

Harrisville Central School District

Transportation State Aid and Debt for Bus Purchases

JULY 2020



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

Report Highlights	1
Transportation State Aid.	2
How Should District Officials Apply for and Monitor Transportation State Aid?	2
Officials Did Not Apply for All Entitled Transportation Aid	3
What Do We Recommend?	4
Debt Issued for Bus Purchases	5
How Should District Officials Issue and Account for Debt Issued for the Purchase of New Buses?.	5
The Board and District Officials Issued More Debt Than Needed and Did Not Properly Account for Debt Proceeds	5
What Do We Recommend?	8
Appendix A – Response From District Officials	9
Appendix B – Audit Methodology and Standards	10
Appendix C – Resources and Services	12

Report Highlights

Harrisville Central School District

Audit Objective

- Determine whether the District applied for all transportation State aid for new bus acquisitions.
- Determine whether the Board and District officials properly issued and accounted for debt issued for new bus acquisitions.

Key Findings

- The District did not apply for all transportation State aid (State aid) for seven new bus acquisitions resulting in a potential revenue loss of \$477,200. During our audit, the Business Manager prepared and submitted State aid forms for three of these buses.
- The District unnecessarily borrowed more than \$294,000 when purchasing 11 buses during our audit period. We estimate the District will pay about \$11,000 in interest expense on the surplus debt proceeds.

Key Recommendations

- File the appropriate State aid forms with SED for the remaining four buses identified in this report.
- Properly segregate and account for surplus bond proceeds to ensure they are used to retire District debt.

District officials agreed with our recommendations and indicated they would or had already initiated corrective action.

Background

The Harrisville Central School District (District) is located in the Towns of Croghan and Diana in Lewis County and in the Towns of Fowler and Pitcairn in St. Lawrence 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 is the chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District contracts with the St. Lawrence-Lewis Board of Cooperative Services (BOCES) for a variety of financial-related services including providing the District with a Business Manager.

Quick Facts

Enrollment	376
2019-20 Budgeted Appropriations	\$11 million
District-Owned Buses	10

Audit Period

July 1, 2016 – October 31, 2019.

We extended our scope to review debt issued for buses purchased from July 1, 2014 to the end of the audit period.

Transportation State Aid

The New York State Education Department (SED) provides transportation capital aid to school districts for the assumed debt service expenditures associated with the approved cost of newly purchased buses.

How Should District Officials Apply for and Monitor Transportation State Aid?

District officials are responsible for ensuring that the district receives all the State aid to which it is entitled for the purchase of new school buses. A well-designed system over the State aid process consists of assigning the responsibility for specific activities to ensure each employee understands the overall objectives and his or her role in the process. Periodic monitoring of the process by officials and an annual reconciliation of State aid can also help ensure the district will receive all of the aid revenue to which it is entitled.

To receive State aid, the district must apply to SED providing detailed purchase order information for each new bus purchased within one year of the purchase date. Prior to August 2017 districts applied to SED for aid by submitting Form SA-16 “Application for Approval of Bus Purchase for the Purpose of State Aid” which was then reviewed by SED. Upon approval, SED sent an award letter enumerating the buses that had been approved to receive State aid and the approved amounts. After August 2017, districts must apply electronically using the State Aid Management System website. After providing the necessary bus purchase information, districts generally receive immediate approval from SED.

Districts receive State aid on bus acquisitions over a five- or six-year period¹ beginning 12 months after the purchase order or lease agreement date. For example, for a bus purchased during July 2019, the district would begin receiving aid during the 2020-21 fiscal year and would continue to receive aid on the bus purchase through the 2024-25 fiscal year. SED estimates the assumed annual debt service cost for bus acquisitions based on assumed amortization schedules.² The assumed annual debt service cost³ multiplied by the district’s annual State-share ratio for transportation aid (which may vary from year-to-year) determines the amount of State aid the district is entitled to each year.

1 State aid payments are made over a five-year period if the bus is acquired during the first six months of the fiscal year (July 1 through December 31) and over a six-year period if the bus is acquired during the last six months of the fiscal year (January 1 through June 30).

2 The assumed amortization schedules are based on the approved or total financed cost of each bus, a statewide average interest rate, a five-year term and equal semiannual assumed payments of principal and interest.

3 Deductions, including deductions for other purposes and non-allowable pupils, are made to this amount.

Officials Did Not Apply for All Entitled Transportation Aid

The District did not apply for all the State aid to which it was entitled for new bus acquisitions. We reviewed all seven of the District's new bus purchases during the 2016-17 to 2019-20 fiscal years totaling approximately \$582,300. Two of the seven buses were purchased in July 2016, one in July 2017, two in July 2018 and two in July 2019.

As of the start of our audit work in September 2019, the District had not submitted forms or applied online to SED to receive State aid for any of the seven buses. Because District officials did not establish procedures to ensure the District applied for all of the State aid for new bus acquisitions, the District was in danger of losing approximately \$477,200 in State aid for these purchases.

After we inquired about the District's process for claiming the State aid, the Business Manager applied for State aid online for the three buses purchased in July 2017 and July 2018. SED approved the District to receive \$227,240 in State aid for these bus purchases. When reviewing the supporting documentation for these aid applications, we found that the Business Manager used a purchase price that was \$4,413 less than the actual purchase price for the July 2018 bus acquisitions. We estimate the District will lose about \$3,400 in State aid due to this error if it is not corrected. It is important for District officials to ensure State aid applications are accurate and timely in order to take full advantage of eligible revenues.

As of February 2020, the Business Manager still had not applied for State aid for the two buses purchased in July 2016 (more than three and one half years after the purchase) and the two buses purchased in July 2019. If the District had applied for this aid in 2019, we project the District would have been eligible to receive a total of approximately \$246,550 in State aid over the next five to six years, based on the District's average State-share ratio and deduction amounts.

The Business Manager told us it was an oversight on her part that she did not submit for the State aid. The Superintendent told us he was unaware the District had not submitted for all of the aid. The Business Manager was responsible for preparing and submitting the State aid forms or for applying online for bus acquisitions and reviewing the receipt of award letters with limited oversight. In addition, District officials did not perform an annual reconciliation of the State aid receipts, records and reports. As a result, officials had no means to ensure that the District applied for and received all of its eligible State aid.

A representative of SED told us that SED will likely approve State aid for the remaining four buses once the District applies for the aid. However, the failure to apply for State aid for all new bus acquisitions in a timely manner has resulted in delayed payments of State aid and the District levying more real property taxes

...[T]he District was in danger of losing about \$477,200 in State aid for these purchases.

than would have been needed to fund operations during the 2017-18 through 2019-20 fiscal years.

What Do We Recommend?

District officials should:

1. Implement procedures to ensure that State transportation aid applications are accurately prepared and submitted in a timely manner.
2. Ensure that the Business Manager prepares an annual reconciliation of transportation aid expected to be received with the actual amounts received.
3. File the appropriate State aid forms for the four remaining buses identified in this report.

Debt Issued for Bus Purchases

How Should District Officials Issue and Account for Debt Issued for the Purchase of New Buses?

Generally, school districts' voters must approve the levy of a tax to pay for the bonded indebtedness used to purchase buses. After obtaining voter approval, the board can adopt a resolution authorizing the issuance of bonds.⁴ The proceeds of bonds and bond anticipation notes (BANs) must be used solely for the purchase of the buses and, when the buses are purchased, any residual bond or BAN proceeds must be applied to the payment of the debt service on that debt.

Local Finance Law, Section 165.00, provides that the proceeds of the sale of bonds or BANs must be deposited and secured in a special bank account. District officials must maintain a separate accounting record of each issue to ensure that the proceeds are used only for the object or purpose for which the obligation was issued. Generally, the proceeds must be deposited and secured in a special bank account and may not be commingled with other funds of the district.⁵

Prudent financial management provides that district officials borrow only the amount needed for bus purchases, because any excess borrowed amounts can only be used to retire the associated outstanding debt. The decision to borrow more than necessary generally results in more interest expenditures for the district and a greater tax levy than needed.

The Board and District Officials Issued More Debt Than Needed and Did Not Properly Account for Debt Proceeds

The Board and District officials did not act in the best interest of District taxpayers when issuing debt for the purchases of school buses and did not comply with relevant State statutes that govern how debt proceeds must be used and accounted for.

Beginning in the 2014-15 fiscal year the District began using the proceeds of BANs to purchase new buses.⁶ According to the District officials, they developed a bus replacement schedule, which provides a framework for the annual acquisition of one or two new buses and the retirement of older buses for which the District receives a trade-in allowance. Each year, in March, the Board approves a resolution to submit a proposition with the annual budget in May to seek voter approval for the purchase of new school buses for a specified maximum amount financed by the issuance of a bond and/or BAN. In June, after receiving voter

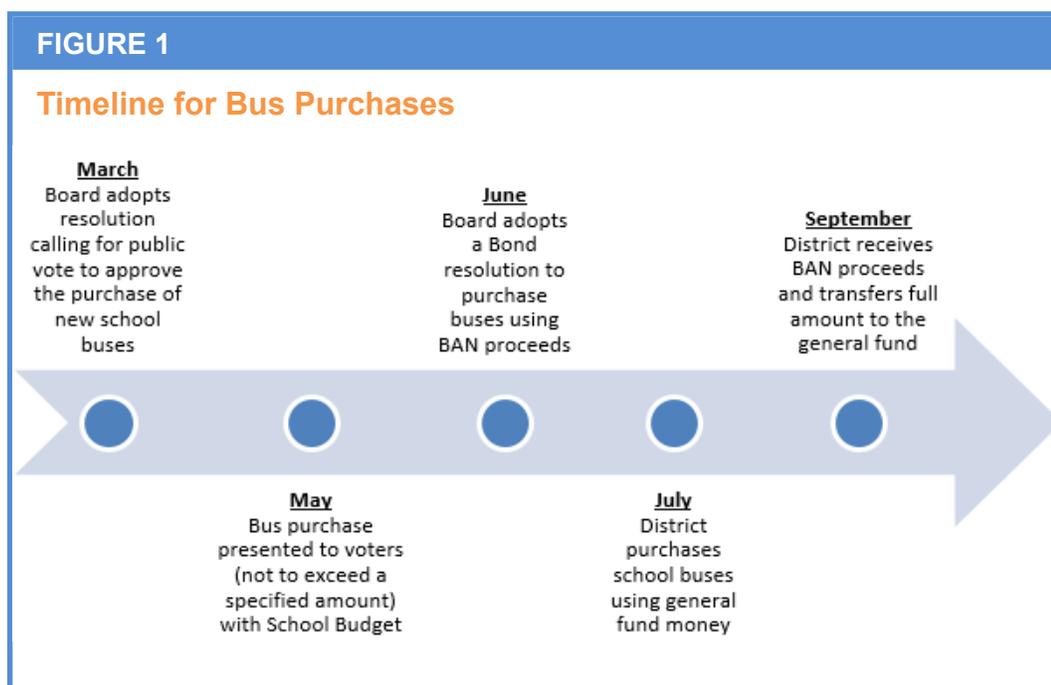
⁴ New York State Education Law Section 416, New York State Local Finance Law Section 37.00

⁵ The bond proceeds may be co-mingled with the proceeds from other debt issuances.

⁶ Prior to the 2014-15 fiscal year, the District issued serial bonds for the net cost of bus replacements (cost of a new bus less any trade-in allowance).

approval, the Board adopts a bond resolution⁷ for the maximum amount approved by the voters.

District officials then order the new buses using a State contract (after receiving a trade-in allowance for retired buses). The new buses are received and paid for in July using general fund money for the net amount of the purchase. In September, the District issues a BAN for the maximum amount approved by the voters and authorized by the Board rather than for the actual net cost of the buses which is on average 25 percent less. The District then transfers the full amount of the BAN proceeds to the general fund to reimburse for the bus payment made two months earlier. The BAN proceeds were not kept in a special bank account as required. While it was permissible for the District to reimburse the general fund for the cost of buses, the extra BAN proceeds should have been segregated in a separate bank account and used to pay off the associated debt. Figure 1 illustrates this process:



Beginning in the 2014-15 school year, District officials used the services of a financial advisory firm (Firm) to assist them with the financing of school buses. Each year in June, after the Board adopted a resolution authorizing bonds or BANs in the full amount approved by the voters, the Firm arranged for the issuance of a BAN in that amount. The BANs are amortized over a five-year period with equal principal payments. However, as shown in Figure 1, the District

⁷ Bond resolution contains language allowing for the issuance of BANs as well as the use of proceeds to reimburse the general fund for payments made prior to receiving the proceeds of the BAN.

did not actually issue the BANs until September. This is nearly two months after having already paid for the buses. Therefore, the District had ample opportunity to inform the Firm as to the actual amount needed to fund the purchase of the buses. Figure 2 shows the amount of the District’s unnecessary borrowing for fiscal years 2014-15 through 2019-20.

Figure 2: BAN Proceeds Borrowed Between 2014 and 2019 to Purchase Buses

Date of BAN Issue	New Buses	Amount of BAN	Net Cost of New Buses	Unnecessary Amount Borrowed	Percent of Difference
9/12/2014	2	\$200,000	\$155,075	\$44,925	23%
9/10/2015	2	\$210,000	\$157,610	\$52,390	25%
9/8/2016	2	\$219,000	\$154,988	\$64,012	29%
9/7/2017	1	\$118,000	\$85,258	\$32,742	28%
9/6/2018	2	\$222,000	\$176,723	\$45,277	20%
9/5/2019	2	\$220,000	\$165,310	\$54,690	25%
Total	11	\$1,189,000	\$894,964	\$294,036	25% (average)

Over the last six fiscal years the District borrowed about \$294,000 more than was necessary to purchase 11 new buses. District officials failed to deposit the BAN proceeds into a special bank account separate from other funds and also did not maintain adequate records to track each debt issuance, the unused balance and interest earned on the debt. Without separate accounting records for each debt issuance, the Board cannot ensure that debt proceeds are only used for the object or purpose for which the debt was issued and that the \$294,000 of unneeded debt proceeds and applicable interest earned were used to pay off the associated debt as required by law.

The Business Manager told us she was unaware that proceeds of debt must be kept in a separate bank account and she was unfamiliar with how to effectively segregate the debt proceeds in the accounting records. She said she relied upon the District’s external auditor’s year-end entries to record this type of activity. The Superintendent and Board President told us that they felt it was necessary to borrow the full amount approved by the voters because of uncertainties that existed such as any trade-in allowance they may receive. Neither official was aware that the buses had been paid for and received a full two months before the BANs were issued, thus eliminating any uncertainties that previously existed.

Because the Board and other District officials have not established a process for making sure the District only borrows the amount necessary for the bus

...[T]he District borrowed about \$294,000 more than was necessary to purchase 11 new buses.

purchases, we estimate the District will incur approximately \$11,000 in extra interest expenditures.⁸

What Do We Recommend?

The Board and District officials should:

4. Establish procedures to ensure the District only borrows the amount necessary to pay for new buses.
5. Deposit debt proceeds in a special bank account separate from other District funds and maintain separate accounting records for each debt issuance.
6. Apply excess debt proceeds to the payment of principal and interest of such obligations in accordance with Local Finance Law.

⁸ This amount is based on the interest rate associated with the various BANs issued by the District during our audit period.

Appendix A: Response From District Officials

BOARD OF EDUCATION

Jan Mosher, President
Parish Atkinson
Denise Avallone
Kathy Felio



BOARD OF EDUCATION

Cory Bearor, Vice President
Heidi McIntosh
Tennille Schmitt

Robert N. Finster
Superintendent of Schools

HARRISVILLE CENTRAL SCHOOL

14371 Pirate Lane

HARRISVILLE, NEW YORK 13648

Phone (315) 543-2707

Fax (315) 543-2360

Eric Luther
7-12 Principal/Athletic Director

Kathleen Cruikshank
Elementary Principal/CSE Chair

To Whom It May Concern:

The Harrisville Central School District is in agreement with the findings of the New York State Comptroller's Audit. The two findings were the lack of filing for state aid on several buses and the debt for bus purchases.

As for the latter, in the past, we had borrowed the amount of the buses put forth to the public for vote. We put forth the amount of the buses, inclusive of trade-ins because of the concern of the potential for a bus to be damaged prior to the trade in. In other words we were borrowing more money than the actual cost of the buses because we didn't lesson the amount borrowed by the monies received for the buses being trading in. At the time of the public votes in May again we were concerned of the potential buses being traded to be in an accident, therefore, reducing or cancelling any possible trade in value for that bus. That being said, we were able to reduce the amount borrowed later in the process, near the end of July, when we knew exactly how much our trade in values were on the buses. We have consulted with Fiscal Advisors, our financial advisors to ensure that we are only borrowing the exact amount of the buses after trade-in going forward. We have also begun to use the funds in debt service in the upcoming fiscal year.

In the first finding of not submitting the proper paper work to the State Department of Budget for several buses was a complete oversight on my part and our business manger's part. We have set up a calendar that will continually pop up on our computers letting us know that the Bus Purchase Approval Form needs to be completed, submitted and certified. We have also included my secretary into the process as she keeps my calendar. She has already imported those dates into my calendar as a back up to the new calendar that Becki and I created. I am very comfortable that we will never let the aid for our bus purchases slip through the cracks again.

Cordially,

Jan Mosher

Robert Finster

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objectives and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed various transportation State aid documents and SED regulations to gain an understanding of the transportation State aid process for bus purchases and the District's procedures for applying for State aid for bus purchases.
- We reviewed all District bus purchases during our audit period and determined whether District officials submitted State aid forms to SED to receive transportation State aid for the buses purchased.
- We performed calculations to determine the amount of transportation State aid that the District should have received from 2017-18 through 2019-20. We calculated the projected SED-approved cost amortized over five years for each bus purchased and projected the amount of transportation aid the District was entitled to receive each year.
- We interviewed District officials to gain an understanding of their procedures for borrowing money used to finance bus purchases.
- We reviewed Board minutes and resolutions that were presented to the public at budget time for the approval to purchase school buses using BAN proceeds.
- We reviewed the bank statements and general ledger history reports to gain an understanding of how the District received and disbursed the BAN proceeds that were supposed to be used to purchase buses.
- We followed up with District officials to see if they could account for how the \$294,000 of unnecessary BAN money received was used.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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, 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. 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 CAP should be posted on the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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SYRACUSE REGIONAL OFFICE – Rebecca Wilcox, Chief Examiner

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