

# Genesee Valley Board of Cooperative Educational Services

## Reserve Funds

JULY 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Genesee Valley Board of Cooperative Educational Services

### Audit Objective

Determine whether the Genesee Valley Board of Cooperative Educational Services (BOCES) Board of Education (Board) and officials properly established and used reserve funds and maintained them at reasonable levels.

### Key Findings

While the Board and BOCES officials properly established reserve funds, they did not transparently fund the reserves or use or maintain reserve funds at reasonable levels. The Board and officials:

- Unnecessarily restricted funds that could have been refunded to school districts.
- Overfunded two reserves totaling \$1.9 million, and officials could not demonstrate the balances in the four remaining reserves, totaling approximately \$800,000, were needed or reasonable.
- Did not adopt a written reserve fund policy. Adopting a reserve policy provides transparency and defines the purpose for each reserve, optimal funding levels, and conditions under which the funds will be used and replenished.

BOCES' reserve funding and use practices withholds funds from school districts that may have been used in a more beneficial way for respective taxpayers.

### Key Recommendations

- Adopt a comprehensive written reserve fund policy.
- Review all reserve balances to determine whether the amounts reserved are necessary and reasonable.

BOCES officials agreed with our recommendations and indicated they have initiated or plan to initiate corrective action. Appendix B includes our comments on certain issues in BOCES' response.

### Background

BOCES primarily provides educational and support services to 22 component school districts in Genesee, Livingston, Steuben and Wyoming Counties. BOCES is governed by an 11-member Board, whose members are elected by the boards of the component school districts.

The Board is responsible for the general management and oversight of financial and educational affairs. The District Superintendent (Superintendent) is the chief executive officer responsible, along with other administrative staff, for BOCES' day-to-day management.

The Board appointed a Chief Financial Officer (CFO) responsible for supervising all business office functions. The Board, Superintendent and CFO are responsible for properly establishing, funding and using reserves.

#### Quick Facts

|                        |                |
|------------------------|----------------|
| 2021-22 Appropriations | \$51.5 million |
|------------------------|----------------|

|                                  |               |
|----------------------------------|---------------|
| 2020-21 Year-End Reserve Balance | \$2.7 million |
|----------------------------------|---------------|

|                    |   |
|--------------------|---|
| Number of Reserves | 6 |
|--------------------|---|

### Audit Period

July 1, 2018 – March 4, 2022

# Reserve Funds

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A BOCES has no taxing authority and derives all its financial support from its component and participating school districts (school districts that BOCES provides services to), as well as State and federal aid. A BOCES is required to apportion surpluses (credit excess money) to each of these school districts annually, excluding funds that are encumbered (commitments related to unperformed executed contracts in the current fiscal year for goods or services that will be paid for during the next fiscal year) or properly restricted in reserve funds.

## How Should a Board and BOCES Officials Properly Manage Reserve Funds?

Although BOCES are not permitted to maintain any unrestricted fund balance, they can set aside and reserve portions of fund balance to finance future costs for a variety of specified objects or purposes (e.g., capital projects or retirement contributions). Generally, a BOCES is not limited as to how much money can be held in certain reserves; however, reserve balances should be reasonable and supported. To ensure transparency, and as a matter of best practice, a board that chooses to establish and use reserve funds should adopt a formal written policy that communicates the board's purpose for each reserve, optimal funding levels, and conditions under which the funds will be used and replenished.

To help ensure reserves are reasonably funded, amounts to be placed in reserve funds should be included in the annual budget. By making provisions to raise resources for reserve funds explicit in the proposed budget, the board gives its school districts an opportunity to know and approve the board's plan for funding its reserves. When conditions warrant (subject to legal requirements), a BOCES should reduce reserve funds to reasonable levels, or it should liquidate and discontinue a reserve fund that is no longer needed or whose purpose has been achieved.

## Reserves Were Not Properly Managed

As of June 30, 2021, BOCES reported six general fund reserves totaling approximately \$2.7 million (Figure 1). While the reserves were properly established, they were generally not used, with the exception of a career education instructional equipment reserve. Two reserves totaling \$1.9 million were overfunded, and BOCES officials could not demonstrate that the balances in the four<sup>1</sup> remaining reserves, totaling approximately \$800,000, were reasonable, as the reserves have generally not been used and BOCES does not have a detailed plan for their funding and use. Further, the Board did not adopt a comprehensive written reserve fund policy and did not transparently fund reserves by including funding in the annual budget.

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<sup>1</sup> This includes two retirement contribution reserves, a career education instructional equipment reserve and an insurance reserve.

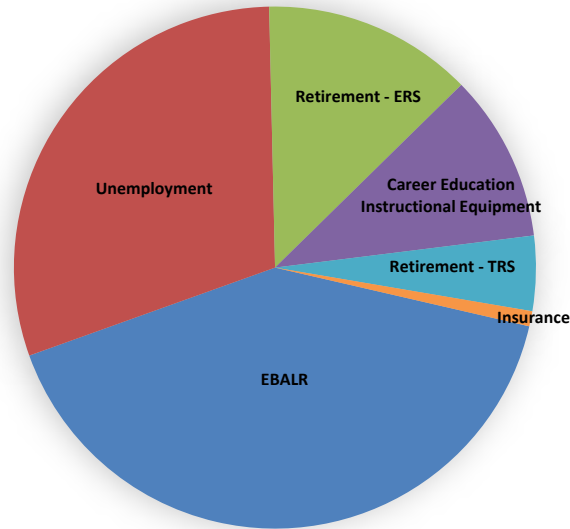
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... BOCES did not adopt a comprehensive written reserve fund policy. ...

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FIGURE 1

Reserve Funds



Employee Benefit Accrued Liability Reserve (EBALR) – The Board established this reserve to pay accrued leave time benefits due employees when separating from BOCES service. As of June 30, 2021, the reserve had a balance of \$1.1 million. From July 1, 2018 through June 30, 2021, BOCES officials appropriately used this reserve to pay approximately \$700,000 of leave-related expenditures. During this same period, they replenished the reserve with unbudgeted transfers totaling approximately \$550,000. This resulted in a net reserve reduction of approximately \$150,000.

The CFO calculated the potential liability as of June 30, 2021, at approximately \$1.4 million, and believed that the reserve is currently underfunded. However, employment contracts state that employees must have a minimum of 10 years of service with BOCES and retire under the provisions of either the New York State and Local Retirement System (NYSLRS) or the New York State Teachers' Retirement System (NYSTRS) to be eligible for payment of accrued sick leave upon retirement. The teachers' contract also authorizes a reduced benefit for employees who separate from service without meeting these requirements. We recalculated the estimated liability to include only employees who currently met these eligibility criteria and determined that the liability totaled approximately \$850,000 as of June 30, 2021. As a result, this reserve is currently overfunded by approximately \$250,000.

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Unemployment Insurance Reserve – The Board established this reserve for payment of contributions to the New York State Unemployment Insurance Fund. As of June 30, 2021, the reserve had a balance of \$810,000. Average annual unemployment expenditures during the audit period were approximately \$54,000, of which the majority was funded from general fund appropriations, not the reserve. For example, on June 30, 2021, BOCES used \$25,000 from the reserve to pay for unemployment expenditures. Given that this was the only time BOCES used this reserve during our audit period, there is no plan or policy providing the need for this reserve, and the balance is sufficient to pay average annual unemployment expenditures for the next 15 years, we question why it is maintained at this level.

The CFO stated that they did not create and adopt a comprehensive written reserve fund policy because BOCES manages its reserve funds according to statute, and that funding levels and use are based on these statutes. He also said that BOCES did not establish reserve funds to frequently use them, but rather to use them in times of necessity.

While certain enabling statutes do include eligible reserve expenditures and maximum funding limits, statutes are not a replacement for a well-thought-out reserve fund policy. Statutes do not define “times of necessity” that the CFO was referring to; the Board should do this. Furthermore, not all statutes include provisions for funding limitations or acceptable use. A comprehensive written reserve fund policy adopted by the Board can communicate to the component and participating school districts the Board’s purpose for each reserve, optimal funding levels, and conditions under which the reserves’ assets will be used and replenished.

Because the Board did not adopt a written reserve fund policy that defined the reasonable balance or the necessity for each reserve, BOCES officials could not demonstrate that the balances held in the reserves were necessary. Funding reserves at levels higher than necessary for operations and/or need creates an undue burden on the component school districts funding BOCES’ operations. This also withholds funds from the component and participating school districts that may have been used in a more beneficial way for respective taxpayers.

## What Do We Recommend?

The Board and BOCES officials should:

1. Adopt a comprehensive written reserve fund policy that includes the purpose for each reserve, optimal funding levels and conditions under which the reserves will be used and replenished.

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... BOCES officials could not demonstrate that the balances held in reserves were necessary.

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2. Include anticipated funding of reserves in the annual operating budget.
  3. Review all reserve balances to determine whether the amounts reserved are necessary and reasonable. Reduce overfunded reserves, in accordance with applicable statutes, to reasonable levels; and liquidate and discontinue reserve funds that are no longer needed or whose purpose has been achieved.

# Appendix A: Response From BOCES Officials



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Wyoming Board of Cooperative  
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June 7, 2022

Melissa A. Myers  
Chief Examiner of Local Government and School Accountability  
Buffalo Regional Office of the State Comptroller  
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**RECEIVED**

**JUN 10 REC'D**

**RE: Reserve Fund Audit (2022M-39)**

**Office of the Comptroller  
Buffalo Office**

Dear Ms. Myers:

The Genesee Valley BOCES is in receipt of the Office of the State Comptroller's draft audit report of the BOCES' Reserve Funds for the period covering July 1, 2018 – March 4, 2022.

The BOCES appreciates the comments and feedback within the report, and agrees a more comprehensive policy is warranted. While the BOCES agrees a comprehensive policy that details funding levels and planned uses is necessary, the current practices and procedures demonstrate a high degree of transparency with all component school districts and the BOCES Board of Education. If funding is available and eligible to be designated to reserve funds, it is only accomplished by a vote of component district Superintendents and the approval of the BOCES Board of Education. Further, the report indicates that BOCES should include the planned accumulation of reserve funds in the annual budget development process. By virtue of doing this, the BOCES would be "overcharging" districts. In developing program budgets the BOCES does not budget for a surplus, in fact any surplus in program budgets is due to the increase of program participation above and beyond the December estimates BOCES uses to develop budgets, and the May 1<sup>st</sup> deadline for districts to submit their AS-7 contract.

See  
Note 1  
Page 7

The report also cites "BOCES could not demonstrate that the balances in the four remaining reserves totaling \$800,000 were reasonable" and "BOCES officials could not demonstrate the balances held in reserves were necessary". It is accurate that said reserves were not being utilized during the audit window; however, it is the philosophy of the BOCES that reserve funds are designed to be available when the component school districts, the BOCES Board, and the economic climate dictates. It should be noted that any liability of the BOCES is/may become a liability of its component districts. Given such immense fiduciary responsibility, one could argue that the current reserve funds are inadequately funded.

See  
Note 2  
Page 7

We have already begun to address the findings of this report and are certain that our soon to be adopted policy(s) will serve to highlight and re-enforce the current practices and procedures. In addition, our corrective action plan will be written upon the acceptance of the final audit report.

We would like to extend our gratitude to the field auditor involved, [REDACTED] in the comprehensive examination of our financial operations and his professionalism in conducting this audit. We appreciate the feedback and comments that were provided in support of our continuing efforts.

Sincerely,

[REDACTED]  
Kevin M. MacDonald  
District Superintendent

[REDACTED]  
Norbert Fuest  
Board of Education President



## Appendix B: OSC Comments on BOCES' Response

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### Note 1

Planning for and budgeting to fund needed reserves is not “overcharging” component school districts. The Board currently funds reserves using annual surpluses at the end of the fiscal year. By including provisions to fund reserves explicit in the proposed budget, the Board will be funding reserves in a more transparent manner and be clearly communicating its intentions to the component school districts and other interested stakeholders.

### Note 2

Reserve balances must comply with any statutory limitations and should represent reasonably accurate estimates of anticipated costs. The costs should be based on an actual calculated liability, historical spending and/or information from external sources. The EBALR and the unemployment insurance reserve were both overfunded given known and potential liabilities.

## Appendix C: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed BOCES officials to gain an understanding of reserve fund management practices.
- We reviewed BOCES' policies and procedures to identify and examine any information that related to the Board's oversight and responsibilities for establishing, funding, using and maintaining reserves.
- We reviewed the Board meeting minutes and financial reports to determine whether BOCES' reserves were properly established and used.
- We reviewed financial records and reports to determine the reserve fund balances and reviewed each reserve's activities.
- We analyzed the balances maintained in reserves during the audit period to determine whether balances were reasonable by reviewing the related reserve's potential liabilities and expenditures, Board resolutions and the reserve fund policy.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-a(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The CAP should be posted on BOCES' website for public review.

## Appendix D: Resources and Services

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