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October 2015

Michael Tedeschi, Chairman  
Port Washington Fire Department  
423 Port Washington Boulevard  
Port Washington, NY 11050

Report Number: 2015M-209

Dear Mr. Tedeschi and Members of the Board of Directors:

The Office of the State Comptroller works to identify areas where fire department officials can improve their operations and provide guidance and services that will assist them in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage fire department officials to reduce costs, improve service delivery and account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Port Washington Fire Department (Department) which addressed the following question:

- Did the Board adopt reasonable budgets?

We discussed the findings and recommendation with Department officials and considered their comments in preparing this report. The Department's response is attached to this report in Appendix A. Department officials agreed with our recommendation and plan to take corrective action.

### **Background and Methodology**

The Department is located in Nassau County and contracts with the Town of North Hempstead (Town) and the Villages of Baxter Estates, Flower Hill, Manorhaven, Plandome Manor, Port Washington North and Sands Point (Villages) for the provision of fire protection services. The Department consists of four companies: Atlantic Hook and Ladder Company No. 1, Inc.; Protection Engine Company No. 1, Inc.; Flower Hill Hose Company No. 1, Inc.; and Fire Medic Company No. 1, Inc. The Department has approximately 300 active members. Revenues for 2014 included \$3,831,536 received from the Town and Villages for fire protection services. The Department also received revenue from fund-raising, donations and grants. For 2014, the Department's total revenues were \$4,151,819 and expenses totaled \$3,873,435.<sup>1</sup>

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<sup>1</sup> Excluding depreciation expense

The Department is operated in accordance with its bylaws which stipulate that the Board of Directors (Board) is responsible for the Department’s overall financial management. The Board is composed of the Department Chief and an elected representative from each of the Department’s four component companies. The Board, together with another representative from each company, annually form a budget committee that reviews the five preliminary budgets submitted by the Department and each of the companies. Once this committee has approved the five individual budgets, they are merged together to form the official Department budget.

We examined internal controls over the Department’s financial operations for the period January 1, 2012 through June 30, 2015. We interviewed appropriate Department officials and reviewed financial records and Board minutes. We conducted this performance audit in accordance with 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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not our 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.

### **Audit Results**

Board members are responsible for accurate and effective financial planning. They must ensure that budgets are prepared, adopted and modified in a prudent manner, accurately depicting the Department’s financial activity while using available resources to benefit the communities the Department serves. It is essential that the Board adopt reasonable, realistic and structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of net assets are maintained. It is important for revenue and expenditure estimates to be realistic and developed based on prior years’ operating results, past expenditure trends and anticipated future needs.

The Board needs to improve its budget process. We reviewed the Department’s budgets and operating results from 2012 through 2014 and found that revenue estimates were generally close to the actual amounts received because the majority of the Department’s revenues were from contractual amounts billed to the Town and Villages for fire protection services. However, the Department headquarters and four component companies presented, and the budget committee approved, budgets that underestimated expenditures each year.

<b>Figure 1: Budget vs. Actual</b>			
<b>Description</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Appropriations	\$3,751,137	\$3,786,806	\$3,837,596
Expenditures <sup>a</sup>	\$3,940,936	\$3,958,663	\$3,873,435
Variance: Expenditures	(\$189,799)	(\$171,857)	(\$35,839)
% Budget is Underestimated	4.82%	4.34%	0.93%
<sup>a</sup> Excluding depreciation expense			

The largest variances included building maintenance and supplies by as much as \$45,633, membership recognition and retention by as much as \$44,295, installation and inspection by as much as \$34,098 and drills and training by as much as \$34,074. Department officials said they attempted to reduce expenditures by reducing the amounts appropriated in the budgets that were presented to the component units and the public. Department officials intended to use unrestricted net assets to fund any purchases that exceeded the budgets. As a result, the Board's adopted budgets have not accurately portrayed expected Department operating costs to the companies and the public. Furthermore, by relying on net assets to fund budget shortfalls, the Department is not adopting structurally balanced budgets and is instead funding recurring expenditures with one-shot uses of accumulated net assets. Although the Department has unrestricted net assets totaling \$1,620,024 as of December 31, 2014 (41.6 percent of the subsequent year's budget), continuing this practice will eventually result in net assets being depleted and ultimately could cause the Department to go into a deficit position.

### **Recommendation**

1. The Board and budget committee should develop and adopt structurally balanced budgets that include realistic estimates of expenditures and an indication of how much of their net assets, if any, they plan to use.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the finding and recommendation 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. We encourage the Board to make this plan available for public review.

We thank the officials of the Port Washington Fire Department for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo  
Deputy Comptroller

## **APPENDIX A**

### **RESPONSE FROM DEPARTMENT OFFICIALS**

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

# PORT WASHINGTON FIRE DEPARTMENT, Inc.

423 PORT WASHINGTON BLVD., PORT WASHINGTON, NY 11050 (516) 883-2200 FAX 883-2659

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Atlantic Hook & Ladder Co. • Protection Engine Co. • Flower Hill Hose Co. • Fire Medic Co.

October 10, 2015

Mr. Gabriel F. Deyo, Deputy Controller  
State of New York  
Office of the State Comptroller  
110 State Street  
Albany, New York 12236

Dear Mr. Deyo:

On behalf of the Board of Directors and the members of the Port Washington Fire Department and its component unit companies, we wish to express our sincere thanks to the State Comptroller's Office auditors for their professionalism and advice we received during our recent audit of our budgeting process.

This letter serves as our response to the audit report.

We are in agreement with your findings and have instituted changes in our policies and procedures to adopt more accurate budgets. As you thoroughly noted in your examination, the Board of Directors attempted to reduce appropriated expenditures by reducing the estimated appropriations. This was not realistic. The departments' intent was rather than charge the taxpayers for the full cost of operating the department headquarters and four component companies; the board willfully made the decision to reduce net assets and cash reserves for balancing the budget. OSC auditors rightly pointed out that this is not a viable long term strategy. Continuing this process would deplete the net assets and the necessary fund balance that would be needed to operate an efficient fire protection and emergency medical service for our community.

We are fully in agreement with your findings and we express our sincere gratitude for your recommendations.

Sincerely,

Michael Tedeschi, Chairman  
Board of Directors