



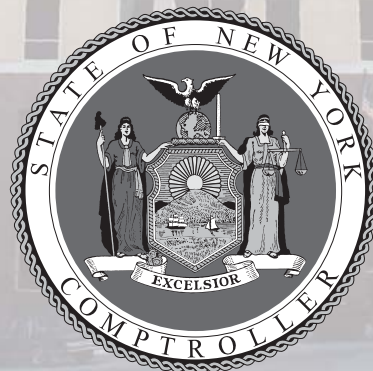
# Rush-Henrietta Central School District Financial Condition and Internal Controls Over Payroll and Purchasing

Report of Examination

Period Covered:

July 1, 2007 — August 31, 2009

2009M-212



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**

January 2010

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 Rush-Henrietta Central School District, entitled Financial Condition and Internal Controls Over Payroll and Purchasing. 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 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*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Rush-Henrietta Central School District (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 (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are nine schools in operation within the District, with approximately 5,880 students and 1,150 employees. The District's budgeted expenditures for the 2008-09 fiscal year were \$99 million, which were funded primarily with State aid, real property taxes, and grants.

#### **Scope and Objectives**

The objectives of our audit were to evaluate the District's financial condition and budgeting practices, and to examine internal controls over payroll and purchasing for the period July 1, 2007 through August 31, 2009. For trend analysis purposes, we examined certain financial and payroll information back to the 2003-04 fiscal year. Our audit addressed the following related questions:

- Did the Board properly manage District finances by ensuring that budgets are realistic and supported and by properly establishing and maintaining reserve funds?
- Did the Board and District officials ensure that internal controls over payroll are appropriately designed and operating effectively?
- Did District officials solicit requests for proposals (RFPs) when procuring professional services?

#### **Audit Results**

The District's budgeting practices have resulted in the District accumulating more than \$22 million<sup>1</sup> in idle funds, much of which should be used to benefit taxpayers. The Board and District officials consistently overestimated expenditures and underestimated revenues, which resulted in annual operating surpluses, and increases to fund balance, totaling \$19.5 million over the last five fiscal years. If the District had used appropriate budgeting practices, real property taxes could have been significantly lower. In fact, there appears to be a pattern of adopting budgets that generate more

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<sup>1</sup> Includes appropriated fund balance of \$3 million; unsupported balances in the unemployment insurance reserve (\$1.9 million) and insurance reserve (\$7.7 million); unauthorized balances in the tax certiorari reserve (\$1.4 million) and other post-employment benefits (OPEB) reserve (\$8 million)

revenue than required for District operations, and then allocating the unused balance to reserve funds in amounts which appear unnecessary and excessive. We also analyzed reserve funds for reasonableness and adherence to statutory requirements and found that they contained \$19 million in unsupported or unauthorized funds.

We found that 21 employees were granted an additional 1,266 days of sick leave without Board approval. Three of the 21 employees have retired and were paid almost \$16,000 for these additional days. The remaining 18 employees are still District employees. Depending on how the additional days are used, the potential current cost is between \$66,000 and \$392,000.

Finally, the Board has adopted a purchasing policy which states that requests for proposals (RFPs) shall be used to secure professional services. However, District officials have not fully implemented or enforced the policy. We reviewed the procurement procedures for four professional service providers who were paid over \$1.9 million during our audit period. We found that the services of three of the providers were procured without the use of RFPs or any other form of competition. These included: attorney services (\$81,458), physician services (\$33,438), and engineering services (\$132,575). Furthermore, while the District had used an RFP for architectural services (\$1,663,037) in the past, District officials indicated that no RFP has been prepared in the last five years. The failure to use RFPs increases the risk that the District will pay more than necessary for professional services.

### **Comments of District Officials**

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 disagreed with our findings and recommendations. Appendix B contains OSC comments on the issues raised in the District's response.

# Introduction

## Background

The Rush-Henrietta Central School District (District) is located in the Towns of Brighton, Henrietta, Pittsford and Rush, in Monroe 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 (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are nine schools in operation within the District, with approximately 5,880 students and 1,150 employees. The District's budgeted expenditures for the 2008-09 fiscal year were \$99 million, which were funded primarily with State aid, real property taxes, and grants.

## Objectives

The objectives of our audit were to evaluate the District's financial condition and budgetary practices and to examine internal controls over payroll and purchasing. Our audit addressed the following related questions:

- Did the Board properly manage District finances by ensuring that budgets are realistic and supported and by properly establishing and maintaining reserve funds?
- Did the Board and District officials ensure that internal controls over payroll are appropriately designed and operating effectively?
- Did District officials solicit requests for proposals (RFPs) when procuring professional services?

## Scope and Methodology

We evaluated the District's financial condition and examined the internal controls over payroll and procurement for the period July 1, 2007 to August 31, 2009. For trend analysis purposes, we examined financial statements and budget reports back to the 2003-04 fiscal year. Also, to establish trends and authorization for payroll transactions, we examined certain payroll-related documents dated back to January 1, 2004.

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 C 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 disagreed with our findings and recommendations. Appendix B contains OSC comments on the issues raised in the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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 Condition

One of the most important tools for managing a district's financial condition is the budget process. District officials must ensure that budgets are prepared, adopted and modified in a prudent manner, accurately depicting the District's financial activity while also using available resources to responsibly lower the tax burden of District residents. Prudent fiscal management also includes maintaining sufficient balances in reserves to address long-term obligations or planned future expenditures. In doing so, District officials should adopt a policy governing its use of reserve funds, and ensure that District voters are fully informed of all reserve funding and activity.

The District's budgeting practices have resulted in the District accumulating more than \$22 million<sup>2</sup> in idle funds, much of which should be used to benefit taxpayers by paying one-time expenditures, funding necessary reserves, reducing debt and/or reducing the tax levy, in accordance with applicable statutory requirements. The Board and District officials consistently overestimated expenditures and underestimated revenues, which resulted in annual operating surpluses, and increases to fund balance, totaling \$19.5 million over the last five fiscal years.<sup>3</sup> However, despite the surplus of revenues over expenditures, the Board increased the District's real property tax levy by over \$5.8 million during the five years. Instead of reducing property taxes, District officials used the excess fund balance generated from operating surpluses to increase various reserve funds. The District did not have a formal plan for the use of its reserves, nor was all reserve activity communicated fully to District voters during the budget process to promote voter awareness. These budgeting practices circumvented statutory controls and resulted in taxpayers paying more than necessary to sustain District operations.

### **Budgeting and Use of Fund Balance**

The Board is responsible for preparing and presenting the District budget to the public for vote. The Board is also responsible for estimating what the District will receive in revenue (i.e., State aid, sales tax), how much fund balance will be available at fiscal year end to fund the ensuing year's operations and, to balance the budget, what the expected tax levy will be. During the period from when the budget is adopted by the voters until the tax levy is established in August, certain information becomes available, such as more accurate State aid estimates, fund balance data and a finalized assessment roll.

<sup>2</sup> Includes appropriated fund balance of \$3 million; unsupported balances in the unemployment insurance reserve (\$1.9 million) and insurance reserve (\$7.7 million); unauthorized balances in the tax certiorari reserve (\$1.4 million) and other post-employment benefits (OPEB) reserve (\$8 million)

<sup>3</sup> 2003-04 through 2007-08



There are three components of fund balance. Reserved fund balance represents moneys that the District has set aside and may only be used for specific purposes and, therefore, is not available for the District to use in any other manner. Unreserved fund balance represents uncommitted funds. The portion of the unreserved fund balance that is used to help finance the next fiscal year's budget is referred to as appropriated fund balance and the remaining portion, which can be used for cash flow purposes and unanticipated expenditures, is unreserved, unappropriated fund balance. Real Property Tax Law currently limits the unreserved, unappropriated fund balance to no more than 4 percent of the ensuing fiscal year's budget.<sup>4</sup> Any fund balance over this percentage should be used to reduce the upcoming year's tax levy.

We compared the District's budgeted revenues and expenditures with actual results of operations for the last four fiscal years and found that the District has underestimated revenues by over \$22 million and overestimated expenditures by a total of \$16 million, for a total budget variance of \$38 million. District officials were unable to provide justification for these unrealistic estimates. For example:

- District officials consistently underestimated State aid by a range of 12 to 19 percent over the four years, with an underestimate of \$4.1 million (17 percent) in 2007-08.
- District officials also consistently overestimated expenditures including instructional teaching—regular school and students with disabilities over the last four completed fiscal years by an average of 8 and 11 percent respectively.<sup>5</sup>
- District officials significantly overestimated costs for interest on debt service payments for three out of the four years by 30 to 50 percent; even though annual interest on debt service is established per debt service schedules and is a fixed amount.

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<sup>4</sup> In July 2007, legislation was enacted to change the Real Property Tax Law statutory limit of unappropriated, unreserved fund balance to 3 percent of the 2007-08 fiscal year's budget and 4 percent of the 2008-09 fiscal year's budget and for years after. Prior to this, the limit was 2 percent.

<sup>5</sup> The teaching-regular school variance has ranged from \$1.47 million to more than \$2.4 million and the students with disabilities variance has ranged from \$1.15 million to more than \$1.47 million.

<b>Fiscal Year</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>Total</b>
Estimated Revenue <sup>(1)</sup>	\$82,507,644	\$86,818,643	\$89,376,300	\$92,589,455	\$351,292,042
Actual Revenue	\$88,030,402	\$92,419,828	\$95,122,685	\$97,976,747	\$373,549,662
Underestimated Revenue	\$5,522,758	\$5,601,185	\$5,746,385	\$5,387,292	\$22,257,620
Appropriations <sup>(2)</sup>	\$84,877,550	\$87,918,678	\$91,168,335	\$94,806,490	\$358,771,053
Actual Expenditures <sup>(2)</sup>	\$79,971,415	\$83,265,642	\$86,526,300	\$92,865,881	\$342,629,238
Overestimated Expenditures	\$4,906,135	\$4,653,036	\$4,642,035	\$1,940,609	\$16,141,815
<b>Total Budget Variance</b>	<b>\$10,428,893</b>	<b>\$10,254,221</b>	<b>\$10,388,420</b>	<b>\$7,327,901</b>	<b>\$38,399,435</b>
<sup>(1)</sup> Does not include appropriated fund balance, which is a financing source not a revenue <sup>(2)</sup> Does not include interfund transfers, as these moneys were actually transfers from the capital reserve fund to the capital project fund, which are not qualified as actual general fund expenditures					

The District has appropriated fund balance each year to reduce the tax levy, which should have resulted in planned operating deficits each year. However, because the District has consistently underestimated revenues and overestimated expenditures, the District has instead experienced operating surpluses in four of the last five years, with actual revenues exceeding actual expenditures by more than \$19.5 million over the last five fiscal years.

<b>Fiscal Year</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>Total</b>
Actual Revenue	\$82,994,063	\$88,030,402	\$92,419,828	\$95,122,685	\$97,976,730	\$456,543,708
Actual Expenditures	\$76,391,831	\$81,329,116	\$93,990,492	\$90,947,477	\$94,312,159	\$436,971,075
Operating Surplus	\$6,602,232	\$6,701,286	(\$1,570,664)	\$4,175,208	\$3,664,571	\$19,572,633
Appropriated Fund Balance	\$3,000,000	\$2,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$14,000,000
Unreserved, Unappropriated Fund Balance at June 30	\$7,719,529	\$8,632,333	\$1,857,678	\$2,877,301	\$3,840,096	
Percentage of Fund Balance to Ensuing Year's Appropriations	9%	10%	2%	3%	4%	

As a result of consistent use of unrealistic budget estimates, the District's unreserved, unappropriated fund balances significantly exceeded the legal limit in the 2003-04 and 2004-05 fiscal years by approximately \$6 million and \$6.8 million, respectively. District officials reduced the excessive fund balances by allocating significant amounts to various reserve funds. However, while the District's unreserved, unappropriated fund balance did not exceed statutory limits for the most recent three years, the practice of consistently appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is neither regulated by

statute nor subject to the statutory limit for unreserved, unappropriated fund balance. If District officials had not appropriated fund balance in these five fiscal years, unreserved, unappropriated fund balance would have exceeded statutory limitations. In addition, although revenues exceeded expenditures in four of the last five fiscal years, the Board increased the tax levy in all except the last of the five fiscal years by 11 percent from approximately \$53.3 million in 2003-04 to approximately \$59.1 million in the 2008-09 budget.

At the end of our fieldwork,<sup>6</sup> we reviewed the preliminary financial information for the fiscal year ended June 30, 2009 and found that the District had an operating surplus of approximately \$2.1 million. We further analyzed the adopted budget for the 2009-10 fiscal year. We found that District officials used consistent budgeting practices, and again appropriated only \$3 million of fund balance. Furthermore, District officials allocated additional moneys to reserve funds totaling \$3.89 and \$4.3 million in August 2008 and 2009, respectively. Therefore, we expect the financial trends exhibited in the previous five fiscal years to continue.

## Reserves

Reserve funds may be established by Board action, pursuant to various laws, and are used to provide financing only for specific purposes, such as for capital projects and unemployment insurance payments. The statutes pursuant to which the reserves are established determine how the reserves may be funded, expended, or discontinued. Generally, school districts are not limited as to how much money they can maintain in reserves. However, it is important that school districts maintain reserve balances that are reasonable. To do otherwise, that is funding reserves at greater than reasonable or necessary levels, essentially results in making real property tax levies higher than necessary. Therefore, a governing board that establishes and funds reserves on a regular basis should adopt a written policy that communicates its rationale for establishing reserve funds, objectives for each reserve established, optimal or targeted funding levels, and conditions under which the fund's assets will be used or replenished. Ideally, transfers to reserve funds should be specifically included in the annual adopted budget and not routinely funded at year end through excess fund balance. Making clear provisions to raise resources for reserve funds in the proposed budget will give voters and residents the opportunity to know the Board's plan for funding reserves, which increases transparency.

District officials have used a portion of the District's annual operating surpluses to fund various reserves. As of June 30, 2008, the District had accumulated reserve fund balances totaling over \$30.8 million,

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<sup>6</sup> August 31, 2009

including an \$8.3 million other post-employment benefits<sup>7</sup> (OPEB) accrued liability reserve in the trust and agency fund.

Reserves	Balance as of June 30th				
	2004	2005	2006	2007	2008
Unemployment Insurance	\$1,815,747	\$1,837,187	\$1,888,442	\$1,957,007	\$1,992,095
Workers' Compensation	\$520,956	\$1,708,074	\$1,232,163	\$1,361,361	\$1,481,577
Insurance	\$0	\$4,397,749	\$8,069,083	\$7,431,288	\$7,743,526
Tax Certiorari	\$917,912	\$801,082	\$580,137	\$857,674	\$1,445,347
Capital	\$5,418,643	\$5,340,979	\$5,900,286	\$8,168,804	\$9,758,445
OPEB (EBALR) <sup>(1)</sup>	\$7,183,235	\$7,417,029	\$7,703,874	\$8,083,484	\$8,383,406
<b>Total</b>	<b>\$15,856,493</b>	<b>\$21,502,100</b>	<b>\$25,373,985</b>	<b>\$27,859,618</b>	<b>\$30,804,396</b>

<sup>(1)</sup>This amount was erroneously reported as an employee benefit accrued liability reserve (EBALR) by the District, when it truly represented funds set aside for future OPEB liabilities for retirees' health insurance. An EBALR is used to fund payments for compensated absences for employee leave.

We evaluated these reserve funds for reasonableness and adherence to statutory requirements. We found that the District did not have adequate documentation to support the need for the substantial balances in the unemployment insurance, tax certiorari, workers' compensation and insurance reserves, and that all of the moneys in the EBALR were actually set aside to fund OPEB liabilities, which is not allowed by law.

Unemployment Insurance Reserve – This type of reserve is used to fund payments made when a district elects to reimburse the State Unemployment Insurance Fund (SUIF) for actual claims filed. A Board resolution is required to establish an unemployment insurance reserve. The District created the reserve over 25 years ago. District officials were unable to provide us with a Board resolution establishing this reserve. As of June 30, 2008, this reserve had a balance of \$1.9 million, which was much larger than necessary based on past liabilities. District officials indicated they originally set aside enough money to earn sufficient interest to cover annual unemployment insurance expenditures. However, during the last five fiscal years, the District has expended, on average, only \$26,915 per year for unemployment insurance benefits. District officials did appropriately budget for the use of this reserve as a funding source to cover unemployment insurance expenses<sup>8</sup> and charged such expenditures against the reserve each year. However, this reserve's current balance is sufficient to cover the District's average annual expenditures for approximately 74 years. In fact, over the last five years, the average annual interest earned on this reserve was over

<sup>7</sup> OPEB are employee benefits other than pensions – primarily health care benefits – that are received after employment ends.

<sup>8</sup> The budgeted use of \$50,000 for each of the last three years significantly exceeded the average annual expenditures.

\$60,000, which significantly exceeded annual expenditures from the reserve.

The Assistant Superintendent for Business and School Operations agreed that as of June 30, 2008, this reserve held more money than necessary for unemployment insurance payments. District officials do not have a plan or policy to account for the amount of funds placed in this reserve. Therefore, we question whether the Board should continue to hold such a substantial balance in this reserve. Overfunding a valid reserve unnecessarily restricts the use of these moneys and prevents their use for other purposes, such as general operations. District officials may transfer excess funds in this reserve to District operating funds or to another legal reserve, as authorized by General Municipal Law (GML) and Education Law.

Workers' Compensation Reserve – This reserve was created under GML for the payment of compensation benefits, medical and hospital expenses, and expenses of administering a self-insurance program. The Board established this reserve with \$1 million in August 1999 and has funded it, periodically, with additional transfers from the general fund. The reserve had a reported balance of \$1,482,000 as of June 30, 2008. The District pays workers' compensation claims as they arise, which have averaged \$466,000 in the last five years. The District properly uses the workers' compensation reserve as a funding source by budgeting for these expenditures in the general fund and offsetting the expense with sufficient revenue from the reserve. Although District officials stated they wish to maintain a sufficient balance in this reserve to cover approximately three years of expenses, they were unable to provide a formalized policy or other valid documentation that this was the Board's established intent.

Insurance Reserve – This reserve was established to fund certain uninsured losses, claims, actions, or judgments for which a district is authorized or required to purchase insurance. The District established this reserve with over \$4.3 million by Board resolution in August 2004 and has allocated additional amounts periodically, increasing the balance to over \$7.7 million as of June 30, 2008. The District purchases adequate liability insurance to limit the need to fund substantial reserves for insurance claims. In the last five years, no expense or any uninsured claim has been charged against this reserve. Other than annual interest allocations, which averaged \$228,000, the only other activity since this reserve was created was a transfer of \$984,144 to a capital project fund, in May 2007, to pay for current project expenditures. Although that transfer was approved by the voters, it was not a legally authorized use of insurance reserve fund moneys. GML only authorizes the transfer of insurance reserve moneys to another reserve fund upon the discontinuance

of the insurance reserve. District officials were unable to provide a calculation or plan to establish sufficient basis for the significant balance in this reserve fund.

Tax Certiorari Reserve – Education Law authorizes districts to establish a reserve fund for the payment of judgments and claims for tax certiorari proceedings for the tax roll in the specific year in which the money was deposited in the reserve. The moneys may not be used for proceedings commenced in years other than the year they were deposited. Education Law further provides that moneys held in such a reserve fund may not exceed the amount which might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings. This law also requires that moneys not used as intended to pay judgments or claims must be returned to the general fund within four years of the day that they were deposited into the reserve.

The District established this reserve by Board resolution in August 1999, funding it with \$3 million. As of June 30, 2008, the reserve contained over \$1.4 million. The District could not support this reserve balance with a current list of pending tax certiorari claims and estimated costs. District officials have stated the current amount in the reserve is not based on amounts reserved for specific claims filed for specific tax years, but is instead based on previous years' expenditures. However, for the past five years, the District has paid, on average, only \$216,000<sup>9</sup> for tax certiorari settlements. Therefore, the moneys deposited to this reserve fund were not related to any specific tax certiorari proceedings, as required by law, and the entire balance should be returned to the general fund. The Board can improve accountability for District finances by properly funding this reserve when preparing the District's annual budget based on actual tax certiorari proceedings.

Unauthorized Trust and Agency Reserve – In June 2003, upon the recommendation of its external auditor, the Board adopted a resolution establishing an EBALR to partially fund the potential liability of retiree health insurance. An EBALR is authorized under GML, to be used only for the cash payment of accrued and unused sick, vacation, and certain other leave time due employees when they leave District service. However, District officials have confused this type of reserve with an OPEB trust. The District is using this reserve for the sole purpose of funding the potential liability of retiree health insurance. The District accounted for and reported these funds, which totaled more than \$8.3 million as of June 30, 2008 in its trust and

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<sup>9</sup> Total claims paid from this reserve ranged from \$138,000 to \$425,600 over the last five years.

agency fund. However, the law does not allow school districts to accumulate reserve funds for the payment of OPEB costs.

In addition, the majority of all transfers of unappropriated fund balance to reserves were approved by the Board each August, instead of being included in the adopted budget. Therefore, these unbudgeted transfers to fund reserves were made without prior communication to and approval by the voters. Failure to plan ahead for the use of reserve funds and clearly and accurately communicate both those plans and the actual use of reserve funds, to Board members and voters alike, raises concerns about the due diligence exercised by the Board and District officials in managing District resources.

The failure to adopt realistic budgets and properly establish and maintain only necessary reserves has resulted in the accumulation of a significant amount of resources. Had these moneys been reported as general fund unreserved fund balance, real property taxes would necessarily have been reduced, because the Board would have been required to comply with the statutory limits for the amount of unreserved fund balance that may be retained at year-end. Therefore, the maintenance and use of these significant resources should be clearly communicated, in a Board policy or plan, and to District taxpayers during the budget adoption and voting process to provide the voters with vital information and necessary transparency.

## **Recommendations**

1. The Board and District officials should develop revenue and appropriation estimates for the annual budget that are realistic and monitor financial activity to ensure operations stay within the budget.
2. The Board should adopt a comprehensive policy related to its use of reserve funds which establishes optimal or targeted funding levels, and conditions under which the fund's assets will be utilized or replenished.
3. To the extent possible, District officials should include the funding of reserves in its adopted budget each year to provide increased knowledge and transparency for the District's voters.
4. District officials should ensure reserve funds are used in accordance with statutory provisions.
5. The Board should review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements. To the extent that they are not, transfers should be made to unreserved fund balance or other reserves, established and maintained in compliance with statutory requirements.

6. Officials should use any surplus fund balance identified in this report in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
  - Increasing necessary reserves
  - Paying off debt
  - Financing one-time expenses
  - Reducing District property taxes.
7. The Board and District officials should transfer the unauthorized reserve moneys in the trust and agency fund back to the general fund.



## Payroll

The primary objective for internal controls over payroll is to ensure that employees are paid wages or salaries and provided benefits to which they are duly entitled. To this end, such payments must be clearly defined and authorized by the Board. Compensation and benefits such as the accrual, use, and payment of leave time is often defined by Board policy, collective bargaining agreements (CBAs) and/or individual employment agreements. It is important that the Board approve all such agreements and ensure that benefit agreements clearly define the compensation guidelines and fringe benefits to which employees are duly entitled. To ensure the equitable treatment of employees, District officials must enforce and adhere to the contractual provisions with regards to the granting of sick leave and retirement benefits.

The District has collective bargaining agreements with three labor unions representing various District employees: the AARH, Rush-Henrietta Employees' Association Teachers' Chapter, and the Rush-Henrietta Employees' Association Coalition Unit. Similar to the other CBAs, the AARH contract provides that each full-time member shall accrue sick leave per year as follows: 10-month employee – 10 days; 11-month employee – 11 days; 12-month employee – 12 days. Unused sick leave days accumulate with no maximum accumulation. The contract further provides for a payout of accumulated sick days upon retirement at a rate of \$70 per day capped at \$15,400, or 220 days. Certain conditions must be met in order to receive this payout including retiring directly from the District as a full-time employee, and meeting eligibility requirements for health insurance in retirement from the District. While the AARH contract generally defines the working relationship between the District and its supervisory and administrative employees, it also allows for individual employment contracts between these employees and the District.

We found that 21 current and former AARH employees were provided with an additional 1,266 days of sick leave beyond that provided by the contract provisions without Board approval. The additional days were authorized and provided at the direction of the Superintendent and Executive Director of Human Resources. These additional sick leave accruals were communicated to employees by memos from the Human Resources Department. We were not presented with any evidence that the Board had delegated to these officials authority to provide the additional sick leave. Of the 21 employees, three have retired and were paid almost \$16,000 for these additional days. The remaining 18 employees are still employed at the

District and the current value of this additional leave time is between \$66,000 and \$392,000. The dollar range is based on what the District would have to currently pay if all employees were eligible to retire and chose to do so<sup>10</sup> or if they used all of their sick days provided while employed at their current salary.

Three of the 21 employees negotiated the additional leave as part of their compensation package before starting to work for the District. The total days provided to these three employees as part of employment negotiations with Human Resources was 106 days. These specific arrangements were made without Board approval. The remaining 18 employees were granted a total of 1,160 days on July 11, 2006. Employees were provided with 12 to 100 sick days based on their administrative service at other school districts. We were provided no documentation of a pre-existing Board policy to grant sick leave based on employment by other employers. There was no indication that the additional sick days were the result of individual employment contracts or a provision of the AARH contract. There was also no indication that the District received anything in return from the employees as consideration for the additional leave time.

District personnel explained the additional sick leave by indicating that it is difficult to hire prospective employees from other districts when they often have accumulated vacation and sick leave balances at their current districts. Because 18 of the 21 employees were granted additional leave time after working at the District for a significant period of time, the additional leave time seems unrelated to attracting these employees to the District. For example, one employee was granted 72 days of additional sick leave for six years of administrative service elsewhere, almost 12 years after the employee was hired by the District.<sup>11</sup>

The State Constitution prohibits gifts or loans of public moneys or property to a private individual by a school district. The lack of adequate documentation to verify that the additional sick leave was provided to employees pursuant to a pre-existing Board policy or a contractual provision, and that the District received consideration from the employees for the additional leave time, gives the appearance that District officials made a prohibited gift to the employees.

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<sup>10</sup> \$65,625 or 937.5 sick days at \$70 per day

<sup>11</sup> We also note that school district CBAs commonly contain payout provisions for vacation and sick leave when an employee ceases employment at that district. Therefore, in this instance, it is at least possible that some of these employees were paid for leave by their former employers as well as receiving compensation from the District for the same leave time.

**Recommendations**

8. District officials should not provide benefits to employees unless the District has a legal obligation to provide the benefits.
9. The Board President should seek advice from the School District's Attorney with respect to cancelling unauthorized sick leave provided to employees and recovering any payments made on account of that leave time.

## Professional Services

In accordance with GML, contracts for professional services do not have to be made in compliance with competitive bidding statutes. However, GML requires the District to adopt written policies and procedures for the procurement of goods and services that are not subject to the competitive bidding requirements. These policies and procedures should describe procurement methods, explain when to use each method, and require adequate documentation of procurement decisions. Requests for proposals (RFPs) provide a mechanism for comparing the qualifications and fee structure of professional service providers. As such, they help to assure the prudent and economical use of public moneys, facilitate the acquisition of goods and services of desired quality at the lowest cost, and guard against favoritism, extravagance, fraud and corruption.

The Board has adopted a purchasing policy which states that RFPs shall be used to secure professional services. However, District officials have not adequately implemented the policy. We reviewed the procurement procedures for four professional service providers who received payments totaling over \$1.9 million during our audit period. We found that the services of three of the providers were procured without the use of RFPs or any other form of competition. These included attorney services (\$81,458), physician services (\$33,438), and engineering services (\$132,575). Furthermore, while District officials indicated they had used RFPs for architectural services (\$1,663,037) in the past, they stated that no RFP has been used in at least five years. The failure to use RFPs increases the risk that the District will pay more than necessary for professional services.

### Recommendation

10. District officials should award contracts to professional service providers only after soliciting competitive proposals.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



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## Rush-Henrietta Central School District

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www.rhnet.org

December 14, 2009

Edward V. Grant, Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 W. Main Street, Suite 522  
Rochester, NY 14614

Dear Mr. Grant and Members of the Rush-Henrietta Community:

The Rush-Henrietta Central School District is in receipt of the draft audit report titled, "Financial Condition and Internal Controls Over Payroll and Purchasing" for the period of July 1, 2007, through August 31, 2009. We have carefully reviewed the findings and recommendations presented, both internally and with our outside independent financial and legal advisors.

The Comptroller's audit represents an examination of the District's business operations for statutory and regulatory compliance. We appreciate the opportunity to review our financial management practices and oversight. The District will use the findings to make appropriate corrective actions as recommended.

However, the District is concerned that some statements may lead a reader to conclusions not substantiated by statute. Subjective terminology such as "idle dollars," "unrealistic budgeting," and "inadequate documentation" are opinions of the Comptroller's office, and not supported by statute or guideline. In many instances during the exit interview, the auditors acknowledged this.

The audit report contains a number of conclusions with respect to the District's financial management, specifically relating to reserve funds and fund-balance management, that we find objectionable. In reviewing the recommendations, we carefully considered your perspective. However, the District, the Comptroller's office, and the public are not served by incorrect, confusing, or incomplete information. We are providing more information to illuminate situations that might otherwise appear questionable to an outside observer. We believe a final report based on the complete facts will provide necessary clarification of our understanding and demonstrate that Rush-Henrietta's emphasis on appropriate, responsible, and thoughtful decision-making is working.

The elected Rush-Henrietta Board of Education and the District's administration firmly believe that our overall approach to financial management:

- a. is consistent with our legal authority under both the Education and General Municipal laws and accompanying regulations;

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See  
Note 1  
Page 27

- b. has been reviewed by, and is consistent with, the guidance from the District's external auditor
- c. is consistent with our fiduciary responsibility to our taxpayers, students, and employees; and
- d. has been clearly communicated to our taxpayers.

In that spirit, we are responding to the Comptroller's audit as follows:

### **Financial Condition**

**Audit Claim:** The report states that the District consistently overestimated expenses and underestimated revenues, circumventing statutory controls that resulted in taxpayers paying more than necessary to sustain District operations.

**District Response:** The audit findings essentially say that the District uses conservative budget practices, a conclusion we welcome. We purposely budget conservatively and share this philosophy with our Budget Advisory Council, a group of stakeholders representing the community. These conservative budget practices place the District in a better position to adapt to changing economic situations. School districts operate in a financially unpredictable environment. For example, in 2007, Monroe County withheld nearly \$2 million of sales tax revenue due the District. Because of our conservative budgeting practices, we navigated this unforeseen reduction in revenue and avoided placing an additional burden on the taxpayers or altering educational programs mid-year. Even taking this conservative philosophy into account, the District has lowered the true value tax rate methodically during the past five years, consistently providing residents with a fiscally responsible budget plan. In fact, Rush-Henrietta has had the lowest true value tax rate in Monroe County for decades.

See  
Note 2  
Page 27

### **Budgeting and Use of Fund Balance**

**Audit Claim:** The report states that District officials consistently underestimated State aid and that instructional teaching budgets for regular school and students with disabilities were overstated during a four-year period.

**District Response:** Rush-Henrietta traditionally takes a conservative approach to State aid, especially with the potential for mid-year cuts. The harsh reality of a protracted state budget process is characterized by a broad disparity between the governor's proposed budget and legislative guidance, exacerbated by the ever-present threat of mid-year cuts to state aid, long after local communities have approved their school district budgets. Rush-Henrietta's conservative budgeting practices are not only prudent, but essential to avoid potentially catastrophic cash shortages. The District chooses to budget for contingent teaching positions that may be necessary to meet all student needs, whether they are general or special education.

See  
Note 3  
Page 27

**Audit Claim:** The report states that significant overestimates of debt service were budgeted for in more than one year.

**District Response:** A bond was authorized by voters in 2005, and anticipated debt service was budgeted each year thereafter. In fact, the bond was not placed until February 2009, to the benefit of taxpayers. This decision was made based on trends in financial markets (lower interest rates) and actual cash flow needs for the building project being funded. The District acted responsibly by not placing the debt unnecessarily early and incurring extra costs that ultimately would be borne by the taxpayers. The result of this decision is that taxpayers will benefit from lower debt service costs for the next 20 years. The favorable outcome in the timing of the debt placement cannot be used, after the fact, to question an otherwise supportable debt service projection.

**Audit Claim:** The report mentions unappropriated fund balances significantly exceeding the legal limit in 2003-04 and 2004-05, as of June 30 of each year.

**District Response:** While the 2 percent limit was exceeded on June 30 of those years, less than two months later, prior to setting the tax levy and tax rates, the Board of Education appropriately transferred funds into reserves, thus complying with the legal limit. It should be emphasized that this practice, which was in compliance with state education department guidelines in place at that time, fully credited the available fund balance to reduce the tax levy as required by law.

## Reserves

### Unemployment Insurance Reserve

**Audit Claim:** The report states that the Unemployment Insurance Reserve does not have adequate documentation to substantiate the balance of \$1.9 million, given the amount of interest earned and claims paid in the past five years.

**District Response:** This analysis is contradicted by the data for the most recent year, 2008-09, when the interest earned was \$25,097, while the expenses paid were \$49,739. This documents the fluctuations in the amount of interest earned due to outside forces, and the fluctuations in the costs incurred. Given common expectations as to interest rates, and that the effects of the discontinuation of the federal ARRA funds after 2010-11 may lead to extremely large benefit claims with respect to expected layoffs, it appears next to certain that the District has entered a cycle where expenses outpace the revenues being generated.

### Workers' Compensation Reserve

**Audit Claim:** The report states that the District was unable to provide valid documentation of the Board's intent to periodically fund approximately three years worth of anticipated expenses.

**District Response:** Prior to any transfer into a reserve fund, the Board was briefed in writing regarding the balance of the reserve and given an estimate of the duration that the



funding would provide. The Board then authorized the transfer based on the desired funding levels. These actions were documented in the minutes of the Board of Education meeting.

### Insurance Reserve

**Audit Claim:** The report criticizes the voter-approved transfer of funds in May 2007 and also the significant balance that remains in the reserve. The report states that transfers cannot legally be made unless the reserve is discontinued.

**District Response:** Since outright discontinuance of the fund seems imprudent at best, this significantly limits the options available to the Board to resize the fund. The report does not recognize the fact that, in 2009-10, the District began funding the claims of the Student Accident program with this reserve. In addition, the budget planning for 2010-11 will include payment from this fund for the District's substantial liability insurance premiums.

See  
Note 6  
Page 28

### Tax Certiorari Reserve

**Audit Claim:** The report states that the District cannot support the reserve balance with a current list of pending claims.

**District Response:** Statute affords the Board of Education substantial latitude to maintain balances sufficient to cover unresolved claims. A list that includes claims for a given tax roll could be created, but such a list is not required by statute and would be of questionable value. This is because many claims, based on the duration of time needed to reach settlement, affect multiple years of tax refunds. Although the District has complied with the spirit of the law, it has reviewed the statute with its attorney and will take any action it deems necessary to fully comply with the technical aspects of the law.

See  
Note 7  
Page 28

### Unauthorized Trust and Agency Reserve

**Audit Claim:** The report claims that the District is improperly using a reserve (\$8.3 million) to fund the potential liability of post-retirement benefits.

**District Response:** The report does not mention that GASB (Government Accounting Standards Board) 45 requires districts to report this liability on their balance sheets over time, that the District has documented via an actuarial study that the liability is more than \$12 million, and that the allocation to the Trust and Agency Reserve was a widely accepted method to effectively encumber the funds needs. To properly fund this liability, the State is required to craft legislation to provide for a Trust for these funds. The requirement of this liability has been documented for more than five years, yet the Legislature has failed to act to allow for funding. Draft proposals for legislation to properly fund GASB 45 liabilities have been casualties of the legislative process. It is our hope that the Comptroller's office will call attention to this problem and work with the

Legislature to rectify the situation that affects many districts throughout the state. In the interim, the Board has acted to report these funds on the General Fund balance sheet.

### Transfer of Unappropriated Reserves

**Audit Claim:** The report mentions that transfers of unappropriated reserves are approved by the Board each August without prior communication to the voters.

**District Response:** This assertion overlooks voter-approved capital reserve resolutions that empower the Board to transfer unappropriated balances to the capital reserve. The report also does not acknowledge that transfers made in open session at public meetings do not, under any circumstance, legally require voter authorization. In addition, during open meetings in both February and May of each year, the Board reviews fund-balance projections. The public is welcome at all meetings. Agendas are made available to all interested residents.

See  
Note 8  
Page 28

### Using Reserve Funds to Promote Long-term Financial Stability

The Comptroller's report focuses on the past five years of data. The District understands that an audit, by nature, must take a snapshot in time. In pursuit of long-term financial stability, the District focuses its strategic decisions on a longer time frame. Technically, in any year tested, the tax levy could have been reduced rather than reserves funded. The Board, elected by the voters to represent their interests, has made strategic decisions that are in the best long-term interests of the community. Such decisions were validated in January 2009 when Moody's Investors Service, which grades bonds based on the financial stability of an organization, upgraded Rush-Henrietta's bond rating from A1 to Aa3. Moody's documents this change by acknowledging the "ample reserves" and says it "expects the district's financial position to remain strong given its solid fiscal management that supports the maintenance of reserves that provide significant budgetary flexibility and financial cushion." By placing the \$17.7 million bond in February 2009, after the upgrade, the district received a lower interest rate. This means taxpayers benefit from lower debt-service costs for the next 20 years, the length of the borrowing.

See  
Note 9  
Page 28

See  
Note 10  
Page 28

### Payroll

**Audit Claim:** The report states that inadequate documentation gives the appearance that District officials made a prohibited gift of public funds to 21 current and former employees by providing additional sick days without Board approval.

**District Response:** No gift of public funds occurred. As part of the negotiations process with the Administrators' Association of Rush-Henrietta (AARH) it was a District desire to be able to attract experienced prospective employees by being able to offer credit for prior administrative experience. Current employees were willing to accept the new credit for future employees, but wanted their experience to be reviewed, and adjusted, if appropriate. These discussions were shared with the Board in executive sessions, the appropriate venue for negotiations discussions. Because the retroactive component was a one-time event, the language was never formally built into the contract. In retrospect, a

memorandum of agreement should have been executed for the retroactive component to document the understanding of the parties.

There is a footnote in the report hypothesizing that some new employees benefiting from this negotiated credit in Rush-Henrietta may have been paid for sick leave upon leaving a former employer, implying double payment for sick-leave time. The administration and Board are unaware of any district in Monroe County that pays for unused sick time when an employee resigns. Such a benefit is usually reserved for sick-leave payments upon retirement. Thus, the scenario proposed in the Comptroller's report appears to be pure conjecture.

See  
Note 11  
Page 28

### **Professional Services**

**Audit Claim:** The report states that the District can improve implementation of its policy for securing professional services.

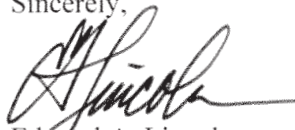
**District Response:** The District intends to review its policy on soliciting Requests for Proposals for professional services to align its practices with sound management theory, while preserving the benefits of established relationships and the continuity of needed services.

### **Summary of District Response**

We acknowledge that the Rush-Henrietta Central School District can improve its written documentation. We will address this as part of the corrective action plan.

The purpose of the Comptroller's audit should not be to substitute its own judgment for that of the elected Board and its administration in terms of overall financial management for the District. Rush-Henrietta taxpayers actively participate in our budget-development process, and have resoundingly endorsed our policies and practices. While we respectfully acknowledge the perspectives of the Comptroller's office in this regard, and thank its employees for their thorough review, we believe our work – as evidenced by our daily operations, annual budgeting, and long-term financial planning – has attracted more capable employees, better controlled costs and reduced expenses, and placed the District and its taxpayers in a more secure financial position.

Sincerely,



Edward A. Lincoln  
President, Board of Education

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

Statute is not the only limitation that the District has when managing its operations. In order to manage the District efficiently and effectively and provide accountability for tax dollars spent to support District operations, District officials must also rely on rules, regulations and good business practice. Each of our findings explains the criteria we used when assessing the District's actions. The criteria we employed and the results of our testing provide a reasonable basis for our conclusions and recommendations.

#### Note 2

The District is incorrect in stating that our audit found that the District uses conservative budgeting practices. Rather, our audit found that the District's budget was widely inaccurate. Increasing taxes unnecessarily in order to accumulate reserves is not conservative budgeting. Our report discusses the tax levy, not the tax rate. District officials raised the tax levy 11 percent, from approximately \$53.3 million in the 2003-04 fiscal year to \$59.1 million in 2008-09, even while incurring significant operating surpluses. As a result, District taxpayers have been paying more than necessary to sustain District operations.

#### Note 3

During the several month period from when the spending plan is approved by the voters (May) and when the tax levy is finally established (August), certain information such as refined State aid estimates, finalized assessment rolls for each of the towns in which the District is located, and a more accurate fund balance amount becomes available as the District's accounting records are closed for the fiscal year ending June 30. Therefore, there is time to make necessary adjustments to State aid and assessment roll estimates before levying taxes unnecessarily. Nevertheless, District officials consistently underestimated State aid over the last four years by 12 to 19 percent, with an underestimate of \$4.1 million (17 percent) in 2007-08.

#### Note 4

Debt service payments begin after debt is issued. In this case, the District budgeted for debt that was not outstanding. The fact that this scenario was repeated for several years calls into question the District's budget process.

#### Note 5

The \$49,739 expenditure for unemployment insurance reimbursement (2.5 percent of the reserve balance and less than 1 percent of total general fund expenditures) is minor in comparison to the District's overall operations and is not a justification for reserving such a substantial amount of

taxpayer money. Given the District's current cost for this benefit, the balance in the reserve could provide funding for 38 years before being exhausted.

#### Note 6

School districts may create insurance reserves under two different statutes, section 6-n of the General Municipal Law (GML) and section 1709 (8c) of Education Law. While the District's 2004 resolution to establish this reserve did not specify the statute used, the contribution limit and general language in that resolution as well as the description of the reserve in the District's audited financial statements, are consistent with GML, implying that the reserve was established pursuant to GML. District officials should note that GML provides for expenditure of insurance reserve moneys only for uninsured losses and claims, and not for insurance policy premiums.

#### Note 7

Education Law provides, in part, that districts may establish a reserve fund for the payment of judgments and claims for tax certiorari proceedings for the tax roll in the specific year in which the money was deposited in the reserve, may only reserve amounts reasonably deemed necessary to meet anticipated judgments and claims arising out of those proceedings, and must return to the general fund any moneys not used as intended within four years of the day that they were deposited into the reserve. To be able to comply with these Education Law requirements, it is essential that the District maintain a list of assessment claims, with the amounts deposited for estimated settlements for each claim.

#### Note 8

While voter approval is not required for transfers of unappropriated fund balance, the most transparent approach to funding reserves is to allow excess revenues to flow to fund balance, and then appropriate transfers to reserve funds in the subsequent budget. This approach shows taxpayers the amount of operating surplus and the additions the District has made to reserves. Instead, the District increased reserves through year-end adjustments that transferred funds to reserves, with minimal communication to taxpayers.

#### Note 9

We advocate for the prudent use of reserve funds. Because the District is funded by taxpayers, the District should only accumulate those funds necessary to meet reasonable needs and contingencies. Our report states that the District cannot justify that it has limited its accumulation of taxpayers' funds to that required to meet reasonable needs and contingencies.

#### Note 10

Rating agencies are concerned with ensuring that entities have sufficient resources to repay bondholders. They are not concerned if excess taxpayer funds are being accumulated.

#### Note 11

The largest school district in Monroe County pays for unused accumulated sick leave "upon cessation of employment..." from the District for a similar group of high level administrators. Therefore, double payment of sick leave is certainly a possibility.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial condition, payroll, and purchasing for further audit testing.

To accomplish the objectives of this audit, we performed the following audit procedures for the financial condition scope area:

- We analyzed financial data from the annual financial reports (ST-3) for the 2003-04 through 2007-08 fiscal years to determine trends in the District's financial activity. We compared historical budget-to-actual financial data of major revenues and expenditures for the last four fiscal years.
- We obtained and reviewed the minutes of the proceedings of the Board, pertinent Board resolutions, relevant policies and procedures, and financial and budgetary information related to our audit objective. We reviewed financial information provided to the Board and interviewed the appropriate District officials.
- We analyzed reserves to determine if they were properly established and maintained. We evaluated the appropriateness of the reserves currently in place, as well as the level of fund balance remaining as unreserved and unappropriated in the general fund to determine whether the District complied with applicable statutes. We obtained information from administrators to gain an understanding of the District's plan and intent for the establishment and use of the reserve funds.

We performed the following audit procedures for the payroll scope area:

- We reviewed CBAs, personal employment contracts, employee personnel files and District payroll policies and procedures.
- We reviewed various separation payments to determine if payments were made correctly and in accordance with applicable CBAs.

We performed the following audit procedures for the purchasing scope area:

- We reviewed current District policies and procedures and interviewed key personnel to determine the process for requisitioning services, and to gain an understanding of the required approvals and procedures for selecting a vendor.
- We interviewed key personnel to determine the process for authorization of payment to the vendor.
- We also examined RFP and bidding documentation to determine whether the procurement of professional services was in accordance with Board policy and legal requirements.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX D

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Steven J. Hancox, Deputy Comptroller  
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