



Hamlin Morton Walker Fire District

Financial Management

2023M-67 | August 2023

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Report Highlights

Hamlin Morton Walker Fire District

Audit Objective

Determine whether the Hamlin Morton Walker Fire District (District) Board of Fire Commissioners (Board) and officials effectively managed fund balance.

Key Findings

The Board and officials did not effectively manage fund balance. As a result, they were not transparent with taxpayers and fund balance declined. We found:

- From 2020 through 2022, restricted fund balance declined by \$676,641 (66 percent). As of December 31, 2022, unrestricted fund balance was \$34,092, which was less than 4 percent of the 2023 appropriations.
- The Board did not adopt realistic budgets. For example, expenditures were underestimated by nearly \$1.5 million (45 percent) and revenues were underestimated by \$215,772 (8 percent) for 2020 through 2022.
- The District did not have a written multiyear financial plan or adequate capital plan, which inhibits the Board and District officials from effectively managing finances and addressing future operating and capital needs.

Key Recommendations

- Maintain reasonable, sufficient unrestricted fund balance and reserves.
- Adopt realistic budgets that include all anticipated revenues and planned expenditures.
- Amend the written fund balance policy and adopt comprehensive written financial and capital plans.

District officials generally agreed with our findings and indicated they will initiate corrective action.

Background

The District provides fire protection services within the Towns of Clarkson and Hamlin in Monroe County and the Town of Kendall in Orleans County.

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 appointed an Administrator who is responsible for assisting the Board with the District's day-to-day operations.

The Board appointed a Treasurer, who serves as the District's chief fiscal officer and is responsible for the custody, receipt, disbursement and accounting for District funds and preparing periodic financial reports. The Deputy Treasurer assists with these responsibilities.

The Treasurer for 2021 and 2022 became the Deputy Treasurer for 2023. The 2022 Deputy Treasurer became the Treasurer for 2023. Another individual was Treasurer for 2020 and Deputy Treasurer for 2021.

Quick Facts

Fire Stations	3
2023 Appropriations and Tax Levy	\$888,100

Audit Period

January 1, 2020 – March 21, 2023

Financial Management

How Should a Fire District Board Effectively Manage Fund Balance?

A fire district board (board) should effectively manage fund balance by adopting reasonably estimated and structurally balanced budgets based on historical data or known trends in which recurring revenues finance recurring expenditures. In preparing a budget, a board must estimate the amounts a fire district will spend and receive, the amount of fund balance that will be available at fiscal year-end to use towards the next year's budget and the expected real property tax levy. Accurate estimates help ensure that the tax levy is sufficient, but not greater than necessary, and that unrestricted fund balance amounts are reasonable.

Once the board adopts the budget, the board and fire district officials should monitor it throughout the year. A board must ensure the treasurer provides complete and accurate reports that properly and accurately reflect the fire district's financial activity to effectively manage financial operations.

A board should adopt a written policy that defines the amounts of fund balance, including reserves, the fire district should reasonably maintain. A board should retain a reasonable amount of fund balance 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). To be transparent, a board should include the funding and use of reserves in the annual budget to give taxpayers the opportunity to know the board's plans for the reserves.

A board should effectively manage fund balance by ensuring that sufficient cash resources are available to maintain operations, such as paying vendors in a timely manner. When a fire district does not have sufficient cash to meet its current obligations, officials may not be able to continue to provide services at current levels or may have to explore options such as short-term borrowing.

A board should develop multiyear financial and capital plans to enable fire district officials to identify revenue and expenditure trends, establish long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years and assess the merits of alternative approaches (such as using unrestricted fund balance or establishing and using reserves) to finance operations. A board should periodically review and update written multiyear financial and capital plans to provide a reliable framework for preparing budgets and ensure that information used to guide decisions is current and accurate.¹ Once the board approves the plan, it should incorporate its decisions affecting the annual operating budget into the budget process.

A board should adopt a written policy that defines the amounts of fund balance, including reserves, the fire district should reasonably maintain.

¹ Refer to OSC's publications titled Multiyear Financial Planning (<https://www.osc.state.ny.us/files/local-government/publications/pdf/multiyear.pdf>) and Multiyear Capital Planning (https://www.osc.state.ny.us/files/local-government/publications/pdf/capital_planning.pdf.)

The Board Did Not Effectively Manage Fund Balance

The Board did not effectively manage fund balance. The Board's adoption of unrealistic budgets resulted in declining unrestricted fund balance and reserves. The Board and District officials underestimated appropriations by a total of nearly \$1.5 million (45 percent) and underestimated revenues by a total of \$215,772 (8 percent) from 2020 through 2022 (Figure 1).

Figure 1: Budget Variances

	2020	2021	2022	Total
Underestimated Expenditures	\$200,138	\$503,263	\$784,026	\$1,487,427
Percentage Underestimated	26%	46%	56%	45%
Underestimated Revenues	\$46,865	\$44,960	\$123,947	\$215,772
Percentage Underestimated	6%	5%	13%	8%

The District's expenditure variance was largely the result of the Board and officials not budgeting for apparatus, equipment and capital project expenditures that were funded with reserve funds (such as a \$500,000 deposit payment² in 2022 as part of a purchase agreement for the District's \$748,676 pumper truck purchase) and an \$84,800 unplanned building purchase in 2020. Over the three years, the Board and officials underestimated equipment and capital project expenditures by more than \$1.7 million (88 percent). This variance was slightly offset by the overestimation of other appropriations, which resulted in a total three-year expenditure variance of \$1.5 million.

District officials did not provide an adequate explanation for not budgeting for the expenditures funded with reserves. Certain Board members told us that, while they did not include certain purchases in the budget, they included them in the replacement schedule. However, the Board did not adopt the replacement schedule. Furthermore, the Board and District officials should still budget for all planned expenditures, and their funding sources, as part of the annual budgets.

The Board and District officials underestimated revenues largely due to not budgeting for revenues other than real property taxes. Over the three years reviewed, the Board did not budget for interest earnings, proceeds from the sale of equipment, insurance recoveries, refunds of prior year expenditures and other miscellaneous revenues. The Treasurer and Deputy Treasurer told us that they did not budget for these other revenues because of their unpredictability. However, the District annually received workers' compensation insurance refunds

² For purposes of this audit, please note we are not rendering a legal opinion as to the appropriateness of the District making a \$500,000 prepayment in exchange for an additional discount on the pumper truck.

of more than \$27,000 (43 percent of the total revenue variance) that should have been included in its adopted budgets.

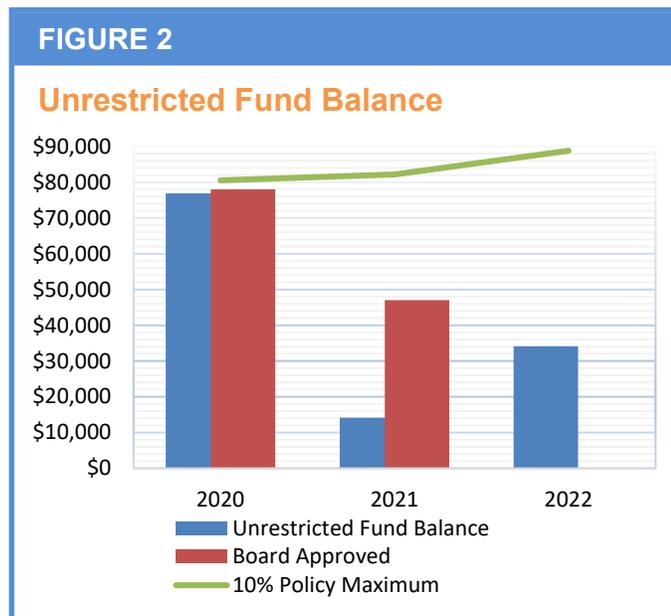
The Board and District officials did not develop reasonable budgets, in part, because they did not develop and adopt budgeting policies. In addition, the budget development documentation provided to the Board in 2020 and 2021 did not include the required estimate of fund balance, which may have impacted the Board's ability to monitor and manage fund balance levels. The 2022 and 2023 budget development documentation included fund balance estimates.

We reviewed the 2023 budget compared to prior year budgets and actual results. The Board and District officials continued the prior year budgeting trends. For example, they did not budget for any non-property tax revenues despite having other types of revenue in each of the prior three years. Furthermore, they did not budget for planned expenditures funded with reserve funds (such as \$248,676 for the remainder of the pumper truck purchase) and likely underestimated appropriations again.

Due to the unreasonable budgeting, the District had a small operating surplus of \$56,727 in 2020, but had unplanned operating deficits of \$248,303 and \$450,079 in 2021 and 2022. This resulted in a three-year net operating deficit of \$641,655.

As a result of the net operating deficit, the District's unrestricted fund balance declined to insufficient levels during the three-year period (Figure 2). At the end of 2020, unrestricted

fund balance was approximately 10 percent of the 2021 budget. However, by the end of 2021, unrestricted fund balance declined to \$14,142 (less than 2 percent of the 2022 budget), despite the Board voting in December 2021 to maintain unrestricted fund balance of \$47,000. At the end of 2022, unrestricted fund balance was \$34,092, which was less than 4 percent of the 2023 budget.

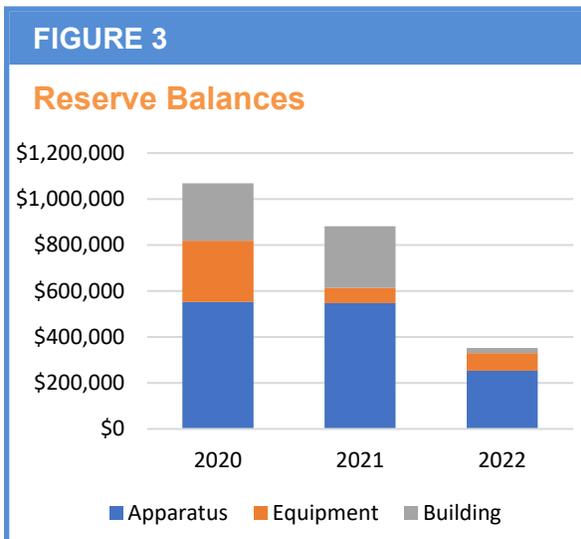


The Board adopted a fund balance policy limiting the maximum amount of year-end surplus funds (i.e., unrestricted fund balance) to 10 percent of the next year’s budget, but the policy did not address the minimum surplus fund balance to be maintained. The Board and District officials should have considered various factors in determining a minimum, such as historical needs, cash flow requirements, other available funds (reserves) and the resources desired to be maintained for emergencies. The Deputy Treasurer and a Board member told us that their intention was to maintain a small amount of surplus funds carried over to the next year. However, maintaining funds at a level less than the Board approved or may be needed for cash flow purposes could compromise the District’s ability to pay its expenditures.

In addition, the Board did not budget for the use of reserves and funded reserves more than budgeted. The Board funded reserves a total of \$992,000, which was \$362,000 (57 percent) more than budgeted in the three years reviewed. The Board did not budget for the use of reserves, but used approximately \$1.7 million in reserve funds in the three years reviewed. Because the Board did not budget for reserve use or designate which specific reserves would be funded from the total budgeted reserve funding, it was not transparent with taxpayers with how it planned to use the reserves or fund expenditures.

The Board gave taxpayers the impression through its budgets that the District would be funding reserves when, in fact, it depleted them with unbudgeted expenditures funded from the reserves. As a result, total reserve funds decreased by \$676,641 (66 percent) during the three years reviewed. The apparatus reserve balance decreased by \$294,067, the equipment reserve balance by \$142,742 and the building reserve balance by \$239,832 (Figure 3).

We reviewed the reserve balances as of December 31, 2022 and question whether they were reasonable, or sufficient, for all three reserves (apparatus, equipment and building).³ At the end of 2022, the apparatus reserve balance was \$253,285. However, the District intended to use \$250,000 of the remaining apparatus reserve balance



3 Refer to The Board and District Officials Did Not Have a Written Multiyear Financial Plan and Comprehensive Capital Plan.

in 2023 for the pumper truck's final payment, which would reduce the apparatus reserve balance to \$3,285. While the Board budgeted to fund the three reserves a total of \$260,000 in the 2023 budget, the District's replacement schedule included an additional \$87,550 in projected 2023 apparatus reserve expenditures, which could further reduce the reserve balance.

Due to the declining unrestricted fund balance and reserves, the Board increased the real property tax levy by more than 6 percent over the three years reviewed and an additional 7 percent in the 2023 budget, which included an override of the real property tax cap limit.⁴ A Board member told us that the Board had to exceed the tax levy limit to ensure the District had sufficient funds for future apparatus needs.

Certain Board members told us they were aware that the District had a low level of unrestricted funds and declining reserves, while other Board members told us that they did not have concerns with the District's fund balance levels. Given the District's declining fund balance, certain Board members did not have an adequate understanding of the District's current financial condition.

Without sufficient unrestricted fund balance and reserves, the Board and District officials cannot ensure the District has sufficient funds to continue operations in future years at current levels. Therefore, the Board may have to exceed the tax cap limit again or defer other needs such as equipment or vehicle replacements. If the District continues to incur significant unbudgeted expenditures, fund balance will continue to decline, and the remaining unrestricted fund balance and reserve funds could be depleted.

The Board Did Not Ensure It Received Adequate Financial Reports

The Board did not ensure that the Treasurer provided adequate and accurate monthly financial reports to enable the Board to properly monitor the District's financial operations and fund balance. The Board received monthly Treasurer's reports that generally included a cash summary, monthly transaction detail, and budget-to-actual reports for revenues and expenditures. However, the budget-to-actual reports provided to the Board were misleading.

For example, in both 2020 and 2021 large unbudgeted expenditures totaling \$219,608 and \$629,710, respectively, were not included in the reported expenditure totals. These reporting inaccuracies occurred largely because the previous Treasurers did not ensure all of the recorded expenditures were included on the reports generated from the financial software. District officials switched to

Without sufficient unrestricted fund balance and reserves, the Board and District officials cannot ensure the District has sufficient funds to continue operations in future years at current levels.

⁴ General Municipal Law Section 3-c (Law) established a tax levy limit for local governments, which was effective beginning in the 2012 fiscal year. The Law generally precludes local governments from adopting a budget that requires a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, unless the governing board adopts a local law to override the tax levy limit.

a different financial software for 2022, and this reporting inaccuracy did not occur. However, the 2022 annual financial report (AUD) did not include \$500,000 in expenditures because the pumper truck payment was incorrectly reported.

In addition, in 2020, revenue was inaccurately overreported by \$26,082 on the monthly reports. The Deputy Treasurer told us this occurred because of the financial software's functionality. The Deputy Treasurer stated that while trying to get the financial software to track certain information, he recorded non-revenue activity as additional revenue that mistakenly carried through to the financial reports.

Overall, the AUDs provided the Board with the necessary information to review year-end unrestricted fund balance. However, the Board's ability to effectively monitor the District's financial operations throughout the year, and effectively manage fund balance, was hampered because the monthly reports provided to the Board were not adequate.

The Board and District Officials Did Not Have a Written Multiyear Financial Plan and Comprehensive Capital Plan

The Board and District officials did not have a written multiyear financial plan and comprehensive capital plan. District officials provided a document for reserves, including a replacement schedule, as the District's capital plan. The document listed the three capital reserves (apparatus, building, equipment) with a brief summary for each reserve and planned future needs. The replacement schedule included planned funding for each of the three capital reserves from 2022 through 2034. The replacement schedule also projected the costs of significant fire district apparatus and the effect of apparatus purchases on the apparatus capital reserve. However, this was not a comprehensive capital plan because it did not adequately address capital needs other than apparatus.

While the written building reserve summary included planned future needs, officials did not include any planned building reserve expenditures in the schedule of projected reserve balances. In addition, the reserve plan stated that the plan for the equipment reserve was to increase the reserve balance over the next 15 years to purchase new self-contained breathing apparatus equipment when they reached the end of their useful life. However, there was no estimated future cost documented to compare with the anticipated 2034 reserve balance. Therefore, officials are unable to formally evaluate the building and equipment reserve balances compared to future needs and determine whether the funding is reasonable or will be sufficient for future needs.

Furthermore, the replacement schedule projects insufficient apparatus reserve funds for future needs in both 2029 (\$5,400 projected shortfall) and 2033 (\$115,000 projected shortfall) despite anticipated yearly apparatus reserve

funding of at least \$210,000. However, the plan does not include any steps that could be taken to help ensure sufficient funds are available for future needs. Considering the consistently low unrestricted fund balance maintained, the Board and District officials may not have the necessary funds needed for their planned replacements.

Also, a Board member told us that prior to 2022, the replacement schedules were not distributed to all Board members. This may have hindered the Board's ability to adequately review and update the plan. Also, District officials did not ensure that decisions from the plan that affect the annual operating budget were incorporated into the adopted budgets.

District officials did not provide an explanation for why they did not develop a written multiyear financial plan. The Deputy Treasurer told us that he previously included expenditures for the building and equipment reserves in prior year replacement schedules, but they did not get carried forward to the current plan. Developing written multiyear financial and comprehensive capital plans would help the Board and District officials assess the short and long-term effects of budgeting decisions, such as the effect and potential funding options for one-time expenditures.

The lack of written multiyear financial and capital plans inhibits the Board and District officials from effectively managing finances and addressing future operating and capital needs. As the District moves forward, well-designed written plans can assist the Board and officials in making timely and informed decisions about operations and help them effectively manage fund balance in the taxpayers' best interest.

What Do We Recommend?

The Board should:

1. Amend the written policy defining the amount of unrestricted fund balance that the District should reasonably maintain.
2. Adopt budgets that include reasonable estimates for revenues and appropriations.
3. Transparently budget for the funding and use of specific reserve funds.
4. Develop a plan to ensure the District generates and maintains reasonable unrestricted fund balance and reserve funds.
5. Ensure the Treasurer provides fund balance estimates during budget development as required.

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6. Ensure the Treasurer provides adequate and accurate monthly financial reports.
 7. Develop and periodically update comprehensive written multiyear financial and capital plans to be used in conjunction with the annual budget process.

The Treasurer should:

8. Provide fund balance estimates during budget development.
9. Prepare accurate financial reports.

Appendix A: Response From District Officials



HAMLIN MORTON WALKER FIRE DISTRICT

1521 Lake Road, PO Box 39
Hamlin, New York 14464

Unit Name: Hamlin, Morton, Walker Fire District

Audit Report Title: Financial Management

Audit Report Number: 2023M-67

August 9, 2023

This document serves as both the response to the draft report, and as our corrective action plan.

Response to the Audit Report

The Hamlin Morton Walker Fire District has received, reviewed and are in agreement with the audit's findings of the results of the preliminary draft of the Fire District *Financial Management, Report of Examination. 2023M-67*

New York State Recommendations and Fire District Corrective Action Plan

- 1.) Amend the written policy defining the amount of unrestricted fund balance that the District should reasonably maintain.
Corrective Action: The Board acknowledges this recommendation and will amend the written policy defining the amount of unrestricted fund balance that the District should maintain.
- 2.) Adopt budgets that include reasonable estimates for revenues and appropriations.
Corrective Action: The Board acknowledges this recommendation and will review its budgetary practices to include reasonable estimates for revenues and appropriations

-
- 3.) Transparently budget for the funding and use of specific reserve funds.
Corrective Action: The Board acknowledges this recommendation and review the funding and use of specific reserve fund to increase the transparency of these in our budget.
 - 4.) Develop a plan to ensure that the District generates and maintains reasonable unrestricted fund balance and reserve funds.
Corrective Action: The Board acknowledges this recommendation and has already begun developing a plan that will ensure that the District generates and maintains a reasonable unrestricted fund balance and reserve funds.
 - 5.) Ensure the Treasurer provides fund balance estimates during the budget development as required.
Corrective Action: The Board acknowledges this recommendation and with the use of the new financial software we feel that we will be able to provide better fund balance estimates during the budget development process.
 - 6.) Ensure the Treasurer provides adequate and accurate monthly financial reports.
Corrective Action: The Board acknowledges this recommendation and with the use of the new financial software the Treasurer has already been able to provide more adequate and accurate monthly financial reports.
 - 7.) Develop and periodically update comprehensive written multiyear financial and capital plans to be used in conjunction with the annual budget process.
Corrective Action: The Board acknowledges this recommendation and will develop and periodically update a comprehensive written multiyear financial and capital plan to be used in conjunction with the annual budget process.
 - 8.) The Treasurer should provide fund balance estimates during budget development.
Corrective Action: As was mentioned in the report, during the 2022 and 2023 budget development process these fund balance estimates were in the budget development documentation. We will continue to use this documentation during our budget development process.
 - 9.) The Treasurer should prepare accurate financial reports.
Corrective Action: The Board acknowledges this recommendation and will prepare accurate financial reports as outlined in Report of Examination

The Hamlin Morton Walker Fire District would like to acknowledge, and we appreciate the recommendations provided by this audit. As we have demonstrated with the improvements that we have recent implemented, the District feels that these recommendations as a result of this audit, will allow us to continue to improve our ability to be good stewards of taxpayers money and be transparent to the taxpayers with these funds.

August 9, 2023

David Walker, Commissioner

Hamlin, Morton Walker Fire District

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 other District officials and reviewed Board meeting minutes and supporting documents, the District's surplus fund balance policy and budget preparation documents to gain an understanding of the District's financial management (including monitoring of fund balance and reserves) and budgeting practices.
- We compared the District's AUDs to the accounting records and financial statements to determine whether the AUDs contained inaccuracies.
- We reviewed financial records to determine whether the District had operating surpluses or deficits.
- We reviewed the adopted budgets from 2020 through 2022 to determine whether they were realistic by comparing adopted budgets with actual results of operations and analyzing significant revenue and expenditure budget-to-actual variances. We also reviewed the 2023 adopted budget to determine whether estimates were consistent with prior years.
- We analyzed fiscal year-end fund balance for the general fund and calculated unrestricted fund balance as a percent of the next year's appropriations to determine whether the District had reasonable unrestricted fund balance. We evaluated any factors contributing to changes in fund balance, including real property tax levy increases.
- We reviewed monthly Treasurer reports provided to the Board to determine whether they were adequate and accurate.
- We reviewed the District's reserve plan, including replacement schedule, and discussed multiyear financial and capital plans with officials.

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.

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/files/local-government/pdf/regional-directory.pdf

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

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

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

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

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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Division of Local Government and School Accountability
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www.osc.state.ny.us/local-government

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

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