

Henrietta Fire District

Financial Condition

JULY 2021



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

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Report Highlights

Henrietta Fire District

Audit Objective

Determine whether the Board of Commissioners (Board) effectively managed the Henrietta Fire District's (District's) financial condition.

Key Findings

The Board did not effectively manage the District's financial condition and presented budgets indicating the District needed to both increase real property taxes and use appropriated fund balance to close projected budget gaps. As a result, more real property taxes were levied than needed.

- The Board did not adopt realistic budgets from 2017 through 2021. As a result, fund balance increased to \$4.4 million on December 31, 2020, which is excessive and enough to pay 41.5 percent of the District's 2020 expenditures.
- The Board unnecessarily overrode the 2019 and 2020 tax cap. The 2021 tax cap override will likely be unnecessary because the 2021 budget overestimated appropriations by approximately \$1.4 million, and the \$1 million appropriated fund balance will likely not be used.
- The Board did not adopt budgeting, fund balance or reserve policies or multiyear financial and capital plans.

Key Recommendations

- Adopt realistic budgets.
- Establish budgeting, fund balance and reserve policies and develop multiyear financial and capital plans.

Officials generally disagreed with our recommendations, but indicated they planned to take some corrective action. Appendix B includes our comments on issues raised in the District's response.

Background

The District provides fire protection services for the Town of Henrietta in Monroe County. The District provides fire protection and emergency medical services to approximately 45,700 residents residing in over 39 square miles.

An elected five-member Board is responsible for the general management and control of financial operations, including adopting annual budgets and establishing financial policies.

The Board appoints a Treasurer who acts as the District's chief fiscal officer and is responsible for receiving and maintaining custody of and disbursing and accurately accounting for District funds and preparing periodic financial reports.

Quick Facts

2021	
Appropriations	\$14,291,166
Real Property Tax Levy	\$13,069,310
2020	
Expenditures	\$10,686,588
Revenues	\$11,996,687

2017-2020 Year-End Deficit Results Budgeted (B) to Actual Results (A) with Variance (V) in millions

Year	B	A	V
2017	-\$1.8	\$0.5	\$2.2
2018	-\$2.0	-\$0.5	\$1.5
2019	-\$1.2	\$0.0	\$1.2
2020	-\$0.9	\$1.3	\$2.2

Audit Period

January 1, 2017 – February 19, 2021

Financial Management

What Is Proper Financial Management?

A board is responsible for making financial decisions that are in the best interest of the district and its residents. To properly manage financial condition, a board should adopt reasonably estimated and structurally balanced budgets based on historical data or known trends. In preparing the budget, a board must estimate the amounts that will be spent and received and the amount of fund balance that may be available to fund appropriations.

A reasonable portion of fund balance may be retained for unforeseen circumstances and to provide cash flow – for example, to compensate for timing differences between when revenues are received and expenditures are made. A board can also legally set aside, or reserve, a portion of fund balance to finance future costs for specific purposes (e.g., capital improvements or vehicle replacements). Properly funded reserves can reduce reliance on debt to finance capital projects and other acquisitions and can help district officials finance the costs of capital expenditures.

A board is also responsible for adopting written policies and procedures governing the budgeting process, which include defining the amounts of fund balance and reserves that a district should reasonably maintain. To effectively manage operations, a board must ensure a treasurer provides complete and accurate accounting reports that properly reflect the activity of the general and capital project funds and include up-to-date prepaid expenditures.

Prudent fiscal management requires a board to establish long-term financial and capital plans. Planning on a multiyear basis allows district officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budget decisions on future fiscal years. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Continually monitoring and updating these plans provides a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate. For more information refer to OSC's publications titled *Multiyear Financial Planning*¹ and *Multiyear Capital Planning*.²

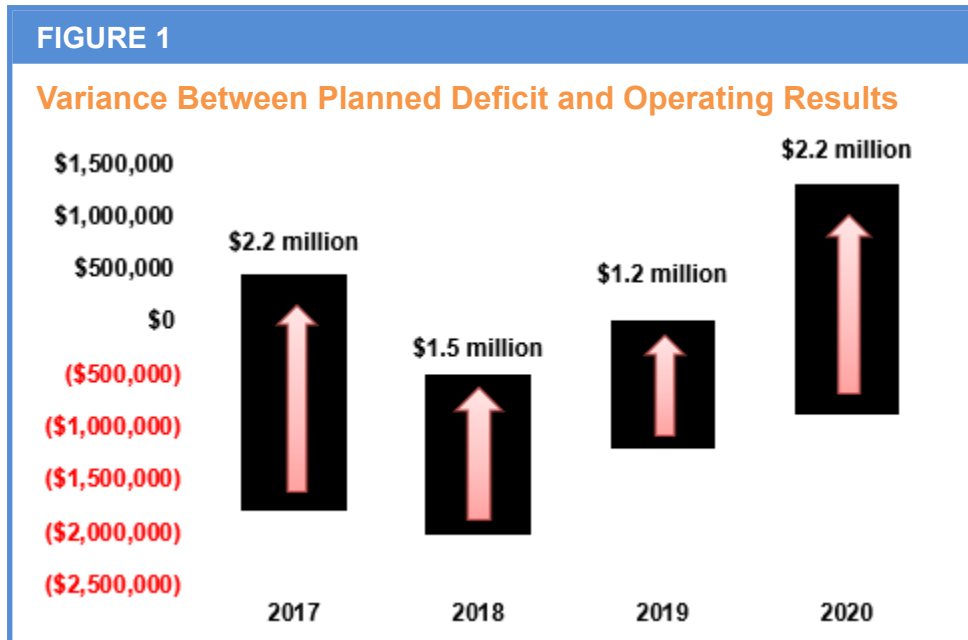
The Board Did Not Effectively Manage Financial Condition

The Board adopted unrealistic budgets from 2017 through 2020 by annually appropriating fund balance totaling \$5.4 million that was not needed to finance

1 See <https://www.osc.state.ny.us/files/local-government/publications/pdf/multiyear.pdf>.

2 See https://www.osc.state.ny.us/files/local-government/publications/pdf/capital_planning.pdf.

appropriations and overestimating appropriations by \$8.4 million (17 percent). As a result, operating surpluses or smaller than anticipated operating deficits occurred (Figure 1).



The Board adopted budgets that gave taxpayers the impression that the District needed to both increase real property taxes and use appropriated fund balance to close projected budget gaps. As a result, more real property taxes were levied than needed to fund operations. During this period, the Board overrode the tax cap for both 2019 and 2020. As a result of these non-transparent practices, the District’s fund balance has increased to \$4.4 million on December 31, 2020, which is excessive when compared to 2020 expenditures (41.5 percent). Because the Board did not adopt budgeting, fund balance and reserve policies, no rationale was provided for maintaining this level of fund balance. In addition, the Board’s ability to effectively monitor the District’s financial condition was hampered because the Treasurer’s reports inaccurately combined the general and capital project funds and did not always reflect accurate and up-to-date prepaid expenditures.

The Board continued these budgeting practices when adopting the 2021 budget by overestimating appropriations by approximately \$1.4 million when compared to historical results and again overriding the tax cap. As a result, the planned operating deficit will most likely not occur, the appropriated fund balance totaling \$1 million will not be needed and fund balance will remain higher than necessary.

The Board Did Not Adopt Formal Multiyear Plans

The Board did not develop written comprehensive multiyear financial and capital plans that set long-term objectives and goals. Such plans would be useful to

The Board did not develop written comprehensive multiyear financial and capital plans that set long-term objectives and goals.

address the large fund balance in the District's operating fund and to maintain a reasonable level of unexpended surplus funds at year-end. The plans could outline the Board's intentions for financing future capital improvements and maintaining the existing infrastructure.

Although a Commissioner prepares a multiyear budget, it compares budget figures instead of actual expenditures from year-to-year, so inaccuracies continue. Also, the Board has not formally approved or adopted it. Further, this is not an adequate multiyear capital plan because it does not identify financing sources, nor set long-term priorities and goals.

Without developing formal multiyear financial and capital plans, the Board cannot adequately plan for the future and there is a risk that the Board's intentions for the District will not be fulfilled. Further, comparing budget figures instead of actual expenditures from year-to-year only amplifies the District's poor budgeting practices.

Our fieldwork was completed in February 2021, during the pandemic. Given the negative financial effect of the pandemic, it is even more important for District officials to develop and monitor appropriate annual budgets and begin multiyear financial and capital planning.

What Do We Recommend?

The Board should:

1. Adopt realistic budget estimates of appropriations that are based on available current data and historical or known trends of expenditures.
2. Establish written policies and procedures governing the budgeting process, which include defining the amounts of fund balance and reserves that the District should reasonably maintain.
3. Develop a plan to reduce the amounts of fund balance in a manner that benefits District taxpayers. Surplus funds can be used as a financing source for:
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Paying off debt.
 - Reducing property taxes.
4. Develop comprehensive multiyear financial and capital plans that set long-term objectives and goals. These plans should be monitored and updated on an ongoing basis.

Appendix A: Response From District Officials



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June 22, 2021

Mr. Edward V. Grant, Jr.
Chief Examiner
Division of Local Government
and School Accountability

Via Email: Muni-Rochester@osc.ny.gov

Dear Mr. Grant:

We are in receipt of your draft Report of Examination (2021M-27). We appreciate the role of the Office of the State Comptroller in ensuring proper financial management of local governments and identifying opportunities for improvement of operations and governance. We also recognize the importance of your role in identifying possible improprieties in the use of public funds.

We are pleased to find that the audit did not reveal any fraud, theft or misuse of public funds. While we acknowledge there is always room for improvement, it is important to note that any identified deficiencies were not malicious in nature and there is no finding of any intent to defraud our taxpayers.

The Board of Fire Commissioners has carefully reviewed the report as well as the findings and recommendations included therein. Please find the Board's response below.

- 1) The Board did not adopt realistic budgets from 2017 to 2021.

The Board generally disagrees with this finding. The Fire District utilizes historic as well as projected operational and project expenses when developing the budget each year. Depending on various factors, some projects may be postponed and therefore the funds allocated for that project are carried over to the following budget period. Also, as the final budget must be adopted by November 4th, the final year-end balances are not always known and can have some variance against the projections anticipated during the budgeting process. This is especially true of personnel expenses, where large or extended incidents or

See Note 1 Page 8

unplanned career firefighter absences impacting contractual minimum staffing levels drive up overtime costs. Historically, the Fire District has taken a conservative approach to these unknowns both by budgeting contingency funds as well as conservatively budgeting carry-over funding to lower the following year tax levy.

Specifically in the 2021 budget period, it is stated that the assigned and unrestricted fund balance has grown to \$4.4 million. Of that \$4.4 million, \$922,000 is assigned and reserved for building capital projects and apparatus replacements as well as accounts payable and other contractual obligations. The remaining level of fund balance was anticipated during the 2021 budget development cycle and therefore \$1.024 million was carried over to the 2021 budget to offset the tax levy required to address the anticipated appropriations in 2021. Therefore, while the fund balance at the end of the 2020 fiscal year was indeed \$4.4 million, only \$2.5 million of that is truly unassigned. Based on the uncertainties associated with operating an all-hazards combination fire department, the Board of Fire Commissioners feels that this level of approximately 18% of projected yearly expenses is proper.

See Note 2 Page 8

- 2) The Board unnecessarily overrode the 2019 and 2020 tax cap and the 2021 tax cap override will likely be unnecessary.

The Board generally disagrees with this finding based on the anticipated appropriations for each of these budget years as well as the informal contingency fund balance policy as stated above. In each of these budget years, anticipated unassigned fund balance above and beyond the level of 15-20% of appropriations was carried over to the following year to offset the required tax levy. As the Fire District is in a period of rapid growth with the addition of additional volunteer and career personnel and the update of facilities to improve our 24/7/365 immediate response coverage, the anticipated tax levy in each of those years exceeded the tax cap requirement. It was the Board's opinion that to postpone those projects to remain under the tax cap would have a negative impact on the Fire District's ability to meet its mission of safely and efficiently providing emergency services to the Town of Henrietta.

See Note 3 Page 8

The Fire District will continue to look for opportunities to improve efficiencies and reduce operational expenses in various areas with the goal of meeting our mission in a financially responsible manner.

- 3) The Board did not adopt budgeting, fund balance or reserve policies or multiyear financial and capital plans.

The Board agrees with the conclusion and finding related to the need for a formal fund balance and reserve policy to guide the creation and funding of reserve accounts as well as to set a recommended level of unassigned fund balance each year. This policy will be developed and be part of the 2022 budgeting process.

The Board does not fully agree with the conclusion and finding related to the need for multiyear financial and capital plans. The Board has developed a ten (10) year financial and capital plan to address the anticipated year-over-year operational expenses as well as funds required of the facility repairs and improvements and apparatus replacements. While the apparatus plan is detailed and has been updated as recently as 2020, the financial plan has utilized baseline budget numbers and projected increases/decreases based on contractual requirements or year-over-year trends in actual expenses to develop subsequent years. In addition, the facility capital plan was less formal in that while funds are being allocated, specific project timing is not detailed. Therefore, the Board agrees that a multiyear financial plan utilizing actual operating expenses from previous years, as well as a more formalized capital plan outlining specific projects and timing could benefit the district's forecasting of future funding needs.

As always, we thank the Office of the State Comptroller for its input and guidance as the Board of Fire Commissioners of the Henrietta Fire District continues to fulfill its mission of protecting the life and property of its residents in a fiscally responsible manner.

Sincerely,

William Heist
Chairman
Henrietta Fire District

Appendix B: OSC Comments on the District's Response

Note 1 - While some variance can be expected as a result of the timing of projects or adoption of the budget, this does not explain variances of the magnitude noted in our audit. More effective analysis of historical data will ensure only necessary real property taxes are levied.

Note 2 - Based on our analysis of the 2021 budget, appropriations will again be overestimated by approximately \$1.4 million. As a result, the \$1.024 million of appropriated fund balance will most likely not be needed to finance the budget. Our analysis is consistent with the pattern we observed over the last four years.

Note 3 - Because the Board consistently overestimated appropriations, it appeared that real property taxes needed to be increased by overriding the tax cap. However, this was not the case.

Appendix C: 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 District officials and reviewed Board meeting minutes to gain an understanding of the budget process and to determine whether the Board adopted relevant policies and multiyear plans.
- We compared budgeted revenues and appropriations to the actual revenues and expenditures for 2017 through 2020 to determine whether budgets were realistic.
- We reviewed tax cap filing for 2017 through 2021.
- We reviewed the 2021 adopted budget to determine whether the Board addressed prior years' budgeting issues.
- We reviewed fund balances levels for 2017 through 2020 to determine whether balances were reasonable.

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.

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. 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 D: Resources and Services

Regional Office Directory

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

<https://www.osc.state.ny.us/local-government/publications>

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

<https://www.osc.state.ny.us/local-government/publications>

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

<https://www.osc.state.ny.us/files/local-government/publications/pdf/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/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

<https://www.osc.state.ny.us/local-government/publications>

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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