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August 9, 2013

Mr. Michael Garigliano, Chairman
Members of the Board of Fire Commissioners
Grahamsville Fire District
205 Main Street, PO Box 343
Grahamsville, NY 12740

Report Number: 2013M-117

Dear Mr. Garigliano and Members of the Board of Fire Commissioners:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage local government officials to reduce costs, improve service delivery, and to account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Grahamsville Fire District which addressed the following question:

- Has the Board properly developed budgets, including the use of fund balance and reserves, to finance operations?

The results of our audit have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our findings and indicated they planned to initiate corrective action.

Background and Methodology

The Grahamsville Fire District (District) is a district corporation of the State, distinct and separate from the Town of Neversink, and located in Sullivan County. The District's general fund budget totaled \$166,000 for the 2013 fiscal year.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The Board appoints a Treasurer who acts as the District's chief fiscal officer. The Treasurer is responsible for the receipt and custody of District funds, for disbursing and accounting for those funds, for preparing monthly and annual financial reports, and for meeting any other reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2012, to March 14, 2013. We extended our scope period back to 2006 to analyze financial trends. We also reviewed the District's financial performance, including budget development. In addition, we interviewed appropriate District officials and reviewed financial records and Board minutes. We conducted this performance audit in accordance with 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.

Audit Results

The Board is responsible for overseeing the District's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board develop budgets based on reasonable and accurate assessments of expenditures and the resources used to fund them and include long-term planning for major fixed asset additions. Budget estimates based on valid assumptions help ensure that the levy of property taxes is not more than necessary. In addition, planning on a multiyear basis allows District officials to identify developing revenue and expenditure trends, set long-term priorities and goals, and avoid large fluctuations in tax rates. Because the budget also serves as a way to communicate to taxpayers the manner in which officials plan to spend tax dollars, any changes the Board makes to the budget should be done in a manner that is transparent and accountable to taxpayers.

In addition, General Municipal Law authorizes fire districts to maintain certain reserve funds. Reserve funds provide a mechanism for saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can provide a degree of financial stability by reducing reliance on indebtedness to finance capital projects and acquisition. In addition, they offer a budgetary option for financing acquisitions that can help mitigate the need to cut services or to raise taxes. If the Board establishes reserve funds, it should establish written policies that communicate the reason for establishing the reserve funds, the objectives for each fund established, optimal or targeted funding levels, and conditions under which the funds' assets will be used.

The Board has not properly developed their annual budgets. The 2009, 2010, and 2011 fiscal year budgets did not include provisions for the Board's accelerated retirement of District debt. From 2009 to 2011, the actual expenditures exceeded the budget estimates each year by an average of 22 percent because of unbudgeted debt service expenditures. For those three years, the Board chose to use available unexpended surplus funds¹ to pay off the debt balances early,

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

avoiding future interest payments. Because the District must hold a public hearing before adopting the final budget, a more transparent and appropriate method for paying the debt balances would have been to include a specific budgetary provision for the debt service payments.

In addition, in 2009, the Board increased the real property tax levy by more than 24 percent to fund, along with the use of debt and unexpended surplus funds, the \$399,000 purchase of capital equipment. During 2012, the real property tax levy remained at the same level as when the District made the capital equipment purchase, while the total expenditures returned to the levels before the purchase and debt repayment. As a result, the District generated a \$57,000 operational surplus, and the Board opted to transfer \$10,000 of the surplus to an existing reserve account. However, the District has not formally established reserve funds and has not adopted formal policies and procedures to govern the circumstances under which the reserve funds are to be established, how they are to be funded, and how they will be used. As of the fiscal year ended 2012, the unexpended surplus fund balance was about 47 percent of the total ensuing year's expenditures and the reserve balance was over \$175,000. The 2013 fiscal year budget included slight increases in the real property tax levy and total operational expenditures. However, if the actual operational expenditures remain at their historical levels, the District will likely generate another significant surplus that may bring the unexpended surplus fund balance to unreasonably high amounts. If fund balance is kept at excessively high levels, moneys that could benefit the District are not being used, thereby placing an unnecessary burden on taxpayers.

Recommendations

1. The Board should develop accurate budgets that include all known revenues and expenditures and identify future capital maintenance and acquisition needs and financing requirements.
2. The Board should use the unexpended surplus fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - Increasing necessary reserves
 - Reducing real property taxes
 - Paying down other remaining District debt
 - Financing one-time expenditures.
3. The Board should ensure that reserve funds are established, funded and used in accordance with all related statutory provisions.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the 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. The Board should make the CAP available for public review in the Secretary's office.

Sincerely,

Andrew A. SanFilippo
Executive Deputy Comptroller
Office of State and Local Government
Accountability

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.

GRAHAMSVILLE FIRE DISTRICT
PO BOX 343
GRAHAMSVILLE, NY 12740

July 30, 2013

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

RE: Audit Report Number 2013M-117 for the Grahamsville Fire District

Dear Mr. Eames,

This letter is to acknowledge that we have received the report and recommendations made by your office.

We discussed this report at our monthly meeting on July 15th and at the recessed meeting on July 22nd. It was felt that this had to be done before a response could be written, as we conduct all business as a board. We accept the findings and will address them as part of the corrective action plan (CAP). Pursuant to Section 181-b of the Town Law, a written CAP will be prepared and forwarded to your office within 90 days.

While accepting the findings, I feel that the reserve funds were properly established, although at this time we have not found the resolutions, under the direction of our counsel. These funds were established for a specific purpose and subject to permissive referendum, there was no public opposition and monies spent accordingly. Other funds, such as the apparatus replacement and capital reserve funds were established and voter approvals were received before funds were expended.

As part of our CAP we will re-establish the reserve funds according to the recommendation. As part of the CAP we will address the budget and fund balance recommendations. To the extent practicable, implementation of the CAP on our part will begin by the end of the next fiscal year. We understand that our Board should make the CAP available for public review in the office of the Neversink Town Clerk.

Sincerely,

Michael Garigliano
Chairman, Grahamsville Fire District