



West Hill Fire District No. 3 Financial Condition

Report of Examination

Period Covered:

January 1, 2012 — March 6, 2014

2014M-160



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2014

Dear Fire District Officials:

A top priority of the Office of the State Comptroller is to help fire district officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of fire districts statewide, as well as 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 fire district operations and Board of Fire Commissioners governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard fire district assets.

Following is a report of our audit of West Hill Fire District No. 3, entitled Financial Condition. 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*

Introduction

Background

The West Hill Fire District No. 3 (District), located in Chemung County, is a District of the State, distinct and separate from the Towns of Big Flats and Elmira. The District is about one square mile in size and serves approximately 700 residents. The District contracts with the City of Elmira (City) and Big Flats Fire District No. 1 to provide fire protection services to District residents. The District's 2014 budget appropriations are \$55,275, which are wholly funded through real property taxes.

The Board of Fire Commissioners (Board) consists of five elected members, with one member appointed as Chairman, who is responsible for the District's overall financial management. The voters elect a Treasurer who acts as the District's chief fiscal officer.

Objective

The objective of our audit was to examine the District's financial condition. Our audit addressed the following related question:

- Did the Board establish a reasonable financial plan?

Scope and Methodology

We examined the District's financial records and reports for the period January 1, 2012 through March 6, 2014. We extended our scope period back to January 1, 2011 to review the District's financial trends.

We conducted this performance 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. Except as specified in Appendix A, officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the Town Law, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. 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 Secretary's office.

Financial Condition

It is important that the Board raises the amount of real property taxes that are necessary to fund District operations. In addition, unassigned fund balance represents money accumulated from prior years that District officials may retain as a financial cushion in the event of unforeseen financial circumstances, legally reserve to finance future costs for a specified purpose or appropriate to help finance next year's budget. When District officials retain unassigned fund balance that is not used to fund District operations, it places an unnecessary burden on taxpayers.

At the end of 2013, unassigned fund balance totaled almost \$178,000, or more than three times the 2014 budget appropriations. This occurred primarily because in 2008 and 2009, the District received unexpected insurance proceeds totaling about \$157,000.¹ Further, the Board currently has no plans to use a portion of the existing unassigned fund balance to reduce future real property tax levies.

Table 1: Unassigned Fund Balance as a Percentage of the Next Year's Budget

December 31,	Fund Balance	Next Year's Budget	Percentage
2011	\$172,288	\$58,275	294%
2012	\$177,202	\$55,275	321%
2013	\$177,865	\$55,275	322%

Reserve Fund – The General Municipal Law (GML) authorizes fire districts to maintain certain reserve funds. The District reported a capital reserve fund with a balance of \$165,728 as of December 31, 2013.²

The Chairman told us that District officials created this reserve in the late 1990s to fund future costs of new vehicles. However, the Board could not provide us with a resolution or any other documentation to show when or if this reserve fund was properly established or what type of reserve was established.³ The Chairman also informed us that

¹ The Chairman told us that the District received \$147,561 in 2008 and \$9,583 in 2009.

² In accordance with GML 6-g the District can establish a capital reserve to finance the construction, reconstruction or acquisition of a specific or type of capital improvement or the acquisition of items of equipment.

³ Depending on the establishment date and purpose of this reserve (specific capital reserve, type capital reserve or repair reserve) different rules may apply for the public's participation in establishing the reserve and the expenditures made. See our publication entitled Reserve Funds available at: <http://www.osc.state.ny.us/localgov/pubs/lgmg/reservefunds.pdf>

the Board funded this reserve with annual budget appropriations of \$10,000 until 2009. In 2010, District officials contracted with the City and another fire district to provide fire protection services to District residents instead of the fire department located within the District. Since then District officials continue to contract for fire protection services. As a result, the Board stopped annually budgeting for the capital reserve fund.

Further, District officials have not established any plans for using the money accounted for as a reserve fund. Because of the District's contractual arrangements with the City and the other fire district and the minimal amount of fire-fighting equipment owned, there is no apparent need for a capital reserve fund.

The public trusts the Board to raise the taxes necessary to finance District operations. Therefore, allowing unassigned fund balance to grow to unreasonable levels, while continuing to raise the full amount of real property taxes necessary to pay for the fire protection contracts, is not in the taxpayer's best interests.

Recommendations

The Board should:

1. Use the unassigned fund balance identified in this report in a manner that benefits taxpayers.
2. If the Board determines that the existing reserve fund was not established in compliance with statutory requirements, it should take necessary steps to ratify and legalize the reserve fund by following the procedure for establishing a capital reserve fund in conformance with the procedures in GML, including voter approval requirements. If the reserve is no longer needed, the Board should consider transferring money into other reserve funds to the extent permitted by GML or, if the Board determines that the District will have no foreseeable expenditures from such other reserve funds, consider requesting a special act of State Legislature to authorize release of the reserve fund money to unassigned fund balance.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

**BOARD OF FIRE COMMISSIONERS
WEST HILL FIRE DISTRICT NO. 3**

**Town of Elmira
Town of Big Flats**

July 28, 2014

Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608

Re: West Hill Fire District No. 3

Dear Sirs:

This will respond to the draft audit report of your office regarding West Hill Fire District No. 3 for the period January 1, 2012 to March 6, 2014. The draft report discusses two issues, the unassigned fund balance and the reserve fund of the District. This response will address each issue separately.

Unassigned Fund Balance

The draft audit report expresses the opinion that the fund balance of the District in the approximates amount of \$177,000.00 is excessive.

See
Note 1
Page 11

Foremost, it needs to be understood that this fund balance is not the result of District taxpayers being overtaxed. In fact, only 11.0% of the fund balance is money received from taxpayers. The balance, approximately \$157,000.00, is insurance proceeds paid to the District for damages sustained to one of its fire vehicles as a result of a motor vehicle accident.

The accident in question, which occurred in July 2008, resulted in the loss of a pumper truck. Later that year and in 2009, insurance claims were settled resulting in \$157,000.00 of insurance proceeds being paid to the District.

See
Note 1
Page 11

The plan of District officials was to use these funds towards the purchase of a new pumper and other equipment lost as a result of the accident. However, during 2009 the District fire department became inactive due to a lack of a sufficient number of qualified members. Under these circumstances, the District officials did not feel it would be prudent to purchase a new pumper until such time as the fire department became active. Unfortunately, to date that has not happened. The insurance proceeds remain part of the unassigned fund balance.

See
Note 1
Page 11

Reserve Fund

The draft audit report questions the creation of the District reserve fund and states District officials have not established a plan for using those funds.

In the late 1990's or early 2000's, District officials created a reserve account for the purpose of financing the purchase of a new firefighting vehicle at some future time. This reserve account was created at the time an existing District loan used to purchase a 1994 fire vehicle was paid off. District officials determined that it was prudent to establish a reserve account so that the full cost to purchase a new vehicle at some point in the future did not have to be borrowed. Over a number of years, District officials adopted resolutions approving the annual District budget which included an amount to be placed in the reserve account for use at some future time towards the purchase of a new vehicle. It has been the understanding of District officials that the District would need to conduct a public referendum to obtain voter approval before monies deposited into the reserve account could be used for the purchase of a new vehicle.

Commencing in 2010, no further amounts have been budgeted for the reserve account by District officials. There are two reasons for this change. First, District officials believed that the amount accumulated in the reserve account together with insurance proceeds received as a result of the 2008 accident would provide sufficient funds to be used towards the purchase of a new vehicle. Second, District officials did not feel additional funds should be budgeted for the reserve account due to future uncertainties of the District fire department which had become inactive.

See
Notes 1 and 2
Page 11

Therefore, it is simply not correct to conclude that District officials did not have a plan for use of the reserve funds. Further, it is believed that the reserve account was properly created and maintained for a proper purpose. District officials acknowledge that an alternate disposition of the reserve funds should be considered at this time as the fire department has had a sufficient amount of time to re-establish itself as an active department and there has been no activity in this regard.

See
Note 2
Page 11

Conclusion

This will serve as the District officials' response to your draft audit report. Please make this response part of your final report.

Thank you.

Respectfully submitted,

John R. McGlenn
Chairman, Board of Fire Commissioners

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

As noted in our report, the excessive unassigned fund balance resulted from insurance proceeds received in 2008 and 2009. Although this balance did not result from raising real property taxes, because it has not been used in six years and there are no pending plans to use the balance, excessive resources are being retained that could be used to lessen the burden on District taxpayers.

Note 2

District officials did not have a formal written plan for using the reserve funds over the last five years.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial condition for the period January 1, 2012 through March 6, 2014. We extended our scope period back to January 1, 2011 to review the District's financial trends. To accomplish our audit objective and obtain relevant audit evidenced our procedures included the following:

- We interviewed District officials to gain an understanding of the policies and procedures used to control, record and monitor financial assets and transactions.
- We reviewed the District's statutory requirements and financial records and reports to determine if District officials performed their duties in accordance with applicable laws and regulations.
- We reviewed Board minutes to determine whether financial activities were properly authorized and to assess the extent of Board oversight.
- We reviewed District records to verify the amount of total cash receipts and disbursements for 2012 and 2013 and calculated fund balance as of December 31, 2013.
- We compared the actual revenues with estimated revenues and budget appropriations with actual expenditures for 2011 through 2013 to determine budget variances. We also compared the 2013 unassigned fund balance with the 2014 budget appropriations.
- We requested reserve fund supporting documentation and documented Districts official's intent for this reserve. We also verified the reserve's balance as of December 31, 2013.

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 D

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