



Bemus Point Central School District Reserve Funds

Report of Examination

Period Covered:

July 1, 2009 — August 27, 2014

2014M-281



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2014

Dear School District Officials:

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

Following is a report of our audit of the Bemus Point Central School District, entitled Reserve Funds. 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 Bemus Point Central School District (District) is located in the Towns of Ellery, Ellicott and Gerry in Chautauqua 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 chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District employs a Business Manager who is responsible for monitoring day-to-day fiscal operations and preparing and monitoring the budget.

There are two schools in operation within the District, with 745 students and 126 employees. The District's budgeted appropriations for the 2014-15 fiscal year are \$12.9 million, which are funded primarily with State aid and real property taxes.

Objective

The objective of our audit was to evaluate the District's reservation of fund balance. Our audit addressed the following related question:

- Did the District properly establish its reserve funds?

Scope and Methodology

We examined the District's financial records and reports for the period July 1, 2009 through August 27, 2014.

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

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our 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 (GML), Section 2116-a (3)(c) of the New York State Education Law (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.

Reserve Funds

The Board and District officials have a responsibility to ensure that all District resources, including fund balance, are classified and reported correctly and maintained within legally established limits. Fund balance plays a key role in managing a district's operations. It can be set aside in approved reserve funds to finance certain specified future expenditures or can be maintained within legally established limits¹ to address unforeseen expenditures. Reserve funds are generally created under GML and Education Law. These statutes determine how the reserves may be funded, expended and discontinued.

As of June 30, 2014 the District reported six reserves totaling \$1,374,847. We found that the District properly established, in accordance with statute and through Board resolution, the following five of the six reserves: workers' compensation (\$197,410), unemployment insurance (\$199,818), retirement contribution (\$144,125), insurance (\$308,287) and tax certiorari (\$80,662).

We found that the District's retiree health insurance reserve, which totals \$444,545, is not a legally permissible reserve. Currently, there is no statutory authority for a district to establish a reserve for post-employment benefits that are not based on employees' earned and unused leave time.² The District established this reserve to fund the District's portion of retiree health insurance premiums³ based on the recommendation of its external auditors. According to collective bargaining agreements, the District contributes either 75 percent or 100 percent towards a retiree's health insurance premium for a specified period of time after the employee retires from the District. The District spends an average of \$94,000 annually for retiree health insurance premiums, paying the expenditure directly from this restriction of fund balance. The District's Business Manager stated that they were not aware that there was no authority for the establishment of such a reserve since the District's external auditors suggested it. The District cannot reserve funds without statutory authority.

¹ New York State Real Property Tax Law establishes a limit on unrestricted fund balance of 4 percent of the ensuing year's budgeted appropriations.

² An employee benefit accrued liability reserve (EBALR) is authorized by GML to reserve money for the payment of employee benefits based on accrued leave time and paid to employees when they separate from service. However, the District did not establish this reserve as an EBALR and made no mention to the applicable section of GML in the Board resolution establishing the reserve.

³ The Board adopted a resolution on May 8, 2000 for the establishment of the retiree health insurance reserve.

Because there is no statutory authority for this type of reserve, the improperly restricted amounts must be included in the District's unrestricted fund balance. Had the funds been properly reported, the statutory limit would have been exceeded for all five years reviewed. As of June 30, 2014, the District had unrestricted fund balance totaling \$506,554, and the reserve fund had a balance of \$444,545. If the funds were properly reported, unrestricted fund balance would have totaled \$951,099, which is 7 percent of the ensuing year's budgeted appropriations, exceeding the statutory limit of 4 percent by more than \$434,012, about 84 percent more than allowed.

Recommendations

The Board should:

1. Ensure that amounts improperly restricted are properly classified as unrestricted fund balance.
2. Develop a plan for the use of the excess fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to, paying off debt, financing one-time expenditures and reducing District property taxes.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

BEMUS POINT CENTRAL SCHOOL DISTRICT

P. O. BOX 468

BEMUS POINT, NEW YORK 14712-0468

TELEPHONE 716-386-2375

MICHAEL E. MANSFIELD
Superintendent of Schools

November 17, 2014

NYS Office of the State Comptroller
Jeffery D. Mazula, Chief Examiner
295 Main St., Suite 1032
Buffalo NY 14203-2510

Dear Mr. Mazula:

This correspondence is the official response from the Bemus Point Central School District Board of Education to the draft report "Reserve Funds for the period July 1, 2009 – August 27, 2014". Due to the limited nature of the findings reported, this letter will also include our Corrective Action Plan.

The report specifically cites our Retiree Health Insurance reserve and states that there is no statutory authority for establishment of this reserve. The District was unaware of this, and created this reserve under the recommendation of our external auditor to fund the liability of retiree health insurance under our five collective bargaining agreements. We will be implementing the corrective action plan below to correct this problem.

Corrective Action Plan:

Recommendation: Ensure that amounts improperly restricted are properly classified as unrestricted fund balance. Develop a plan for the use of the excess fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to: paying off debt, financing one-time expenditures and reducing District property taxes.

The District will close this reserve into the unrestricted fund balance as recommended. However, because this reserve contains funds for actual annual liabilities specific to employees who have retired prior to June 30, 2014, the District will be adjusting the appropriated fund balance annually to cover these anticipated expenses. We estimate that at the end of this fiscal year, June 30, 2015, the remaining balance of this reserve would be approximately \$331,000. By adjusting our appropriated fund balance to cover the annual expense of our retirees, we anticipate that our unrestricted fund balance for next year will be just over 5% and should be within the 4% limit no later than June 30, 2017. We feel that utilizing this process will cover our liability without any negative effect on our taxpayers.

We are currently in negotiations with our employees to make adjustments to the accounting of this benefit for future retirees.

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The Board of Education and the District appreciate the services of the Comptroller's Office in assisting school districts in efficient management and reporting of district finances.

Sincerely,

Michael E. Mansfield
Superintendent

EXTRACT OF MINUTES

Meeting of the Board of Education of the Bemus Point Central School District
In the County of Chautauqua, New York, November 17, 2014.

A regular meeting of the Board of Education of the Bemus Point Central School District, in the County of Chautauqua, New York, was held within said School District, on November 17, 2014, at five thirty o'clock prevailing time.

There were present: John Novotny, Vice President

Board Members: Barry Swanson
 Randall Oste
 Tina Hall
 Bethany Seastrum
 Debra Raynor

Also Present: Michael E Mansfield, Superintendent
 Charity Mucha, District Clerk

Motion was made by Oste and seconded by Seastrum, to approve the Corrective Action Plan outlined in the Districts response letter to the Comptrollers Audit for the period of July 1, 2009-August 27, 2014, as recommended by the Superintendent.

Motion carried unanimously.

Respectfully Submitted,

Charity A. Mucha, District Clerk

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our objective was to determine if the District properly established its reserve funds. To accomplish our audit objective and obtain audit evidence, our procedures included the following:

- We reviewed applicable laws, collective bargaining agreements, Board policies, Board minutes and external auditor engagement letters.
- We interviewed District officials and the external auditor to gain an understanding of District operations related to reserve funds.
- We reviewed Board resolutions to determine if the Board had properly established the reserve funds reported as of June 30, 2014.
- We reviewed the District's financial records, such as balance sheets and general ledgers, to document the balance of the retiree health insurance reserve.
- We reviewed Board resolutions approving the addition of funds to the retiree health insurance reserve and compared them to documentation supporting the amounts, such as lists of retired employees and the District's share of applicable health insurance premiums.
- We reviewed payments made from the retiree health insurance reserve and compared them to invoices and District calculations for the amount of retiree health insurance premiums, based on the retirees' elections for health insurance.
- We calculated the adjusted unrestricted fund balance based on improperly restricted funds and compared it to original budgets.

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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