



Montgomery County Government

MEMORANDUM

November 21, 1994

TO: Management and Fiscal Policy Committee

FROM: *JMP* Joan M. Pedersen, Audit Contract Administrator
Office of Legislative Oversight

SUBJECT: KPMG Peat Marwick Suggested Format for Audited Financial Statements
of the Fire and Rescue Corporations

PURPOSE: The County Council has designated the MFP Committee to operate as the official Audit Committee for contract and accounting matters associated with the annual audit of the County's financial records. In this capacity, the MFP Committee is responsible for assuring the disbursement and expenditure of tax funds and other revenues are adequately monitored and properly reported.

The Committee's reasons for authorizing KPMG Peat Marwick to review the format for the audited financial statements of the fire and rescue corporations were: to determine the extent to which the current statements are understood and utilized; and to simplify and improve upon the presentation to make the statements more useful to the variety of interested parties.

ISSUES: For several years, various administrative staff of the fire and rescue corporations have complained that the audited financial statement formats required by the County take additional work to prepare but do not clearly display the financial activity of the corporations. In addition, the usefulness of the statements has often been questioned since the statements show a mix of State and County funds.

In the late 1980s, only two financial statements were presented for the fire and rescue corporations: a balance sheet and a statement of revenue, expenditures, and changes in fund balance. Both statements included a mix of activity for County tax funds and State 508 grant funds. The presentation made it difficult for the Office of Management and Budget (OMB) or the Fire and Rescue Commission (FRC) to determine the extent to which a corporation had operated within its budget.

Beginning in FY91, a new year-end statement was required of the fire and rescue corporations to display budget to actual activity. The statement format was slightly modified for FY92 and FY93 based on suggestions from administrative staff of the fire and rescue corporations. However, some corporation staff recently expressed concern that the FY93 presentation for activity of State 508 grant funds is misleading in the budgetary statements (the amount shown for the budget = grant funds awarded during the fiscal year). Since the grant awards allow for expenditures in a succeeding fiscal year, a corporation may receive a small grant award in any fiscal year but expend a greater amount, giving the appearance that the budget had been exceeded. (See example of FY93 financial statements for the Damascus Volunteer Fire Department at Circles 1-8).

Various corporation staff continue to question the need to include the balance sheet and the statement of revenue, expenditures, and changes in fund balance. As currently required, the statements display a mix of County tax funds and State 508 grant funds. Also, the statements show revenue received and expenses incurred within a time period, rather than associating the income and expenditure activity to budget authorizations.

While corporations are required to report quarterly to the FRC on financial activity relating to their budget authorizations, the accounting rules for year-end reporting relate to timing. Because of confusion caused by these differences, several corporations hire accountants to assist with preparing for the annual audit.

REVIEW OF FINANCIAL STATEMENT PRESENTATIONS: Since the Council's audit contract with KPMG Peat Marwick includes a yearly allowance for administrative reviews, OLO discussed with the auditors the possibility of reviewing the County's reporting requirements for the fire and rescue corporations. Peat Marwick agreed that the needed services would qualify as an administrative review and has performed the review at no cost to the County. The purpose of the review was to determine whether the County's requirements for the audited financial statement presentations could be simplified and still meet or improve upon the usefulness of the information presented.

Upon receipt of Peat Marwick's suggested format for the financial statements (Circles 9-13), OLO distributed copies for review and comment to: administrators and staff of the Department of Finance and the Office of Management and Budget; the chairman and administrative staff of the FRC; and the president and administrative staff person of each fire and rescue corporation receiving funds through the County and subject to audit. (See copy of OLO's request for comments at Circles 14-15; and all written comments received at Circles 16-26).

OLO RECOMMENDATIONS: Based on review of the suggested financial statements, auditor's opinion, and notes to the financial statements, and consideration of comments received from interested parties, OLO presents the following recommendations:

1. The technical corrections offered by OMB should be incorporated into the format suggested by Peat Marwick.
2. The presentations for the Fire Tax District funds and the State grant funds should be shown in separate statements and footnoted to include information on outstanding and contingent obligations against the budget allotment (accounts payable and encumbrances).
3. Either the auditor's opinion or Note 2 should be expanded to include a statement that the calculation of fund balance is in accordance with generally accepted accounting principles.
4. The suggested notes to the financial statements should be expanded to re-incorporate categories previously reported:
 - Security of cash in banks
 - Contingent liability for compensated absences
 - General obligation bond funding for capital improvements
 - Self-insurance fund participation
 - Pension plan information
5. The modified format should be tested for the FY94 audited financial reports, but with the understanding that administrators and staff of the fire and rescue corporations and County departments and offices will critique the usefulness of the reports.

RECOMMENDED MFP COMMITTEE ACTION: The MFP Committee is requested to endorse the OLO recommendations and authorize testing of the new reporting format for the FY94 audited financial statements.

JMP/cca
770/128

KPMG Peat Marwick

Certified Public Accountants

**DAMASCUS VOLUNTEER FIRE
DEPARTMENT, INCORPORATED**

Financial Statements

June 30, 1993

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Honorable County Council
Montgomery County, Maryland

Fire and Rescue Commission
Montgomery County, Maryland

Board of Directors
Damascus Volunteer Fire Department, Incorporated

We have audited the balance sheet of Damascus Volunteer Fire Department, Incorporated (Fire Department), as of June 30, 1993, the related statement of revenue, expenditures, and changes in fund balance and the related statement of revenue and expenditures - budget and actual for the year then ended. These financial statements are the responsibility of the Fire Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements referred to above reflect the current activities and balances of the Fire Department insofar as they relate to the Fire Department's allocated portion of funds appropriated by the County Council of Montgomery County, Maryland except to the extent that the Fire Department purchases fixed assets with its allocated portion of funds appropriated by the County Council. Accordingly, to the extent that the Fire Department engages in other related activities or receives funds from private sources that are not commingled with appropriated funds or procures general fixed assets purchased solely with such funds, the accompanying financial statements do not reflect the entire operations of the Fire Department.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, which reflect the Fire Department's current activities and balances funded by County appropriations as defined above, present fairly, in all material respects, the current activities and balances of the Fire Department at June 30, 1993, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

November 24, 1993

DAMASCUS VOLUNTEER FIRE DEPARTMENT, INCORPORATED

Balance Sheet

June 30, 1993

Assets

Cash	\$ 175,872
Accounts receivable	243
Due from Volunteer Funds	<u>23,691</u>
	<u>\$ 199,806</u>

Liabilities and Fund Balance

Liabilities:

Accounts payable	\$ 3,537
Due to Montgomery County	<u>224</u>
Total liabilities	<u>3,761</u>

Fund balance:

Reserved for encumbrances	6,256
Reserved for state grant expenditures	149,977
Unreserved: Designated for fiscal year 1994 expenditures	51,584
Undesignated	<u>(11,772)</u>

Total fund balance	<u>196,045</u>
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\$ 199,806

See accompanying notes to financial statements.

DAMASCUS VOLUNTEER FIRE DEPARTMENT, INCORPORATED

Statement of Revenue, Expenditures, and Changes in Fund Balance

Year Ended June 30, 1993

Revenue:

Montgomery County, Maryland	\$ 149,107
State grant	28,000
Interest income	9,308
Miscellaneous	<u>2,938</u>

Total revenue	<u>189,353</u>
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Expenditures:

Current:

Personal service	35,654
Other operating	142,798
Capital outlay	37,877
State grant expenditures	<u>178,527</u>

Total expenditures	<u>394,856</u>
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Excess of expenditures over revenue	(205,503)
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Fund balance, beginning of year	<u>401,548</u>
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Fund balance, end of year	<u>\$ 196,045</u>
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See accompanying notes to financial statements.

DAMASCUS VOLUNTEER FIRE DEPARTMENT, INCORPORATED
Statement of Revenue and Expenditures - Budget and Actual
For Fire Tax District and Grant Funds
Year Ended June 30, 1993

	Prior Year Encumbrance Budget	Current Year Budget	Total Budget	Actual	Variance Favorable (Unfavorable)
Fire Tax District Funds					
Revenue:					
Montgomery County, Maryland	\$ 0	\$177,940	\$177,940	\$177,940	\$ 0
Interest income	0	0	0	1,734	1,734
Miscellaneous income	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,938</u>	<u>2,938</u>
Total revenue	<u>0</u>	<u>177,940</u>	<u>177,940</u>	<u>182,612</u>	<u>4,672</u>
Expenditures:					
Personal service	0	36,380	36,380	35,654	726
Operating	9,677	138,350	148,027	149,054	(1,027)
Capital outlay	<u>34,954</u>	<u>3,210</u>	<u>38,164</u>	<u>37,877</u>	<u>287</u>
Total expenditures	<u>44,631</u>	<u>177,940</u>	<u>222,571</u>	<u>222,585</u>	<u>(14)</u>
Revenue over (under) expenditures for fire tax district funds	<u>(44,631)</u>	<u>0</u>	<u>(44,631)</u>	<u>(39,973)</u>	<u>4,658</u>
State Funds					
State grant revenue	0	28,800	28,000	28,000	0
Interest income	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,574</u>	<u>7,574</u>
Total revenue	<u>0</u>	<u>28,000</u>	<u>28,000</u>	<u>35,574</u>	<u>7,574</u>
Capital outlay expenditures	<u>0</u>	<u>28,000</u>	<u>28,000</u>	<u>178,527</u>	<u>(150,527)</u>
Revenue over (under) expenditures for grant funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>(142,953)</u>	<u>(142,953)</u>
Revenue over (under) expenditures	<u>(44,631)</u>	<u>0</u>	<u>(44,631)</u>	<u>(182,926)</u>	<u>(138,295)</u>
Fund balance - beginning of year	<u>44,631</u>	<u>0</u>	<u>44,631</u>	<u>401,548</u>	<u>356,917</u>
Fund balance - end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$218,622</u>	<u>\$218,622</u>

See accompanying notes to financial statements.

DAMASCUS VOLUNTEER FIRE DEPARTMENT, INCORPORATED

Notes to Financial Statements

June 30, 1993

(1) Summary of Significant Accounting Policies

The Damascus Volunteer Fire Department, Incorporated (Fire Department) is one of eighteen private not-for-profit corporations that provide fire, rescue, and emergency services to the residents within the Consolidated Fire-Tax District (District) of Montgomery County, Maryland (County). The Fire Department's revenue is derived principally from allocated ad valorem tax levies on properties within the District. The tax levy is collected by the County for the benefit of the District. However, such funds become available to the Fire Department only to the extent of its allocated share of the District's appropriations established by the County Council of Montgomery County, Maryland (County Council).

The accompanying financial statements reflect only the results of, and account balances arising from, the fire and rescue operations of the Fire Department, for which the Fire Department receives an allocated portion of the funds appropriated by the County Council for the District.

(a) Basis of Accounting

The financial statements of the Fire Department follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recorded when it becomes measurable and available to pay liabilities of the current period. Amounts not considered available in the current period are recorded as deferred revenue. Expenditures are recorded when the related liability is incurred.

(b) Encumbrances

The Fire Department uses encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation. Open encumbrances at year-end are reported as a reservation of fund balance because encumbrances do not constitute expenditures or liabilities of the current period.

(c) Budgetary Presentation

The Statement of Revenue and Expenditures - Budget and Actual is prepared on a basis consistent with the legally adopted budget. Under this method, encumbrances outstanding are charged to budgetary appropriations and considered expenditures of the current period. The excess of expenditures over revenue of \$(205,503) on the Statement of Revenue, Expenditures, and Changes in Fund Balance differs from actual revenue over (under) expenditures of \$(182,926) on the Statement of Revenue and Expenditures - Budget and Actual by \$(22,577). This difference represents encumbrance adjustments recorded to conform with generally accepted accounting principles.

(d) Cash

Bank balances at year-end are covered entirely by federal depository insurance.

DAMASCUS VOLUNTEER FIRE DEPARTMENT, INCORPORATED

Notes to Financial Statements (Continued)

June 30, 1993

(e) Due from Volunteer Funds

In fiscal year 1991, the Fire Department used both non-appropriated Volunteer funds and State grant funds to build and equip a new Fire Station. Some of the costs incurred and paid for with State grant funds (\$23,691) should have been charged against the Volunteer funds. The Fire Department has recognized a receivable from the Volunteer funds for this amount. It is the intention of the Fire Department to repay the \$23,691 in fiscal year 1994.

(f) General Fixed Assets

Purchases of fixed assets are recorded as capital outlay expenditures in the accompanying financial statements. These assets, as well as capital assets purchased in prior years, are not included in the accompanying financial statements.

(g) Compensated Absences

Employees of the Fire Department earn vacation, compensatory, and sick leave in varying amounts. Upon termination, employees are reimbursed for accumulated vacation and compensatory leave. Although employees do not have a vested right to sick leave upon termination, accumulated sick leave may be applied toward retirement benefits at retirement.

The accompanying financial statements do not reflect an expenditure or liability for accrued compensated absences of approximately \$3,500 at year-end, as this amount is not expected to be liquidated with expendable available financial resources. These compensated absences relate only to accumulated vacation and compensatory leave, as accumulated sick leave does not vest with the employees. These compensated absences will be funded by future tax revenue from the County.

(h) Debt

Major capital assets, including improvements, are financed by general obligation bonds of the District issued by the County. Proceeds of these bonds are held by the County and disbursed on behalf of the District as expenditures for approved projects are incurred. These bonds are obligations of the County. As a result, neither debt service expenditures nor outstanding obligations relating to this debt are included in the accompanying financial statements.

(i) Fund Balance

Reserves represent those portions of fund balance not appropriable for expenditures. These reserves are legally segregated for a specific future use. Designated fund balance represents tentative plans for future use of financial resources. Undesignated fund balance represents the Fire Department's unappropriated cumulative excess of revenue over expenditures.

DAMASCUS VOLUNTEER FIRE DEPARTMENT, INCORPORATED

Notes to Financial Statements (Continued)

June 30, 1993

(j) State Grants

The State of Maryland provides funds to the Fire Department under the "State Fire, Rescue, and Ambulance Fund" grant (State Grant) which was established to assist local governments in delivering effective fire protection, rescue, and ambulance services to the citizens of Maryland. The State restricts the use of these funds to the acquisition or rehabilitation of fire, rescue, and ambulance apparatus; capital equipment used in connection with fire or rescue apparatus; and facilities used ordinarily to house such apparatus. Fund balance is reserved for the portion of State Grant revenues which was not expended or encumbered as of year-end.

(k) Pension Plan

The Fire Department participates in the Employees' Retirement System of Montgomery County, Maryland. It is the County's policy to annually fund the normal cost and amortization of the unfunded accrued liability.

(l) Self-Insurance

The Fire Department participates in the County's self-insurance program for group health, including life and worker's compensation benefits. The Fire Department is charged premiums, which are uniform for all group participants, by the County's Self-Insurance Fund.

(2) Pension Plan

The Fire Department participates in the Employees' Retirement System of Montgomery County, Maryland (System), a single-employer contributory pension plan covering all paid employees. Funding provisions of the System require biweekly retirement contributions determined by the System's actuary. The total required contribution for the current year was based on the July 1, 1990 actuarial valuation. The required contribution (pension expenditure) was approximately \$1,500, which is included in personal services expenditures in the accompanying financial statements. The disclosures required for the System under Governmental Accounting Standards Board (GASB) Statement No. 5, "Disclosure of Pension Information by Public Employee Retirement Systems and Local Government Employers" are included in the County's Comprehensive Annual Financial Report (CAFR).

**MONTGOMERY COUNTY FIRE
DEPARTMENT, INCORPORATED**

Financial Statement

June 30, 199x

(With Independent Auditors' Report Thereon)

NEW FORMAT SUGGESTED BY KPMG PEAT MARWICK

Independent Auditors' Report

The Honorable County Council
Montgomery County, Maryland

Fire and Rescue Commission
Montgomery County, Maryland

Board of Directors
Montgomery County Volunteer Fire Department, Incorporated

We have audited the accompanying statement of revenues and expenditures - budget and actual of the *Montgomery County Volunteer Fire Department, Incorporated* (Fire Department) for the year ended June 30, 199x. This financial statement is the responsibility of the Fire Department's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statement was prepared on a basis of cash receipts and disbursements and encumbrances, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the Fire Department's revenues and expenditures for the year ended June 30, 199x, on the basis of accounting described in Note 1.

Date

MONTGOMERY COUNTY FIRE DEPARTMENT, INCORPORATED
Statement of Revenues and Expenditures - Budget and Actual
Year Ended June 30, 199x

	<u>Budget</u>	<u>Actual</u>	<u>Budget Variance</u>
Fire Tax District Funds			
Revenues:			
County Appropriation	_____	_____	_____
Expenditures:			
Volunteer Support			
Fire/EMS Supplies and Equipment			
Vehicle Management			
Facilities Management			
Administration			
Public Education			
Specialty Team	_____	_____	_____
Total Expenditures	_____	_____	_____
Excess of Revenues over Expenditures for Fire Tax District Funds	=====	=====	=====
State Grant Funds			
Revenues:			
State Grant Funds (cumulative)	_____	_____	_____
Expenditures:			
Operating Expenditures			
Capital Outlay	_____	_____	_____
Total Expenditures	_____	_____	_____
Excess of Revenue over Expenditures for State Grant Funds	=====	=====	=====

See accompanying notes to financial statement.

MONTGOMERY COUNTY FIRE DEPARTMENT, INCORPORATED

Notes to Financial Statement

June 30, 199x

(1) Summary of Significant Accounting Policies

The *Montgomery County Volunteer Fire Department, Incorporated* (Fire Department) is one of eighteen private, not-for-profit corporations that provide fire, rescue, and emergency services to the residents within the Consolidated Fire-Tax District (District) of Montgomery County, Maryland (County).

The accompanying financial statement results reflect only those funds provided by Montgomery County and State grant funds.

The Fire Department's revenue is derived principally from allocated ad valorem tax levies on properties within the District. The tax levy is collected by the County for the benefit of the District. However, such funds become available to the Fire Department only to the extent of its allocated share of the District's appropriations established by the County Council.

(a) Basis of Accounting

The Fire Department maintains its accounting records and prepares its budget and financial statements on the basis of cash receipts and disbursements and encumbrances, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, revenues are recorded when approved County Council appropriations are allocated and expenditures are recorded when paid and encumbrances are recorded to reserve that portion of the applicable appropriation..

(b) State Grant

The State of Maryland provides funds to the Fire Department under the "State Fire, Rescue, and Ambulance Fund" grant (State Grant) which was established to assist local governments in delivering effective fire protection, rescue, and ambulance services to the citizens of Maryland. The State restricts the use of these funds to the acquisition or rehabilitation of fire, rescue, and ambulance apparatus; capital equipment used in connection with fire or rescue apparatus; and facilities used ordinarily to house such apparatus. The state grant is a multi-year grant in that the appropriation carries forward until funds are encumbered or expended. The information presented reflects the activity against prior period appropriation carryovers, as well as current year appropriations.

(c) General Fixed Assets

Purchases of fixed assets with Fire Tax District Funds are recorded as capital outlay expenses in the accompanying financial statement and are included in Fire/EMS Supplies and Equipment, Vehicle Management, Facilities Management, and Specialty Team. Purchases of fixed assets with State Grant Funds are recorded as capital outlay expenses in the accompanying financial statement.

(2) Fund Balance

The County requires that fund balance be presented in accordance with the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recorded when it becomes measurable and available to pay liabilities of the current period. Amounts not considered available in the current period are recorded as deferred revenue. Expenditures are recorded when the related liability is incurred.

The Fire Department also uses encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of funds are recorded to reserve that portion of the applicable appropriation. Open encumbrances at year-end are reported as a reservation of fund balance because encumbrances do not constitute expenditures or liabilities of the current period.

Reserves represent those portions of fund balance not available for expenditures. These reserves are legally segregated for a specific future use. The undesignated fund balance represents the Fire Department's unreserved cumulative excess of revenue over expenditures. The unreserved cumulative excess of revenue over expenditures reduces future budgetary cash allocations. The fund balance activity as of June 30, 199x is detailed below:

	<u>Reserved for Encumbrances</u>	<u>Reserved for State Expenditures</u>	<u>Undesignated</u>	<u>Total</u>
Fund Balance as of 6/30/9x				
Excess of Revenues over Expenditures				
Interest/Miscellaneous Income				
Receivables/Payables				
Cancellations against Prior Year Encumbrances				
Payments against Prior Year Encumbrances				
Current Year Encumbrances	_____	_____	_____	_____
Fund Balance as of 6/30/9x	=====	=====	=====	=====



Montgomery County Government

MEMORANDUM

October 7, 1994

TO: George Giebel, Chair
Fire and Rescue Commission

FROM: Joan M. Pedersen, Audit Contract Administrator
Office of Legislative Oversight

SUBJECT: KPMG Peat Marwick Suggested Format for Audited Financial Statements
for the Fire and Rescue Corporations

In the past several years, various administrative staff of the fire and rescue corporations have complained that the audited financial statement formats required by the County take additional work to prepare but do not clearly display the financial activity of the corporations. In addition, the usefulness of the statements has often been questioned since the statements show a mix of State and County funds.

KPMG Peat Marwick was requested by this office to review the issues and develop a reporting format for the corporations' audited financial statements that will be more useful to a variety of users. Enclosed for your information is a copy of the proposed format.

As part of this effort, Peat Marwick consulted with this office, staff at the Fire Commission, the Office of Management and Budget, and the Department of Finance, as well as with various administrative staff of the fire corporations.

If approved as proposed by Peat Marwick, only one statement would be presented in the auditors' report, which would be a simplified budget to actual report, while two previously required statements would be dropped. Instead of including a balance sheet prepared in accordance with the modified accrual basis of accounting, a schedule of changes to the fund balance would be included in the notes to the financial statements. These changes should not require any additional work on the part of fire and rescue corporation staff.

Unless there are serious objections, I would like to test the use of this reporting format for the upcoming audit. Since planning sessions for the audit are scheduled for October 19, 1994, please express your thoughts prior to (preferably) or at that meeting.

The input requested by October 19th is informal and should be handled by faxing a note to Nadean Pedersen of the Fire and Rescue Commission (217-2526). To allow your administrative staff time to review and consider the proposed reporting format, OLO is also sending a copy of the materials by fax directly to the administrative staff person of each fire and rescue corporation.

OLO will discuss the proposed reporting format with the Council's Management and Fiscal Policy (MFP) Committee in late November. In order to include your written comments in the Committee's packet for discussion, I will need to receive the comments by November 7, 1994.

If you have any questions regarding the written comments or the process to be followed, please call me at 217-7995. I will be out of the office from October 11 through October 24, 1994, but will be available after that time to answer any questions you may have.

JMP/cca
770/112

Enclosure

c: Neil Shorb, Executive Staff Director, FRC
Nadean Pedersen, Management and Budget Specialist, FRC



Montgomery County Government

MEMORANDUM

November 10, 1994

TO: Joan M. Pedersen, Audit Contract Administrator
Office of Legislative Oversight

FROM: George Giebel, Chairman *George Giebel*
Fire and Rescue Commission

SUBJECT: KPMG Peat Marwick Suggested Format for Audited
Financial Statements for the Fire and Rescue
Corporations

You have requested our comments on the subject financial statements in time to be included in the Management and Fiscal Policy Committee's packet for discussion.

The Commission welcomes any change to these statements that would make the corporations' review of them easier, or that would simplify the corporations' audit preparation. In the suggested format, the separation of tax fund and 508 fund accounting is a great improvement since combining them has caused confusion and misunderstanding in the past.

Also, we support the separation of expenditures into programs, since the corporations already prepare their budget requests in a program format, and will be reporting expenditures by program in the quarterly analyses that they prepare. In particular, by breaking out expenditures into programs, this report will make it easier for the corporations and the Commission to analyze program budgets relative to program expenditures.

To summarize, we believe that the proposed format is a good step toward making these reports more user-friendly. After gaining experience with the proposed format, other ideas for simplification may surface to further streamline the audit process and paperwork. Making these types of incremental improvements moves us in the right direction toward improving corporation audits overall.

We have received comments from only two corporations which were addressed to OLO as well. We support the suggestions made by one corporation that better communication during field work would

Montgomery County Fire and Rescue Commission

101 Monroe Street, Twelfth Floor, Rockville, Maryland 20850-2589
301/217-2461, TDD 217-4625, FAX 217-2526

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Ms. Joan M. Pedersen
November 10, 1994
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help resolve problems earlier, and early adjusting entries should be issued in a timely fashion. Unless other corporations have raised legitimate concerns directly to OLO about the proposed format which might delay its testing, the Commission supports your testing the use of this reporting format for the upcoming audit.

If you have any questions, please contact Neil Shorb at extension 2046.




Montgomery County Government

MEMORANDUM

November 15, 1994

To: Karen Orlansky, Director
Office of Legislative Oversight

From: Timothy L. Firestine, Director
Director of Finance 

Subject: KPMG Peat Marwick Suggested Format for Audited Financial Statements
for the Fire and Rescue Corporations

The Finance Department has reviewed the proposed format of Audited Financial Statements for the Fire and Rescue Corporations and has the following comments for your consideration:

- a. The Finance Department will provide the necessary fiscal year end information to the fire corporations prior to the end of August of each fiscal year. This will be achieved by changing the fiscal year end payroll accrual process. With the help of the upgrade of Financial Accounting and Management Information System (FAMIS) we may be able to make this date earlier but will not have any experience until this fall.
- b. The Finance Department has no objection to the format of the financial statements as long as we have the fiscal year end undesignated fund balance.

Thank you for giving me opportunity to review the proposed format in advance.

cc: Joan M. Pederson
Richard J. Duthoy

TLF/jmn
olo




Montgomery County Government

MEMORANDUM

November 3, 1994

TO: Joan Pederson, Audit Contract Administrator
Office of Legislative Oversight

FROM: Robert K. Kendal, Director
Office of Management and Budget 

SUBJECT: KPMG Peat Marwick Report: Study of Montgomery County's Process of Allocating Cash to the Fire and Rescue Corporations

Thank you for the opportunity to respond to this report. I understand that OMB staff have been involved in the process through discussions with your office and with staff from KPMG Peat Marwick. OMB's comments are divided into two sections: Comments regarding the study and comments regarding the new financial statement template being considered.

OLO NOTE

Comments in the first part of this letter relate to the KPMG Peat Marwick study on the cash allocation process. Those comments are included in the packet for MFP Committee # 3a.

New Financial Statement Template

OMB enthusiastically supports the new template. This template will provide more information than the current form and is consistent with OMB's program budgeting efforts. As with the Study, OMB recommends changing references to "appropriation" in the template to "distribution."

An additional piece of information that OMB would like to see in the audited statement is costs for training. One of the items requested by the State in its 508 reporting requirements is a breakout of training costs. Unfortunately, training at the corporation level is not a program, but rather a piece of many different programs and may be difficult to define, much less break out separately.

OMB also supports the November 30th issuance date for the audited financial statements. This deadline will allow OMB to transmit the audited statements and the State "508" report together and on time to the State of Maryland.

OMB looks forward to working with your office to implement the recommendations of the Study and supports your ongoing efforts to improve the audit process. If you have any questions please contact Keith Levchenko of OMB at 217-2781.

Carl R. Ayton

Certified Public Accountant

November 1, 1994

Ms. Joan M. Pedersen
Office of Legislative Oversight
Montgomery County Government
100 Maryland Avenue
Rockville, Maryland 20850

RE: Two memorandum of October 7, 1994

Dear Ms. Pedersen:

I have been requested by the five departments, Gaithersburg-Washington Grove, Rockville, Takoma Park, Hyattstown and Laytonsville to comment on the memoranda concerning proposed changes to the financial and Peat Marwick's report on the allocations of cash.

I agree that the current financial statement presentation format is confusing to the trained professional and certainly confusing to those that not trained in its understanding. To that end, I agree that there needs to be developed a report that is informative to the user.

I have studied the new proposed presentation. I believe that this is a step in the right direction but I find that it is still flawed. The following are my observations:

A) The purpose of the new statement is to enable the departments to ready themselves for the audit by simply going through the simple year-end closing process of their corporate financial records. This would "not require any additional work on the part of fire and rescue corporation staff". However, the Statement of Revenues and Expenditures - Budget and Actual for audit purposes is different from the same report that is the operating statement under which the departments operate normally because the departments are being required not to give recognition to Interest earned during the year and Miscellaneous Revenues received during the year. This amounts are being required to be recognized as changes to Undesignated Fund Balance in the schedule to the financial statement.

This would tend to influence the departments not to consider these items as current operating activities. We should not lose sight of the fact that the recorded

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financial activity is used for the preparation of tax reports to the Federal government.

B) The inclusion of the Budget analysis for State Grant Funds should be eliminated from this statement. Since the budget appropriation of a particular item could spread over several years of grants, it makes this schedule superfluous. The intent of the inclusion of the Grant activity is to have the department give an accounting for State Grant Funds. Therefore, a simple schedule showing the current years activity and the reconciliation of the Restricted Fund Balance, which is included in the auditors notes to the financial statement, is all that is necessary.

C) (1) The "Notes to Financial Statement" paragraph (1)(a) is inaccurate as to the method of accounting used by those departments that I serve. These departments use the budgetary method to record revenues when received and expenses are incurred. Therefore, revenues from tax appropriations are accounted for in the year to which they apply. Miscellaneous Revenues are recorded when received. Interest is recorded when earned or when posted to the account.

Expenditures are recognized when incurred not when paid.

The results of current years activity would include the receivables that might be due the corporation from the County at year end. Likewise all payables would be recognized. Using this method of accounting, the reconciliation of Fund Balance as presented would not be appropriate for these departments.

(2) I don't feel the format of the schedule cures the current problem of having the tax activity fund balance commingled with or confused with the State Grant fund balance. First you have split the two columns applicable to tax activity with the column reconciling the grant monies. Secondly, the schedule in requiring the three fund balance columns to be totaled together.

(3) A space should be inserted after the increases in fund balance to reflect "Excess expenditures over revenues".

Finally, the memorandum indicated that a trial of the new method of reporting be tested on the 1994 audit. I do not agree that this would be feasible for two reasons. First, there are too many unresolved issues surrounding its presentation to be resolved in time not to delay the issuance of the audit reports in somewhat of a timely manner. Secondly, the format that is being required in a complete change from the format that the corporations have maintained their records for the year. In addition, it requires the inclusion of payrolls and fringe into separate categories from which the 405's have been reporting throughout the year. There the extrapolation and reclassification that is required would delay the audit process. This would in turn cause the reports to be issue later than in years past. This delay is already a source for discontent with not only the

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County but also the corporations.

Since I was afforded the time to offered my constructive criticism, I would be remiss not to offer my corrective suggestions. It appears from the content of the statement the user is interested in three pieces of information, the corporation's performance within the constraints of the budget; how much money does the corporation have to fund future budget requests; and what is the corporation doing with the State Grant monies. As I observe, the County has little interest in how the corporation expended these fund because of the new report format. Therefore, I would offer a statement that would accomplish all three in a simple non-confusing report. The audit could be lessened in scope and shortened in duration.

FIRE DEPARTMENT
Statement of Revenues and Expenditures - Budget and Actual
Year Ended

	<u>Budget</u>	<u>Actual</u>	<u>Budget Variance</u>
Fire Tax District Funds			
Revenues			
Tax Allocation			
Miscellaneous			
Interest	_____	_____	_____
Expenditures	_____	_____	_____
Excess of Revenues over Expenditures	_____	_____	_____
Prior Year Undesignated Fund Balance			
Designated Fund Balance	_____	_____	_____
Unreserved/Undesignated Fund Balance	_____	_____	_____
 State Grant Funds			
Revenues			
State Grant Funds			
Interest		_____	
Total Revenues		_____	
Expenditures			

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Operating Expenditures
Capital Outlay

Excess of Revenues over Expenditures for
State Grant Funds

Fund Balance Beginning Year

Fund Balance End of Year

The corporations would provide for audit a schedule of prior encumbrances used and paid, a schedule of current year's encumbrances and a schedule of accounts payable to be audited.

This is a much simpler way of presenting what is useful plus it only requires the corporation to make one additional entry to its budgetary financial records and that is an entry to recognize the current years encumbrances. During the year, the corporation will have made the reversing entry to reflect the prior years encumbrances which became expenditures in the current year.

OLO NOTE

Comments in the remainder of this letter relate to the new format for fire and rescue corporation financial statements and notes. Those comments are included in the packet for MFP Committee # 3a.

cc: Gaithersburg-Washington Grove Fire Dept., Inc.
Rockville Volunteer Fire Dept., Inc.
Laytonsville District Volunteer Fire Dept., Inc.
Takoma Park Volunteer Fire Dept., Inc.
Hyattstown Volunteer Fire Dept., Inc.



LAYTONSVILLE VOL. FIRE DEPT.
21400 LAYTONSVILLE ROAD
LAYTONSVILLE, MD 20879
OFFICE - 948-0773 - EMERGENCY DIAL - 911

MEMORANDUM

November 3, 1994

TO: George Giebel, Chairman
Fire and Rescue Commission

FROM: Clark Beall, President

SUBJECT: KPMG Peat Marwick Report

Our opinions and suggestions are incorporated in the letter you will be receiving (if you haven't already) from Carl Ayton, our CPA; please regard his suggestions and comments as ours. Thank you.

cc: Joan Pedersen, OLO


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SANDY SPRING VOLUNTEER FIRE DEPARTMENT, INC.

MEMORANDUM

TO: George Giebel, Chairman
Montgomery County Fire and Rescue Commission

Joan M. Pedersen, Audit Contract Administrator
Montgomery County Office of Legislative Oversight

FROM: Stephen C. Lamphier, Vice President 

DATE: November 4, 1994

RE: KPMG Suggested Format for Audited Financial Statements.
KPMG Cash Allocation Study.

Sandy Spring generally concurs with the comments made by Mr. Carl Ayton, CPA for five of the Fire and Rescue Corporations. Sandy Spring would like to emphasize two points:

- o The field auditor(s) must communicate with the Corporation staff during field work. This should include immediate communication when a problem is found, so that an attempt may be made to solve the problem on site. This communication should also include an exit conference before the auditor leaves the premises.
- o Any adjusting entries made by the field auditor should be issued to the Corporations as soon as possible, either before the draft financial statements are issued or at the time the draft financial statements are issued. The books can not be closed until these entries have been made.

Sandy Spring believes that its FY 92 audit issues could have been resolved, at least partially, at the time of the audit, rather than carrying those issues in to FY 94, which resulted in a lengthy process to get an administrative adjustment made to the books.


If I can be of additional assistance, please contact me. Thank you for your continued interest in this matter.

HYATTSTOWN VOLUNTEER FIRE DEPARTMENT, INC.

MEMORANDUM

TO: George Giebel, Chairman
Montgomery County Fire and Rescue Commission

Joan M. Pedersen, Audit Contract Administrator
Montgomery County Office of Legislative Oversight

FROM: Steve Lamphier, Administrator 

DATE: November 4, 1994

RE: KPMG Suggested Format for Audited Financial Statements.
KPMG Cash Allocation Study.

Hyattstown generally concurs with the comments made by our CPA, Mr. Carl Ayton. If I can be of additional assistance, please contact me.