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July 11, 2014

Bruce Heberer, Chairman  
Members of the Board of Fire Commissioners  
Berkshire Fire District  
320 Steele Avenue Extension  
Gloversville, NY 12078

Report Number: 2014M-122

Dear Chairman Heberer and Members of the Board of Fire Commissioners:

The Office of the State Comptroller works 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 Berkshire Fire District (District) which addressed the following question:

- Is the Treasurer properly recording and reporting the District's financial activity?

We discussed the findings and recommendation with District officials and considered their comments in preparing this report. The District's response is attached to this report in Appendix A. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

### **Background and Methodology**

The District is a district corporation of the State, distinct and separate from the Town of Johnstown, and is located in Fulton County. The District's general fund budget totaled \$226,500 for the 2014 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 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 Treasurer's recording and reporting of the District's financial activity for the period January 1, 2012 through January 31, 2014. We also 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**

Fire districts with less than \$500,000 of revenues (excluding borrowings) may maintain their accounting records and report their financial activities on a cash basis of accounting, which is the basis of accounting used by the District. The general fund is the major operating fund of a fire district and includes all revenues and expenditures not required by law or by good accounting practices to be included in other funds. In the general fund, revenues are classified by source and expenditures are classified to separately show the amounts expended for personal services, capital outlay, contractual, debt service and other expenditures. In general, reserves are designed to segregate resources to provide for future contingencies and plan for major capital outlays, thereby reducing the need to rely on borrowing or outlays of current funds to finance such events. When the cash basis of accounting is used, reserve fund moneys are reported in a separate reserve fund and not as part of the general fund.

The Treasurer must maintain complete, accurate and timely accounting records to properly account for all of the District's financial activities. The Treasurer is required to prepare and submit an annual update document (AUD) 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 necessary information to monitor District operations and provides other interested parties with a summary of the District's financial activities.

We reviewed the District's accounting records for the 2012 and 2013 fiscal years to ensure completeness and accuracy. We found that the Treasurer did not properly record and report the District's financial activity. The Treasurer recorded all transfers between bank accounts as revenues and expenditures in the accounting system. In addition, the Treasurer incorrectly recorded the real property taxes for 2012 and 2013 as an opening balance in the check register instead of as a revenue. In prior years, the District hired a consultant to assist the Treasurer with completing and submitting the AUD to OSC. However, the consultant was not available to assist the Treasurer with filing the 2012 AUD. As a result, the AUD was not filed until September 30, 2013, or 152 days late.

We judgmentally selected a sample<sup>1</sup> of nine accounts reported on the 2012 AUD. We compared the reported balances for the nine accounts to the accounting records, and traced individual transactions in the accounting records to supporting documentation to determine whether the accounting records are accurate and complete. We found that the nine account balances reported

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<sup>1</sup> We judgmentally selected cash accounts as well as high-dollar revenue and expenditure accounts from the 2012 AUD.

in the AUD did not agree with the accounting records and transactions were not accurately recorded in the accounting records. The differences totaled \$1,890,662.

<b>Account</b>	<b>Account name</b>	<b>Balance Reported on AUD</b>	<b>Balance per Accounting Records</b>	<b>Variance</b>
A200	Cash	\$29,993	\$29,942	\$51
A201	Cash in Time Deposits	\$0	\$152,028	\$152,028
A917	Unassigned Fund Balance	\$14,054	\$181,970	\$167,916
A1001	Real Property Taxes	\$196,023	\$0	\$196,023
A34102	Fire, Equipment and Capital Outlay	\$17,953	\$7,460	\$10,493
A34104	Fire, Contractual	\$78,733	\$62,751	\$15,982
R34102	Fire, Equipment Outlay	\$626,746	\$0	\$626,746
R878	Capital Reserve	\$638,908	\$486,880	\$152,028
R2660	Sales of Real Property	\$569,395	\$0	\$569,395
			<b>Total:</b>	<b>\$1,890,662</b>

These discrepancies were the result of improperly accounting for various transactions. For example, the Treasurer:

- Recorded and reported \$152,028 of the unassigned fund balance in the reserve fund rather than in the general fund,
- Incorrectly recorded real property taxes levied for 2012, totaling \$196,023, as an opening general fund cash balance in the accounting system. The correct way to account for real property taxes is to increase the cash and real property tax revenues as tax payments are received.<sup>2</sup> Therefore, the District’s real property tax revenue was understated by \$196,023 in the accounting records,
- Did not post expenditures properly to the capital outlay and fire protection contractual expenditure classifications, and did not properly post revenues and expenditures to the reserve fund,
- Recorded the sale of real property, totaling \$569,395, in an “uncategorized” account, that was not within the general or reserve fund, instead of as revenue within one of the funds and
- Recorded the purchase of a new fire truck costing \$297,824 as revenue instead of as a capital outlay expenditure.

We also judgmentally selected a sample<sup>3</sup> of 10 accounts from the 2013 accounting records for further review. We traced the transactions from these accounts to source documents, such as bank statements, original invoices and supporting documentation. We found that the transactions

<sup>2</sup> The District maintains its records on the cash basis of accounting. Therefore, revenues and expenditures are recognized when cash is received and expenditures are recognized when cash is disbursed.

<sup>3</sup> We judgmentally selected accounts which appeared to have incorrect balances such as revenue accounts with negative balances, transfers listed as expenditures and zero balance real property tax accounts. We selected two additional expenditure accounts for review: vehicle/equipment maintenance and new fire house.

were proper District revenues and expenditures. However, the Treasurer posted most of the transactions in the wrong accounts. Only one account, vehicle and equipment maintenance, totaling \$9,008, included transactions that were recorded and posted properly in the accounting system. We found that the Treasurer recorded the real property taxes in the same manner as 2012, as an opening cash balance in the check register, which again resulted in revenues being understated by \$204,866 in the accounting records.

Furthermore, transfers between funds were not properly recorded. Under the Uniform System of Accounts, transfers between funds are recorded as a revenue in the fund that receives the transfer and an expenditure in the fund that transfers the money. When transferring money from the general fund to the reserve fund, the Treasurer would correctly record the transfer in a general fund expenditure account. However, when the general fund received a transfer from the reserve fund, the Treasurer would incorrectly post the revenue to the expenditure account. In addition, the Treasurer recorded all transfers between bank accounts as interfund revenues and expenditures in the accounting system. When cash is transferred between accounts in the same fund, the proper accounting treatment is a transfer between cash accounts and there is no effect on the revenue and expenditure accounts. The Treasurer stated that she was not aware of the proper accounting treatment for transfers between different funds and bank accounts. We reviewed the proper accounting for these transactions and provided assistance to the Treasurer to correct postings for the 2014 year to provide for proper reporting of current financial activity.

Without recording and reporting the District's financial activity accurately and filing the AUD timely, the Board cannot adequately monitor the District's financial operations. Furthermore, accurate revenue and expenditure amounts are not available for the Board's consideration when developing annual budget estimates and a summary of the District's annual financial operations is not available to the public.

### **Recommendations**

1. The Board should ensure that the Treasurer receives the proper training to maintain adequate and appropriate accounting records.
2. The Treasurer should properly record and report District's financial activities in the accounting system.
3. The Treasurer should prepare and file the District's AUD with the Office of the State Comptroller within 60 days of the close of the fiscal year.

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.

We thank the officials and staff of the Berkshire Fire District for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



Berkshire Fire District

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July 2, 2014

Dear Mr. Deyo,

In response to Report Number: 214M-122, we first want to thank you for the information and recommendations that you have supplied after your audit.

We understand that we have to make some changes in our accounting system, to that end our treasurer has already completed several advanced training courses in the accounting principles and practices of governmental accounting and has implemented the all of the needed changes, and corrective measures, which mostly appear to have been a lack of understanding in terminology differences from general accounting practices to governmental accounting practices.

We, as a body, wanted to make clear that our treasurer, since she was appointed, has made significant improvements to what was an antiquated system in our District, she has been learning on the job and continues to attend courses designed to make her more efficient.

We also want to state that while the treasurer may not have been using the correct accounting practice or terminology, that the funds were all accounted for and no misappropriation had occurred. The board has also been on that learning curve and attending training to get up to date on the information that we are responsible for and have the oversight with.

The Board and our Treasurer have been working closely, during the audit process and since, to insure that all of reports and records of our financial activities have been brought into compliance. To that end, We have added to our policy, that the District's AUD is to be filed within 60 days of the close of the fiscal year and that the report is to be reviewed by the board prior to its submission.

Sincerely,

Bruce E. Heberer, Chairman  
Berkshire Fire District, Board of Fire Commissioners

BFD Commissioners  
Bruce Heberer, Chairman  
Karl Hansen, Secretary  
Tim Frye  
Warren Hulbert  
Richard Tyrrell

Deb Finkle, Treasurer