

Horseheads Fire District #1

Board Oversight

JUNE 2019



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

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Report Highlights

Horseheads Fire District #1

Audit Objective

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

Key Findings

The Board did not:

- Perform an adequate claims audit.
- Develop multiyear financial and capital plans, including a plan for reserves, to establish long-term objectives for funding long-term needs.
- Establish reserves to reduce the unrestricted fund balance to a designated reasonable level.

Key Recommendations

- Properly audit claims prior to payment.
- Develop a multiyear financial and capital plan, including a plan for reserves, to establish long-term objectives for funding long-term needs.
- Establish reserves to reduce the unrestricted fund balance to a designated reasonable level.

District officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Horseheads Fire District #1 (District) is a district corporation of the State, distinct and separate from the Town of Horseheads in Chemung County.

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. An elected Secretary-Treasurer (Treasurer), who acts as the District's chief fiscal officer, is responsible for the custody, receipt and disbursement of District funds. In addition, the Treasurer is responsible for accounting for these funds and preparing monthly and annual financial reports.

Quick Facts

2018 Unrestricted Fund Balance	\$174,555
2019 Appropriations	\$78,074
2018 Assessment Roll Parcels	406
2019 Real Property Taxes	\$60,574

Audit Period

January 1, 2018 – April 3, 2019. We extended our audit period back to January 1, 2016 to analyze fund balance and budgeting trends.

Board Oversight

How Should the Board Oversee District Finances?

A board is responsible for managing and overseeing a fire district's financial activities and safeguarding its resources. The board must audit all claims before payment in accordance with New York State Town Law, with limited exceptions.¹ Effective claims auditing procedures ensure that every claim against a district is subjected to a thorough and deliberate review and contains adequate supporting documentation to determine whether it complies with statutory requirements and district policies, and the amounts claimed represent actual and necessary expenditures. Additionally, the board should document its approval in the minutes by adopting resolutions that specify the number and dollar amount of claims the treasurer is authorized to pay.

Further, district officials are responsible for ensuring that resources are used effectively and transparently. This includes adopting realistic budgets and managing fund balance levels. An important component of fund balance management is planning long-term priorities and goals. Having multiyear financial and capital plans help a board assess alternative approaches to financial issues, such as accumulating fund balance or reserves and obtaining financing or using surplus funds to finance annual operations.

The Board Did Not Adequately Audit Claims Before Payment

The Board did not audit claims before payment or adopt a resolution authorizing the advance payment of those claims allowed by law. During 2018, the Treasurer paid expenditures totaling \$50,812 before the Board's audit and approval. While the Board reviewed and approved a list of paid claims, it did not review the individual claims before payment or bank statements to ensure that only approved expenditures cleared the bank. Further, the Board resolutions recorded in the minutes did not include the total number or amount of all approved claims.

Although we found that these claims were adequately supported and for appropriate purposes, paying claims before Board review and approval increases the risk that the claims paid may not be for the agreed upon products and services or may be for improper purposes. Because all financial duties are performed by the Treasurer, this risk could be compounded if approved claims are not adequately documented and bank statements and canceled check images are not compared to the approved claims.

¹ New York State Town Law (Town Law), Section 176. The Board may, by resolution, authorize payment in advance of audit for claims for public utility (light and telephone), postage, freight and express charges. However, the prepaid claims must be presented and audited by the Board at its next regular meeting.

The Board Did Not Adopt Multiyear Financial and Capital Plans

The Board did not adopt a multiyear financial or capital plan, including a plan to fund reserves for future expenditures or designate the level of fund balance to be maintained. Although District officials told us that they were accumulating unrestricted fund balance to cover the cost associated with building a new fire station, they did not document these potential expenditures in a formal comprehensive plan, create a reserve fund or adopt realistic and transparent budgets. For example, District officials budgeted conservatively over the last three completed years (2016, 2017 and 2018) and annually included appropriations for tax stabilization.² The tax stabilization appropriation totaled approximately \$9,400 in each of these years and the actual amount expended was less than \$1,000 each year.

Figure 1: Budgeted Appropriations vs. Actual Expenditures

	2016	2017	2018
Appropriations	\$73,713	\$74,556	\$76,013
Actual Expenditures	\$67,102	\$52,390	\$51,309
Overestimated Appropriations	\$6,611	\$22,166	\$24,704

As a result, the District's unrestricted fund balance increased by \$64,289 since January 1, 2016 to more than \$170,000 at the end of 2018, or 224 percent of the next year's appropriations. A more transparent method would be to more accurately estimate overall appropriations when the budget is prepared and include budgetary provisions to fund a capital reserve if established for the new fire station or equipment.

What Do We Recommend?

The Board should:

1. Properly audit all claims before payment and adopt a resolution authorizing the advance payments of those claims allowed by law.
2. Ensure that the minutes list all claims approved and at a minimum include the claim numbers and total amounts of approved claims.
3. Review bank statements and canceled check images to ensure payments are for items audited and approved.
4. Develop a multiyear financial and capital plan, including a plan for reserves, to establish long-term objectives for funding long-term needs.

² District officials indicated that this was for contingency or miscellaneous expenses.

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5. Establish reserves to reduce the unrestricted fund balance to a designated reasonable level.
 6. Adopt budgets that include the District's actual needs, based on available current information and historical data and include provisions for funding a reserve if established.

Appendix A: Response From District Officials

**Horseheads Fire District #1
Post Office Box 201
Breesport, New York, 14816**

June 18, 2019

The Board of Fire commissioners for the Horseheads Fire District #1 has approved the corrective action plan from the 2019 audit. The following has been implemented:

As of 05/19/19

- Properly audit all claims prior to payment and adopted a resolution authorizing the payments of those claims allowed by laws (utilities etc.)
- Ensure that the minutes list all claims approved, claim/invoice numbers and total amount paid.
- Review bank statements, canceled checks images to ensure payments are for items audited and amount approved.
- Adopted a budget that includes the district actual needs.

As of 06/13/19

- We are developing a multi-year financial and capital plan, including a plan for reserves to establish long term objectives for funding needs.
- We are establishing reserves to reduce the unrestricted fund balance to designate a reasonable level, (a three month reserve).

Respectfully,

Robert Allen
Chairperson,
Horseheads Fire District # 1
607-259-2161
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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 to gain an understanding of District operations.
- We requested all computerized records, supporting documentation and bank statements to determine cash, fund balance, revenues and expenses for the last three completed years.
- We reviewed the results of operations from 2016 through 2018 and analyzed total fund balance, unrestricted fund balance, and budget variances. We calculated unrestricted fund balance as a percentage of ensuing year appropriations and compared the budgets to actual results.
- We reviewed all 120 disbursements totaling \$51,545 recorded as 2018 expenditures to determine whether claims were approved before payment and disbursements were supported by adequate documentation and for appropriate purposes.

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.

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.

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/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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