

Kent Fire District No.1

Financial Operations

JULY 2019



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

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Report Highlights

Kent Fire District No. 1

Audit Objective

Determine whether the Board effectively managed the District's financial operations.

Key Findings

- The Board's budgets were incomplete and inaccurate. Also, appropriations were overestimated and transfers to reserves were not budgeted.
- The Board was unable to provide documentation of four required permissive referendums and legal notices.
- The Board did not adopt a reserve policy.

Key Recommendations

- Prepare budgets that are complete and accurate, including estimates of fund balance and realistic estimates of appropriations.
- Ensure transfers to reserves are included in the budget and that reserve funds are disbursed subject to permissive referendum and for the correct purposes.
- Adopt a reserve policy for the maintenance of a reasonable level of fund balance.

District officials disagreed with certain aspects of our findings and recommendations, but indicated they have initiated corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Background

The Kent Fire District No.1 (District) provides fire protection services for the Town of Kent (Town) in Putnam County. The District is governed by a Board of Fire Commissioners (Board) composed of five elected members who are responsible for general management and control of financial operations.

The Board appoints a Treasurer who acts as the chief fiscal officer and is responsible for receiving and maintaining custody of funds, disbursing and accurately accounting for those funds, preparing the proposed budget and providing a detailed report of the operation and condition of each reserve fund to the Board each year.

Quick Facts

2018 Budgeted Appropriations	\$510,875
2018 Real Property Tax Levy	\$476,875
2018 Expenditures	\$305,431
2018 Reserve Balances	\$829,490

Audit Period

January 1, 2017 – August 3, 2018.

We extended our audit period back to January 1, 2014 and forward to December 31, 2018 to analyze fund balance and budgeting trends.

Financial Operations

How Should the Board Manage District Financial Operations?

A fire district is required to annually remit its budget to the town in a prescribed format, which includes an estimate of fund balance as an appendix.¹ Budgets should also include actual expenditures and revenues for two years prior, amounts for budget as modified appropriations, estimated revenues for the prior year and all reserve fund activity. Fire districts are required to use the uniform system of accounts for classifying and coding accounts used in budgets, financial accounting records and reports as prescribed by the Office of the State Comptroller (OSC). The board should review the budget to ensure it is complete, reasonable and mathematically accurate. The Board should adopt realistic budgets based on historical or other known factors and ensure that transfers to reserve funds are included in the budget. When a board establishes a reserve fund for a specific purpose it must pass a resolution to formally establish the reserve fund following General Municipal Law (GML) requirements. Also, the board should determine how much should be accumulated, how and when the funds will be used and if amounts are reasonable.

Per GML, expenditures from a reserve fund should be authorized by the board for a specific capital improvement or equipment. Expenditures from a reserve established for a type of equipment or improvement (type reserve) may only be made following the adoption of a resolution, subject to permissive referendum.² Such expenditures require a district to publish a legal notice informing residents of the board's planned action to expend moneys. A bond reserve fund may be established for the payment of principal and interest on serial bonds, but such payments may not be made from a reserve that was not established for that purpose. Further, the Treasurer is required to submit a detailed report of each reserve fund to the board each year.

The Board should adopt a written reserve policy that communicates the purpose, planned funding levels, replenishment and use of reserve funds. The Board should periodically review and revise these documents and use them when it prepares the annual budget to ensure reserves are reasonable.

The Budgets Remitted to the Town Were Incomplete and Inaccurate

We reviewed the 2014 through 2019 budgets and found that they were not complete or accurate. The budgets did not include a schedule of fund balance in the appendix of the budget as required. Additionally, the budget columns were

¹ Town Law, Section 181 states the estimate of fund balance should include encumbrances, appropriated fund balance, amounts reserved for stated purposes and a reasonable amount of remaining estimated unappropriated unreserved fund balance.

² GML, Sections 6-h, 6-d and 6-g

blank because they did not contain actual expenditures and revenues for two years prior, and modified appropriations and estimated revenues for the prior year.

Budgets also did not include all reserve fund activity. For example, a total of over \$1 million was transferred from capital reserve funds between 2014 and 2018. We identified two transfers from capital reserve funds of \$230,000 and \$80,000 that were not included as a funding source in the 2017 and 2018 tax levy calculation, even though they were included as revenues on the 2018 budget revenue page. In addition, none of the remaining reserve fund transfers from 2014 to 2016 totaling almost \$750,000 were included in the budgets as revenues. Furthermore, the use of these reserve funds for capital asset expenditures of over \$1 million was not included in the budgets.

The budgets remitted were inaccurate because numbers and totals transferred from the Treasurer's proposed budgets were not always correct. For example, in the 2019 budget, appropriation amounts for equipment were understated by \$18,600 because appropriations totaled \$72,000 but were reported as \$53,400. Also, appropriation amounts in the 2017 and 2018 budgets were overstated by \$250 and \$3,602 as total appropriations were \$505,875 and \$510,875 but actual totals were \$505,625 and \$507,273. Lastly, transfers to reserve funds were under budgeted from 2014 to 2018 by nearly \$600,000 because budgeted transfers totaled \$369,000 but actual transfers totaled \$969,000.

This occurred because the accounting records used to prepare the proposed budget contained account names that did not match the uniform account codes required to file the annual update document (AUD) and the budget form. Although the Treasurer was aware that her account codes were not the same, she was not aware of the OSC Fire District Accounting and Reporting Manual that contains the uniform account codes. Because the account names were different, under Board member supervision, budget amounts were adjusted during the typing of the adopted budget. Further, the current secretary typed the budget from the Treasurer's proposed budget reports but was not aware of missing information because she followed prior budgets when completing the forms.

Board members believed the accounting records were accurate and sufficient and were not aware of the requirement to attach an estimate of fund balance as an appendix. The use of incomplete and inaccurate budgets contributed to the underestimating of revenues and overestimation of appropriations may have resulted in the collection of more real property taxes than necessary.

District Officials Overestimated Appropriations

Over the five-year period from 2014 through 2018, District officials budgeted appropriations exceeded actual expenditures by approximately 32 percent or \$605,479 less than budgeted appropriations.

Figure 1: Appropriations Versus Expenditures

	2014	2015	2016	2017	2018	Total
Budget	\$488,650	\$488,650	\$499,050	\$505,875	\$510,875	\$2,493,100
Expenditures	\$422,993	\$382,003	\$366,628	\$410,566	\$305,431	\$1,887,621
Budget Variance	\$ 65,657	\$106,647	\$132,422	\$95,309	\$205,444	\$605,479

As a result, the District experienced operating surpluses totaling \$775,983. This occurred partly because of the use of incomplete and inaccurate budgets discussed previously, and because the Board overestimated expenditures to ensure surpluses each year. As a result, the Board was able to transfer year-end surpluses into reserves that were not included in the adopted budgets. While \$369,000 or 38 percent of the \$969,000 transferred to reserves was budgeted, the remaining \$600,000 or 62 percent was not budgeted. As a result, the District maintained reserve fund balances totaling between approximately \$670,000 and \$850,000 from 2014 to 2018.

Figure 2: Reserve Activity

	2014	2015	2016	2017	2018	Totals
Reserve Beginning Balance	\$903,311	\$760,839	\$842,627	\$705,766	\$668,719	\$903,311
Interest Earned	\$1,406	\$1,809	\$5,630	\$3,824	\$4,250	\$16,919
Deposited into Reserves	\$174,879	\$154,210	\$192,631	\$224,066	\$223,127	\$968,913
Transfers From Reserves	\$318,757	\$74,231	\$335,122	\$264,937	\$66,606	\$1,059,653
Reserves Ending Balance	\$760,839	\$842,627	\$705,766	\$668,719	\$829,490	\$829,490

District officials told us they have historically set aside money each year in reserve accounts for building, fire truck and equipment purchases, but they were unable to provide any documentation showing that the Board formally established capital reserve funds for these purposes. In addition, there was no indication that they formalized how much should be accumulated, how and when the funds will be used and what amounts are reasonable.

The Board had adopted budgets with appropriations that exceeded actual expenditures and made unbudgeted transfers to reserve funds at year-end.

This practice has not been transparent to the residents. Further, the District's reserve balances for the last five years have consistently exceeded \$600,000 and totaled \$829,490 as of December 31, 2018, as compared to the 2018 tax levy of \$476,875. Maintaining reserve fund balances at these levels without formalized plans and policies may have resulted in the collection of more real property taxes than necessary.

Reserves Were Not Expended Transparently

Capital reserve expenditures totaling \$1,059,653 were made following Board resolutions between 2014 and 2018. However, approximately \$559,000 of these expenditures were from building, equipment and repair reserve accounts for type reserves³ that were subject to permissive referendum and legal notice. Because District officials did not publish the required legal notices to inform the residents of the Board's planned actions they did not expend the following moneys in a transparent manner:

- 2014 brush truck totaling approximately \$250,000;
- 2015 equipment repairs totaling almost \$8,000;
- 2017 ambulance purchases totaling over \$234,000; and
- 2018 assistant chief's vehicle purchase totaling approximately \$67,000.

In addition, from 2014 to 2017 building reserve funds were incorrectly used to pay unrelated principle and interest on a serial bond totaling \$230,250 and again in 2017 to pay off the balance of the serial bond totaling \$30,721. Lastly, the Treasurer did not submit a detailed report of operation and condition for each reserve fund at the end of year, but instead provided monthly bank reconciliations showing only monthly transactions.

The Board was unable to provide documentation of permissive referendums and legal notices that were required before expending reserve funds from type reserves. In addition, even if there was a Board resolution, the Board could still not use building reserve funds from a type reserve for the serial bonds. Officials were also unaware of resources and trainings available regarding reserves.⁴ The Secretary and Treasurer had not received formal training for their positions and relied on the Commissioners to provide guidance. Therefore, disbursements after 2013, although Board approved may not have been properly authorized through voter permissive referendums. The Board was not aware that a separate

³ These reserves have been set up into separate bank accounts based on type. In addition, District Commissioners and their attorney believe the reserves were properly set up over 20 years ago as type reserves, although they cannot find the documentation.

⁴ The OSC *Fire District Accounting and Reporting Manual (ARM)*, *Local Government Management Guides* and local official trainings.

bond reserve was required for debt payments and believed that monthly bank reconciliations provided by the Treasurer summarizing total amounts deposited and disbursed during the month were sufficiently detailed reports of reserve fund operations and were not aware of the proper reporting requirements set forth in GML.

District officials did not follow required procedures to establish reserves subject to permissive referendum, spending and reporting requirements for the use of the reserves. As a result, the public was not provided with the required opportunities to question and voice opinions on large expenditures of reserve funds. In addition, they expended building reserve funds for an incorrect purpose (debt payments) and increased the risk that reserve funds will not be accounted for.

Board Did Not Adopt a Reserve Policy

The Board did not adopt a reserve policy for the maintenance of a reasonable level of reserve funds. Because the reserves were established over ten years ago, Board members were unsure if a policy had been previously adopted and were not aware of the need for one. Furthermore, since the date the funds were established was unknown, they did not know which year's records to search through because they did not maintain permanent files in their current records. The Board provided a projection of reserve activity and balances from 2014 to 2028; however, it does not communicate to taxpayers why the money is being set aside, the Board's financial objectives for the reserves, optimal funding levels and conditions under which the assets will be utilized.

Without developing and periodically reviewing and revising a reserve fund policy the Board could not properly manage financial operations. As a result, there is an increased risk that funds will not be set aside for a proper purpose, disbursed as intended and reserved at optimal fund levels. Reserve fund balances increased to \$829,490 in 2018, which may have resulted in the collection of more real property taxes than necessary.

What Do We Recommend?

The Board should:

1. Prepare and remit budgets to the Town in the prescribed format including an estimate of fund balance as an appendix. Budgets should include actual expenditures and revenues for two years prior, amounts for budget as modified appropriations, estimated revenues for the prior year and all reserve fund activity.
2. Ensure the accounting records are maintained using the required uniform account codes.

-
3. Review the budgets to ensure they are complete, reasonable and mathematically accurate.
 4. Adopt budgets that reflect the District's actual needs and include realistic estimates of appropriations based on historical trends or other identified analysis.
 5. Ensure that all transfers to reserve funds are included in the budget.
 6. Ensure expenditures from type reserves are made following resolutions subject to permissive referendum and that District officials publish the required legal notices informing residents of the Board's planned actions.
 7. Ensure reserve funds are expended for the correct purposes.
 8. Ensure the Treasurer submits a detailed report of the operation and condition of each reserve fund at the end of each year.
 9. Adopt and periodically review and revise a reserve policy that communicates purpose, optimal funding levels, replenishment and use of funds.
 10. Obtain training on reserve funds including a review of the *OSC Fire District ARM, Local Government Management Guides* and local official trainings.

Appendix A: Response From District Officials⁵

Kent Fire District Number One

Board of Fire Commissioners

2490 ROUTE 301 – KENT CLIFFS, NEW YORK 10512

May 31, 2019

Via UPS

State of New York Office of State Comptroller
Newburgh Regional Office
33 Airport Center Dr.
Suite 103
New Windsor, New York 12553

Attention: [REDACTED] of Local Government and School Accountability

RE: Kent Fire District No.1 Financial Operations Report 2019M-37

Dear [REDACTED]

This is the official response to the draft audit the State Comptroller has prepared for the Kent Fire District Number One. The Board would like to thank the examiner and the State Comptroller for diligence, advice and significant time reviewing District Finances. The foundation of the district is the safety of our entire community by providing fire, rescue basic lifesaving services. Transparency regarding conservative budgets for taxpayers is a core fundamental practice of the Board of Fire Commissioners, as well as be in absolute compliance with all rules, regulations of General Municipal Law, Town law and best District practices.

The auditor's office according to the report found four key findings on a single subject; Reserve Fund Management:

1. The Board's Budgets

The focus of this section is on reserve fund activity. The capital reserve fund was established on July 14, 1974 well before the enactment, effective January 1, 2007, of any statutory requirement that such establishment be accomplished by a vote of the taxpayers. The reserve funds were set up specifically to allow large expenditures without having to raise a bond and burden the taxpayers with interest payments.

See Note 1 Page 11

Schedule of Fund Balance: Moving forward the Fire District will be submitting a schedule of fund balance to the Town of Kent with our annual budget. As of 2018, we have incorporated electronic accounting software and are updating line items to use uniform account codes.

⁵ The District's response letter refers to an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.

As suggested by the Audit, the Fire District has renamed reserve fund accounts to be aligned with their stated purpose:

1. Capital Reserve for Real Property Acquisition and Improvement.
2. Capital Reserve for Firefighting Equipment, Vehicles and Apparatus.

Training: As recommended by the examiner, the District has adopted the OSC Fire District and Accounting Manual as soon as we were made aware of it. In the past, we relied heavily on traditional mailings and annual training of district officers on the guidelines from office of the NYS Comptroller. In the future, we are going to have our District secretary go online and update us on communications and changes to policies. In addition, in 2018, the District Treasurer and Secretary have undergone and passed AFDNY respective courses as suggested.

2. *District Officials Estimates of Appropriations*

The Kent Fire District establishes a budget in August of each year and has consistently complied with the requirement for an annual budget hearing with public notices, so that any inquiries from taxpayers regarding the use of public funds could be addressed. While to date very few members of the public have availed themselves of this opportunity, the Fire District will continue to publicly notice and conduct the budget hearing as required under the applicable provisions of the Town Law.

Our conservative spending strategy each year is to come in under-budget. Funds are then used for purposes of improvements to the firehouse or acquiring major pieces of equipment. Specifically, over the past five years this strategy has allowed us to fund our already-established long-term vehicle plan for a state-of-art ambulance and make building and grounds improvements. In the future, these funds will be used for updated breathing apparatus, vehicles and further capital improvements to assure the safety of the firefighters, EMS personnel and community at large.

See
Note 2
Page 11

The District reviews its long-term plans, emergency needs and requests made from the Chief of the Kent Fire Department to build the budget. While the amount in the reserve fund may look high on paper, the cost of a single brand-new pumper-tanker fire truck, the style required to service our community can run upwards of \$750,000.

See
Note 3
Page 11

If a Reserve Budget plan was not in place, the Fire District's taxpayers would be faced with the cost of Bonding for renovations and major equipment purchases. Instead, major capital items have been afforded solely from reserve funds accumulated over the years.

See
Note 3
Page 11

The District has had a long-term financial plan available to the public in place for over fifty years.

See
Note 4
Page 11

3. *Transparency of Expended Reserves*

After the audit was completed, the District located affidavits of publication, or texts of Fire District resolutions demonstrating that The Kent Fire District has adhered to the requirement in

See
Note 5
Page 11

GML section 6-g that a Board resolution be published prior to the withdrawal of any funds from a capital reserve fund.

If the documents were not submitted at the time of audit then let the record be clear that we always use permissive referendums to spend moneys from the reserve funds. The documentation to support has traditionally been filed with the item purchased. In the future, we will improve our record-keeping to include all referendums and newspaper notifications in one folder/location.

4. Policies

The Kent Fire District had financial policies in place at the time of the audit and we recognized early in 2018 that a wholesale update of all District Polices was needed to bring us into compliance with modern Fire Service and Town Laws of the State of New York. Over the past year, The Board of Fire Commissioners wrote and approved over forty New York state-compliant policies including a Reserve Fund Policy.

Our record of full cooperation throughout this audit process establishes that the Fire District and its officers have complied in a timely manner with the requests for information brought forward throughout the audit.

The Board would like to note here that that at no time, nor does the audit suggest, have any taxpaying resources been wasted or misappropriated. The Fire District has audits by an outside auditor per GML. These annual audits have consistently reflected a true report in the Fire District's financial documents, of the Fire District's financial status. Attached is comment from District Auditor CPA Tripi.

The volunteer Board of the Kent Fire District Number One believes that oversight, compliance and transparency are core to the critical governance of managing taxpayer money used to keep the Public served in the District safe. We appreciate the feedback given by the NYS office of the Comptroller and its auditors. If there is any further information or clarification needed for follow-up, feel free to reach out to the Board.

Very truly yours,

Douglas A. Casey, Chairman
Kent Fire District Number One
Board of Fire Commissioners

Appendix B: OSC Comments on the District's Response

Note 1

District officials did not provide any documentation establishing reserve funds. At the exit discussion, District officials provided a copy of the 1974 adopted resolution establishing the capital reserve fund for \$25,000. Although a type reserve established in 1974 would not have required a vote of the taxpayers, the resolution provided did not establish equipment or other reserves.

Note 2

Over the five-year period from 2014 through 2018, District officials adopted budgets with appropriations that exceeded actual expenditures by approximately 32 percent or \$605,479 and made unbudgeted transfers to reserve funds at year-end. This practice has not been transparent to the residents.

Note 3

Reserve funds should not merely be a “parking lot” for excess cash or fund balance. Maintaining reserve fund balances at the District's levels without formalized plans and policies may have resulted in the collection of more real property taxes than necessary.

Note 4

The District officials provided a long-term projection of reserve fund balances and anticipated expenditures; however, it does not communicate to taxpayers why the money is being set aside, the Board's financial objectives for the reserves, optimal funding levels and conditions under which the assets will be utilized.

Note 5

District officials did not provide documentation of permissive referendums during the audit period. At our exit discussion, officials provided a copy of an affidavit of publication for 2016 firehouse improvements and repairs totaling over \$270,000 for which we amended the audit report. Additional documentation provided evidence that purchases were bid but did not include proof of permissive referendums.

Appendix C: 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 Board members, the Secretary and the Treasurer as to the financial operations of the District.
- We reviewed District policies and procedures to identify and gain an understanding of existing policies, processes and procedures.
- We compared the Treasurer's proposed budgets to the filed budgets provided by the Town clerk to identify differences and determine whether budgets were accurate and complete.
- We reviewed the District's audited financial statements and AUD and compared them to the Treasurer's budget-to-actual reports to evaluate budgeted and actual expenditures.
- We compared total appropriations to actual expenditures from 2014 to 2018 to determine if budgeted appropriations were realistic and based on prior year results.
- We interviewed the Treasurer and requested reserve activity reports. We reviewed bank reconciliations provided to the Board and compared them to bank statements.
- We summarized reserve fund activity from bank statements and Treasurer's transaction reports to verify and trace amounts deposited and expended from each reserve fund and year-end reserve account balances from December 31, 2014 through December 31, 2018.
- We reviewed Board minutes for 2017 and 2018 for Board authorizations and resolutions to determine whether annual transfers of surplus funds to and from reserve accounts and disbursements from reserve accounts were Board approved and for the correct purpose.
- We interviewed the Secretary and requested copies of permissive referendums for disbursements made from reserve funds from January 1, 2014 to December 31, 2018.
- We inquired to determine whether the District adopted a reserve policy. We also reviewed the Board's projection of reserve activity.

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

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