



Monticello Joint Fire District Fiscal Operations

Report of Examination

Period Covered:

January 1, 2015 — January 17, 2017

2017M-80



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2017

Dear Fire District Officials:

A top priority of the Office of the State Comptroller is to help local government 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 local governments 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 operations and Board of Fire Commissioner governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Monticello Joint Fire District, entitled Fiscal Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government 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 Monticello Joint Fire District (District) is a district corporation of the State, distinct and separate from the Town of Thompson and Village of Monticello in Sullivan County. The District provides fire protection to over 15,300 residents and covers 84 square miles. The 2017 general fund budgeted appropriations totaled over \$2 million and were funded primarily by real property taxes.

The Board of Fire Commissioners (Board) is composed of five elected members and is responsible for the District's overall fiscal operations, including adopting the budget and providing oversight over financial transactions. The Board appoints a Treasurer and Secretary. The Treasurer acts as the District's chief fiscal officer and is responsible for the receipt and custody of District funds, disbursing and accounting for those funds, and preparing monthly and annual financial reports. He also develops and presents a tentative budget to the Board. The Secretary is responsible for keeping a complete and accurate record of the proceedings of each Board meeting and all Board-adopted rules and regulations.

Objective

The objective of our audit was to assess the Board's oversight of the District's financial condition and Treasurer's duties. Our audit addressed the following related question:

- Did the Board properly oversee the District's fiscal operations?

Scope and Methodology

We examined the District's budgeting practices and internal controls over financial operations for the period January 1, 2015 through January 17, 2017. We extended our scope period back to January 1, 2014 to analyze budgeting and fund balance trends.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials

generally agreed with our recommendations and indicated they planned to initiate corrective action.

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

Fiscal Operations

The Board is responsible for providing oversight of the District's fiscal operations and making sound financial decisions in the best interest of the residents. This includes adopting realistic budgets and establishing the levels of fund balance to be maintained. Additionally, the Board is responsible for establishing internal controls to provide reasonable assurance that District resources are adequately safeguarded and accounted for and financial transactions are properly authorized.

The Board should improve its oversight of the District's fiscal operations. The Board adopted unrealistic budgets that contributed to the growth of total fund balance by 21 percent between 2014 and 2016 (to \$1.6 million). District officials have not established the levels of fund balance to be maintained or thresholds for reserves. As a result, the Board increased the tax levy by 7 percent, needlessly taxing the residents and overriding the tax levy cap in 2016 and 2017. Furthermore, the Treasurer was performing all financial transactions without sufficient oversight or mitigating controls. Although the Board established a financial and internal audit policy that would provide mitigating controls to safeguard District money, the Board was not following it. As a result, there is an increased risk that errors or improper payments could occur and not be detected.

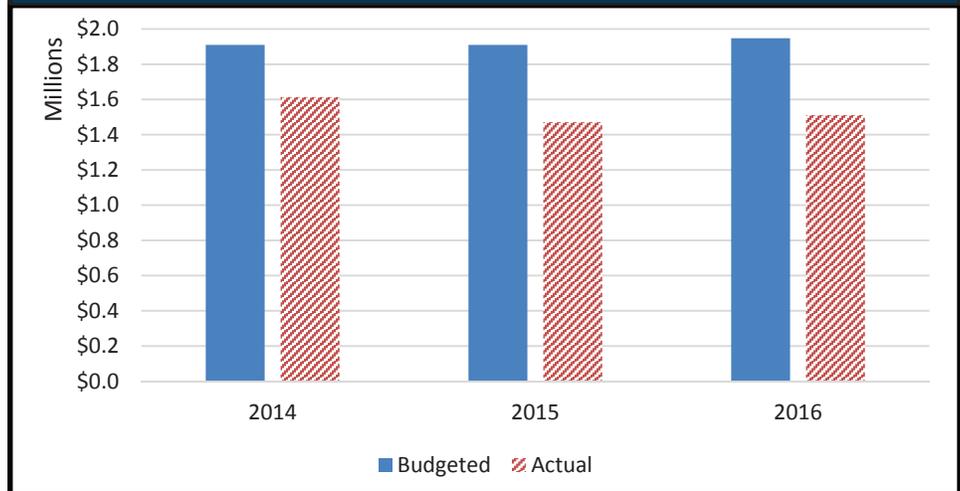
Budgeting

It is essential that the Board adopt realistic and structurally balanced budgets to provide recurring revenues to finance recurring expenditures based on historical trends and changing needs as well as to establish anticipated spending levels to use as a tool for financial management throughout the year. The Board may budget to use a portion of unrestricted fund balance¹ to finance the next year's budget. However, it is imperative that officials establish fund balance goals, including the level of unrestricted fund balance that should be maintained to provide a cushion for unforeseen expenditures and cash flow needs. This plan should also include formally establishing necessary reserves to fund future needs, levels to be maintained in the reserves, and how funds will be used.

The Board did not adopt realistic budgets for the 2014 through 2016 fiscal years. Although total budgeted revenues were reasonable, total expenditures were overestimated an average of 20 percent or almost \$391,000 annually.

¹ Fund balance represents the cumulative residual resources from prior fiscal years.

Figure 1: Budgeted vs. Actual Expenditures



We compared budgeted appropriations to actual expenditures for these years and did not identify any specific budget lines that drove these variances. The variances were spread across 41 percent of the budget lines (See Appendix C). Furthermore, the Board repeatedly budgeted the same amounts from year-to-year in certain lines even though the actual prior year's expenditures were significantly less. For example, the Board budgeted \$70,000 every year for heating fuel when the average annual cost was just over \$19,500. Overestimated expenditures year after year resulted in cumulative operating surpluses totaling over \$182,000. Even though the Board budgeted to use an average of almost \$368,000 of unrestricted fund balance each of the last three fiscal years (2014 through 2016), they only used \$90,000 in 2014.

These budget variances occurred because the Board relied on the Treasurer to develop the preliminary budget. The Treasurer did not use historical trends but instead budgeted the same or similar amounts in some of the expenditure lines year after year. Although the Board members received budget-to-actual reports, they were not effectively utilizing these reports to monitor financial operations, as they were not aware of how inaccurate the budgets were. While the Board members review and discuss the preliminary budget in comparison with the budget in the previous year and the actual expenditures from the most recent completed year, they are not reviewing historical trends to ensure that realistic amounts were budgeted.

The adoption of unrealistic budgets contributed to the growth of total fund balance by 21 percent (to \$1.6 million² or 80 percent of annual appropriations). Furthermore, the Board has not established

² Of this \$1.6 million in total fund balance, \$1.1 million is reserved.

the levels of fund balance to be maintained or threshold amounts for its reserves. Although it is prudent to budget conservatively to protect against unforeseen circumstances, doing so while maintaining fund balance at greater than reasonable levels without established goals contributes to tax levies that are higher than necessary. During this same time, the Board increased the tax levy by 7 percent (\$105,000), needlessly taxing the residents of the Fire District and unnecessarily overrode the tax cap in 2016 and 2017.

Treasurer's Duties

Good internal controls include segregating financial duties so that the same individual does not prepare and disburse checks, process payroll, record the transactions in the accounting records and perform bank reconciliations. If segregation of duties is not feasible, the Board should implement mitigating controls by increasing its oversight of these activities.

The Treasurer performs all financial transactions without adequate oversight. Although the Board established a comprehensive financial and internal audit policy to provide mitigating controls, it is not followed. While Board members are aware of the policy, they are not aware of the specific responsibilities outlined within it. As a result, although the Board audits and approves the claims on a monthly basis, including comparing the claims to the abstracts and has an annual external audit conducted, Board members are not reviewing bank reconciliations, bank statements or canceled check images on a monthly basis in compliance with their policy. Furthermore, the Board is not adequately monitoring financial operations against the budget during the year.

We reviewed all bank statements and canceled check images during our audit period, 15 bank and wire transfers totaling almost \$1.3 million, 115 canceled check images totaling \$294,000, claim vouchers, abstracts, payroll registers, W-2s, Board meeting minutes, employment contracts, withholdings, health insurance bills and other supporting documentation. We determined whether checks were written to cash or the Treasurer improperly or for other improper purposes and whether all District employees were legitimate, paid at the authorized rates and had accurate and proper withholdings. Although we did not find any material discrepancies, without adequate internal controls there is a risk that errors or improper payments could occur and not be detected.

Recommendations

The Board should:

1. Adopt reasonable budgets that more accurately reflect historical trends and known future needs in actual expenditures.

2. Develop a fund balance policy that establishes the levels of fund balance and the types and amounts for reserves including how they will be funded and when they will be used.
3. Review, revise and follow its comprehensive financial and internal audit policy to ensure procedures such as reviewing bank reconciliations, bank statements or canceled check images on a monthly basis are performed.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Monticello Joint Fire District

23 Richardson Avenue
Monticello, NY 12701
(845) 794-6330

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Dean Gilmour
Chairman

Commissioner
Michael Bastone

Dori Huebner
Secretary

Gary Lasher
Treasurer

Commissioner
Vince Price

Commissioner
Michael Croissant

Commissioner
Ryan Schock

June 30, 2017

State of New York
Office of the State Comptroller
Newburgh Regional Office
Tenneh Blamah, Chief Examiner
33 Airport Center Drive, Suite 103
New Windsor, New York 12553

Report of Examination 2017M-80

Dear Ms. Blamah:

Thank you for your office's preliminary report which was received on ~~MAY 26~~ 2017 and the same has been reviewed and discussed by the Board of Fire Commissioners following the exit conference with examiner-in-charge on June 1, 2017.

We are grateful for the professionalism shown by the Comptroller's staff. The suggestions and observations for our assuring continued awareness of taxpayer protection has been extremely valuable.

In particular, we are very appreciative of confirmation that the audit found no indications of any fraud, theft or other possible misconduct by fire district officials in dealing with public funds. The thoroughness of your office's review of all disbursements and finding that there were no discrepancies, that payments to employees were at the correct rates, with proper withholdings, is further assurance that all taxpayer dollars are being spent properly.

We are in agreement with the audit's findings and have begun the process of implementing measures to improve the District's management and oversight of the District's fiscal affairs as outlined in your recommendations. We also welcome this opportunity to prepare and present our completed corrective action plan, which provides a detailed account of how we have used the audit findings and recommendations to positively improve operations and internal controls.

The Board of Fire Commissioners has carefully considered the Report of Examination as well as each of the recommendations, and believes it is in the best interest of both the Fire District and the taxpayers of the Fire District to combine its response with its Correction Action Plan.

Accordingly, this audit response is also serving as the Correction Action Plan.

Audit Recommendation #1:

The Board should adopt reasonable budgets that more accurately reflect historical trends and known future needs in actual expenditures.

Implementation Plan of Action: The Board of Fire Commissioners will thoroughly review historical expense trends in combination with projected operating and capital expenses and develop a comprehensive spending and budget plan to assure that tax levies remain consistent with current and projected needs of the Fire District to assure continued public safety and fire protection within the Fire District.

Implementation Date: Immediately and ongoing.

Person Responsible for Implementation: The Board of Fire Commissioners and the Treasurer.

Audit Recommendation #2:

The Board should develop a fund balance policy that establishes the levels of fund balance and the types and amounts for reserves including how they will be funded and when they will be used.

Implementation Plan of Action: The Board of Fire Commissioners will develop a fund balance policy that will reflect the current and projected capital and other short and long-term funding strategies and needs of the Fire District, including the nature and amount of such reserve requirements consistent with such strategies and needs to assure continued public safety and fire protection within the Fire District.

Implementation Date: Immediately and ongoing.

Person Responsible for Implementation: The Board of Fire Commissioners and Treasurer.

Audit Recommendation #3:

The Board should review, revise and follow its comprehensive financial and internal audit policy to ensure procedures such as reviewing bank reconciliations, bank statements or canceled check images on a monthly basis are performed.

Implementation Plan of Action: The Board of Fire Commissioners will actively engage with the Treasurer and otherwise assure that the same individual does not prepare and disburse checks, process payroll, record the transactions in the accounting records and perform bank reconciliations by both segregation of duties and active Board oversight. The Board will require the Treasurer to regularly report and submit financial records to the Board for review and monitoring financial operations against the current budget during the fiscal year. The Board of Fire Commissioners is in the process of

adopting and implementing a new Cash Receipts and Disbursements Policy which establishes, among other things, specific responsibilities of the Treasurer for the submission of required reports and records to the Board of Fire Commissioners in a timely and ongoing basis, as well as Board review of bank reconciliations, bank statements and canceled check images on a monthly basis in compliance with current Fire District policy.

Implementation Date: Immediately and ongoing.

Person Responsible for Implementation: The Board of Fire Commissioners and the Treasurer.

Again, we wish to thank your team of examiners for their thorough examination of the Fire District's records and the time spent with District officials in explaining the audit process and their findings.

Very truly yours,

~~MONTECELLO~~ JOINT FIRE DISTRICT

By: _____

Dean Gilmore, Chairman
Board of Fire Commissioners

APPENDIX B

BUDGET APPROPRIATION LINE VARIANCES

Figure 2: Overestimated Line Appropriations for 2014 through 2016			
Description	Cumulative Appropriation	Cumulative Actual Expenditures	Cumulative Differences
Health Insurance	\$376,824	\$240,092	\$136,732
Wages-Compensated/Holidays	\$105,000	\$60,469	\$44,531
Self-Contained Breathing Apparatus	\$60,000	\$16,858	\$43,142
Heating Fuel	\$210,000	\$58,904	\$151,096
Physicals	\$90,000	\$54,587	\$35,413
Hose	\$22,500	\$6,728	\$15,772
Gasoline Equipment	\$60,000	\$31,775	\$28,225
Diesel Fuel Trucks	\$60,000	\$20,471	\$39,529
Protective Clothing	\$65,000	\$40,173	\$24,827
Accident and Sickness Insurance	\$52,500	\$24,622	\$27,878
Vehicle Insurance	\$33,600	\$7,272	\$26,328
Building & Inland Marine Insurance	\$63,000	\$12,129	\$50,871
Legal Fees	\$30,000	\$16,411	\$13,589
Life Insurance	\$30,000	\$20,084	\$9,916
Auditor Accounting Fees	\$45,000	\$24,572	\$20,428
Water/Sewer	\$25,500	\$7,205	\$18,295
Uniform/Emergency Medical Technician Paid Service	\$20,000	\$13,800	\$6,200
Training District	\$18,000	\$3,963	\$14,037
Inspections	\$15,000	\$3,292	\$11,708
Unemployment Insurance	\$15,000	\$4,578	\$10,422
District Travel	\$12,000	\$3,559	\$8,441
Uniform/Volunteers	\$12,000	\$2,626	\$9,374
Carting Fees	\$12,000	\$7,693	\$4,307
Heating Main	\$9,000	\$2,908	\$6,092
Parade	\$7,500	\$3,300	\$4,200
Heating Ventilation and Air Conditioning-Main	\$9,000	\$0	\$9,000
Oxygen Supplies	\$4,500	\$0	\$4,500
Annual Inspection/Dinner	\$3,000	\$0	\$3,000

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and employees and reviewed Board minutes and the District's financial and internal audit policy to gain an understanding of the Board's oversight of financial operations including the budget development and adoption process and the controls over the Treasurer's duties to determine whether reserve and fund balance levels were established and whether the Board followed the financial and internal audit policy.
- We compared the total budgeted revenues and appropriations to actual revenues and expenditures from 2014 through 2016. We also compared the results of operations for this same period to the budgeted appropriated fund balance to determine whether the Board adopted reasonable budgets.
- We compared budgeted appropriation lines to actual expenditures to determine whether there were any specify line items driving the variance between budgeted and actual expenditures.
- We reviewed the tax levies for 2014 through 2017 to determine trends and whether the levies stayed within the tax cap limitations.
- We reviewed all bank statements and canceled check images from January 2015 through December 2016 and traced all 15 bank and wire transfers totaling \$1.3 million to supporting documentation to determine whether they were proper disbursements. We also reviewed the bank statements to determine whether there were any cash withdrawals, checks payable to cash or checks to the Treasurer and did not find any.
- We randomly selected four months and traced all 115 canceled check images totaling \$294,000 to Board-approved claim vouchers and abstracts and supporting documentation to determine whether they were Board approved, legitimate District expenditures.
- We reviewed all payroll registers from January 2015 through January 2017 to determine whether all individuals paid were employees.
- We compared all seven employees' gross pay for 2015 and 2016 from their W-2s to Board-approved rates or employment contracts to determine whether they were paid proper amounts.
- We compared the actual withholdings for health insurance to bills, employment contracts and the payroll register to determine whether the proper amounts were withheld.
- We compared the Treasurer's State and federal withholdings from the payroll registers for 2015 and 2016 to the amounts withheld on his W-2s to determine whether the proper amounts were withheld.

- We calculated the amounts of Social Security and Medicare taxes that should have been withheld from all seven employees' gross pay for 2015 and 2016 and compared them to the amounts on the W-2s to determine whether the proper amounts were withheld.

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.

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