

Mount Sinai Fire District

Financial Condition and Price Quotations for Purchases

AUGUST 2019



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

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Report Highlights

Mount Sinai Fire District

Audit Objective

Determine if the Board and District officials effectively managed the District's financial condition.

Determine if the District is seeking competition for purchases that are under the bidding threshold.

Key Findings

- The Board overestimated appropriations and transferred nearly the entire operating surplus to the reserve funds, leaving the District with virtually no unrestricted fund balance.
- District officials did not always seek quotations for purchases under the bidding threshold.

Key Recommendations

- Adopt financial plans for the maintenance of a reasonable level of fund balance, the funding and use of reserves and a multiyear financial plan.
- Adopt budgets that include reasonable estimates for appropriations.
- Ensure compliance with the District's procurement policy regarding the use of verbal and written quotations.

District officials generally agreed with our recommendations and indicated they were initiating corrective action.

Background

The Mount Sinai Fire District (District) is a district corporation of the State, distinct and separate from the Town of Brookhaven (Town) in Suffolk County.

The elected five member Board of Fire Commissioners (Board) governs the District and is responsible for the District's overall financial management and safeguarding its resources. The Treasurer acts as the District's chief fiscal officer and is responsible for receiving, disbursing and accounting for funds; preparing annual financial reports; and meeting any other reporting requirements.

The District's budget is funded primarily by real property taxes.

Quick Facts

2018 Budgeted Appropriations	\$1,570,000
2018 Reported Actual Expenditures	\$1,587,101

Audit Period

January 1, 2017 – May 31, 2018. We extended our scope period back to January 1, 2015 and forward to December 31, 2018 to examine revenue, expenditure and fund balance trends for the general and reserve funds.

Financial Condition

How Should the Board Manage Financial Condition?

To effectively manage a district's financial condition, a board should adopt reasonable and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. New York State Town Law¹ requires a district to submit proposed budgets to the town each year that include estimates of fund balance. The board should adopt a fund balance policy that addresses the appropriate levels of fund balance to be maintained from year-to-year and provides the board with guidelines during the budget process.

The board should also adopt a multi-year financial plan that addresses the district's operational and capital needs. Multi-year planning can be a vital tool to set long-term priorities and work toward goals. The board should use these plans when it prepares the annual budget to ensure that fund balance is consistently maintained at a reasonable level and to help taxpayers and district officials see the impact of the fiscal decisions of district officials over time. The adopted multi-year plan should be monitored and updated on a continuing basis.

Additionally, a board can legally set aside or reserve portions of fund balance to finance future costs. The board should authorize, by resolution, the establishment of any type of improvement or equipment reserve. Ideally, reserves should be funded through the annual budget. When not anticipated in the annual budget, the board should pass a resolution to authorize the transfer of unexpended balances or surplus funds it chooses to put into a reserve fund.

The Board's Budgeting Practices Resulted in Operating Surplus

The Board overestimated appropriations each year throughout the audit period. We compared the District's budgeted revenues and appropriations to the actual results of operations for 2015 through 2018. Revenue estimates were reasonable and generally close to the actual revenues received. The majority of the \$71,109 total revenue variance for the four fiscal years reviewed was because the District sold old equipment in 2016 for \$42,600, more than 60 percent of the total variance. However, overestimated appropriations totaled \$312,554, or 5.4 percent of actual expenditures for the four years reviewed, an annual average of \$78,139.

¹ Section 181

Figure 1: Overestimated Expenditures

Fiscal Year	Budgeted Expenditures	Actual Expenditures ^a	Overestimated Expenditures
2015	\$1,505,000	\$1,398,586	\$106,414
2016	\$1,519,000	\$1,323,290	\$195,710
2017	\$1,534,000	\$1,506,469	\$27,531
2018	\$1,570,000	\$1,587,101 ^b	(\$17,101)
Total	\$6,128,000	\$5,815,446	\$312,554

a Includes budgeted transfer to reserve of \$43,000 for 2015-2017 and \$34,970 for 2018

b Includes \$48,190 vehicle purchased in November 2018 that was not budgeted. Without this end of the year purchase, overestimated expenditures would have been \$31,089.

To calculate the amount overestimated, we included only the budgeted portion of the transfers to the capital reserves (\$43,000). The underestimated revenues and overestimated appropriations led to a total operating surplus of \$383,664² for the four fiscal years reviewed. However, nearly all of the operating surplus was transferred to the two capital reserves. The additional transfers totaling \$383,490³ for the four years were from the results of operations.

A significant portion of the overestimated appropriations, (99 percent), were for contractual expenditures. The majority of the contractual expenditures variance consisted of apparatus (\$89,786 for repairs and \$54,196 for fuel), and education and training (\$69,784). District officials told us that the fuel variance was because of the overall uncertainty of prices, specifically the decrease in prices in 2015. Additionally, they said the repairs variance is because the District is doing much of the work that they had previously outsourced. Furthermore, the education and training variance is because the District budgeted to attend a conference each year and no Commissioners have attended in 2015 to 2017; however, they did attend in 2018.

In 2018, appropriations were underestimated by \$17,101 and revenues were underestimated by \$17,012. The District had an operating deficit of \$89 predominantly because of the purchase of a vehicle for \$48,190 which had not been budgeted for and was authorized by the Board in November 2018, the end of the fiscal year. Even with this unplanned expenditure, the District still virtually broke even because of the Board's practice of overestimating appropriations. If not for this unplanned equipment purchase, the District would have ended the fiscal year with overestimated appropriations totaling \$31,089 and an operating surplus of about \$48,101.

2 2015 (\$114,930), 2016 (\$239,511), 2017 (\$29,312), 2018 (\$-89)

3 Unbudgeted transfers to the capital reserves: 2015 (\$114,930), 2016 (\$239,336), 2017 (\$29,224).

The Board Transferred All Operating Surpluses to the Reserve Funds, Leaving No Unrestricted Fund Balance

From 2015-2017, District officials transferred excess funds derived from overestimating appropriations to the reserve funds, leaving the District with virtually no unrestricted fund balance. Because the District had no unrestricted fund balance, it appeared that the tax levy needed to be increased. As a result, the District's real property tax levy has increased yearly, by a total \$64,000 from 2015 to 2018 (4.3 percent or an annual average of 1.4 percent).

The Board did not adopt a fund balance policy, a reserve policy, a multi-year financial plan, or include an estimate of fund balance when it adopted the budget. Adopting a reserve policy and a multi-year plan would help the Board address the District's operational and capital needs, and better demonstrate to taxpayers the reasons for any tax increases and why operating surpluses are used to fund reserves beyond the amounts included in the adopted budget. For the four years reviewed, the District's unrestricted fund balance ranged from \$0 to \$263, or about 0 percent of the ensuing year's budgeted appropriations.

Figure 2: Unrestricted Fund Balance

Year	Unrestricted Fund Balance at Year End(a)	Ensuing Year's Budgeted Appropriations(b)	Unrestricted Funds as a Percentage of Ensuing Year's Budget (a/b)
2015	\$0	\$1,519,000	0.00%
2016	\$175	\$1,534,000	0.01%
2017	\$263	\$1,570,000	0.02%
2018	\$174	\$1,744,500	0.01%

Reserves Were Not Adequately Established and Funded

The District maintained two capital reserves with a total balance of \$1.1 million as of December 31, 2017, an apparatus and equipment reserve (\$557,834) and a building reserve (\$545,075). Both capital reserves have been in place for over 50 years. The District had sufficient cash restricted for the reserves.⁴ Board minutes indicated that the apparatus and equipment reserve is for the purchase of new equipment, and the building and grounds reserve is for the purpose of construction, reconstruction, or acquisition of property or other improvements or equipment related to the firehouse and grounds.

⁴ Unrestricted cash was \$0 in 2015, \$12,754 in 2016, \$29,810 in 2017 and \$31,656 in 2018.

District officials could not provide us with the resolutions for the establishment of the reserves; have not adopted a policy for the funding, use and desired balances for reserves; and have not adopted a capital plan to address the District's capital needs. The District funded the reserves from budgeted appropriations of \$43,000 each year. In addition, at the end of 2015, 2016 and 2017, all or most of the total annual operating surplus funds were transferred to the reserves. The Board did not authorize by resolution the transfer of the general fund operating surplus of \$114,930 in 2015 to the District's capital reserve funds. The transfers of \$239,336 in 2016 and \$29,224 in 2017 were authorized in December of each year.

The District's 2018 adopted budget again included funding of \$43,000 to the capital reserve funds. However, \$34,970 was transferred and no operating surplus was available to be transferred at year-end because the District ended the year with an operating deficit due to a \$48,190 unplanned purchase of a District vehicle. Without having a capital plan or reserve policy, it is difficult for District officials to appropriately address the District's operational and capital needs.

What Do We Recommend?

The Board should:

1. Adopt a written fund balance policy that addresses the appropriate levels of fund balance to be maintained.
2. Adopt a multi-year financial plan and monitor and update that plan on a continuing basis.
3. Adopt budgets that include reasonable estimates for appropriations.
4. Adopt a written reserve policy that indicates the amount of funds to be reserved, how reserves will be funded and when balances will be used to finance related costs.
5. Consult with the District's attorney and ensure the capital reserve funds are properly established.
6. Include appropriations for all transfers to reserves. If additional funds are to be transferred to reserves, the Board should adopt a resolution giving the reason and amount of the additional transfer.

Quotations

How Should a District Procure Goods and Services Under the Bidding Threshold?

New York State General Municipal Law⁵ requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements, such as professional services and items that fall under the bidding thresholds. The District's procurement policy details the authorization and approval procedures that indicate when District officials must obtain competition, outlines procedures for determining the competitive method that will be used and require adequate documentation of the actions taken with each method of procurement.

The Board-adopted procurement policy⁶ outlines the monetary thresholds for purchases that require either verbal or written quotations be obtained and documented. The policy also outlines when alternative proposals or quotations are not required, such as an emergency situation. The District's policy requires that all information gathered in complying with the procedures of its procurement policy be preserved and filed with the documentation supporting the subsequent purchases. The policy states, "If the purchaser is unable to obtain the required number of proposals or quotations, the purchaser will document the attempt made at obtaining the proposals" and "Documentation is required of each action taken in connection with each procurement." The policy also mentions for aggregate purchases "a good faith effort will be made to determine whether it is known or can reasonably be expected that the aggregate amount to be spent on the item or service is not subject to competitive bidding."

The District uses a procurement form to document all verbal quotations received and to document why a purchase would be exempt from obtaining quotations. The form lists various exemptions, including sole source purchases, which the District Manager can check off, if applicable.

Quotations Were Not Always Obtained

District officials did not always obtain the sufficient number of quotations required by the District's procurement policy. We reviewed 18 claims totaling \$85,335 paid during the period January 1, 2017 to December 31, 2017 and found that six of these claims, totaling \$19,709 did not have the required number of verbal quotations and one claim of \$7,494 for siding materials for their headquarters did not have the required number of written quotations. For example, a collision shop was paid \$3,125 in June 2017 for body repairs and painting of a truck and the District did not obtain the required two verbal quotations for a public works vendor.

⁵ Section 104-b

⁶ Adopted January 6, 1992 and reviewed January 2, 2018.

The District Manager noted on the procurement policy form that this is a “sole source” vendor. However, he also noted that there are “limited vendors who could do this work locally.” If there are limited vendors, this would not be a sole source vendor. As such, officials should have been able to obtain the two quotations required by the District’s policy.

For each vendor selected in 2017, we reviewed the highest claim paid during the period January 1, 2018 to May 31, 2018. There was only one claim for \$3,741 that met the quotation threshold during this period and District officials did not obtain the required number of verbal quotations. We also found that the District’s procurement form was not used in 16 of the 19 claims we tested during the audit period.

After the end of our fieldwork, District officials provided various explanations for not obtaining quotations. For example, they stated that purchases from three vendors totaling \$16,378 were sole source purchases. However, for one purchase totaling \$4,961 for repairs to the District headquarters’ generator, while the procurement form was used, it was not noted that it was a sole source purchase. Instead, it was noted that the vendor was chosen for a host of other reasons including education, integrity, and accountability. In the other two instances, the procurement form was not used. One of the other two purchases for materials for the replacement of siding on the fire District headquarters totaling \$7,494 mentioned sole source on the claims voucher after the purchase was made and not on the Districts procurement form at the time of the purchase. The third purchase which was for \$3,923 for repairs to District fire trucks did not mention sole source anywhere on the claims form. None of these three purchases are sole source purchases as our web search showed there are other vendors or contractors located in close proximity to the District who can provide these goods and services.

Additionally, they informed us that claims totaling \$9,075 from three vendors⁷ were under the quotation threshold. This is because each claim consisted of two invoices, with each individual invoice being below the threshold, and the aggregate of the two being above the threshold. However, the policy requires that when a purchase is below the threshold, one verbal quotation is needed. There was no verbal quotation documented on the procurement form in any of the three instances. Moreover, if two purchases are made of the same commodity within a short time span it would be consistent with the policy to obtain the same level of competition as if there were one purchase for the combined amount. For example, we found a lower price from an online vendor for the purchase of two types of lighting fixtures than what the District paid. The District purchased these fixtures for \$2,030 but with an online search we found the same fixtures for \$1,628. If the District had obtained quotations, they could have saved \$402 on this purchase.

⁷ Includes a vendor paid \$3,923 for maintenance on District fire trucks listed above as a sole source exception.

As a result of not seeking competition for purchases under the bidding threshold, the District paid more than necessary for goods and services.

What Do We Recommend?

The Board should:

7. Ensure that verbal or written quotations required by the purchasing policy are obtained for goods and services below the bidding threshold, and that all quotation documentation and any exception to obtaining quotations be documented on the procurement form.

Appendix A: Response From District Officials

Mt. Sinai Fire District

COMMISSIONERS

JOSEPH TACOPINA, Chairman
PETER VAN MIDDELEM, Vice Chairman
JAMES HANSEN
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August 9, 2019

Via Email

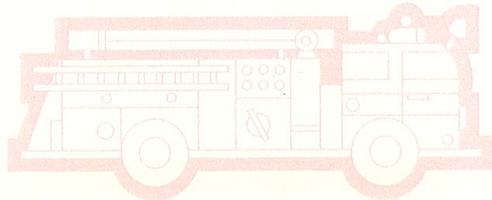
Mr. Ira McCracken, Chief Examiner
Office of the New York State Comptroller
NYS Office Building, Room 3A10
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Hauppauge, NY 11788

Dear Mr. McCracken,

This letter is in response to the New York State Office of the State Comptroller Report of Examination 2019M-83 for audit period of January 1, 2017 through May 31, 2018, with an extended scope of January 1, 2015 through December 31, 2018 ("Audit"). The Audit focused on an examination of the fund balance trends for the general fund and reserve funds.

The Board of Fire Commissioners of the Mount Sinai Fire District ("Board") continues to work tirelessly to balance the needs of an ever expanding community, while continuing to address unfunded state mandates. The Board has consistently adopted reasonable and prudent budgets that never exceed the state mandated tax cap, historically keeping the tax rate near the bottom of all fire districts in Suffolk County.

With this and with the best interests of the Mount Sinai community in mind, the Board intends to adopt an amendment to the reserve policy that has been in effect for over 50 years to set funding balances for the apparatus and equipment and buildings and grounds reserve accounts. The Board will be more diligent in the documentation of the specific intentions for any year-end appropriations transferred into those established reserve accounts. Additionally, the Board adopted a resolution on March 19, 2019 to carryover a reasonable unrestricted fund balance.



Furthermore, the Board will reaffirm established procedures regarding the existing procurement policy. Moreover, effective April 16, 2019, the Board adopted changes to the procurement policy to clarify quotation requirements at specific cost levels. Finally, the Board will ensure all attempts for quotes are documented, even in those instances where a particular vendor may be a sole source supplier and/or where there was no response from other contacted vendors.

Finally, the Board will be steadfast in the updating and modifying of its 5 year capital plan for expenditures previously established in 2004, and will make such amendments as necessary at the Board's yearly organizational meeting.

Joseph Tacopina

Chairman, Board of Fire Commissioners
Mount Sinai Fire District

JT:mw

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, we performed the following audit procedures:

- We interviewed District officials to gain an understanding of financial policies and procedures.
- We reviewed District accounting records, including general ledgers, cash receipts and disbursements journals, audited financial statements and bank records, and assessed fund balance and capital reserves for the years 2015, 2016, 2017 and 2018.
- We reviewed the 2015, 2016, 2017 and 2018 adopted budgets.
- We obtained a cash disbursement list of vendors for the period January 01, 2017 to December 31, 2017. We eliminated the vendors that the District paid having aggregate payments above the bidding threshold and under the quotation threshold, professional service providers, insurance companies, utilities, employees, Board members, taxation, retirement system and professional memberships/dues. We then quantified the number of remaining vendors and the total amount paid to these vendors.
- We selected all 18 vendors with at least one payment that are within the purchase contract thresholds (\$2,000-\$4,999, two verbal quotations; \$5,000-\$9,999, two written quotations; and \$10,000-\$19,999, three written quotations) or public work contract thresholds (\$3,000-\$4,999, two verbal quotations; \$5,000-\$6,999, two written quotations; and \$7,000-\$34,999, three written quotations) - per the Board policy effective during our audit period. We selected the claim for the highest dollar amount for each vendor selected (one claim for each of the 18 vendors selected). Quantify the total number and dollar amount of all claims to be reviewed (the highest dollar amount for each individual vendor).
- For each vendor selected in 2017 we obtained a cash disbursement list for January 1, 2018 to May 31, 2018 and selected the highest claim for review within the quotation threshold (if any) in this period. There was only one claim that met the quotation threshold in this period.

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

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