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January 25, 2012

Mr. Douglas Eddy, Chairman  
Board of Fire Commissioners  
Lincoln Fire District  
PO Box 76  
Clockville, NY 13043

Report Number: 2012M-228

Dear Mr. Eddy 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 account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Lincoln 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 and recommendations 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 plan to initiate corrective action.

### **Background and Methodology**

The Lincoln Fire District is a district corporation of the State, distinct and separate from the Town of Lincoln in Madison County. The District's general fund budget totaled about \$136,000 for the 2012 fiscal year.

The Board of Fire Commissioners (Board) consists of five elected members who are responsible for the District's overall financial management. The District has an elected Treasurer who has been appointed Secretary (Secretary-Treasurer) and is responsible for the receipt, custody, and disbursement of and accounting for District funds and for preparing monthly and annual financial reports and other reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2011, to August 31, 2012. We expanded the scope of our audit back to January 1, 2009, to review prior years' financial trends and back to January 1, 2010, to review reserve fund activity. We interviewed 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 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. A code of ethics establishes standards of conduct reasonably expected of officers and employees, and an investment policy provides guidance to officers and staff regarding the types of investments the District can use and the monitoring, securing, and reporting requirements for those investments.

The Treasurer must maintain complete, accurate, and timely records to account for all of the District's financial activities properly. This includes maintaining separate accounting records for each capital reserve fund showing amounts paid into the funds, interest earned, disbursements, and remaining balances. 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 the Office of the State Comptroller (OSC) within 60 days after the close of the fiscal year. This report is an important fiscal tool, which provides the Board with information necessary to monitor District operations. The Board is responsible for performing a thorough audit of claims before they are paid to ensure that District funds are used for legitimate District expenditures.

We found that the Board generally provides adequate oversight of District financial activities. The Board signed claims to indicate its audit and approval for the payment of the claims and passed resolutions to authorize the payment of the bills. The Board Chairman told us that the Board also conducts an internal review of the Secretary-Treasurer's financial records, bank statements, and canceled checks two or three times throughout the year. However, District officials could not provide us with any written evidence of this review. Also, the Secretary-Treasurer submitted detailed monthly financial reports to the Board, but did not file the required annual financial reports with OSC for the 2009, 2010, and 2011 fiscal years. As a result, the Board and the public do not have these reports available as a fiscal tool to monitor the District's financial affairs.

The Board was unable to provide us with an adopted investment policy and a code of ethics, which are required by law. Because the District has not adopted a code of ethics and investment

policy, officers and employees may not be aware of their duties and responsibilities in these areas.

As of August 31, 2012, the District reported an equipment capital reserve totaling \$324,836 and a building capital reserve totaling \$227,122. Although the Secretary-Treasurer shows capital reserve fund activity and balances in the monthly financial reports that he provided to the Board, he does not maintain accounting records for each reserve fund as required. As a result, there is no record showing a running balance of reserve fund cash and investments, which makes it more difficult for the Board to monitor reserve fund financial activity.

We reviewed the activity in the reserve funds from January 1, 2010, to August 31, 2012, by examining money market and certificate of deposit bank records. During this period, the Board financed the reserves with budgetary appropriations, operating surplus at the end of the year, and interest income, totaling \$71,873 for the equipment reserve and \$118,429 for the building reserve. The District did not make any expenditures from the reserve funds during this time period.

We also reviewed 30 check disbursements<sup>1</sup> from the general fund totaling \$24,253, and all bank account transfers totaling \$253,819, that were made within our audit period. Generally, we found that the financial activity was properly supported and disbursements appeared to be for legitimate District purposes. We discussed some minor deficiencies with District officials during our audit fieldwork.

## **Recommendations**

1. The Board should document its periodic reviews of the Secretary-Treasurer's records.
2. The Board should ensure that the Secretary-Treasurer prepares and files annual financial reports with OSC within 60 days after the close of the fiscal year.
3. The Board should adopt an investment policy and a code of ethics as required by law.
4. The Board should require the Secretary-Treasurer to maintain separate accounting records for each reserve.

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 within 90 days of receipt of this report, and forwarded to our office. 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

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<sup>1</sup> We randomly selected 20 claims totaling \$6,316 to review. We selected an additional 10 claims totaling \$17,937 based on high-risk factors, such as large dollar amounts, unrecognized vendors, and payments to District officials or their spouses.

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-Treasurer's office.

Sincerely,

Steven J. Hancox  
Deputy Comptroller  
Division of Local Government  
And School Accountability

**APPENDIX A**

**RESPONSE FROM DISTRICT OFFICIALS**

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

Lincoln Fire District  
P.O. Box 60  
Clockville, New York 13043

January 14, 2013

[REDACTED]  
Office of the State Comptroller  
State Office Building, Room 409  
333 East Washington Street  
Syracuse, New York 13202

**Re:** Response to audit of the Lincoln Fire District, Rep. # 2012M-228


Dear [REDACTED]

The Board of Commissioners of the Lincoln Fire District has reviewed the draft report of the above-referenced audit of the operations of the Fire District and is in broad agreement with its findings and has in turn initiated steps to address the four recommendations that were contained in the preliminary report.

1. The District Treasurer will prepare a procedural directive for consideration by the board to formalize the conduct of periodic reviews of the fiscal records of the district by the board of commissioners in accordance with the auditor's recommendation.
2. Plans are underway to employ an accountant to assist the Board in the preparation and filing of the required Annual Financial reports.
3. Examples of "best practices" are being sought to guide the District's development of an investment policy and a code of ethics.
4. Alterations to our current accounting practices have already been developed to track the ongoing activity of the District's reserve accounts and monthly reports will be provided starting with January 2013's monthly financial reports.

The board is committed to maintaining a determinedly responsible and transparent oversight of the public funds that finance the District's operations. The audit process and the interactions with your staff have provided both reassuring ratification of the vast majority of our current practices and useful suggestions for improvements in our operations that will undoubtedly improve the functioning of our organization.

Sincerely,

 Joseph De Francisco, Secretary/Treasurer  
Lincoln Fire District