



Wyoming Central School District Financial Management

Report of Examination

Period Covered:

July 1, 2012 – January 29, 2016

2016M-67



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
FINANCIAL MANAGEMENT	4
Budgeting and Fund Balance	5
Reserve Funds	7
Recommendations	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

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 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 Wyoming 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 Wyoming Central School District (District) is located in the Town of Bethany in Genesee County and the Towns of Attica, Covington, Middlebury, Perry and Warsaw in Wyoming 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 one school with approximately 115 students and 40 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$5 million and funded primarily with State aid and real property taxes.

Objective

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

- Did the Board properly manage fund balance and reserves in accordance with statutes?

Scope and Methodology

We examined the District's management of financial activities for the period July 1, 2012 through January 29, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3) (c) of 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

A school district's financial condition is a factor in determining its ability to fund public educational services for students. The responsibility for accurate and effective financial planning rests with the Board, Superintendent and Business Administrator. The Board and District officials are responsible for adopting annual budgets that contain realistic estimates of expenditures and the resources 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 subsequent fiscal year. A school district may retain a portion of fund balance, referred to as unrestricted fund balance, but must do so within the legal limit established by New York State Real Property Tax Law (RPTL).¹ The portion of fund balance used to reduce the property tax levy is referred to as appropriated fund balance. A school district can legally set aside and reserve portions of fund balance to finance future costs for a variety of specified objects or purposes. However, funding reserves at greater than reasonable levels contributes to property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

Although the Board and District officials have generally maintained fund balance levels in accordance with RPTL, they have annually appropriated portions of fund balance toward the subsequent year's budget that were not used because they consistently overestimated appropriations. This trend is projected to continue through 2015-16. Once the appropriated fund balance not needed to finance operations is included in unrestricted fund balance, the District's recalculated unrestricted fund balance ranged from \$692,000 (14 percent) in 2012-13 to \$749,000 (15 percent) in 2014-15. Furthermore, even though unrestricted fund balance continued to increase through June 30, 2015, District officials continued to raise the tax levy every year. Had District officials retained the same tax levy as in 2012-13, residents could have realized approximately \$380,000 in cumulative savings.² In addition, the unemployment reserve totaled \$220,000 as of June 30, 2015 even though annual unemployment expenditures averaged \$4,000. Further, District officials have routinely levied taxes for expenditures, including unemployment expenditures, which could have been paid for with reserve funds that totaled \$1.3 million as of June 30, 2015.

¹ RPTL limits the amount of unrestricted fund balance to no more than 4 percent of the subsequent year's budget.

² Increases in the tax levy from 2013-14 through 2015-16

Budgeting and Fund Balance

The Board and District officials are responsible for developing realistic estimates of revenues, appropriations and the use of fund balance in the annual budget and ensuring that the amount of unrestricted fund balance is in compliance with RPTL. Accurate budget estimates help ensure that the levy of property taxes is not greater than necessary. Excess funds should be used in a manner that benefits District residents.

We compared budgeted revenues and appropriations with actual operating results from July 1, 2012 through June 30, 2015. While revenue estimates were generally reasonable, budgeted appropriations were overestimated by an average of \$616,000 annually (14 percent) or a cumulative total of nearly \$1.9 million, as shown in Figure 1. The most significant were appropriations for instructional costs which were overestimated by approximately \$1.4 million (24 percent) for the three years or annually by an average of more than \$460,000.³ Instructional costs are largely determined by contractual agreements and enrollment trends which result in anticipated expenditures that should be reasonably estimated and not consistently overestimated.

	2012-13	2013-14	2014-15
Appropriations	\$4,842,000	\$5,077,000	\$5,061,000
Actual Expenditures	\$4,573,000	\$4,274,000	\$4,285,000
Overestimated Appropriations	\$269,000	\$803,000	\$776,000
Percent Overestimated	6%	19%	18%

We also analyzed the 2015-16 appropriations in comparison with the last three completed fiscal years of actual results and project a similar trend to continue. As a result, we project that expenditures are overestimated by approximately \$590,000 (13 percent) and the District will likely realize an operating surplus in 2015-16.

The overestimated appropriations contributed to annual operating surpluses totaling approximately \$764,000 during the last three fiscal years. Additionally, although the budgets for 2012-13⁴ through 2015-16 included appropriated fund balance that averaged approximately \$390,000 annually, none of the appropriated fund balance was needed.⁵ The Business Administrator stated that the goal is to

³ Includes teacher salaries, tuition and BOCES services. Appropriations totaled approximately \$7.1 million and actual expenditures totaled approximately \$5.7 million during our audit period.

⁴ The District appropriated \$280,000 at the end of the 2011-12 fiscal year for the subsequent year's expenditures.

⁵ When fund balance is appropriated for the next year's budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated. This allows a school district to return excess fund balance that has accumulated in prior years back to the residents.

maintain the same level of fund balance from year to year, not to reduce it. However, it is not a realistic budgeting practice to routinely adopt budgets that appropriate fund balance that will not be used. Further, it is misleading to District residents because they are under the impression that surplus funds will be used to reduce their taxes. In reality, the District's fund balance increased by approximately \$560,000 (36 percent).⁶

As shown in Figure 2, the District has reported unrestricted fund balance generally within the 4 percent limit during our audit period.⁷

Figure 2: Unrestricted Fund Balance at Fiscal Year-End			
	2012-13	2013-14	2014-15
Beginning Fund Balance	\$1,551,000	\$1,854,000	\$1,978,000
Add: Operating Surplus	\$70,000	\$173,000	\$521,000
Add: Unbudgeted Transfers In	\$280,000	\$0	\$0
Less: Unbudgeted Transfers Out	\$47,000	\$49,000	\$383,000 ^a
Ending Fund Balance	\$1,854,000	\$1,978,000	\$2,116,000
Less: Restricted Fund Balance	\$1,145,000	\$1,370,000	\$1,329,000
Less: Encumbrances	\$17,000	\$15,000	\$38,000
Less: Appropriated Fund Balance for the Ensuing Year	\$500,000	\$390,000	\$390,000
Unrestricted Fund Balance at Year-End	\$192,000	\$203,000	\$359,000
Ensuing Year's Budgeted Appropriations	\$5,077,000	\$5,061,000	\$5,145,000
Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	4%	4%	7%

^a The majority of this (\$340,000) was transferred to the capital projects fund to fund local share costs.

However, as illustrated in Figure 3, once the appropriated fund balance not needed to finance operations is included in unrestricted fund balance, the recalculated unrestricted fund balance ranged from \$692,000 in 2012-13 (14 percent) to \$749,000 in 2014-15 (15 percent).

Figure 3: Unused Fund Balance			
	2012-13	2013-14	2014-15
Unrestricted Fund Balance at Year-End	\$192,000	\$203,000	\$359,000
Add: Appropriated Fund Balance Not Used for the Ensuing Year	\$500,000	\$390,000	\$390,000
Recalculated Unrestricted Fund Balance	\$692,000	\$593,000	\$749,000
Recalculated Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	14%	12%	15%

Furthermore, District officials continued to increase taxes⁸ despite realizing recurring operating surpluses. If the property tax levy had

⁶ The District reported fund balance totaling approximately \$1.56 million as of July 1, 2012.

⁷ The District exceeded the limit as of June 30, 2015.

⁸ Over the last four years the tax levy has been increased by a total of approximately \$245,000.

not been increased, but remained at the same level since 2012-13, residents could have realized approximately \$380,000 in cumulative savings. In this illustration, the District would maintain the same amount of reserve balances, experience annual operating surpluses and return a portion of the excess fund balance back to the residents while providing the same level of instruction and educational services.⁹

District officials have increased the property tax levy for 2015-16 by an additional 1.8 percent or \$37,000.¹⁰ We analyzed the 2015-16 budget with the last three completed fiscal years to develop projections of fund balance as of June 30, 2016. The District is projected to experience an operating surplus of approximately \$430,000.

Reserve Funds

School districts may establish reserve funds to retain a portion of fund balance to finance a variety of objects or purposes, but must do so in compliance with statutory requirements. When school districts establish reserves for specific purposes, it is important that a formal plan or policy is developed for how to fund the reserves, how much should be accumulated in the reserves and when the money will be used to finance related costs. While school districts are generally not limited as to how much money can be held in reserves, balances should be reasonable. Funding reserves at greater than reasonable levels contributes to property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

As of June 30, 2015, the District reported five reserves in the general fund totaling approximately \$1.3 million. We found the District properly established all five reserves and reasonably funded the following four reserves: employee benefit accrued liability (\$360,000), capital (\$350,000), tax certiorari (\$280,000) and retirement contribution (\$120,000).¹¹ However, the unemployment insurance reserve is overfunded (\$220,000).

The unemployment insurance reserve is authorized to make payments to the New York State Unemployment Insurance Fund (SUIF) for payments made to claimants because the District has chosen to use the benefit reimbursement method. As of June 30, 2015, the balance in this reserve was approximately \$220,000. However, this level of funding is excessive because the Board annually levies taxes for these expenditures, which average approximately \$4,000, rather than budgeting to appropriate reserve funds. As a result, we question the purpose of maintaining this amount in the reserve.

⁹ Unbudgeted transfers out are excluded from the calculation.

¹⁰ The District did not exceed its tax cap limit.

¹¹ Amounts were rounded.

In addition, the Board has adopted a reserve policy that requires District officials to prepare and submit an annual report to the Board to include the type and description, date of establishment, financial activity increasing and/or decreasing the reserve, an analysis of the projected needs for the reserve in the upcoming fiscal year and a recommendation regarding the funding of those projected needs.

However, District officials were unable to provide this report. Additionally, there is no evidence that officials have used reserves for their intended purpose because the District routinely levied taxes for expenditures that could be funded with money from reserves. For example, in 2014-15, the District budgeted approximately \$210,000 and actually paid more than \$500,000 for expenditures related to employee compensated absences, retirement contributions, capital and payments to the SUIF. If the District intends to continue to levy taxes to pay for expenditures that could be paid for with reserve funds, we question the purpose of maintaining reserves in excess of amounts needed to fund unplanned increases in the related expenditures.

Recommendations

The Board and District officials should:

1. Develop realistic estimates of appropriations and the use of fund balance in the annual budget.
2. Ensure that unrestricted fund balance is in compliance with the statutory limit and develop a plan to use excess funds in a manner that benefits District residents. Such uses could include, but are not limited to:
 - Using surplus funds as a financing source;
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.

District officials should:

3. Prepare an annual report to the Board for reserves that includes the type and description, date of establishment, financial activity, projected needs and a recommendation for funding. Any excess funds should be transferred to unrestricted fund balance (where allowed by law) or to 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 page.

WYOMING CENTRAL SCHOOL DISTRICT
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June 21, 2016

Jeffrey D. Mazula, Chief Examiner
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Office of the State Comptroller
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Dear Mr. Mazula:

This letter is the initial response from the Wyoming Central School District (the "District") to the draft Report of Examination of Financial Management (the "audit report") for the period of July 1, 2012 through January 29, 2016, which was released to the District with a letter dated May 26, 2016.

We believe the draft audit report recommendations encouraging the District to review and further develop our procedures and plans for developing budgets and using reserves were appropriate and are consistent with changes which we have either already made or are planning to make in the near future.

Once the final audit report is issued, the District will follow-up with an analysis and specific responses in a Corrective Action Plan (CAP) within 90 days. The CAP will be filed with the Office of the State Comptroller and New York State Education Department. In addition, the CAP will be made available for public inspection.

The Board of Education and Administration are always eager to consider suggestions and ideas to improve the financial operations of our District, especially in light of our strong commitment to protect both the short-term and long-term fiscal health of the District and, at the same time, ensure that our residents continue to receive the same high level of efficiency and predictability from the District that they have enjoyed and benefited from in the past and, justifiably, expect to receive in the future. It has been and will continue to be a top priority of this District to maintain and improve upon our record of providing a strong education for our students in the most cost effective manner possible. The Board of Education and Administration are 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.

As an additional comment, the District wishes to acknowledge and express our appreciation for the professional and courteous interaction we experienced with your staff throughout the audit process.

Sincerely,

Mickey Edwards
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials to gain an understanding of the District’s financial management practices.
- We analyzed 2012-13, 2013-14 and 2014-15 budgeted appropriations and revenues and compared them to actual results. We calculated if there was an operating surplus or deficit for each of these years.
- We reviewed the 2015-16 budget and compared it to the 2012-13, 2013-14 and 2014-15 budgets and actual results. We documented significant trends and analyzed for projected future trends.
- We analyzed fund balance for the most recent three years and determined if appropriated fund balance was used as budgeted.
- We evaluated selected appropriation and revenue codes for the most recent three years and compared them to actual results. We identified those that had high over- or under-budget variances.
- We calculated unrestricted fund balance as a percentage of the next year’s budget. We included both appropriated fund balance and unrestricted fund balance in our calculations.
- We forecasted the unrestricted fund balance that would be available if the District did not increase the tax levy during 2013-14, 2014-15 and 2015-16, but maintained the same amount as the levy in 2012-13.
- We identified all reserves during the last three years and determined if they were properly established.
- We documented the flow of funds in and out of the reserves over the last three years and determined if reserve funds were used toward related expenditures.
- We requested the substantiation used by District officials to calculate the appropriate balances for the reserves and evaluated each reserve for reasonableness.

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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