



Randolph Central School District Financial Management

Report of Examination

Period Covered:

July 1, 2008 — December 31, 2013

2014M-20



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2014

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 Randolph Central School District, entitled Financial Management. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for 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

EXECUTIVE SUMMARY

The Randolph Central School District (District) is located in the Towns of Coldspring, Conewango, Leon, Napoli, Randolph, Red House and South Valley in Cattaraugus County and the Towns of Ellington and Poland in Chautauqua County. The District is governed by a Board of Education (Board) which comprises seven elected members. The Board is responsible for 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 District's day-to-day management under the Board's direction. The Board, Superintendent and Business Executive (Executive) are responsible for the District's annual budget. The Executive is responsible for the District's financial records.

Scope and Objective

The objective of our audit was to evaluate the District's financial operations for the period of July 1, 2008 through December 13, 2013. Our audit addressed the following related question:

- Did District officials provide for effective financial planning and management by ensuring that budget estimates and reserve balances were reasonable and properly reported?

Audit Results

District officials consistently overestimated budgeted appropriations for fiscal years 2008-09 through 2012-13 by more than \$6.7 million, which resulted in combined operating surpluses totaling \$1.3 million. Therefore, the majority of the \$5.8 million in Board-appropriated fund balance was not used to fund District operations. As a result, the District's unexpended surplus funds¹ exceeded the 4 percent statutory limit² in each of these years. Additionally, the District's last five independent audit reports cited the District for having unexpended surplus funds in excess of the statutory limit. District officials also could not demonstrate a planned need for approximately \$4.4 million held in reserve

¹ 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 (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "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).

² Established by Real Property Tax Law

funds. Finally, District officials could not explain why over \$250,000 of District money was held in an agency fund rather than the general fund, which could be used to benefit District taxpayers. By routinely following these practices, District officials withheld significant funds from productive use and compromised the transparency of District finances to 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 initiate corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Introduction

Background

The Randolph Central School District (District) is located in the Towns of Coldspring, Conewango, Leon, Napoli, Randolph, Red House and South Valley in Cattaraugus County and the Towns of Ellington and Poland in Chautauqua County. The District is governed by a Board of Education (Board) which comprises seven elected members. The Board is responsible for general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible, along with other administrative staff, for the day-to-day management under the Board's direction. The Board, Superintendent and Business Executive (Executive) are responsible for the District's annual budget. The Executive is responsible for the District's financial records.

There are two schools in operation within the District with approximately 970 students and 180 employees. The District's general fund budgeted appropriations for 2013-14 total \$18.7 million, which are funded primarily with State aid and real property taxes.

Objective

The objective of our audit was to evaluate the District's financial management and addressed the following related question:

- Did District officials provide for effective financial planning and management by ensuring that budget estimates and reserve balances were reasonable and properly reported?

Scope and Methodology

We evaluated District officials' management of the District's financial operations for the period July 1, 2008 through December 13, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix 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 initiate corrective action. 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 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 provide educational services to students. The responsibility for accurate and effective financial planning rests with the Board, the Superintendent and the Executive. District officials must manage the District's finances in a prudent manner, accurately depicting and reporting the District's financial activity while also using available resources to ensure that the tax burden is not greater than necessary. To fulfill this responsibility, it is essential that officials develop reasonable budgets and manage fund balance³ responsibly and in accordance with statute.

District officials consistently overestimated budget appropriations for fiscal years 2008-09 through 2012-13 by more than \$6.7 million, which resulted in combined operating surpluses totaling \$1.3 million. The majority of the \$5.8 million in Board-appropriated fund balance was not used to fund District operations. As a result, the District's unexpended surplus funds exceeded the 4 percent statutory limit⁴ in each of these years. District officials also could not demonstrate a planned need for approximately \$4.4 million held in reserve funds. Finally, District officials could not explain why over \$250,000 of District money was held in an agency fund rather than the general fund, which could be used to benefit District taxpayers. As a result, District officials withheld significant funds from productive use and compromised the transparency of District finances to taxpayers.

Budgeting and Unexpended Surplus Funds

The Board is responsible for preparing and presenting the District budget to the public for voter approval. In preparing the budget, the Board is responsible for estimating expenditures, the amount the District will receive in revenue (e.g., State aid), how much unexpended surplus funds will be available at year-end (some or all of which may be used to fund the next year's operations) and the expected real property tax levy. Accurate estimates help ensure that real property taxes levied are not greater than the amounts necessary to fund District operations.

³ 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 (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "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).

⁴ Established by Real Property Tax Law

Estimating unexpended surplus funds is an integral part of the budget process. Unexpended surplus funds represent resources remaining from prior fiscal years that can be used to lower the amount of real property taxes levied in the next fiscal year. A district may retain a portion of unexpended surplus funds within the statutory limit. Districts may also establish reserve funds to restrict a portion of unexpended surplus funds for a specific purpose, in compliance with relevant statutory provisions. It is the Board’s responsibility to continually monitor the need for and balances of all established reserves ensuring that the taxpayers’ best interests are being met.

We compared the District’s budgeted revenues and appropriations with actual operating results for the last five fiscal years and found that District officials overestimated appropriations by nearly \$6.7 million. For example, District officials consistently overestimated certain appropriation groups including employee benefits by almost \$4.1 million and instructional salaries by \$2.2 million.

Fiscal Year	Budget Appropriations	Actual Expenditures	Difference	Percent Difference
2008-09	\$17,779,219	\$16,404,156	(\$1,375,063)	8%
2009-10	\$18,167,083	\$16,103,422	(\$2,063,661)	11%
2010-11	\$18,109,487	\$17,377,574	(\$731,913)	4%
2011-12	\$17,822,551	\$16,967,245	(\$855,306)	5%
2012-13	\$18,380,469	\$16,724,257	(\$1,656,212)	9%
Total	\$90,258,809	\$83,576,654	(\$6,682,155)	7%

For the five years we reviewed, District officials appropriated an average of \$1.1 million in unexpended surplus funds annually to reduce the amount of real property taxes levied. This should have resulted in operating deficits each year. However, unrealistic budget estimates resulted in the District incurring combined operating surpluses totaling more than \$2 million in 2008-09 and 2009-10 and combined operating deficits totaling about \$715,000⁵ for the fiscal years 2010-11 through 2012-13. Over the five-year period ending June 30, 2013, revenues exceeded expenditures by more than \$1.3 million.

⁵ Averaging 19 percent of the appropriated fund balance for 2010-11 through 2012-13

Table 2: General Fund Operating Results and Unexpended Surplus Funds

	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning Fund Balance	\$4,971,100	\$6,350,310	\$7,699,153	\$7,268,164	\$7,239,067
Revenues ^a	\$17,104,599	\$17,452,265	\$16,946,585	\$16,938,148	\$16,468,926
Expenditures ^b	\$16,404,156	\$16,103,422	\$17,377,574	\$16,967,245	\$16,724,257
Operating Surplus/(Deficit) ^c	\$700,443	\$1,348,843	(\$430,989)	(\$29,097)	(\$255,331)
Less: Appropriated Fund Balance	\$759,642	\$1,103,264	\$1,373,860	\$1,373,860	\$1,186,219
Less: Restricted Fund Balance	\$2,178,173	\$2,129,026	\$3,576,682	\$3,539,534	\$3,586,687
Ending Unexpended Surplus Funds	\$3,412,495 ^d	\$4,466,863	\$2,317,622	\$2,325,673	\$2,210,830
Next Year's Appropriations	\$18,167,083	\$18,109,487	\$17,822,551	\$18,380,469	\$18,728,112
Unexpended Surplus Funds as Percentage of Next Year's Appropriations	19%	25%	13%	13%	12%

^a Revenues for the five years totaled \$84,910,523.
^b Expenditures for the five years totaled \$83,576,654.
^c Operating surpluses over the five years totaled \$1,333,869.
^d Includes prior period adjustment of \$678,767

The Board reduced the District's real property tax levy by a total of 3 percent from 2008-09 through 2012-13 and the adopted 2013-14 budget resulted in no change in the tax levy. However, the practice of consistently appropriating unexpended surplus funds not needed to finance operations, in effect, is a reservation of surplus funds that is neither regulated by statute nor subject to the statutory limit for unexpended surplus funds. As a result of the Board's unrealistic budget estimates, the amount of unexpended surplus funds over this five-year period far exceeded the statutory limit. The unexpended surplus funds as of June 30, 2013 totaled more than \$2.2 million or three times the limit. Additionally, the District's last five independent audit reports cited the District for having unexpended surplus funds in excess of the statutory limit.

As a result of the Board's continual use of budgeting practices which produce operating surpluses that are retained in excess of the amount allowed by law, taxpayers are denied adequate accountability over the use of District resources. Additionally, the Board missed opportunities to further lower the real property taxes or use excess surplus funds to meet other District needs.

Reserves

Reserve funds may be established by Board action, pursuant to various laws, and are used to provide financing only for specific purposes. The statutes under which reserves are established determine how the reserves may be funded, expended or discontinued. Generally, school districts are not limited to how much money can be held in reserves. However, it is important that districts maintain reserve balances that are reasonable. To do otherwise, that is, funding reserves at greater than reasonable levels, essentially results in real property tax levies that are higher than necessary. Further, reserve funds should not merely be a "parking lot" for excess cash or unexpended surplus funds.

School districts should balance the desire to accumulate reserves for future needs with the obligation to ensure that taxpayers are not overburdened by these practices. A governing board that establishes and funds reserves on a regular basis should adopt a written policy that communicates its rationale for establishing reserve funds, objectives for each reserve established, optimal or targeted funding levels and conditions under which the funds' assets will be used or replenished to promote transparency to the public.

As of June 30, 2013, the District's 12 reserve funds totaled approximately \$6.3 million, a 27 percent increase since June 30, 2009. The District's reserves included nine general fund reserves totaling \$3.4 million, a debt service reserve totaling \$1.8 million and two capital fund reserves totaling \$1.1 million.

We analyzed the District's reserves for reasonableness and adherence to statutory requirements. We found that eight⁶ of the general fund reserves and the debt service reserve were overfunded by approximately \$4.4 million of the amounts needed for authorized purposes. Additionally, none of the reserves were supported by a plan or other documentation validating the amounts reserved. Further, the employee benefit accrued liability reserve (EBALR)⁷ was not properly established. Additionally, while establishing resolutions were in place for the District's remaining reserves, the Board did not indicate the rationale for establishing them, the objective for each, the optimal or targeted funding levels, or the condition under which the funds' assets would be used or replenished.

Employee Benefit Accrued Liability Reserve – General Municipal Law (GML) authorizes establishing an EBALR and requires that this reserve be used only for the cash payment of accrued and unused sick, vacation and certain other accrued but unused leave time earned by employees, as well as costs related to the reserve's administration. To be funded from the EBALR, the accrued and non-liquidated benefits must be due and payable to the employees upon separation from service, as authorized by contract or collective bargaining agreement. The Board is responsible for ensuring that the balance in this reserve is appropriate and the basis of funding is adequately supported by the value of accrued leave time due as cash payments to employees upon separation from service.

The Executive stated that the EBALR was created 15 years ago with the intent of funding sick leave and health insurance payments for retirees. However, there was no Board resolution establishing this

⁶ The tax reduction reserve totaling approximately \$92,000 was reasonable.

⁷ The District reported a "Miscellaneous Reserve" as of June 30, 2013 with a balance of \$2,502,928, which was a combination of the EBALR (\$1,459,742) and a retirement contribution reserve (\$1,043,186).

reserve and no plan in place for using this reserve. While this reserve had a balance of about \$1.46 million as of June 30, 2013, District officials provided supporting documentation for only approximately \$745,000. However, this reserve included approximately \$714,600 for sick and vacation leave that was accrued by employees who were ineligible for payments or had not met the requirements to receive payments. As a result, this reserve was overfunded by \$714,600.

Retirement Contribution Reserve – GML authorizes the District to establish a reserve for the payment of contributions to the New York State and Local Retirement System. The District paid all retirement costs from general fund appropriations, essentially funded through the annual real property tax levy, rather than using the funds reserved for this purpose. Based on this cost level, the District's June 30, 2013 reserve balance of approximately \$1.04 million would be sufficient to fund⁸ these costs for approximately 4.9 years, assuming the appropriation for these future expenditures were consistently budgeted for and funded by the reserve instead of the real property tax levy. In addition, the reserve balance was not supported by a plan documenting the need and expected use of these funds.

Debt Service Reserve – In certain circumstances, moneys must be restricted for debt service. For example, proceeds from the sale of property must be restricted if related debt remains outstanding. In addition, unexpended debt proceeds and related interest earnings must be restricted and used to pay debt service on that debt issue or for related capital expenditures. Districts are not allowed to establish a debt reserve for any other purpose.

As of June 30, 2013, the debt service reserve balance totaled approximately \$1.83 million. The Executive stated that these funds were from unexpended debt proceeds and related interest earnings from certain capital projects.⁹ The Executive further stated the District does not have any current plans to use this reserve's funds to pay debt service costs, but plans to retain them in the event the District experiences financial stress. Regardless of the Executive's plan to retain these funds, any funds held appropriately in a debt service reserve must be used to retire related outstanding debt. Therefore, funds in this reserve should be transferred to the general fund and used for District operations and/or to reduce the tax levy.

Unemployment Insurance Reserve – GML authorizes establishing a reserve to reimburse the State Unemployment Insurance Fund (SUIF) for payments made to claimants where the district has elected to use

⁸ These reserves may only be used for contributions to the New York State and Local Employees Retirement System and cannot be used for contributions to the New York State Teachers Retirement System.

⁹ Capital projects Phases 1-7

the “benefit reimbursement” method based on actual unemployment claims. At the end of any fiscal year, if the amount in the reserve exceeds the amount required to be paid to the SUIF and any pending claims, the Board may transfer the excess amount to certain other reserves or apply the excess to the budget appropriations of the next fiscal year.

As of June 30, 2013, this reserve had a reported balance of \$281,421. The District incurred average annual unemployment insurance costs of \$12,500 since 2008-09, which have been funded from this reserve. However, the reserve has been routinely replenished at year end, returning the reserve to its original funding level. If the reserve was not replenished, the current balance would still be sufficient to fund unemployment insurance claims for 22.4 years assuming the same average level of annual cost. District officials did not have a plan documenting the need and expected use of these funds.

Property Loss/Liability Claim Reserves – Education Law authorizes school districts to establish and maintain these reserves, not to exceed 3 percent of the annual budget, to fund property loss and liability claims. Property loss and liability reserves allow a district to “self-insure” for all or a portion of claims that would typically be covered by insurance, to result in a reduction in insurance costs.

As of June 30, 2013, the property loss reserve balance totaled \$80,596 and the liability reserve balance totaled \$100,000. Currently the District is not self-insured, has no formal plans to become self-insured and has not experienced any catastrophic loss expenditures in the last five completed fiscal years. District officials did not have a plan documenting the need and expected use of these reserves. The Executive stated that these reserves were in place to have funds on hand in the event the District experienced fiscal stress. Therefore, we question the reasonableness of these two reserves.

Workers’ Compensation Reserve – GML authorizes this reserve for workers’ compensation costs, related medical expenses and self-insurance administrative costs. At the end of any fiscal year, if the funds in this reserve exceed the amount needed to satisfy all existing obligations and pending claims, the Board may transfer the excess amount to certain other reserve funds or apply the excess to the budget appropriations of the succeeding fiscal year.

As of June 30, 2013, this reserve balance totaled \$175,000. The District incurred average annual workers’ compensation expenditures of approximately \$71,500 over the last five fiscal years. However, the District paid these costs from general fund appropriations, essentially funded through the annual real property tax levy, rather than using the

funds reserved for this purpose. Based on this cost level, the District's current reserve balance could be used to pay workers' compensation claims for approximately 2.5 years, assuming the appropriations for these future expenditures were consistently budgeted for and funded by the reserve instead of the real property tax levy. In addition, the reserve balance was not supported by a plan documenting the need and expected use of these funds.

Insurance Reserve – GML authorizes this reserve to fund certain uninsured losses, claims, actions or judgments for which the District is authorized or required to purchase insurance coverage. The District's insurance reserve reported a balance of \$121,079 for at least the last five fiscal years and no losses, claims, actions or judgments have been paid from this reserve. Moreover, this reserve was not used to self-insure for any specific risks and there were no catastrophic loss expenditures in the last five completed fiscal years. The Board has not documented the need and expected use of this reserve.

Tax Certiorari Reserve – Education Law authorizes districts to establish a reserve fund for costs related to tax certiorari proceedings. Money held in such a reserve may not exceed the amount which might reasonably be deemed necessary to meet anticipated judgments and claims arising out of such proceedings. Any amounts not used to pay judgments and claims must be returned to the general fund within four years of deposit.

As of June 30, 2013, the tax certiorari reserve had a balance of \$70,817. The Executive could not provide documentation to support reserving these funds, which have remained in this reserve since prior to the 2008-09 fiscal year. Additionally, there have been no tax certiorari proceedings against the District in the last five years and the Executive does not anticipate any proceedings or claims over the next few years. Therefore, we question why the District has not returned the funds to the general fund in accordance with statutory requirements.

Agency Fund

The agency fund is used to account for District funds held purely in a custodial capacity. District officials hold such funds as an agent for individuals, private organizations or other governments. For example, funds accumulated for employee flexible spending plans and student extracurricular activities are accounted for in this fund pending payment at a later date.

As of June 30, 2013 the agency fund's cash balance totaled more than \$437,000. Of that amount, about \$89,800 related to the District's flexible spending plan and about \$95,200 was from student extracurricular activities. The approximately \$252,000 that remained

in the agency fund was District money that should have been accounted for in the general fund. The Executive was unable to explain why the District money was held in the agency fund. Therefore, money was held in the agency fund that could have been used to benefit District taxpayers.

By maintaining excessive or unnecessary reserves, combined with the ongoing budgeting practice of continually overestimating each year's budgeted appropriations and holding excess money in the agency fund, the Board and District officials essentially retained significant excess funds. As a result, financial transparency to the taxpayers was diminished.

Recommendations

1. The Board and District officials should develop realistic appropriation and unexpended surplus funds estimates for the annual budget.
2. The Board should develop comprehensive policies for establishing and using reserve funds. These policies should outline targeted funding levels and the conditions under which the funds will be used or replenished.
3. The Board and District officials should review all reserves at least annually to determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.
4. The Board should determine whether the EBALR is necessary and adopt a resolution, as required, to properly establish it in accordance with statutory requirements.
5. District officials should develop a plan for the use of the excess balances in the reserve funds identified in this report in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - Reducing real property taxes,
 - Increasing other necessary reserves,
 - Paying off debt and
 - Financing one-time expenses.
6. The Executive should transfer any District money that does not belong in the agency fund to the general fund to be used to benefit District taxpayers.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

The District's response letter refers to an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.

Randolph Central School District

Learning with Passion, Innovation & Leadership

18 Main Street, Randolph, New York 14772

Telephone 716/358-6161

Kimberly Moritz, *Superintendent of Schools* 716/358-7005
David Chambers, *School Business Executive* 716/358-7006

Laurie Sanders, *Secondary Principal* 716/358-7007
Jerry Mottern, *Elementary Principal, Title IX Officer* 716/358-7030
Mary Rockey, *Director of Pupil Services* 716/358-7033

May 15, 2014

Jeffrey Mazula, Chief Examiner
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Mr. Mazula:

This letter is in response to the NYS Office of the State Comptroller report of examination for the period of July 1, 2008-December 13, 2013. Please note that this is the District's combined response to the examination and corrective action plan.

The state comptroller's auditors targeted their audit of our school's financial practices in two areas: fund balance and reserve accounts. As noted repeatedly by our outside audit firm, BWB, the district has had a long history of sound fiscal management, no & very low annual tax rate increases, and no significant teacher downsizing issues. In fact during the time period in question this district actually reduced taxes two years and held to a zero percent tax increase the other three years. However, the state's report found the district lacking in two broad areas. First our annual budget and resulting fund balance were found to be excessive. They reported that we had \$6.2M in accumulated fund balance over a five year budget period with total expenditures during that time of about \$90M. So, we over budgeted at an annual average of just under 7%. Second the auditors noted that we had several reserves accumulated that we had not used and did not demonstrate how or when we intended to use them. In summary, we had overestimated expenditures and we had some reserve funds without specific, immediate plans for use.

Audit Recommendation: *The Board should determine whether the EBALR is necessary and adopt a resolution, as required, to properly establish it in accordance with statutory requirements.*

Implementation Plan of Action: This report provided some insight into areas where the district can take action to use some of our reserve funds that prior to this were restricted in their use. Specifically, we will look at using the level of funds held in the EBALR (Employee Benefits Accrued Liability Reserve) and the Tax Certiorari reserves. As we understand from our discussions with the state comptroller's auditors we can request a certification of our EBALR reserve and then use a portion of the funds for a one time use expense. As part of our long standing practice of considering the needs of our taxpayers, we will review the EBALR and the Tax Certiorari reserves for possible reduction to be used for a non-recurring expense in the 2014-2015 school year. **Implementation date:** by the end of the fiscal school year 2014-15, **Responsible Person:** Board and District Officials

Audit Recommendation: *The Board and District officials should review all reserves at least annually to determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.* **Implementation Plan of Action:** Although the board reviewed and approved our reserve fund plans annually, the audit found these plans lacked sufficient documentation around their purpose and future plans. As part of this response we submit the attached financial reserve plan document outlining all reserves and their purpose. We will maintain and add to this document as more specific plans to use various reserve funds are developed over time. **Implementation date:** by the end of the fiscal school year 2013-14, **Responsible Person:** Board and District Officials

Audit Recommendation: *The Executive should transfer any District money that does not belong in the agency fund to the general fund and used to benefit District taxpayers.* **Implementation Plan of Action:** The audit suggested the business executive should move monies from the agency fund to the general fund. We do this regularly and we will be updating this again before the end of this fiscal period. **Implementation date:** June, 2014, **Responsible Person:** District Treasurer

Audit Recommendation: *The Board should develop comprehensive policies for establishing and using reserve funds. These policies should outline targeted funding levels and the conditions under which the funds will be used or replenished.* **Implementation Plan of Action:** The first reading of the reserves policy is at the BOE meeting, 5/13/14 **Implementation date:** June, 2014, **Responsible Person:** Board Policy Committee

Audit Recommendation: *The Board and District officials should develop realistic appropriation and unexpended surplus funds estimates for the annual budget.* **Implementation Plan of Action:** The audit recommended the district should “develop realistic appropriation and unexpended surplus fund estimates for the annual budget”. **We believe that given the current challenges and realities being faced by this and other districts we have developed realistic appropriation estimates and that we have acted prudently on behalf of our taxpayers for many budget years.** Ironically, the audit would have deemed our budgets fine if we didn’t have any excess monies; for example had we spent all of our budget every year and had **no** money held in reserve to protect us against any possible combinations of state budget shortfalls, unexpected cost increases in things like healthcare costs or losses due to fires or say tornadoes. The Randolph Central School District BOE and administration do NOT agree that a very limited reserve plan as presented by the state comptroller’s office is in the best interest of our taxpayers. **Implementation date:** by the end of the fiscal school year 2014-15, **Responsible Person:** Board and District Officials

See
Note 1
Page 22

See
Note 2
Page 22

Audit Recommendation: *District officials should develop a plan for the use of the excess balances in the reserve funds identified in this report in a manner that benefits District taxpayers. Such uses could include, but are not limited to: reducing real property taxes (which we have done twice in the past five years); increasing other necessary reserves; paying off debt (which we have also done in the past five years by paying off buses and busses); and financing one-time expenses.* **Implementation Plan of Action:** We will react to the state’s audit by prudently trimming back on our fund balance and by using the monies held in the various reserve funds but please understand we intend to continue to manage much the same as we have over the past many years. We believe a general fund balance and prudent reserves are the common sense approach to managing our finances given turbulent state and national financial situations. As mentioned this audit is targeted to the two areas identified: budget versus actual

expenditures and reserve funds planning and use (each of which has also been documented in our annual outside independent audits). As such the state comptroller report fails to examine these issues in light of the overall picture and could lead one to conclude the district has not been doing a strong job in managing our finances---something our outside auditors have praised each year and in which we take a great deal of pride.

See
Note 3
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Thus, we'd like to examine a more complete look at our financial management process and this district's performance. We'd like to review the financials in five areas:

- 1) Inputs – revenues provided to the district from local taxes and state plus federal funding.
- 2) Budgeted Expenditures – how much the district planned to 9-15 months in advance we'd need to spend in a given year.
- 3) Actual Expenditures – What we actually spent each year to deliver our services.
- 4) Assets – The reserves, buildings, grounds, equipment, etc. the district uses to perform the services.
- 5) Outputs – The educational outcomes & enrichment opportunities the district delivered to the students.

This audit essentially contends that had the district spent more and saved less, there would have been no issue with Randolph Central and our financial management procedures. The audit also indicates that we should have had a better plan for the use of the reserve funds available in our general budget and that we should have spent more. In effect, they would like us to run spending close to what our budget says we'll spend and use up reserves, keeping them low.

See
Note 4
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Here are some additional facts to consider regarding the district's financial management that the report fails to recognize and are the reasons we have not managed as the comptroller's office suggests.

Our mission is to educate the children of the district while managing the school's finances and assets prudently so that the burden on local and state taxpayers is kept as low as possible. To this end we have established the following key goals:

- 1) Improve Student Achievement
- 2) Provide a safe supportive environment that is conducive to learning.
- 3) Manage the annual budget to within the tax cap suggested by the state of 2% while maintaining a reasonable fund balance & solid reserves to protect against potential future planned and unforeseen needs.
- 4) Maintain the districts assets.

To carry out this mission in the current environment we must consider the facts and challenges in each of the five areas outlined above:

- 1) Inputs
 - a) Districts in NYS are required by law to create and vote on annual budgets every year by the third Tuesday in May. State budgets are supposed to be in place by April 1 each year but in 6 of the last 10 years those budgets have been late. Prior to on time budgets becoming a significant goal of the governor, between 1985-2004, budgets were late 19 of 20 years.

- b) Meanwhile school funding formulas are regularly a hot topic of debate and funding formulas and levels of funding vary significantly. Law suits to provide more funding for poor, city and rural schools are a constant. In short we regularly adopt budgets for the next school year with very limited insight or guarantee of the funding available.
- c) Consider that during one of the years alone (2011-2012) our funding lost for GEA was \$1,015,652. Had things been managed in our district without any extra between the budget and actual spending, this loss of some 6% of our total revenues would have had a devastating impact on our ability to provide a quality education and would have led to significant cuts in our programs. Our neighboring districts have lost anywhere from two to twenty nine teaching and administrative positions during the 2008-2009 to 2013-2014 school years.
- d) **This district had a zero percent tax increase in 3 of the 5 years covered by this audit and tax reductions in the other two years.** Our tax levy was \$4.90M in 2008-09 and \$4.74M in 2012-13--we are one of the only school districts in Chautauqua or Cattaraugus counties to actually decrease the tax levy in total over this five year period. Meanwhile, according to your office our Full Value Tax Rate for 2013 was just \$11.68, which is the fifth lowest of 98 districts in Western New York.

2) Budgeted Expenditures

- a) In our opinion it is necessary to be conservative when planning our next year's spending because a number of factors can affect the spending that are beyond our control such as:
 - i. Unfunded mandates. During this period of time the state has launched the common core initiative. It is a very significant example of the state adding significant costs to the district's mission without incremental funding to support the effort. We have absorbed this cost while holding our total spending to low levels of increase.
 - ii. Special needs children. It is impossible to foresee how many and what level of need/funding special needs children we will have on an annual basis. Recently a small group of additional children entered the district and accounted for significant unforeseen spending.
 - iii. Significant fluctuations occur in a number of areas beyond our control such as TRS/ERS retirement contribution requirements, energy, fuel and others. Notably our TRS contribution for the upcoming year has increased significantly as has our BOCES budget, for special education services.
- b) We'd be doing a disservice to our community and our students if we kept budgets very low and didn't allow ourselves the flexibility to deal with unforeseen expenditures.
- c) Following are our actual annual expenditures.

Year	Total Expenditures		Difference	Percent Difference
	Budget Appropriations	Actual Expenditures		
2008-09	\$17,779,219.00	\$16,404,156.00	\$1,375,063.00	8%
2009-10	\$18,167,083.00	\$16,103,422.00	\$2,063,661.00	11%
2010-11	\$18,109,487.00	\$17,377,574.00	\$ 731,913.00	4%
2011-12	\$17,822,551.00	\$16,967,245.00	\$ 855,306.00	5%
2012-13	<u>\$18,380,469.00</u>	<u>\$16,724,257.00</u>	<u>\$1,656,212.00</u>	9%
	\$90,258,809.00	\$83,576,654.00	\$6,682,155.00	7%

- d) This audit fails to recognize that the key reason the district spent less than budgeted was due to the continuous and effective job the district did in controlling costs and spending. In the face of the budget challenges outlined above, the district did many things to control costs over this five year period:
 - i. Reorganized and cut administrative staff and costs.
 - ii. Implemented and paid for an energy cost reduction program.
 - iii. Paid down our debt to the limits allowed resulting in significant interest expense savings.
 - iv. With the help and support of our staff we managed to reduce the costs of healthcare expenditures significantly.
 - v. We provided and leveraged retirement incentives reducing our costs.
 - vi. The district in-sourced much of our special educational services saving the district money and building stronger student – teacher relationships.
- e) As a result of these aggressive efforts our total actual spending increased just 1.95% over the five year period.
- f) Many of these savings were difficult to budget for in advance and were realized through the diligent work of our administration and the entire staff.
- g) It is evident to us that the key variation between the budgeted and actual spending total stemmed from excellent cost controls and limiting spending versus over budgeting despite the challenges associated with unfunded mandates, rising healthcare costs, increased retirement costs and unpredicted expenses.

3) Reserves

- a) The district acknowledges an increase in total reserves over the period from \$5.02M to \$6.28M. The board discusses and approves these annually but, as outlined above we will further document the reasons and intended uses of each reserve and make adjustments to these regularly.

4) Outputs

- a) While districts across the area and the state are reducing programs and scrambling to meet the challenges posed by the common core initiative this district held the line on costs while producing strong results. We managed the districts assets to improved efficiency since costs increased very little yet results improved.
- b) Academic Improvement on all NYS test results: in a comparison of 98 local WNY school districts our **district rank** was 59 of 98 WNY Districts, **up 15 spots**. Our elementary school ranked **174** out of 281 in 2013, which was **up 28 spots**. Our middle school results ranked us **123** out of 208, **up 22 spots**. Our high school rank was **68** of 135, **up 14 spots**.
- c) The district maintained all programs.
- d) Teacher headcount went from 96 in 2008 to 92 in 2012-13.
- e) Students enrolled went from 896 in 2008-09 to 969 on December 13, 2013.

f) The district in sourced special education instruction instructing 20 students out of district in 2008-09 and only 6 out of district today.

Implementation date: currently in place **Responsible Person:** Board and District Official

In summary, we appreciate your time and input associated with the audit. We will put your advice to use in further strengthening our financial management practices and policies. From the broader perspective we believe the district has and continues to manage the district's finances and total responsibilities for the benefit of our community.

Sincerely,

Michael Evans
President, Randolph Central BOE

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Prudent budgeting practices dictate that expenditure estimates should be accurate to help ensure that real property taxes levied are not greater than the amounts necessary to fund District operations. If the Board and District officials identify needed reserve funds, a more transparent approach to fund these reserves is through the budgetary process.

Note 2

This Office supports the prudent use and funding of reserves and encourages the Board and District officials to develop a written reserve fund plan. Further, officials should periodically assess the need for funding levels and use of reserve funds.

Note 3

We reviewed the District's independent audit reports for the last five years. Consistent with our report, the audit reports cited the District each year for having unexpended surplus funds in excess of the statutory limit.

Note 4

We do not recommend that District officials spend more and save less. As noted in the report, we have provided recommendations to the Board and District officials to assist them in managing District finances in a fiscally prudent and transparent manner.

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 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 condition, cash receipts and disbursements, payroll, cafeteria operations and information technology. During our initial assessment, we interviewed 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 or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial management for further audit testing. To accomplish our objective and obtain relevant audit evidence, we performed the following procedures:

- We interviewed District officials and reviewed Board minutes to gain an understanding of the processes and procedures in place over the District's financial management.
- We reviewed the last five years of financial data and budgets to document unexpended surplus funds and reserve levels, to determine if the general fund experienced operating surpluses or deficits and to determine if revenues and appropriations were accurately estimated.
- We compared the last five years of financial data submitted to the Office of the State Comptroller to externally audited financial statements and other source documentation to verify the validity of the data used.
- We reviewed tax warrants and reports to document real property taxes levied and received.
- We calculated the District's unexpended surplus funds as a percentage of the next year's budgeted appropriations to determine if the District is in compliance with statute.
- We reviewed records for Board or voter authorization of reserves to determine whether they were properly established, used and appropriately funded.
- We analyzed the District's agency fund cash balances, bank statements and related liability balances to verify if money held in a custodial capacity was properly supported.

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 D

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