



THOMAS P. DiNAPOLI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

GABRIEL F. DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

April 17, 2015

Steven Company, Chair
Board of Fire Commissioners
Town of Champion Great Bend Fire District
32204 State Route 3
Great Bend, NY 13643

Report Number: 2015M-019

Dear Mr. Company and Members of the Board:

The Office of the State Comptroller (OSC) works to identify areas where fire district 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 fire district officials to reduce costs, improve service delivery and account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Town of Champion Great Bend Fire District (District) which addressed the following question:

- Did the Board provide adequate oversight of District financial operations?

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 generally agreed with our findings and indicated they will develop a corrective action plan to address the recommendations.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town of Champion, and is located in Jefferson County. The District's 2015 general fund budget appropriations totaled \$137,792 and are funded almost entirely with property taxes.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The Board-appointed Treasurer is responsible for the District's financial duties, including receiving and disbursing funds, maintaining accounting records, preparing necessary periodic financial reports, filing the District's annual financial report with OSC and meeting other reporting requirements.

We examined internal controls over the District's financial operations for the period January 1, 2013 through October 31, 2014. We extended the scope of our audit back to January 1, 2012 to analyze prior years' financial trends and we reviewed the District's 2014 year-end results. We interviewed District officials and reviewed financial records, District policies 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 establish a system of internal controls, which consists of policies and procedures that help ensure financial transactions are authorized and properly recorded; financial reports are accurate, reliable and filed in a timely manner; and that the District complies with applicable laws, rules and regulations.

The Board needs to improve its oversight of District financial operations. Although the Treasurer maintained adequate accounting records and the Chair reviewed the Treasurer's work, we found errors in the monthly budget-to-actual reports that the Treasurer provided to the Board. In addition, the Board has not developed policies determining a reasonable level of fund balance to maintain. As a result, the Board has accumulated significant surplus funds in the general fund. Finally, the Board did not ensure that annual financial reports and tax levy limit calculations were prepared and submitted to OSC as required.

Records and Reports – The Treasurer must maintain complete, accurate and timely records to properly account for all of the District's financial activities. The Treasurer should prepare and submit monthly financial reports to the Board and is also responsible for preparing and submitting the District's annual financial report to OSC within 60 days after the close of the fiscal year. This annual financial report is an important fiscal tool which provides the Board with necessary information to monitor District operations and provides other interested parties with a summary of the District's financial activities.

Overall, the Treasurer's books and records were adequately maintained. The Treasurer maintains financial information using an electronic spreadsheet application to record the District's financial activities and prepare financial reports. The Treasurer provides detailed comprehensive financial information to the Board at monthly Board meetings. This financial information includes bank reconciliations and bank statements/canceled checks, year-to-date budget-to-actual comparisons of expenditures, balance sheets, cash receipt and disbursement journals, and vendor claims. The Board Chair told us that he reviews the reconciliations to ensure adjusted bank balances agree to recorded cash, reviews canceled checks for appropriateness,¹ reviews budget-to-actual results and ensures that actual receipts and disbursements are properly recorded in the Treasurer's accounting records. The Board votes to accept the Treasurer's monthly reports. Additionally, the Board audits vendor claims for payment and three members sign each claim to document their approval.

¹ To ensure that two signatures are present on the check, per District policy, and that only legitimate vendors are recorded as the payee

Although the Board receives monthly financial reports from the Treasurer, the Board did not provide instructions or deadlines to the Treasurer for the preparing and filing of the annual financial report. As a result, the Treasurer has not submitted the required annual financial reports to OSC for the 2011 through 2013 fiscal years.

We reviewed 47 payments totaling \$54,873 and found that disbursements were proper and were accurately recorded.² We also verified that real property taxes, per the 2013 and 2014 adopted budgets, were deposited into District bank accounts and that the cash recorded in the Treasurer's records agreed with reconciled bank balances. However, our review of the year-end budget-to-actual reports³ showed that they were inaccurate. We compared bank disbursement activity to expenditures on the budget-to-actual reports and found that they did not agree. For example, the December 2013 budget-to-actual report had \$93,509 year-to-date expenditures, but bank activity showed total disbursements of \$113,471 (nearly \$20,000 more).⁴ As a result, the Board's ability to effectively monitor the District's finances is diminished.

Fund Balance – The Board should retain a reasonable amount of fund balance to use as a financial cushion in the event of unforeseen financial circumstances. If the Board chooses to accumulate money for future capital outlays or other allowable purposes, the Board must pass a resolution to formally establish a reserve fund and it must follow General Municipal Law (GML) requirements for establishing, funding, expending and dissolving reserves. It is important for the Board to adopt a policy that addresses the level of fund balance to be maintained and to use the policy in the annual budgeting process to help ensure that level of fund balance is adequate. These practices help ensure that only necessary real property taxes are levied.

In addition, GML requires that, prior to adopting the annual budget, fire districts must first calculate a real property tax levy limit, which cannot be exceeded without the Board first passing an override resolution. To comply with the law, fire districts are required to report their tax levy limit calculation to OSC prior to adopting their budgets. If a fire district's actual tax levy exceeds the maximum allowable tax levy limit, it must place the excess amount in a reserve and use the excess and any interest earned to offset the tax levy for the following fiscal year.

The Board has maintained an excessive amount of fund balance over the last three years, as shown in Figure 1. The District does not have a method or policy to determine the amount of fund balance to be maintained, which may have contributed to the accumulation of excessive fund balance. We compared actual expenditures to budgeted appropriations and found reasonable variances in 2012 and 2013. However, in 2014, the Board overestimated total expenditures by about \$42,000 (32 percent), which caused the year-end fund balance to increase further. For each of the three years reviewed, the District has enough fund balance to cover more than one year's expenditures.

² We randomly selected the months of May 2013, August 2013, April 2014 and July 2014.

³ The Treasurer provided the 2012 to 2014 year-end budget-to-actual reports for our review; however, she told us that she had inadvertently typed over the December 2013 report. She provided the November 2013 report instead and advised us to add the December payments to arrive at the year-to-date expenditures that were reported on the December 2013 report.

⁴ We included outstanding checks at the beginning and end of 2013 in this analysis.

Figure 1: Fund Balance – General Fund			
	2012	2013	2014
Year-end Fund Balance	\$129,752	\$140,372	\$182,589
Next Year’s Appropriations	\$123,354	\$130,229	\$137,792
Fund Balance as a Percentage of Next Year’s Appropriations	105%	108%	133%

The Board Chair and Treasurer told us the Board has been saving additional funds for the last several years to help pay for either the expansion of its current facilities or the purchase of a new building. However, in 2014, the District purchased a new fire hall funded through borrowing and did not use its accumulated funds.⁵ District officials said they also wanted to keep adequate funds on hand, anticipating cost increases such as the annual bond payment and building maintenance, to avoid a large spike in future property taxes. The Board has not appropriated any fund balance⁶ as a financing source in its 2012 through 2014 budgets, so the fund balance remains high from year to year. When District officials retain fund balance that is not used to fund District operations, it places an unnecessary burden on taxpayers.

Despite the large accumulated fund balance, the Board again did not appropriate any fund balance in the 2015 budget, and it increased taxes by \$7,563, or 5 percent. Furthermore, the District did not submit to OSC its tax levy limit calculations for 2015 or the three prior years. We calculated the levy limit for 2015 and found that the District’s proposed 2015 tax levy exceeded the statutory limit by \$4,394 and the Board did not pass a resolution to override the limit. When we informed District officials, they told us they intend to comply with GML by placing these excess funds in a reserve for use in 2016.

Recommendations

The Board should:

1. Ensure that the Treasurer’s budget-to-actual report accurately includes the actual amount of District expenditures.
2. Ensure that the Treasurer prepares and files annual financial reports with OSC within 60 days after the close of the fiscal year.
3. Adopt a fund balance policy governing the level of fund balance to be maintained.
4. Develop a formal plan to reduce the surplus funds in the general fund. If the Board believes it is necessary to accumulate money for a future purpose, it should consider formally establishing authorized reserves. Otherwise, officials should use the surplus funds in a manner that would benefit taxpayers. Such uses could include, but are not limited to, paying off debt, financing one-time expenditures and reducing property taxes.

⁵ During 2014, the District borrowed \$500,000 to purchase a building for \$330,000 and plans to spend the remaining \$170,000 on renovations (e.g., overhead doors, generator, furnishings and fixtures).

⁶ Appropriated fund balance is the segregated portion of fund balance to be used (appropriated) to finance next year’s budget appropriations, which reduces the surplus funds.

5. Adhere to the statutory requirements when calculating and reporting the property tax levy limit calculation to OSC.
6. Ensure that the Treasurer records the excess tax levy in a reserve and deposits this amount in a separate District bank account. The excess funds, including any interest, should be used to reduce the 2016 tax levy.

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. 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.

We thank the officials and staff of the District for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Town of Champion Great Bend Fire District
PO Box 44
Great Bend, NY 13643

April 10, 2015

Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428

Dear Ms. Wilcox:

The Board of Fire Commissioners of the Town of Champion Great Bend Fire District has received the audit letter and accepts the findings. We appreciate the cooperation of the Auditor, [REDACTED] and the professionalism he displayed.

We will be providing a C.A.P. within the allowed timeframe.

Sincerely,

Steven A. Company
Chairperson