



# Pine Valley Central School District

## Financial Management and Procurement

### Report of Examination

Period Covered:

July 1, 2012 — January 7, 2014

2014M-36



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

July 2014

Dear District Officials:

A top priority of the Office of the State Comptroller is to help school district 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 district 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 Pine Valley Central School District, entitled Financial Management and Procurement. 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*



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

The Pine Valley Central School District (District) is located in the Towns of Arkwright, Charlotte, Cherry Creek, Ellington and Villenova within Chautauqua County, and the Towns of Conewango, Dayton, Leon and New Albion within Cattaraugus County. The District is governed by an elected nine-member Board of Education (Board) which 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 Business Administrator is responsible for accounting for all District funds and preparing financial reports for the Board.

There are two schools in operation within the District, with approximately 615 students and 145 full-time employees. The District's general fund budgeted appropriations for the 2013-14 fiscal year total \$15 million, funded primarily with State aid, real property taxes and grants.

### **Scope and Objectives**

The objectives of our audit were to assess the District's financial management and procurement process for the period July 1, 2012 through January 7, 2014. We extended our review of financial management practices back to July 1, 2008. Our audit addressed the following related questions:

- Did the Board properly manage District finances by ensuring budgets were realistic and properly planning for and using fund balance and reserve funds in accordance with statutory requirements?
- Did the District procure goods and services in accordance with District purchasing policies and regulations?

### **Audit Results**

The District has accumulated in excess of \$2.4 million<sup>1</sup> that should be used to benefit taxpayers by paying off debt, financing one-time expenditures, funding necessary reserves and/or reducing property taxes, in accordance with applicable statutory requirements. District officials did not ensure that budgets were realistic or maintain reserves in accordance with statutory requirements. District officials routinely overestimated appropriations. For example, for the five years ending June 30, 2013, District officials have overestimated appropriations by a total of \$6.3 million. These budgeting

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<sup>1</sup> Includes excessive unexpended surplus funds of \$638,000, Employee Benefit Accrued Liability Reserve of \$984,000, Retirement Contribution Reserve of \$727,000 and Insurance Reserve of \$80,000

practices generated \$1.36 million in operating surpluses, which caused the unexpended surplus fund balance to exceed statutory limitations for the past five years. For example, as of June 30, 2013, the unexpended surplus fund balance exceeded the statutory limit by 4.25 percent or approximately \$638,000. Furthermore, the District has accumulated a total of \$2.5 million in its reserve funds. We found that the Employee Benefit Accrued Liability Reserve is overfunded by 81 percent or \$984,000. Also, the \$727,000 balance in the Retirement Contribution Reserve is sufficient to cover the associated liabilities for at least three years and the \$80,000 balance of the Insurance Reserve has no associated liabilities. Therefore, we question the District's need to maintain these reserves at their current funding levels.

District staff did not always obtain verbal or written quotes prior to procuring goods and services in accordance with purchasing policies and guidelines. We reviewed purchases of 21 types of goods and services totaling \$114,629 and found that 12 goods or services, totaling \$66,804, were obtained without any type of competition. For example, during 2012-13, District staff purchased paper towels totaling \$8,262 and tires totaling \$5,193 without obtaining three written quotes from vendors as required. In addition, District staff obtained only two of the three quotes required for the installation and purchase of computer lab counters costing \$4,200 and did not retain quotes District staff indicated it obtained for carpet and automotive filters totaling \$3,508. Under these circumstances, the District cannot ensure that goods and services are procured in the most economical manner and in the best interest of taxpayers.

### **Comments of District Officials**

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

# Introduction

## Background

The Pine Valley Central School District (District) is located in the Towns of Arkwright, Charlotte, Cherry Creek, Ellington and Villenova within Chautauqua County, and the Towns of Conewango, Dayton, Leon and New Albion within Cattaraugus County. The District is governed by an elected nine-member Board of Education (Board) which 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 Superintendent is appointed by the Board as the purchasing agent and a high school teacher serves as the Board's appointed claims auditor. Both play an important role in the District's purchasing function. The Business Administrator is responsible for accounting for all District funds and preparing financial reports for the Board. She plays a key role in the daily administration of the Business Office and has three employees to assist her with these functions.

There are two schools in operation within the District, with approximately 615 students and 145 full-time employees. The District's general fund budgeted appropriations for the 2013-14 fiscal year total \$15 million, funded primarily with State aid, real property taxes and grants.

## Objectives

The objectives of our audit were to assess the District's financial management and procurement process. Our audit addressed the following related questions:

- Did the Board properly manage District finances by ensuring budgets were realistic and properly planning for and using fund balance and reserve funds in accordance with statutory requirements?
- Did the District procure goods and services in accordance with District purchasing policies and regulations?

## Scope and Methodology

We examined the District's financial management and procurement process for the period July 1, 2012 through January 7, 2014. We extended our review of financial management back to July 1, 2008.

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 C 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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

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

A school district's financial condition is a factor in determining its ability to fund public educational services for students within the district. The responsibility for accurate and effective financial planning rests with the Board, the Superintendent and the Business Administrator. The Board and District officials are responsible for adopting annual budgets that contain realistic estimates of appropriations and the resources available to fund them and for ensuring that fund balance does not exceed the amount allowed by law. Fund balance represents the cumulative residual resources from prior fiscal years that can, and in some cases must, be used to lower property taxes for the ensuing fiscal year. A district may retain a portion of fund balance, referred to as unexpended surplus funds,<sup>2</sup> but must do so within the legal limits established by the Real Property Tax Law. A district also can legally set aside and reserve portions of fund balance to finance future costs for a variety of specified objects or purposes.

The Board has not adopted reasonable budgets and has not managed fund balance and certain reserve funds in accordance with statutory requirements. For the last five fiscal years ending June 30, 2013, the Board and District officials have consistently overestimated appropriations by a total of \$6.3 million. During this period, total appropriations exceeded total expenditures by approximately 10 percent. These budgeting practices generated approximately \$1.36 million in operating surpluses, which caused unexpended surplus funds to exceed statutory limits in each of the past five fiscal years. As of June 30, 2013, the District's unexpended surplus funds, totaling \$1.2 million, were 8.25 percent of the 2013-14 budgeted appropriations, which exceeded the statutory limit of 4 percent by more than \$638,000. Although District officials annually appropriated fund balance to reduce the tax levy, fund balance was not used as budgeted because District officials significantly overestimated appropriations resulting in operating surpluses during three of the

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<sup>2</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: non-spendable, restricted and unrestricted (composed of 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).

last five years. District officials used some of these annual operating surpluses to fund six reserves that, as of June 30, 2013, totaled \$2.5 million. We found that the Employee Benefit Accrued Liability Reserve is overfunded by 81 percent or \$984,000. Also, the \$727,000 balance in the Retirement Contribution Reserve is sufficient to cover the associated liabilities for at least three years without any additional funding and the \$80,000 balance of the Insurance Reserve has no associated liabilities. Therefore, we question the District's need to maintain these reserves at their current funding levels.

## **Budgeting and Fund Balance**

The Board and District officials are responsible for accurately estimating expenditures, revenues and the amount of fund balance that will be available at fiscal year-end to reduce the ensuing year's tax levy. Accurate estimates help ensure that the levy of real property taxes is not greater than necessary. The portion of fund balance that is used to help finance the next fiscal year's budget is referred to as appropriated, unexpended surplus fund balance and the remaining portion, which can be used for cash flow purposes and unanticipated expenditures, is unexpended surplus funds. The Real Property Tax Law currently limits unexpended surplus funds to no more than 4 percent of the ensuing fiscal year's budget. Any surplus fund balance over this percentage should be used to pay off debt, finance one-time expenditures, establish and fund reserve funds prudently and to reduce property taxes.

We compared the District's budgeted appropriations with actual results for 2008-09 through 2012-13 and found that the District overestimated<sup>3</sup> expenditures by a total of \$6.3 million, as shown in Table 1. The majority of the overestimations were for instructional salaries, health insurance and debt service which were overestimated by a total of \$3.5 million, \$1.3 million, and \$1.2 million, respectively. The overestimating of these budget line items occurred annually. District officials had sufficient information, such as negotiated employment contracts, loan agreements, debt service schedules and health insurance rates, which should have been relied upon to prepare more accurate estimates for these expenditures. By overestimating costs, the Board is placing a higher tax burden on District taxpayers than is necessary.

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<sup>3</sup> The Board's estimates for revenues were more realistic and supported. During the five-year period, revenues were overestimated by a total of \$2.2 million. The largest revenue variances occurred for State aid. State aid revenues were overestimated by more than \$1.8 million. Although the budget estimates closely mirrored the projections provided to the District by the New York State Education Department, the District received less than the amounts projected, resulting in these revenue codes being overestimated by the District.

Fiscal Year	Budgeted Appropriations	Actual Expenditures	Variance
2008-09	\$13,327,904	\$12,108,299	\$1,219,605
2009-10	\$14,768,974	\$13,148,345	\$1,620,629
2010-11	\$15,172,337	\$13,455,870	\$1,716,467
2011-12	\$14,403,225	\$13,500,047	\$903,178
2012-13	\$14,624,137	\$13,805,905	\$818,232
<b>Totals</b>	<b>\$72,296,577</b>	<b>\$66,018,466</b>	<b>\$6,278,111</b>

Due to these budgetary practices, the District has experienced operating surpluses totaling approximately \$1.3 million during the last five fiscal years. As shown in Table 2, the District's appropriation of unexpended surplus and reserves<sup>4</sup> totaled \$2.7 million for the past five<sup>5</sup> fiscal years. This amount was intended to fund the subsequent years' operations, which should have resulted in annual operating deficits equal to the amounts of funds appropriated. However, because of the consistently overestimated appropriations noted previously, the District realized operating surpluses for 2008-09 through 2010-11 and much smaller operating deficits than were intended for 2011-12 and 2012-13. As a result, only a small portion (\$593,879 of \$2,711,708) of the appropriated funds were actually used to finance operations.

Fiscal Year	Actual Revenues	Actual Expenditures	Operating Surplus/ (Deficit)	Appropriated Surplus and Reserves	Appropriated Surplus and Reserves Used
2008-09	\$12,755,595	\$12,108,299	\$647,296	\$0	\$0
2009-10	\$14,246,942	\$13,148,345	\$1,098,597	\$62,404	\$0
2010-11	\$13,663,408	\$13,455,870	\$207,538	\$751,247	\$0
2011-12	\$13,292,144	\$13,500,047	(\$207,903)	\$741,031	\$207,903
2012-13	\$13,419,929	\$13,805,905	(\$385,976) <sup>a</sup>	\$1,157,026	\$385,976
<b>Totals</b>	<b>\$67,378,018</b>	<b>\$66,018,466</b>	<b>\$1,359,552</b>	<b>\$2,711,708</b>	<b>\$593,879</b>

<sup>a</sup> Based on the District's adopted 2013-14 budget and the trends observed during the past five fiscal years, there will be little reduction in the District's total fund balance irrespective of the Board appropriating \$1.3 million in surplus and reserve funds.

<sup>4</sup> From 2009-10 through 2012-13, the District appropriated unexpended surplus funds totaling \$2,296,768 and an additional \$415,000 from various reserves. Although \$429,000 of reserves were recorded as used during 2012-13, on June 20, 2013 the Board authorized the same amount be transferred from unexpended surplus funds to the reserves to immediately replenish them. In effect, the reserves were not used.

<sup>5</sup> The District did not appropriate unexpended surplus funds for the 2008-09 fiscal year.

Because District officials have consistently overestimated appropriations, significant amounts of appropriated unexpended surplus funds were not used as budgeted. As a result, the District's unexpended surplus funds have exceeded the 4 percent statutory limit every year during our audit period, as shown in Table 3. We also note that these poor budgeting practices continued to occur even though the last five management letters from the District's independent auditors included commentary that the District had exceeded the statutory limit.

**Table 3: Unexpended Surplus Funds**

Fiscal Year	2008-09	2009-10	2010-11	2011-12	2012-13
Unexpended Surplus Funds	\$2,266,571	\$2,360,607	\$2,309,613	\$1,662,981	\$1,239,311
Subsequent Year's Budget	\$14,768,974	\$15,172,337	\$14,403,225	\$14,624,137	\$15,019,537
Statutory Limit (4 Percent of Subsequent Year's Budget)	\$590,759	\$606,893	\$576,129	\$584,965	\$600,781
Unexpended Surplus Funds Over the Statutory Limit	\$1,675,812	\$1,753,714	\$1,733,484	\$1,078,016	\$638,530
Unexpended Surplus Funds as a Percentage of Subsequent Year's Budget	15.35%	15.56%	16.04%	11.37%	8.25%

The Board's adopted budget for fiscal year 2013-14 appears to have repeated a similar pattern of overestimated appropriations. In fact, the total appropriations remained considerably more than past actual expenditures. In its 2013-14 budget, District officials increased appropriations by \$395,040 (3 percent) and increased estimated revenues by \$236,337 (2 percent), including increasing the tax levy by \$94,255 (3 percent). As such, the District's unexpended surplus funds will continue to increase at the end of fiscal year 2013-14. Furthermore, the District has a five-year financial plan for 2013-14 through 2017-18 which includes projections that appear to continue the practice of overestimating appropriations. As such, the amounts included for unexpended, appropriated surplus funds, which should reduce the excessive balance, will not have that effect. In fact, the proposed five-year plan aims to maintain unexpended surplus funds at a level in excess of the statutory limit, between seven percent and eight percent of the ensuing year's budget.

Although the District's tax levy remained at \$3,141,825 over the five-year period reviewed, the 2013-14 tax levy increased three percent or \$94,255. Budgeting practices which produce operating surpluses and maintain surpluses that exceed the amount allowed by law result in real property tax levies that are greater than necessary to fund operations.

While District officials may believe it is prudent to accumulate fund balance to address unexpended circumstances, in this instance, District officials have accumulated fund balance beyond the amount authorized by law. Additionally, the District has established and funded several reserve funds with accumulated balances totaling \$2.5 million as of June 30, 2013. At least three of these reserves appear to be already overfunded by a total of \$1.8 million, including the Employee Benefit Accrued Liability Reserve, which is, itself, overfunded by \$984,000. As such, the combined total of the District's unappropriated fund balance and overfunded reserve funds provide more than necessary for both unanticipated events and other identified or planned needs.

## Reserves

Reserves may be established by the Board in accordance with applicable laws, which also address how they are funded, expended and discontinued. Reserve funds are mechanisms to accumulate moneys for future allowable purposes. Generally, school districts are not limited as to how much money can be held in reserves; 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 balances are not being used to fund operations.

The District developed a reserve policy to ensure reserve funds are properly established and maintained and that reserve information is made available to the Board annually. However, this policy does not address the District's need for maintaining certain reserve balances or under what specific circumstances they will be used or replenished.

As of June 30, 2013, the District had six reserve funds with balances totaling more than \$2.5 million and a debt service fund with \$407,000. Three of the six reserves were overfunded by approximately \$1.8 million,<sup>6</sup> as follows:

Employee Benefit Accrued Liability Reserve (EBALR) – This reserve was established for the cash payment of accrued and unused sick, vacation and certain other leave time due employees when they leave District employment. The District's liability for compensated absences payable from the reserve was approximately \$227,000 as of June 30, 2013; however, the actual reserve balance was \$1.2 million, resulting in an overfunding of approximately \$984,000, or 81 percent.

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<sup>6</sup> The reserves include the Employee Benefit Accrued Liability Reserve of \$984,000, Retirement Contribution Reserve of \$727,000 and Insurance Reserve of \$80,000. Given the minor dollar amount of the Unemployment Insurance Reserve, we did not include it in our overfunded balance. The District provided documentation to demonstrate the proposed use of the Tax Certiorari and the Capital Reserves and the debt service fund.

The District's liability for compensated absences incorrectly includes obligations that may not be paid for from this reserve or amounts to which employees were not yet entitled.

Special State Legislative<sup>7</sup> action for the 2011-12 through 2013-14 fiscal years permits school districts to use surplus EBALR moneys to fund the gap elimination adjustment. At the District's request, we certified the amount of surplus funds in the reserve that could be used during the 2013-14 fiscal year for purposes stipulated in the legislation.

Retirement Contribution Reserve – This reserve is used to pay benefits for employees covered by the New York State and Local Retirement System and was established by the District in 2010. The balance as of June 30, 2013 was approximately \$727,000, which represents over three times the District's five-year annual average cost. The District appropriated \$375,000 from this reserve in the 2013-14 budget. However, the amount in this reserve has not decreased since it was created in 2010, because District officials replenish the reserve from unexpended surplus funds in the same fiscal year the funds are spent. According to the Business Administrator, the desired reserve fund level should be sufficient to pay retirement contributions for three years. However, because the reserve policy does not indicate why the Board would deem this funding level to be necessary, we question the District's need for this reserve.

Insurance Reserve – An insurance reserve may be established to fund certain uninsured losses, claims, actions or judgments for which the District is authorized or required to purchase insurance coverage. The Insurance Reserve has reported a balance of approximately \$80,000 since prior to the 2008-09 fiscal year and has not been used to pay for any losses. The District is not presently self-insured and has no formal plans to become self-insured. Moreover, the Board has not documented the need for this reserve. According to the Business Administrator, this reserve is not used to self-insure for any specific risks and current insurance coverage is adequate to cover losses. Given the absence of a formalized plan detailing the need and expected use of these funds, we question the need for this reserve.

By maintaining excessive unexpended surplus funds, a result of unrealistic budgeting practices that routinely generate operating surpluses, the Board and District officials have withheld significant

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<sup>7</sup> The amendment allows a school district to withdraw from the EBALR an amount not to exceed the lesser of: (a) the dollar value of excess funding in the fund as determined by the State Comptroller or (b) the amount of the school district's remaining gap elimination adjustment as calculated by the Commissioner of Education.

funds from productive use, levied taxes that were greater than necessary and compromised the transparency of District finances.

## **Recommendations**

1. The Board and District officials should develop and adopt budgets that include realistic estimates for appropriations based on contractual and historical data.
2. The Board and District officials should ensure that unexpended surplus fund amounts are within statutory limits.
3. The Board should revise its reserve fund policy to address the District's need for maintaining certain funding levels and the conditions under which the funds will be used or replenished.
4. District officials should develop and implement a plan for using the reserve fund surplus balances identified in this report in a manner that benefits District taxpayers and is in compliance with statutory provisions.

## Procurement

District officials are responsible for ensuring that they use taxpayer resources as economically as possible by procuring goods and services in compliance with General Municipal Law (GML) requirements and District policies. GML requires the Board to adopt written purchasing policies and procedures that provide guidance for determining when items must be competitively bid and explain the procedures the District must follow when obtaining goods and services that do not have to be competitively bid. The use of competition provides taxpayers with the greatest assurance that goods and services are procured in the most prudent and economical manner; that goods and services of desired quality are being acquired at the lowest possible prices; and that procurement is not influenced by favoritism, extravagance, fraud or corruption.

While the Board adopted a purchasing policy requiring competition for most purchases, there are no provisions in the policy indicating when District officials must obtain quotations or request proposals for procurements below competitive bidding thresholds.<sup>8</sup> Instead, the Business Administrator established guidelines for District officials to follow and made changes to the guidelines whenever needed. Furthermore, the purchasing policy and guidelines do not address oversight of the procurement process to ensure compliance. Although the Board has appointed a claims auditor to review all claims prior to payment, the claims auditor does not review the claims for compliance with the procurement policy or guidelines. Without a process to monitor procurement, the Board has no assurance that the District is obtaining the best prices for goods and services.

The District's purchasing guidelines require two verbal quotes from vendors for purchases from \$751 to \$1,500, three verbal quotes for purchases from \$1,501 to \$4,000, and three written quotes for purchases from \$4,001 to \$19,999. They also require three written quotes for public works contracts from \$2,001 to \$35,000.

We reviewed purchasing documentation for 21 types of goods and services<sup>9</sup> totaling \$114,629 that did not require competitive bidding and found that District staff did not always follow the Business

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<sup>8</sup> GML requires bids for purchase contracts for \$20,000 or more and public works contracts for \$35,000 or more. Alternatively, Districts may use a State contract or a cooperative bid.

<sup>9</sup> We judgmentally selected larger or unusual aggregate purchases of goods and services. See Appendix C, Audit Methodology and Standards, for details regarding our sample selection.

Administrator's purchasing guidelines<sup>10</sup> for purchases that required verbal or written quotes. We noted the following:<sup>11</sup>

- Twelve types of purchases totaling \$66,804 were made without obtaining quotes. For example, during the 2012-13 fiscal year, District staff purchased paper towels with a total cost of \$8,262 and tires with a total cost of \$5,193 without obtaining three written quotes from vendors, as required.
- District staff obtained only two of the three quotes required by the District's procurement guidelines for the installation and purchase of computer lab counters costing \$4,200.
- District staff indicated that quotes for two types of purchases (carpet and automotive filters) totaling \$3,508 were obtained properly; however, the quotes were not retained. Therefore, District staff could not demonstrate to us or the claims auditor that competition had been sought prior to the purchase.
- Competition was properly sought for eight types of purchases totaling \$40,117. District staff obtained the appropriate number of quotes for these goods and attached them to the claims packets that were reviewed by the claims auditor or the goods were purchased using a State contract or cooperative bid.

The failure of the Board and District staff to comply with the District's purchasing policy and guidelines increases the risk that goods and services may not be obtained in the most prudent and economical manner and in the best interest of taxpayers.

## Recommendations

The Board should:

5. Revise its procurement policy by prescribing the procedures and documentation requirements for purchases not subject to competitive bidding requirements. These procedures should provide for adequate documentation of the actions taken to obtain competitive pricing.

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<sup>10</sup> The guidelines state that District officials are to determine the aggregate amount to be spent for the fiscal year on an item or those of a similar nature. We used the aggregate amounts purchased for 21 types of goods during each fiscal year in our audit period to determine the number of quotations needed to comply with the guidelines.

<sup>11</sup> We discuss 23 purchases instead of 21 because some tires and instruments were procured with the required number of quotes and some without the required number.

6. Require strict adherence to the requirements of its purchasing policy and require the claims auditor to regularly monitor for compliance during the audit of claims.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# Pine Valley Central School

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District Offices/Elementary School: 7755 Rt. 83  
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*By Hand Delivery and Electronic Mail*

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**Re: Pine Valley Central School District**

Dear Mr. Mazula:

The following constitutes the Pine Valley Central School District's response to the Report of Examination issued by your office which is entitled "*Financial Management and Procurement*." The Report of Examination covers the District's fiscal operations during the period July 1, 2012 through January 7, 2014.

We would first like to once again express our appreciation for the professional and courteous manner in which your staff conducted its audit responsibilities.

The District's Board of Education and Administration remains committed to ensuring that the District's financial operations are conducted with the highest level of integrity and that the interests of the District's taxpayers are properly protected.

The District is currently in the process of preparing its Corrective Action Plan to fully address the findings and recommendations in the Report of Examination, and that Plan will be filed within the timeline specified by law. The District does, however, wish to take this opportunity to respond to certain aspects of the Report of Examination, which are as follows:

**1) Budgeting and Fund Balance (Report of Examination, pp. 9-12):**

*Item:*                      *The Report of Examination reviews the District's approach to budget development and implementation.*

Response: In a January 2014 press release, New York State Comptroller Thomas P. DiNapoli observed that “*New York’s school districts have faced major fluctuations in their federal and state aid over the last decade and revenue growth was nearly flat the last three years.*” He further recognized that “*school districts are caught in a financial bind and are struggling for a way out.*” Comptroller DiNapoli seems to understand the significant challenges that school districts face with the uncertainty of school aid, continued unfunded mandates, and increases in employee benefits costs.

The District has conservatively approached the budget process in the face of these challenges to ensure, to the extent possible, that the District’s educational program would not be disrupted by budgetary shortfalls, and that the District’s taxpayers would not be subjected to wildly fluctuating tax rates. Indeed, as noted in the Report of Examination, the District was able to freeze its tax levy over a five year period due to its effective budgetary approach. The analysis in the Report of Examination has the benefit of after-the-fact hindsight which clearly does not reflect the challenges and uncertainty faced by the District when approaching the budgetary process over the past several years. As the District looks to the future, the imposition of the state tax levy cap, and the real possibility of a tax levy freeze upon the adoption of a contingency budget, requires prudence and caution in the District’s budgetary approach, as does the continued volatility of the current economic environment.

The District will continue to analyze its 5 year fund balance plan taking into consideration statutory requirements while assuring the long-term financial stability of the District. For the past several years the District has budgeted to use a portion of its cumulative surplus towards the ensuing year’s budget. This practice has resulted in an operating deficit and subsequent reduction in the District’s surplus for the 2011-12, 2012-13 and 2013-14 school years.

It is our intention and always has been to manage our resources in the most efficient and effective way possible. The District will continue to identify ways to effectively approach its budget development and implementation in order to provide a quality educational program with limited financial resources.

**2) Reserve Funds (Report of Examination, pp. 12-13):**

Item: *The Report of Examination asserts that three of the District’s reserve funds are overfunded.*

Response: The Report of Examination focuses on the District’s Employee Benefit Accrued Liability Reserve, Retirement Contribution Reserve and Insurance Reserve. As a first matter, the District’s utilization of these reserves is fully consistent with the fact that such reserves are intended to serve as “savings accounts” to hold monies for future needs, including in order to blunt the tax impact of future spikes in the annual amounts necessary to fund such purposes. In addition, any claim that a reserve is “overfunded” clearly represents a subjective judgment. The laws that authorize the reserves at issue in the Report of Examination do not establish a statutory limitation on the balance of such reserves. Focusing, for instance, on the current snapshot of the District’s long-term compensated absences with regard to the balance of the Employee Benefit Accrued Liability Reserve fails to

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take into account the increases in that liability that can be expected from things such as future salary rate or step increases, or other negotiated increases in the value of accrued time that may be redeemed at termination of employment.

Nonetheless, the District will continue to implement its reserve fund policy to ensure that the operation and use of reserve funds is coordinated and consistent with the District's intended fiscal approach. We also note that the Board of Education is continuing to consider the option of transferring a portion of the Employee Benefit Accrued Liability Reserve balance consistent with the Comptroller's certification and law.

**3) Procurement (Report of Examination, pp. 14-15):**

Item:            *The Report of Examination reviews the District procurement policies and procedures.*

Response:      The District is pleased that, after extensive review of the District's procurement procedures during the course of the audit, there was not a single identified instance of financial irregularity. The District appreciates the Comptroller's suggestion to further strengthen procurement standards and procedures when competitive bidding is not required, and the District will undertake efforts to do so.

**Conclusion**

Once again, the District's Board of Education and Administration wish to express their appreciation for the Comptroller's assistance during this audit, which will no doubt benefit the District and its taxpayers by identifying additional ways to strengthen the District's financial operations. Please let us know if your office has any questions regarding the District's response to the Report of Examination, and the District looks forward to future opportunities to work with the Comptroller's office.

Very Truly Yours,

\_\_\_\_\_  
Janie Waag  
President, Board of Education

\_\_\_\_\_  
Peter Morgante  
Superintendent of Schools

/dh

cc: Deanna Schettine, P.V. Business Administrator

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S REPOSE

#### Note 1

We used the District's reserve policy, related supporting documents and applicable statutory provisions to conclude that certain reserves were overfunded.

#### Note 2

As of June 30, 2013, the District's reserve balance exceeded the liability payable from this reserve by approximately \$984,000 or 81 percent. The reserve was overfunded because the District had incorrectly calculated the compensated absences liability. In addition, according to the Governmental Accounting Standards Board Statement 16, the compensated absences liability generally should be calculated based on the pay or salary rates in effect as of the balance sheet date.

## APPENDIX C

### 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 management, cash receipts and disbursements, procurement, payroll, cafeteria operations, transportation and information technology. During our initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies, Board minutes, and financial records and reports.

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 professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected financial management and procurement for further audit testing, for the period July 1, 2012 through January 7, 2014. For financial management, we extended our review back to July 1, 2008.

To accomplish our objective pertaining to financial management, we performed the following procedures:

- We interviewed Board members and District officials to obtain an understanding of the District's financial management practices, including budgeting, accounting and use of reserve funds.
- We compared budgets with actual results for 2008-09 through 2012-13 to assess whether the budgets were realistic and supported.
- 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 and revenues.
- 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 reviewed the District's tax levy from 2008-09 to 2012-13.
- We reviewed the last five fiscal years' audited financial statements and analyzed certain balance sheet items, interfund activity and the debt service fund.
- We reviewed supporting documents for 2008-09 through 2012-13, which included account activity and support for reserve balances.
- We reviewed all available reserve and capital project approvals by the Board and voters and the District's five-year fund balance plan.

To accomplish our objective pertaining to procurement, we performed the following procedures:

- We interviewed appropriate individuals regarding District policies and procedures.
- We reviewed the purchasing policies, District regulations and District procedures.
- We sorted vendor history reports by vendor and identified purchases of types of goods and services in dollar amounts over the quotation thresholds or purchases that in aggregate would be subject to competitive guidelines for each of the fiscal years in our audit period. We judgmentally selected and reviewed invoices for the larger or unusual purchases of 21 types of goods, such as paper towels, toilet paper and tires, and services, such as the purchase and installation of counters.
- We reviewed pertinent documents for each purchase selected, including purchase requisitions, purchase orders, vouchers, vendor invoices, State contracts, co-operative bids and written vendor agreements.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX D

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