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November 29, 2013

Keith Smith, Chairman
Members of the Board of Fire Commissioners
Swan Lake Fire District
52 Stanton Corners Road
Swan Lake, NY 12783

Report Number: 2013M-258

Dear Mr. Smith 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 Swan Lake 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 findings and indicated they planned to initiate corrective action.

Background and Methodology

The Swan Lake Fire District (District) is a district corporation of the State, distinct and separate from the Towns of Liberty and Bethel, and is located in Sullivan County. The District's general fund budget totaled \$264,600 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 Secretary-Treasurer who acts as the District's chief fiscal officer. The Secretary-Treasurer is responsible for receiving and

maintaining custody of District funds, disbursing and accounting for those funds, preparing monthly financial reports to the Board, recording meeting minutes and meeting any other reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2012, to June 27, 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 consisting 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, including the General Municipal Law (GML) requirement for a purchasing policy, investment policy and code of ethics.

The Secretary-Treasurer must maintain complete, accurate and timely records to properly account for all of the District's financial activities. Additionally, the Secretary-Treasurer should reconcile the District's accounting records to the bank statements on a monthly basis. The Secretary-Treasurer should prepare and submit monthly reports to the Board. This annual financial report is an important fiscal tool which provides the Board with necessary information to monitor District operations, and it 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 District funds are used for only legitimate District expenditures. Lastly, the Board is authorized to perform, or contract for, an annual audit of the Secretary-Treasurer's records.

The Board has adopted purchasing and code of ethics policies, as required. The Secretary-Treasurer performed all aspects of both the disbursements and receipts functions. The Board provided adequate compensating controls because it audited claims, reviewed bank statements and hired an external auditor to audit the Secretary-Treasurer's books each year. We reviewed 10 of 322 check disbursements totaling \$28,823 and found that these disbursements appeared to be for proper District purposes. However, the Board's oversight of the District's purchasing process could be improved because one of these purchases, totaling \$9,999, which represented the final payment of a \$29,997 equipment installment purchase contract, was not competitively bid,¹ as required. Although the Board Chairman informed us it was bid, we were not provided any documentation to support this. We also tested all cash receipts, comprised of eight transactions totaling approximately \$529,600, which included real property tax revenue, foreign fire

¹ General Municipal Law requires officials to competitively bid purchase contracts exceeding \$20,000 and public works contracts involving expenditures exceeding \$35,000.

insurance, insurance payments and hall rental fees for the scope period. We found that the cash receipts were properly deposited in the District's bank account.

The Board has not adopted an investment policy, as required by statute. The Board did not provide adequate oversight over investing District money, budget monitoring and financial recording and reporting. The Secretary-Treasurer submits a budget-to-actual financial report to the Board at the start of the budget process, but not throughout the fiscal year. The Secretary-Treasurer reconciles the bank accounts on a monthly basis. However, when we performed bank reconciliations for December 31, 2012, and May 31, 2013, and found that, for both months, the book balance of one account was \$1,000 higher than the corresponding bank balance, the discrepancy could not be explained.

Without proper Board oversight, District moneys are not adequately safeguarded, which could inhibit the timely detection of errors and irregularities and the proper assessment of the District's financial position.

Recommendations

1. The Board should ensure that all applicable purchases comply with competitive bidding requirements prior to approving the contracts.
2. The Board should adopt an investment policy.
3. The Secretary-Treasurer should provide the Board with budget status reports on a monthly basis.
4. The Secretary-Treasurer should reconcile the District's accounting records to the bank statements monthly and follow up on any differences.

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-Treasurer's office.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

SWAN LAKE FIRE DISTRICT

P.O. Box 269

Swan Lake, New York 12783-0269

TO

[REDACTED]

The SWAN LAKE Fire District HAS A Procurement Policy
IN EFFECT

ON NOV. 5, 2013 WE ADOPTED AN INVESTMENT POLICY
IT PASSED BY 5 YES VOTES 0 NO VOTES

The Secretary Treasure Will Provide Budget Status Reports
MONTHLY IF REQUESTED BY ANY OR ALL COMMISSERS.

Reconciling of BANK RECORDS ARE ON THE COMPUTER. AS WE CAN
HAVE THEM WHEN REQUESTED.

The LAST TWO ITEMS ARE DONE THIS WAY
SO WE DON'T WASTE PAPER. THAT ALSO COST TAXPAYERS
MONEY

Respectfully Submitted

Keith Smith
Board Chairman