

South Farmingdale Fire District

Financial Condition and Leave Benefits

MAY 2018



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

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Report Highlights

South Farmingdale Fire District

Audit Objectives

Determine if the Board of Fire Commissioners (Board) ensured that fund balance was reasonable.

Determine if the Board ensured that leave records were properly maintained and leave benefits were authorized.

Key Findings

- As of December 31, 2016, the South Farmingdale Fire District's (District) unrestricted fund balance totaled more than \$1.3 million, or 83 percent of 2017 budgeted appropriations.
- District officials overestimated appropriations by more than \$535,000 or 12 percent of actual expenditures from 2014 through 2016.
- District officials paid \$15,747 for 635 hours of leave benefits that were not authorized by the Board.

Key Recommendations

- Use surplus funds as a financing source for funding one-time expenditures, funding needed reserves or reducing property taxes.
- Adopt reasonable budget estimates for appropriations.
- Establish leave benefits by an employee handbook, Board resolution, individual contract or collective bargaining agreement (CBA).

Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

Background

The District is located in the Town of Oyster Bay (Town) in Nassau County. The District is governed by a Board composed of five Commissioners who are responsible for the District's day-to-day management and for the development and administration of the budget. The Chairman of the Board (Chairman) is responsible for personnel and insurance expenses, while the Secretary is responsible for processing payroll and recording leave time used. The District contracts with a payroll software company for payroll services.

Quick Facts

| | |
|-----------------------------------|-------------|
| Full-time and Part-time Employees | 5 |
| 2016 Expenditures | \$1,855,945 |
| 2016 Payroll | \$146,650 |

Audit Period

January 1, 2016 – June 30, 2017.

The audit period was extended back to 2014 to review fund balance trends and forward to September 30, 2017 to project expenditures for 2017.

Financial Condition

How Does the Board Effectively Manage Financial Condition?

The Board must maintain the District's fiscal health and make sound financial decisions in the best interest of the District and the residents funding its operations. The Board can maintain a reasonable level of fund balance to be used as a financial cushion in the event of unforeseen financial circumstances. However, the Board should adopt a fund balance policy that addresses the level of fund balance to be maintained from year-to-year and provide budget guidelines to meet the District's needs. When assessing what amount is considered reasonable, the Board should consider factors such as the timing of receipts and disbursements, volatility of revenues and expenditures, contingency appropriations and reserves.

Also, Town Law¹ requires the District to submit proposed budgets to the Town each year that include estimates of fund balance.² The budgets should also include reasonable estimates of revenues and appropriations based on prior years' operating results, past expenditure trends, anticipated future needs and projected changes in significant revenues or expenditures. A multiyear financial plan should also be adopted to provide a tool to assess expenditure commitments, revenue trends, financial risks or the affordability of new services and capital investments. It also can allow officials to assess the appropriation of unrestricted fund balance to finance operations and the establishment of reserve funds. The adopted financial plan should be monitored and updated on a continuing basis.³

The District's Unrestricted Fund Balance Was Not Reasonable

The Board members did not have a fund balance policy or include an estimate of fund balance when they submitted their budget to the Town. As of December 31, 2016, the District's unrestricted fund balance totaled more than \$1.3 million, or about 83 percent⁴ of 2017 budgeted appropriations. In contrast, unrestricted fund balance at the end of 2014 was more than \$878,000. The budget remained at about \$1.6 million each year.

1 Section 181

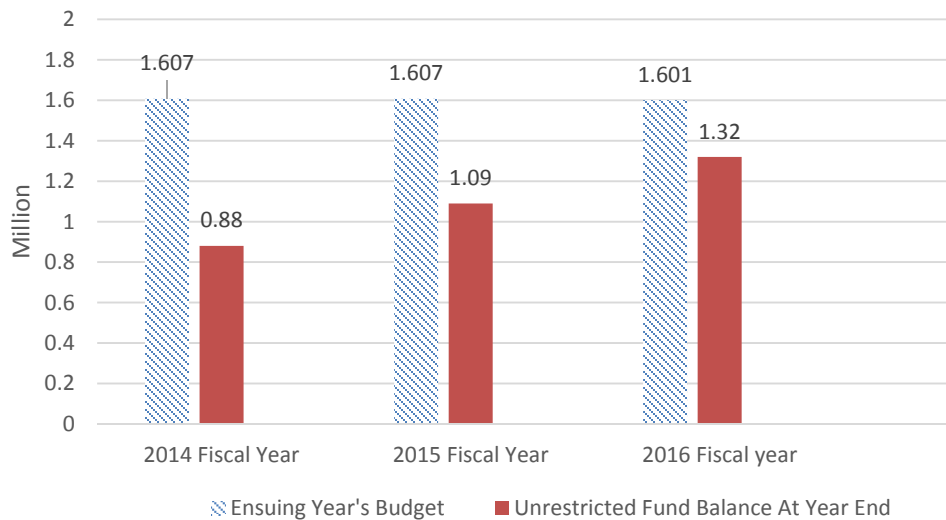
2 The estimate of fund balance shall include a breakdown of fund balance estimated for encumbrances, amounts to be expended for the ensuing fiscal year, amounts restricted for specific purposes pursuant to General Municipal Law, and the remaining unappropriated unreserved fund balance, provided that the remaining estimated unappropriated unreserved fund balance for each fund does not exceed a reasonable amount, consistent with prudent budgeting practices, necessary to ensure the orderly operation of the fire district.

3 See <http://osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf> for more information.

4 Unrestricted fund balance totaled \$1,327,741 and 2017 budgeted appropriations were \$1,600,778.

FIGURE 1

Unrestricted Fund Balance vs. Ensuing Year's Budget



The unrestricted fund balances were 55, 68 and 83 percent of the next year's budgets for 2014, 2015 and 2016, respectively. The Board's lack of policy to address the level of unrestricted fund balance to be maintained contributed to the excessive amounts. As a result, the District's tax levies were higher than needed to fund District operations.

Unrestricted fund balance amounts that exceed reasonable limits should be used to fund one-time expenditures, fund needed reserves or reduce property taxes.

The Board Did Not Adopt Reasonable Budget Estimates for Appropriations

We compared the District's budgeted revenues and appropriations to the actual results of operations for 2014 through 2016. Revenue estimates were reasonable and generally close to the actual revenues received. However, the Board overestimated appropriations each fiscal year. Overestimated appropriations totaled \$535,816,⁵ or about 12 percent of actual expenditures for the three year period, an annual average of \$178,605. A significant portion of the overestimated appropriations, almost 62 percent, were for the Length of Service Award Program (LOSAP), legal and audit services, and workers' compensation expenditure codes.

⁵ To calculate variances, we removed budget modifications including payments made from the District's capital reserves.

-
- In 2014, the LOSAP, legal and audit services, and workers' compensation had combined variances totaling \$141,094 or 83 percent of the total expenditure variance of \$170,849.
 - In 2015, legal and audit services, and workers' compensation had combined variances totaling \$72,337 or 57 percent of the total expenditure variance of \$127,924.
 - In 2016, legal and audit services, and workers' compensation had combined variances totaling \$116,900 or 49 percent of the total expenditure variance of \$237,043.

Based on our projections for 2017, the District will have potentially overestimated these expenditures by a total of \$181,964 (legal and audit services by \$56,710 and workers' compensation by \$125,254). These overestimations contribute to the total projected expenditure variance of \$211,896, which may further increase unrestricted fund balance.

The Chairman told us that the Board's main goal is to reduce the budget and eliminate unnecessary spending. However, the budget could have been further reduced if these expenditures were reasonably estimated. The Chairman also stated that workers' compensation expenditures are not budgeted accurately because the risk management company gives the District inaccurate percentage increase estimates each year. Additionally, the final estimate from the risk management company is received in January of each current year which is after the District's budget workshops in July and August and the budget adoption in October of the previous year. Furthermore, the District belongs to a safety group and sometimes receives a partial refund of premiums paid because of the performance of the safety group. This refund cannot be reflected in the budget because they are not guaranteed. He also informed us that legal and audit services had large variances because the District budgeted for attorney fees for anticipated lawsuits that did not materialize. Unreasonable budget estimates can mislead District residents and have contributed to the District's excessive year-end fund balance.

The District Has Not Developed a Multiyear Financial Plan

District officials did not have a multiyear financial plan to address the use of fund balance and reserves to fund operations. However, they did have a capital plan until 2016. The Chairman told us that they discontinued the plan because of savings from a change in the District's LOSAP program from a defined benefit program to a defined contribution program. The Chairman anticipates these savings will allow the District to meet any unexpected expenses. He also stated that the District has reduced its budget each of the last three years.⁶ However,

⁶ The budget decreased by \$5,757 from 2014 to 2015 and by \$335 from 2015 to 2016.

a formal written plan would provide Board members with a tool to assess how they could reach their financial goals. It would also allow the Board to identify expenditure trends that can assist in preparing a more reasonable budget. Additionally, a multiyear financial plan would provide more transparency to District residents about the Board's plans.

What Do We Recommend?

The Board should:

1. Adopt a written fund balance policy that addresses the appropriate levels of fund balance to be maintained.
2. Include estimates of fund balance in the proposed budgets submitted to the Town each year.
3. Use surplus funds as a financing source for:
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Reducing property taxes.
4. Adopt reasonable budget estimates for appropriations.
5. Adopt a multiyear financial plan and monitor and update that plan on a continuing basis.

Leave Benefits

How Should Leave Benefits Be Accounted for and Authorized?

Effective controls over leave time include developing a policy and procedures for the maintenance of holiday, vacation, personal and sick leave records. The District should maintain records of leave balances for each employee and provide for a periodic independent review of those records to monitor their accuracy. The Board should formally approve leave accrual benefits for all employees by an employee handbook, Board resolution, individual employee contract or CBA. A well designed system ensures that leave accrual information is entered accurately into the system and that the benefits received are authorized. Accurate records are especially important because the District will pay certain employees for their unused vacation, personal and sick leave upon request.

Leave Accruals and Balances Were Not Adequately Recorded, Monitored or Authorized

The District did not develop a policy or written procedures for the maintenance of leave accrual records or formally authorize the leave accrual benefits to be earned and carried over for each employee.

The District has hired five employees who receive leave time benefits, which include two full-time employees and three part-time employees. The Secretary enters the leave used during each pay period and processes payroll reports including, vacation, personal and holiday leave used. However, she does not maintain any records of leave balances and processes these records for the District's four employees and herself without an independent review. Therefore, the Secretary's duties of recording payroll and leave usage information from timesheets to the payroll software are not adequately separated. The payroll software company then processes the District's payroll, which includes the leave used by each employee within the pay period and year. While the employees' direct supervisor and the Chairman⁷ approve their timesheets, they do not verify that the leave time on the timesheets were adequately earned and that the employee has sufficient leave balances to use.

The Chairman provided three documents outlining leave and holiday benefits for the District's employees. Based on these documents, three⁸ of the District's employees can receive payment for unused leave but no payments were made during our audit period. They also stated that two employees⁹ can rollover leave accruals. However, the documents were not dated and the Board did not

7 Each Commissioner is assigned a different area of operations to oversee. The Chairman is responsible for overseeing personnel and insurance.

8 The Secretary and two part time employees (cleaners).

9 The Secretary and the head maintainer.

authorize these benefits by an employee handbook, Board resolution, individual contract or CBA. As a result, District officials paid \$15,747 for 635 hours of leave benefits used during our audit that were not authorized by the Board.

Figure 2: Unauthorized Leave Used and Paid from January 1, 2016 through June 30, 2017

| | Holiday | Vacation | Personal | Sick | Total |
|--------------------|---------|----------|----------|-------|----------|
| Hours Used | 321 | 242 | 47 | 25 | 635 |
| Amount Paid | \$7,679 | \$6,102 | \$1,273 | \$693 | \$15,747 |

The leave hours used and paid were in accordance with the benefits listed in the documents provided by the Chairman. We brought the payments to the attention of District officials who indicated that they intended for the employees to receive the payments. However, without records of leave balances, independent reviews of leave records and formal Board authorization of leave benefits received, there is no assurance that employees will not be granted or use more leave benefits than the Board intended.

What Do We Recommend?

The Board should:

6. Develop a policy and written procedures for the maintenance of leave accrual records.
7. Ensure that records of leave balances are maintained for each employee.
8. Designate an independent individual to periodically review leave accrual records for accuracy.
9. Establish leave benefits by an employee handbook, Board resolution, individual contract or CBA.

Appendix A: Response From District Officials

SOUTH FARMINGDALE FIRE DISTRICT

**3 Locust Avenue
South Farmingdale, NY 11735
P-516-249-8898 F-516-249-3941**

May 14, 2018

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Chief Examiner McCracken,

I respond to your preliminary draft findings not just as a Fire Commissioner, but as a tax paying resident of South Farmingdale. I live, work and volunteer in my neighborhood, which forces me to constantly reflect upon my actions and decisions from both of these perspectives. If asked about the management of the South Farmingdale Fire District, how would my neighbors respond? I hope that they would be both confident and gratified with the knowledge of having optimal lifesaving service while ensuring that present and future generations are not financially burdened.

Unfortunately, many residents do not know the business intricacies behind running The South Farmingdale Fire Department. On the surface we provide fire protection and emergency medical services. How we accomplish these services is the careful balance of assessed manpower, precise education and acquisition of modern equipment. As the Board of Fire Commissioners stabilize the components, change begins to happen. Water still eliminates fire and medicine still cures illnesses, but how it gets accomplish and who performs the duties is where we must take measure. We have to inventory proper equipment, vehicles, training, labor, medications and budget for wages and benefits.

The Board of Fire Commissioners has lowered the Fire Tax for eight consecutive years while increasing reserves to ensure investment for the future. This action is in direct response to the audits questions and recommendation on whether the financial conditions and the unrestricted fund balance were reasonable.

See
Note 1
Page 10

A few years ago The Board of Fire Commissioners froze the existing defined benefit service award program and established a defined contribution service award program. The District also refinanced the 2005 Bonds. Both of these actions enabled us to structurally reduce expenditures and increase savings, as it is reflected in the upgraded credit rating received by Moody's Investors Service and your preliminary draft findings.

Actions taken with the accumulated funds:

- The District has transferred \$500,000.00 into its reserve accounts
- The purchase of a new ladder truck; greater than \$900,000.00

See
Note 2
Page 10

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- The purchase of property adjacent to SFFD Headquarters; greater than \$310,000.00
 - The investment of life saving medical equipment (CPR Compression Devices, 12-Lead EKG / Defibrillator monitors, Intraosseous Vascular Access System, Airway Management Equipment, etc...) approximately \$100,000.00

See
Note 2
Page 10

These operations were all accomplished simultaneously as part of our multiyear strategic plan.

See
Note 3
Page 10

The District employs only two full time employees, a district secretary and a facilities maintenance worker. There are three part-time employees, the district treasurer and two custodial staff. The Board of Fire Commissioners have daily interactions with all employees and ensure all leaves are reasonable and actual. We have added an additional service through our payroll company that will document and provided quarterly reports for The Board of Fire Commissioners to review. In addition we are developing an employee handbook for all current and future employees.

I would like to thank [REDACTED] and [REDACTED], auditors. They were professional and exceptional workers, we wish them the best.

Sincerely,

Thomas Mastakouris, Chairman
Board of Fire Commissioners
South Farmingdale Fire District

Appendix B: OSC Comments on the District's Response

Note 1

The budget remained at about \$1.6 million in each of the three years reviewed, with decreases that were less than one percent each year while certain appropriations were overestimated. Therefore, the unrestricted fund balance at the end of 2016 was 83 percent of the 2017 budget. Although the Board may have lowered the fire tax, it has not taken adequate action to address our recommendation by using the surplus funds as a financing source for funding one-time expenditures, funding needed reserves or reducing property taxes.

Note 2

None of the actions taken were financed using unrestricted fund balance. For example, the purchases of a new ladder truck and a property adjacent to the headquarters were paid from reserve funds, which were financed through budgetary appropriations.

Note 3

The multiyear strategic plan that District officials refer to does not address the use of fund balance and reserves to fund operations or provide a tool to assess expenditure commitments, revenue trends, financial risks or the affordability of new services and capital investments. Additionally the plan expired at the end of 2016.

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 objectives and obtain valid audit evidence, our audit procedures included the following:

- We reviewed the District's audited financial statements and the annual budget submitted to the Town.
- We analyzed revenue and expenditure trends, budget-to-actual comparisons and fund balance levels for 2014 through 2017 to assess financial condition.
- We interviewed District officials to gain an understanding of the District's budgeting process and reasons for large variances.
- We reviewed reserve funds to ensure they were adequately funded and in compliance with applicable laws.
- We reviewed budget-to-actual reports and the results of operations as of September 30, 2017, and projected the results of operations based on the results in 2016. We also used this method to project appropriations for legal and audit services, and workers' compensation expenditures in 2017.
- We inquired to determine whether the District had adopted a multiyear financial plan.
- We interviewed District officials and employees to gain an understanding of the procedures for the maintenance and recording of leave accruals.
- We reviewed timesheets, payroll records and leave information to determine whether records of leave balances were maintained and whether leave used was posted accurately to the payroll records. We compared leave time used from January 1, 2016 through June 30, 2017 to the documents provided by the Chairman and determined whether the benefits were authorized by the Board.

We conducted this performance audit in accordance with GAGAS (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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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