



# Panama Central School District Financial Management

## Report of Examination

Period Covered:

July 1, 2012 – July 19, 2016

2016M-271



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

December 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 Panama Central School District, entitled Financial Management. 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 recommendation 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 Panama Central School District (District) is located in the Towns of Busti, Harmony, North Harmony and Sherman in Chautauqua County. 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 (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 Board, Superintendent and Business Official are responsible for the District's annual budget. The Business Official is also responsible for the District's financial records and reports.

The District operates one school with approximately 500 students and 110 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$12.8 million, which were funded primarily with State aid, real property taxes and grants.

## Objective

The objective of our audit was to review the District's financial management practices. Our audit addressed the following related question:

- Did the Board and District officials effectively manage the District's financial condition by ensuring that budget estimates and fund balances are reasonable?

## Scope and Methodology

We examined the financial management of the District for the period July 1, 2012 through July 19, 2016.

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 recommendation 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 recommendation 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.

# Financial Management

The Board, Superintendent and Business Official are responsible for adopting realistic budgets and accurately estimating the amount of fund balance that can be applied as a financing source in the adopted budget. Fund balance represents the cumulative residual resources from prior years that can, and in some cases must, be used to lower property taxes for the subsequent fiscal year. District officials should ensure unrestricted fund balance does not exceed the amount allowed by law. New York State Real Property Tax Law currently limits unrestricted fund balance to no more than 4 percent of the subsequent year’s budget. Any unrestricted fund balance over this percentage should be used to reduce the upcoming fiscal year’s tax levy or to fund reserves. Districts are legally allowed to establish reserves and accumulate funds for certain future purposes (for example, capital projects or retirement expenditures).

The District’s “Maintenance of Fund Balance” policy states, “In order to support normal operating costs and provide fiscal stability for the District, the Board of Education will ... strive to ensure that the unassigned fund balance does not exceed 4% of the current year’s budgeted expenditures.”

The Board and District officials retained excessive levels of fund balance above the statutory limit. From 2012-13 through 2014-15, unrestricted fund balance at fiscal year-end exceeded the statutory limit by 12 to 13 percentage points (Figure 1). The District’s external auditors recommended each year that the District reduce the fund balance levels to comply with the statutory limit, yet the District did not take corrective action.

**Figure 1: Unrestricted Fund Balance at Year-End <sup>a</sup>**

	2012-13	2013-14	2014-15
Beginning Fund Balance	\$4,403,863	\$3,968,874	\$3,712,563
Plus: Operating Surplus/(Deficit)	(\$384,989)	(\$116,411)	(\$193,118)
Less: Use of Reserves	(\$50,000)	(\$139,900)	(\$272,723)
Ending Fund Balance	\$3,968,874	\$3,712,563	\$3,246,722
Less: Appropriated Fund Balance	\$719,814	\$536,675	\$188,750
Less: Restricted Fund Balance (Reserves)	\$1,281,284	\$1,141,384	\$868,612
Less: Encumbrances	\$50	\$50	\$0
Unrestricted Fund Balance at Year-End	\$1,967,726	\$2,034,454	\$2,189,360
Subsequent Year’s Budgeted Appropriations	\$12,198,067	\$12,489,356	\$12,758,023
Unrestricted Fund Balance as a Percentage of Subsequent Year’s Appropriations	16%	16%	17%

<sup>a</sup> District officials improperly accounted for bond proceeds and the use of reserve funds during this three-year period, but subsequently realized the misclassifications and planned to correct the errors. We adjusted the balances in Figure 1 to the extent the balances were impacted by the misclassifications.

From 2013-14 through 2015-16, the District appropriated \$1.4 million in fund balance as a financing source in the annual budgets. This appropriation of fund balance reduced the level of reported unrestricted fund balance at the end of each fiscal year. However, the District only spent approximately \$309,000 of the appropriated fund balance to finance operations during 2013-14 and 2014-15, and we estimate that the District will realize an operating surplus of approximately \$337,000 for 2015-16 and, therefore, will not use any of the \$188,750 of fund balance it appropriated for the 2015-16 budget. Therefore, the District will only use approximately 21 percent of the total appropriated fund balance during these years.

When the unused appropriated fund balance is added back to unrestricted fund balance in the year in which it was appropriated, the recalculated unrestricted fund balance exceeded the statutory limit by 15 to 17 percentage points.

<b>Figure 2: Recalculated Unrestricted Fund Balance at Year-End</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Unrestricted Fund Balance at Year-End	\$1,967,726	\$2,034,454	\$2,189,360
Plus: Appropriated Fund Balance Not Used to Fund Subsequent Year's Budget	\$603,403	\$343,557	\$188,750
Recalculated Unrestricted Fund Balance at Year-End	\$2,571,129	\$2,378,011	\$2,378,110
Subsequent Year's Budgeted Appropriations	\$12,198,067	\$12,489,356	\$12,758,023
Unrestricted Fund Balance as a Percentage of Subsequent Year's Appropriations	21%	19%	19%

We compared budgeted revenues and appropriations against operating results for 2012-13 through 2014-15 and found budget estimates were reasonable. However, as noted above, because the entire amount of the appropriated fund balances<sup>1</sup> were not used, the District has effectively allowed unrestricted fund balance to remain excessive. As a result, real property taxes levied were greater than necessary to fund operations. Although the Board and District officials did not increase the tax levy from 2012-13 through 2014-15, they could have reduced the levy if they had used the unrestricted fund balance that exceeded the statutory limit.

District officials and Board members stated they were aware that unrestricted fund balance exceeded the statutory limit and indicated concern with the excessive level of fund balance. However, they also indicated they are retaining much of the unrestricted fund balance due to uncertainties surrounding a \$500,000 penalty deducted annually from State aid. The New York State Education Department imposed a

<sup>1</sup> For 2016-17 the planned deficit is \$213,913. The Business Official indicated that this amount is equal to the anticipated appropriation that was added to the budget for the purchase of buses.

\$5 million penalty on the District (to be paid in 10 equal installments of approximately \$491,000) for failure to file two required final cost reports after the completion of a building project. To offset the penalty, the District has received special State aid totaling \$2 million (\$500,000 in fiscal years 2013-14 through 2015-16 and notification to receive the same for 2016-17). This funding is approved annually during the State budget process but is not guaranteed.

**Recommendation**

The Board and District officials should:

1. Ensure that unrestricted fund balance complies with the statutory limit and develop a plan to use the surplus funds to benefit residents. These uses can include, but are not limited to:
  - Funding one-time expenditures;
  - Funding needed reserves; 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.

Emily Harvey  
Director of Instruction

Brynne Hinsdale  
Director of Technology

# Panama Central School

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Amanda Kolstee  
District Treasurer

Genevieve Jordan  
District Clerk

**Bert Lictus**  
**Superintendent**

November 16, 2016

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

Dear Mr. Mazula,

On behalf of the Panama Central School District, I would like to thank the Office of the State Comptroller for the assistance received during the review of our fund balance and reserve funds.

The District is in agreement with the recommendations provided in this report. The Board of Education and Administration will review the recommendations of the Report of Examination for the period of July 1, 2012 – July 19, 2016 and prepare a corrective action plan that will improve the current financial practices of Panama Central School District.

After reviewing the recommendations, the District's response to the recommendations are as follows:

Fund Balance:

The District understands the statutory limitations on fund balance and is aware that the fund balance is in excess. Since the Gap Elimination Adjustment was introduced in 2010 and the Tax Cap legislation, the District was motivated to protect the District's financial future.

The Panama Central School District is also subject to a \$4.9 million penalty that was imposed by The New York State Education Department for the failure to submit a final cost report at the conclusion of building projects completed in 2002 and 2005. Uncertainty of take back provisions has created an atmosphere causing the District to maintain an amount in excess of 4%. The District will make every effort to be compliant.

“Panama Central School . . . where we learn and grow together through shared effort and support.”

Thank you for the opportunity to respond to the Report of Examination for the period of July 1, 2012 – July 19, 2016.

Sincerely,

Bert Lictus  
Superintendent

cc: Amanda Kolstee, District Treasurer  
Donald Butler, Board of Education President

## 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 reviewed policies and procedures to gain an understanding of the District's financial management practices.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund for the period July 1, 2012 through June 30, 2015. We projected results of operations through June 30, 2016.
- We reviewed journal entries and general ledger balances to determine if recorded balances were supported and accurately reported and the impact of any misclassifications on operating results and unrestricted fund balance.
- We reviewed the appropriation of reserves and fund balance for the period July 1, 2012 through June 30, 2016.
- We compared the adopted budgets, including any subsequent modifications, with actual operating results for the period July 1, 2012 through June 30, 2015 to assess if the budget assumptions were reasonable. We also reviewed the adopted budget for 2015-16.
- We reviewed tax levy and budget documents to determine the changes in the tax levy for the 2012-13 through 2015-16 fiscal years.

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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