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August 1, 2014

Richard Funck, Chairperson
Members of the Board of Fire Commissioners
Middletown-Hardenburgh Fire District
PO Box 201
Margaretville, NY 12455

Report Number: 2014M-141

Dear Mr. Funck 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 Middletown-Hardenburgh Fire District (District) which addressed the following question:

- Did the Board of Fire Commissioners (Board) ensure that the Treasurer properly recorded and reported cash disbursements and receipts?

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. District officials generally agreed with our recommendations and indicated they have taken, or plan to take, corrective action.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Towns of Hardenburgh and Middletown, located in Delaware and Ulster counties. The District's general fund appropriations budget totaled approximately \$325,000 for the 2014 fiscal year.

The Board comprises five members, including the Chairman, 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 and for disbursing and accounting for them, for preparing monthly and annual financial reports and for meeting any other reporting requirements. The District provides fire protection

services to the Towns of Hardenburgh and Middletown as well as a town, village and another fire district in Delaware County.

We examined the internal controls over the District's financial operations for the period January 1, 2013 through March 26, 2014. 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, the Board should establish a system of controls comprising policies and procedures to ensure that transactions are authorized, properly recorded and reported and that the District complies with applicable laws, rules and regulations. The Board is also responsible for performing a thorough audit of claims before they are paid to ensure that District funds are used for only legitimate District expenditures. Town Law requires that all cash received be deposited within 10 days.

We found that, although the Board has developed certain policies and procedures, they are not sufficient to ensure that the Treasurer properly records and reports cash disbursements and receipts.

Disbursements – The Treasurer prepares the bill packages¹ and list of bills for Board approval, records disbursements (including payroll), signs the checks and accurately reconciles the bank accounts. Additionally, the Treasurer can perform transfers between the District's banks with limited oversight. One commissioner reviews the bank reconciliations, bank statements, canceled check images and transfers on a monthly basis; however, he does not compare the canceled check images to the Board-approved list of bills. Moreover, one commissioner thoroughly audits the claims, in place of the entire Board. The rest of the Board members review and approve the list of bills. Therefore, the Board cannot be sure that there are no unauthorized disbursements.

We tested 25 canceled checks totaling \$432,200 and found three checks totaling almost \$12,400 that were not put through the formal audit process. The Treasurer stated these did not go through the normal audit process because they were transactions that the Board was already aware of. Although these checks were for legitimate District expenditures, the lack of a proper claims audit by the entire Board increases the risk of erroneous or inappropriate payments.

Receipts – The Treasurer collects, records and deposits cash receipts. Even though the one commissioner reviews the bank reconciliations and bank statements, this process would not determine if any money was received but not recorded or deposited. We reviewed 19 cash receipts totaling \$612,700 and found seven totaling \$79,200 that were not deposited in a timely manner, up to six weeks after receipt. The Treasurer told us that she made five of these deposits

¹ Bill, or claim, packages typically include invoices, approved purchase requests or purchase orders and any other documentation necessary to explain the expenditure.

after being away from the office for some time, and indicated that she sometimes holds payments for deposit until other payments of the same type are received (for example, for tower rentals). When cash receipts are not deposited in a timely manner, there is an increased risk that District moneys could be lost or stolen.

Lastly, although the District has written investment and procurement policies and a code of ethics, it does not have any formal, written financial procedures. Further, the Board does not review its investment and procurement policies regularly to ensure that they are complete and up to date. As a result, the policies could be ineffective or not properly followed.

Although our audit did not find any material discrepancies, these control weaknesses increase the risk of errors or irregularities occurring in the District's disbursement and cash collection processes without timely detection and correction.

Recommendations

1. The Board should implement better controls, including the following:
 - Someone not involved in the disbursement process should compare the canceled check images to the Board-approved list of bills,
 - Someone not involved in the funds transfer process should approve the bank transfers before they are made,
 - All the commissioners should thoroughly audit the bill packages prior to approval, and
 - Someone not involved in the receipts process should ensure that all moneys received are properly recorded and deposited.
2. The Treasurer should make deposits in a timely manner. The Board should authorize someone to make deposits when the Treasurer is absent.
3. The Board should adopt written financial procedures, to include the above controls, and review its policies annually.

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 Middletown-Hardenburgh 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.

Middletown-Hardenburgh Fire District
PO Box 201 Margaretville, NY 12455

July 21, 2014

Office of the State Comptroller
Binghamton Regional Office
44 Hawley St, Suite 1702
Binghamton, NY 13901

Re: Report Number: 2014M-141 --- Audit Response

The Board of Fire Commissioners would like to thank the team from your office that recently conducted an onsite fiscal audit. The Commissioners and its officers take pride in their acknowledgement of municipal law and our responsibility to the taxpayers of the Middletown- Hardenburgh Fire District. Your audit findings prove the effectiveness of our controls and attention to detail; in particular we are very appreciative that our audit found no indication of fraud, theft, or any other misconduct by the Fire District's officials.

In response to your recommendations:

1:

- Cancelled check images are currently reviewed by one commissioner at each monthly meeting, and this commissioner is not involved in the disbursement process. A list of prior month's bills with check numbers could be helpful in this process.
- We were aware the treasurer processes bank transfers based on monthly expenses.
- The commissioners annually appoint one member to audit the bills and sign off on them. Then during the monthly meeting all bills are reviewed by entire board prior to approval.
- Currently the treasurer receives all revenues, then records & deposits them. This information is provided on the monthly audit checklist and the amount is shown on the monthly treasurer's report.

2: The Board of Fire Commissioners and their treasurer now recognizes the law in making timely deposits.

3: The board acknowledges they currently do not have a written financial policy.

The Board of Fire Commissioners will continue to follow best practices and diligently oversee the District's fiscal activities while safe guarding it resources. Our corrective action plan letter will follow this response.

Sincerely,

Richard Funck
Chairman

cc: Fire Commissioners
Secretary/Treasurer