Office of the New York State Comptroller

Division of Local Government
& School Accountability

Claryville Fire District

Budgeting Practices

Report of Examination

Period Covered:

January 1, 2012 — December 20, 2013

2014M-59

Thomas P. DiNapoli

Table of Contents

		Page
AUTHORITY LETTER		2
INTRODUCTION		3
	Background	3
	Objective	3
	Scope and Methodology	3
	Comments of District Officials and Corrective Action	3
BUDGETING PRACTICES		5
	Recommendations	6
APPENDIX A	Supplemental Information	7
APPENDIX B	Response From District Officials	8
APPENDIX C	Audit Methodology and Standards	11
APPENDIX D	How to Obtain Additional Copies of the Report	12
APPENDIX E	Local Regional Office Listing	13

State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

May 2014

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 Claryville 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 Claryville Fire District (District) is a district corporation of the State, distinct and separate from the Town of Neversink and the Town of Denning located in Sullivan and Ulster Counties, respectively. The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management, including approving an annual budget to ensure the District's resources are being used efficiently. The District's budgeted appropriations for the 2014 fiscal year are $168,348.

The District is responsible for providing equipment for the Claryville Volunteer Fire Department (Department).[1] The Board works with the Department's line officers to determine equipment needs and budgets for these needs in the District's budget.

Objective

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

- Did District officials adopt realistic budgets and ensure prudent use of District funds?

Scope and Methodology

We interviewed District officials about their budgeting practices and examined reports related to the budget for the period January 1, 2012 through December 20, 2013. We extended our scope period back to fiscal year 2009 for the review of the budget.

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 are included in Appendix C 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 B, have been considered in preparing this report. District officials generally agreed with our findings and indicated that they plan to take 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 should be prepared and forwarded to our office within 90 days. To

[1] The Department is an incorporated fire company, distinct and separate from the Town of Denning and the Claryville Fire District. The Department provides the manpower to support the fire protection services provided by the District.

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 this plan available for public review in the Secretary's office.

Budgeting Practices

The Board should adopt realistic budgets and manage fund balance responsibly. The Board also has a responsibility to make sound financial decisions that are in the best interest of the District and the taxpayers that fund its operations. It is essential that the Board develop budgets with pertinent information, including adequate reasoning from Department representatives for equipment needs, as well as planning for major capital asset additions.

Planning on a multiyear basis allows District officials to identify developing revenue and expenditure trends, set long-term priorities and goals as well as ensure the prudent use of District funds. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment and other required needs to maintain operations. However, the Board is responsible to monitor the amounts accumulated in those reserves and use them as intended for planned expenditures.

The Board is not adopting realistic budgets or ensuring the prudent use of District funds. The Board is making significant financial decisions related to equipment needs without sufficient information. Over the last five years the Board consistently adopted budgets that included real property tax increases to finance the Department's requests for new equipment, and/or upgrades and repairs to existing equipment, much of which the District did not actually purchase.[2] Repeatedly raising tax dollars to finance purchases that never occur results in unnecessarily high tax levies to fund current operations. As a result, the District's real property tax levy increased 21 percent between the fiscal years 2009 and 2013. During this same period of time, the District's activities did not increase, and actually remained flat in terms of emergency call responses.[3]

The Board was not provided with information regarding the District's equipment inventory including the cost of each item and its estimated useful life. As a result, the Board relied on the requests presented by the Department chiefs. District officials stated that they had never questioned the equipment needs before, but started to during the 2014 budget process. However, we found that the District's 2014 equipment budget included items such as ropes, webbing loops and valves that

[2] See Appendix A for budget versus actual equipment expenditures for 2009 through 2013.

[3] From 2009 through 2013, the Department was called out for a total of 118 calls for an average of 24 calls per year. The District received its highest call volume in 2009 (27) and its lowest in 2013 (18).

had been included in prior years' tax levies and were never purchased.[4] The increase in real property taxes without using the funds requested and planned for expenditures resulted in a surplus that increased the available fund balance. Those surplus funds could have been used to fund the ensuing year's budget, rather than increasing real property taxes again, until the requested expenditures were actually fulfilled.

Finally, the District has two reserve funds with a total balance of approximately $472,000 which have been funded annually with budgeted appropriations. District officials stated that they planned to purchase new fire trucks. However, given the low number of calls the District responds to, and useful life of the currently owned vehicles,[5] we question whether this would be a prudent use of taxpayer funds. The District does not have a written capital plan, with an equipment replacement schedule, to help determine capital funding needs or to identify intended use of the existing reserve funds.

Recommendations

1. The Board should require documentation supporting the budgeted need for equipment, materials and supplies. The Board should also compare these requests to the adopted equipment and capital asset inventory plan to verify their necessity.

2. The Board should develop a written long-term capital plan that details anticipated equipment replacement needs based on useful life. Such documentation could include an inventory listing of all equipment and the age and remaining useful life of the items. This plan should also include the funding and use of the existing reserve funds the Board has established.

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[4] See Appendix A for the equipment budget requests for the last six years (2009-14).

[5] The District owns four pump trucks ranging in model year from 1988 to 2004.

APPENDIX A

SUPPLEMENTAL INFORMATION

Table 1: BUDGETED VS. ACTUAL EQUIPMENT EXPENDITIURES 2009 TO 2013 and 2014 BUDGETED AMOUNTS

Equipment	2009		2010		2011		2012		2013		2014
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Radio	$ 0	$ 0	$ 0	$150	$300	$7,290	$1,000	$1,221	$ 0	$1,912	$2,000
Pagers	$ 0	$ 0	$ 0	$ 0	$ 0	$4,900	$7,000	$ 0	$ 0	$100	$ 0
Radio HQ	$1,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Radio Truck	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Turnout Gear	$2,000	$2,080	$ 0	$2,961	$1,000	$927	$4,000	$3,794	$14,000	$11,118	$21,000
SCBA	$ 0	$ 0	$ 0	$ 0	$600	$650	$700	$ 0	$ 2,700	$917	$ 0
Computers	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$2,033	$ 0	$ 0	$ 0
Miscellaneous Equipment	$ 0	$15,523	$5,000	$18,177	$ 0	$10,724	$ 0	$830	$ 0	$3,015	$3,000
Light Bars	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$7,000	$3,095	$4,000	$2,510	$ 0
Valves	$ 0	$ 0	$ 0	$ 0	$3,000	$ 0	$3,000	$4,064	$3,000	$ 0	$2,000
Hoses	$ 0	$ 0	$ 0	$100	$5,000	$1,108	$5,000	$5,205	$5,000	$6,061	$6,500
Eye Shields	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$1,000	$ 0	$ 0
Flares	$ 0	$ 0	$ 0	$644	$ 0	$2,097	$ 0	$ 0	$ 1,000	$ 0	$ 0
Personal Alarms	$2,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$900
Ropes	$ 0	$ 0	$ 0	$ 0	$1,500	$ 0	$1,500	$ 0	$1,500	$ 0	$3,000
Webbing Loops	$ 0	$ 0	$ 0	$ 0	$1,000	$ 0	$1,000	$ 0	$2,000	$ 0	$1,000
Rescue Tools	$9,500	$ 0	$17,000	$ 0	$15,000	$15,666	$10,000	$1,840	$4,000	$7,272	$3,650
Cleaning Supplies	$200	$ 0	$ 0	$ 0	$1,500	$ 0	$1,500	$ 0	$1,500	$684	$1,500
Chocks	$ 0	$ 0	$ 0	$ 0	$ 0	$447	$ 0	$ 0	$ 0	$ 0	$ 0
Parts, Cribbing, Accessories	$3,000	$ 0	$ 0	$ 0	$3,500	$2,224	$ 0	$ 0	$ 0	$78	$100
Flashlights	$450	$ 0	$ 0	$ 0	$ 0	$4	$1,400	$1,165	$2,400	$941	$ 0
Chiefs' Budget	$6,000	$2,765	$6,450	$374	$3,000	$227	$3,000	$5,473	$7,900	$8,802	$5,350
Total	**$24,150**	**$20,368**	**$28,450**	**$22,406**	**$35,400**	**$46,264**	**$46,100**	**$28,720**	**$50,000**	**$43,410**	**$50,000**

APPENDIX B

RESPONSE FROM DISTRICT OFFICIALS

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

CLARYVILLE FIRE DISTRICT
P.O. Box 22
Claryville, New York 12725

May 19, 2014

Office of the State Comptroller
Division of Local Government and School Accountability
State Office Building Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Attention: Mr. H. Todd Eames
Chief Examiner

Re: Report of Examination
Claryville Fire District

Dear Mr. Eames:

On behalf of the Board of Fire Commissioners (the "Board") of the Claryville Fire District (the "District"), hereby responds to the draft Report of Examination sent to the Board via e-mail on April 24, 2014 (the "Report"). The Board is committed to keeping the public well-informed of how taxpayer dollars are spent by the District.

The objective of the examination was the District's budgeting practices and specifically asked the question "Did District officials adopt *realistic budgets* and *ensure prudent use* of District funds?" [Emphasis added.] The focus of the Report relates to expenditures on equipment.

The Report states that "Over the last five years the Board consistently adopted budgets that included real property tax increases to finance the [Claryville Fire] Department's request for new equipment and/or upgrades and repairs to existing equipment, *much of which the District did not actually purchase*. [Emphasis added.]

The Board understands that although it is good for the District *not* to spend money, it made no immediate, positive difference (from a taxpayer's perspective), because the Board applied any end-of-year surplus to its capital reserves. This was done because the Board had understood that this was its *only* option with respect to surpluses. Had the Board understood that any surplus could have simply been applied to the following year's budget, thereby reducing the amount requested from taxpayer, the Board would have done so.

The net effect of applying any surpluses to its capital reserves was to prefund such reserves at a rate faster than the budgets actually required for the period. The Board understands that this may be cold comfort to a taxpayer who has already paid the amount levied based on the budget. The Board's goal going forward will be to have equipment budgets that are more in line with actual expenditures so as to avoid any surpluses, irrespective of whether the surplus is applied to reserves or carried over to a subsequent budget year.

The Report also states "[A]s a result, the District's real property tax levy increased 21 percent between the fiscal years 2009 and 2013." While this statement is true, the value of a comparison of the percentage change between any two budget years is limited. For half of the intervening years in the examination period, the increase was less than 2% year-over-year. In addition, the current 2014 budget represents only a 8.8% increase over the 2009 budget, and decrease of 10.0% over the 2013 budget.

The Board disagrees with the following statement in the Report "District officials stated that they had never questioned the equipment needs before, but started to during the 2014 budget process." While the commissioners may have generally deferred to the expertise of the chiefs with respect to new equipment requests, especially if the safety of our firefighters was involved, past and current commissioners have questioned and debated requests made by chiefs, and the Board has denied requests during the examination period.

That said, the Board agrees with Recommendation No. 1, to wit: The Board should require documentation *to support the need* for equipment, materials and supplies and should compare these requests to an adopted equipment and capital asset inventory plan to verify their necessity.

The Board also agrees with Recommendation No. 2 that it would be advantageous for the District to have a *written* long-term capital plan that details anticipated replacement needs based on useful life. The Board believes implementing this Recommendation will be extremely helpful for maintaining institutional knowledge and providing information to taxpayers as to how their tax dollars are spent.

We appreciate the examiner's careful and thorough review of the budgeting process and the Comptroller's recommendations.

Sincerely,

CLARYVILLE FIRE DISTRICT

By: Charles M. Breiner
Charles Breiner

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

We reviewed the District's budgeting process for the period January 1, 2012 through December 20, 2013. We expanded our scope to include a historical review of the District's budgets from January 1, 2009 through December 31, 2011. To accomplish our audit objective and obtain valid and relevant audit evidence, we interviewed appropriate District officials, examined pertinent documents, and performed the following procedures:

- We made inquiry of District officials to gain an understanding of the budgeting process.

- We compared budgeted appropriation amounts to actual expenditures from 2009 through 2013 to determine if District budgets were reasonable. We requested explanations from District officials for significant variances (greater than 10 percent) between the budgeted and actual amounts during this time.

- We compared actual revenues to actual expenditures from 2009 through 2013 and calculated the District's operating surpluses during this time.

- We determined if the requested equipment budgets were reasonable from 2009 through 2013. We discussed equipment requests with District and Department officials in regards to repeated and/or excessive requests for specific equipment. We attempted to obtain inventory listings or other records to determine if requests were reasonable or based on some measurable factor.

- We asked District officials if the District has a written capital plan that would include the use of reserves for future purchases of capital assets such as fire trucks.

- We compared the District's activity level to that of other local fire districts and performed an analysis of types of calls each District received, total expenditures reported on each District's annual financial document filed with the Office of the State Comptroller, and cost per call by year and on average over a three-year period.

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.

APPENDIX D

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APPENDIX E

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