

Mottville Fire District

Budgeting and Financial Recordkeeping

MAY 2020



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

Contents

Report Highlights	1
Budgeting and Financial Recordkeeping.	2
How Should the Board Manage District Financial Operations?	2
The Board Did Not Adopt Realistic Budgets or a Fund Balance Policy.	2
The Treasurer Did Not Maintain Adequate and Accurate Accounting Records	3
What Do We Recommend?	5
Appendix A – Response From District Officials	6
Appendix B – Audit Methodology and Standards	8
Appendix C – Resources and Services.	10

Report Highlights

Mottville Fire District

Audit Objective

Determine whether the Board adopted realistic budgets and the Treasurer accurately recorded and reported financial activities.

Key Findings

- The Board's budgets were incomplete because the real property tax levy and a schedule of other estimated revenues were not included.
- The Board did not adopt a fund balance policy or establish targeted funding levels for its reserve funds.
- The Treasurer did not maintain accurate and reliable accounting records.

Key Recommendations

- Prepare budgets that are complete and accurate, that include realistic estimates of revenues and appropriations.
- Develop fund balance and reserve policies to establish the desired levels of unrestricted fund balance and reserves to maintain.
- Update the financial records to conform to the Office of the State Comptroller's (OSC's) accounting and reporting manual for fire districts.

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

Background

The Mottville Fire District (District) provides fire protection services for the Town of Skaneateles (Town) in Onondaga County. The District also contracts with the Town of Elbridge to provide fire protection services for a portion of its territory. The District is governed by an elected five-member Board of Fire Commissioners (Board) responsible for the general management and control of financial operations, including adopting annual budgets.

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 and preparing periodic financial reports.

Audit Period

Quick Facts

2019 Appropriations	\$239,039
2019 Real Property Tax Levy	\$239,039
2018 Expenditures	\$198,069
2018 Revenues	\$278,719

January 1, 2016 – November 30, 2019

Budgeting and Financial Recordkeeping

How Should the Board Manage District Financial Operations?

To effectively manage financial condition, a board should adopt realistic and structurally balanced budgets based on historical or known trends in which recurring revenues finance recurring expenditures. In preparing the budget, a board must estimate how much the fire district will spend and the amount it will receive in revenues. The Board should estimate how much fund balance will be available at year-end and the expected tax levy needed to balance the budget. Accurate budget estimates help ensure the tax levy is not greater than necessary.

In addition, a board should maintain a reasonable level of fund balance, which is the difference between revenues and expenditures accumulated over time. Fire districts are legally allowed to establish reserves (restricted fund balance) and accumulate reasonable funds for certain future purposes (for example, capital improvements, fire apparatus and repairs). Combining a reasonable level of fund balance with specific legally established reserves provides safeguards for unanticipated events and other identified or planned needs.

To assist with the budget development process, a board should adopt a policy to establish the level of unrestricted fund balance to be maintained and the targeted funding levels for its reserve funds. A board should also develop a long-term capital plan to address future capital needs. To effectively manage financial operations, good management practices require a board to establish policies and procedures to ensure that transactions are properly recorded and collections and disbursements are adequately accounted for.

Fire districts are required to use the accounting and reporting manual for fire districts to classify and code accounting transactions for cash, revenues and expenditures.¹ This system serves as a basis for the budget, financial accounting records and reports and offers a tool to assist in administrative controls. Proper account coding facilitates posting entries in the accounting records and provides reporting consistency and transparency. In conjunction with using the uniform system of accounts, the treasurer is responsible for keeping an accurate account of all financial activities and for filing accurate annual financial reports (AFRs) with OSC each year.

The Board Did Not Adopt Realistic Budgets or a Fund Balance Policy

The Board adopted budgets that were incomplete and did not include realistic estimates of revenues. The budgets included a list of appropriation accounts and the total appropriations, but did not show any estimated revenues or the amount to be raised by real property taxes.

¹ Refer to our accounting and reporting manual for fire districts at https://osc.state.ny.us/localgov/pubs/arm_fds.pdf.

District officials raised taxes equal to the amount of the total appropriations each year, without considering other anticipated revenues or fund balance available to finance the budget. For example, the District received revenues for a fire protection contract from the Town of Elbridge of about \$40,000 each year during our audit period (2016 through 2019). However, the Board did not incorporate these revenue estimates in the annual budgets.² As a result, the District levied \$160,000 more in real property taxes over the past four years than was necessary to fund the appropriations.

District officials told us they used the unbudgeted revenue from the annual fire protection contracts to finance the reserve funds for future capital outlays such as a new roof or a new ladder truck. For example, in 2018, the Board budgeted about \$25,000 to fund its apparatus replacement reserve, but it actually transferred about \$60,400 to the reserve. While we found that the District's budgets included realistic estimates of the District's operating expenditures, the failure to show the real property tax levy and include realistic estimates of revenues and transfers to reserve funds in the budgets diminishes transparency for taxpayers.

Furthermore, the Board did not adopt a fund balance policy outlining the amount of unrestricted fund balance to be maintained to meet the District's needs and it has not established any targeted funding levels for its reserve funds. As of December 31, 2018, unrestricted fund balance was \$105,524, or 44 percent of the next year's budgeted appropriations of \$239,039. While it is prudent to maintain adequate fund balance to use as a financial cushion in the event of unforeseen financial circumstances, this level is higher than necessary.

The District also had \$218,240 in capital and repair reserves as of December 31, 2018,³ but the Board has no formal capital plan in place. As a result, it is difficult for the Board to ensure it is raising the appropriate amount of real property taxes necessary to finance the District's annual operations and longer term capital needs.

The Treasurer Did Not Maintain Adequate and Accurate Accounting Records

We reviewed the accounting records provided by the Treasurer for 2016, 2017, and 2018 and from January 1, through November 30, 2019. We compared the 2016, 2017 and 2018 records with the AFRs submitted to OSC for these years to determine whether the AFRs submitted were accurate and supported.

² Based on the District's annual financial reports, the District received this contract revenue each year since 2014.

³ The capital reserve had a balance of \$140,210 and the repair reserve had a balance of \$78,030.

The Treasurer did not maintain adequate and accurate accounting records and account balances did not agree with balances reported in the AFR. Because the revenues and expenditures reported on the AFR did not agree with the accounting records, we reviewed the monthly bank statements for 2016, 2017, and 2018 to determine whether the revenues and expenditures reported agreed with financial activity shown on bank statements. Because the District operated on the cash-basis of accounting, expenditures and revenues reported should generally agree with cash receipts (deposits) and disbursements (checks and withdrawals) shown on bank statements.⁴

Our examination revealed numerous inconsistencies between revenues and expenditures reported by District officials and the cash activity shown on bank statements. For example, these inconsistencies led to the District underreporting revenues in 2018 by about \$1,600 and over reporting expenditures in 2018 by about \$10,700. These inconsistencies can be attributed to the Treasurer's accounting records and practices.

Because the Treasurer failed to maintain a cash receipts journal to track all revenues received in a chronological order and did not maintain detailed revenue ledgers, not all revenues received were accurately recorded and reported. In addition, at the end of 2018 the Board directed the Treasurer to increase total reported expenditures by \$15,300 even though these disbursements were made in January 2019.

The Board authorized the Treasurer to make a similar adjustment to increase total expenditures by \$2,800 in 2017 based on disbursements made in January 2018. These adjustments were inappropriate because the District operated on the cash-basis of accounting. In addition, the Treasurer used insurance recoveries to reduce expenditures by \$1,767 in 2018 – these funds should have been recorded as revenues rather than used to offset expenditures.

Further, revenue and expenditure accounts used by the Treasurer to report financial activities did not conform to the classification system prescribed by OSC. We identified 28 account codes used by the Treasurer in the accounting books and records. However, none of these accounts conformed to the uniform system of accounts required to be used by fire districts.

The Treasurer told us that she inherited the books and records from the previous Treasurer in 2017 and was unaware that the system was inadequate. After informing the Treasurer about these matters she began to bring her records into compliance with OSC's requirements before the conclusion of the audit. These

⁴ The cash basis of accounting may be used by fire districts with less than \$500,000 of revenues. Cash basis generally means that no financial transaction is recorded in the accounting records of the district unless cash has been received or disbursed.

improvements to the accounting records should help facilitate the Treasurer's preparation and accurate filing of the 2019 AFR.

What Do We Recommend?

The Board should:

1. Include the real property tax levy and other estimated revenues in the adopted budgets.
2. Adopt realistic budgets that include revenue and expenditure estimates developed from known trends and historic data.
3. Develop a multiyear capital plan.
4. Develop fund balance and reserve policies to establish the desired levels of unrestricted fund balance and reserves to maintain.

The Treasurer should:

5. Continue to update financial records and reports, and create and present reports and budgets that conform to OSC's accounting and reporting manual for fire districts.

Appendix A: Response From District Officials

Board of Fire Commissioners Mottville Fire District

PO Box 55
Mottville, NY 13119

April 28, 2020

Rebecca Wilcox, Chief Examiner
Office of the New York State Comptroller
% Local Government and School Accountability/Syracuse Region
State Office Building- Room 409
333 E. Washington St.
Syracuse, NY 13202

Dear Ms. Wilcox:

The commissioners of the Mottville Fire Company Inc. have received the draft audit that was completed for the period of January 1st, 2016 to November 30th, 2019. This is our written response and corrective action to your Audit report 2020M-26.

Recommendations:

1. Include the real property tax levy and other estimated revenues in the adopted budgets.

Corrective Action: Starting in the 2021 budget process the board will budget for all real property tax levy along with any other estimated revenue.

2. Adopt realistic budgets that include revenue and expenditure estimates developed from known trends and historic data.

Corrective Action: The Board will utilize the New York State budget worksheet to include any known revenues, take into account any recurring expenditures, plus planning for future reserves in the budget.

3. Develop a multiyear capital plan.

Corrective Action: The Board of Commissioners to formalize a multiyear plan for these reserves. The Board has a plan but it is not written and adopted formally. The board plans to adopt in writing by September 1st, 2020, prior to 2021 budget planning. The multiyear plan will be reviewed annual.

**Board of Fire Commissioners
Mottville Fire District**

PO Box 55
Mottville, NY 13119

4. Develop fund balance and reserve policies to establish the desired levels of unrestricted fund balance and reserves to maintain.

Corrective Action: The board will monitor the unrestricted fund balance, to be an adequate balance come the end of the fiscal year. The board will keep this adequate balance to cover unforeseen financial circumstances.

5. Continue to update financial records and reports, and create and present reports and budgets that conform to OSC's accounting and reporting manual for fire districts.

Corrective Action: Past accounting practices have been corrected to meet best practice accounting procedures. Revenue accounting report has been established. Accounting codes have been added to all accounting reports.

Respectfully Submitted,

Charles Paddock
Chairman, Board of Commissioners

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Board members and the Treasurer to gain an understanding of District financial operations, including budgeting and whether or not District officials developed a multiyear capital plan and fund balance or reserve fund policies.
- We reviewed the 2016 through 2019 adopted budgets to determine whether reasonable revenue estimates based on historical results were included and total appropriations each year were within the calculated statutory spending limit.
- We compared total appropriations to actual expenditures from 2016 through 2018 to determine whether appropriations were realistic and based on prior year results.
- We reviewed the AFRs and compared them to the Treasurer's accounting records to determine whether the amounts reported were supported by accurate and complete accounting records.
- We reviewed all monthly bank statements and canceled checks and various other documents to determine the actual revenues and expenditures for 2016 through 2018. We then compared these amounts to the total revenues and expenditures the Treasurer reported on the AFRs for these years.
- We compared all ending cash balances from bank statements (adjusted for outstanding checks and deposits-in-transit) to the cash balances the Treasurer reported on the 2016 through 2018 AFRs.
- We reviewed Board minutes for all monthly meetings included in our audit period to identify accounting transactions and significant activities.

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. We encourage the Board to make the CAP available for public review.

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

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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

Local Government and School Accountability Help Line: (866) 321-8503

SYRACUSE REGIONAL OFFICE – Rebecca Wilcox, Chief Examiner

State Office Building, Room 409 • 333 E. Washington Street • Syracuse, New York 13202-1428

Tel (315) 428-4192 • Fax (315) 426-2119 • Email: Muni-Syracuse@osc.ny.gov

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