,000	\$1,755,446	\$3,174,171
Less: Assigned, Unappropriated Fund Balance	\$0	\$0	\$158,886
<b>Unreserved, Unappropriated Fund Balance at June 30th</b>	<b>\$3,317,357</b>	<b>\$4,353,233</b>	<b>\$1,442,026</b>

<sup>1</sup> Revenue estimates were generally reasonable.

District officials told us the changes in budgeting during the last two years were in response to economic conditions and therefore, not a conscious decision to reduce unneeded fund balance.

### **Recommendations**

1. District officials should continue to prepare budgets that include realistic appropriations based on contractual and historical data.
2. District officials should continue to prepare a realistic estimate of unreserved fund balance for consideration by the Board in developing the ensuing year's budget.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# SPRINGVILLE-GRIFFITH INSTITUTE CENTRAL SCHOOL DISTRICT

Enabling Each Student to Succeed

307 Newman Street • Springville, New York 14141-1599 • FAX (716) 592-3209

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**Superintendent of Schools**  
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[pconnelly@springvillegi.org](mailto:pconnelly@springvillegi.org)

**Ms. Kathy Tucker**  
**Secretary to Superintendent/  
District Clerk**  
**716-592-3230**  
[ktucker@springvillegi.org](mailto:ktucker@springvillegi.org)

January 18, 2012

Mr. Robert Meller, Chief Examiner  
Buffalo Regional Office of the State Comptroller  
295 Main Street, Suite 1032  
Buffalo, New York 14203-2510

Dear Mr. Meller:

Thank you for your recent review of operational practices in the Springville-Griffith Institute Central School District. Please consider this letter as not only our official response, but our Corrective Action Plan as well.

S-GI prides itself on providing our students a quality education combined with maintaining taxpayers trust by using accurate information in describing the District's financial conditions. We are especially proud of the fact that, in the uncertain fiscal environment surrounding public schools the past several years, S-GI has been able to expand student services and programs while minimizing tax levy increases.

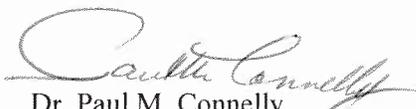
We appreciate your thorough review of our operations including financial condition, claims processing, purchasing, payroll, health insurance, transportation, capital projects, buildings and grounds energy consumption, and technology. We also appreciate your verification that controls in these areas were adequate and appropriate.

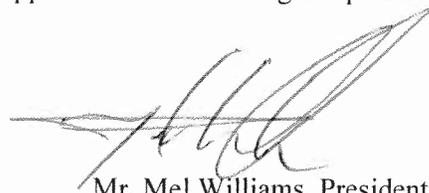
We are also pleased to accept your recommendation that we continue our budget development process intended to provide taxpayers with the most accurate information possible.

We would like to clarify the statement made which indicates changes in budgeting during the last two years were the result of economic conditions and not a conscious effort to reduce fund balance. In fact, for the 2011-2012 fiscal year, over three million dollars were moved from fund balance and appropriated to meet not only fund balance limitations, but balance the budget as well. This action was discussed by the Board and authorized by resolution when the Board adopted the levy in August of 2011.

The one thing that appears certain regarding the funding of public education is that the next few years will likely be filled with change and volatility as districts move to meet the many educational mandates and needs of our students with significantly declining revenues. Your review is appreciated as validating our practices thus far.

Sincerely,

  
Dr. Paul M. Connelly  
Superintendent of Schools

  
Mr. Mel Williams, President  
Board of Education

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess District operations and identify areas where the District could realize efficiencies and protect assets from loss or misuse. To accomplish this, our initial assessment included a review of Board oversight and monitoring, financial condition, claims processing, purchasing, payroll, health insurance, transportation services, capital projects, buildings and grounds operations, energy consumption, and information technology.

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 on the reported objective and scope by selecting for audit those areas most at risk. We selected financial management for further audit testing.

In evaluating the District's financial management practices, we performed the following audit procedures:

- We reviewed audited financial statements and budget-to-actual reports to analyze changes in fund balance as a result of annual operations. We also examined the components of fund balance for adherence to statutory requirements.
- We identified and analyzed specific budget lines with significant budget-to-actual variances and interviewed District officials to determine the methods used to estimate certain appropriations.
- We analyzed activity in the District's various reserve funds.
- We examined the tax levy increases/decreases from 2008-09 through 2011-12 and schedules provided by District officials to support fund balance projections.

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.

## APPENDIX C

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