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May 16, 2014

Norman Sparks, Chairman  
Members of the Board of Fire Commissioners  
Conesus No. 1 Fire District  
P.O. Box 2  
Conesus, NY 14435

Report Number: 2014M-46

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

The Office of the State Comptroller works to identify areas where fire district 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 fire district 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 Conesus No. 1 Fire District (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?

We discussed our findings and recommendations with District officials and considered their comments in preparing this report. The District's response is attached to this report in Appendix A. Except as indicated in Appendix A, District officials generally agreed with our findings and recommendations and indicated they have initiated, or plan to initiate, corrective action. Appendix B includes our comments on issues District officials raised as part of their response.

### **Background and Methodology**

The Conesus No. 1 Fire District, located in Livingston County, is a district corporation of the State, distinct and separate from the Town of Conesus. The District's 2014 budget totaled \$132,602, funded through real property tax revenue.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The elected Treasurer 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 internal controls over the District's financial operations for the period January 1, 2012 through December 31, 2013. We interviewed District officials and reviewed financial records, reports 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. This system should consist 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 the District complies with applicable laws, rules and regulations. Town Law requires the Board to audit and approve all claims, with limited exceptions,<sup>1</sup> against the District prior to directing the Treasurer to pay them to ensure that District funds are used for only legitimate District expenditures. Finally, 2006 legislation enacted several laws to strengthen oversight of fire districts including General Municipal Law 6-g, which provides requirements for the establishment of capital reserve funds.

We found that the Board could improve its oversight of the District's financial activities. Although the Board has adopted a code of ethics<sup>2</sup> and purchasing and investments policies as required, the policies are not regularly reviewed and are outdated. Further, the Board has not adopted other policies or procedures for financial operations such as cash receipts and disbursements, claims processing and information technology. As a result, the Board did not adequately segregate the Treasurer's duties or implement sufficient compensating controls. The Treasurer performs all recordkeeping functions, makes all deposits, and is the sole signatory on District bank accounts, often disbursing cash without prior approval.

As a result of the weak control environment, we reviewed all bank statement activity for the period January 1, 2012 through September 30, 2013 to determine if the Treasurer properly recorded and reported the District's financial transactions. Although bank activity appeared to be appropriate and the Treasurer recorded all financial transactions, the Board does not regularly review bank statements and the Treasurer did not perform formal written bank reconciliations. Therefore, there is no assurance that the Treasurer's records and reports are complete and accurate. Although the Board performed an annual audit of the Treasurer's records and reports, it was not timely.<sup>3</sup>

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<sup>1</sup> The Board may, by resolution, authorize payment in advance of audit of claims for public utility services, postage, freight and express charges. Such claims must be presented for audit at the next Board meeting.

<sup>2</sup> The Board was in the process of reviewing the code of ethics.

<sup>3</sup> The 2012 records and reports were not audited until May 8, 2013.

We further reviewed all 225 disbursements totaling \$200,561 to determine if they were for proper District purposes, supported and audited prior to payment. We found 148 claims totaling \$118,436 were paid prior to Board audit. This includes 99 claims totaling \$52,102 that are not allowed to be prepaid, 44 claims totaling \$5,940 for utilities that could be paid prior to Board audit had the Board adopted a resolution authorizing prepayment, and five claims totaling \$60,394 for loan and interest payments. We also found 16 claims totaling \$2,213 did not have proper supporting documentation.<sup>4</sup> We discussed other minor deficiencies with District officials during our fieldwork. Without properly auditing and approving all claims before payment, the Board does not have adequate assurance that the purchases were properly approved or that the goods and services were actually received. In addition, there is an increased risk that District funds could be used for inappropriate purposes.

Finally, the Board did not establish policies or procedures to guide the District's management in establishing and using reserve funds, and the recordkeeping requirements of reserve funds.<sup>5</sup> Therefore, we were unable to determine the purpose of the District's reserve fund (reserve)<sup>6</sup> and whether or not it was established correctly because the Treasurer did not provide us with the required documentation.<sup>7</sup> We were told the capital reserve was established prior to 1980 and it has a balance of \$148,828 as of December 31, 2013, as reported on the District's annual financial report. District officials did not provide us with resolutions or other documentation as to the reserve fund's purpose or the exact date this reserve was established. Depending on the date of establishment and purpose of this reserve fund, different rules may apply for public participation in the establishment of and expenditures made from it.<sup>8</sup> Further, with any change in Board, the next commissioners or treasurer will not be aware of the establishment and authorized purpose of the reserve.

## Recommendations

1. The Board should adopt an adequate system of internal controls over District operations, including:
  - Reviewing the procurement and investment policies annually and updating them as necessary,

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<sup>4</sup> Most of these were from reprinted invoices.

<sup>5</sup> Guidance is available in the OSC publication entitled "*Local Government Management Guide: Reserve Funds*" <http://www.osc.state.ny.us/localgov/pubs/lmg/reservefunds.pdf>

<sup>6</sup> District officials can legally set aside, or reserve, portions of fund balance to finance future costs for a specified purpose.

<sup>7</sup> The Treasurer stated that the District has a reserve for equipment and the resolution was presented to us during our last audit. The last OSC audit was completed over 15 years ago.

<sup>8</sup> Effective January 1, 2007, General Municipal Law Section 6-g (3) was amended to require that any resolution establishing a capital reserve fund is subject to mandatory referendum. Prior to this amendment, the establishment of a capital reserve fund for a specific item of equipment or specific improvement was subject to permissive referendum and a capital reserve fund for a type of equipment or improvement could be established by resolution with no referendum requirements. General Municipal Law Section 6-g(7) provides, in effect, that an expenditure from a capital reserve fund established for a type of equipment or improvement is subject to permissive referendum requirements.

- Adopting financial policies and procedures that adequately segregate duties and provide oversight. If it is not practical to segregate duties, establish mitigating controls,
- Conducting a proper audit of claims prior to approving them for payment,
- Conducting a timely annual audit of the Treasurer's books and records,
- Adopting formal written procedures to guide District management in establishing and using reserve funds and the recordkeeping requirements of reserve funds, and
- Researching the origin of the existing capital reserve. If it is determined that there is no evidence that the existing capital reserve was established in conformance with statutory requirements, take steps to ratify and legalize the reserve fund by following the procedures for establishing a capital reserve fund in conformance with General Municipal Law.

2. The Treasurer should prepare formal written bank reconciliations.

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 of the Conesus No. 1 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 pages.

Board of Commissioners  
Conesus Fire District #1  
PO Box 2  
Conesus, NY 14435

April 11<sup>th</sup>, 2014

State of New York  
Office of the State Comptroller  
110 State St.  
Albany, NY 12236

Re: Fire District Initial Response to OSC Audit Report 2013M-46

To Whom It May Concern:

Below please find comments and clarifications on the narrative "Audit Results", and an initial plan on how we intend to address the items in the "Recommendation" section of the aforementioned OSC Audit Report.

Comments to "Audit Results": - Paragraph 1

No comments/clarification

Comments to "Audit Results": - Paragraph 2

Certainly any system can be improved; the question is at what cost. The current system of bookkeeping has proved adequate to the need, as no fiscal anomalies have ever been noted in the past, nor are noted in this report. However, better documentation as to the details of current procedures could improve transparency, particularly in the case of, e.g., the ability of a new treasurer to understand and execute day-to-day operations, and of the Board to understand its oversight responsibilities.

See  
Note 1  
Page 9

Comments to "Audit Results": - Paragraph 3

Bank statements are made available for review as part of the Treasurer's report at every Board meeting. A running file extract individually listing each and every financial transaction over the last several months for each and every bank account/deposit instrument is provided in hardcopy format to each board member at each meeting.

See  
Note 2  
Page 9

While the narrative regarding the lack of explicit bank statement reconciliations is true, each bank statement is reviewed and reconciled by the treasurer, who signs and dates each statement as having been reconciled.

The Board has always performed an annual review of the Treasurer's reports and records, but the Treasurer/Board were unaware of a specified time frame for that review. The Annual report/reconciliation to the State Comptroller, a key piece of the district's annual review, is required to be filed within 60 days of the end of the financial year; this has always been filed on time, including in the year 2012.

Comments to “Audit Results”: - Paragraph 4

This section regards review and approval of each individual claim (i.e., bill, invoice) prior to payment. Claims that were known to be true and valid by the Treasurer were indeed routinely paid prior to review by the full Board. It should be noted, however, that every expenditure was reviewed by the Board, and every voucher detailing such expenditure was signed by a majority of board members present. The situation with respect to prior review was remedied immediately following the initiation of the audit. While it may result in more effort and/or occasional late fees for the District, the letter of the law will be observed.

Comments to “Audit Results”: - Paragraph 5

This same issue was raised in an audit probably 25 years ago - at that time, our former Chairman, William W. Greene, spent many hours searching through old books of commissioner’s minutes and eventually found the resolution instituting the Capital Reserve Fund – we think from the 1950’s or 60’s. The auditors at that time were satisfied, noted the same, and we thought the issue was behind us. No expenditure has ever been made from that fund except as authorized by means of permissive referendum as set forth in law.

Our capital reserve fund is used and has only ever been used to spread out the cost of purchasing fire trucks over a longer period than the five-year maximum bonding limit set by NYS Law. , as a typical new truck costs significant multiples of our entire annual operating budget.

See Note 3 Page 9
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Comments/Initial Response to “Recommendations” (corresponding text of OSC draft audit report *in italics*):

1. *The Board should adopt an adequate system of internal controls over District operations, including:*

*- Reviewing the procurement and investment policies annually and updating them as necessary,*

Procurement and investment policies will be reviewed and amended as necessary at an upcoming meeting.

*- Adopting financial policies and procedures that adequately segregate duties and provide oversight. If it is not practical to segregate duties, establish mitigating controls,*

A standard operating procedure (SOP) will be written by the Treasurer describing day-to-day operations including all phases of the Treasurer function. This will be reviewed by the Board and mitigating controls or segregation of duties will be established appropriate with risk to the District.

*- Conducting a proper audit of claims prior to approving them for payment, and*

Since the initiation of the audit and henceforward, all claims will be audited and approved by the full Board prior to payment.

*- Conducting a timely annual audit of the Treasurer’s books and records.*

Board audits of the Treasurer’s books and records will be conducted in a timely manner. Note that the pertinent 2013 audit was completed within the required time frame despite our lack of knowledge of the same.

*- Adopting formal written procedures to guide District management in establishing and using reserve funds and the recordkeeping requirements of reserve funds.*

A resolution re-authorizing our existing Capital Reserve Fund will be prepared and approved by the Board, explicitly including allowed disbursements from the fund and requirements that must be met for such a disbursement to occur. This will essentially be codification of our existing reserve fund.

*- Researching the origin of the existing capital reserve. If it is determined that there is no evidence that the existing capital reserve was established in conformance with statutory requirements, take steps to ratify and legalize the reserve fund by following the procedures for establishing a capital reserve fund in conformance with General Municipal Law.*

A resolution re-authorizing our existing Capital Reserve Fund will be prepared and approved by the Board, explicitly including allowed disbursements from the fund and requirements that must be met for such a disbursement to occur. This will essentially be codification of our existing reserve fund.

*2. The Treasurer should prepare formal bank reconciliations.*

Explicit calculations showing reconciliation between bank statements and the treasurer's financial records will be documented on/with each bank statement.

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This response was reviewed by each commissioner, and approved by motion at the Board of Commissioners meeting on April 9<sup>th</sup>, 2014.

Respectfully Yours,

Stephen P. Donohue, Secretary  
Board of Fire Commissioners  
Conesus Fire District #1



## **APPENDIX B**

### **OSC COMMENTS ON THE DISTRICT'S RESPONSE**

#### Note 1

Our recommendations of adopting policies, procedures and mitigating controls can be implemented at minimal cost. These improvements will help ensure errors and irregularities do not occur in the future.

#### Note 2

Making the bank statements available for the Board to review is not an effective control. To be effective the Board must fulfill its oversight responsibility and actually review the statements and related information. The effectiveness of the Board's review would be enhanced if the Treasurer's reconciliation was available as part of the review.

#### Note 3

Bonding for a fire truck is not limited to five years. Local Finance Law sets the useful life for fire-fighting vehicles and apparatus at 10 years if the cost is between \$5,000 and \$49,999 and 20 years if the cost is in excess of \$50,000.