



Gorham-Middlesex Central School District Multiyear Planning

Report of Examination

Period Covered:

July 1, 2014 – March 23, 2016

2016M-177



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Gorham-Middlesex 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 Gorham-Middlesex (also known as Marcus Whitman) Central School District (District) is located in the Towns of Gorham, Hopewell and Seneca in Ontario County and the Towns of Benton, Italy, Jerusalem, Middlesex and Potter in Yates County. The District is governed by the Board of Education (Board), which is composed of nine elected members. The Board is responsible for the general management and control of 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 Business Official is responsible for overseeing the District's financial operations under the direction of the Superintendent and the Board.

The District operates four schools¹ with approximately 1,250 students and 460 full- and part-time employees. During the 2014-15 fiscal year, the District had operating expenditures of approximately \$29.31 million, funded primarily by State aid and real property taxes. The District's budgeted appropriations for the 2015-16 fiscal year are approximately \$31.46 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 that incorporate appropriately established and funded reserves to adequately manage the District's future needs?

Scope and Methodology

We examined the District's multiyear planning for the period July 1, 2014 through March 23, 2016. We also extended our scope back to July 1, 2012 to review reserve fund activity.

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.

¹ Two elementary, one middle and one high school

**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 findings and recommendations and indicated they planned to initiate, or have initiated, 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

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 developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. Multiyear plans also allow District officials to assess the effect and merits of alternative approaches to address financial issues such as the use of unrestricted fund balance to finance operations and the accumulation of money in reserve funds. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide the necessary guidance to employees on the financial priorities and goals set by District officials. Additionally, to be most effective, 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 multiyear financial plans that include revenue and expenditure projections as well as the anticipated use of reserve funds to aid in future budget preparations. The District has also developed a separate reserve plan that includes details regarding the anticipated use of reserve funds for a five-year period. However, this plan does not include information related to funding and maintaining the individual reserve funds. District officials also have not prepared a formal analysis of reserve funds based on the District's projected needs, as required by the reserve policy. In addition, District officials have not developed a formal, documented multiyear capital plan. District officials informed us that they plan to develop a formal, multiyear capital plan once the building condition survey² is received, which is expected by the end of the 2015-16 fiscal year.

Because District officials have not developed multiyear plans that adequately detail their intentions for accumulating, maintaining and using reserve funds as a financing source for future needs, we performed an analysis of reserves. As of June 30, 2015, the District's reserve funds totaled \$6 million, or approximately 17 percent of the total budgeted appropriations for the 2015-16 fiscal year. Two of the reserves – unemployment insurance and liability – have balances that are excessive or unnecessary based on the District's needs.

- Unemployment Insurance Reserve – This reserve was

² A draft of the building condition survey was provided during audit fieldwork.

established under General Municipal Law (GML) on November 3, 2003 to reimburse the State Unemployment Insurance Fund (SUIF) for payments made to claimants. If, at the end of any fiscal year, funds 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 balance in the reserve fund as of June 30, 2015 was approximately \$472,600 which represents more than 26 years of the District's average annual expenditures of \$17,800³ or enough to cover 43 employees for one year at the current maximum reimbursement rate.⁴ Overall, there was a net increase of \$8,595 in this reserve during the last three fiscal years. Therefore, we question the necessity of the balance in this reserve.

- Reserve for Liability – This reserve was established under New York State Education Law on June 12, 1995 to cover property loss and liability claims. The balance in the reserve as of June 30, 2015 was approximately \$600,200. With the exception of allocated interest, for the last three fiscal years, the funds have not been used and the reserve has not received any additional funding. Furthermore, the District maintains adequate liability insurance coverage which would limit the need for the excess funds being held in this reserve. Therefore, given the District's current insurance coverage and lack of use of the reserve, we question the reasonableness of the reserve's balance.

While we found the balances in these two reserves to be excessive or unnecessary, we found that the preliminary results of the District's building condition survey have identified the need for approximately \$33 million in capital improvements in the coming years. District officials stated that they plan to seek voter approval in May 2016 to establish a capital reserve fund for future capital projects resulting from the building condition survey. Therefore, any excess amounts in the District's existing reserve funds may be better used to finance a portion of the local share⁵ of these future capital needs as part of a capital reserve.

³ Based on the District's average expenditures over the three-year period from fiscal years 2012-13 through 2014-15

⁴ \$11,050, or \$425 per week for 26 weeks

⁵ The portion of approved project costs for which the District does not receive State aid

The lack of adequate multiyear plans limits the District's ability to effectively manage its finances and address the District's future needs without overburdening residents. Additionally, by not developing effective and comprehensive long-term plans, the District risks not being adequately prepared for any potential adverse future economic or environmental changes. The development of adequate multiyear plans is increasingly important due to legislative changes in recent years⁶ which limit the ability of school districts to finance their operations through tax increases. Consequently, District officials must remain cognizant of future needs and available revenue streams when developing strategic multiyear plans.

Recommendations

The Board and District officials should:

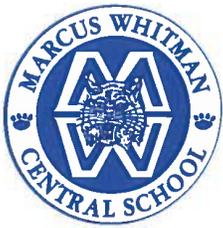
1. Develop and adopt a multiyear capital plan for a three- to five-year period that addresses the anticipated timeline for completion of capital improvements, funding sources for these projects and any economic or environmental factors which could affect the plan.
2. Adopt a reserve fund plan that addresses the accumulation, use and maintenance of reserve funds and analyze existing reserve levels. If necessary, make statutorily allowed transfers between reserve funds to best align funds with long-term needs and/or use the funds to reduce the tax levy.

⁶ In 2011, the New York State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap. Under this legislation, the property tax levied annually generally cannot increase more than 2 percent or the rate of inflation, whichever is lower, with some exceptions. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, the budget must be approved by 60 percent of the votes cast.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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Audit: Multiyear Planning
Audit #: 2016M-177

Dear Mr. Grant:

This letter serves as the response letter and we have also included our Corrective Action Plan for the recently completed State Comptroller's audit. The audit included an examination of our multiyear plan going back to July 1, 2014 and an analysis of our reserves going back to July 1, 2012.

The Gorham-Middlesex (Marcus Whitman) Central School District recognizes that the liability and unemployment reserves that were specifically noted in the audit may have excessive balances based on the district needs. It must also be noted that the overall amount in reserves is not excessive. The District agreed that the unemployment reserve should be reduced based on the district's historical unemployment cost and forecasting future cost. The Board of Education, in June 2016, approved a transfer from the unemployment reserve to the newly established capital reserve which was approved by the voters in May 2016. It has been the District's intention since our last project, which was completed in the fall of 2015, to move funds from certain reserves into a capital reserve to prepare for our next building project.

The liability reserve was also questioned during the audit for having an unreasonable balance based the historical activity and, as the audit report noted, the district maintaining adequate liability insurance. The district agrees that this reserve has not seen activity over the past several years and that our current liability insurance does provide adequate coverage for potential liabilities. At this time, the district will be analyzing our insurance coverage and discuss future potential liabilities, including those that may be a reflection of recently established policy and/or legislation by the State and Federal government. The board of education will annually review and make any necessary adjustments to this reserve.

"Together We Can"

As you can see, the District has already taken some action based on the audit findings in this report. The district Corrective Action Plan is included on the following page.

We would like to thank the Audit Team for their cooperation, their suggestions and for their feedback during the audit.

Respectfully Submitted,

Jeramy Clingerman
Superintendent of Schools



MARCUS WHITMAN CENTRAL SCHOOL DISTRICT

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Sheila Brown
President
Board of Education

Unit Name: Gorham- Middlesex Central School District

Audit Report Title: Multiyear Planning

Audit Report Number: 2016M-177

Audit Recommendation (1):

Develop and adopt a multiyear capital plan for a three- to five year period that addresses the anticipated timeline for completion of capital improvements, funding sources for these projects and any economic or environmental factors which could affect the plan.

Implementation Plan of Action:

The Board of Education will begin to develop a three- to five year plan with an anticipation board adoption in June 2017. The plan will include the prioritized capital improvements identified within the district June 2016 Building Condition Survey, a timeline for completion and the funding for these improvements. The Board of Education or a committee of the board will review the plan annually and some capital improvements that have been identified may be addressed each year dependent upon the district's financial status.

Implementation Date: June 30, 2017

Person Responsible for Implementation: Business Official

Audit Recommendation (2):

Adopt a reserve fund plan that addresses the accumulation, use and maintenance of reserve funds and analyze existing reserve levels. If necessary, make statutorily allowed transfers between reserve funds to best align funds with long-term needs and /or use the funds to reduce the tax levy.

Implementation Plan of Action:

The Board of Education will adopt a reserve plan and annually review and approve the plan. The plan will address the accumulating balances, the use and maintenance of the reserve fund and the level of funding of the existing reserves. Upon the annual review the Board of Education if necessary will approve allowable transfers between reserves to align the funds to address the district needs and/or to maintain or reduce the tax levy.

Implementation Date: July 2016

Person Responsible for Implementation: Business Official

"Together We Can"

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and employees to gain an understanding of the District's financial operations, including reserve funds and multiyear planning.
- We reviewed Board minutes and policies related to reserve funds and long-term planning.
- We reviewed the District's multiyear financial and reserve fund plans for adequacy.
- We reviewed the District's reserve funds to determine if they were legally established and if balances were reasonable and necessary based on historical trends of funding, associated expenditures and past use.

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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