



White Lake Fire District

Budgeting Practices

Report of Examination

Period Covered:

January 1, 2012 — April 23, 2013

2013M-156



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2013

Dear District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Fire Commissioners' governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the White Lake Fire District, entitled Budgeting Practices. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The White Lake Fire District (District) is a district corporation of the State, distinct and separate from the Town of Bethel, and located in Sullivan County. The District's general fund budget totaled \$234,950 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, disbursing and accounting for those funds, preparing monthly and annual financial reports, and meeting any other reporting requirements.

Objective

The objective of our audit was to examine the District's budgeting practices. Our audit addressed the following related question:

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

Scope and Methodology

We examined the District's budgeting practices for the period January 1, 2012, to April 23, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

Comments of District Officials and Corrective Action

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

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.

Budgeting Practices

The Board has the authority and responsibility to adopt realistic, structurally balanced budgets, monitor the budget continually, and manage fund balance responsibly. The Board is responsible for overseeing the District's fiscal activities and safeguarding its resources. As such, it is essential that the Treasurer provide the Board with monthly budget-to-actual reports so that it can monitor the budget and make any necessary adjustments.

It is essential that the Board develop budgets that include long-term planning for major capital asset additions. Planning on a multi-year basis allows District officials to identify developing revenue and expenditure trends, set long-term priorities and goals, and avoid large fluctuations in tax rates. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can also provide a degree of financial stability by reducing reliance on indebtedness to finance capital projects and acquisitions.

The Board has not properly developed its annual operating budgets. In three of the five fiscal years from 2008 through 2012, the District spent more money than received. These budget inaccuracies contributed to the District using 54 percent of unexpended surplus fund balance¹ to fund the ensuing years' appropriations. Additionally, during this same period, the District budgeted to fund its reserves with approximately \$115,000 of unexpended surplus funds in anticipation of future equipment and repair needs. The planned uses of unexpended surplus fund balance and results of operations have caused unexpended surplus fund balance to decline from approximately \$71,000 in 2008 to \$32,000 in 2012, as indicated in Table 1.

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).

Table 1: Results of Operations					
	2008	2009	2010	2011	2012
Beginning Fund Balance	\$108,297	\$84,891 ^a	\$107,943	\$100,673	\$319,567
Actual Revenues	\$242,175	\$242,338	\$254,711	\$512,543 ^b	\$261,636
Actual Expenditures	\$265,305	\$202,171	\$261,981	\$293,649	\$273,926
Less Transfers Out:	\$0	\$17,115	\$0	\$0	\$197,193
Operating Surplus/(Deficit)	(\$23,130)	\$23,052	(\$7,270)	\$218,894	(\$209,483)
Ending Fund Balance	\$85,167	\$107,943	\$100,673	\$319,567	\$110,084
Less: Appropriated Unexpended Surplus Fund Balance	\$0	\$0	\$0	\$0	\$0
Less: Restricted Fund Balance	\$14,156	\$33,069	\$101,321	\$325,517	\$77,709
Total Unexpended Surplus Fund Balance	\$71,011	\$74,874	(\$648)	(\$5,950)	\$32,375

^a This amount reflects a prior period adjustment of \$276 that decreased fund equity.

^b The District sold two pieces of equipment for approximately \$250,000, which it immediately transferred into the capital reserve fund. This revenue was not part of the original budget. With this revenue removed, the District had an operating deficit of approximately \$31,000.

During the budget development process, the Board did not consider historic trends and develop budgets with these trends in mind. Specifically, from fiscal years 2008 through 2012, the budgeted appropriations were, on average, 33 percent less than what the District ultimately spent, as indicated in Table 2. These variances resulted primarily from overspending \$83,527 in the public safety accounts and \$101,698 in the debt service accounts. Had the Board based its budget estimates on available information, such as the prior year's results of operations or debt service agreements, it could have avoided these budget shortfalls.

Table 2: Budgeted vs. Actual Expenditures						
	2008	2009	2010	2011	2012	Total
Budgeted Appropriations	\$233,720	\$238,900	\$206,067	\$225,988	\$231,008	\$1,135,683
Actual Expenditures	\$265,305	\$202,171	\$261,981	\$293,649	\$273,926	\$1,297,032
Less Transfers Out	\$0	\$17,115	\$0	\$0	\$197,193	\$214,308
Variance	(\$31,585)	\$19,614	(\$55,914)	(\$67,661)	(\$240,111)	(\$375,657)
Percentage	(14%)	8%	(27%)	(30%)	(104%)	(33%)

In addition, throughout the fiscal year, the Board did not monitor budget performance or adjust the budgets to reflect actual expenditures as they occurred because the Treasurer was not providing reports showing budget performance. The Treasurer only provided the Board with the bank account balances at month end. Without this important information, the Board could not effectively monitor the budget and make adjustments as necessary.

Fortunately, the District has had enough available fund balance to absorb these over-expenditures. However, if the Board continues to adopt budgets with unrealistic expenditures that result in operating deficits, the surplus funds will quickly diminish.

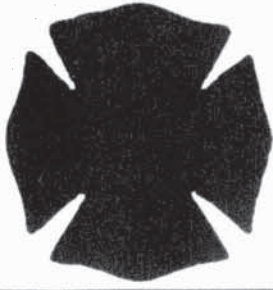
Recommendations

1. The Board should consider historic trends, as well as identified current and future needs, when developing budget estimates that are consistent with the District's actual revenues and expenditures.
2. The Treasurer should provide the Board with budget performance reports on a monthly basis.
3. The Board should monitor the budget throughout the year and amend budget lines before appropriations exceed estimates.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



White Lake Fire District

OFFICE OF COMMISSIONERS
P.O. BOX 11
WHITE LAKE, NEW YORK 12786

August 16, 2013

[REDACTED]
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

[REDACTED]
This letter is in reply to the draft report regarding the States review of Budgeting Practices of the White Lake Fire District for the period of 1/1/12 to 4/23/13.

The Recommendations noted in your draft report have been discussed with appropriate staff and corrective procedures have implemented.

If you need any further information please contact us at the address listed above.

Respectively submitted

[REDACTED]
Richard Hendrickson, Board Chairman

mdr

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We examined the internal controls over the District's financial operations for the period January 1, 2012, to April 23, 2013. To obtain valid audit evidence and accomplish our audit objective, we performed these specific audit steps:

- We interviewed District officials to gain an understanding of operations as well as the budget development process, and to determine what reports are prepared and provided to the Board for monitoring the budget.
- We reviewed the Board's monthly meeting minutes.
- We reviewed the District's policies and procedures.
- We reviewed the District's financial information and documented the trends in results of operations, fund balance, reserves, and budget-to-actual comparisons.
- We reviewed the District's bank accounts and verified activity.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

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