



Holland Central School District Financial Management

Report of Examination

Period Covered:

July 1, 2009 — February 3, 2015

2015M-58



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
FINANCIAL MANAGEMENT	4
Reserves	4
Capital Project	7
Recommendations	7
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	14
APPENDIX C How to Obtain Additional Copies of the Report	15
APPENDIX D Local Regional Office Listing	16

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2015

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

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Holland Central School District (District) is located in the Towns of Holland, Colden, Wales, Sardinia, Concord and Aurora in Erie County and the Towns of Java and Sheldon in Wyoming County. The District is governed by the Board of Education (Board) which comprises seven 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 day-to-day management of the District under the Board's direction.

The District operates two schools and a third school which is only used for the pool and athletic fields, with approximately 900 students and 170 full-time employees. The District's appropriations for the 2014-15 fiscal year were \$17.6 million, which were funded primarily with State aid, real property taxes and sales tax.

Objective

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

- Did the Board properly establish, monitor and use reserve funds and seek voter approval for capital projects?

Scope and Methodology

We examined the District's financial management for the period July 1, 2009 through February 3, 2015. We reviewed documentation prior to July 1, 2009 when necessary to achieve our audit objective.

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

Comments of District Officials and Corrective Action

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

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 New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations

in the report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Financial Management

The Board is accountable to taxpayers for the use of District resources and is responsible for effective financial planning and management of District operations. The Board is responsible for adopting a formal plan to maintain reserve balances at a reasonable level and utilize the funds that are available. The Board is also responsible for oversight and management of the District's capital projects, including that capital projects are properly planned and managed, project funding is authorized and costs are kept within the approved budget.

We found the District has not developed a formal reserve plan, appears to have overfunded the unemployment reserve, and did not have proper documentation for the establishment and use of certain reserve funds. We did find the District was transparent in its communication of the capital project prior to voter approval and was able to undertake it with proper voter authorization. In addition, the purchases for the capital project were generally within its scope.

Reserves

Reserves may be established by the Board in accordance with Education Law and General Municipal Law (GML). The statutes under which the reserves are established determine how the reserves may be funded, expended and discontinued. Generally, school districts are not limited as to how much funds can be held in reserves unless such a limitation has been established by the Board. However, school districts should maintain reserve balances that are reasonable. Reserve balances above reasonable amounts represent funds the District could have used for other purposes, including reducing tax increases. The Board is responsible for developing a formal plan for the use of its reserves, including how and when disbursements should be made, and ensuring appropriate documentation is maintained to account for and monitor reserve activity and balances.

As of June 30, 2014, the District had six reserves: unemployment insurance, retirement contribution, employee benefit accrued liability, debt, insurance and repair, totaling approximately \$1.5 million. We found that District officials could not provide Board resolutions to demonstrate that four of the reserves were properly established. The repair reserve was appropriately established by referendum¹ and had a reasonable balance of \$150,000 as of June 30, 2014.

Unemployment Insurance Reserve – GML authorizes the establishment of an unemployment insurance reserve, by board authorization, when the school district opts to reimburse the State

¹ Voter approval is required to fund a repair reserve fund.

Unemployment Insurance Fund based on actual unemployment claims. Although the District has chosen to pay claims in this manner, District officials could not locate the Board resolution establishing the reserve. The reported balance in the reserve was approximately \$572,500 as of July 1, 2009. By June 30, 2014, the balance was approximately \$502,000. During our audit period, the District reduced the reserve balance on June 30, 2010 and June 30, 2013 by approximately \$5,000 and \$69,000, respectively. While the District used the reserve to pay for unemployment expenditures in these years, actual unemployment costs were higher than the reserve funds used. The Board used the tax levy to fund the remaining unemployment expenditures. In addition, the Board did not include an appropriation in the budget to use this reserve fund in these years. Instead, it budgeted to fund all unemployment costs using the tax levy. If the Board's intention was to use reserve funds for unemployment expenditures, it should have included an appropriation of the reserve in the budget and reduced the tax levy.

The Board continues the practice of budgeting for unemployment expenditures using the tax levy instead of appropriating funds that were available in the reserve. District unemployment expenditures have averaged \$30,000 per year for the past five school years. Based on the \$502,000 balance in the reserve as of June 30, 2014 and the average unemployment expenditures, the District has enough to fund these expenditures for the next 16 years. In a previous audit report our Office issued in 2011 (Report 2010M-181), we recommended the Board and District officials reduce the balance in the unemployment insurance reserve to a reasonable level. The Board and District officials did not implement this recommendation.

Retirement Contribution Reserve – School districts are authorized by GML to establish a retirement contribution reserve, by board resolution, to fund all or a portion of the amount payable to the New York State and Local Retirement System. District officials could not locate the resolution establishing the retirement contribution reserve. During our audit period, the Board contributed \$156,741 and \$438,564 on June 20, 2011 and June 30, 2012, respectively. In addition, the Board authorized the use of \$219,000 of the reserve in 2012-13 for the retirement contribution payment. However, for the other years during our audit period, the District paid an average of \$233,000 a year for the retirement contribution. These amounts were paid out of the District's operating funds instead of the reserve. The retirement contribution reserve reported a balance of \$377,500 as of June 30, 2014.

Employee Benefit Accrued Liability Reserve (EBALR) – GML authorizes this type of reserve for the cash payment of accrued

and unused sick, vacation and certain other leave time due to employees upon separation from service and for the costs related to the administration of the reserve. District officials could not locate the Board resolution establishing the reserve. In 2011-12, the Board approved the use of \$239,000 from the EBALR; however, the District only used \$123,438. District officials did not provide us with supporting documentation for the approved amount or the amount used; therefore, we could not determine if these funds were used for EBALR purposes as required. As of June 30, 2014, the District reported a balance of \$357,800 in its EBALR. District officials also did not provide us documentation to support the balance, but the external audit indicated it was reasonably supported.

Debt Reserve – In certain circumstances, funds must be restricted for debt service. For example, proceeds from the sale of property must be restricted if related debt remains outstanding or if State or federal aid is received for a capital improvement for which there is outstanding debt. In addition, if a district has residual bond proceeds and/or interest earned on bond proceeds, funds must be used only to pay for debt service on the related obligations or for related capital expenditures. Districts are not allowed to establish a debt reserve for any other purpose. The District established a debt reserve on June 30, 2014, as required by New York State Local Finance Law. District officials stated the purpose of the reserve is to set aside remaining debt proceeds that will be used to pay outstanding debt for the related capital projects. As of June 30, 2014, the District reported a balance of approximately \$91,500.² We determined that the amount in this reserve is reasonable.

Insurance Reserve – GML authorizes this type of reserve to fund certain uninsured losses, claims, actions or judgments for which a district is authorized or required to purchase insurance. However, District officials could not provide a Board resolution to demonstrate the reserve was properly established. During 2010-11, the Board determined the \$130,500 insurance reserve was overfunded and approved a transfer of \$120,000 to the retirement contribution reserve, leaving a balance of \$10,500 as of June 30, 2011. The insurance reserve balance remained the same as of June 30, 2014. During our audit period, the District had not used the insurance reserve to pay claims.

The Board can improve accountability for District finances by developing a plan for establishing, maintaining and using reserves, including considering the reserve as a funding source when preparing

² The \$91,500 is comprised of debt proceeds of \$34,000 from three transportation purchases and \$57,500 from the 2010 capital project.

the District's annual budget. Alternately, the Board can discontinue a reserve if it determines the reserve is unnecessary. Funds from a discontinued reserve can be transferred to another legal reserve or District operating funds, as authorized by law.

Capital Project

The Board and District officials should propose capital projects, subject to voter approval, in a transparent manner. In order to make an informed decision on a project, taxpayers should be provided with the project scope, including the type of work contemplated, where the work will be performed, what furnishings and equipment will be purchased, and an estimate of the cost and how it will be financed.

On May 18, 2010, taxpayers approved a proposition indicating the project was to upgrade and renovate restrooms and shower rooms, make substantial HVAC³ improvements, upgrade the fire system, and take interior and exterior reconstruction measures. The project's proposition included details on the project scope, which provided more transparent information than what was given to voters in prior years' projects. This project was approved for \$3,933,000 and the actual cost of the project was \$3,355,227. We reviewed a sample⁴ of 93 project expenditures totaling \$3,252,300 and found the purchases were generally within the project scope. District officials could not locate three invoices to support expenditures totaling \$27,236; however, these appeared to be appropriate expenditures.

By being transparent in its communication with taxpayers prior to voter approval of the capital project, the District was able to undertake the capital project with appropriate voter input.

Recommendations

The Board should:

1. Develop and implement a comprehensive policy for establishing and using reserve funds that includes optimal or targeted funding levels and the conditions under which reserve funds will be used or replenished.
2. Properly establish, by resolution, those existing reserves requiring such authorization.
3. Ensure reserves are reasonably funded and, if any excess funds are identified, they should be used to benefit District taxpayers in accordance with statutory requirements.

³ Heating, ventilation and air-conditioning

⁴ We judgmentally selected a sample of payments made to major contractors, the clerk of the works and vendors that appeared unrelated to the scope of the project.

4. Ensure reserves are only used for appropriate purposes and expenditures from the reserves are documented and retained. Any improperly used amounts should be returned to the respective reserve.

District officials should:

5. Ensure all original invoices are maintained to substantiate capital project expenditures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



HOLLAND CENTRAL SCHOOL

103 Canada Street
Holland, New York 14080-9806
Telephone (716) 537-8200
FAX # (716) 537-8203

Cathy V. Fabiatos
Superintendent

June 30, 2015

Laura N. Bosinski
School
Business Official/
Treasurer

Mr. Jeffrey D. Mazula
Chief Examiner
Office of the New York State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Laurie L. Gregory
Director of Curriculum

Dear Mr. Mazula,

Jason D. Smith
Elementary Principal

On Tuesday, June 16, 2015, the Holland Central School District's Board of Education President, Mrs. Taina Armstrong-Hoffman; Superintendent of Schools, Mrs. Cathy Fabiatos; and Business Official/District Treasurer, Laura Bosinski met with representatives of your office to review the findings of our OSC Audit. Please accept this letter as both the District's response to the findings and recommendations as well as our Corrective Action Plan.

Carl A. Guidotti
Jr./Sr. High School
Principal

The District would like to offer our gratitude and appreciation for the time, insight, and thoughtfulness your staff dedicated to our District. The auditors were in our District for several months and always maintained the upmost professionalism and willingness to answer any questions that arose.

Carol A. Privitere
Director of
Special Education

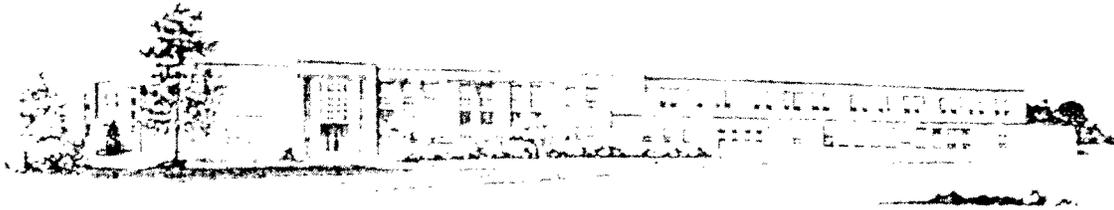
The Holland Central School District does agree with the Comptroller's findings, however, we would like to take this opportunity to note the following:

Georgette M. Bosela
Food Service Director

We are pleased to point out that no instances of fraud, abuse or misappropriations of funds were noted during the time period audited.

Timothy M. Buckenmeyer
Athletic Director

Significant turnover in the positions of Superintendent of Schools and the Business Official have taken place during the period audited. The current Superintendent of Schools, Mrs. Fabiatos, was with the District for eighteen months of the audit period. The current Business Official, Mrs. Bosinski, was with the District for twelve months of the audit period. While there is still work to be done, the current administration has and will continue to work diligently to follow all federal, state, and local laws, regulations and guidelines.



HOLLAND CENTRAL SCHOOL

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Cathy V. Fabiatos
Superintendent

Superintendent, Mrs. Fabiatos, along with Business Official, Mrs. Bosinski, have already made recommendations to the Board of Education to start the process of developing a long term plan for the use of reserve funds, to begin during the fiscal year 2015-16.

Laura N. Bosinski
School
Business Official/
Treasurer

The Holland Central School District Corrective Action Plan based on the recommendations made by the New York Office of the State Comptroller:

Recommendation #1:

Develop and implement a comprehensive policy for establishing and using reserve funds that includes optimal or targeting funding levels and the conditions under which reserve funds will be used or replenished.

Laurie L. Gregory
Director of Curriculum

The District's Superintendent, Business Official, and Board of Education Finance Committee will meet to start the process of the development a long term plan for use and maintenance of reserve funds. The District will utilize the knowledge and expertise of its financial advisors, external auditing firm, and school attorneys to ensure compliance with all federal, state and local laws and regulations.

Jason D. Smith
Elementary Principal

Carl A. Guidotti
Jr./Sr. High School
Principal

This process will be initiated and scheduled by the Superintendent and Business Official during the 2015-2016 fiscal year.

Recommendation #2:

Properly establish, by resolution, those existing reserves requiring such authorization.

Carol A. Privitere
Director of
Special Education

The District will research existing minutes to document the proper establishment and authorization of the current reserve funds. If proper documentation is not in the District's records, the current Board of Education will take action to formally establish each reserve and to document the intended purpose of each reserve, as required by law.

Georgette M. Bosela
Food Service Director

Timothy M. Buckenmeyer
Athletic Director

These actions will be initiated and scheduled by the Business Official during the 2015-2016 fiscal year.



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Carol A. Privitere
Director of
Special Education

Georgette M. Bosela
Food Service Director

Timothy M. Buckenmeyer
Athletic Director

Recommendation #3:

Ensure reserves are reasonable funded and, if any excess funds are identified, they should be used to benefit District taxpayers in accordance with statutory requirements.

During the creation of a long term plan for the use and maintenance of reserve funds, the District's Superintendent, Business Official, and Board of Education Finance Committee will ensure each reserve fund is reasonably funded and any possible excess funds are used to best serve the needs of the students and community members while maintaining fiscal accountability to the District taxpayers. The District will utilize the knowledge and expertise of its financial advisors, external auditing firm, and school attorneys to ensure compliance with all federal, state and local laws and regulations.

This process will be initiated and scheduled by the Superintendent and Business Official during the 2015-2016 fiscal year.

Recommendation #4:

Ensure reserves are only used for appropriate purposes and expenditures from the reserves are documented and retained. Any improperly used amounts should be returned to the respective reserve.

During the creation of a long term plan for the use and maintenance of reserve funds, the District's Superintendent, Business Official, and Board of Education Finance Committee will ensure each reserve fund is used appropriately and legally. Documentation of all transactions for each reserve fund will be maintained in the District's Business Office. The District will utilize the knowledge and expertise of its financial advisors, external auditing firm, and school attorneys to ensure compliance with all federal, state and local laws and regulations.

This process will be initiated and scheduled by the Superintendent and Business Official during the 2015-2016 fiscal year. Documentation for all activity in each reserve account will be maintained by the Business Official as actions are initiated.



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Jr./Sr. High School
Principal

Carol A. Privitere
Director of
Special Education

Georgette M. Bosela
Food Service Director

Timothy M. Buckenmeyer
Athletic Director

Recommendation #5:

Ensure all original invoices are maintained to substantiate capital project expenditures.

The District will ensure all capital project invoices are retained and filed along with all required capital project documentation, authorizations, and plans.

The process of filing and retaining all required documentation for capital project expenditures will be the responsibility of the Business Official and will occur from the start of all future projects.

Sincerely,

Taina Armstrong-Hoffman, Board of Education President

Cathy Fabiato, Superintendent of Schools

Laura Bosinski, Business Official/District Treasurer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to assess the District's financial management for the period July 1, 2009 through February 3, 2015. To accomplish the objective of our audit and obtain valid audit evidence, our procedures included the following:

- We interviewed District officials and employees to gain an understanding of the District's procedures in relation to reserve funds.
- We reviewed policies and procedures relating to reserve funds.
- We reviewed Board minutes and resolutions relating to reserve funds.
- We reviewed financial records including financial statements, financial reports, supporting schedules and journal entries for reserve funds.
- We reviewed the propositions for capital projects.
- We reviewed the Board minutes for resolutions regarding the capital projects.
- We reviewed capital project expenditures to ensure they were within the scope of the proposition.
- We reviewed the journal entries within the capital projects fund to determine if any remaining balances after completion were handled properly.

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

APPENDIX C

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