DIVISION OF LOCAL GOVERNMENT AND SCHOOL ACCOUNTABILITY

REPORT OF EXAMINATION | 2022M-96

York Central School District

Financial Management

OCTOBER 2022

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

Contents

Report Highlights

York Central School District

Audit Objective

Determine whether the York Central School District (District) Board of Education (Board) and District officials effectively managed fund balance.

Key Findings

The Board and District officials did not effectively manage fund balance. As of June 30, 2021:

- The recalculated surplus fund balance exceeds the statutory limit by $1.1 million.
- District officials overestimated appropriations by $1.7 million and improperly encumbered $203,000.
- District officials improperly restricted more than $690,000 in the debt reserve fund and did not transparently fund reserves.
- The unemployment insurance reserve totaling more than $1 million is overfunded and may be enough to pay annual claims for 132 years.
- The District did not have a written multiyear financial plan and comprehensive capital plans.

As a result, more real property taxes were levied than was needed to fund operations.

Key Recommendations

- Comply with the surplus fund balance statutory limit and use the excess funds in a manner more beneficial to taxpayers.
- Properly use and reasonably fund reserve funds.
- Adopt comprehensive written multiyear financial and capital plans.

District officials generally disagreed with our findings and recommendations. Appendix B includes our comments on issues raised in the District's response letter.

Background

The District serves the Towns of Leicester and York in Livingston County, and the Town of Perry in Wyoming County.

The District is governed by a seven-member Board responsible for managing and controlling the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The School Business Official (Business Official) is responsible for the administration and supervision of financial activities, which includes assisting the Board and Superintendent with the development and monitoring of the budget. The current Business Official started in March 2019.

Quick Facts	
2021-22 Appropriations	$17.8 million
Total Reserves as of June 30, 2021	$5.6 million

Audit Period

July 1, 2018 – May 12, 2022

Financial Management

How Should a Board and District Officials Effectively Manage Fund Balance?

To effectively manage fund balance, a board should adopt reasonably estimated and structurally balanced budgets based on historical data or known trends in which recurring revenues finance recurring expenditures. In preparing the budget, a board must estimate the amounts a school district will spend and receive, the amount of fund balance that will be available at fiscal year-end to use toward the next year's budget and the expected real property tax levy. Accurate estimates help ensure that the tax levy is not greater than necessary and that surplus fund balance amounts are not over the statutory limit.

If a school district experiences an operating surplus, the amount of appropriated fund balance will not be used to finance operations. Sound budgeting and effective financial management practices should help ensure that adopted annual budgets do not routinely appropriate fund balance that will not be needed.

A school board is permitted to retain both a specified amount of fund balance for cash flow needs or unexpected expenditures and reserves for other identified or planned needs. New York State Real Property Tax Law Section 1318 limits the amount of surplus fund balance that a school district can retain to no more than 4 percent of the next year's budget. Any surplus fund balance over this percentage must be used to reduce the upcoming year's tax levy or fund needed reserves. When fund balance is appropriated for the next year's budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that is appropriated.

School districts may encumber (carryover) appropriations from one budget year to the next when there are outstanding financial commitments related to unfulfilled contracts for goods or services at the end of the fiscal year. Encumbrances are intended to help prevent a school district from exceeding appropriations and allow school district officials to set aside a portion of fund balance for these commitments into the next fiscal year. Encumbrances are added to and increase the following year's adopted budget. Generally, encumbrances should be liquidated within the first few months of the following year when the related contractual obligations have been satisfied and the vendors are paid. Sufficient documentation should be maintained to support that such transactions were initiated in the fiscal year when the funds were encumbered.

General Fund Surplus Fund Balance Exceeded the Statutory Limit

The District's continual annual operating surpluses resulting from overestimated appropriations caused the general fund's surplus fund balance to exceed the statutory limit.

We compared estimated revenues and budgeted appropriations with actual operating results for 2018-19 through 2020-21. While revenue estimates were generally reasonable, we found that appropriations were overestimated by $3.2 million (7 percent) during the three-year period, as shown in Figure 1.

Figure 1: Overestimated Appropriations (in Millions)

	2018-19	2019-20	2020-21	Total
Budgeted Appropriations	$16.8	$17.1	$17.4	$51.3
Less Actual Expenditures	16.1	16.3	15.7	48.1
Overestimated Appropriations	$0.7	$0.8	$1.7	$3.2
Percentage Overestimated[a]	4%	5%	11%	7%
a) Overestimated appropriations divided by actual expenditures				

The most significant overestimated appropriations for the three-year period reviewed were as follows:

- Health insurance had a total variance of approximately $1.5 million (22 percent),
- Salaries and wages had a total variance of approximately $1.4 million (6 percent),
- Tuition to private schools had a total variance of $492,000 (65 percent),
- New York State retirement costs had a total variance of $408,000 (15 percent),
- Fuel costs had a total variance of $246,000 (46 percent), and
- Workers' compensation insurance had a total variance of $105,000 (38 percent).

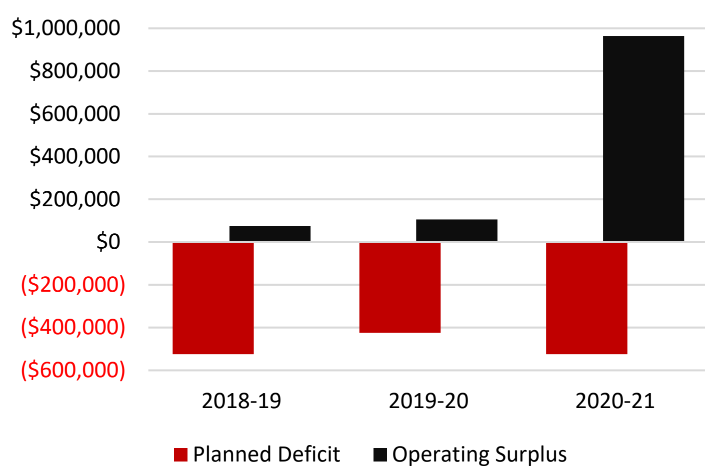
The Business Official told us there was a large variance for health insurance because the District purposely budgets for these costs conservatively and uses the additional amount as a contingency to address potential shortfalls in other budget categories. He also told us that the workers' compensation variance was the result of overestimations in previous Board-adopted budgets, and District officials decided to keep the appropriations flat instead of reducing them. However, District officials should consider all known factors, including prior year expenditure trends, when preparing the budget.

These budget variances generated operating surpluses that resulted in surplus fund balance exceeding the statutory limit. We reviewed the District's surplus fund balance at year-end for fiscal years 2018-19 through 2020-21. We found that surplus fund balance was 4 percent of the next year's appropriations as of June 30, 2019. However, surplus fund balance was 4.6 percent as of June 30, 2020 and 6.1 percent as of June 30, 2021. Therefore, as of June 30, 2021, surplus fund balance exceeded the statutory limit by more than 2 percentage points.

Additionally, District officials appropriated fund balance of $425,000 in 2019-20 and $525,000 in both 2018-19 and 2020-21 to balance the budgets. However, the District realized operating surpluses each year, totaling approximately $1.2 million during the three-year period (Figure 2). As a result, the District did not use the appropriated fund balance to finance operations.

FIGURE 2

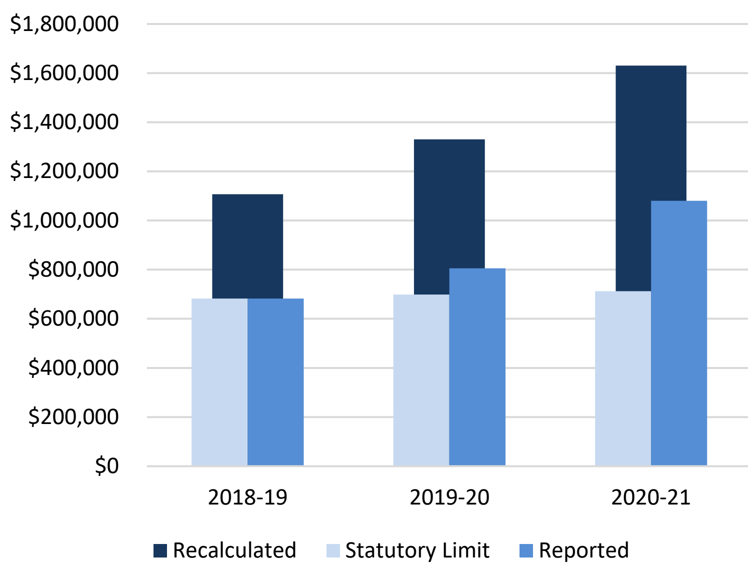
Planned Deficit vs. Operating Surplus



When adding the appropriated fund balance that was not used, the recalculated surplus fund balance for 2018-19 through 2020-21 (Figure 3), as a percentage of the next year's budget, was between 6 percent and 9 percent. As of June 30, 2021, recalculated surplus fund balance of more than $1.6 million exceeded the 4 percent statutory limit by more than 5 percentage points.

FIGURE 3

Surplus Fund Balance



Although fund balance exceeded the statutory limit and increased overall during the last three fiscal years, the Board and District officials continued to raise property taxes. The property tax levy increased 2 percent during this period and increased 1 percent in 2021-22. Furthermore, we reviewed the 2021-22 budget and determined that revenue and expenditure estimates were consistent with the last three fiscal years. As such, the District will most likely have another operating surplus in 2021-22 that will likely result in higher surplus fund balance.

Although the Board President, Superintendent and Business Official told us they had a large operating surplus in 2020-21 and maintained more surplus fund balance than statutorily allowed due to the COVID-19 pandemic, as shown in Figure 3, the District has previously maintained more surplus fund balance than allowed by statute.

By overestimating appropriations in the budget and annually appropriating fund balance that is not needed to finance operations, the District has, in effect, added to its surplus fund balance in excess of the statutory limit during our audit period. By maintaining surplus funds in excess of the statutory limit, real property taxes were higher than necessary.

Funds Were Improperly Classified as Encumbrances

District officials recorded year-end encumbrances each fiscal year for 2018-19 through 2020-21, essentially representing that the encumbrances were for valid purchase orders against the prior year's budget. However, they overstated encumbrances a total of $337,765 (20 percent) in 2019-20 and 2020-21, in effect further circumventing the 4 percent surplus fund balance limit.

We reviewed the purchase orders comprising the reported encumbrances totaling approximately $1.3 million for the last two fiscal years and found that encumbrances were overstated in 2019-20 by $134,310 (20 percent) and in 2020-21 by $203,455 (19 percent). The overstated encumbrances included:

- Purchase orders for orders never made,
- A purchase order with a quote that was received (and thus a commitment made) after the fiscal year-end,
- Duplicate purchase orders, and
- Purchase orders that were expenditures for the next fiscal year and inappropriately encumbered to hold prior year funds.

These overstated encumbrances resulted in the misrepresentation of the District's actual surplus fund balance. Officials purported less funds were available by incorrectly underreporting the District's actual surplus fund balance.

When adding back the overstated encumbrances, the recalculated surplus fund balance, including the unused appropriated fund balance, totaled approximately $1.83 million as of June 30, 2021, and exceeded the statutory fund balance limit by more than $1.1 million or more than 6 percentage points (Figure 4).

Figure 4: Recalculated Surplus Fund Balance as of June 30, 2021

Reported Surplus Fund Balance	$1,080,256
Unused Appropriated Fund Balance	550,000
Overstated Encumbrances	203,455
Recalculated Surplus Fund Balance	**$1,833,711**
As a Percentage of Next Year's Budget	10%

In addition to the invalid encumbrances previously discussed, prior to our audit, the District's external auditor identified other invalid encumbrances in 2020-21. As a result, the District removed two purchase orders approved by the Business Official totaling $450,000 from the encumbrance total because neither represented actual contracts. While this was identified by the District's external auditor and therefore not reported in the District's final encumbrance total in the financial statements, it further demonstrates the improper practices District officials used to restrict funds and circumvent the statutory surplus fund balance limit.

The Business Official told us that for certain encumbrances, the District was holding the funds before a purchase was made. However, this is an improper practice and lacks transparency. Encumbrances that are established without a genuine purchase or contractual commitment for the fiscal year in which they originate causes surplus fund balance to be understated at fiscal year-end and gives the appearance that the District is at or close to the legal surplus fund balance limit.

Annually appropriating fund balance that is not needed to fund operations is, in effect, a reservation of fund balance that is not provided for by statute and circumvents the statutory limit imposed on the level of surplus fund balance. By continually appropriating fund balance that is not needed, overestimating budgeted appropriations and inappropriately encumbering funds, the District is not presenting its surplus fund balance or budget in a transparent manner and is raising real property taxes in excess of the amount required to finance the budget.

How Should Reserve Funds Be Properly Managed?

Properly managing reserve funds can help school district officials effectively manage fund balance because reserves are part of total fund balance. School districts are legally allowed to establish reserves and accumulate funds for certain future purposes (e.g., unemployment insurance expenditures). Money in reserves must be used in compliance with statutory provisions. While school districts are generally not limited as to the amount of funds that can be held in reserves, the balances should be reasonable. A board should balance the intent for accumulating funds for identified future needs with the obligation to make sure real property taxes are not higher than necessary.

A debt reserve must be established if unexpended bond proceeds remain on a capital improvement financed with debt. This money must be set aside and accounted for in the debt service fund. The balance and any interest earned must be used for related debt service costs (principal and interest payments).

To be transparent, a board should include the amounts to be reserved in its annual budget to give taxpayers the opportunity to know and approve the board’s plans for funding reserves. When funding reserves is not explicitly included in the annual budget, a board resolution is generally necessary to authorize the transfer of funds into a reserve fund. The resolution should include the specific amount to fund each reserve. These resolutions help promote visibility of the board’s actions to taxpayers.

The Board-adopted reserve fund policy requires District officials to prepare an annual report of all reserve funds (reserve plan) to the Board. The reserve plan is required to include, for each reserve:

- The type and description of the reserve,
- The date the reserve was established,
- Each amount paid into the reserve,
- Interest earned,
- The total amount and date of each withdrawal, and
- An analysis of the projected needs for in the upcoming fiscal year.

District Officials Overfunded and Improperly Used Reserve Funds

The Board and District officials did not develop a sufficiently detailed reserve plan. The reserve plan did not include most of the components required by the Board-adopted reserve policy. For example, the reserve plan did not include the amount paid into each reserve, interest earned, the total amount and date of each withdrawal, or an analysis of the projected needs for the reserve funds in the upcoming fiscal year. By not reviewing a reserve plan with all of the required components, the Board may not have all of the information needed to adequately maintain and manage the District's reserve fund balances.

Also, the Board did not budget to fund reserves. Instead, the Board passed annual resolutions in June that authorized the Superintendent to transfer fiscal year-end surplus fund balance into existing reserves. However, the resolutions did not specify which reserves would be funded or provide actual or estimated funding amounts. The Board did not formally approve the actual amounts transferred to reserves. By not explicitly detailing how reserves will be funded in the proposed budget, or authorizing specific reserve funding, the Board's actions were not transparent as the Board did not give voters and residents an opportunity to know its plan for funding reserves.

As of June 30, 2021, the District had seven general fund reserves totaling approximately $4.9 million and a debt reserve totaling more than $690,000. We found that certain reserves were not properly used and reasonably funded, as described below. The remaining reserves were properly established, used and reasonably funded.

Debt Reserve – The Business Official told us former District officials did not maintain records for the composition of the debt reserve balance allocated to specific debt. Because the outstanding obligations related to these funds cannot be identified, there is no statutory requirement or authority to maintain a debt reserve and the balance in the debt service fund should be transferred to the general fund as surplus fund balance. The funds may then be used for any lawful school district purpose. For example, because District officials could not apply these funds to the debt issuances from which they arose, the District could use the balance to pay off other outstanding debt and reduce the current burden on the general fund for taxpayers. If these funds were returned to the general fund, the recalculated surplus fund balance as of June 30, 2021 would be approximately $2.47 million, or 14 percent of the next year's budget (Figure 5).

Figure 5: Recalculated Surplus Fund Balance as of June 30, 2021

Reported Surplus Fund Balance	$1,080,256
Unused Appropriated Fund Balance	550,000
Overstated Encumbrances	203,455
Improperly Restricted Debt Reserve	690,021
Owed to EBALR for Improper Use	($50,609)
Recalculated Surplus Fund Balance	$2,473,123
As a Percentage of Next Year's Budget	14%

Unemployment Insurance Reserve – The Board and District officials did not ensure that the unemployment insurance reserve balance was reasonable. The reserve had a balance of more than $1 million as of June 30, 2021. The District's reserve plan stated the historical five-year need was $120,000, which would mean that the reserve balance covers 42 years of the District's annual unemployment insurance expenditures. However, based on the highest annual expenditures during the three-year period reviewed of approximately $7,600, the reserve covers 132 years of annual unemployment insurance costs.

The Board was aware that this reserve was overfunded since at least the 2018-19 fiscal year external audit, but the excess funds remained in the reserve with no specific plan for use. The reserve plan states that upon the creation of a new capital reserve, the District should transfer funds from the unemployment insurance reserve to the new reserve, and that the District plans to use or transfer $900,000 from the reserve by the end of the 2023-24 fiscal year.

The Superintendent and Business Official told us that they plan to use the unemployment insurance reserve to fund the next capital reserve, but they have not established (subject to voter approval) a new capital reserve. Additionally, the District proposed a capital project for the 2022-23 fiscal year, but the proposal did not include funding from this reserve. Instead, the proposed funding included $760,000 in the current capital reserve, with the remaining $2.1 million in project costs financed through debt. The Business Official told us that they maintained the funds in the unemployment insurance reserve because they were unsure whether they would need the funds to support operations during the COVID-19 pandemic.

Employee Benefit Accrued Liability Reserve (EBALR) – District officials used EBALR funds in 2018-19 and 2019-20 totaling approximately $151,700. However, more than $50,000 (33 percent) used in 2018-19 were for ineligible retirement incentive expenditures. District officials incorrectly believed that the reserve could be used for any retirement incentive, including those not based on leave. Using EBALR funds for purposes other than for which they are legally allowed is inappropriate and misleading to taxpayers.

By maintaining excessive and unnecessary reserves, the Board and District officials may have missed opportunities to lower the property tax burden for District taxpayers and residents and withheld funds from being used to meet District needs.

Why is Multiyear Financial and Capital Planning Important?

Multiyear financial and capital planning enables school district officials to identify revenue and expenditure trends, establish long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years and assess the merits of alternative approaches (such as using surplus fund balance or establishing and using reserves) to finance operations. Any comprehensive written multiyear (long-term) financial and capital plan should be periodically reviewed and updated to provide a reliable framework for preparing budgets and ensure that information used to guide decisions is current and accurate.

The Board and District Officials Did Not Have a Written Multiyear Financial Plan and Comprehensive Capital Plans

The Board President and Business Official told us that the District did not have a written multiyear financial plan and comprehensive capital plans. The Business Official provided two documents, including one for the proposed 2022-23 capital project and one for debt service budget estimates. However, they did not include the necessary elements of comprehensive multiyear financial or capital plans, such as overall projected revenues and expenditures, long-term priorities and goals.

District officials did not develop a written multiyear financial plan despite a prior OSC audit recommendation to prepare a multiyear financial plan.[1] The Board President told us that multiyear planning is challenging because it is difficult to predict certain revenues, such as State aid, and the tax cap limit formula is not conducive to lowering the budget. However, developing written multiyear financial and capital plans would help the Board and District officials assess the short and long-term effects of varying aid amounts and other budgeting decisions, such as reducing the tax levy.

The lack of long-term financial and capital plans inhibits the Board and District officials from effectively managing finances, and addressing future operating and capital needs. As the District moves forward, well-designed written financial and capital plans can assist the Board in making timely and informed decisions about programs and operations, and help them effectively manage fund balance in the best interest of taxpayers.

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
2. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
3. Develop and adopt a plan to reduce surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers, including:
    - Reducing District property taxes,
    - Funding needed reserves,
    - Paying one-time expenditures, and
    - Paying off debt.
4. Ensure that encumbrances are valid and supported.
5. Transfer funds in the debt reserve in the debt service fund to the general fund as surplus fund balance.
6. Review and approve the reserve plan and ensure that it includes all required components.

1 Refer to *York Central School District – School District Website (S9-19-35)* released March 2021.

7. Review reserve fund balances to determine whether the amounts are necessary and reasonable. To the extent that they are not, transfers should be made to surplus fund balance, where allowed by law, or to other reserves established and maintained in compliance with statute.

8. Ensure that the EBALR is only used for allowable expenditures and the amount of ineligible expenditures are returned to the reserve fund balance.

9. Develop, adopt and periodically update comprehensive written multiyear financial and capital plans to be used in conjunction with the annual budget process.

Appendix A: Response From District Officials

York Central School

David M. Furletti, *Superintendent*

Paul J. Liess Jr.,School *Business Official*

Aubrey L. Krenzer, *Director of Curriculum & Instruction*

Lindsey M. Peet, *Middle/High School Principal*

Edward J. Orman, Interim *Elementary School Principal*

Ameigh J. Coates, *Pupil Personnel Services Director*

GOLDEN KNIGHTS

Date: September 13, 2022

Re: Response to Financial Management Report 2022M-96

In response to the findings of this report, the York Central School District is concerned that the three year cumulative numbers are misleading. Comparing three years of positive variance is misrepresentative of the facts that the district faced during the period that was audited. There are many items the district planned for which were changed due to various reasons.

See Note 1 Page 15

The first item that we would like to bring up, is that the COVID pandemic is only mentioned once and its impact isn't spoken to at all. In the school year 2019-20 the School District carried a surplus fund balance to offset any shortfalls in revenues or due to increased expenses. Expanding upon this, Governor Cuomo proposed and reduced state aid to school district revenues by 20%. While the state held back school district aid payments, YCSD still had fiscal obligations that needed to be met. The aid was withheld into the following year, 21-22. The district took the appropriate step of increasing the unappropriated fund balance due to the unknown future of state aid. The school district also needed to continue to budget for any unexpected additional expenses due to the growing impact of the COVID pandemic and its effects on the public schools.

See Note 2 Page 15

See Note 1 Page 15

YCSD continued to budget for reductions in revenues from the state. Eventually the district received the full amounts owed to the district including the prior year withholding's after the budget was passed. This caused larger variances of actuals to budgets. Due to the mandates placed on schools due to the COVID pandemic; we were forced to budget for higher expenses due to these mandates and after the budget was adopted additional funding was made available.

See Note 3 Page 15

In 2020-21 school year, substantial funding was received from the Federal Government, which allowed for expenses from the general operating fund to be transferred to federal fund, thus creating larger operating variances (these were unseen and amounts that were not approved by NYSED until after the budgeting process was completed).

See Note 4 Page 15

- The school district accounts for the potential variances in expenses of student enrollment and programming when budgeting for certain expenditures. The report uses an accumulation of 3 years of savings in health care which is budgeted but does not take into account that the district must also plan for changes in life events for many of our employees. This means carrying more than the bare minimum expenses for healthcare coverage. Employees may move from one plan to another or from one level to another as their needs change. The district also needs to keep an eye for the future with healthcare costs increasing at a greater rate than revenues. An example of this was that our Healthcare costs went up 21.5% for the current year, or approximately $421,000. Our increase in state aid was $311,000 and the tax cap increase would have brought the increase in revenues to $430,000. This would have just covered the increase in healthcare, much less all of the other contractual increases along with addition to the inflationary increase. Failure to plan ahead would have left the district in a potentially weakened position financially.

See Note 5 Page 15

See Note 2 Page 15

PO BOX 102 • 2578 Genesee Street • Retsof, NY 14539 • Phone: 585-243-1730 • Fax: 585-243-5269 • www.yorkcsd.org

The York Central School District rises to the challenges and provides opportunities for empowerment, exploration, growth and success.

- Salaries and wages was a shift in expenses from the general fund to the federal fund due to the increase in federal grants.
- Private school tuition is the cost of one additional student moving into the district.
- The fuel cost variance is evident in the current market of unknown shifts that effect the cost of transportation fuel.
- The workers Compensation insurance variance is not even material without looking at a compound three year variance.

See Note 4 Page 15

See Note 3 Page 15

By comparing three years of positive variance it is creating a view that is misrepresentative of the circumstances and facts that the district faced during the period that was audited.

See Note 1 Page 15

The increased encumbrance amounts are due to the district waiting for items ordered during the COVID pandemic. The district is still waiting for certain items or has had to change the orders. Some orders have taken in excess of a year to be delivered and received. There were some of the orders were also impacted by a change in personnel which caused items to be delayed in ordering past the correct fiscal year or duplication in the purchase order process

See Note 6 Page 15

The district is aware of the excess funds in the unemployment reserve, this has been reviewed and discussed with what the options are for the district. The district has fund balance reserves with recommended balances along with projection timeframes to meet these balances.

The district is not required to write multi-year plan. The reality is that the fiscal landscape of the NYS public school system is ever changing and creating a 5 year plan that the district has little to no control over, would be an exercise in frustration. This plan would not have been feasible with the pandemic and changes in purchasing and safety requirements the district faced during the COVID pandemic.

See Note 7 Page 15

The York Central School District appreciates and will continue to work in partnership with the OSC. I'm sure that can we agree that public schools are a crucial part of the future of New York State. Remaining fiscally responsible must continue to be a priority for the State and schools.

Respectfully,

David M. Furletti, Superintendent of Schools

Appendix B: OSC Comments on the District's Response

Note 1

Although the audit period is from July 1, 2018 through May 12, 2022, the District's historical budgeting practices contributed to the current accumulation of surplus fund balance which could and should be used in a manner more beneficial to the taxpayers.

Note 2

The report details the District's COVID-19 pandemic explanations for why officials maintained surplus fund balance beyond the statutory limit and maintained an unreasonable balance in the unemployment reserve. However, District officials did not comply with the 4 percent statutory surplus fund balance limit prior to the COVID-19 pandemic.

Note 3

The District's response does not address the budget variances caused by overestimating expenditures. While certain expenditures may, on occasion, fluctuate or be susceptible to varying degrees of uncertainty, the District has consistently spent less than budgeted year after year, resulting in higher than necessary tax levies.

Note 4

The increase in federal fund expenditures from 2019-20 to 2020-21 was 10 percent ($175,755) of the total 2020-21 general fund expenditure variance.

Note 5

The Business Official told us the large health insurance variance existed because District officials overestimated these costs to use the additional amount as a contingency to address other potential shortfalls. This is not an appropriate or transparent budgeting practice.

Note 6

The invalid encumbrances in the audit report do not include encumbered amounts for the District waiting for items actually ordered during the COVID-19 pandemic. The invalid encumbrances included purchase orders for items that were never made.

Note 7

Multiyear planning is a vital tool for school districts. Developing written multiyear financial and capital plans, and updating them periodically as better estimates are available, would help the Board and District officials assess the short and long-term effects of varying aid amounts, other budgeting decisions and provides greater transparency.

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and Board members and reviewed Board and audit committee meeting minutes, resolutions, policies and the reserve plan to gain an understanding of the District's financial management policies and procedures, budgeting practices and the monitoring of fund balance and reserves.
- We reviewed financial records to determine whether the District had operating surpluses or deficits during our audit period and compared the operating results to the appropriated fund balance to determine whether appropriated fund balance was used as budgeted.
- We reviewed the adopted general fund budgets from 2018-19 through 2021-22 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations and analyzing significant expenditure budget-to-actual variances. We reviewed the 2021-22 adopted budget to determine whether the estimates were consistent with prior years' estimates.
- We analyzed fiscal year-end fund balance for the general fund and calculated surplus fund balance as a percent of the next year's appropriations to determine whether the District was in compliance with statute. We evaluated any factors contributing to changes in fund balance, including real property tax levy increases.
- We recalculated surplus fund balance by adding the unused appropriated fund balance, overstated encumbrances and improperly restricted debt reserve funds in 2020-21 and compared the amount as a percentage of the next year's appropriations.
- We reviewed the 2019-20 and 2020-21 listings of purchase orders comprising encumbrances totaling $1.3 million to determine whether they were valid encumbrances.
- We reviewed reserves to determine whether they were properly established and used, and whether balances were reasonable as of June 30, 2021.
- We discussed multiyear financial and capital plans with District officials.

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

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

Appendix D: Resources and Services

Regional Office Directory
www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas
www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems
www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management
www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans
www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders
www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller
www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers
www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics
www.osc.state.ny.us/local-government/academy

Contact

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

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

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

Local Government and School Accountability Help Line: (866) 321-8503

ROCHESTER REGIONAL OFFICE – Edward V. Grant Jr., Chief Examiner

The Powers Building • 16 West Main Street – Suite 522 • Rochester, New York 14614-1608

Tel (585) 454-2460 • Fax (585) 454-3545 • Email: Muni-Rochester@osc.ny.gov

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

Like us on Facebook at facebook.com/nyscomptroller
Follow us on Twitter @nyscomptroller