



# Walden Fire District Disbursements

## Report of Examination

Period Covered:

January 1, 2013 — February 18, 2014

2014M-184



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

October 2014

Dear District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Fire Commissioner governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of Walden Fire District, entitled Disbursements. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Walden Fire District (District) is a district corporation of the State, distinct and separate from the Town of Montgomery and Orange County in which it is located. The District covers 26 square miles and serves about 11,300 residents. The District's 2013 general fund budget totaled approximately \$860,690 and was funded primarily with real property taxes.

The District is governed by an elected five-member Board of Fire Commissioners (Board). The Board is responsible for the District's overall financial management. The Board appoints a Treasurer<sup>1</sup> who acts as the District's chief fiscal officer and is responsible for the receipt and custody of District funds, disbursing and accounting for those funds and preparing monthly and annual financial reports.

## Objective

The objective of our audit was to determine whether the Board properly monitored the District's disbursements. Our audit addressed the following related question:

- Did the Board properly monitor and establish adequate internal controls over District disbursements?

## Scope and Methodology

We examined selected cash disbursements for the period January 1, 2013 through February 18, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix C of this report.

## Comments of District Officials and Corrective Action

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 disagreed with the findings and recommendations in our report. Appendix B includes our comment on an issue raised in the District's response letter.

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

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<sup>1</sup> The Treasurer mentioned in the report left the District at the end of 2013. In 2014, the District hired an outside vendor to assist with the Treasurer's duties.

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 District Clerk's office.

## Disbursements

The Board is responsible for overseeing the District's fiscal activities and safeguarding its resources. These responsibilities include establishing a system of internal controls consisting of policies and procedures that provide reasonable assurance that cash and other resources are properly safeguarded. Such policies and procedures ensure that District transactions are authorized and properly recorded; financial reports are accurate, reliable and filed in a timely manner; and the District complies with rules and regulations. These responsibilities also include ensuring that one individual does not control all aspects of financial transactions or that compensating controls are implemented when it is impractical to adequately segregate key financial duties.

The District did not have procedures for disbursements. In addition, the Board did not properly segregate the Treasurer's duties or implement effective compensating controls over the Treasurer's work. The Board also did not conduct an independent review of the bank statements or ensure that bank reconciliations were performed. As a result, there is an increased risk that fraud and abuse could occur without detection.

### Policies and Procedures

A good system of internal controls over disbursements consists of policies and written procedures that provide a local government with reasonable assurance that its resources are being safeguarded. It is essential that the District establish policies and procedures and guidelines to help ensure that disbursements are accurate and transactions are authorized and properly recorded.

While the Board has adopted multiple policies addressing purchasing, financial policy, officers code of conduct, payroll, refreshments at events and travel, the Board has not adopted written procedures for disbursements that clearly provide guidance to staff.

Although we did not find any material errors or discrepancies when testing a sample of disbursements, the District's lack of written procedures in this area increases its risk that inappropriate transactions could be initiated and remain undetected.

### Segregation of Duties

The Board is responsible for ensuring that financial duties are properly assigned so that one individual cannot perform all aspects of a financial transaction. If it is impractical to adequately segregate all financial duties, the Board must implement compensating controls, such as requiring independent reviews of the work of the individual

who has incompatible financial duties or requiring additional supervisory oversight of that individual, to ensure that District moneys are used only for legitimate purposes. District officials also should perform monthly bank reconciliations to verify the accuracy of cash disbursements and to ensure the timely identification and documentation of differences between the District's cash balances and those reported by the bank.

For most of the 2013 fiscal year, the District did not adequately segregate key financial duties or implement compensating controls. The Treasurer handled all aspects of financial transactions, including signing and mailing checks, recording disbursements and making wire transfers of District funds. All checks were processed manually using a typewriter and then entered into the accounting system. In addition, the Treasurer never prepared bank reconciliations.

The District made approximately \$570,102 in disbursements during 2013. We reviewed a random sample of 50 disbursements totaling approximately \$56,372 paid in 2013. While we found minor discrepancies,<sup>2</sup> all of the disbursements that we reviewed appeared to be properly authorized and for proper District purposes. We also compared and tracked all cash disbursement transactions, bank transfers and the Treasurer's payroll payments for January through December 2013 and compared all of these transactions with the amounts reported on the bank statements for the same period to ensure the validity of the payments and amounts and found only minor discrepancies.<sup>3</sup>

While there were only minor discrepancies, because the District did not have policies and procedures or implement properly designed internal controls, it had an increased risk that fraud and abuse could occur without detection.

In November 2013, the Board implemented a compensating control requiring more than one signature on checks. In 2014, the District further segregated some duties and implemented additional controls. For example, the secretary was assigned the responsibility of opening the mail. The District began requiring checks to be processed through the accounting system, two Board members now sign all checks and the District's outside vendor is required to perform monthly bank reconciliations. This outside vendor also serves as the District's bookkeeper and reviews and assists with the District's accounting

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<sup>2</sup> One voucher was missing the required number of signatures, one claim was missing a receipt and another claim was not paid in full, according to the invoice.

<sup>3</sup> We reviewed only the former Treasurer's payroll because he controlled every aspect of the cash disbursement process, including writing his own payroll checks.

functions. Although these new procedures provide an adequate segregation of duties, the Board should ensure they are documented in written form and formally adopted.

## **Recommendations**

The Board should do the following:

1. Adopt written procedures to provide guidance for District staff on the disbursement function.
2. Formally adopt written policies and procedures that adequately segregate financial duties and indicate where it has provided compensating controls when segregating duties is impractical.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following pages.

# Walden Fire District

## PO Box 264

### Walden, NY 12586

September 26, 2014

Tenneh Blamah  
33 Airport Center Dr.  
Suite 103  
New Windsor, NY 12553

Dear Chief Examiner:

We are the attorneys for the Walden Fire District. We are responding on behalf of the Fire District to your comments on the audit. Usually, we are more than willing to provide a plan of correction to your comments, but in this instance, we take exception to the comments.

Initially, you provided us a draft comment which asserted that the Fire District had no financial policies. As you were aware, the financial policies and procedures were provided to you. You corrected your comments.

However, now, you state as your only comment "The Board should do the following:

1. Adopt written procedures to provide guidance for District staff on the disbursement function. "

Honestly, we have no idea what you are suggesting. We have again attached the financial policy below. The Board has already adopted and adheres to very strict policies and procedures on the disbursement functions of the Fire District. This document provides strict guidance on how funds are disbursed. If you have additional suggestions which you did not previously share, please advise.

See  
Note 1  
Page 10

We instead ask that you again revise your review of our policies to reflect the significant protections that the Fire District already institutes.

Very truly yours,

PINSKY LAW GROUP, PLLC

By:

Bradley M. Pinsky

Walden Fite District  
Commissioner Roy Werner

## **APPENDIX B**

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

#### Note 1

Although the District has a financial policy, its procedures are inadequate and do not fully address employee responsibilities concerning the disbursement process. We provided suggestions to a Commissioner and website links to handbooks that contain guidance on what should be included in standard disbursement procedures.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by the Board to safeguard District assets. To accomplish this, we performed an initial assessment of internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements and purchasing.

During the initial assessment, we interviewed District officials, performed limited tests of transactions and reviewed pertinent documents, such as Board minutes and financial records. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated these weaknesses for the risk of potential fraud, theft or professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected the District's controls over financial operations for further audit.

To accomplish our audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials to gain an understanding of the policies and procedures used to control, record and monitor financial assets and transactions.
- We reviewed Board minutes to determine whether financial activities were properly authorized and to assess the extent of Board oversight.
- We reviewed District records to verify the amount of total disbursements and transfers for 2013.
- We compared computer processed accounting records to bank statements to verify that all transactions were captured and valid.
- We reviewed the District's financial records and reports.
- We obtained and reviewed bank statements and canceled check images
- We tested claims vouchers for accuracy and validity.
- We reviewed selected disbursements and payroll disbursements for accuracy.
- We reviewed abstracts (lists of claims) and compared them for completeness.

We conducted this performance audit in accordance with GAGAS. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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