



# Andes Central School District

## Financial Management

### Report of Examination

Period Covered:

July 1, 2011 — August 6, 2013

2013M-250



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	3
<b>FINANCIAL MANAGEMENT</b>	5
Recommendations	7
<b>APPENDIX A</b> Response From District Officials	8
<b>APPENDIX B</b> Audit Methodology and Standards	11
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	12
<b>APPENDIX D</b> Local Regional Office Listing	13

# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

December 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as 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 local government assets.

Following is a report of our audit of the Andes 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 local government 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 Andes Central School District (District) is located in the Towns of Andes, Bovina, Delhi, Hamden and Middletown in Delaware County. The District is governed by a Board of Education (Board), which has five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs, including budget development. They are also responsible for monitoring and controlling the budget throughout the year. 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.

The District's budgeted expenditures for 2013-14 fiscal year are \$3.8 million, which are funded primarily with real property taxes and State aid. There is one school in operation with 121 students (K through 12) and 44 employees.

## **Objective**

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

- Are District officials properly managing the District's fund balance levels?

## **Scope and Methodology**

We examined the District's financial condition and budgeting practices for the period July 1, 2011 through August 6, 2013. We expanded our scope to July 1, 2007 to provide additional information for perspective and up-to-date fund balance information.

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 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 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

Fund balance represents resources remaining from prior fiscal years that can be used to lower property taxes for the ensuing fiscal year. The estimation of fund balance is an integral part of the budget process. A district may retain a portion of fund balance, referred to as unexpended surplus funds,<sup>1</sup> within the limits established by Real Property Tax Law. Districts may also establish reserves to restrict a portion of fund balance for a specific purpose, also in compliance with statutory directives. However, reserve balances must be reasonable. Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

District officials are not properly managing the District's fund balance levels. They have appropriated funds they have not used in four of the last five fiscal years (2008-09 to 2012-13), because the District consistently spent less than what was budgeted. Although District officials used \$205,000 of appropriated fund balance in 2011-12, their unreserved fund balance increased to almost 20 percent of the following year's budgeted appropriations. While the 2012-13 unreserved fund balance dropped slightly, it is still well above the amount allowed by law.<sup>2</sup> In addition, two reserves have excess balances totaling \$415,000, based on their intended use. Also, during this time, real property taxes have increased from \$2.5 million in 2009 to \$2.7 million in 2013, and the District has issued \$1.5 million in additional debt.

Budgets – The District's annual budgets consistently included the use of fund balance to finance operations. For the fiscal years 2008-09 through 2012-13, the Board adopted budgets that included appropriated unexpended surplus of nearly \$1.2 million, an average of \$236,000 annually. However, very little was actually needed to finance operations. As a result of the operating surpluses over the five

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<sup>1</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserve 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 "unexpected surplus funds" to refer to that portion of fund balance that was classified as unrestricted, less any amount appropriated for the ensuing year's budget (after Statement 54).

<sup>2</sup> State Education Department regulations require school districts to use any available fund balance that is greater than 4 percent of the ensuing year's total general fund appropriations to fund operations.

years, the District did not need to utilize almost \$1 million of the \$1.2 million appropriated fund balance intended to fund the budget.

<b>Table 1: Unexpended Surplus Funds</b>					
	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
<b>Appropriated Fund Balance<sup>a</sup></b>	\$175,000	\$297,300	\$297,300	\$211,076	\$211,075
<b>Appropriated Fund Balance Actually Used</b>	\$0	\$0	\$0	\$205,274	\$0
<b>Unexpended Surplus Fund Balance</b>	\$474,003	\$580,712	\$626,729	\$713,831	\$635,132
<b>Unexpended Surplus as % of Ensuing Year Appropriations<sup>b</sup></b>	12.90%	15.61%	17.08%	19.61%	16.73%

<sup>a</sup> As reported by the District in its annual financial report filed with the Office of the State Comptroller  
<sup>b</sup> Budgeted appropriations were \$3,673,609 for the 2009-10 fiscal year, \$3,720,027 for the 2010-11 fiscal year, \$3,670,229 for the 2011-12 fiscal year, \$3,640,856 for 2012-13 fiscal year and \$3,796,888 for the 2013-14 fiscal year.

District officials told us they planned to use these surplus funds for various capital projects. However, the excess funds have not been used for their intended purpose. Consequently, the District’s unexpended surplus fund balance has been over the 4 percent limit in each of the past five years, and was nearly five times the legal limit in fiscal year 2011-12. Regardless of the surpluses generated, the Board adopted budgets with tax levy increases in each of these years, increasing from \$2.5 million to \$2.7 million. Moreover, the Board has issued \$1.5 million in debt since 2009. We determined that approximately \$118,000 could have been paid out of available surplus funds, which would have avoided District taxpayers incurring \$22,800 in interest costs over the life of these debts.

Reserves – As of June 30, 2013, the District had six general fund reserves totaling \$850,000. We analyzed these reserves for reasonableness and found the funding for the unemployment insurance, liabilities, insurance and repair reserves to be reasonable. However, the reserves for retirement contributions and employee benefit accrued liabilities, totaling \$415,000, were questionable as to the amounts required for their stated purposes.

- Retirement Contribution Reserve – This reserve is used to pay the District’s retirement contribution to the New York State and Local Retirement System (NYSLRS). The reserve balance as of June 30, 2013 is \$364,000. However, District officials spent an average of \$33,000 for the fiscal years 2008-09 through 2012-13. Therefore, the balance in this reserve is more than enough to fund expenditures for several years.
- Employee Benefit Accrued Liability Reserve – This reserve must be used only for the cash payments of accrued and

unused sick, vacation and certain other leave time owed to employees when they leave District employment. There is more than \$375,000 reserved for compensated absences in this account. However, our analysis determined that nearly \$84,000 of this was in excess of the amount actually needed.

District officials pay these expenditures each year from operating funds instead of from these reserves. As a result, the need for reserves at all is questionable. By maintaining excessive funds in these reserves, combined with ongoing budgeting practices that generate repeated operating surpluses, the Board and District officials have withheld significant funds from productive use, raised taxes unnecessarily and compromised the transparency of District finances to the taxpayers.

## **Recommendations**

1. The Board should ensure that the amount of the District's unexpended surplus fund balance is in compliance with the Real Property Tax Law statutory limits. Such uses could include, but are not limited to, using surplus funds as a financing source, funding one-time expenditures or funding appropriate reserves.
2. The Board should avoid raising more real property taxes than necessary.
3. The Board should review all reserve balances and transfer excess funds to unrestricted fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# ANDES CENTRAL SCHOOL

85 Delaware Avenue  
P.O. Box 248  
Andes, New York 13731

Telephone (845) 676-3166

Fax (845) 676-3181

Guidance  
Glenn Reynolds

Superintendent  
Dr. Robert L. Chakar, Jr.

Treasurer  
Janice Stevens

Tuesday, November 26, 2013

RE: Accepting Findings  
Corrective Action Plan (CAP)

Office of State Comptroller  
Division of Local Government & School Accountability  
PSU – CAP Submission  
110 State Street, 12<sup>th</sup> floor  
Albany, NY 12236

To Whom It May Concern:

The Andes Central School District's Board of Education takes its responsibility to initiate corrective actions in good faith. Pursuant to Section 35 of the General Municipal Law, Section 211-a(3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, we are writing a corrective action plan (CAP) that addresses the findings and recommendations in the report.

This report will be provided to the Commissioner of Education. In addition, to the extent practicable, the implementation of the CAP will begin by the end of the next fiscal year. The Board will make the CAP available for public review in the District Clerk's office.

The Andes Board of Education accepts the draft findings and recommendations. The Board finds the recommendations appropriate based on all the data provided in the draft report. That said, below are the findings and CAP:

Finding:

1. The District's unexpended surplus fund balance is over the Real Property Tax Law statutory limit currently set at 4%.
2. The District has raised more real property taxes than has been used.
3. The Board has excess funds in reserve.

Corrective Action Plan (CAP):

1. The District will use the excess unexpended surplus fund balance to finance projects, fund one-time expenditures, fund appropriate reserves and/or to offset tax increases by the 2014-2015 budgeting process.
2. The District will avoid raising additional real property taxes than necessary in planning the 2014-2015 budget.
3. The Board will review all reserve balances and transfer excess funds to unrestricted fund balance, or other reserves established and maintained in compliance with statutory directives at the close of the 2013-2014 fiscal year.

Respectfully,

Dr. Robert L. Chakar, Jr.     ✓  
Superintendent of School

C:     Andes Board of Education

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate District officials and employees, tested selected records and examined pertinent documents for the period July 1, 2011 through August 6, 2013. To analyze the District's historical appropriation of fund balance and establishment of reserves, we extended the audit period back to fiscal year 2008-09.

Our examination included the following:

- We interviewed District officials and reviewed the meeting minutes to gain an understanding of the District's budget development process, including how officials determine the use of fund balance.
- We compared the budgeted revenues and expenditures to the actual revenues and expenditures for the general fund for fiscal years 2008-09 through 2012-13 to determine if the District was budgeting reasonably.
- We reviewed the results of operations in comparison to amounts appropriated in the adopted budgets for fiscal years 2008-09 through 2012-13. We also calculated unreserved fund balance as a percentage of the next years' total appropriations to determine compliance with statutory limits.
- We reviewed the District's tax levy, taxable assessment and tax rates for fiscal years 2008-09 through 2012-13 to determine if the tax levies and rates have been increasing.
- We obtained debt schedules and compared available funds at the beginning of the year to debt issued during the year. We calculated interest costs on debt issued which could have been funded from available funds.
- We analyzed reserve accounts to determine if they were properly established, supported and reasonably funded.

We conducted this performance audit in accordance with 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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