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July 12, 2013

Mr. Steve Laubmeier, Chairman
Members of the Board of Fire Commissioners
Jefferson Fire District
207 Creamery Street
Jefferson, NY 12093

Report Number: 2013M-101

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

One of the Office of the State Comptroller's (OSC) 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 account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Jefferson 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 when preparing this report.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town of Jefferson and located in Schoharie County. The District's general fund budget totaled approximately \$234,000 for the 2012 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 March 18, 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. To fulfill this duty, it is essential that the Board establish a system of internal controls, which consists of policies and procedures that ensure that transactions are authorized and properly recorded; that financial reports are accurate, reliable, and filed in a timely manner; 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 all of the District's financial activities properly. Additionally, the Treasurer should reconcile the District's accounting records to the bank statements on a monthly basis. The Treasurer should prepare and submit monthly reports to the Board and is required to prepare and submit an annual financial report of the District's financial condition to OSC within 60 days after the close of the fiscal year. This report is an important fiscal tool which provides the Board with necessary information to monitor District operations and provides other interested parties with a summary of the District's financial activities. The Board is also responsible for performing a thorough audit of claims before they are paid to ensure that claims are supported and the District's funds are used for legitimate District expenditures. Lastly, the Board is responsible for performing an annual audit of the Treasurer's records.

The District does not have adequate financial policies and procedures. While the Board has adopted purchasing and code of ethics policies, it has not adopted an investment policy, as required by statute. The Board also has not ensured that procedures are in place for financial recording and reporting. We found that the Treasurer did not submit monthly financial reports to the Board, but has filed the required annual financial report as of fiscal year 2011¹ with OSC. The Board does authorize each claim for payment and indicates its approval by affixing each member's signature on the warrant. Board minutes, however, do not consistently indicate the approval to pay these claims, which would provide a record to support the disbursements made. The Board does conduct an annual audit of the Treasurer's records by contracting with an independent auditor to perform such an audit.

Finally, the Treasurer was not maintaining accurate cash balances for the District's checking and savings accounts. Bank reconciliations were not performed consistently for all accounts and, when completed, they were not done properly. The Treasurer does not know how to use the District's accounting program to properly complete reconciliations. The Treasurer was not factoring in outstanding checks, fees, or other reconciling items to ensure the District's records

¹ As of the completion of our fieldwork, the District had filed for an extension to submit its 2012 fiscal year-end annual financial report with OSC.

of cash match the bank account balances. This process was sufficient for the District's other accounts because there was little to no activity except for small interest earnings that the Treasurer was recording in the accounting software. We reviewed these reports for the general checking account printed during the months of December 2012 and February 2013 and found that the accounting records were inaccurate and did not match the cash account balance or the bank statements. For example, the February 2013 report disclosed \$4,500 more in the accounting records than actual cash in the bank. Because of these inaccuracies, District officials do not know the true financial position of the District and cannot make informed financial decisions.

Due to the deficiencies in the District's financial reporting and inaccurate accounting records, we reviewed all 266 check and petty cash disbursements from January 1, 2012, through March 18, 2013. We also verified that the cash receipts recorded by the Treasurer in the accounting records were deposited in the District's bank accounts. We found the Treasurer disbursed three payments for \$1,250 without proper support. These three checks were for rent on a radio tower, renewal of Firemen's Association of the State of New York (FASNY) membership dues, and a bank transfer to petty cash. In addition, we found seven (out of 18) petty cash payments for \$909 were made without proper support. These were for training classes, paint for the meeting room, ladder hooks, stamps, and food for Election Day officials. Although these disbursements appeared to be for proper District purposes, disbursing District funds without proper support does not adequately safeguard District moneys. These control deficiencies expose the District to the risk that errors and/or irregularities could occur and not be detected and corrected in a timely manner.

Recommendations

1. The Board should adopt an investment policy.
2. The Board should ensure that formal written procedures are in place for financial recording and reporting.
3. The Treasurer should reconcile the District's accounting records to the bank statements monthly and follow up on any differences.
4. The Treasurer should ensure that all District disbursements are properly supported.

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 Secretary's office.

Sincerely,

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

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Jefferson Fire District
207 Creamery Street Jefferson, NY 12093



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BOARD OF FIRE COMMISSIONERS
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Jefferson Fire District
Audit Report Title: Audit of Jefferson Fire District
Audit Report Number: 2013M-101

This audit response is also serving as the CAP. The Members of the Board of Fire Commissioners of the Jefferson Fire District agrees with all of the audit findings as described in the report numbered above.

For each recommendation included in the audit report, the following is our corrective actions taken or proposed. There are no recommendations where corrective action has not been taken or proposed.

Audit Recommendation:

The Board should adopt an investment policy.

Implementation Plan of Action:

The Board Treasurer, Fred Stein, CPA has been tasked with researching and drawing up an investment policy so that the full Board may discuss, modify if necessary, and then approve.

Implementation Date:

It is expected that an investment policy will be drawn up and implemented by the September 2013 board meeting.

Person Responsible for Implementation:

Fred Stein, CPA will prepare and the Board will modify, if necessary, and approve.

Audit Recommendation:

The Board should ensure that formal written procedures are in place for financial recording and reporting.

Implementation Plan of Action:

The Board Treasurer, Fred Stein, CPA has been tasked with researching and drawing up formal written procedures for financial recording and reporting, so that the full board may discuss, modify if necessary, and then approve.

Implementation Date:

It is expected that formal written procedures will be drawn up and implemented by the October 2013 board meeting.

Person Responsible for Implementation:

Fred Stein, CPA will prepare and the Board will modify, if necessary, and approve.

Audit Recommendation:

The Treasurer should reconcile the District's accounting records to the bank statements monthly, and follow up on any differences.

Implementation Plan of Action:

The Board hired a new Treasurer, Fred Stein, CPA. He owns a tax and accounting firm and has previous experience auditing governmental entities. As of May 31, 2013 all bank accounts have been reconciled and will continue to be reconciled on a monthly basis. Any discrepancies will be followed up on.

Implementation Date:

Bank reconciliations have been done on all bank accounts as of May 31, 2013 and will continue to be reconciled timely every month going forward.

Person Responsible for Implementation:

Fred Stein, CPA will reconcile the accounts monthly.

Audit Recommendation:

The Treasurer should ensure that all District disbursements are properly supported.

Implementation Plan of Action:

The Board Treasurer, Fred Stein, CPA has been tasked with making sure that all District disbursements are properly supported.

Implementation Date:

Beginning June 1, 2013, Board Treasurer, Fred Stein, CPA reviews all disbursements for proper documentation prior to printing a check. In those instances where a Board member needs to write a check, they have been instructed that no check can be written without proper supporting documentation.

Person Responsible for Implementation:

Fred Stein, CPA will be responsible for all checks that are prepared by him and the Board will submit all other documentation as required.

Signed

Steve Laubmeier
Chairman

7-2-13

Date