



Wayne Central School District

Financial Management and Property Purchase and Disposal

Report of Examination

Period Covered:

July 1, 2013 — March 24, 2014

2014M-152



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 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 Wayne Central School District, entitled Financial Management and Property Purchase and Disposal. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Wayne Central School District (District) is located in the Towns of Ontario, Macedon, Walworth and Williamson in Wayne County and in the Towns of Penfield and Webster in Monroe County. The District is governed by the Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools 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.

Scope and Objectives

The objectives of our audit were to determine if the District implemented the recommendations in our prior audit report¹ and whether the District established policies and procedures to ensure that District property was purchased and disposed of in a legitimate and cost-effective manner for the period July 1, 2013 through March 24, 2014. We also reviewed financial activity and operating results for the 2012-13 fiscal year to evaluate corrective action taken to address our prior financial management findings. Our audit addressed the following related questions:

- Has the District implemented our prior audit recommendations in order to improve its financial management and budgeting practices?
- Has the Board established adequate policies and procedures to ensure that purchases and disposals of District property are legitimate and cost effective and in the best interest of District taxpayers?

Audit Results

The Board and District officials have made limited improvements in their budgeting and financial practices in response to our prior audit findings. Of the six audit recommendations, one recommendation was implemented, three recommendations were partially implemented and two recommendations were not implemented. The most significant improvement was in the area of reporting encumbrances. The District reduced its reported encumbrances as of June 30, 2013, and we identified one inappropriate encumbrance totaling \$33,000. Additionally, the District ended the 2012-13 fiscal year with a much smaller operating surplus than in previous years and may report² a small operating deficit for 2013-14, but may still use little of its appropriated fund balance. However, District officials continue to, in

¹ Dated March 2013

² We reviewed preliminary reports for 2013-14, which will change after the CPA audit and adjustments.

effect, circumvent the 4 percent fund balance limit by appropriating fund balance in the budgets that will not be used, preparing inaccurate revenue and expenditure budget estimates, levying more real property taxes than necessary and retaining large amounts of taxpayer dollars.

The District's purchasing policies lacked specific provisions required by New York State General Municipal Law (GML). We found that District officials and employees made purchases in accordance with the District's purchasing policy and the goods and services obtained were for appropriate District purposes. Additionally, we found that the District claims auditor appeared to adequately audit the District's claims. However, due to the requirements of New York State Education Law, the individual serving as claims auditor was prohibited from doing so due to performing other conflicting District duties. Finally, we found that the Board needs to improve the District's property disposal policy.

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. District officials generally agreed with our findings and recommendations and indicated they have begun and will continue to implement corrective action.

Introduction

Background

The Wayne Central School District (District) is located in the Towns of Ontario, Macedon, Walworth and Williamson in Wayne County and in the Towns of Penfield and Webster in Monroe County. The District is governed by the Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools³ 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 Assistant Superintendent for Business is responsible for preparing the budget and as the Board-designated purchasing agent is responsible for approving all purchases.

The District operates five schools with approximately 2,500 students and 560 employees. The District's budgeted expenditures for the 2013-14 fiscal year were \$42.8 million, which were funded primarily with State aid, sales tax, real property taxes and grants.

In March 2013, we issued an audit report⁴ with recommendations for improving the District's financial management and budget practices. Therefore, in conjunction with this audit, we reviewed the findings and recommendations of the prior audit, the District's corrective action plan (CAP) submitted to our office and the District's current and recent financial practices and reports to determine if the District has implemented our recommendations.⁵ Corrective action taken by District officials is essential for improving the effectiveness and efficiency of District operations.

The Board has adopted policies for purchasing and disposing of District property and is responsible for reviewing and updating them as necessary as well as ensuring staff compliance. The Board is responsible for auditing all claims or appointing a claims auditor in compliance with New York State Education Department's (SED) regulations. The Board has delegated its authority to audit claims to an appointed claims auditor.⁶ The claims auditor is responsible for

³ The District currently has an Interim Superintendent, who was appointed effective July 14, 2014.

⁴ This audit report can be found at the following link: <http://www.osc.state.ny.us/localgov/audits/schools/2013/wayne.pdf>

⁵ Audit standards require that we follow up on significant findings and recommendations from previous audits that could affect our current audit objectives.

⁶ During our audit fieldwork, the claims auditor was also employed in the District's Information Technology (IT) Department.

ensuring that claims are legitimate and in accordance with District policy prior to authorizing payment.

Objectives

The objectives of our audit were to evaluate the District's improvements to its financial management and budgeting practices and to determine if the District established effective policies and procedures to ensure that District property was purchased and disposed of in a legitimate and cost-effective manner. Our audit addressed the following related questions:

- Has the District implemented our prior audit recommendations in order to improve its financial management and budgeting practices?
- Has the Board established adequate policies and procedures to ensure that purchases and disposals of District property are legitimate and cost effective and in the best interest of District taxpayers?

Scope and Methodology

We examined the Board's oversight of the District's financial operations and budgeting practices to determine if the District adequately addressed our prior audit findings and recommendations. We also examined the District's policies and procedures over the purchase and disposal of District property for the period July 1, 2013 through March 24, 2014.

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 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 findings and recommendations and indicated they have begun and will continue to implement corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the New York State General Municipal Law (GML), Section 2116-a (3)(c) of the New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written 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

An important part of effective financial management is timely correction of audit findings by implementing audit recommendations. Audits can serve as effective management tools when District officials promptly focus on the findings and recommendations in audit reports, formally document their detailed responses and implement corrective action plans. District officials must manage the District's finances in a prudent manner, accurately recording 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 balance responsibly and in accordance with statute.

We discussed and reviewed the corrective actions taken by District officials in response to the recommendations in our prior audit report. We found that the Board and District officials have made limited improvements in fulfilling their fiduciary responsibility. Of the six audit recommendations, one recommendation was implemented, three recommendations were partially implemented and two recommendations were not implemented. The most significant improvement was in the area of reporting encumbrances. The District reduced its reported encumbrances as of June 30, 2013. We identified one inappropriate encumbrance totaling \$33,000. Additionally, the District ended the 2012-13 fiscal year with a much smaller operating surplus than in previous years and may report a small operating deficit for 2013-14, but may still use little of its appropriated fund balance. However, District officials continue to, in effect, circumvent the 4 percent fund balance limit by appropriating fund balance in the budgets that will not be used, preparing inaccurate revenue and expenditure budget estimates, levying more real property taxes than necessary and retaining large amounts of taxpayer dollars.

Realistic Estimates – Recommendation: The Board and District officials should develop realistic revenue, expenditure and fund balance estimates for the annual budget.

Unrealistic budget estimates are misleading to District voters and taxpayers and can significantly impact the District's year end fund balance, financial condition and annual tax levy. Any unexpended

surplus funds⁷ in excess of 4 percent of the ensuing year's budget must be used to lower property taxes. It is important that District officials not appropriate fund balance that will not be used, in an effort to circumvent the statutory limit.

This recommendation has been partially implemented. District officials continue to develop inaccurate budgets. In order to reduce year-end unexpended surplus funds to the 4 percent statutory fund balance limit, the District continues to appropriate fund balance and fund reserves. However, the District has not used any of the appropriated fund balance for the planned operating deficits due to additional surpluses built into the revenue and expenditure estimates. We compared the District's general fund budgeted revenues and expenditures with actual results of operations for the 2012 -13 fiscal year and found that District officials had underestimated revenues by a total of \$678,000 and overestimated expenditures by a total of \$1.6 million. As a result of this \$2.3 million positive budget variance, the District had an operating surplus of \$172,061 and thus did not need to use any of the \$2.5 million of fund balance and reserves that were appropriated as a funding source in the 2012-13 budget. Although there is need for improvement, the District's 2012-13 operating surplus was significantly less than previous years⁸ which ranged from \$640,000 to \$4.2 million. However, total fund balance was not reduced, as should have resulted from the budgeted use of appropriated fund balance and reserves for planned operating deficits. While total reserves decreased by \$1.5 million, the unreserved fund balance increased by approximately \$1.9 million, due primarily to the \$1.1 million transfer from the insurance reserve directly to cash and unreserved fund balance,⁹ as well as the significant reduction in recorded encumbrances¹⁰ and the small operating surplus.

For 2013-14, the District is likely to report¹¹ positive budget variances and use little of the \$2.9 million in fund balance the Board appropriated

⁷ 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).

⁸ For fiscal years 2007-08 through 2011-12, as discussed in the March 2013 audit report

⁹ See Necessary Reserves

¹⁰ See Encumbrances

¹¹ We reviewed preliminary reports for 2013-14, which will likely change after the CPA audit and adjustments.

for that year.¹² In the 2014-15 adopted budget, the District maintained the same tax levy as in 2013-14 and 2012-13 and appropriated \$2.7 million in fund balance, which will extend the pattern of overtaxing District taxpayers.

Encumbrances – Recommendation: District officials should not create fictitious encumbrances and should ensure that year-end encumbrances are valid and supported.

Encumbrances that exist at the end of the fiscal year may be carried over to the next year, but must represent valid commitments for specific future payments – in the form of executed but unfilled purchase orders or contracts – and should not be established simply as a means of reducing available year-end fund balance.

This recommendation has been substantially implemented. The District significantly reduced its reported encumbrances to \$520,000 at the end of 2012-13, from \$2.2 million for 2010-11 and \$1.1 million for 2011-12. We reviewed a list of all recorded year-end encumbrances for 2012-13 and determined that the District discontinued its practice of encumbering funds for invalid purchase orders for large unplanned IT purchases.

We judgmentally selected and tested 10 of the encumbered purchase orders, which totaled approximately \$242,000 or 47 percent of the District’s reported encumbrances as of July 1, 2013. We identified one purchase order totaling \$33,000 that was not a valid encumbrance.¹³ This indicates that the District has reduced its reliance on invalid encumbrances, in comparison to the approximately \$3.1 million of invalid encumbrances previously identified from sample testing for the 2009-10 and 2010-11 fiscal years. Additionally, we did not find any purchase orders denoted with “Do Not Mail” as had been identified in our prior audit. Therefore, false encumbrances did not significantly contribute to the District’s circumvention of the unexpended surplus funds limit of 4 percent as of June 30, 2013.

Reserve Policies and Procedures – Recommendation: District officials should develop comprehensive policies and procedures related to the establishment and use of reserve funds.

¹² Preliminary reports showed positive budget variances of approximately \$250,000 for revenues and \$1.9 million for expenditures.

¹³ This purchase order was created during the 2006-07 school year for a potential settlement payment for a lawsuit which is still in progress. This purchase order does not represent a specific purchase that has been placed and will be filled in the ensuing fiscal year and thus is neither a valid purpose for a purchase order or an encumbrance. District officials informed us on September 16, 2014 that they liquidated this purchase order on March 24, 2014, based on our discussions during our audit fieldwork.

This recommendation has not been implemented. In their corrective action plan to our prior audit, District officials indicated they already had a policy in place for reserve funds and that they would be developing regulations to support this policy by the end of May 2013. However, District officials have not yet developed such reserve regulations, but stated that they are currently in that process.

Furthermore, the District's current reserve policy¹⁴ requires the District to prepare and submit to the Board an annual report of all reserve funds. This report should include significant details about each reserve, including the type and description of the reserve, its date of establishment and all activity posted to the reserve account. It should also include an analysis of the projected needs for the reserve fund in the upcoming year and a recommended funding level. The policy further states that the Board shall use the information in the annual report to make the decisions necessary to adequately maintain and manage the District's reserve fund balances while being mindful of its role and responsibility as a fiduciary of public funds.

We found no indication that District officials have ever provided the Board with an annual report on reserves containing the level of detail required by the District's policy. The 2013-14 budget presentation document, which addressed corrective action to our prior audit report, did include some descriptions of and proposed funding levels for reserves, but did not include the other detailed information required by the policy. In addition, the 2014-15 budget presentation document did not include detail about existing reserves¹⁵ and balances or current plans for their use. However, District officials told us¹⁶ that a separate reserve worksheet had been provided to the Board for their review when developing the budget, which included the reserve balances for years 2010-11 through 2012-13 along with estimated balances for 2013-14 and 2014-15. Nonetheless, the Board still had not received much of the information required by the District's policy. Furthermore, the policy or regulations should include optimal or targeted funding levels and provisions to formally budget amounts to fund specific reserves to achieve targeted balances.

Necessary Reserves – Recommendation: The Board and District officials should review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.

¹⁴ Which includes an adoption date of February 16, 2012, shortly before the completion of our prior audit's fieldwork

¹⁵ The 2014-15 budget presentation simply listed amounts proposed to be used from certain reserves.

¹⁶ During our exit discussion on September 16, 2014, at which time they provided us a copy

This recommendation has been partially implemented. In their corrective action plan to our prior audit, District officials indicated that they had completed a draft plan to adjust reserve balances based on spending trends, not capital needs, and that the plan was scheduled for Board review on May 9, 2013 and approval on May 23, 2013. However, this plan was not formally adopted and approved by the Board.¹⁷ The Assistant Superintendent for Business stated that the plan¹⁸ called for the retirement contribution, workers' compensation and unemployment insurance reserve balances to be based on actual expenditures and funded for five years. However, due to "better than expected" results for the 2012-13 fiscal year, the District ended up with funding levels equivalent to expenditures for 7.2 years for the retirement contribution reserve, 6.3 years for the workers' compensation reserve and 6.5 years for the unemployment insurance reserve.¹⁹

The District's reserve restructuring also included the addition of a tax certiorari reserve. A tax certiorari reserve cannot be funded with an amount that might exceed what may reasonably be deemed necessary to meet anticipated tax certiorari judgments and claims. At the time the District funded the reserve with \$231,874,²⁰ the amount was not based on the estimated impact of an actual filed claim, but was based on a five year average of prior year claim payments.²¹ In addition, the Board reduced the overfunded insurance reserve by approving transfers of \$3.4 million to the retirement contribution reserve and \$1.2 million to the workers' compensation reserve.

The District reduced its total combined reserve balances from \$15.8 million in eight reserves at the end of 2011-12 to nine reserves totaling \$14.2 million at the end of 2012-13. The majority of this decline resulted from the proper use of the District's capital reserves, in addition to the transfer of approximately \$1.1 million from the insurance reserve to the general fund as budgeted. Despite the fact that we informed District officials during our prior audit that the budgeted transfer was an inappropriate use of insurance reserve moneys,²² the

¹⁷ During our exit discussion on September 16, 2014, we received documentation that the Board adopted this plan during the April 23, 2014 Board meeting.

¹⁸ This does not appear in a formal document or Board-adopted resolution. However, a spreadsheet was provided to the Board indicating suggested funding levels.

¹⁹ The reserve balances totaled approximately \$5.5 million for the retirement contribution reserve, \$1.4 million for the workers' compensation reserve and \$566,000 for the unemployment insurance reserve.

²⁰ Transferred from the unemployment insurance reserve

²¹ The District has since received a claim with a potential exposure to the District of \$217,404.

²² If these funds are not used to pay for uninsured losses, they can be transferred only to another legal reserve as authorized by General Municipal Law.

Board approved and District officials made the full transfer in April 2013. Therefore, while the District's reserve balances have declined, they remain excessive. The balances are higher than the proposed reserve restructuring plan which called for total reserve fund balances to be down to \$13.8 million at the end of the 2012-13 fiscal year and \$11.2 million at the end of the 2013-14 fiscal year.

Funding of Reserves – Recommendation: District officials should include both the funding and use of all reserves in their adopted budget plan each year to provide transparency for the District's voters.

This recommendation was partially implemented. Similar to the past five years,²³ District officials made it appear that the reported unexpended surplus fund balance was within legal 4 percent limit by authorizing the transfer of the District's excess fund balance to fund reserves. In October 2013, the Board passed a resolution to "transfer \$431,399 excess fund balance to the retirement contribution reserve" as of June 30, 2013 to "bring the District within the 4 percent legal limit" for unexpended surplus funds. Therefore, while this transfer was smaller than those in prior years, District officials continue to make unbudgeted transfers well after the fiscal year-end and fund reserves at higher levels than needed at taxpayer expense.

Planned Use of Surplus Funds – Recommendation: District officials should develop a plan for the use of the surplus balances in unexpended surplus funds and in the District's reserve funds identified in the report in a manner that benefits District taxpayers. Such uses could include, but are not limited to, paying off debt, financing one-time expenditures, reducing District property taxes and increasing necessary reserves in accordance with established and reasonable plans and statutory requirements.

This recommendation was not implemented. As discussed previously, District officials implemented an informal plan to restructure reserves, which was primarily a significant reduction in the insurance reserve through transfers to other reserves and to increase fund balance. The District recorded the budgeted use of \$350,000 from the retirement reserve²⁴ but then funded the reserve with \$431,399 at the end of the 2013 fiscal year, resulting in an overall increase in the reserve. This negates the purpose of budgeting for the use of reserves.

For the 2013-14 fiscal year, District officials planned to budget for the use of approximately \$1.8 million in reserves, per their corrective action plan, but did not include the use of any reserves in the adopted

²³ Fiscal years 2007-08 through 2011-12, from the audit report released in March 2013

²⁴ In addition to the budgeted transfer from the insurance reserve

budget. Instead, officials significantly increased the fund balance appropriation. The Board did not discuss or approve a formal plan related to the use of unreserved fund balance (unexpended surplus funds) but continued to approve fund balance appropriations (which are still unlikely to be used) and transfers to reserves, based on recommendations of the Assistant Superintendent for Business. This demonstrates the continued overtaxing of District taxpayers in order to accumulate excessive amounts in reserves and fund balance masked by appropriations of fund balance that are not used. District officials reduced the tax rate in the current budget. However, the tax levy may still result in a surplus and is still an unnecessary burden on taxpayers.

Property Purchase and Disposal

The Board is responsible for safeguarding District property by establishing internal controls that provide adequate oversight of the District's property purchase and disposal functions, including the auditing of claims related to purchases and approving of all property disposals. A good system of internal controls includes purchasing policies and procedures to help ensure that the District uses its resources prudently, effectively and economically to comply with applicable laws and regulations and protect against favoritism, extravagance and fraud. Education Law requires the Board to audit all claims before they are paid or to appoint a claims auditor, in accordance with SED regulations, to assume the Board's powers and duties to examine and approve or disapprove claims. An effective claims processing system ensures that every claim against the District is subjected to an independent and thorough review. Furthermore, it is the Board's responsibility to implement an adequate property disposal policy to ensure that District officials dispose of surplus property in a manner that is in the best financial interest of the District and its taxpayers.

We found that the District had policies and procedures in place for purchasing. However, the purchasing policy lacked specific provisions required by GML. We found that District officials and employees made purchases in accordance with the purchasing policy and the goods and services obtained were for appropriate District purposes. Additionally, we found that the District claims auditor adequately audited the District's claims. However, due to the requirements of Education Law, the individual serving as claims auditor was prohibited from doing so due to performing other conflicting District duties. Finally, we found that the Board needs to improve the District's policy for the sale and disposal of property, to increase accountability and financial return on property sales.

Competition for Purchases

GML requires school districts to advertise for bids for purchases in excess of \$20,000 and public work contracts in excess of \$35,000. GML also requires the Board to adopt a procurement policy for goods and services that do not have to be competitively bid. The procurement policy should require that procurement decisions be based on District personnel's review of proposals or written or verbal quotations from vendors, describe each method of procurement and explain when to use each method. In addition, the policy should require District personnel to maintain adequate documentation of procurement decisions, including written agreements. The Board is responsible for

ensuring that District personnel are aware of, and comply with, the requirements of GML and the Board's procurement policy.

The District approved an updated purchasing policy on July 19, 2013 which addresses competitive bidding. However, the policy does not include detailed guidance for procuring goods and services that are below the competitive bidding thresholds. Instead, the policy is primarily a restatement of the laws and an acknowledgement of the District's responsibility to develop procedures for the procurement of goods and services not required by law to be made pursuant to competitive bidding requirements. District officials did not provide any detailed procedures that had been developed and implemented as part of or in accordance with the District's policy. As a result, District staff lacked important guidance on how to make certain types of purchases – such as for professional services, sole source or emergency purchase situations – and how to clearly document the method they used for arriving at purchasing decisions.

The District's purchasing clerk provided a related purchasing document, entitled Guidance for Purchase of Non-Bid Items, that had been adopted in March 1997 and re-numbered in September 2005. The document requires three verbal quotes for all purchase contracts between \$501 and \$5,000 and three written quotes for purchases between \$5,001 and \$10,000. For public works contracts, the document requires three verbal quotes for purchases between \$1,001 and \$5,000 and three written quotes for purchases between \$5,001 and \$20,000. The document is silent on the actions that the District should take for purchases between these and the legal bidding thresholds of \$20,000 for purchase contracts and \$35,000 for public works contracts.²⁵ Without clear quotation requirements for all purchases under the bidding thresholds, and without detailed provisions for all types of procurements not required to be bid, the Board cannot be assured that the District is acquiring goods at the lowest price, which could result in unnecessary costs to taxpayers. Furthermore, when policies and procedures are not documented in writing and reviewed,²⁶ updated and disseminated regularly, there is a risk that District employees will be unaware of the District's purchasing procedures. Therefore, employees may not make all purchases in accordance with the policy and legal requirements or in the most economical manner.

²⁵ The threshold for public works contracts changed from \$20,000 to \$35,000 in November 2009, and the threshold for purchase contracts changed from \$10,000 to \$20,000 in June 2010. The District has not updated its purchasing policy or document to include the new thresholds. The District includes similar purchasing procedures in its Instruction Booklet for Developing Budget Requests, but this also lacks detailed guidance and updated quotation thresholds.

²⁶ GML requires the Board to annually review and approve, and update if necessary, its procurement policy to ensure it remains suitable to meet the District's needs and ensure legal compliance.

We randomly selected and tested six claims totaling approximately \$66,000 that did not require competitive bidding to determine if District officials documented their procurement methods used to ensure that they received the best possible price and product in compliance with GML and the District's purchasing policy. We determined that District officials and employees generally made purchases for appropriate District purposes in accordance with the quotation requirements in the District's purchasing policy. However, due to the lack of detailed policy guidance, employees did not adequately document their method of vendor selection, particularly for special cases such as apparent sole source or emergency situations. We identified only minor deficiencies, which we discussed with District officials.

Claims Audit

Education Law and regulations established by SED state that the Board may, by resolution, establish the office of claims auditor. However, certain individuals are not eligible to serve as claims auditor. The claims auditor may not be a clerical or professional employee directly involved in the District's accounting and purchasing functions or under the Superintendent's direct supervision.

We found that the Board did not appoint a claims auditor in accordance with SED regulations. During the audit period, the Board appointed a District employee to this position who, as part of his regular duties, periodically initiated purchase requisitions for the IT department. Therefore, this employee was directly involved in the purchasing function. Consequently, this individual was prohibited from serving as the District's claims auditor in accordance with Education Law.²⁷

We selected and reviewed 179 claims, which were paid in 52 disbursements totaling approximately \$981,000,²⁸ to determine if purchase orders were properly issued before goods and services were ordered and if claims were for legitimate District purposes and audited prior to payment. For example, the claims tested included 12 claims totaling about \$13,000 for expense reimbursements, 46 claims totaling \$16,500 for travel expenses, 29 claims totaling \$7,000 for supplies and eight claims totaling \$30,600 for technology purchases. The claims we tested appeared to be for proper District purchases and were audited prior to payment. We identified only minor deficiencies, which we discussed with District officials.

²⁷ District officials informed us on September 16, 2014 that this individual retired from the District effective May 1, 2014 but has agreed to stay on as an independent claims auditor.

²⁸ See Appendix B – Audit Methodology for details on sample selection

Sale and Disposal of Property

The District has made a significant investment of taxpayer dollars in machinery, equipment and other assets and property that retain value when no longer required for operations. District officials are responsible for ensuring that this investment is adequately protected from loss. To enhance property protection and value, District officials can establish formal procedures to ensure that they dispose of surplus property in a manner that results in the best financial return for the District and its taxpayers. Formal detailed procedures also promote greater transparency and public accountability.

The Board has adopted a brief policy related to the sale and disposal of District property, which addresses the disposition of equipment and textbooks. The District's policy states that reasonable attempts should be made to dispose of the District's equipment and textbooks in a manner that is advantageous to the District. It further states that, if reasonable attempts to sell the equipment do not produce an adequate monetary profit, the Superintendent, or designee, may dispose of the equipment and textbooks in any manner deemed appropriate. However, the policy does not include any specific procedural guidance, such as a process for determining what property is surplus and the minimum steps that should be taken or the level of approvals required in various situations. An adequate policy would clarify the types of property included as "equipment" subject to policy requirements and list examples of methods to use to solicit bids or advertise items for sale, and instances when each method should be considered, to get the best possible return on the sale of surplus property.

We reviewed the list of items²⁹ that the District declared as surplus during our audit period and the related documentation. We determined that District officials made an effort to get a reasonable return. For example, the District advertised for sealed bids and sold 15 buses to the highest bidders for almost \$69,000. District officials also advertised for and publicly opened sealed bids for 66 miscellaneous items, of varying quantities, for a total of 839 items and assembled them for public viewing. They received 57 bids on 49 items from 10 people and awarded bids totaling \$634.

However, the Board can put itself in a stronger position to obtain fair returns and demonstrate its efforts to protect District resources by adopting a more detailed property disposal policy which it could then use to hold staff and officials accountable, support actions taken, enhance public understanding and confidence in the process and gauge the effectiveness or need to re-evaluate ongoing practices. We

²⁹ The items included 15 buses, 30 transformers and an assortment of other small items (i.e., chairs, tables, light bulbs, book shelf, file cabinet, globe, etc.). The District also donated surplus books and pamphlets to the Wayne County Museum of History.

discussed these policy weaknesses and other minor deficiencies with District officials.

The lack of an independent claims auditor as well as complete and adequate policies and procedures over purchasing and disposing of property increases the risk that the District is not receiving the best possible prices for goods purchased or sold as surplus.

Recommendations

The Board should:

1. Update its purchasing policy and procedures to ensure that it provides complete and up-to-date guidance for procuring goods and services that do not require competitive bidding and addresses all areas required by GML and the District's current policy.
2. Audit District claims or appoint an independent individual as the District's claims auditor in accordance with SED regulations.
3. Adopt a more comprehensive policy for the sale and disposal of District property which should ensure that the District receives the best possible value for its surplus property.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



WAYNE CENTRAL SCHOOL DISTRICT
OFFICE of the SUPERINTENDENT

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October 2, 2014

Edward V. Grant, Chief Examiner
Office of the State Comptroller
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16 West Main Street, Suite 522
Rochester, NY 14614

Dear Mr. Grant,

The Wayne Central School District is in receipt of the draft audit report *Financial Management and Property Disposal* for the period July 1, 2013 through March 24, 2014, prepared by the Office of the State Comptroller. On behalf of the Board of Education and the District's administration, we would like to thank the local field staff of the Comptroller's Office. They were professional and courteous in conducting their duties associated with this audit.

The District has started to take corrective measures in areas noted in the 2013/2014 OSC report, and will continue to work to strengthen our practices in these identified areas. These corrective measures will be outlined further in our Corrective Action Plan.

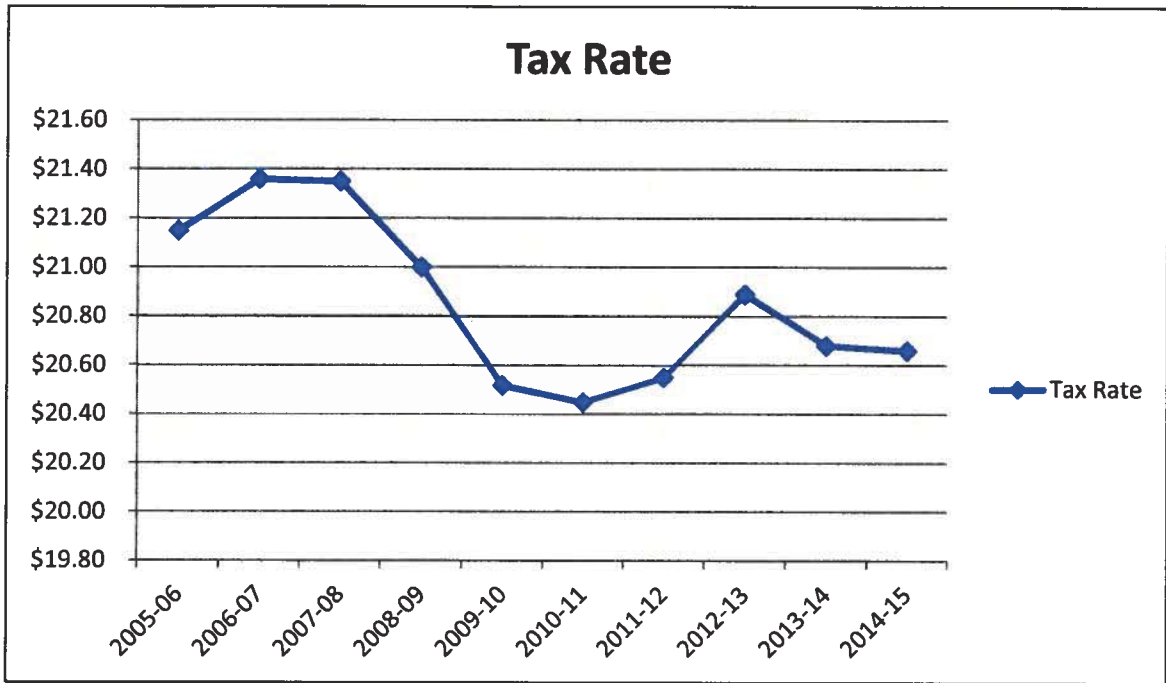
In reviewing the recommendations of the audit report, the District offers the following response:

1. Realistic Estimates – Recommendation: The Board and District Officials should develop realistic revenue, expenditure, and fund balance estimates for the annual budget.

District Response: Progress has been made in this area and we will continue to tighten up revenue and expenditure estimates to ensure a realistic view of our budget. For the 2013/2014 and 2014/2015 school years, the District returned to our taxpayers any unspent money at year-end through appropriated fund balance. This has allowed the District to lower our tax rate in both school years (2013/2014 & 2014/2015) since the

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last OSC audit report. The graph below shows the district tax rates for the last ten years. We recognize the need to further refine our revenue, expenditure and fund balance estimates and are working to that end. Additional details will be shared in our corrective action plan.



2. Encumbrances – Recommendation: District Officials should not create fictitious encumbrances and should ensure that year-end encumbrances are valid and supported.

District Response: This recommendation has been substantially implemented. The issuance of a \$33,000 purchase order (see footnote 6 from page 9) mentioned in this report was done to cover legal fees for a lawsuit that originated in 2006/2007 and lasted seven (7) years. The District’s insurance policy covered the cost of legal fees associated with the lawsuit, a fact not determined at the time the purchase order was created. This purchase order was liquidated on March 31, 2014, prior to the issuance of this report, and the district has implemented practices to ensure all year-end encumbrances are appropriate. Those practices will be noted in our corrective action plan.

3. Reserve Policies and Procedures – Recommendation: District Officials should develop comprehensive policies and procedures related to the establishment and use of reserve funds.

District Response: There is a district policy in place for reserve funds. New regulations have recently been implemented and adopted by the Board of Education at its September 25, 2014 meeting. The District has also revised its reserve fund report to

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ensure compliance with district policy and newly adopted regulations. This revised report was presented to the Board of Education at their September 25, 2014 meeting. The revised report is also available on the district website. Per district policy and newly adopted regulations, the District also includes reserve fund information in budget presentations to the Board of Education and the public. This information can also be found on the district website.

4. Necessary Reserves – Recommendation: – The Board and District Officials should review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.

District Response: Newly adopted regulations will help ensure compliance with this recommendation. Copies of the policy and regulation will be included in our corrective action plan. Additionally, per policy and regulation, the District reviews our reserves on an annual basis with our External Auditor for reasonable funding levels and compliance. Reserve funds are also reviewed with the Board of Education in the fall after books have been closed for the previous year, and also during the budget development process.

5. Funding of Reserves - Recommendation: District Officials should include both the funding and use of reserves in their adopted budget plan each year to provide transparency for the district voters.

District Response: The District recognizes the need to include both the funding of and use of reserves in future adopted budgets. It is important to note that the last time the District transferred money into reserves, was at the end of the 2012/2013 school year and that was a much smaller amount than in previous years. . For both 2013/2014 and 2014/2015 years, the District has returned all unspent money at year end back to our taxpayers to reduce taxes. Moving forward the District will work to minimize unbudgeted transfers into reserve accounts.

6. Planned Use of Surplus Funds – Recommendation: District Officials should develop a plan for the use of surplus balances in unexpended surplus funds, and in the District’s reserve funds identified in this report, in a manner that benefits district taxpayers. Such uses could include, but are not limited to, paying off debt, financing one-time expenditures, reducing district property taxes, and increasing necessary reserves.

District Response: Through our corrective action plan we will continue to develop a more comprehensive strategy for the use of our unexpended surplus and reserve funds. The District continues to work to tighten up revenue and expenditure estimates, as stated in recommendation one. This will allow for more accurate projections for the use of surplus funds moving forward.

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In reviewing the recommendations beginning on page 16 of the audit report, the District offers the following response:

1. **Recommendation** - Update its purchasing policy and procedures to ensure that it provides complete and up-to-date guidance for procuring goods and services that do not require competitive bidding, and addresses all areas required by GML and the District's current policy.

District Response – The District Policy Committee will update the purchasing policy to ensure compliance in all areas required by GML.

2. **Recommendation** – Audit district claims, or appoint an independent individual as the District's claims auditor in accordance with SED regulations.

District Response – This recommendation has been addressed. The District's internal claims auditor retired from his technology position effective March 31, 2014, and this no longer presents a conflict of interest.

3. **Recommendation** - Adopt a more comprehensive policy for the sale and disposal of district property, which should ensure that the District receives the best possible value for its surplus property.

District Response – The District has followed its current policy when disposing of surplus items or property. The District will develop regulations to support the District policy to provide further guidance to staff members in this area, and help ensure compliance with District policy.

Respectfully submitted,

John D Carlevatti
Interim Superintendent

Ronald Miller
President, Board of Education

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objectives of our audit were to evaluate the District's improvements to its financial management and budget practices and to determine if the District established effective policies and procedures to ensure that District property was purchased and disposed of in a legitimate and cost-effective manner. To accomplish our objectives, we interviewed appropriate District officials and employees, tested selected records and examined pertinent documents for the period July 1, 2013 through March 24, 2014.

We also performed the following audit procedures:

- We interviewed District officials and employees to gain an understanding of District operations.
- We reviewed Board minutes for the audit period for actions relevant to financial management and purchasing and disposing of property.
- We reviewed the District's financial policies and procedures.
- We obtained an understanding of the District's internal controls over financial management as well as purchasing and disposing of property.
- We reviewed recent audit reports, management letters and other relevant reports, including corrective action plans, if available.
- We analyzed revenue expenditure trends and budget-to-actual comparisons for the operating funds for the 2012-13 fiscal year. We referred to the budget-to-actual analysis prepared for the audit released in March 2013.
- We reviewed and analyzed reported fund balance levels in comparison to amounts appropriated in adopted budgets.
- We reviewed preliminary (unaudited) year-end financial reports for the 2013-14 fiscal year and the 2014-15 adopted budget to project whether identified trends will continue.
- We reviewed and analyzed the District's reserves and the changes made to reserve structure and balances in response to our prior audit.
- We reviewed the list of encumbrances for the fiscal year ended 2012-13 and judgmentally selected a sample of 10 purchase orders for testing. Our judgmental sample included purchase orders with large dollar amounts or even dollar amounts and technology and sports-related items.
- We reviewed current District policies and procedures related to purchasing and disposal of District property and the claims audit process.

- We interviewed key personnel to determine the process for requisitioning goods or services and for identifying the required approvers.
- We reviewed claims for reasonableness, for the enforcement of competitive bidding purchase limits and for the solicitation of requests for proposal or quotes, when applicable.
 - o We randomly selected 33 disbursements to test for proper purchasing procedures.
 - o We randomly selected 20 claims from the District’s general, school lunch and capital funds to test for appropriateness. We also judgmentally selected 28 travel, conference, credit card and other claims to address areas of concern frequently expressed by taxpayers to District officials. Our judgment was based on our knowledge of the District.
- We reviewed the District’s minutes for the Board’s approval to declare and dispose of surplus property.
- We reviewed the items declared surplus and disposed of during our audit period for compliance with the District’s policy.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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