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June 7, 2013

Mr. E. Allen Jackson, Chairman  
Members of the Board of Fire Commissioners  
Sylvan Beach Fire District  
Vienna Road  
Sylvan Beach, NY 13157

Report Number: 2013M-76

Dear Mr. Jackson 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 Sylvan Beach Fire District which addressed the following question:

- Are District controls adequate to ensure that financial activity is properly recorded and reported and that District moneys are safeguarded?

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. District officials generally agreed with our recommendations and indicated they have begun to take corrective action.

### **Background and Methodology**

The Sylvan Beach Fire District (District) is a district corporation of the State, distinct and separate from the Towns of Vienna and Verona, and located in Oneida County. The District's general fund budget totaled \$189,933 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 Secretary-Treasurer who acts as the District's chief fiscal officer. The Secretary-Treasurer is responsible for receiving and maintaining 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 December 31, 2012. 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 transactions are authorized and properly recorded; financial reports are accurate, reliable, and filed in a timely manner; and that ensure the District complies with applicable laws, rules and regulations.

The Board needs to improve its oversight of District financial activities. The Board did not ensure that the Secretary-Treasurer maintained complete and accurate financial information to provide the information necessary to develop accurate budgets and to properly monitor the District's operations. The Board has not adopted a code of ethics or an investment policy. Finally, the Board did not properly audit claims and ensure that payroll procedures and payments were appropriate. As a result, District resources were at risk of misuse without being detected or corrected.

Records and Reports – The Secretary-Treasurer is required to prepare and submit an annual financial report to the Office of the State Comptroller within 60 days after the close of the fiscal year. Town Law authorizes the Board to conduct an annual audit of the Secretary-Treasurer's records. The Secretary-Treasurer should maintain complete, accurate and timely records to account for all of the District's financial activities. It is also important that the Secretary-Treasurer prepare and submit monthly reports to the Board showing budget-to-actual activity to provide the necessary information to monitor District operations.

The Secretary-Treasurer has not filed an annual financial report with the Office of the State Comptroller since 2007. The Board did not conduct an annual audit of the Secretary-Treasurer's records as authorized by Town Law. The Secretary-Treasurer does not track cash balances in a check book register or in general ledger cash accounts and does not maintain subsidiary revenue or expenditure ledgers. The only records prepared are monthly reports. Although these monthly reports summarize receipts and disbursements and show cash balances in the District's three bank accounts as of a certain point in time each month,<sup>1</sup> they are not a sufficient substitute for accounting records because they do not show running cash balances or year-to-date revenues and expenditures by account code.

In addition, the Secretary-Treasurer does not complete monthly bank reconciliations to ensure that the balances being reported to the Board are accurate. We attempted to reconcile the District's banks accounts to the cash balances on the November 26, 2012, monthly report to the Board. We were able to reconcile the capital reserve and savings bank accounts. The adjusted bank balance in the general fund checking account exceeded the cash balance reported by the Secretary-Treasurer in the monthly report by about \$3,200. This difference is partly attributable to the Secretary-Treasurer deducting gross payroll amounts from the cash balance and deducting payroll taxes withdrawn from the general fund checking account by the private payroll contractor. This double accounting for expenditures has led to inaccurate cash balances in the monthly reports.

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<sup>1</sup> Reported cash balances are usually as of a day or two before the monthly Board meetings.

Budgeting – The annual budget is perhaps an entity’s most vital document and should be developed using all of the most current and accurate information available. The District should retain a reasonable level of unexpended surplus funds as a financial cushion in the event of unforeseen financial circumstances. Capital reserve funds are established by fire districts (and other local governments) to accumulate money for certain, usually large, future capital expenditures.

Due to the deficiencies in the Secretary-Treasurer’s recordkeeping, accurate monthly budget-to-actual report could not be produced for the Board to review. These reports are important tools because they allow the Board to monitor the District’s budget. They could also aid in budget development because they would provide the Board with the actual revenues and expenditures for each account – information which is not currently available to the Board. We found the following deficiencies in the District’s 2012 annual budget:

- Although the District’s bond payments for the 2012 were approximately \$49,000, the District appropriated \$70,000 for bond payments which added \$21,000 of unnecessary appropriations to the 2012 budget. In preparing an annual budget, debt service schedules should be reviewed to determine the principal and interest expenditures for the upcoming year.
- District officials budgeted a \$15,000 transfer into the capital reserve fund; however, even though funds were available, the Board did not transfer the money into the reserve.
- The general fund cash balance had grown to approximately \$100,000.<sup>2</sup> The 2013 budgeted appropriations are also \$189,933; however, the District did not apply any of its available cash surplus to finance the budget. This means that the District’s available cash surplus as of December 31, 2012, was more than 50 percent of the ensuing year’s budget.
- District officials provided us with documents showing that they have accepted a bid and plan to purchase an emergency medical services (EMS) vehicle in the spring of 2013 with approximately \$70,000 of the excessive fund balance. The Board did not include this anticipated vehicle purchase in its 2013 budget. Therefore, the District’s planned use of these funds was not transparent to the public during the budget process. In March 2013, the District held a special election, and the voters ultimately approved the purchase. District officials will not be using reserve funds at this time.
- District budgets do not contain an appendix, which should show projected fund balance and reserve fund balances, as required by Town Law.

The Board needs to improve its monitoring of the District’s budget and adopt more realistic budgets to prevent future excessive fund balances. If District officials had been monitoring their budgets, they might have realized their budgets were not based on actual expenditures and might not have accumulated such an excess of fund balance.

Policies – 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

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<sup>2</sup> The \$100,000 fund balance is the combined adjusted bank balances of the District’s general fund checking and savings account as of December 31, 2012. The balance of the capital reserve fund was approximately \$44,000 as of December 31, 2012.

investments the District can use and the monitoring, securing, and reporting requirements for those investments.

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.

Claims Processing – The Board should establish controls to ensure that all claims are authorized and for legitimate District purposes. The Board is generally required to audit all claims against the District before they are paid.<sup>3</sup> The District should request check images from the bank and compare the amounts and payees to the Board-approved abstract to ensure that all payments are appropriate.

The Board did not conduct a thorough and deliberate audit of claims as required. During our audit period, the District's bank did not provide canceled checks or check images for the District's checking account. Without canceled checks or images, the Board does not have the ability to verify that payments were made as indicated on the claims.

Due to these deficiencies, we reviewed all bank statements for any non-check withdrawals or electronic transfers and requested copies of check images from the bank for the audit period. We also examined 47 disbursements totaling \$30,662.<sup>4</sup> We found one disbursement, totaling \$2,900, that lacked adequate supporting documentation. The payment was to a fire equipment dealer. However, because there was no invoice attached to the claim, District officials could not verify what was purchased.

Payroll Processing – The District should not provide a payroll vendor with unrestricted access to a District bank account. Employees should be compensated based on Board-approved wages, and all employee compensation should be included in their wage statements.

Each month, the Secretary-Treasurer notifies a private payroll services contractor of the hours that each employee worked. The District uses the same checking account for all disbursements, including payroll and non-payroll items. Although the custody and disbursement functions are vested in the Secretary-Treasurer by statute, the private contractor accesses the District's bank account and withdraws enough funds to cover payroll taxes and for fees for its services without submitting claims for audit and approval. By allowing direct access to the District's bank account, the Board is exposing District funds to a greater risk of unauthorized transfers, and it is unable to determine if payroll taxes are paid in a timely manner.

The Secretary-Treasurer, bookkeeper/grant writer, and cleaner were paid a total of \$5,485 in wages during the 2012 fiscal year. We found no documentation in the Board minutes setting the salary or hourly rates for these three employees. The Secretary-Treasurer presents vouchers showing gross payroll to the Board for approval each month. The Secretary-Treasurer and bookkeeper/grant writer are salaried employees. The cleaner is paid hourly, but does not complete a time sheet. The Secretary-Treasurer calls the cleaner for her hours before contacting the private payroll contractor.

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<sup>3</sup> The Board may pass a resolution to authorize the payment in advance of audit of claims for public utility services, postage, freight, and express charges. These claims must be presented at the next regular Board meeting for audit.

<sup>4</sup> The District paid 260 claims vouchers during our audit period. We randomly selected 10 percent of the total claims paid during 2012 (26) for our sample. We also selected claims that we determined to be high risk, such as voucher ranges not listed on the monthly reports, payments to Commissioners and family members, non-payroll payments to the Secretary-Treasurer, and higher-than-average payroll payments to the District's cleaner.

No one other than the Secretary-Treasurer reviews payroll reports received from the private contractor. As a result, there is an increased risk of the misuse of funds.

During our testing of claims, we also found \$400 in non-payroll claim payments to the bookkeeper/grant writer, who is the Chairman's son, for bookkeeping services. The duties of the bookkeeper/grant writer include quarterly reporting of information about fire and emergency response calls to the New York State Office of Fire Prevention and Control.<sup>5</sup> These payments were made in February 2012 to cover four months of salary payments (\$100 per month). The bookkeeper/grant writer was then paid \$800 in monthly salary payments through payroll for the same services from March through October 2012. His 2012 wage statement (W-2) only included the \$800 paid through payroll. As a result, the \$400 paid to the bookkeeper/grant writer by claim for his services was not correctly reported as employee wages to the Federal or State government. Failure to withhold and report payroll taxes to the Internal Revenue Service and New York State could subject the District to unnecessary costs for interest and/or penalties.

We discussed other minor deficiencies with District officials during the conduct of our fieldwork.

### **Recommendations**

1. The Board should ensure that the Secretary-Treasurer prepares and files annual financial reports with the Office of the State Comptroller within 60 days after the close of the fiscal year.
2. The Board should audit the Secretary-Treasurer's records annually, as authorized by Town Law.
3. The Board should require that the Secretary-Treasurer complete monthly bank reconciliations for all District bank accounts. The reconciliations should be presented to the Board for review, along with the supporting bank statement and images of the fronts and backs of canceled checks.
4. The Secretary-Treasurer should maintain adequate accounting records, including revenue and expenditure (subsidiary) ledgers and general ledger cash accounts to help facilitate the preparation of monthly and annual financial reports.
5. The Treasurer should provide the Board with monthly reports showing budget-to-actual activity to assist the Board in monitoring the District's financial condition.
6. The Board should adopt budgets with realistic estimates of anticipated revenues, expenditures, and fund balance available for appropriation. The budgets should contain an appendix, showing projected fund balance and reserve fund balances as required by Town Law.
7. The Board should monitor cash balances and ensure that year-end unexpended surplus funds are kept at a reasonable level.

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<sup>5</sup>A division of New York State Homeland Security and Emergency Services

8. The Board should adopt an investment policy and code of ethics, as required by statute. The Board also should review these policies at least on an annual basis and update them as necessary.
9. The Board should conduct a deliberate and thorough audit of all claims prior to payment, except those allowed to be pre-paid and audited at a subsequent Board meeting.
10. The Board should ensure that the District receives, or has access to, canceled checks or images for its bank accounts.
11. The Board should not allow the private payroll contractor to access the District's bank account to withdraw funds for payroll taxes and fees for its services. The Board should require the private contractor to submit claims for payroll services for audit and approval prior to payment.
12. The Board should document approved salary rates in the minutes, require a time sheet to be completed by the District's hourly employee, and should designate someone other than the Secretary-Treasurer to review payroll reports and confirm that they agree with the time sheet records. Salary and wage payments to employees should be made through payroll, and applicable payroll taxes should be properly withheld and reported.

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,

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 page.

SYLVAN BEACH FIRE DISTRICT

Po BOX 353

SYLVAN BEACH NY 13157

Sylvan Beach Fire District  
Audit Response and Corrective Action Plan  
Report # 2013M-76

- \* The board now reviews and signs monthly bank statements.
- \* The board has adopted a new Code of Ethics, Procurement Policy and Investment Policy on 02/25/13 and will continue new ones annually.
- \* The Secretary/Treasurer is in the process of doing 2011 and 2012 Annual Financial Report; the State Comptroller's office has downloaded the file to help aid in completing it.
- \* The Secretary/Treasurer now puts current balances on the monthly report instead of prior month's balances.
- \* The Secretary/Treasurer now lists payroll separately, not in the actual monthly bills.
- \* The District did have 3 bond payments and now only has 2 so that will be adjusted accordingly.
- \* The \$15,000 wasn't transferred due to purchasing another EMS Truck. We will only list Capital Reserve transfers if we put it in the budget worksheet. The board did not know the anticipated amount of the new truck so we did not include the figure in the budget.
- \* An appendix will be included in the budget.
- \* Claims will not be paid unless it is approved previously and or utilities.
- \* The board now receives copies of cancelled checks and signs monthly bank statements after review.
- \* We are trying to get a duplicate copy of the \$2,900 purchase for fire equipment.
- \* Paychex does not auto-deduct payroll anymore.
- \* Employees salaries will be in January minutes of our installation meeting. The employees now fill out weekly timesheets.
- \* The bookkeeper now fills out weekly timesheets.

Please include this as our Corrective Action Plan. Most issues have already been corrected and the others are being fixed. Our implementation dates started when our audit started, and will continue forward.

The Secretary/Treasurer and the board will be implementing all changes.

The board agrees with the findings.

Chairman E. Allen Jackson

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