



# Attica Central School District Financial Management

## Report of Examination

Period Covered:

July 1, 2012 – March 18, 2016

2016M-127



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	1
<b>INTRODUCTION</b>	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
<b>FINANCIAL MANAGEMENT</b>	4
Debt Service Fund	4
Reserves	5
Recommendations	7
<b>APPENDIX A</b> Response From District Officials	8
<b>APPENDIX B</b> OSC Comments on the District's Response	10
<b>APPENDIX C</b> Audit Methodology and Standards	11
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	12
<b>APPENDIX E</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**

July 2016

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 district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Attica 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 New York State 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 Attica Central School District (District) is located in the Towns of Attica, Bennington, Java, Middlebury, Orangeville, Sheldon and Wethersfield in Wyoming County; the Towns of Alexander and Darien in Genesee County; and the Town of Wales in Erie County. The District is governed by an elected seven-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 District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. The Business Administrator is responsible for accounting for the District's finances, maintaining accounting records and preparing financial reports.

The District operates three schools<sup>1</sup> with approximately 1,300 students and 220 employees. The District's general fund budgeted appropriations for the 2015-16 fiscal year total \$28.2 million, which are funded primarily with State aid and real property taxes.

## Objective

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

- Did the Board properly manage District finances by ensuring budgets were realistic and reserve balances were reasonable?

## Scope and Methodology

We examined the District's financial records for the period July 1, 2012 through March 18, 2016. We expanded our scope back to July 1, 2009 to analyze activity in the debt service fund.

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. District officials did not agree with all of our recommendations but indicated they would consider them when they develop the District's corrective action plan.

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<sup>1</sup> The Middle and High Schools are located on the same campus.

Appendix B includes our comments on issues raised in the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of the New York State 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 responsible for accurate and effective financial management. District officials are responsible for adopting realistic budgets 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. New York State Real Property Tax Law (RPTL) limits the amount of unrestricted fund balance that school districts can retain to 4 percent of the ensuing year's budget. 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 and District officials have not effectively managed fund balance and have allowed reserve balances to accumulate to excessive levels. Although the Board has adopted reasonable budgets, District officials have not used the more than \$5.2 million residing in the debt service fund for debt service expenditures and inappropriately transferred \$1.7 million from the general fund to the debt service fund from July 1, 2010 through June 30, 2013. This practice allowed the District to appear that it was maintaining unrestricted fund balance within the 4 percent statutory limit. Had District officials not transferred these surplus funds, unrestricted fund balance would have exceeded the statutory limit by between \$900,000 and \$1.7 million, or 3.4 to 6.1 percentage points. Furthermore, the District overfunded three general fund reserves, which had balances totaling approximately \$2.5 million as of June 30, 2015. Despite the significant amount of accumulated fund balance, District officials have increased the tax levy by approximately 5 percent from fiscal years 2012-13 through 2015-16.

### Debt Service Fund

Certain funds are required by law to be set aside and used to pay related debt. Generally, bond proceeds not expended for the purpose for which they were issued and related interest earnings are required to be set aside in a debt reserve and used for related debt service payments.

The District accounts for and reports a debt reserve in the debt service fund, which is separate from the general fund. As of June 30, 2015, the debt reserve had a reported balance of \$5.2 million. District debt service expenditures have totaled approximately \$3 million annually during the last three completed fiscal years. However, the District did not use the debt reserve to help pay for any debt service costs. Further, District officials told us that the money had been set aside

to serve as a financial cushion in the event of State aid cuts or other future funding shortfalls caused by the tax cap.<sup>2</sup>

RPTL allows the District to retain unrestricted fund balance of up to 4 percent of the ensuing fiscal year's budget. Legally retained fund balance may be used for managing cash flow issues, unanticipated expenditures or revenue shortfalls. However, there is no statutory authority to choose to reserve or otherwise set aside surplus fund balance in a debt reserve.

District officials transferred more than \$1.7 million of surplus funds from the general fund to the debt service fund from July 1, 2010 through June 30, 2013 to reduce the general fund's unrestricted fund balance to be within the legal limit. Had District officials not transferred these surplus funds, unrestricted fund balance would have exceeded the statutory limit by between \$900,000 and \$1.7 million, or 3.4 to 6.1 percentage points.

The Board developed a plan to address the money residing in the debt service fund in response to our audit conducted in 2009.<sup>3</sup> However, District officials did not implement the plan to reduce the debt service fund balance. Using these funds would have allowed officials to reduce real property taxes.

## Reserves

Reserves may be established by Board action or voter approval, pursuant to various laws, and are used to finance specific purposes. The statutes pursuant to which the reserves are established determine how the reserves may be funded, expended or discontinued. Generally, school districts are not limited as to how much money they can maintain in reserves. However, school districts should maintain reserve balances that are reasonable and based on past historical trends as well as projected future costs. To do otherwise, that is, funding reserves at greater than reasonable levels, results in real property tax levies being higher than necessary.

The Board adopted a reserve policy to ensure reserve funds are properly established and maintained and that reserve information is made available to the Board annually. However, the District has not developed a comprehensive written plan that communicates the need for maintaining certain reserve balances, the Board's financial objectives for the reserves, optimal funding levels, or the specific circumstances under which they will be used or replenished.

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<sup>2</sup> The New York State property tax cap legislation limits the amount local governments and most school districts can increase property taxes to the lower of 2 percent or the rate of inflation.

<sup>3</sup> *Internal Controls Over Reserve Funds, 2009M-25, May 2009*

As of June 30, 2015, the District had six general fund reserves totaling approximately \$5.3 million. We analyzed these reserves for reasonableness and found that the balances of three reserves totaling approximately \$2.5 million were excessive compared to the potential costs for which those reserves were established. In addition, District officials have not used the reserves to finance related expenditures during the last three years. These excess reserve funds could be transferred to other legally established reserves, as applicable and in accordance with statute, or used to reduce the tax levy. The remaining three were properly established and reasonably funded.

Workers' Compensation Reserve – General Municipal Law (GML) authorizes the establishing and funding of such a reserve for paying compensation benefits and other expenses when a school district elects to be self-insured for this purpose. As of June 30, 2015, the balance in this reserve was more than \$1.2 million. The average annual workers' compensation expenditures have been approximately \$168,000 per year. Based upon this average cost, the District could pay related expenditures for seven years. However, the District has not used the funds in this reserve for workers' compensation payments and has consistently levied taxes to fund these expenditures. Because the District continues to levy taxes to pay for expenditures that could be paid for with reserve funds, the purpose of maintaining a reserve at this amount is unclear.

Unemployment Insurance Reserve – GML authorizes the Board to establish this type of reserve to reimburse the New York State Unemployment Insurance Fund for payments made to claimants on the District's behalf. The balance of this reserve as of June 30, 2015 was \$683,000. The District has used approximately \$50,000 from the reserve to pay for unemployment claims during the past three years. If unemployment costs continue to average \$17,000 per year, as they have over the last three years, the reserve would last for more than 40 years. District officials stated that they were aware this reserve balance was too high and were planning to continue to use the reserve to pay for unemployment claims. However, the District could reduce this reserve to a more reasonable level and use excess funds toward a purpose more beneficial to District residents.

Employee Benefit Accrued Liability Reserve (EBALR) – GML authorizes this reserve 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 long-term liability for compensated absences payable from the reserve was approximately \$329,000 as of June 30, 2015. However, the reserve balance was \$613,000, resulting in an overfunding of approximately \$285,000 (86 percent). In addition, District officials have not used the reserve

to pay for separation payments during the last three years and have levied taxes for this purpose instead.

While it is prudent to provide for unforeseen circumstances, maintaining excessive levels of fund balance and overfunding reserves results in taxes being higher than necessary because the excessive balances are not being used to fund operations.

## **Recommendations**

The Board and District officials should:

1. Properly report and use statutorily restricted money to pay related debt service expenditures in compliance with statutory requirements. Money improperly residing in the debt service fund should be transferred to unrestricted fund balance in the general fund.
2. Review all reserves at least annually to determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.
3. Develop a comprehensive written policy or plan for establishing, funding and using reserve funds.
4. Develop and implement a plan for using the excess reserve fund balances identified in this report in a manner that benefits District residents and is in compliance with statutory provisions.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

**Attica Central School District**  
**Board of Education Offices**  
3338 East Main Street • Attica, New York 14011  
Phone: (585) 591-0400 • FAX: (585) 591-2681

June 9, 2016

Bryce L. Thompson  
Superintendent of Schools

████████████████████  
Division of Local Government & School Accountability  
Office of the State Comptroller  
295 Main Street, Room 1032  
Buffalo, NY 14203-2510

RE: Response to Preliminary Draft Findings

Dear ██████████

This letter is in response to the preliminary draft findings of your recent examination of the Attica Central School District, and the subsequent exit discussion meeting held on May 20, 2016, which you attended with ██████████ also from the NYS Comptroller's Office.

The Attica Central School District has an established Audit Committee, which utilizes and incorporates our administration, external auditors, internal auditors, financial consultants, bond counsel and attorney to review recommendations of your examinations. In response to your opinions expressed in the report, we will continue to work with the advice of our auditors, financial consultants and bond counsel to fund and maintain the reserves noted in your report; and therefore, we would disagree in part, with your recommendations. The committee will conduct an in-depth review and determine if some suggestions may be incorporated into our process for funding and maintaining these reserves. Please note that the Attica Central School District in response to the 2009 report and prior to your announcement and arrival this year proposed and established, with the approval of the voters, a second Capital Reserve in December of 2015. This new reserve will permit the Attica Central School District to respond in part to some of your concerns. In addition, we are happy to see that you adjusted and amended the original draft report and corrected some of the inaccuracies contained therein. Further, also in response to these corrections your office identified only \$283,801 of excess EBLAR funding, which we will be transferring as appropriate.

See Note 1 Page 10
See Note 2 Page 10

The committee will submit the corrective action plan to the Board of Education for final approval before it is forwarded to the Office of the State Comptroller and to the NYS Commissioner of Education.

We would like to take this opportunity to express our gratitude to both you and ██████████ for the professional conduct during this procedure. It was a pleasure to work with both of you.

Respectfully,

Bryce Thompson  
Superintendent of Schools

Steven Witkowski  
President – Board of Education

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*Serving the Communities of: Alexander, Attica, Bennington, Darien, Java,  
Middlebury, Orangeville, Sheldon, Wales, and Wethersfield.*



## **APPENDIX B**

### **OSC COMMENTS ON THE DISTRICT'S RESPONSE**

#### Note 1

We updated the draft report to reflect new information District officials provided at the exit discussion.

#### Note 2

We certified the excess in the EBALR at the District's request after we completed audit fieldwork. Furthermore, the certification was not performed as part of our audit and did not impact our findings or recommendations.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the District's financial management practices and reserves for the period July 1, 2012 through March 18, 2016. We expanded our scope back to July 1, 2009 to analyze activity in the debt service fund. To accomplish our objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and reviewed Board meeting minutes, resolutions, policies and annual budget brochures to gain an understanding of the procedures in place for maintaining financial records, monitoring fund balance and reserve funds and developing the annual budget.
- We reviewed the last three years of financial data and budgets to document fund balance and reserve fund levels, determine the general fund's operating results and determine if budget estimates were reasonable.
- We reviewed the District's tax levy and budget documents provided by District officials to support the tax levy calculations.
- We reviewed all significant additions, withdrawals and transfers made to or from the debt service fund to ensure the transactions were Board-approved and made in accordance with applicable statutes.
- We reviewed Board minutes and other records to verify that reserves were properly established, funded and used.

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.

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