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September 26, 2014

Michael Gorr, Chairman
Members of the Board of Fire Commissioners
Hortonville Fire District
100 Main Street
Hortonville, NY 12745

Report Number: 2014M-188

Dear Chairman Gorr 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 Hortonville Fire District (District) which addressed the following question:

- Did the Board of Fire Commissioners (Board) establish adequate controls to ensure that financial activity is properly recorded and reported to safeguard District money?

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 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 Delaware and located in Sullivan County. The District's 2014 general fund budget totaled \$180,658.

The 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 and annual financial reports and meeting any other reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2013 through May 9, 2014. 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 a system of internal controls consisting of policies and procedures. Such policies and procedures should ensure that financial transactions are properly authorized and recorded and financial reports are accurate, reliable and filed in a timely manner. Additionally, District officials must comply with all applicable laws, rules and regulations, including New York State General Municipal Law's requirement to adopt a procurement policy, an investment policy and a 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 prepare and submit monthly reports to the Board¹ and is required to prepare and submit an annual financial report 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.

In the absence of an external audit, the Board should provide oversight of the Secretary-Treasurer by conducting an annual audit of her financial records. Further, the Board is responsible for performing a thorough audit of claims before they are paid to ensure that the claims are adequately supported and funds are used for only legitimate District expenditures.

The Board did not establish adequate controls to ensure the District's financial activity was properly recorded and reported and that District money was adequately safeguarded. The Board adopted a procurement policy, an investment policy and a code of ethics as required. However, the Board did not adequately segregate the Secretary-Treasurer's duties, provide any additional oversight or implement other compensating controls when segregating duties was not practical.

The Secretary-Treasurer files the annual financial reports with OSC each year, maintains accurate and timely records and presents the Board with a monthly list of all claims to be paid and a quarterly report of bank balances. However, she does not provide the Board with any budget versus actual revenue and expenditure reports to help it monitor the District's financial operations.

The Board authorizes each claim for payment and indicates its approval by having each member affix his signature on each claim voucher. However, the Board has no process in place to verify it approves all claims that are paid, because no one reviews the monthly bank statements, canceled check images or bank reconciliations. Furthermore, the Board did not perform an annual audit of the Secretary-Treasurer's records.

¹ For example, budget versus actual revenue and expenditure activity reports

Due to these deficiencies, we reviewed all 103 canceled check images totaling \$257,461 that cleared the bank during our audit period to determine if they were for proper District purposes, adequately supported and audited prior to payment. Our review included comparing canceled check images with the claim vouchers, check stubs, accounting records and Board minutes. We found that the Board audited and approved these disbursements and that they were for legitimate District expenditures.

We also reviewed all cash receipts received during our audit period² and determined they were properly recorded and deposited into District bank accounts. While the Secretary-Treasurer does not prepare formal bank reconciliations, she does compare the balances shown on the bank statements with the check stubs³ to ensure that both amounts agree. We compared the check stub balances with the bank statement balances for each month in our audit period and found that the balances agreed.

We found no discrepancies with the transactions reviewed and found that the books and records were well maintained, complete, accurate and up-to-date. However, without adequate Board oversight, the Secretary-Treasurer could issue a check that is not for District purposes without the Board's knowledge. Additionally, the Board cannot properly monitor the District's financial activities without adequate monthly reports. Further, without Board oversight of the Secretary-Treasurer, there is a risk of errors or irregularities occurring and not being detected.

Recommendations

1. The Board should segregate the duties performed by the Secretary-Treasurer, if practical, or provide more routine oversight by:
 - Reviewing the Secretary-Treasurer's monthly bank reconciliations to ensure accuracy and timeliness;
 - Routinely comparing the financial activity recorded by the Secretary-Treasurer with the bank statements and canceled check images; and
 - Conducting an annual audit of the Secretary-Treasurer's records.
2. The Secretary-Treasurer should prepare monthly financial reports, which include budget versus actual revenue and expenditure activity.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the New York State 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.

² The District receives one check for real property tax collections from the Town of Delaware and one check for the Hortonville Fire Company's foreign fire insurance payment per year.

³ The Secretary-Treasurer maintains a running balance of bank account activity on check stubs indicating each disbursement amount and any deposits made.

We thank the officials of the Hortonville 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.

Hortonville Fire District
PO Box 89
Hortonville, NY 12745

September 15, 2014

H. Todd Eames, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Report # 2014M-188

Dear Mr. Eames,

The Hortonville Fire District Board of Commissioners agree with the findings of the Comptroller's Internal Controls Audit.

This letter will serve as both our response to the audit and Corrective Action Plan.

The Hortonville Fire District Board of Commissioners have reviewed the recommendations of the State Comptroller and come up with the following responses to the recommendations.

- 1.) The Board should segregate the duties performed by the Sec./Treas. Or provide more routine oversight by
 - Reviewing the Sec./Treas. Monthly bank reconciliations to ensure accuracy and timeliness,
 - Routinely comparing the financial activity recorded by the Sec./Treas. With the bank statements and canceled check images, and

- Conducting an annual audit of the Sec./Treas. Records.

Response: The Board of Commissioners has started to review the monthly bank statement/reconciliation at monthly meetings. Commissioners will compare this back to claims vouchers. An annual audit will be done by the Commissioners in December (fiscal year end).

- 2.) The Sec./Treas. Should prepare monthly financial reports, which include budget versus actual revenue and expenditure activity.

Response: The Board of Commissioners has asked the Sec./Treas. To provide them with monthly bank account balances, total disbursements and revenues and quarterly budget to actual reports.

Sincerely,

Michael Gorr, Chairman
Hortonville Fire District
Board of Commissioners