



Sandy Creek Central School District

Reserve Management

2023M-43 | June 2023

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Report Highlights

Sandy Creek Central School District

Audit Objective

Determine whether the Sandy Creek Central School District (District) Board of Education (Board) and District officials properly managed reserve funds.

Key Findings

The Board and District officials did not properly manage reserve funds.

- The employee benefit accrued liability reserve (EBALR) was significantly overfunded, and over \$1.2 million was improperly transferred from the reserve.
- \$136,208 was improperly transferred to the debt reserve in the debt service fund even though it was not required to be restricted for debt payments.
- \$244,418 was transferred to the retirement contribution reserve without Board authorization.
- Although the Business Administrator developed a reserve fund plan, it was outdated and has not been adopted by the Board.

Key Recommendations

- Ensure the EBALR is only used for allowable expenditures.
- Transfer funds improperly maintained in the debt service fund to the general fund.
- Obtain Board approval for transfers to reserves.
- Update and adopt a written reserve plan and periodically review reserve balances to help ensure the amounts are reasonable.

District officials agreed with our recommendations and indicated they plan to initiate corrective action.

Background

The Sandy Creek Central School District serves the Towns of Boylston, Orwell, Redfield, Richland, Sandy Creek and Williamstown in Oswego County, the Town of Ellisburg in Jefferson County and the Town of Osceola in Lewis County. The District is governed by an elected seven-member Board that is responsible for managing the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The District's Business Administrator oversees the business office, maintains financial records and prepares financial reports.

The Board, Superintendent and Business Administrator are responsible for properly establishing, funding and using reserves.

Quick Facts

2022-23 Appropriations	\$25.3 million
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As of June 30, 2022

Total Reserve Funds	\$5.7 million
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Number of Reserves	7
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Audit Period

July 1, 2018 – January 25, 2023

Reserve Management

How Should the Board Manage Reserve Funds?

School boards are legally allowed to establish reserves to accumulate funds for certain future purposes (e.g., capital projects or retirement expenditures). While school district officials generally are not limited to the amount of funds to hold in reserves, the balances should be reasonable. Additionally, when a school board sets money aside in reserves, it must comply with the applicable statutory provisions which determine how reserves are established and how they may be funded, expended and discontinued.

To help ensure reserves are not overfunded, officials should plan for funding and using reserves by balancing the desire to accumulate funds for future needs with the obligation to ensure real property taxes are not higher than necessary. Therefore, a school board should adopt a written policy or plan that states its rationale for establishing reserve funds and the objectives for each reserve, maximum targeted funding levels, and conditions under which reserves will be used or replenished. In addition, a school board should conduct periodic reviews of reserve balances to assess reasonableness.

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 plan 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.

Certain funds are required to be set aside and used to pay related debt. New York State Local Finance Law Section 165 and New York State General Municipal Law Section 6-l require school districts to establish a debt reserve if unexpended bond proceeds remain on a capital improvement or if proceeds are received from the sale of a capital improvement that has outstanding debt remaining at the time of the sale. Funds should not be transferred to a debt reserve unless they are required to be restricted and used for debt principal and interest payments.

The Board Did Not Properly Manage Reserve Funds

As of June 30, 2022, the District reported six general fund reserves¹ with cumulative balances totaling \$4.5 million and a debt reserve of \$1.2 million that was accounted for in the debt service fund (Figure 1).

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 plan for funding reserves.

¹ As of June 30, 2022, the District had two capital reserves: one had a balance of \$1,331,746 and the other had a balance of \$441,264.

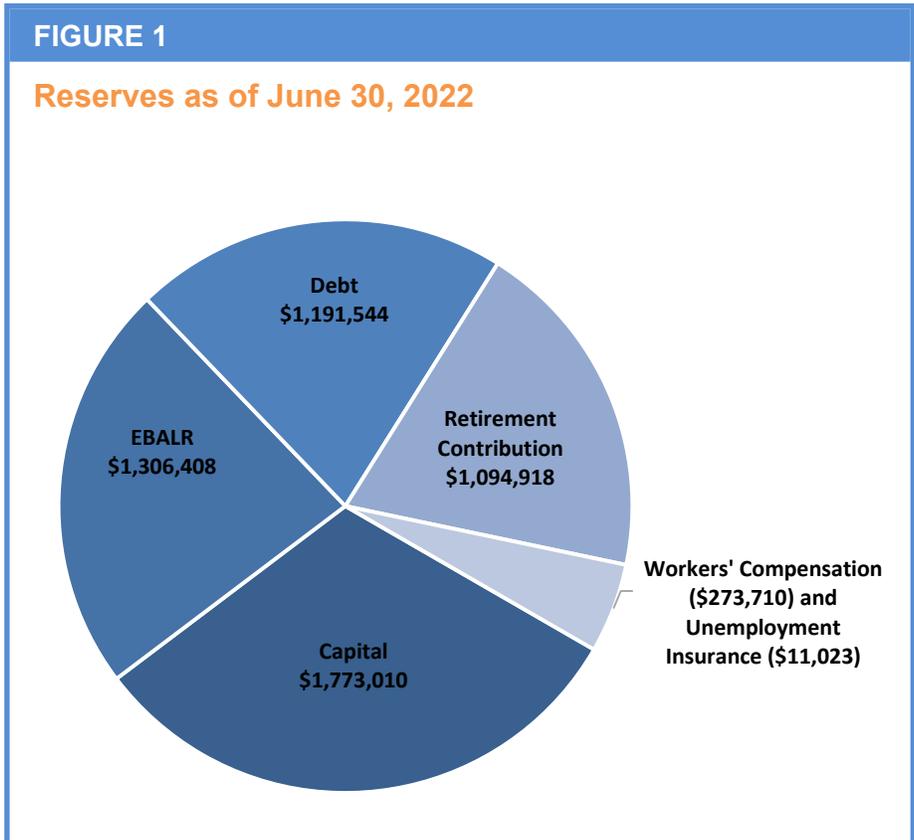
The District does not have a written reserve fund policy. While the Business Administrator developed a written reserve fund plan during the 2020-21 fiscal year and shared it with the Board, the Board did not adopt or approve the plan. The Business Administrator believed creating and sharing the plan with the Board was sufficient and that it was not necessary for the Board to approve and adopt the plan.

The plan includes the year each reserve was established (except the debt reserve) and its purpose, funding methods and targeted funding levels. It also includes historical reserve fund ending

balances from the 2017-18 through 2019-20 fiscal years and the estimated ending balances for the 2020-21 fiscal year.

However, the plan has not been updated since it was originally prepared. Without an approved, adopted and updated reserve fund plan, the Board's ability to make informed decisions regarding the funding and use of the reserve funds is likely limited. In addition, because the Board did not adopt a reserve plan, the Board's intentions for using and funding reserves are not as transparent to the public as they could be, and it is unclear whether the Board is in agreement with the plan.

We reviewed the reserve balances for reasonableness and adherence to requirements in statute. As discussed in more detail later in the report, we found that the EBALR was significantly overfunded and over \$1.2 million was improperly transferred from the reserve. In addition, \$136,208 was improperly transferred to the debt reserve in the debt service fund and transfers totaling \$244,418 were made to the retirement contribution reserve without the required Board authorization. We discussed minor discrepancies regarding the funding, establishment or use of the reserve funds with District officials and found no other significant exceptions.



EBALR – An EBALR is authorized to be used for the cash payment of accrued and unused sick, vacation, and certain other leave to employees upon separation from service and expenditures related to the administration of the reserve. If a school district determines that its EBALR is no longer needed, the funds remaining in the reserve may be transferred to another authorized reserve(s), but only to the extent that the funds exceed the amount needed to pay all current or accrued liabilities. Prior to discontinuing an EBALR, the school district’s fiscal and legal officers must certify to the board the amount that may be necessary to retain in the reserve to satisfy all such liabilities. At that point, any excess funds over the certified amount may be transferred to another reserve(s).

The Board passed a resolution in June 1999 to establish an EBALR in an amount not to exceed \$300,000. However, the District had over \$2.5 million in its EBALR as of July 1, 2018 (the beginning of our audit period). This amount significantly exceeded the maximum targeted funding level set by the Board and the amount the District needed in the reserve. The Business Administrator told us that the Board may have approved an increase to the original established limit; however, she was unable to provide a Board resolution authorizing an increase.

For the 2018-19 fiscal year, the Board and District officials budgeted to use \$305,000 from the EBALR and transferred the same amount to the general fund’s surplus fund balance at the end of the 2018-19 fiscal year. However, the District only paid \$16,803 in eligible leave-related expenditures that year. Therefore, \$288,197 (94 percent) of the amount transferred from the reserve was not allowed. The Business Administrator told us that she believed the EBALR could be used for any retirement incentive, including those not based on leave. Although the District paid an additional \$35,000 for service awards to retiring employees during the year, this was not an eligible use of the EBALR. Furthermore, the total of the payments (\$51,803) for unused leave time and the ineligible service awards was still far less than the \$305,000 transferred from the EBALR.

In June 2021, the Board approved a transfer of \$926,117 from the EBALR to one of the capital reserves. However, this transfer was improper because the Board did not discontinue the EBALR and did not certify the amount that needed to remain in the reserve to pay associated liabilities. The Business Administrator told us that they transferred the excess funds to the capital reserve upon the external auditors’ recommendation; however, the Board and officials did not meet all the necessary requirements for making the transfer. In addition, using EBALR funds for purposes other than for which they are legally allowed is inappropriate and misleading to taxpayers.

As of June 30, 2022, the reserve had a balance of \$1.3 million, which was \$1 million greater than the \$300,000 maximum funding limit set by the Board. The Treasurer provided a report showing the estimated liability for accumulated unused sick days totaled approximately \$662,000. However, we determined

this balance was incorrect because some of the rates used in the calculation were wrong and some employees were incorrectly omitted from the report. We recalculated the estimated liability to be approximately \$635,000. Even if the Board removed its maximum funding level, based on our calculation of the estimated liabilities, the EBALR would still have been overfunded by approximately \$671,000.

Even though the EBALR has been overfunded for a number of years and the Board annually included provisions in the budgets to use the reserve, officials did not use the reserve to pay \$173,487 in eligible expenditures for unused sick leave in the 2019-20 through 2021-22 fiscal years. Had officials used the EBALR for these expenditures, they could have reduced the amount of excess funds that were restricted in the reserve and used the general fund resources for other purposes.

Debt Reserve – During the 2017-18 and 2018-19 fiscal years, the District transferred \$716,208 from a general fund capital reserve to the capital projects fund for a parking lot capital project. When the project was closed out in the 2019-20 fiscal year, the excess funding of \$136,208 was transferred to the debt reserve in the debt service fund. However, a general fund capital reserve provided all of the funding for the project and the District did not issue any debt for the project. Therefore, the residual funds should have been transferred back to the capital reserve and not to the debt reserve.

Because officials overfunded the EBALR and the debt reserve, they may have withheld funds from being used to meet District needs and missed opportunities to lower the property tax burden.

Retirement Contribution Reserve – From the 2018-19 through 2021-22 fiscal years, the District reported between \$896,700 and \$1.1 million in the retirement contribution reserve and made no expenditures from it. While the reserve balance is reasonable; the Business Administrator transferred \$244,418 into the reserve during this period without Board approval (Figure 2).

Figure 2: Unauthorized Transfers to the Retirement Contribution Reserve

Year	Amount
2018-19	\$24,471
2019-20	165,996
2020-21	0
2021-22	53,951
Total	\$244,418

The Business Administrator told us she was unaware she needed Board approval to transfer funds to reserves. The Board President told us although the Board does not approve all of the reserve transfers, the Business Administrator keeps the Board informed. However, when the Board does not pass resolutions authorizing transfers to reserves, the transfers may not be transparent to the public and funding may exceed the amount the Board intends.

What Do We Recommend?

The Board and District officials should:

1. Update and adopt a written reserve plan or policy that addresses the objective of each reserve, targeted funding levels and conditions under which reserves will be used and replenished, and periodically update the plan/policy.
2. Periodically review reserve balances to help ensure the amounts are reasonable.
3. Ensure the EBALR is only used for allowable expenditures and consult with legal counsel on the appropriate remedy to address the improper use of the EBALR and improper transfer from the EBALR to the capital reserve.
4. Transfer the funds that are improperly maintained in the debt reserve in the debt service fund to the general fund capital reserve that the funds originated from.
5. Ensure that Board approval is obtained prior to transferring funds to reserves.

Appendix A: Response From District Officials



Kevin F. Seymour
Superintendent of Schools
Shelley H. Fitzpatrick
Business Administrator

**Board of
Education:**

John Shelmidine
President
Joseph Hathway
Vice-President
Heidi Metott
Andrea Harris
Michele Warner
Kevin Halsey
John Macklen

Timothy Filiatrault
Elementary School Principal
Steven Newcombe
Middle/High School Principal
Amy Howard-
McCormack
Director of Curriculum,
Instruction & Data.

Sandy Creek Central School District

“Comet Pride is Community-Wide!”

June 15, 2023

Via E-Mail (caps@osc-state.ny.us) & First Class Mail

Rebecca Wilcox, Chief of Municipal Audits
Office of the New York State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

RE: Sandy Creek Central School District

Dear Ms. Wilcox and Taxpayers of Sandy Creek Central School District:

The Sandy Creek Central School District is in receipt of the Draft Audit Report *Reserve Management for the Audit Period July 1, 2018 – January 25, 2023*, prepared by the Office of the State Comptroller.

As expected, the audit did not uncover any instance of fraud, or malfeasance with the School District’s financial management. The School district has reviewed the Comptroller’s findings and recommendations from this audit. While the District has endeavored over many years to be very transparent regarding the establishment, funding and uses of reserves; especially throughout every budget season with multiple presentations; the District acknowledges that formal board resolutions and actions may not have been obtained and recorded. The Board of Education and all those that attended board meetings were made well aware of all of the District Reserve funds and how they are used to supplement the District’s financial position, particularly in non-election years when New York State school aid increases are minimal or sparse.

We thank the Comptroller’s office for their recommendations, and will consider these suggestions as we develop the required corrective action plan for these findings.

Sincerely,

Kevin F. Seymour
Superintendent of Schools

P.O. Box 248, 124 Salisbury Street, Sandy Creek, NY 13145 • (315) 387-3445; Fax (315) 387-2196

Appendix B: 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 reviewed Board meeting minutes to gain an understanding of the District's management of reserves and whether the Board has adopted a written reserve fund policy or plan.
- We examined Board resolutions and voter propositions to establish capital reserves to determine whether reserves were properly established.
- We reviewed reserve fund balances as of June 30, 2022 and also reviewed the reserve fund plan, historical expenditures, propositions and other records to assess whether the reserves were funded reasonably.
- We reviewed all expenditures and transfers to and from the reserves from 2018-19 through 2021-22 to determine whether they were appropriate.
- We reviewed the District's compensated absence liability report and recalculated the total.

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 C: 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

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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

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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

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

SYRACUSE REGIONAL OFFICE – Rebecca Wilcox, Chief of Municipal Audits

State Office Building, Room 409 • 333 E. Washington Street • Syracuse, New York 13202-1428

Tel (315) 428-4192 • Fax (315) 426-2119 • Email: Muni-Syracuse@osc.ny.gov

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