

Cherry Valley Fire District

Board Oversight

OCTOBER 2019



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

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Report Highlights

Cherry Valley Fire District

Audit Objective

Determine whether the Board properly established reserve funds, equitably billed for fire protection services, ensured the Treasurer prepared and filed records and reports and audited claims.

Key Findings

The Board did not:

- Properly establish reserves or establish a reserve fund policy.
- Ensure that fire protection contracts were signed, that the services provided were billed for and that the costs of services were equitably allocated between service areas.
- Ensure the Annual Update Documents (AUDs), which are the Annual Financial Reports, were completed and submitted to our office.
- Annually audit the Treasurer's records.

Key Recommendations

- Officially establish the capital reserve and a reserve fund policy.
- Ensure that fire protection contracts are signed, services provided are billed for and costs are equitably allocated between the District and towns outside the District.
- Ensure AUDs are filed with our office within 60 days after the close of the fiscal year.
- Annually audit the Treasurer's records.

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

Background

The Cherry Valley Fire District (District) is a district corporation of the State, distinct and separate from the Town of Cherry Valley (Town) in Otsego County. The District provides fire protection and emergency rescue services to the Town and, through contractual agreements, parts of the Towns of Roseboom and Middlefield. District operations are manned by the Cherry Valley Fire Department (Department).

An elected five-member Board of Fire Commissioners (Board) governs the District and is responsible for the overall financial management. The Board appoints a Treasurer who acts as 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

Department Members	48
2019 Budgeted Appropriations	\$113,000
Number of Fire Calls from January 1, 2018 through December 31, 2018	86

Audit Period

January 1, 2018 – March 31, 2019. We extended our audit period back to January 1, 2016 to analyze fund balance trends and revenues and back to January 1, 2015 for AUD filings.

Board Oversight

The board is responsible for overseeing the district's fiscal activities and safeguarding its resources. It is essential that the board establishes controls, including policies and procedures to ensure financial reports are filed in a timely manner, and that the district complies with applicable laws, rules and regulations.

What Is Effective Board Oversight of Financial Operations?

District officials are responsible for ensuring that resources are used effectively and transparently. If a Board chooses to accumulate money for future capital improvements and equipment, it must pass a resolution to formally establish a capital reserve fund. A reserve fund policy, which provides guidance on the accumulation and use of reserves, is an important component of any multiyear financial plan.

In addition, district officials should ensure that contractual agreements are signed, services provided are billed for and that the allocation of costs for services is equitable. One way to ensure the equitable allocation of costs is to periodically review the number of calls the district responds to, by location, over a period of time and compare the contractual charges per call.

The treasurer is required by the New York State General Municipal Law (GML)¹ to submit an AUD of the district's financial condition to the Office of the State Comptroller (OSC) within 60 days after the close of the fiscal year.

In addition, the board should perform an annual audit of the treasurer's records. Furthermore, New York State Town Law² requires the board to audit all claims against the district prior to payment.

The Board Did Not Properly Establish Its Capital Reserve Fund and Adopt a Reserve Fund Policy

District officials began reporting money in a capital reserve fund in the 2006 AUD, but they were unable to provide us with any documentation showing that the Board formally established a capital reserve fund. As of December 31, 2018, the District had two bank accounts noted as reserves with balances totaling \$200,597 – approximately \$110,000 (56 percent) more than the balance reported as reserved on the 2006 AUD. Because of the District's course of conduct in treating this as a reserve fund, we believe the funds have a status of "de facto" capital reserve funds. In such instances, the District should take remedial actions to ratify the reserve fund. In general, these actions would include following the procedures which were required at the time the funds were reserved. Taking these actions

1 GML Section 30

2 New York State Town Law, Section 176, 4-a

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

Further, the Board did not adopt a reserve fund policy. A reserve fund policy would be a vital tool to establish reasonable and substantiated goals for reserved fund balances, establish guidelines for developing realistic budget estimates to maintain reserved fund balances at designated levels and ensure that residents are not paying unnecessary taxes.

Not All Contracts Were Signed and Not All Towns Were Billed

The District provides fire protection services to the Town, funded by real property taxes, and to the Town of Roseboom and portions of the Town of Middlefield,³ funded by fire protection contractual agreements⁴ totaling \$10,075 for 2018.⁵ As of March 31, 2019, the District had not received payments for 2017, 2018 or 2019 from the Town of Middlefield totaling \$3,225⁶ because District officials failed to bill the town. In addition, neither fire protection contract for 2017, 2018 or 2019 was signed. We spoke with the Town Supervisor for the Town of Middlefield, and he said the town recently received a bill for the three-year period and will pay the District as soon as possible.

The Board Did Not Ensure the Allocation of Fire Protection Costs Was Equitable

The Department responded to 86 fire calls from January 1, 2018 through December 31, 2018. Out of the 86 calls, 45 calls (52 percent) were within the District's service area (the Town) and 41 calls (48 percent) were outside the District's service area.⁷ Although the District has two fire protection contracts with two towns outside of the District's normal service area, the revenues received from these contracts are not in line with their respective number of fire calls received.

3 In 2018, 1,074 tax parcels within the Town and 834 tax parcels within the Town of Roseboom. We could not determine the number of parcels within the Town of Middlefield.

4 District officials could not find the current contract with the Town of Roseboom; however, the town paid the District \$9,000 for fire protection services in 2018, and we found a prior contract between the town and the District from 2014 through 2016 totaling \$8,500 per year.

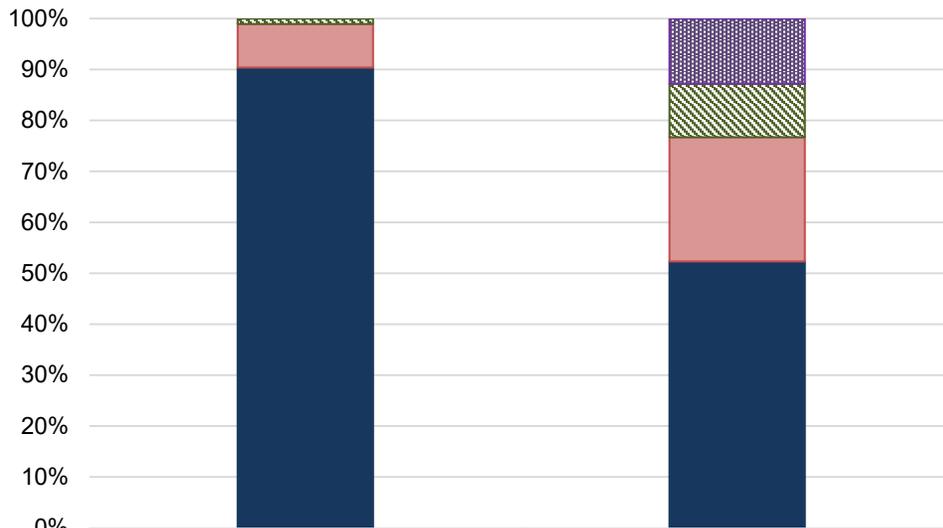
5 Town of Roseboom (\$9,000) and Town of Middlefield (\$1,075)

6 \$1,075 per year

7 Town of Roseboom (21 calls), Town of Middlefield (nine calls) and other towns (11 calls)

FIGURE 1

2018 Amounts Billed for Fire Protection Services and Number of Fire Calls



	Amount Billed for Fire Protection Services	Number of Fire Calls
Other Neighboring Towns	\$-	11
Town of Middlefield	\$1,075	9
Town of Roseboom	\$9,000	21
Town	\$94,904	45

For example, Town residents paid, in total, approximately \$2,109 per fire call within the Town, whereas Town of Middlefield residents paid, in total, approximately \$119 per fire call within their town. District officials should review whether the 2018 levels of fire calls are typical to ensure that the District raises revenues equitably from the benefited service areas.

The Board Did Not File Annual Financial Reports

The AUD is the annual report of the District’s financial position and results of operation. The Treasurer did not complete or submit the 2014 through 2018 AUDs to our office because of computer difficulties. Board members told us they were aware of the issue but have not taken action to correct the computer issue. District officials’ failure to file AUDs hinders transparency and could compromise their ability to secure financing, if necessary, for upcoming financial needs.

The Board Did Not Annually Audit the Treasurer’s Records

The Board did not annually audit the Treasurer’s records. Board members told us they were unaware they should conduct an annual audit of the Treasurer’s records. Although we did not identify any significant deficiencies during our review of the Treasurer’s records, without an annual audit, the Board has less assurance that cash is properly accounted for and transactions are properly recorded.

The Board Approved All Claims Prior to Payment

We reviewed all 124 nonpayroll disbursements totaling approximately \$97,743 during our audit period to determine whether these disbursements were supported, for appropriate purposes and approved by the Board. We found that all disbursements appeared to be for appropriate purposes and were approved by the Board prior to payment. In addition, the disbursements generally contained adequate supporting documentation, with minor deficiencies discussed with District officials.

What Do We Recommend?

The Board should:

1. Take action to ratify the “de facto” capital reserve fund by adopting an appropriate resolution.
2. Develop a reserve fund policy to govern the levels of reserved fund balances to maintain.
3. Ensure contractual agreements are signed and that services provided are billed for accordingly.
4. Periodically review District costs and use of services and allocate costs equitably between the District and the towns outside the District.
5. Ensure the AUDs are filed with our office within 60 days after the close of the fiscal year.
6. Annually audit the Treasurer’s records.

Appendix A: Response From District Officials

CHERRY VALLEY JOINT FIRE DISTRICT

P.O. Box 57
Cherry Valley, New York 13320

Office of New York State Comptroller
Division of Local Government and School Accountability
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13902

Dear Chief Examiner,

The Board has received and reviewed the draft Report of Examination 2019M-141. The Board agrees with the findings and the recommendations.

Our Board approved corrective action plan will be as follows:

1. The Board will take action to ratify the “de facto” capital reserve fund by adopting an appropriate resolution by 12/31/2019.
2. The Board will develop a reserve fund policy to govern the levels of reserved fund balance to maintain by 12/31/2019.
3. The Board will ensure all new contractual agreements are signed and that services provided are billed for accordingly.
4. The Board will periodically review District costs and use of services and allocate costs equitably between the District and the towns outside the District beginning with the next contract period which is 1/1/2020.
5. The Board will ensure the AUDS are filed with the Comptrollers Office within 60 days of the close of the 2019 fiscal year and thereafter.
6. The Board will annually audit the Treasurer’s records within 60 days of the end of the year.

In closing, the Board would like to acknowledge the OSC Audit team. We appreciated the attention to detail and the feedback during the audit process.

Sincerely,

Lyman Johnson
Chairman, Board of Commissioners

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 to gain an understanding of the District's internal controls, budgeting process and financial condition.
- We compared year-end bank and unrestricted fund balances to the ensuing year's appropriations to assess the District's financial condition. We also requested Board resolutions to determine whether the District's reserves were properly established.
- We reviewed the Treasurer's records and reports to determine whether they were complete, accurate and timely.
- We reviewed all receipts from known revenue sources, including real property taxes and contractual revenues from other local governments, to determine whether they were recorded and deposited timely and intact.
- We reviewed all policies and procedures to determine whether they were adequate.
- We reviewed all bank account activity for unusual transactions or withdrawals.
- We reviewed all monthly bank reconciliations to determine whether they were accurate.
- We reviewed all disbursements to determine whether they were audited and approved and for proper District purposes.
- We reviewed all fire protections contracts to determine the cost of each contract and whether each contract was signed. We also reviewed billings to determine whether each contract was billed and inquired as to the reasons why if they were not.
- We reviewed the fire call logs to determine the location of each call during the Department's fiscal year (April 1, 2018 through March 31, 2019). We then calculated each town's average cost per call by taking the average annual revenues received from each town, either in real property taxes or per contractual agreements, for 2018 and 2019 and dividing it by the number of calls responded to in each town. We then compared cost per call for each town to determine equity.
- We reviewed AUD filings to determine whether AUDs were filed with our office within 60 days after the close of the fiscal year.

We conducted this performance audit in accordance with GAGAS (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 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.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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Division of Local Government and School Accountability
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www.osc.state.ny.us/localgov/index.htm

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