



Lyons Central School District Multiyear Planning

Report of Examination

Period Covered:

July 1, 2014 — November 3, 2015

2015M-337



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	3
MULTIYEAR PLANNING	4
Long-Term Financial and Capital Plans	4
Reserve Funds	6
Recommendations	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Lyons Central School District, entitled Multiyear Planning. 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 Lyons Central School District (District) is located in the Towns of Lyons, Arcadia, Galen, Rose and Sodus in Wayne County, the Town of Junius in Seneca County and the Town of Phelps in Ontario County. Lyons is a rural community located along the historic Erie Canal, and serves as the Wayne County seat. The District is governed by the Board of Education (Board) which is composed of 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 Assistant Superintendent for Business is responsible for overseeing the District's financial operations, including accounting for the District's finances, maintaining accounting records and preparing financial reports.

The District operates two schools¹ with approximately 930 students and 260 full- and part-time² employees and is classified as a high need district.³ During the 2014-15 fiscal year, the District had operating expenditures of approximately \$18.28 million, funded primarily by State aid, real property taxes and grants. The District's budgeted general fund appropriations for the 2015-16 fiscal year are approximately \$20.32 million.

Objective

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

- Have District officials established multiyear financial and capital plans and appropriately established and funded reserves to adequately address the District's operational and capital needs?

Scope and Methodology

We examined the District's multiyear planning for the period July 1, 2014 through November 3, 2015. We also extended our scope back to July 1, 2012 to review fund balance and financial trends.

¹ One elementary and one middle/high school

² Including substitutes

³ The need/resource capacity categories are established by the New York State Education Department (NYSED) to measure districts' ability to meet students' needs with local resources. The categories are based on an index composed of measures of student poverty and district wealth (including income and property value). For more on the need/resource capacity index, see the definitions from NYSED at <http://www.p12.nysed.gov/irs/accountability/2011-12/NeedResourceCapacityIndex.pdf>.

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

**Comments of
District Officials and
Corrective Action**

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Multiyear Planning

Multiyear planning can be a vital tool for school districts, especially those struggling with difficult financial conditions. It allows decision-makers to set long-term priorities and work toward goals, rather than making choices based on the needs of the moment. This is important when resources are limited, as they are in many localities, but can also be beneficial to all communities in avoiding future stress. Multiyear planning allows District officials to assess the effects and merits of alternative approaches to financial issues such as the accumulation of money in reserve funds. Without planning, school districts may be forced to survive from year to year by spending down reserve funds or using various one-time revenues to keep afloat.

District officials established some multiyear financial and capital plans. However, these plans are not comprehensive because they lack certain information, including the funding and use of reserves, grant funding, capital improvements, long-term maintenance on capital improvements and bus purchases. Additionally, District officials have not adequately analyzed reserves to determine if they were established and funded properly and whether existing balances are appropriate and necessary. Although the District's total reserve balances as of June 30, 2015 were limited, totaling \$2.06 million, or 10 percent of budgeted appropriations, the majority of these funds were maintained in three reserves. Two of these reserves (the unemployment insurance reserve and insurance reserve) with balances totaling \$1,077,769 may be unnecessary based on the District's historical needs. The third reserve (other restricted fund balance) with a balance totaling \$368,355 has not been formally established to restrict funds for a legally authorized purpose. Currently, the District is undergoing a \$10 million capital project and has an additional list of recommended or desired capital improvements. Therefore, the District may be better served by establishing a capital reserve that could be funded with the excessive amounts in the District's other reserve funds. Overall, the development of effective and useful multiyear plans will help guide the District as it faces future economic and environmental challenges.

Long-Term Financial and Capital Plans

It is important for District officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and allow District officials to identify revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide

guidance on the financial priorities and goals set by District officials. District officials must monitor and update long-term plans on an ongoing basis to ensure that decisions are guided by the most accurate information available.

District officials developed a multiyear financial plan that includes projections to aid in budget preparation, a multiyear capital plan that includes detailed capital improvements and the timeline for completion and a multiyear bus replacement schedule, which are all updated regularly. However, there is some information that these plans lack, including the anticipated funding and use of reserves for operating purposes, the potential funding sources for capital projects and bus purchases and the long-term costs of maintenance after a capital improvement is completed.

Additionally, the District receives substantial grant funding each year. For 2015-16, the District will receive \$2.48⁴ million. Grant funding represents 12 percent of the current budget and supports valuable programs that include afterschool programming to enrich student learning, programs to decrease violence and bullying, college and career readiness programs, programs to build capacity in science and math teachers, programs to support homeless youth, expansion of the universal pre-k program, technology programs and programs to improve the health and wellness of students. However, the District does not have formal long-term plans related to grant funding. District officials stated that non-mandatory programs funded by grants would not be offered if grants were not received because District officials would be unable to absorb the additional costs of these programs into the budget or increase the tax levy to replace lost grant funding. However, the District tries to obtain grants that could overlap to cover program funding in the event that a grant was not awarded. For mandatory programs, the District attempts to not solely rely on grant funding so additional costs could be absorbed into the budget, if necessary.

The lack of comprehensive multiyear plans in the event of adverse economic or environmental change will inhibit the District's ability to effectively manage its finances and address the District's needs without overburdening taxpayers. Multiyear plans are increasingly important due to legislative changes in recent years that limit the ability of school districts to finance their operations through tax increases. In addition, there is the potential for unanticipated reductions in State aid, which the District is heavily reliant on, and

⁴ \$1.36 million from federal, need-based (Title) grants and \$1.12 million from competitive grants (of which approximately \$884,000 was obtained through a multi-district consortium)

proposed legislation for an all-industry minimum wage increase⁵ which could have a significant impact on the District. District officials must remain cognizant of future needs and available revenue streams when strategically planning.

Reserve Funds

Saving for future projects, acquisitions and other allowable purposes is an important planning consideration for school districts. School districts should adopt a formal plan for reserve funds and analyze existing reserve fund levels against the plan to provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment and other requirements. Reserve funds can reduce reliance on indebtedness to finance capital projects and acquisitions and provide a budgetary option that can mitigate the need to cut services or raise taxes. Money not needed for current purposes can often be set aside in reserves for future use. Planning ahead and systematically saving for capital acquisitions and other contingencies is considered prudent management that can reduce or eliminate interest and other costs associated with debt issuances. Similarly, certain reserve funds can protect against unforeseen circumstances.

District officials discuss reserve planning, including the types of existing reserves, purposes for which reserves can be used and current balances. However, aside from a high-level policy that generally defines the purpose of reserves and a plan for the periodic review of reserve funds, District officials have not formalized plans or criteria for specific reserves. Additionally, District officials have not included the funding or use of specific reserves in the multiyear financial or capital plans. As of June 30, 2015, the District's total reserves were \$2.06 million, or approximately 10 percent of budgeted appropriations, which is a reduction of about 5 percent since 2012-13. In addition, District officials do not prepare an adequately documented annual analysis of reserve fund balances to determine if funding is adequate and necessary, as required by the District's policy. Therefore, we reviewed the District's reserves and analyzed a selection⁶ of the reserve funds totaling \$1.45 million or approximately 70 percent of the District's total reserve funds. We determined that the balances in the unemployment insurance reserve, insurance reserve and other restricted fund balance were either unnecessary or unauthorized. Specifically:

- Unemployment Insurance Reserve — This reserve is for reimbursing the New York State Unemployment Insurance

⁵ The Governor has proposed an increase in the minimum wage for all industries to \$15 per hour, which is an approximately \$6 per hour increase over the current minimum wage.

⁶ Further information on the specific reserves analyzed is included in Appendix B - Audit Methodology and Standards.

Fund (SUIF) for payments to claimants where the school district has elected to use the “benefit reimbursement” method based on actual unemployment claims. If, at the end of any fiscal year, the moneys in this reserve exceed amounts required to be paid into the SUIF, plus any additional amounts required to pay all pending claims, the Board may, within 60 days of the close of the fiscal year, elect to transfer excess funds to certain other reserve funds or apply the excess to the budgeted appropriations of the next succeeding fiscal year. The District did not fund or use this reserve during the last three fiscal years. As of June 30, 2015, the balance was \$672,884. This balance could fund 61 employees for the maximum benefit amount,⁷ or 267 years of claims based on the District’s three-year claim average of \$2,512. Therefore, we question the necessity of the balance in this reserve. District officials concurred that the balance may be excessive and could be transferred to another reserve to better serve the District’s needs.

- Insurance Reserve — This reserve is intended to pay certain uninsured losses, claims, actions or judgments for which the District is authorized or required to purchase or maintain insurance. As of June 30, 2015, the balance was \$404,885. The District has not used or funded this reserve during the last three fiscal years. The District has purchased insurance coverage to limit the need for excessive funds in this reserve, which includes a \$6 million umbrella policy, and it appears this coverage is adequate. Therefore, we question the necessity of the balance in this reserve. If it is determined that this reserve is unnecessary, the District should transfer funds to another legally authorized reserve.
- Other Restricted Fund Balance — Prior to our audit period, upon the recommendation of its external auditor, the Board assigned a portion of fund balance to fund a part of the potential liability of retiree health insurance. These funds were recorded and maintained within “other restricted fund balance.” However, on December 10, 2013 the Board, citing a lack of statutory authority to reserve funds for other post-employment benefits, passed a resolution to remove the assignment of these funds for this purpose. Despite this resolution, the District continues to maintain funds within this account without any formal resolution establishing the purpose for which these funds are restricted. The balance as of June 30, 2015 was \$368,355. Expenditures from this account in 2014-15 included payouts for accrued leave benefits,

⁷ Effective October 6, 2014, the maximum benefit is \$420/week for up to 26 weeks, or a maximum of \$10,920.

which would be consistent with an employee benefit accrued liability reserve (EBALR), although an EBALR has not been formally established by Board resolution. We question the balance in this reserve because funds are not restricted for a legally authorized purpose and the reserve is not formally established.

In addition, the District has not established a general capital reserve fund. Currently, the District is undergoing an almost \$10 million capital project that will face additional costs associated with long-term financing and long-term maintenance and upkeep on these improvements. Additionally, the District has a list of previously identified and recommended capital improvements and is currently undergoing a building condition survey that may identify additional necessary improvements. Therefore, the District may be better served by seeking voter approval to establish and fund a capital reserve to finance the local share of capital projects that could be seeded with the excessive amounts in the District's other reserve funds.

Because the District has not developed any formal, specific reserve plans and does not adequately analyze its reserve fund balances annually, the allocation of funds in its reserves may be inappropriate for the District's needs. By planning today and saving incrementally for future events, the District can mitigate the financial impact of major, nonrecurring or unforeseen expenditures on the annual budget and reduce the reliance on debt issuance for capital improvement projects and purchases.

Recommendations

District officials should:

1. Develop and adopt comprehensive multiyear financial and capital plans for a three- to five-year period that address the anticipated funding and use of reserve funds, funding sources for capital improvement projects and bus purchases, costs of long-term maintenance on capital improvements, long-term grant funding and any economic or environmental factors which could affect the plans.
2. Adopt a formal reserve plan that includes the accumulation and use of reserve funds, analyze existing reserve fund levels against the plan and, if necessary, establish more appropriate reserves and make statutorily allowed transfers between reserve funds to better align reserves with long-term needs, provide tax relief or both.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Lyons Central School District

Michael R. Pangallo
Assistant Superintendent for Business
(315) 946-2200 ext. 2017

Erin P. Long
Elementary School Principal
(315) 946-2200 ext. 3501

Margaret M. Blask
Director of Educational Service
(315) 946-2200 ext. 2019

10 Clyde Road
Lyons, New York 14489
(315) 946-2200
Fax: (315) 946-2205
www.lyonscsd.org

DENISE L. DZIKOWSKI

Superintendent of Schools
(315) 946-2200 ext. 2014
ddzikowski@lyonscsd.org

Nelson G. Kise
MS/HS Principal
(315) 946-2200 ext. 2204

Libarid V. Alexanian
MS/HS Assistant Principal
(315) 946-2200 ext. 2203

Stephen J. Veeder
Transportation Admin/Athletic Dir
(315) 946-2250

March 16, 2016

ROCHESTER REGIONAL OFFICE
Edward V. Grant Jr., Chief Examiner
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608

Dear Mr. Grant,

Please accept this correspondence as the official response from the Lyons Central School District relating to the Multiyear Planning Audit conducted by your office from September 21, 2015 to February 29, 2016. We are extremely grateful to have worked with your staff during the time that they were conducting the audit. We also welcome the recommendations that were made regarding improving our long range planning.

We along with the Board of Education are beginning conversations on where we can look to implement your recommendations to adopt a formal reserve plan and comprehensive multiyear financial and capital plans.

We are committed to continual improvement in our long range planning and maintaining our fiscal stability and appreciate the findings that will aid us in this endeavor.

The Board of Education and the District Administration will develop the required corrective action plan based upon the recommendations made by your office.

Sincerely,

Denise L. Dzikowski
Superintendent of Schools

Michael Pangallo
Assistant Superintendent for Business

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the District's financial operations and long-term plans.
- We reviewed the general fund's results of operations for 2012-13 through 2014-15 to gain perspective on the District's financial condition.
- We reviewed the District's multiyear financial and capital plans for adequacy.
- We reviewed summary and background information related to grant funding.
- We reviewed the District's bus replacement schedule for adequacy.
- We reviewed policies and procedures, including those related to reserves, for adequacy and to gain an understanding of the District's reserve plans.
- We reviewed the District's restricted fund balance composition and determined reserves that had no activity or were potentially excessive for the District's needs for further analysis (unemployment insurance reserve, insurance reserve and other restricted fund balance - retiree health insurance reserve), based on historical trends, associated expenditures, insurance coverage and past use. From this information, we determined if the balances were reasonable and necessary.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313