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December 19, 2014

Timothy Evans, Sr., Chairman
Members of the Board of Fire Commissioners
Georgetown Fire District
PO Box 6
Georgetown, NY 13072-0006

Report Number: 2014M-264

Dear Chairman Evans 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 account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Georgetown Fire District (District) which addressed the following question:

- Did the Board provide adequate oversight of the District's financial operations?

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 agreed with our findings and plan to initiate corrective action.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town of Georgetown (Town) and Madison County in which is located. The District's 2014 general fund budget appropriations total approximately \$145,700 and are primarily funded through real property taxes and a fire protection contract with the Town of Lebanon.

The District is governed by a five-member Board of Fire Commissioners (Board), which is responsible for the District's overall financial management. The District has an elected Treasurer who is responsible for the District's financial duties, which include receiving and disbursing funds, maintaining accounting records, preparing necessary periodic financial reports to the Board, filing the District's annual financial report with the Office of the State Comptroller (OSC) and meeting any other reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2013 through April 30, 2014. We extended our scope back to December 31, 2010 to review

annual financial report filing dates. 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 and implement internal controls which consist of policies and procedures that help ensure that 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.

New York State Town Law (Town Law) requires the Board to audit and approve all claims, with limited exceptions,¹ against the District prior to directing the Treasurer to pay them to ensure that District funds are used for legitimate District expenditures. New York State General Municipal Law (GML) includes requirements for establishing capital reserve funds.

The Board needs to improve its oversight of the District's financial activities. The Board did not ensure that complete and accurate accounting records were maintained, bank reconciliations were performed, annual financial reports were prepared and filed in a timely manner and the Treasurer's records were annually audited. As a result, the Board does not have adequate assurance that cash was properly accounted for and the Board and District residents are deprived of an important tool to monitor District operations.

Furthermore, because the records were in such poor condition, the Board was precluded from fully understanding the District's financial condition. The District's fund balance as of December 31, 2013 totaled almost \$186,000, or 128 percent of 2014 budget appropriations. In addition, the Board did not perform a thorough audit of District claims. Finally, the Treasurer was not paid using the payroll method customarily used to compensate District officers and employees.

Records and Reports – The Treasurer is responsible for maintaining complete and accurate accounting records and reconciling the District's accounting records with the bank statements on a monthly basis. The Treasurer is also responsible for preparing and submitting an annual financial report (AUD) to OSC within 60 days after the fiscal year's close, as required by GML. The AUD 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 District financial activities. The Board could also consider providing additional oversight by annually auditing the Treasurer's financial records or hiring an external auditor to conduct such an audit.

The Treasurer did not maintain a checkbook register for the general fund checking account with a running cash balance. The Treasurer provides a verbal report to the Board of current online cash balances and provides the Board with monthly budget versus actual expenditure reports but does not provide bank statements and canceled check images. The records were also incomplete because the Treasurer did not record deposits in the checkbook register or maintain a general ledger record

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

of District cash balances. As a result, the Treasurer could not prepare monthly bank reconciliations for any District bank account.² In addition, the Treasurer had not filed AUDs with OSC for 2010, 2011, 2012 or 2013 as of the completion of our fieldwork in May 2014. Further, the Board did not audit the Treasurer's financial records during our audit period.

Due to these weaknesses, we reviewed all the bank statements received during our audit period for unusual activity, such as unsupported cash withdrawals or transfers. We reviewed all 30 bank transfers, totaling \$186,600, which we verified were made among District bank accounts. We also reviewed disbursements for two months of our audit period (See Claims Processing).

In addition, we compared the 2013 bank statement activity with the monthly budget versus actual reports and found that the Treasurer did not properly report approximately \$9,800 of transactions in the monthly reports provided to the Board. Some disbursements were omitted from the monthly reports and others were inaccurately reported. For example, in February 2013, the purchase of two radios totaling \$3,798 and, in April 2013, two insurance payments totaling \$1,225 were not included on the Board report. Additionally, the February 2013 expenditures for contract utilities were underreported by \$2,700. This occurred because the Treasurer combined six different utility claims totaling \$3,991 with \$2,700 of ambulance storage revenue received from the Town.

Without complete and accurate accounting records, including bank reconciliations, monthly reports and AUDs filed with OSC in a timely manner (as required by GML), the Board does not have sufficient information to properly manage and monitor the District's finances. Further, District taxpayers are not provided with reasonable assurance that District funds are properly accounted for.

Fund Balance and Reserves – The Board should retain a reasonable amount of unrestricted fund balance to use as a financial cushion in the event of unforeseen financial circumstances. If the Board chooses to accumulate money for future capital outlays or other allowable purposes, it must pass a resolution to formally establish a reserve fund and it must follow GML requirements for establishing, funding, expending and dissolving reserves.

The Board has not adopted a policy or procedures to govern the level of unrestricted fund balance to be maintained, nor has it determined whether the amount maintained is reasonable. The Board did not appropriate any fund balance to finance the 2013 or 2014 budgets. As a result, total fund balance as of December 31, 2013 was \$186,711, which represented 128 percent of budgeted appropriations for 2014. The Treasurer told us that \$108,379 of this balance was considered to be restricted³ by District officials as follows: \$15,000 for radios, \$6,500 for self-contained breathing apparatus (SCBA) air bottles, \$57,919 for a fire truck and \$28,960 for general fund purposes.⁴ However, the Board did not properly establish reserves for any of these purposes.

District officials told us they set aside money for the fire truck and general fund reserves for a number of years, but they were unable to provide us with any documentation showing that the Board formally established reserve funds for these purposes. Moreover, although the Board could establish capital reserve funds to accumulate money to finance the cost of specific or types of

² The District has the following three bank accounts: general fund checking account, general fund money market account and reserve savings account.

³ District records are maintained on a cash basis, so the cash balance equals fund balance. The District maintains a separate savings account to segregate the funds considered to be restricted (reserved).

⁴ District officials did not expend any money from these reserved funds during our audit period.

certain improvements or equipment, such as a fire truck, there is no authority for the District to accumulate money in a general fund reserve that would be used for fire district operating expenses.

According to the March 2009 Board minutes, the Board intended to set aside \$5,000 for new radios from the equipment budget. District officials subsequently set aside an additional \$5,000 in the reserve savings account in both 2010 and 2011, for a total of \$15,000. The January 2012 Board minutes also indicated that the Board planned to set aside \$3,250 each year for SCBA air bottles. Although District officials told us that they consider these funds to be reserved, the Board resolutions to set money aside for this fire-fighting equipment (the radios and SCBA air bottles) did not clearly state that the Board was establishing capital reserve funds for this purpose. Additionally, the Board-adopted resolutions were not subject to mandatory referendum as required.⁵

Because of the District's course of conduct in treating and characterizing the funds set aside for the previously mentioned fire-fighting equipment as capital reserve funds, we believe the funds have the status of "de facto" capital reserve funds. In such instances, the District should take remedial actions to ratify the reserve fund by following the procedures which were required at the time the funds were reserved.

Furthermore, even if the money set aside for this fire-fighting equipment (\$15,000 for radios, \$6,500 for SCBA air bottles and \$57,919 for a fire truck) was properly reserved, the general fund still had a remaining cash balance of \$107,292 as of December 31, 2013, or 74 percent of the next year's (2014) budget appropriations. When District officials retain fund balance that is not used to fund District operations, it places an unnecessary burden on District taxpayers. In addition, the Board's failure to properly establish reserve funds in conformance with GML could preclude the public from exercising their statutory right to be heard with respect to these funds.

Claims Processing – Town Law requires the Board as a whole to audit claims against the District and, by resolution, order the Treasurer to make payments for approved amounts. A thorough claims audit process requires verifying that claims are properly itemized and contains sufficient supporting documentation to determine the nature of the purchase or other item which is the subject of the claim, that the amounts represent actual and necessary District expenses and that the purchase or other item complies with statutory requirements. The Treasurer should not pay claims prior to Board audit except for those claims legally exempt from this requirement. Additionally, it is important that District officials obtain and review the itemized list of all fuel used so the Board can be assured that the District is being properly billed and that fuel use is reasonable.

The Board did not conduct a thorough claims audit and approved claims for payment that did not contain appropriate supporting documentation. The Board approved paying claims based upon the Treasurer reading aloud the vendor's or payee's name and the amount to be paid at the monthly Board meetings. If Board members questioned a particular claim, the Treasurer was requested to provide some documentation substantiating the claim and then the individual claim in question was reviewed. However, the Board did not require the Treasurer to obtain detailed invoices for all claims processed.

⁵ Effective January 1, 2007, GML 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. An expenditure from a capital reserve fund established for a type of equipment or improvement now is subject to permissive referendum requirements.

Due to these weaknesses, we reviewed two months of disbursements⁶ to determine if the claims were properly authorized and adequately supported. We reviewed 30 disbursements, totaling \$26,210, and identified the following:

- District officials did not obtain adequate support for the fuel invoice from the Town.⁷ The documentation attached to the claim showed that the District used 38 gallons of fuel from 828 total gallons shown on the invoice. However, District officials actually used the 828 gallons shown on the invoice and paid the Town \$2,757 (the entire invoice amount) even though the documentation attached indicated they used a lesser amount of fuel.
- One claim for telephone service totaling \$426 was paid without a detailed invoice.

Treasurer's Office – District officials told us the Treasurer is paid a stipend of \$100 a month. In 2013, the Treasurer was paid \$1,200 as follows: four \$100 payments paid from January through March and an \$800 lump sum paid in April.⁸ In 2014, the Treasurer was also paid \$1,200. These payments consisted of two \$100 payments and one \$1,000 lump sum payment, which were all made in January. No payroll withholding or reporting was done related to the Treasurer's payments.

Because these payment were not made through payroll, appropriate payroll taxes were not withheld and the stipend paid was not reported as wages or income to the New York State Department of Taxation and Finance or the Internal Revenue Service (IRS). Failure to withhold and report payroll taxes to the State and the IRS could subject the District to unnecessary interest and penalty costs. Additionally, the District should not be paying the Treasurer in advance for future months not yet worked. This advance payment increases the risk of paying the Treasurer for time never worked. For example, if the Treasurer were to resign his position before year-end, the District may be unable to recover the advance payment.

Moreover, this form of payment is one indicator that the District treated the Treasurer as an independent contractor. Town Law requires that the position of fire district treasurer be a public office. Therefore, the duties of this position may not be performed by an independent contractor.

Recommendations

The Treasurer should ensure that:

1. Adequate accounting records, including cash balances, are maintained and that monthly bank reconciliations are prepared for the Board's review.
2. Annual financial reports are filed with OSC in a timely manner.

⁶ We randomly selected February and April 2013.

⁷ The District obtains its fuel for the fire engines from the Town and is billed annually.

⁸ The Treasurer was paid two \$100 payments in January and additional \$100 payments in February and March.

The Board should:

3. Annually audit the Treasurer's financial records and document the results in the Board minutes.⁹
4. Adopt policies and procedures to establish a reasonable level of unrestricted fund balance to be maintained.
5. Develop a plan to reduce the amount of unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - Reducing District real property taxes.
 - Paying off debt.
 - Financing one-time expenditures.
 - Increasing or establishing necessary reserves.
6. Take remedial action to ratify the "de facto" capital reserve funds by adopting appropriate resolutions subject to any referendum requirements.
7. Adopt resolutions when establishing or funding reserve funds that identify specific amounts to be transferred into each specific reserve.
8. Conduct a deliberate and thorough audit of claims prior to payment.
9. Ensure that salary and wage payments to officers and employees are compensated through payroll and that applicable payroll taxes are properly withheld and reported.
10. Refrain from making any compensation payments to officers or employees in advance of services being rendered.

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.

⁹ For guidance on conducting annual audits, District officials should refer to our publication entitled *The Internal Audit Process for Fire Districts* available at <http://www.osc.state.ny.us/localgov/firedist/internalauditprocess.pdf>.

We thank the officials and staff of the Georgetown 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.

Georgetown Board of Fire Commissioners



PO Box 6 Georgetown NY 13072

November 6, 2014

Rebecca Wilcox, Chief Examiner
Syracuse Regional Office
Office of the State Comptroller
333 East Washington Street, Room 409
Syracuse, NY 13202

Dear Ms. Wilcox:

Please accept this letter as our response to your audit report number
2014M-264.

Georgetown Board of Fire Commissioners



PO Box 6 Georgetown NY 13072

In an effort to provide adequate fire protection to the residents of the Town of Georgetown, the Georgetown Board of Fire Commissioners has always tried to balance the benefits against the cost. At the same time the board has been challenged by increasing costs and more stringent mandates related to firefighter on the job protections. None the less, it is imperative that we demand the most for the taxpaying public. We had assumed that our efforts were well founded and that we were providing adequate oversight where tax monies were being spent. When we were informed that an audit of our business transactions would be performed, we anticipated that few abnormalities existed. Unfortunately, many troubling things were called to our attention.

As the Board of Commissioners is comprised of people concerned with providing the best in fire protection, it only stands to reason that we need to provide the best in oversight of the fire service as well. And by that standard, we need to provide the best money-management we are capable of to ensure the survival and quality of our fire protection. How we view our role as commissioners is not as important as how well we perform our responsibilities. Having reviewed the Draft Audit Report we realize that we have been lax in the performance of some of our duties. In an effort to avoid a rush to action, our collective response is to take steps to address the minor problems fairly rapidly, while seeking professional advice to resolve some of the more serious concerns and to develop long-term solutions that will endure changes in Board members, and mandated requirements.

We are also investigating group learning opportunities in an effort to develop more skill and knowledge as to the function of the Board of Fire Commissioners. Specific training opportunities are available on line and we are committed to using them to further develop our effectiveness. We are in agreement that this draft report is disturbing enough that we need to learn more as well as make immediate changes. Most of the recommendations made in the draft report tell us that we need to be better informed as well as more diligent and knowledgeable.

While we do not dispute any of the findings from the audit, several items noted were perpetuated from previous Boards. We have inherited policies and procedures that were in place prior to the election of any of the current Board members and were presumed to be correct. While we admit that there is little in the way of supporting documentation or explanation available from the current Board, we did not originate very many of those practices or methods in question, we have only carried forward the actions of previous Board members. That said, we recognize that this situation needs to be prevented in the future and that we as the Board of Fire Commissioners are responsible for initiating an enduring solution with the intent to prevent propagation of poor practices and procedures in the future.

Georgetown Board of Fire Commissioners



PO Box 6 Georgetown NY 13072

In conclusion, we are proceeding in developing a plan of action that will resolve the current shortcomings of the Board, correct problems in a timely manner and at the same time provide an enduring and researchable reference to support operations in the future and provide some continuity to the process. Knowing that there are several practices needing improvement, and that the improvement will require referendum and legal consultation, we anticipate several months to resolve all of the issues. Working towards a more complete understanding of the function of the Board of Fire Commissioners, resolving all of the shortcomings outlined in the draft report, and developing a better method of documenting our practices has become our project for 2015. We would like to extend our appreciation to the auditor for his professionalism, correctness and decorum while working at our facility.

Thank you, Tim Evans Sr.

Georgetown fire District

Chairman