



Orange Lake Fire District Budgeting Practices

Report of Examination

Period Covered:

January 1, 2014 – April 30, 2015

2015M-146



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2015

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 Orange Lake Fire District, entitled Budgeting Practices. 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 Orange Lake Fire District (District) is located in the Town of Newburgh (Town) in Orange County, covers 12.5 square miles and serves about 10,650 residents. The District is a district corporation of the State, distinct and separate from the Town, and is governed by an elected five-member Board of Fire Commissioners (Board). The District's two fire departments are composed of 100 volunteer members. The Board is responsible for preparing and adopting an annual budget which includes detailed estimates of expected revenues and expenditures. The Board has the power to levy taxes on real property located in the District.

The District Treasurer (Treasurer) is elected every three years and is responsible for the receipt, custody, disbursement and accounting of District funds and for preparing financial reports. The District Secretary is responsible for recording the proceedings of Board meetings and for retaining custody of all District records, books and papers. The District's budgets for 2014 and 2015 were \$1,463,000 and \$1,453,000, respectively. The District's three reserve funds totaled \$1,134,584 as of April 30, 2015.

Objective

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

- Do District officials use proper budgeting practices in preparing the District's annual budget and funding reserves?

Scope and Methodology

We examined the District's budgeting practices for the period January 1, 2014 through April 30, 2015. We extended our scope back to 2010 to review budgeting 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 B 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 agreed with our recommendations and indicated that they planned to take, or have already taken, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of New York State Town Law (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 District's office.

Budgeting Practices

The annual budget, sometimes referred to as the operating budget, details the District's financial plan for a fiscal year. In accordance with Town Law, the Board is required to prepare and adopt an annual budget within a prescribed timetable and in a format prescribed by the Office of the State Comptroller (OSC). The Board is responsible for the overall management and control of the District's financial operations, including the preparation of a complete budget using realistic estimates. Prudent fiscal management also includes maintaining appropriate balances in reserves to address planned expenditures.

The District does not have written policies or procedures related to the preparation of the annual budget or the funding of reserves. As a result, the Board did not prepare District budgets in the format prescribed by OSC and based on reasonable estimates. Due to the unrealistic budget estimates, the District generated operating surpluses totaling \$648,570 from 2010 through 2014. Of this amount, \$620,984 was transferred to the District's reserves, in addition to \$1.275 million appropriated through the budget process for the purpose of funding the reserves. Operating surpluses and excess reserves result from the levy of excessive property taxes.

Budget Format

It is important that the District have written policies and procedures to guide the Board through the budgeting process. In accordance with Town Law, the budget must be in the form prescribed by OSC. It is required to include detailed estimates of the revenues to be received and expenditures to be made during the fiscal year, along with an estimate of fund balance that includes a breakdown of both restricted (reserved) and unrestricted funds. Good business practice requires the Board to have as much pertinent budget data as possible when preparing the annual budget. The budget document should contain a detailed list of appropriations and revenues including the actual results from the most recently completed fiscal year, the current year's modified budget and the upcoming year's preliminary and final adopted budgets.

The Board did not adopt any written policies or procedures for preparing the annual budget. As a result, the District's budgets were not complete. The 2010 through 2015 adopted budgets did not contain sufficient data comparing the previous year's completed financial activity with the current year's modified budget and the upcoming year's preliminary budget. Furthermore, the budgets listed only the appropriations and did not include estimated revenues other than the

tax levy amount. Additionally, budgets did not include all planned appropriations. For example, the Board planned to purchase fire trucks in 2010, 2013 and 2014 with capital reserve funds but did not include these appropriations and financing sources in its budgets.

The Board was not aware of the prescribed budget format and, as a result, did not provide taxpayers with complete budget information. Without a complete and transparent budget presentation, taxpayers do not have an accurate portrayal of how District funds will be used and whether the property tax levy is reasonable and necessary.

Budget Estimates

The District's budget is a tool used to guide financial transactions and communicates to taxpayers the manner in which officials plan to spend their tax dollars. The Board must ensure that budgets are prepared and adopted based on reasonable and accurate estimates of expenditures and the resources used to fund them. Budget estimates should be based on historical data of actual amounts expended and received.

The District's annual budgets do not include estimated revenues except for the amount to be levied for real property tax. However, the District receives other revenues, such as payments in lieu of taxes. In addition, the Board estimates expenditures based on the prior year's budgeted appropriations instead of the actual expenditures. Not using realistic budget estimates has resulted in operating surpluses each year. From 2010 through 2014, the District incurred operating surpluses totaling \$648,570.

We analyzed appropriations with significant budget variances and found that from 2010 through 2014 the Board overestimated:

- Mandated equipment expenditures by \$207,400. For example, the Board appropriated \$65,000 in 2013 and 2014 but spent \$30,270 and \$22,500, respectively.
- Insurance expenditures by \$118,500. The Board appropriated \$165,000 in 2013 and 2014 despite actual expenditures of \$153,900 and \$134,750, respectively.
- Professional services¹ expenditures by \$110,300. The Board appropriated \$25,000 in 2013 and \$15,000 in 2014 despite no expenditures in 2014 and actual expenditures of only \$452 in 2013.

¹ District officials told us this appropriation line represents architecture and engineering professional services. (Attorney, accounting and auditing services are a different line item.)

- Rent² expenditures by \$90,162. The Board appropriated \$160,000 in 2013 and 2014, but the highest actual expenditure for rent was \$140,446 in 2013.
- Communications expenditures by \$81,167. The Board appropriated \$70,000 in 2013 and 2014 although the District had a contract for \$36,972 annually for the radio lease.

Because the Board overestimated expenditures and did not account for revenues other than real property tax in its budgets, the District had operating surpluses and taxpayers paid more than necessary to fund the District's annual operations. Had the Board used more realistic budget estimates, it may have been able to reduce the real property tax levy.

Funding Reserves

General Municipal Law allows fire districts to establish different types of reserve funds. Reserve funds are typically funded from amounts raised through the annual budget process, transfers from unexpended balances of existing appropriations and surplus moneys. All reserve fund transactions should be transparent to the public. Ideally, amounts placed in reserves should be included in the annual budget. By including provisions to raise resources for reserve funds in its proposed budget, the Board can give residents an opportunity to know and review its plan for funding reserves. The Board should also periodically assess the amounts accumulated in the reserves and ensure that they are maintained at appropriate levels.

The District's 2010 through 2014 budgets included appropriations totaling \$1.275 million for funding the District's three reserve funds.³ Over the same five-year period, the Board also applied \$620,984 of operating surplus funds to its reserves, which was not included in the budget. In the 2015 budget, the District also appropriated and transferred an additional \$300,000 to the reserve for equipment fund. As of April 30, 2015, the reserve had a balance of approximately \$1 million. District officials told us they plan to purchase trucks in 2016 and 2017, at an estimated cost of \$575,000 each. The current capital reserve balance is consistent with these upcoming planned purchases. However, if the District continues to appropriate money for reserves over the next five years by the same amount as it has over the past five years, it will have over \$1.3 million⁴ in reserves in 2019 (after

² Rent is for the firehouse bay and storage spaces for District-owned trucks.

³ The District has a capital reserve for equipment, a capital reserve for real property and a repair reserve for equipment. Most of the reserve funding (over \$1.2 million) was for the capital reserve for equipment.

⁴ The capital reserve for equipment amount as of April 30, 2015 was \$1,005,894, plus \$1,500,000 (\$300,000 each of the next five years), less \$1,150,000 (planned fire truck purchases), which equals \$1,355,894

purchasing the two fire trucks), in addition to any operating surpluses that are transferred to the reserves. The Board should evaluate the District's future needs and avoid overfunding these reserves.

Recommendations

The Board should:

1. Ensure compliance with Town Law by developing policies and procedures over the budgeting process so that proposed budgets are in the required format and contain sufficient and complete information.⁵
2. Base the budget estimates on reasonable assumptions using historical trends and/or actual expenditures.
3. Evaluate the amounts budgeted for reserve accounts for reasonableness and accumulate only those funds necessary to fund planned purchases.

⁵ Budgeting guidance can be found in the Budgeting chapter of the *Accounting and Reporting Manual for Fire Districts* on the OSC website at http://www.osc.state.ny.us/localgov/pubs/arm_fds.pdf

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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21 September 2015

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Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Attention: Tenneh Blamah
Chief Examiner of Local Government and
School Accountability

Reference: Report of Examination 2015DM-146

Dear Chief Examiner:

This letter is in response to the preliminary draft findings and recommendations of your office's recent examination and exit interview of the Orange Lake Fire District.

We agree with your findings and recommendations. The board will make every effort to comply with the Comptroller's guidelines (Accounting and Reporting Manual) for Budgeting as a Corrective Action plan as per the findings noted in your report.

Very truly yours,

Gary Ferguson, Chairman
Orange Lake Fire District

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed the Chairman and the Treasurer to gain an understanding of the District's budgeting practices.
- We reviewed the District's policies and procedures, Board minutes and supporting documentation related to our audit objective.
- We reviewed the adopted budgets for the years 2010 through 2015.
- We analyzed budget lines with significant budget-to-actual variances.
- We reviewed Board resolutions establishing and funding reserve accounts.
- We reviewed information reported to the Office of the State Comptroller in the annual update document.
- We reviewed reserve account bank statements to establish beginning and ending balances.
- We reviewed financial information provided by the District.

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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