

Plainville Fire District

Board Oversight

OCTOBER 2021



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

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Report Highlights

Plainville Fire District

Audit Objective

Determine whether the Plainville Fire District (District) Board of Fire Commissioners (Board) provided adequate oversight of the District's financial operations.

Key Findings

The Board did not provide adequate oversight of the District's financial operations and exceeded its authority by passing a resolution that allowed the District Treasurer (Treasurer) to pay all recurring expenditures without the Board's prior review or approval. The Board did not:

- Adopt transparent or realistic budgets.
 - Budgets underestimated transfers to reserves and overestimated appropriations.
- Adopt a fund balance policy or develop multiyear financial and capital plans.
- Ensure the Treasurer filed annual financial reports, for 2018 through 2020.
- Ensure the Treasurer's records were audited each year, as required.
- Audit and approve all claims prior to payment when required.
 - We tested claims totaling \$289,700 and found claims totaling \$41,300 were improperly paid prior to Board audit and approval.

Key Recommendations

- Adopt realistic budgets and a fund balance policy and develop multiyear financial and capital plans.
- Ensure AUDs are filed on time.
- Audit and approve claims prior to payment when required.

District officials agreed with our recommendations and indicated they have begun and will continue to take corrective action.

Background

The District is in the Town of Lysander in Onondaga County.

An elected five-member Board governs the District and is responsible for its overall financial management. The Board-appointed Treasurer is the chief fiscal officer and is responsible for receiving, having custody of, disbursing and accounting for District funds and preparing periodic financial reports.

Quick Facts

2020 Budgeted Appropriations^a	\$389,900
2020 Year-End Reserve Fund Balance	\$342,235
2021 Tax Levy	\$415,752

a) Includes \$40,000 of Adopted Budget Transfers to Reserves

Audit Period

January 1, 2020 – December 31, 2020

We extended our audit period back to January 1, 2018 to perform financial trend analysis and review reserve funds, Annual Update Document (AUD) filings and compliance with annual audit requirements.

Board Oversight

What Is Effective Board Oversight of Financial Operations?

To effectively manage operations and financial condition, a board should adopt realistic, transparent and structurally balanced budgets that finance recurring expenditures with recurring revenues based on historical or known trends.

The board should maintain a reasonable amount of unrestricted fund balance for unforeseen circumstances and to provide cash flow – for example, to compensate for timing differences between when revenues are received, and expenditures are made. Fire districts are also legally allowed to establish reserves and accumulate funds for certain future purposes (e.g., building improvements or fire apparatus). If a board chooses to accumulate money for future capital improvements or equipment, it must pass a resolution to formally establish a reserve fund for that purpose.¹ Combining a reasonable level of unrestricted fund balance with legally established reserves provides safeguards for unanticipated events and other identified or planned needs.

The board should adopt a policy that addresses the appropriate level of unrestricted fund balance to be maintained and establish long-term financial and capital plans. Planning on a multiyear basis allows district officials to identify developing revenue and expenditure trends, determine the appropriate funding and use of reserve funds, and address equipment and capital needs by setting long-term priorities and goals. The board should use its fund balance policy and plans when developing the annual budget to ensure that fund balance is maintained at reasonable levels and include funding for necessary reserves in the budget as appropriate. Utilizing these plans also should help district officials and taxpayers see the impact of the board's fiscal decisions over time and help ensure the amount of real property taxes levied is not greater than necessary.

A treasurer is required to submit an annual financial report, commonly referred to as the AUD, of the district's financial operations to the Office of the State Comptroller (OSC) within 60 days after the close of the fiscal year. The AUD is an important fiscal tool to help the board monitor district operations and the financial health of the district and provides interested parties or stakeholders with a complete summary of the district's financial activities.

In addition, New York State Town Law, Section 181-b requires a fire district board to obtain an independent audit when the district's annual revenues exceed \$400,000. Prior to 2020, an annual audit was required when district revenues exceeded \$300,000. A copy of the audit report must be given to the board, the town board(s) of municipalities served by the fire district and OSC within 180 days of the end of the fiscal year audited. When revenues are below the threshold, the board should perform an annual audit of the treasurer's records unless it chooses to obtain an independent audit. An annual audit helps ensure that district's financial operations are properly accounted for and transactions are properly recorded and reported.

¹ For more information on reserve funds, see the publication entitled *Local Government Management Guide - Reserve Funds* at <https://www.osc.state.ny.us/files/local-government/publications/pdf/reservefunds.pdf>.

A board must audit claims against a district prior to payment and order the treasurer to pay the audited claims. However, a board may, by resolution, authorize payment in advance of audit for certain public utility services, postage, freight and express charges.² Such claims must be presented for audit at the next board meeting.

An effective claims auditing process ensures that every claim against a district is subjected to a thorough and deliberate review to verify that each claim contains adequate supporting documentation and the amounts claimed represent actual and necessary district expenditures.

The Board Did Not Effectively Manage Financial Condition

The Board did not adopt realistic budgets for the years 2019 and 2020 because it significantly overestimated appropriations in the 2019 and 2020 budgets.

Appropriations were overestimated by about \$99,500 (39 percent) in the 2019 budget and roughly \$49,800 (17 percent) in the 2020 budget. These budget surpluses contributed to a \$210,991 (78 percent) increase in the general fund's total fund balance from the end of 2018 to the end of 2020. Of this increase, \$65,000 was planned because the Board budgeted to transfer money for this amount to its two capital reserve funds (a building improvements capital reserve and an equipment capital reserve³) in 2019 and 2020. However, the remaining increase of nearly \$146,000 was not planned in the budgets.

Although the budgets included provisions to increase the balances of the District's capital reserves, the Board and District officials told us they intentionally overestimated budgeted appropriations to help ensure the District generated operating surpluses each year, which could be used to provide additional funding for the District's capital reserve funds. They explained the current fire station was built in the 1960's and they need a new station to keep up with the area's growing population base. They also explained that the District needed to reserve money for future equipment purchases that were planned in previous years but not executed. The Board's intention was to generate surpluses and subsequently transfer surplus money into the capital reserves, in addition to the amounts included to be transferred in the District's annual budgets, to be able to purchase a new station and equipment without incurring a large amount of debt.

However, the Board's plan to fund its reserve funds in this manner was not transparent and resulted in the adoption of unrealistic budgets and tax levies that were not adequately justified to taxpayers. For example, the Board budgeted to transfer a total of \$40,000 to its building improvements capital reserve and equipment capital reserve in the 2020 budget, but it ultimately transferred a total of \$150,422 to the reserves in 2020.

² Town Law, Section 176(4-a)

³ As discussed later in the report, officials could not provide Board resolutions showing the establishment of these reserve funds.

Based on our analysis, the general fund ended 2020 with a fund balance of \$479,946, which consisted of \$137,711 in unrestricted fund balance and \$342,235 in fund balance restricted in reserve funds (Figure 1).

The Board has not adopted a fund balance policy that addresses the appropriate level of fund balance to be maintained to meet the District's needs. The \$137,711 of unrestricted fund balance at the end of 2020 was 46 percent of that year's expenditures, which means the District had enough unrestricted fund balance to finance nearly half of its annual costs. While it is prudent to maintain an adequate level of unrestricted fund balance to use as a financial cushion in the event of unforeseen financial circumstances, this level is higher than necessary.

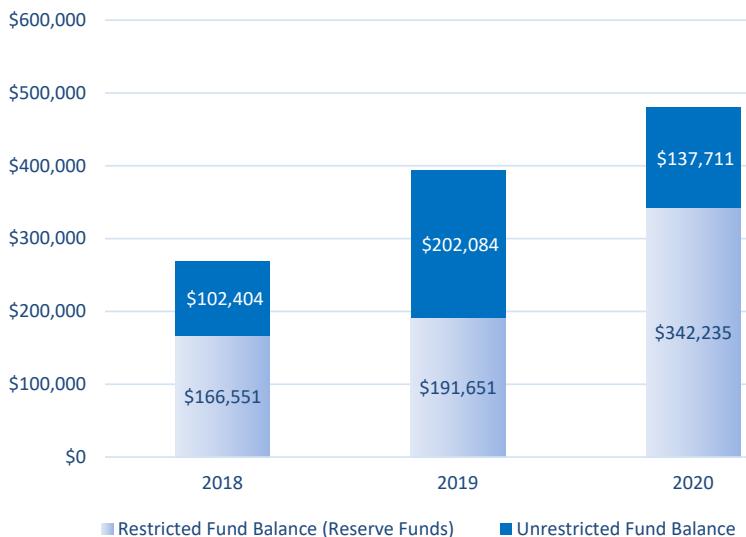
The Board Did Not Develop Multiyear Financial and Capital Plans

The Board has not developed written multiyear financial or capital plans or equipment replacement schedules. Multiyear financial and capital plans, in conjunction with sound budgets, allow the Board to prepare for future acquisitions of equipment and buildings, plan for how they will be financed, determine the appropriate funding and use of reserve funds and maintain a reasonable level of fund balance.

Planning on a multiyear basis is especially important, given that officials have been discussing the need to construct a new fire station, which they estimate could cost over \$1 million. The establishment of multiyear plans would help guide officials as they develop future budgets and provide more transparency to taxpayers on the District's long-term financial and capital goals. It would also help officials ensure the tax levy is sufficient to meet the District's needs, but not greater than necessary.

FIGURE 1

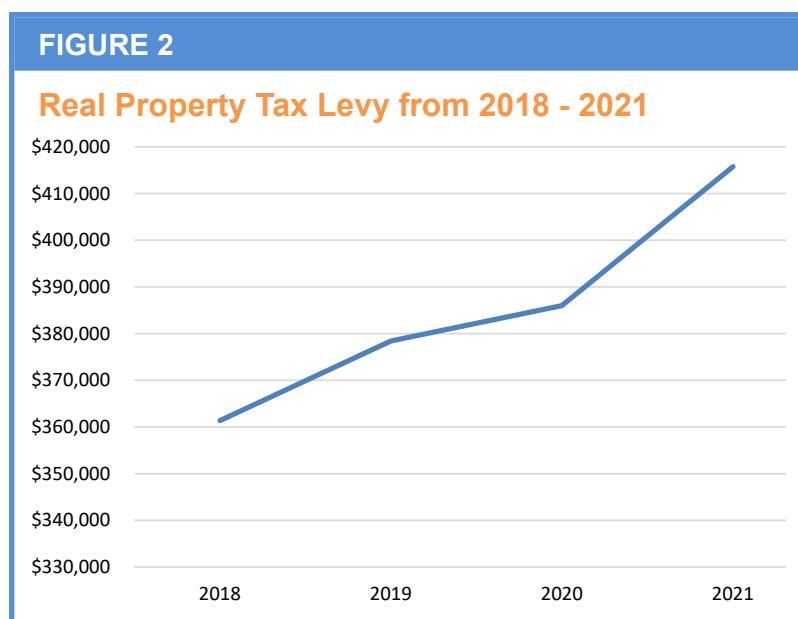
Year-End General Fund Balance



Planning on a multiyear basis is especially important, given that officials have been discussing the need to construct a new fire station, which they estimate could cost over \$1 million.

From 2018 to 2021, the Board increased the District's tax levy by \$54,382 (15 percent) from \$361,370 to \$415,752 to fund its operations, purchase equipment and add to its reserve funds (Figure 2).

Without a fund balance policy and long-term plans, it is difficult for the Board to demonstrate to taxpayers that the real property taxes are not greater than necessary to meet the District's needs.



The Board Did Not Properly Establish Reserve Funds

The District reported capital reserve funds as early as 2007 in the AUD, but officials were unable to provide us with any documentation showing that the Board passed the required resolutions to formally establish the building improvements capital reserve and equipment capital reserve funds. At December 31, 2020, the building improvements reserve had a balance of \$194,393 and the equipment reserve had a balance of \$147,842.

Because of the way the District budgeted, accounted for and reported this money, we believe the funds represent "de facto" capital reserve funds. As such, the Board should take remedial actions to ratify the reserve funds. In general, these actions would include following the procedures which were required at the time the funds were reserved.

Taking these actions also will help clearly convey the Board's intent regarding the future purpose and use of funds and reduce the risk that subsequent boards could use these moneys for purposes other than what this Board and previous boards intended.

The Board Did Not Ensure AUDs Were Filed and the Treasurer's Records Were Audited

The AUD is the annual report of the District's financial position and results of operations. As of the end of our fieldwork on May 4, 2021, the Treasurer had not completed or submitted the 2018, 2019 or 2020 AUDs to OSC. The Treasurer told us she made an error when recording accrued payroll liabilities totaling about \$3,900 in 2018 and she wanted the District's certified public accounting (CPA) firm to correct the issue prior to filing the 2018 and subsequent years' AUDs. Board members told us they were aware of the issue and were waiting for assistance from the CPA firm to make the necessary corrections so the Treasurer can file the AUDs.

When AUDs are not filed in a timely manner, the Board, taxpayers, OSC and other interested parties are denied the ability to assess the District's financial standing and the transparency of operations is diminished. It could also hinder the District's ability to secure financing, if necessary, for upcoming financial needs.

In addition, the Board did not ensure annual audits of the Treasurer's records were done timely. The Board was required to have an independent audit performed of the Treasurer's 2018 and 2019 records because the District received more than \$300,000 in revenues each year. Board members told us the CPA firm is currently in the process of auditing the 2018 and 2019 records. The Treasurer told us they have had a productive working relationship with the CPA firm in the past and they want to give the firm more time to complete the annual audits. Although the District's 2020 records did not require an independent audit because the revenues were below the current \$400,000 threshold, the Treasurer told us the District plans to have the CPA firm audit the 2020 records after our audit fieldwork is complete.

It is important that the District has a timely independent audit performed each year when required by law or when not required, at a minimum, the Treasurer's books and records should be audited by the Board. Without an annual audit, the Board has less assurance that financial operations are properly accounted for and transactions are properly recorded.

The Board Did Not Audit and Approve All Claims Prior to Payment When Required

While reviewing the organizational minutes from January 2020, we found a resolution authorizing the Treasurer to pay all recurring expenditures including utilities, cell phone stipends and fuel deliveries. The Board exceeded its authority by passing this resolution. While the Board can pass a resolution authorizing the payment of certain claims (e.g. utilities, postage, freight and express charges) prior to audit, it cannot authorize all recurring expenditures to be paid prior to audit.

We reviewed all 298 claims totaling \$289,700 paid during our audit period to determine whether the Board had audited and approved the claims prior to payment as required. Although we found that payments were supported by detailed receipts and were for proper District purposes, the Treasurer paid 77 claims (26 percent) totaling \$41,300, prior to the Board's audit and approval which were not qualified to be paid prior to audit. Claims that were inappropriately paid prior to a Board audit and approval included:

- \$12,849 for repairs, maintenance and parts,
- \$9,934 for equipment and other purchases,
- \$7,500 for air cylinders,
- \$5,065 for credit card purchases,
- \$3,635 for physicals, and
- \$2,317 for reimbursements to department chiefs for fuel and cell phone stipends.

When the Board improperly allows the Treasurer to make payments before the Board has audited and approved the related claims, there is an increased risk that claims could be paid that are not adequately supported or are not for valid District purposes.

What Do We Recommend?

The Board should:

1. Adopt budgets that include realistic estimates of appropriations and transfers to reserve funds.
2. Adopt a written fund balance policy that establishes a reasonable level of unrestricted fund balance to be maintained to meet the District's financial needs.
3. Reduce surplus fund balance and use the excess as a financing source to benefit District taxpayers. Such uses include, but are not limited to:
 - Funding needed reserves,
 - Funding one-time expenditures, and
 - Reducing real property taxes.
4. Develop multiyear financial and capital plans to provide a framework for preparing future budgets and managing the financing of future capital needs. These plans should be monitored and updated on an ongoing basis.

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5. Take action to ratify the “de facto” building improvements capital reserve and equipment capital reserve funds by adopting appropriate resolutions.
 6. Ensure the Treasurer files the District’s AUD with OSC within 60 days after the close of the fiscal year.
 7. Ensure timely annual audits of the Treasurer’s records are performed.
 8. Audit and approve claims prior to payment when required.

Appendix A: Response From District Officials

PLAINVILLE FIRE DISTRICT
P.O. Box 173
Plainville, New York 13137



The Plainville Board of Fire Commissioners are in receipt of the audit report 2021M-91, this response shall serve as a combined response and corrective action plan to the findings therein.

The Plainville Fire District accepts the findings of report 2021M-91 and are in receipt of the recommended corrective actions contained therein:

1. Adopt budgets that include realistic estimates of appropriations and transfers to reserve funds.
2. Adopt a written fund balance policy that establishes a reasonable level of unrestricted fund balance to be maintained to meet the district's financial needs.
3. Reduce surplus fund balance and use the excess as a financing source to benefit District taxpayers. Such uses include, but are not limited to:
 - Funding needed reserves,
 - Funding one-time expenditures, and
 - Reducing real property taxes.
4. Develop multiyear financial and capital plans to provide a framework for preparing future budgets and managing the financing of future capital needs. These plans should be monitored and updated on an ongoing basis.
5. Take action to ratify the "de facto" building improvements capital reserve and equipment capital reserve funds by adopting appropriate resolutions.
6. Ensure the Treasurer files the District's AUD with OSC within 60 days after the close of the fiscal year.
7. Ensure timely annual audits of the Treasurer's records are performed.
8. Audit and approve claims prior to payment when required.

This plan of action was adopted by the Board of Fire Commissioners on September 14, 2021:

Budgets

Budgets shall reflect more realistic estimates based on historical data and the assessed needs of the district to provide continued services to the district residents. The fire district has completed an inventory assessment which has been incorporated into records management software to further identify annual and future appropriations; this shall assist in the development of budgets based on realistic estimates.

Fund Balance and Capital Planning

A fund balance policy was adopted at the meeting of September 14, 2021 detailing a realistic approach to fund balance. The policy will be reviewed annually to ensure continued relevance, applicability and compliance. The policy will be used in conjunction with our long-range capital planning efforts, identifying minimum and maximum amounts of fund balance and determinations for under/over funding.

A written capital plan process has begun with anticipated completion by year end; the replacement of apparatus schedule is complete, major equipment replacement schedule is proceeding and a schedule of building repair/renovation/replacement will begin shortly.

Capital Reserve Funds

Resolutions memorializing the establishment of the Equipment Capital Reserve and the Building Capital Reserve were passed at the September 14, 2021 Board meeting.

Treasurer Oversight

The procedure for payment of invoices has been examined and modified; henceforth, the Treasurer shall only pay utility bills and postage (or other allowable delivery related services) prior to Board approval. The Board shall continue to examine, audit and approve each payment voucher individually.

The Board of Fire Commissioners shall ensure all annual audits and reports are performed and submitted in a timely manner. Annual AUD and audit shall be reviewed at each March Board meeting.

2018 and 2019 AUD's have submitted to OSC. 2020 will be submitted by September 24, 2021. Audits will be reviewed at the November 2021 Board meeting.

Additionally, Commissioners and District Treasurer have been provided with information on the following OSC webinars and urged to participate by year end: **Developing an Effective Fund Balance Policy, Multiyear Financial Planning and Multiyear Capital Planning and Budgeting.**

Respectfully submitted,

Ken Landon
Chairman of the Board of Fire Commissioners
Plainville Fire District
September 20, 2021

Appendix B: Audit Methodology and Standards

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 District officials and reviewed available Board minutes and District policies to gain an understanding of District operations.
- We reviewed the budgets and available District financial records and reports.
- We reviewed monthly bank reconciliations for 2018 through 2020 and performed bank reconciliations for all bank accounts for the months of December 2018, 2019 and 2020.
- We reviewed the budgets and budget development process to determine how the Board prepares the adopted budget.
- We compared estimated revenues and appropriations in the adopted budgets with actual revenues and expenditures for 2018 through 2020 and determined whether the fund balance maintained by the District was reasonable based on historical expenditure trends.
- We reviewed all 298 disbursements totaling \$289,700 other than payroll from January 2020 through December 2020. We compared the voucher packets (vendor invoices and other supporting documentation), duplicate check copies, bank statements and the District's financial system's disbursement data. We reviewed disbursements for appropriateness, adequacy, accuracy, approvals and compliance with the District's purchasing policy. We reviewed cancelled check images as well.
- We reviewed the tax levies raised by the District for the years 2018 through 2021 to determine the amount and percentage of tax levy increases during our audit scope period.
- We inquired if the Board caused the District to be audited by an independent CPA when required, and when not required, by the Board itself. We also determined whether the District filed an AUD with OSC for the 2018 through 2020 calendar years.
- We reviewed the Treasurer's records and reconciled them to the bank statements in 2020 to determine the accuracy of the records. We compared recorded revenues totaling about \$386,000 to deposits, receipts, supporting documents (when applicable) and deposits on the bank statements.
- We traced claims totaling more than \$92,000 from five account codes judgmentally selected from the trial balance out of total disbursements of \$300,100 to the supporting documentation and cleared check images.

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- We reviewed bank statements from January 2018 to December 2019 and reviewed check images, deposit receipts and looked for any withdrawals, checks written to cash and transfers to outside banks to determine if there was suspicious activity.

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

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.

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 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. We encourage the Board to make the CAP available for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas
www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems
www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management
www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans
www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders
www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller
www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers
www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics
www.osc.state.ny.us/local-government/academy

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