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April 4, 2014

Debra Armstrong, Chairman
Members of the Board of Fire Commissioners
McConnellsville Fire District
8480 Mill Pond Way
Blossvale, NY 13308

Report Number: 2014M-19

Dear Ms. Armstrong 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 McConnellsville 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 and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they will develop a corrective action plan to address the recommendations.

Background and Methodology

The McConnellsville Fire District is a district corporation of the State, distinct and separate from the Towns of Vienna and Annsville, in Oneida County. The District's general fund budget totaled \$103,730 for the 2013 fiscal year and is primarily funded through property tax revenue.

The District is governed by a five-member Board of Commissioners (Board) that is responsible for the District's overall financial management. The Board appoints a Secretary-Treasurer who is responsible for the District's financial duties, which include receiving and disbursing funds, maintaining accounting records, preparing monthly and annual financial reports and meeting any other reporting requirements. There were two Secretary-Treasurers in office from January 2012 to the present. The former Secretary-Treasurer performed all treasury duties from February 2012

to June 2013.¹ The current Secretary-Treasurer has performed all treasury duties since July 2013.

We examined internal controls over the District's financial operations for the period January 1, 2012 through October 31, 2013. 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 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.

The Board needs to improve its oversight of District financial activities. The Board did not ensure that complete accounting records were maintained and monthly and annual financial reports were prepared. In addition, the Board did not follow the statutory requirements with regard to adopting the 2014 budget and computing the tax levy limit. It also has not adopted a code of ethics, procurement policy or an investment policy. Finally, the Board did not conduct a thorough audit of claims before they were paid. As a result, District resources were at risk of misuse without being detected or corrected.

Records and Reports – The Secretary-Treasurer is responsible for maintaining complete and accurate accounting records and for preparing and submitting an annual financial report (AFR) to the Office of the State Comptroller (OSC) within 60 days after the close of the fiscal year. It is also important that the Secretary-Treasurer prepare and submit monthly reports to the Board showing budget-to-actual activity and reconciled cash balances so that the Board can effectively monitor the District's budget and financial operations. In addition, the Secretary-Treasurer is required to annually submit all District financial records and reports to the Board for audit. The Board should audit the records and reports to determine if District moneys have been properly accounted for; financial records have been properly maintained; transactions have been properly recorded and reported; and laws, regulations and District policies have been complied with.

The former Secretary-Treasurer maintained a checkbook register for the main checking account. However, she did not maintain any records for the District's other two bank accounts, did not prepare monthly bank reconciliations and did not provide the Board with monthly financial reports. As a result of the deficient accounting records maintained by the former Secretary-Treasurer, the District has not filed AFRs with the OSC for 2011 or 2012.

¹ From our review of the District's bank statements, we noted a transitional period in January 2012 for which there was not a Secretary-Treasurer (signer) on the District's accounts.

The current Secretary-Treasurer has made some improvements in the recordkeeping, including preparing monthly budget-to-actual reports for the Board and informally reconciling the main checking account beginning in July 2013. Although the current Secretary-Treasurer provides the Board with bank statements for review, the District does not receive canceled checks from the bank; therefore the checks are not available for the Board's review. By reviewing the canceled checks along with the monthly bank statements, the Board could improve its oversight of the District's finances by ensuring that the payee name and amounts match what was approved. In October 2013, as a result of our discussions during fieldwork, the Secretary-Treasurer began preparing formal bank reconciliations for the main checking account and providing it to the Board for review. However, the Secretary-Treasurer still does not maintain any records to account for activity in the other two bank accounts, which had a combined balance of approximately \$171,000 as of September 30, 2013.

In addition, the current Secretary-Treasurer informed us that the Board has not historically required the Secretary-Treasurer to submit accounting records and reports annually to the Board for audit. During 2013, the Board hired a law firm to review the records for 2007 through 2012. While this provided an independent review of the records, the Board should conduct audits annually in the future to provide more timely information on District financial operations.

Budget Process – Each year, the Board must prepare a budget, which is an estimate of the revenues and expenditures for the upcoming year. The Board must adhere to a statutory timetable when preparing, presenting and adopting the annual budget. The Board must adopt a proposed budget, make the proposed budget available to the public prior to holding a public hearing, hold a public hearing on the proposed budget, allow the public to comment on the proposed budget and then formally adopt the annual budget by Board resolution by the required date. In addition, recent legislation has required that, prior to adopting the annual budget, fire districts must first calculate a real property tax levy limit which cannot be exceeded without the Board first passing an override resolution.

The Board did not hold a public hearing for their 2014 budget as required. We also found no evidence in the minutes or elsewhere that the Board formerly adopted the 2014 budget. In addition, the Board did not require the Secretary-Treasurer to calculate the District's statutory property tax levy limit prior to adopting the budget. We assisted the District in calculating the levy limit for 2014 and found that the District's proposed 2014 tax levy exceeded the statutory limit by approximately \$12,500. Because the Board had not passed a resolution to override the statutory tax levy limit, it contacted Oneida County officials and instructed them to lower the tax levy to be within the statutory limits for 2014. The failure of the Board to adhere to statutory budgetary procedures deprives the public of the opportunity to provide valuable input to District officials.

Policies – General Municipal Law (GML) requires that the Board establish an investment policy, procurement policy and code of ethics. A code of ethics establishes standards of conduct reasonably expected of officers, employees and the volunteer members of the District's fire department. A procurement policy helps ensure that competition is sought for the purchase of goods and services that are not required to be competitively bid. An investment policy provides guidance to officers and staff regarding the types of investments the District can use and includes the monitoring, securing and reporting requirements for those investments.

The Board was unable to provide us with an adopted investment policy, procurement policy or a code of ethics, which are required by law. Because the District has not adopted these policies, officers and employees may not be aware of their duties and responsibilities in these areas. For example, through July 2013, the District had deposits and short-term investments in a credit union which is not a financial institution authorized by GML. A comprehensive investment policy would have given the former Secretary-Treasurer guidance on where she was authorized to deposit District funds. Without a code of ethics, District officials and members do not have guidelines that define the District's expected conduct. During our audit period, the District paid the former Fire Chief at least \$850 for various services, including mowing, landscaping and snowplowing.² We found no indication in the minutes that the former Fire Chief publically disclosed his interest in contracts with the District. A code of ethics would have provided guidance to officers, employees and volunteer members with respect to the disclosure of interest requirements.

Cash Disbursements/Claims Processing – The Board should establish controls to ensure that all claims are authorized and are for legitimate District purposes. The Board is generally required to audit all claims against the District before they are paid.³ To properly approve claims for payment, the Board must ensure that claims contain sufficient documentation to determine the nature of the goods or services provided and that the amounts represent actual and necessary District expenditures.

The Board did not conduct a thorough and deliberate audit of claims as required and payments were routinely made prior to audit. Generally, the Secretary-Treasurer paid the claims prior to the Board meeting each month, and the Board would then audit the claims at the meeting after the claims had already been paid. In addition, some claims were paid which lacked adequate supporting documentation.

Due to the weaknesses identified, we examined 126 disbursements totaling \$98,443⁴ made during our audit period to determine if they were properly supported, authorized and legitimate District expenditures.

- All 126 disbursements were paid prior to the Board audit.
- Five claims totaling \$1,270 were paid to the former Fire Chief with no invoice or other supporting documentation.
- Twelve claims totaling approximately \$1,400 were paid from monthly statements with no invoices or lacked adequate supporting documentation.

We also identified other discrepancies including double payments, overpayments and payments made for service charges, late fees and sales taxes. Although these amounts were not material, it

² As discussed later in the report, the District also paid the former fire chief an additional \$1,270, but there were no claims on file to show what these payments were for.

³ The Board may pass a resolution to authorize 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.

⁴ We selected four months in our audit period and tested all disbursements. We also selected claims that we determined to be high risk, such as vouchers payable to certain local vendors, payments made to the former Fire Chief, as well as payments made to Commissioners.

indicates that the Board did not have an effective process in place for processing and approving claims.

During the audit, it was brought to our attention that the Board had concerns related to various invoices⁵ submitted by two local businesses which the Board felt were for items that may not have been for legitimate District purposes. District officials told us these purchases were the subject of an ongoing State Police criminal investigation involving the former Fire Chief and, as a result, we did not further investigate these purchases. During our audit fieldwork, the former Fire Chief plead guilty to various charges, including charges related to purchases he made on the District's accounts for his personal use. The former Fire Chief will be required to repay the District approximately \$765 for the items purchased.

As part of our disbursement testing, we also reviewed all bank statements for any non-check withdrawals or electronic transfers during our audit period. We found one non-check withdrawal for \$520 in January 2013 made by the former Secretary-Treasurer, that was not authorized by the Board. There was no claim on file to support the payment. The former Secretary-Treasurer stated that the withdrawal was made to pay the former Fire Chief for plowing services. She told us the claim was paid with cash because the checkbook was not available due to the review of the District's records being performed by the law firm. Due to the lack of supporting documentation related to this withdrawal, we were unable to confirm her assertion.

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 OSC within 60 days after the close of the fiscal year.
2. The Board should require that the Secretary-Treasurer maintain accounting records for all bank accounts and reconcile the accounts monthly. Bank reconciliations for all accounts should be presented to the Board for review, along with the supporting bank statement and images of the fronts and backs of canceled checks.
3. The Board should perform an annual audit of the Secretary-Treasurer's records and document the results in the minutes.⁶
4. The Board should adhere to the statutory timetable when preparing, presenting and adopting the annual budget, as well as calculating the statutory property tax limit.
5. The Board should adopt an investment policy, procurement policy and code of ethics, as required by statute. The Board should review these policies at least on an annual basis and update them as necessary.

⁵ The District withheld payments to the vendors for portions of these invoices.

⁶ For guidance on conducting annual audits, District officials should refer to our publication entitled *The Internal Audit Process for Fire Districts* (www.osc.state.ny.us/localgov/firedist/internalauditprocess.pdf).

6. The Secretary-Treasurer should not pay any claims, other than those allowed by law, which have not been audited and approved by the Board.
7. The Board should conduct a deliberate and thorough audit of claims before authorizing them for payment to determine if they are accurate, supported by proper documentation and for valid District expenditures.

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.

We thank District officials 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.

**McConnellsville Fire District
8480 Mill Pond Way
Blossvale, NY 13308
Phone 1-315-245-2118**

Date: March 27, 2014

Subject: Report No. 2014M-19
Acknowledge Receipt

To: Rebecca Wilcox Chief Examiner

The McConnellsville Fire District acknowledged receipt of the audit report concerning the audit performed for McConnellsville Fire District. We understand the report is a draft copy and we have an opportunity to provide our input.

The audit was conducted at the request of the McConnellsville Board of Commissioners due to numerous personnel changes within the department. The board has reviewed the report and recommendations. The board feels the report is accurate and has no comments to add.

The Board of commissioners next scheduled meeting, April 14, 2014, the suggested recommendations will be review and corrective actions plan finalized. The corrective action plan will be forwarded to your office within the 90 day period.

The board thanks you for reacting to our request in a timely manner and providing a detailed audit report. The recommendations and comments from your audit team will ensure our future success.

Debra Armstrong
Chairman
McConnellsville Fire District
8480 Mill Pond Way
Blossvale, NY 13308