

Islip Fire District

Financial Condition

MAY 2020



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

Contents

- Report Highlights 1**

- Financial Condition 2**
 - How Should the Board Manage Expenditures To Maintain Sound Financial Health? 2

 - The Board Did Not Effectively Monitor Expenditures and Fund Balance 3

 - The Board Did Not Properly Fund the Capital Reserve and Did Not Ensure That Reserve Transactions Were Transparent to the Public 4

 - What Do We Recommend? 6

- Appendix A – Response From District Officials 8**

- Appendix B – Audit Methodology and Standards 9**

- Appendix C – Resources and Services 11**

Report Highlights

Islip Fire District

Audit Objective

Determine if the Board and District officials effectively monitor the District's financial condition by ensuring that budget estimates and fund balance are reasonable.

Key Findings

The Board:

- Did not effectively monitor expenditures and fund balance. As a result, the unrestricted fund balance deficit increased to as much as \$171,492 during the audit period.
- Did not properly plan for the funding of and spending from reserves. In addition, the Board transferred unavailable funds to its capital reserves, and expended funds from reserves without adequate public notice; for example, transfers to reserves totaling \$593,941 and expenditures from reserves totaling \$841,477 that were not included in the budgets.

Key Recommendations

- Review financial reports to monitor available appropriations and fund balance.
- Adopt a fund balance policy that addresses the level of fund balance to be maintained in the operating fund. In addition, adopt a multiyear capital plan and reserve policy.
- Ensure transfers to and expenditures from reserves are included in the annual budget and comply with permissive referendum and public notice requirements.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Islip Fire District (District) serves the residents of the Town of Islip in Suffolk County.

The District is governed by a five-member Board of Fire Commissioners (Board) which is responsible for the District's overall financial management and safeguarding its resources. The Treasurer acts as the District's chief fiscal officer and is responsible for receiving, disbursing and accounting for funds. The District's budget is funded primarily by real property taxes.

Quick Facts

Budgeted Appropriations	\$3,337,344
Unrestricted Fund Balance	(\$31,545)
Reserve Balances	\$329,855

Audit Period

January 1, 2016 – December 31, 2017. We extended our scope back to January 1, 2013 and forward to December 31, 2018 to examine revenue, expenditure and fund balance trends for the general and reserve funds.

Financial Condition

How Should the Board Manage Expenditures To Maintain Sound Financial Health?

The board is responsible for acting in the best interest of the district and its residents, including monitoring expenditures, adopting a fund balance policy and authorizing transfers made to the district's reserves. It is also essential for the board and district officials to monitor actual expenditures against budgeted appropriations to ensure that budget transfers are made before budget lines become overexpended.¹

Fund balance is the difference between revenues and expenditures accumulated over time. Maintaining a reasonable amount of unrestricted fund balance is a key element of effective long term financial planning. The board should adopt a fund balance policy that addresses the level of fund balance to be maintained. A board can make transfers to reserve funds to provide a mechanism to legally save money to finance all or part of future acquisitions and capital needs; however, a board must ensure that sufficient fund balance is available before making these transfers to ensure that adequate cash flow is available to meet the cost of operations.

Reserves provide a degree of financial stability by reducing reliance on indebtedness to finance capital projects and acquisitions. When the board plans to finance reserves on a regular basis, developing a written policy communicates to taxpayers why the money is being set aside, the board's financial objectives for the reserves, optimal fund levels, and conditions under which the assets will be utilized.

Because capital acquisitions, such as purchases of equipment, apparatus and other long-term assets, can consume large amounts of financial resources over time, proper planning is essential. Planning helps to identify and prioritize capital needs, and allows the board to manage these needs. A multiyear capital plan provides accurate, reasonable estimates for each acquisition's budgetary impact, including its impact on reserve funds and fund balance, debt service costs and future operating expenditures. Having a board-approved plan communicates to the public the district's capital needs and helps promote accountability and transparency.

Amounts to be placed in and expended from reserve funds should be included in the annual budget. When appropriations for transfers to reserves are not anticipated in the annual budget, a board may authorize the transfer of unexpended balances or surplus money into a reserve fund by resolution. In accordance with New York State General Municipal Law, expenditures made from

¹ New York State Town Law Section 181-a provides that no expenditure can be made unless an amount has been appropriated for that particular purpose and is available.

certain reserve funds are subject to permissive referendum and public notice requirements.²

The Board Did Not Effectively Monitor Expenditures and Fund Balance

Although the Treasurer provided the Board with monthly financial reports that included year-to-date budget status reports and bank reconciliations and the Board received annual audited financial reports, the Board failed to effectively review these reports to monitor available appropriations and fund balance.

We reviewed all 2016 budget line items in the year-end budget status report and found that 29 of the 57 line items were overexpended by a total of \$60,133. This occurred because the Treasurer did not ensure there were available appropriations, or request approval for budget transfers before expending funds. Although the Board received monthly budget status reports throughout the year that included overexpended appropriation balances, it did not make budget transfers in order to monitor District finances in accordance with the adopted budget.

We reviewed budget activity reports for five³ overexpended account codes with original appropriations totaling \$471,307 for 2016. All five account codes were overexpended by a total of \$249,828 during 2016,⁴ and in all five cases, District officials did not transfer sufficient appropriations to the accounts. For example, the “uniforms” account had a negative balance of \$12,639 by June 2016. Even though the budget status report for June showed a negative balance for this account, the Board did not comment or take action. Instead, the District continued to spend from this appropriation account, overexpending it to a total of \$20,634. When expenditures repeatedly exceed available appropriations, there is an increased risk of operating deficits that could affect the District’s ability to provide essential services. In addition, the budget is a management tool used to set priorities for the coming year. In order to operate in accordance with the plan, appropriations should be kept within the budget. If needed, the budget should be amended prior to accounts being overexpended.

Furthermore, the Board did not adopt a fund balance policy to address the level of fund balance to be maintained in the operating fund. The District began 2013 with

2 General Municipal Law Section 6-g. provides that actions subject to permissive referendum require fire district officials to publish and post a legal notice informing taxpayers about the board’s plans. The resolution authorizing the expenditure of money from a capital reserve does not take effect until 30 days after its adoption. However, if a petition signed by a sufficient portion of qualified voters is filed with the fire district secretary within 30 days after the board adopts the resolution, approval is subject to mandatory referendum, or by a majority of district voters.

3 We reviewed the five highest overexpended account codes.

4 On average, the budget accounts had negative balances for six months.

an unrestricted fund balance deficit of \$114,400. Despite having budget surpluses in three of the five years, the deficit increased to as much as \$171,492 during the period.

Figure 1: Unrestricted Fund Balance

	2013	2014	2015	2016	2017	Total
Beginning Unrestricted Fund Balance	(\$114,400)	(\$161,439)	(\$151,762)	(\$171,492)	(\$111,889)	
Budget Surplus/(Deficit)	\$58,518	\$9,110	(\$92,694)	(\$65,624)	\$39,055	
Less: Transfers to Reserves^a	(\$310,962)	(\$81,480)	(\$191,499)	\$0	(\$120,000)	\$703,941
Expenditures Paid From Reserves	\$206,705	\$83,449	\$264,807	\$125,227	\$161,289	\$841,477
Less: Interest Allocated to Reserves	(\$1,300)	(\$1,402)	(\$344)	\$0	\$0	
Ending Unrestricted Fund Balance	(\$161,439)	(\$151,762)	(\$171,492)	(\$111,889)	(\$31,545)	

^a The Board authorized a transfer to reserves of \$45,000 and \$65,000 in the 2014 and 2015 budgets, respectively.

This occurred because the Treasurer transferred cash at the end of the year to the capital reserves in four of the five years⁵ that was not included in the respective budgets and despite the deficit fund balances in those years.

As of December 31, 2018, the District’s unrestricted fund balance totaled \$38,104, or 1 percent of the total operating budget.⁶ Although this is an improvement over prior years, the Board must monitor expenditures and adopt a fund balance policy to help ensure that the District is not vulnerable to cash flow concerns and that there is a financial cushion against unexpected circumstances.

The Board Did Not Properly Fund the Capital Reserve and Did Not Ensure That Reserve Transactions Were Transparent to the Public

The Board did not properly plan for the funding of and spending from reserves. The Board established two “type” capital reserves,⁷ a capital reserve and an equipment reserve, to finance the cost of equipment, apparatus, assets, goods, improvements and renovations. However, the Board did not adopt a multiyear capital plan or policies to provide guidance regarding the funding and usage of reserve funds.

⁵ See finding below for discussion of capital reserves.

⁶ The 2018 operating budget totaled \$3,403,849.

⁷ A “type” reserve may be authorized for a general category, or type, of capital improvement, such as land, buildings or building alterations. For more information, see <http://www.osc.state.ny.us/localgov/pubs/lgm/g/reservefunds.pdf>.

Reserve transactions were not authorized in the budget and transparent to the public. We reviewed the District's budgeting practices for 2013 through 2017. Over the five-year period, the annual budgets included \$110,000⁸ to be transferred to the capital reserves, but the Treasurer transferred \$703,941 of operating funds to the reserves. For example, in 2015, a transfer of \$65,000 was authorized in the budget. The Treasurer transferred \$191,499 to reserves, \$126,499 more than authorized in the budget.

While a board may authorize the transfer of unexpended balances or surplus money into a reserve fund by resolution, the Treasurer transferred more to the reserve than the operating surplus. For example, in 2013 the District generated a budget surplus of \$58,518, but transferred \$310,962 to reserves, which was \$252,444 more than the surplus. Money was put in reserves with no appropriation in the budget, no resolution authorizing the transfer, and the transfers were for more than the surplus was in each year. District officials stated that the previous Treasurer mistakenly included property tax revenues received in December for the following year as current year surplus. While District officials did not transfer funds into the reserves in 2016, they continued this practice in 2017. Rather than eliminating the deficit in the unrestricted fund balance, the Treasurer transferred \$120,000 into reserves with no appropriation in the budget, and no resolution authorizing the transfer.

Further, during the five years, the Board expended \$841,477 from the reserves without including an appropriation in the annual budget for the use of reserves.

Figure 2: Reserves

	2013	2014	2015	2016	2017	Total
Beginning Reserve Balance	\$464,345	\$569,902	\$569,335	\$496,371	\$371,144	
Transfers to Reserves	\$310,962	\$81,480	\$191,499	\$0	\$120,000	\$703,941
Expenditures Paid From Reserves	\$206,705	\$83,449	\$264,807 ^a	\$125,227	\$161,289	\$841,477
Interest and Earnings	\$1,300	\$1,402	\$344	\$0	\$0	
Ending Reserve Balance	\$569,902	\$569,335	\$496,371	\$371,144	\$329,855	

^a Two purchases totaling \$8,641 were made in 2014, but paid in 2015.

Due to this deficiency, we reviewed all 18 purchases funded by the reserves from 2015 through 2017 totaling \$551,323:

- None of the 18 purchases were included in the annual budgets.
- An appropriation of \$94,104 was included in the 2015 operating budget for the annual installment payment of a lease purchase. Therefore, although

⁸ The Board authorized a transfer to reserves of \$45,000 and \$65,000 in the 2014 and 2015 budgets, respectively. There were no appropriations to fund reserves in the 2013, 2016 and 2017 budgets.

taxes were levied to cover the expenditure, the payment was made from the equipment reserve account.⁹

- Four purchases totaling \$58,095 were for the purchase and equipping of a new Chief's vehicle. While the Board resolution stated a dollar amount of the proposed purchase, the permissive referendum notice that was published did not include a dollar amount, and therefore was not transparent to the public.
- Four purchases totaling \$14,825 for safety equipment were made without the required permissive referendum notices because officials believed they were not required.

The Board has not adopted a multiyear capital plan or reserve policy. As a result, the Board is not properly planning for capital expenditures, which can negatively affect the District's fiscal health. In addition, the Board has not ensured that transfers to reserves and the use of reserve funds were included in the annual budgets or authorized by resolutions, or complied with permissive referendum and public notice requirements. As a result, the Board has failed to present accurate budgets to the public or provide the public a clear picture as to how tax dollars are being spent.

What Do We Recommend?

The Board should:

1. Review monthly budget status reports and financial reports to monitor available appropriations and fund balance.
2. Ensure that budget transfers are made prior to approving expenditures to ensure that budgeted appropriations are not over expended.
3. Adopt a fund balance policy to address the level of fund balance to be maintained in the operating fund.
4. Adopt a multiyear capital plan and reserve policy to provide guidance regarding the funding and usage of reserves.
5. Ensure transfers to and expenditures from reserve funds are included in the annual budget or authorized by Board resolution.
6. Ensure expenditures from reserve funds comply with permissive referendum and public notice requirements.

⁹ The legality of the use of this reserve was outside of our audit scope.

The Treasurer should:

7. Ensure there are available appropriations in budget lines or request approval for budget transfers before expending funds.
8. Ensure that sufficient fund balance is available for all transfers to reserves and that transfers are in accordance with budgeted amounts.

Appendix A: Response From District Officials

Islip Fire District

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Office of the NY State Comptroller
Division of Local Government and School Accountability
Islip Fire District Financial Condition – Report Of Examination
Audit Number 2020M-25

May 11, 2020

To whom it may concern;

The Board of Fire Commissioners of the Islip Fire District (BOFC-IFD) is in receipt of, and has thoroughly reviewed the above referenced draft report, and thanks the Office of the NY State Comptroller for the two-week extension granted due to the ongoing COVID-19 pandemic for submission of this reply. Please accept this document as the written draft audit response letter, with unanimous support of the full Board, and with the understanding that the complete Corrective Action Plan (CAP) will be submitted as a separate document in the prescribed time frame.

The BOFC-IFD welcomes the recommendations put forth in the document and takes full responsibility for the identified shortcomings in financial management policy, procedure, and expectations, and in no way disputes the findings of fact as presented in the report. The New York State Audit Process has been an eye-opening experience on many levels for the BOFC-IFD and we are grateful for the opportunity to change the course of our practices. We would also like to point out that while we agree on the shortcomings and recommendations found with budgeting and purchasing procedures, we note that the audit reveals that tax-payer dollars were all accounted for, with no finding of diversion away from their intended purposes.

We thank the NY State Comptroller's audit team for their professionalism and for collaboratively working with our Islip Fire District staff to assist us in improving our organization.

BY ORDER OF THE BOARD OF FIRE COMMISSIONERS

Michael N. Leo
Chairman

LEGGIO _____	DATE <u>5-12-20</u>
McCAFFREY _____	DATE <u>5-12-20</u>
LEO _____	DATE <u>5-11-20</u>
HERRMANN _____	DATE <u>5.11.20</u>
DINEEN _____	DATE <u>5/12/2020</u>

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 District officials and reviewed Board minutes to gain an understanding of the District's financial management policies and procedures.
- We reviewed all 57 budgeted expenditure line item accounts totaling \$3,277,368 to determine which budget lines had negative balances as of December 31, 2016. We documented and totaled the negative expenditure balances.
- We reviewed budget activity reports for the five highest overexpended account codes with original appropriations of \$471,307 for 2016 to determine how long the codes were overexpended, and whether transfers were made and presented to the Board for approval to correct any overexpenditures.
- We reviewed accounting records, including audited financial statements, budget status reports and bank records, and assessed fund balance and capital reserves for 2013 through 2017.
- We reviewed the 2013, 2014, 2015, 2016 and 2017 adopted budgets.
- We reviewed the adopted general fund budget and audited financial statements for 2018 to determine whether the budgeted revenues and appropriations were reasonable based on historical data and supporting source documents.
- We prepared budget-to-actual comparisons for appropriations to determine whether appropriations were reasonable and whether specific appropriations were consistently and significantly underestimated and overestimated.
- We reviewed the 2017 adopted budget to determine whether it complied with tax cap statutory requirements.
- We performed trend analysis on fund balance and results of operations for the general fund and capital reserves for 2013 through 2017.
- We reviewed all 18 purchases funded by capital reserves from 2015 through 2017 to determine whether the Board complied with statutory requirements.

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 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 C: 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/pubs/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/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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