

St. Paul Boulevard Fire District

Board Oversight

OCTOBER 2018



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

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Report Highlights

St. Paul Boulevard Fire District

Audit Objective

Determine whether the Board provided adequate oversight of the District's financial operations.

Key Findings

The Board did not:

- Adopt realistic budgets, which resulted in excessive unrestricted fund balance that was not substantiated by planned uses in any fund balance policy or multiyear financial or capital plans.
- Adopt any information technology (IT) policies.
- Perform an adequate claims audit and seek competition for professional services.

Key Recommendations

The Board should:

- Adopt realistic budgets and develop a fund balance policy and multiyear financial and capital plan to reduce unrestricted fund balance for the benefit of District residents.
- Properly audit claims to ensure each claim has supporting documentation and policies were followed.
- Require professional services to be acquired through a competitive process.

District officials generally agreed with our findings and recommendations and indicated they have begun to initiate corrective action.

Background

The St. Paul Boulevard Fire District (District) is a district corporation of the State, distinct and separate from the Town of Irondequoit and Monroe County in which it is located.

The Board of Fire Commissioners (Board) is composed of five elected members and is responsible for the District's overall financial management and safeguarding its resources.

The Board appoints a Treasurer to act as the District's chief fiscal officer. The Treasurer is responsible for the receipt, custody, disbursement and accounting for District funds and preparing monthly and annual financial reports. The Treasurer has a Deputy Treasurer who assists him with those responsibilities.

Quick Facts

2017 Unrestricted Fund Balance	\$1,523,500
2018 Appropriations	\$3,599,401

Audit Period

January 1, 2016 – October 18, 2017. We extended the period back to January 1, 2014 and forward to December 31, 2017 to analyze fund balance and budgeting trends.

Board Oversight

The board is responsible for overseeing the district's financial operations and safeguarding its resources. This includes establishing and monitoring compliance with adequate policies and procedures that establish sound internal controls over financial operations and ensure compliance with applicable laws.

What Is Effective Financial Management?

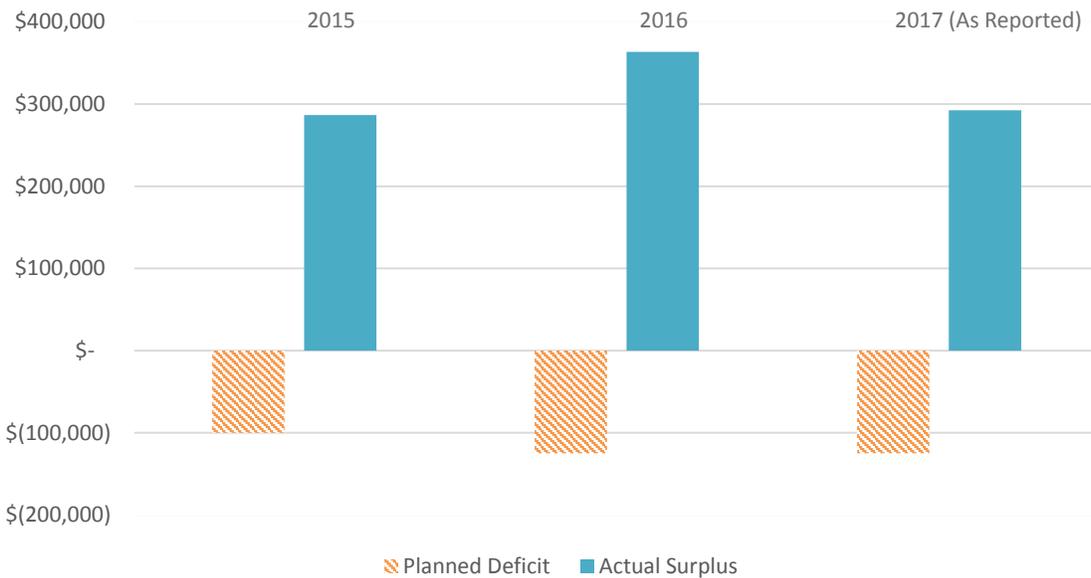
District officials are responsible for ensuring that resources are used effectively and transparently. This includes managing fund balance levels. An important component of fund balance management is planning long-term priorities and goals. Having multiyear financial and capital plans helps a board assess alternative approaches to financial issues, such as accumulating fund balance or reserves, obtaining financing or using surplus funds to finance annual operations. A fund balance policy, which provides guidance on its use, is an important component of any multiyear financial plan. The board should also adopt structurally balanced budgets, based on historical or known trends, in which recurring revenues finance recurring expenditures. This requires the board to establish and enforce clear and adequate policies and procedures over district operations.

The Board Did Not Effectively Manage Fund Balance

The District's unrestricted fund balance increased by \$529,860 (28 percent) over four years to more than \$1.5 million at the end of 2017, which was 42 percent of the ensuing year's appropriations. While the Board budgeted to use fund balance as a financing source in 2015, 2016 and 2017, which should have reduced fund balance by approximately \$350,000, fund balance instead increased by an average of \$380,000 each year, due to consistently positive budget variances.

FIGURE 1

Planned Deficit vs Actual Surplus



Further, the Board chose to override the 2017 tax levy limit by \$102,650, despite the significant surplus it had built into its budget, and instead of using a portion of its \$1.5 million unrestricted fund balance as of December 31, 2016 to reduce the real property tax levy or put the money toward other uses.

The Board Did Not Adopt Realistic Budgets

District officials underestimated revenues in three of the last four years¹ by a total of \$180,465 and overestimated expenditures by \$925,686 resulting in a four-year positive budget variance of \$1,106,151. These variances were the result of conservatively estimating expenditures while not budgeting for all expected revenues. District officials included real property taxes and interest income in the budgets, but did not include other revenue sources.

For example, the Board did not include in its 2017 budget \$16,700 in cell tower rental revenue, \$56,300 in workers' compensation premium refunds and \$10,000 in State grants. The Treasurer told us they exclude these revenues from the budget because they are not guaranteed. However, since at least 2013, the District has annually received an average of \$16,000 in cell tower rent and more

¹ We completed fieldwork in October 2017, but acquired the District's 2017 year-end annual financial report filed on January 29, 2018, to provide an up-to-date financial perspective.

than \$25,000 for workers' compensation premium refunds and thus had sufficient information to budget for these revenues appropriately.

In addition, the Board increased 2017 appropriations even though prior year actuals have averaged \$380,000 less than estimated over the last three years.² As a result, fund balance increased again. Furthermore, despite our discussions with District officials during audit fieldwork regarding these budgeting practices, the Board again excluded these revenues from its 2018 budget.

The Board Did Not Adopt a Fund Balance Policy

The Board did not adopt a policy to guide officials in determining a reasonable amount of fund balance or the circumstances and manner in which excessive fund balance should be used. As a result, District officials accumulated unrestricted fund balance beyond an amount reasonably necessary to address unexpected circumstances or events.

A fund balance policy would be a vital tool to analyze prior year operating results, establish a reasonable and substantiated goal for unrestricted and reserved fund balances, and establish guidelines for developing realistic budget estimates to help maintain fund balance at designated appropriate levels, and ensure that residents are not paying unnecessarily high taxes.

The Board Did Not Adopt a Multiyear Financial and Capital Plan

The Board did not adopt a multiyear financial or capital plan, including a plan for funding and using reserves to help identify the potential effects of financial decisions and identify uses for the accumulated surplus fund balance.

District officials told us they identified potential future expenses that would require the use of unrestricted fund balance, such as replacing the District's self-contained breathing apparatus. However, District officials did not document these potential expenditures in a formal comprehensive plan or set aside those funds in a reserve for future use. Because the District has maintained excessive unrestricted fund balance, funds that could have been used to benefit residents by lowering taxes or funding capital improvements remained idle. As a result, District officials may have levied higher taxes than necessary.

How Should the Board Safeguard IT Systems and Data?

A district's IT system is a valuable and essential part of operations, used for accessing the Internet, communicating by email, processing and storing data – including employees' personal information, online banking, maintaining financial

² 2015 through 2017

records and reporting to State and federal agencies. Therefore, it is imperative that the district's computerized systems and data are properly safeguarded.

The board should adopt, and officials should implement and monitor, suitable IT use and security policies to cover the complexity of their IT environment, and hold users accountable for properly using and protecting district resources. For example, IT policies should provide for effective management of hardware and software to adequately protect IT assets, and should require detailed IT use and security training to all staff who use district computers and IT equipment. IT policies should also clearly define the roles and responsibilities of all parties involved in providing IT services and should require written agreements with IT service providers to clearly establish needs and expectations. In addition, officials should develop a disaster recovery plan to prevent the loss of computerized data and assets and ensure that operations can resume in the event of a power outage, data breach or other catastrophic event.³

The Board Did Not Provide Guidance or Security Awareness Training to Safeguard IT Resources

The Board has not adopted any IT policies or procedures, including guidance for acceptable use, password management, access and administrative rights, sanitation and disposal of hardware and electronic media, online banking, and breach notification.⁴ The Board also did not adopt a disaster recovery plan to formally establish backup procedures and a framework for resuming operations and services after a disaster in a timely manner. Further, the Board did not provide users with security awareness training to help ensure they are aware of security risks and understand security measures necessary to reduce internal and external threats to IT systems and data and take an active role in protecting the network.

District officials told us they rely on the IT vendor to set appropriate policies and address IT needs. However, the District did not have a detailed agreement with the IT vendor to clearly state the responsibilities of, and services to be provided by, the vendor. Instead, the District provided us with a list of the services that the vendor offers with some standard boilerplate language intended to protect the vendor, such as licensing, limitation of liability and confidentiality paragraphs.

As a result, there is an increased risk of inappropriate computer use (either intentional or accidental) which could potentially compromise or expose the District's data and hardware and software systems to malicious attacks and the loss or damage of key financial and confidential information.

³ Such as a fire, computer virus or inadvertent employee action

⁴ For more information on needed IT policies, see the publication entitled *Information Technology Governance* at <http://www.osc.state.ny.us/localgov/pubs/lmgm/itgovernance.pdf>.

What Is an Effective Claims Audit Process?

New York State Town Law requires the board to audit all claims against the district prior to payment and, by resolution, order the treasurer to pay the claims, only if supported by itemized vouchers.⁵ The claims audit process should entail a thorough and deliberate examination to determine whether each claim is a legal obligation and proper charge against the district for goods or services actually received, and is in compliance with the district's procurement policy⁶ and other related policies. The board may, by resolution, authorize the payment in advance of audit of claims for utilities, postage, freight and express charges, but must receive and audit those claims at its next regular meeting.

The Board Did Not Perform an Adequate Claims Audit

While the Board performed a monthly audit of claims and approved them for payment, it did not ensure that all claims had adequate supporting documentation and complied with District policies. We reviewed 177 disbursements made during three test months,⁷ totaling \$591,255,⁸ and found that 19 (11 percent) totaling \$12,520 did not have adequate support and 77 (44 percent) totaling \$73,921 did not have sufficient documentation to determine whether the goods or service were received. We also found that District officials did not seek competitive quotes for 35 purchases⁹ (20 percent) totaling \$55,828 and were not able to provide documentation of pre-approvals for 36 purchases as required by the District's procurement policy. All disbursements appeared to be reasonable fire district expenditures.

Additionally, the Board's authorization for the Treasurer to pay claims in advance of audit¹⁰ included disbursements that were not statutorily authorized for prepayment.¹¹ The Board received and signed off on an abstract for claims paid prior to audit and an abstract of claims for audit prior to payment. However, the Board minutes did not always include the number of claims and total dollar amounts approved.

5 The claim should be understandable to someone unfamiliar with the transaction. Information like weight, quantity, size, grade, unit price, and totals should be provided along with original invoices or delivery tickets. Part numbers or abbreviations should be supplemented by a full description of the goods or services provided.

6 For example, the District's procurement policy requires two verbal quotes and commissioner authorization for purchases between \$500 and \$2000, and three written quotes and Board authorization for purchases between \$2,001 and \$19,999.

7 See Appendix B (Audit Methodology and Standards) for details on sample selection.

8 This includes disbursements to the payroll processor for payroll.

9 Including professional services

10 Per the minutes of the Board's January organizational meeting

11 These included insurance premiums, trash removal, floor mat and extermination services, fuel and special district fees.

Without properly auditing and approving claims, the Board does not have adequate assurance that the purchases were approved and made at the lowest possible costs, or that the goods and services were received. In addition, there is an increased risk that District funds could be used for inappropriate purposes.

How Should Fire Districts Procure Professional Services?

General Municipal Law¹² requires the board to adopt written policies and procedures governing all procurements of goods and services which are not subject to competitive bidding, including professional services. Because professional services can involve significant expenditures, best practices indicate that issuing a request for proposals (RFP) for professional services helps ensure that the district obtains needed services at a reasonable price, from qualified professionals, in the residents' best interest without partiality.¹³

District Officials Did Not Seek Competition for Professional Services

The procurement policy does not adequately address the procurement of professional services. A chart in the policy indicates that an RFP is required for the purchase of professional services, but the policy does not indicate how to obtain an RFP. A different section of the policy includes unclear language that implies that competition may not be needed for professional services. District officials told us that they interpret the policy to not require competition for professional services. We reviewed all ten professional service providers paid more than \$1,000 in a year during our audit period and found that District officials did not seek competition for nine (90 percent) professional service providers paid \$125,266.

When professional services are procured without a formal RFP process, District officials lack assurance that they were presented with and considered all relevant factors, and selected the most beneficial and cost-effective product or service and vendor.

What Do We Recommend?

The Board should:

1. Adopt realistic and structurally balanced budgets based on historical or known trends and include all revenue sources.

¹² Section 104-b

¹³ The procurement policy may set forth circumstances when, or types of procurements for which, in the sole discretion of the board, the solicitation of alternative proposals or quotations will not be in the best interest of the district. These exceptions should be limited and properly justified in the public interest. Otherwise, the effectiveness of the policy will be diminished.

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2. Develop a fund balance policy to govern the levels of unrestricted and reserved fund balances to maintain.
 3. Develop a multiyear financial and capital plan, including a plan for reserves, to establish long-term objectives for funding long-term needs. Any plan should be used to develop a plan to reduce unrestricted fund balance to a designated reasonable level and monitored and updated on a continuing basis.
 4. Adopt IT policies and procedures for acceptable use, password management, access and administrative rights, sanitation and disposal of hardware and electronic media, online banking and breach notification.
 5. Ensure IT policies are periodically reviewed and updated and stipulate who is responsible for monitoring IT policies.
 6. Enter into an agreement with its IT vendor that clearly states the responsibilities of, and services to be provided by, the vendor.
 7. Adopt a disaster recovery plan and ensure it is distributed to essential personnel.
 8. Ensure that officials and employees receive adequate security awareness training and training on the District's policies.
 9. Properly audit all claims before authorizing payment, to ensure that each claim has detailed supporting documentation, the items purchased were received and that the District's procurement and other related policies were followed.
 10. Ensure the Board minutes include the number of claims and total dollar amounts approved.
 11. Update the procurement policy to require professional services to be acquired through a competitive process, indicate how to obtain an RFP and include procedures for documenting all required authorizations.

Appendix A: Response From District Officials

ESTABLISHED 1924
ST. PAUL BOULEVARD FIRE DISTRICT
TOWN OF IRONDEQUOIT
433 COOPER ROAD
ROCHESTER, NEW YORK 14617

September 26, 2018

Office of the State Comptroller
Local Govt and School Accountability
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608

To Whom it may concern:

The St. Paul Blvd. Fire District is in receipt of the preliminary draft of your office's audit of the District's financial activities for the period January 1, 2016 through October 18, 2017. Please let this communication serve as our acknowledgement to your draft report, the corrective action plan we propose in adopting your recommendations will follow.

Prior to your audit, the District's Treasurer passed away somewhat unexpectedly requiring a new treasurer to be appointed. The new treasurer has implemented several changes to our system, that your auditors observed. Examples of these changes include, adoption of several new financial policies, the creation of a new chart of accounts and voucher system, among others. Prior to your auditors leaving we discussed several of their recommendations that have already been implemented. These include credit cards issued to authorized officers, documentation of verbal quotes and completion of Phase 1 of the update to the disaster recovery plan.

In reference to your other recommendations, the Board of Fire Commissioners generally agrees with your findings, with one exception. The Board is currently developing plans that will govern the future purchase of fire apparatus, facility repairs and renovations as well as future volunteer firefighter initiatives. This planning process will reduce our unrestricted fund balance significantly as we undergo substantial repairs to our infrastructure and support our Equipment Reserve fund for the future equipment purchases. Recently, the appointment of a career captain and the reorganization of responsibilities for the career lieutenants will result in a stronger IT staff. The recommendations you have made concerning IT policies, procedures and security have been forwarded to the officer that has been assigned that responsibility. The one exception the Board has with the draft report is including grant application rewards and Workman's Comp dividends as income. Ironically, we have just been awarded a grant for exercise equipment and this award will be included in next year's budget. Recently, workman's comp dividends have been high, however this trend has not always been the case. Our concern is including significant awards/dividends as income and not realizing those contributions in the following year.

The District would like to thank the examiners who performed the audit for the courtesy and professionalism they exhibited. While the environment of an audit can be stressful, the approach utilized by your team during this audit was anything but that.

Yours truly,

David A. Haas, Chairman
Board of Fire 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 and reviewed Board minutes and District policies to gain an understanding of District operations.
- We reviewed the results of operations from 2014 through 2017 and analyzed trends in total fund balance, unrestricted fund balance, budget variances, appropriated fund balance and unused appropriated fund balance and changes in the real property tax levy. We calculated unrestricted fund balance as a percentage of ensuing year appropriations and compared the budgets to actual results.
- We reviewed the District's 2017 tax cap filing to determine whether the District exceeded and the Board overrode the tax cap in 2017.
- We interviewed the IT vendor and reviewed vendor documents and the hardware inventory to gain an understanding of the District's IT infrastructure and controls.
- We randomly selected the three test months of December 2016, March 2017 and May 2017, and reviewed all 177 disbursements totaling \$591,255 during those months, including credit card transactions. We compared the abstracts to the vendor invoices and other supporting documentation. We reviewed for adequacy, accuracy and approvals. For the transactions that exceeded thresholds established by the procurement policy, we obtained and reviewed competition documentation (quotes, State contract, etc.).
- We selected all 10 professional service providers with expenses greater than \$1,000 (based on the policy threshold for quotes for other purchases) in either 2016 or 2017, which totaled \$153,277 over the audit period. We reviewed the claims vouchers and invoices for all transactions and reviewed competition documentation (proposals for insurance providers). For one vendor, we excluded hardware purchases that were not professional service expenditures. We inquired with District officials regarding whether competition was sought for providers for which documentation was not provided.

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#lmgm

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/lgli/pdf/cybersecurityguide.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

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