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August 30, 2013

Mr. Charles Breiner, Chairman
Members of the Board of Fire Commissioners
Claryville Fire District
P.O. Box 22
Claryville, NY 12725

Report Number: 2013M-167

Dear Mr. Breiner and Members of the Board of Fire Commissioners:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage local government officials to reduce costs, improve service delivery, and to account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Claryville Fire District (District) which addressed the following question:

- Did the District establish adequate controls to ensure that financial activity is properly recorded and reported and to safeguard District moneys?

The results of our audit have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background and Methodology

The Claryville Fire District (District) is a district corporation of the State, distinct and separate from the Town of Neversink located in Sullivan County. The District's general fund budget totaled \$185,551 for the 2013 fiscal year.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The Board appoints a Treasurer who acts as the District's chief fiscal officer. The Treasurer is responsible for the receipt and custody of District funds, for disbursing and accounting for those funds, for preparing monthly and annual financial reports, and for meeting any other reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2012, to May 3, 2013. We interviewed appropriate District officials and reviewed financial records and Board minutes. We conducted this performance audit in accordance with 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.

Audit Results

The Board is responsible for overseeing the District's fiscal activities and safeguarding its resources. The Board is responsible for establishing policies and procedures that ensure transactions are authorized and properly recorded, that financial reports are accurate and reliable, and that the District complies with applicable laws, rules and regulations, including the General Municipal Law (GML) requirement for a purchasing policy, investment policy and code of ethics.

The Treasurer must maintain complete, accurate and timely records to account for the District's financial activities. The Treasurer should reconcile the District's accounting records to the bank statements on a monthly basis. The Treasurer should also prepare and submit monthly reports to the Board, and prepare and submit annual financial reports of the District's financial condition to the Office of the State Comptroller. Annual financial reports provide the Board with necessary information to monitor District operations and provide other interested parties with a summary of the District's financial activities. The Board is responsible for performing a thorough audit of claims before they are paid to ensure they are supported and that District funds are used for only legitimate District expenditures. Lastly, the Board is authorized to perform, or contract for, an annual audit of the Treasurer's records.

While the Board has adopted a code of ethics, it has not adopted an investment policy or a procurement policy. The Board also has not ensured that procedures are in place for financial recording and reporting. As a result, although the Treasurer did submit monthly financial reports to the Board, they were not complete because the Treasurer had not reconciled the cash and bank balances as described below. The Board authorizes each claim for payment and its members indicate their approval by affixing their signatures on the warrant. The Board minutes also indicate the Board's approval to pay claims. However, the Board members were not provided with a list of check numbers to allow the Board to verify that checks are used sequentially and accounted for. Such a record would provide more support for the disbursements made. The Board also does not perform, or contract for, an annual audit of the Treasurer's records.

Finally, while the Treasurer maintained cash balances showing increases and decreases for checking and saving accounts, he did not reconcile those cash balances to the monthly bank statement balances. We asked the Treasurer to provide a reconciled balance for the year ending December 31, 2012. When the Treasurer attempted to compile this information, he told us he realized that the cash balances on his previously filed 2012 annual financial report were too high because of outstanding checks that he did not account for totaling approximately \$4,700. Further, we compiled a list of all check numbers and found 12 missing from the sequence that had not been presented to the bank. While we did determine that these 12 checks were voided and defaced, without a list of check numbers or monthly bank reconciliations, there is a heightened

risk that errors and/or irregularities could occur and not be detected and corrected in a timely manner.

We selected of all 39 check disbursements totaling \$29,914 from January 1, 2013, through February 28, 2013,¹ and found that the disbursements appeared to be for proper District purposes. However, there were minor discrepancies with the supporting documentation that we communicated to District officials. We also verified that cash receipts recorded by the Treasurer in the accounting records were deposited in the District's bank account. Although the disbursements appeared to be for proper District purposes, disbursing District funds without proper support or Board oversight does not adequately safeguard District moneys and could lead to future problems.

Recommendations

1. The Board should ensure that formal written policies and procedures are in place for financial recording and reporting.
2. The Board should adopt an investment and procurement policy.
3. The Treasurer should reconcile the District's accounting records to the bank statements on a monthly basis, and follow up on any differences.
4. The Board should perform, or contract for, an annual audit of the Treasurer's records.

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 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. The Board should make the CAP available for public review in the District Secretary's office.

Sincerely,

Andrew A. SanFilippo
Executive Deputy Comptroller
Office of State and Local Government
Accountability

¹ The two most recently completed months

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Claryville Fire District
PO Box 22
Claryville, NY 12725

August 22, 2013

Andrew A. SanFilippo
Executive Deputy Comptroller
Office of State and Local Government
Accountability

Dear Andrew:

On behalf of the commissioners of the Claryville Fire District I am writing to respond to the draft of the audit letter we received from your office dated July 24, 2013. The Board of Fire Commissioners agrees with the findings contained in the audit. This response also serves as the corrective action plan. This plan has been approved by the Board.

The plan of action to comply with the audit is as follows. In regards to items 1 and 2 listed under recommendations, we will be developing these policies and procedures and have them approved and in place at the Organizational Meeting in January 2014. And then each subsequent year at the organizational meeting will review, improve if needed and then approve for that year.

In regards to item 3, this will be incorporated as part of the monthly treasurer report and be presented at the District Meeting on a monthly basis. This will be put into place by October 2013.

In regards to item 4, we are inquiring on the cost to have an outside audit firm perform the audit and this will be implemented in 2014.

Respectfully:

Charles M. Breiner
Chairman of the Board