



Pulteney Fire District No. 2

Misappropriation of Funds

Report of Examination

Period Covered:

January 1, 2009 – July 24, 2014

2014M-308



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2015

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 Commissioners 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 the Pulteney Fire District No. 2, entitled Misappropriation of Funds. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Pulteney Fire District No. 2 (District), located in Steuben County, is a district corporation of the State, distinct and separate from the Town of Pulteney. The District has one fire department, the Pulteney Volunteer Fire Department. The District's 2014 budget totaled \$229,350 and was funded primarily through real property tax revenue.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The Treasurer serves as the District's chief fiscal officer and is responsible for receiving, disbursing, maintaining custody of and accounting for District funds, preparing monthly and annual financial reports and meeting any other reporting requirements. The Secretary is responsible for recording the proceedings of Board meetings and retaining the District's records.

Scope and Objective

The objective of our audit was to examine the District's financial operations for the period January 1, 2009 through July 24, 2014.¹ Our audit addressed the following related question:

- Are District controls adequate to ensure that financial activity is properly recorded and reported and that District moneys are safeguarded?

Audit Results

District controls were not adequate to ensure that financial activity was properly recorded and reported and that District moneys were safeguarded. As a result, the former Treasurer misappropriated \$9,224 in District funds and made an additional \$709 in questionable payments to her husband. The former Treasurer misused District funds by writing herself extra salary payments, paying for personal items with District funds and issuing checks for a variety of unsupported payments made either to herself or her husband. Reimbursements by the former Treasurer amounted to \$748 at the completion of our fieldwork. The former Treasurer was able to use District funds inappropriately because the Board did not provide adequate oversight of her duties. The Board failed to properly segregate her duties or establish mitigating internal controls.

On September 24, 2014 the former Treasurer was charged with grand larceny in the third degree for stealing from the District.

¹ We conducted detailed testing of financial activity through February 2014, as this was the last completed month at the start of fieldwork.

Comments of District Officials

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 planned to take corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Introduction

Background

The Pulteney Fire District No. 2 (District), located in Steuben County, is a district corporation of the State, distinct and separate from the Town of Pulteney. The District has one fire department, the Pulteney Volunteer Fire Department. The District's 2014 budget totaled \$229,350 funded primarily through real property tax revenue.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The Treasurer serves as the District's chief fiscal officer and is responsible for receiving, disbursing, maintaining custody of and accounting for District funds, preparing monthly and annual financial reports and meeting any other reporting requirements. The Secretary is responsible for recording the proceedings of Board meetings and retaining the District's records.

The former Treasurer was re-elected to a three-year term beginning January 2013. During her terms as Treasurer, she also served as the Board-appointed Secretary and building rental manager² until her resignation in July 2013. The current Treasurer was appointed on August 19, 2013 to fill the position and serve as the Secretary through 2014, when an election would occur. The Board-appointed Deputy Treasurer (Deputy) acted as the Treasurer during the transition period.

At our entrance conference, District officials informed us that in December 2012, the fire chief questioned a purchase made in November 2012. Upon further review, District officials found that the former Treasurer inappropriately purchased a tool costing \$548 for her husband's business that was paid for with District funds. After contacting their attorney, District officials engaged a certified public accountant (CPA) in April 2013 to complete a review of the District's financial records for the period January 1, 2012 through June 30, 2013. While waiting for the review, District officials found the former Treasurer also overpaid herself \$400 in 2012 and \$200 in 2013. In July 2013, the former Treasurer resigned and repaid \$748. Because of this partial repayment, District officials did not notify law enforcement or our office at that time.

On September 24, 2014 the former Treasurer was charged with grand larceny in the third degree for stealing from the District.

² The building rental manager is responsible for the rental of the building, including scheduling, executing rental contracts, receiving and depositing cash and reporting on rental activity.

Objective	<p>The objective of our audit was to examine the District’s financial operations. Our audit addressed the following related question:</p> <ul style="list-style-type: none"> • Are District controls adequate to ensure that financial activity is properly recorded and reported and that District moneys are safeguarded?
Scope and Methodology	<p>We examined the District’s financial activity and internal controls over financial operations for the period January 1, 2009 through July 24, 2014.³</p> <p>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.</p>
Comments of District Officials and Corrective Action	<p>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 planned to take corrective action. Appendix B includes our comments on issues raised in the District’s response letter.</p> <p>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, <i>Responding to an OSC Audit Report</i>, which you received with the draft audit report. The Board should make the CAP available for public review in the Secretary’s office.</p>

³ We conducted detailed testing of financial activity through February 2014, as this was the last completed month at the start of fieldwork.

Misappropriation of Funds

The Board is responsible for protecting District moneys from loss, misuse or abuse by developing and implementing a system of internal controls which provides reasonable assurance that District resources are adequately safeguarded and that all financial activities are accounted for properly. The Treasurer is responsible for the accurate and complete accounting of all moneys received and disbursed from District funds and is required to maintain adequate accounting records that serve as the basis for preparing accurate monthly and annual reports to the Board. It is essential that all receipts, including cash received for hall rentals, are properly recorded and promptly deposited and that disbursements are made only as authorized by the Board for proper and valid District expenditures.

District controls were not adequate to ensure that financial activity was properly recorded and reported and that District moneys were safeguarded. The former Treasurer misappropriated \$9,224 in District funds and made an additional \$709 in questionable payments to her husband. Specifically, we found that the former Treasurer overpaid herself \$4,900 and used District funds to inappropriately purchase \$2,649 in tools from a vendor, including a tool costing \$548 for her husband's business. The former Treasurer also misappropriated funds by making check disbursements to herself, petty cash, cash and for questionable payments to her husband. The former Treasurer also did not maintain accurate financial records, prepare and present accurate monthly or annual reports to the Board or deposit revenue for hall rentals timely. These misappropriations and questionable payments occurred because the Board did not provide sufficient oversight of financial operations.

Figure 1: Misappropriated Funds and Questionable Payments

Description	Amount
Misappropriated Funds:	
Excess Payroll Payments to the Former Treasurer	\$4,900
Tool Purchases for Personal Use	\$2,649
Unsupported Checks	\$1,675
Sub-Total	\$9,224
Questionable Payments to the Former Treasurer's Husband	\$709
Total Misappropriated Funds and Questionable Payments	\$9,933

As of the completion of our fieldwork, the former Treasurer reimbursed the District \$748, leaving a net balance of misappropriated and questionable payments of \$9,185. Had the Board more closely

reviewed bank records, the overpayments to the former Treasurer may have been identified sooner, instead of continuing to go unnoticed over a four-year period.

Treasurers' Activities

The Treasurer is required to maintain adequate accounting records to document the receipt and disbursement of all District funds. As Secretary she is also responsible for retaining custody of all District records. It is essential to ensure that all disbursements are for valid District purposes and supporting documentation is maintained for all disbursements. Supporting documentation could include invoices, receipts or other records providing the date and purpose for each disbursement.

Financial Records – The former Treasurer did not maintain complete or accurate financial records or supporting documentation for disbursements or receipts. District officials were unable to provide records for the years 2010 and 2011 for our review, including bank statements, canceled check images, financial records, financial reports, claims with supporting documentation and Board minutes.

During the former Treasurer's tenure, she kept the District's financial records at her residence. After District officials were unable to locate any records for 2010 and 2011 at the fire hall for our audit, they requested that the former Treasurer return the records. Although the former Treasurer informed officials that she returned these records to the fire hall upon her resignation, it is unclear if the records were actually returned and misplaced as she suggested or if she still has them. In addition, District officials did not have copies of the budgets for the years 2009 through 2013. Further, the financial records and reports maintained by the former Treasurer that were available for 2009, 2012 and 2013 were not accurate. As a result, District officials did not have adequate financial information to make informed financial decisions and the former Treasurer's misuse of District funds went undetected.

The current Treasurer maintains all financial records at the fire hall and prepares timely and accurate financial reports for the Board's review. In order to provide the Board with accurate financial information, she recreated the District's financial records for the beginning of 2013 by using the specific receipts and disbursements listed on the bank statements.

Cash Disbursements – Due to the inappropriate payments identified, we reviewed all 1,354 disbursements totaling \$1,531,502⁴ made from

⁴ This disbursement total and those without supporting documentation include bank transfers, which were made by check.

January 1, 2009 through February 27, 2014 to determine if they were for proper District purposes and properly supported. We found that 588 disbursements totaling \$1,193,764 did not have any supporting documentation⁵ and an additional 69 disbursements totaling \$40,415 did not have adequate supporting documentation. While the District Chairman believes the majority of these payments were for District expenditures, the lack of supporting documentation increases the risk that payments were made that were not valid District expenditures and were not identified as misappropriated or questionable by our audit. As a result, the District could not ensure the validity of all of these payments.

However, we identified certain payments that were improper or questionable. These disbursements include:

- Improper Payroll Payments to the Former Treasurer – The former Treasurer received \$4,900 more than her authorized \$5,400 salary payments for the audit period. The former Treasurer received 21 payments totaling \$10,300 during the audit period. Thirteen payments, totaling \$6,900, were made to the former Treasurer with the check memo line indicating a salary payment. In addition, there were eight disbursements, totaling \$3,400, that were similar even-dollar amounts. However, no description was provided for the eight disbursements. Therefore, she received \$4,900 more than her authorized salary amount of \$5,400.⁶

The former Treasurer reimbursed the District \$200 in July 2013 for the 2013 overpayments. The District was expecting an additional payment of \$400 (for 2012 salary overpayments) from the former Treasurer. However, as of the end of our fieldwork, the District had not received the payment.

- Tool Purchases for Personal Use – The Treasurer purchased tools, totaling \$2,649, for use in her husband’s business. In November 2012 the former Treasurer purchased a \$548 tool on the District’s account for her husband’s business.⁷ The former Treasurer did not submit a voucher for this purchase and made the payment without the Board’s approval. When the fire chief questioned the expenditure, the former Treasurer provided District officials with the statement from the vendor. District officials informed us that the former Treasurer told

⁵ Mainly due to the absence of records for 2010 and 2011

⁶ In a statement to the Steuben County Sheriff’s Office, the former Treasurer stated, “There may have been times that I overpaid myself and thought I would pay it back but never did.”

⁷ Documentation was not made available identifying the type of tool.

them that it was a mistake and that she forgot to pay the District back for the purchase. The Chairman stated that he thought that the \$548 was then repaid. However, he found out months later during the internal Board audit that she did not repay the amount. It was not until further requests were made by District officials that the former Treasurer repaid the \$548 in July 2013.

Due to this inappropriate purchase and the lack of supporting documentation for other payments to this vendor, we requested that the current Treasurer obtain information from the same vendor regarding purchases on the District's account. The vendor provided two invoices totaling \$105⁸ for purchases that were made by the former Treasurer which were shipped to her personal residence and paid for with District funds. An additional six payments totaling \$1,996 were made by the former Treasurer to this vendor from District funds. The vendor had no record of these purchases being made by the District and District officials did not believe the purchases were made on the District's behalf.

- **Unsupported Checks** – The former Treasurer wrote unsupported checks totaling \$1,675. She wrote checks totaling \$300 to herself with the memo line description of deposit rental returns and checks totaling \$1,375 to cash⁹ and petty cash. The Chairman stated that the District did not use a petty cash fund and it was not authorized. Additionally, he stated that rental deposit returns should have been made by check to the individual, not in cash.
- **Unsupported Payments to the Former Treasurer's Husband** – The former Treasurer made \$709 in unsupported payments to her husband. The former Treasurer's husband did small repair jobs for the District during the audit period. However, the Chairman was unable to verify the work performed for three payments totaling \$665. In addition, one payment of \$44, with the check memo description of stamps, was unsupported. Because there is no supporting documentation and one check, payable to the husband, was signed by the former Treasurer instead of the Deputy, it is questionable that these were appropriate District expenditures.

⁸ In a statement to the Steuben County Sheriff's Office, the former Treasurer stated she did purchase and pay for these items out of District funds and had "no idea" if she had reimbursed the District. We did not find evidence of reimbursement.

⁹ Some of these checks also included a description for deposit return.

Hall Rental Receipts – We found that the former Treasurer did not deposit hall rental revenue in a timely manner and did not maintain or provide sufficient information to the Board to ensure that all hall rental revenue was properly accounted for. Although the rental manager is supposed to obtain rental agreements and maintain a schedule of rentals, the Board was unable to provide any hall rental records for most of the period the former Treasurer held the rental manager position. There were no rental contracts or records for January 2009 through January 2013 and limited rental reports for January through June 2013.¹⁰ This occurred because the Board allowed the former Treasurer to control the hall rental process without any oversight. Therefore, the District cannot confirm that all rental fees were collected and deposited. Further, the Chairman informed us that, when the former Treasurer left, he found about 35 undeposited checks for hall rentals that he could not deposit because the checks were outdated.

The District and taxpayers have no assurance that the former Treasurer did not misappropriate moneys collected for hall rentals. To ensure that District funds are properly accounted for, it is imperative that the records are accurate, complete, properly retained and available for review.

Board Oversight

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 to provide reasonable assurance that District moneys are protected and properly accounted for. This system should consist of policies and procedures¹¹ that ensure financial duties are adequately segregated or compensating controls are in place, transactions are authorized and properly recorded and financial reports are accurate, reliable and timely. Additionally, the Board is required to audit all claims and to conduct an annual audit of the Treasurer's records or obtain an independent audit when annual revenues exceed \$200,000¹² to help identify errors and irregularities and help ensure that District funds are used for only legitimate District expenditures. Further, 2006 legislation enacted several laws to strengthen oversight of fire districts including GML Section 6-g which provides requirements for the establishment of capital reserve funds.

¹⁰ More detailed reports were available beginning in September 2013, when the new rental manager started.

¹¹ General Municipal Law (GML) requires an investment policy and procurement policy for all purchases that do not require competitive bidding. Good business practice dictates that written policies and procedures be developed for all aspects of financial operations.

¹² GML was amended to increase the revenue threshold to \$300,000 effective for 2013.

The Board did not adequately safeguard the District's money or ensure that financial activity was properly recorded and reported. The Board did not adopt policies required by GML or sound business practices to adequately segregate the former Treasurer's duties and did not provide adequate oversight as a compensating control. The Board did not adopt an investment policy or adequate procurement policy¹³ and did not adopt policies for financial operations such as cash receipts and disbursements, claims processing, budgeting and information technology (IT).¹⁴ As a result, all financial and hall rental activities were performed solely by the former Treasurer for most of the audit period¹⁵ and the Board did not implement compensating controls.

The Board did not receive or review bank statements, canceled check images or reconciliations. The Board also did not ensure that records and reports were accurately maintained and properly retained, revenue was properly accounted for and deposited timely and annual reports were accurate. Additionally, the monthly reports that the Treasurers provided to the Board contained year-to-date information; however, the reports did not include the months' total receipts and disbursements. Further, the Board did not perform, or contract¹⁶ for, the required audit of the former Treasurer's records until contracting for a CPA review in April 2013.

Although the Board audits claims and signs off on the vouchers, this control did not track the total amount disbursed to the former Treasurer over the year. In addition, the Board minutes do not include the total number or dollar amount of claims approved. As a result, the Board does not have documentation for the claims that were audited and approved prior to payment which is needed to assure that only approved payments are made.

In 2012 the Board implemented the practice of the Deputy signing checks made out to the former Treasurer and her husband. This practice was insufficient because the Deputy was not provided with any documentation to support a payment when signing the check.

¹³ A limited procurement policy was adopted October 28, 2013 and does not address all requirements.

¹⁴ There is an insufficient disaster recovery plan and there are no other written IT policies including policies for computer use, passwords, wireless access, remote access, online banking and the disposal and sanitation of computer equipment.

¹⁵ With the exception of some checks written to the former Treasurer and her husband being signed by the Deputy in 2012 and 2013

¹⁶ The District's 2010, 2011 and 2012 revenues exceeded the \$200,000 threshold requiring an independent audit. The Chairman told us that the Board did not think that the District met the requirement. Although the former Treasurer incorrectly reported revenue on the annual report, the Board should have known that the tax levy in each of these years exceeded the threshold to require the independent audit.

Additionally, the Board did not establish policies or procedures to guide the District's management in establishing and using reserve funds or the recordkeeping requirements of reserve funds.¹⁷ Therefore, we were unable to determine the purpose of the District's reserve funds (reserves)¹⁸ and whether or not they were established correctly because the District did not provide us with the required documentation. The District reported three reserves in its financial records with a total balance of \$188,031 as of December 30, 2013. District officials did not provide us with resolutions or other documentation as to the purposes of the reserves or the exact date the reserves were established. The Chairman told us that he did not know if the reserves were established by resolution or not. Depending on the date of establishment and purpose of the reserves, different rules may apply for public participation in the establishment of and expenditures made from the reserves.¹⁹

Further, the Board was not aware of where all reserve fund moneys were deposited. The Board authorized the former Treasurer to open and renew certificates of deposit at the bank with the best interest rate. However, the former Treasurer did not inform the Board as to which bank the District's funds were deposited. The Chairman stated that, when the former Treasurer left, he had to contact the local banks to determine where District funds were deposited.

The Board started implementing corrective action to improve controls and oversight of financial operations after the former Treasurer left. On August 26, 2013 the Board adopted job descriptions that include requirements for certain records and information to be regularly provided to the Board. Additionally, the District now requires two signatures on all checks and, as of October 2013, the Board is receiving and reviewing bank statements, canceled check images and reconciliations. While the Board also created a separate position for the building rental manager, rental agreements are not provided to the Treasurer and there is not a system in place to reconcile the rental receipts to the rental report and deposits.

¹⁷ Guidance is available in the OSC publication entitled *Local Government Management Guide: Reserve Funds* found at <http://www.osc.state.ny.us/localgov/pubs/lmgm/reservefunds.pdf>.

¹⁸ District officials can legally set aside, or reserve, portions of fund balance to finance future costs for a specified purpose.

¹⁹ Effective January 1, 2007, GML Section 6-g (3) was amended to require that any resolution establishing a capital reserve fund be subject to mandatory referendum. Prior to this amendment, the establishment of a capital reserve fund for a specific item of equipment or specific improvement be 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. GML Section 6-g(7) provides, in effect, that an expenditure from a capital reserve fund established for a type of equipment or improvement be subject to permissive referendum requirements.

Recommendations

The Board should:

1. Seek reimbursement from the former Treasurer for the amounts misappropriated.
2. Continue to review bank statements and reconciliations and provide appropriate oversight of financial operations.
3. Continue to ensure that the Treasurer maintains accurate financial records and provides the Board with complete, accurate and timely monthly financial reports.
4. Ensure that the Board minutes document the voucher numbers submitted, audited and approved and the aggregate amount to be paid.
5. Adopt an investment policy, a detailed procurement policy and policies and procedures needed to govern the District's financial operations and IT.
6. Contract for an annual audit of the Treasurer's records.
7. Establish a policy for maintaining, storing, securing and safeguarding District records.
8. Take steps to ratify and legalize the reserve funds by following the procedures for establishing a capital reserve fund in conformance with GML.
9. Adopt formal written policies to guide District management in establishing and using reserve funds and the recordkeeping for reserve funds.

The Treasurer should:

10. Review the settings in the financial software to generate budget-to-actual reports with monthly receipts and disbursements information.
11. Ensure that all District records are appropriately maintained and retained.

The building rental manager should:

12. Provide hall rental contracts to the Treasurer, and the Treasurer should use this information to reconcile the rental revenues with the deposits.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Pulteney Fire District # 2

8891 Brown Road
P.O. Box 33
Pulteney, N.Y. 14874

February 12, 2015

Edward V. Grant Jr.
Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
Rochester Regional Office
Muni-Rochester@osc.state.ny.us

Dear Mr. Grant,

The Board of Commissioners of the Pulteney Fire District # 2 wish to thank you for the thorough audit performed by your personnel, that helped us determine the extent of the misappropriation of funds that was taking place between January of 2009 and July of 2014. We truly appreciate the help and guidance provided by your office to the District. It will help us be more accountable and efficient in overseeing taxpayer funds as well as help us improve the operations of the Pulteney Fire District # 2.

The Board of Commissioners agrees with the findings with two exceptions that were discussed with the auditors on 1/22/15:

1. Page 10 - Chronology of \$548.00 charge to Blue Tarp Financial
 - o Initial discovery of the personal charge was in Dec. 2012
 - o Treasurer was told to immediately pay the company with a personal check
 - o Item was never posted in a Treasurer's report so the Commissioners were confident the matter had been resolved
 - o Internal audit on July 9, 2013 – discovered the payment had not been made and that the item had been paid for with District funds
 - o Former Treasurer presented a check for \$548.00 to the Internal Audit Committee dated the previous day, 7/8/13.
2. Page 13 - We would like to note that the District was aware of the locations of its reserve investments with the exception of two, which the Chairperson and current Treasurer were able to find in a banking institution where we have done business in the past.

See
Note 1
Page 18

The Board of Commissioners is requesting that this response letter be accepted as our response and our Corrective Action Plan (CAP). We have been implementing corrective actions since the Internal Audit in July of 2013, as well as implementing corrective actions recommended by the State Auditors during the entire OSC audit process.

Audit Recommendations and Corrective Actions:

The board should:

1. *Seek reimbursement from the former Treasurer for the amounts misappropriated.*
 - As advised by the State Auditors, a letter to the Steuben County DA has been written stating that we would like to seek restitution and be kept apprised of the status of the case against the former Treasurer

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2. *Continue to review bank statements and reconciliations and provide appropriate oversight of financial operations.*
 - Treasurer provides Commissioners with a copy of the balanced bank statement each month for review since August 2013
3. *Continue to insure that the Treasurer maintains accurate financial records and provides the Board with complete accurate and timely financial reports.*
 - The Board of Commissioners has, since February of 2012 been implementing controls to gain better financial oversight. Adopted policies and methods to date are:
 - Separation of duties:
 - Building rentals are no longer a responsibility of the Treasurer – a separate position was created and staffed in August of 2013
 - Separation of the Treasurer and Secretary Roles – 1/13/15
 - Assistant Treasurer makes all deposits - 2012
 - Dual signatures required on all checks March 2012
 - Treasurer no longer is allowed to be one of the signatures on any check compensating her or a member of her family. March 2012
 - Establishment of Job Descriptions with clearly outlined responsibilities – 8/26/13
 - Developed an Internal Audit process – March 2013
 - Established a Procurement Policy 10/28/13
 - Began budgeting money for external audits – Sept. 2014
 - Treasurer provides Commissioners with copies of balanced bank statements monthly since Aug. 2014
4. *Ensure that the Board minutes document the voucher numbers submitted, audited and approved and the aggregate amount to be paid.*
 - Adopted the use of a form which documents all of the above in 2012
5. *Adopt an Investment Policy, a detailed procurement policy, and policies and procedures needed to govern the District's financial operations and IT.*
 - Adopted an Investment Policy and Procedures document – 12/29/14
6. *Contract for an annual audit for the Treasurer's records.*
 - A yearly audit by the full Board of Commissioners is now required
7. *Establish a policy for maintaining, storing, securing and safeguarding District records.*
 - Adopted a Records Storage Policy – Drafter for adoption at our 2/23/15 meeting
8. *Take steps to ratify and legalize the reserve funds by following the procedures for establishing a capital reserve fund in conformance with GML.*
 - Board will review reserve funds at its February meeting and set a date for public hearings, etc., to legally extend the use of those reserve funds at its March meeting.
9. *Adopt formal written policies to guide District management in establishing and using reserve funds and recordkeeping for the reserve funds.*
 - Commissioners, Treasurer and Assistant Treasurer will seek out training and adopt policies and practices to properly establish and maintain records for the District's reserve funds.

See
Note 2
Page 18

See
Note 3
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Pulteney, N.Y. 14874

The Treasurer should:

10. *Review the setting in the financial software to generate the budget to actual reports with monthly receipts and disbursements information.*
 - Completed August of 2013
11. *Ensure that all District records are appropriately maintained and retained*
 - All District Officials will be required to follow the records storage policy once adopted at our 2/23/15 meeting

See
Note 4
Page 18

Building Rental Manager should:

12. *Provide rental contracts to the Treasurer and the Treasurer should use this information to reconcile the rental revenues with the deposits*
 - This practice to begin immediately with the next building rental
 - Commissioners directed that cash transactions are no longer acceptable. All monies are to be received and disbursed by check.

The entire Board of Commissioners for the Pulteney Fire District # 2 approved this response and Corrective Action Plan during an Executive Session at a special meeting 2/11/15.

Please let us know your determination of whether or not this communication meets the requirements for both the Audit Response Letter and the Corrective Action Plan.

Sincerely,

Donald Ballam
Pulteney Fire district # 2 - Chairperson

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Two Board members brought the date changes to our attention at the exit conference. We made the necessary corrections to the report.

Note 2

We found that certain controls were not effective because they were not being followed. For example, the Deputy did not make deposits, checks did not contain dual signatures until July 22, 2013 and the former Treasurer signed a check to her husband in 2013. In addition, the adopted procurement policy was inadequate.

Note 3

The Board minutes did not include this information.

Note 4

The budget-to-actual reports reviewed during fieldwork provided year-to-date information but did not include monthly receipts and disbursements information.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine internal controls put in place by the Board to safeguard District assets and ensure the proper recording and reporting of financial activity. We examined controls over the District's financial operations for the period January 1, 2009 through July 24, 2014. To achieve our objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials to gain an understanding of District operations and determine the internal controls in place.
- We reviewed District policies, the District's code of ethics, the CPA report, Board audit documents, corrective action plans, available Board minutes, financial records and reports and bank reconciliations of the current Treasurer.
- We requested District financial records for the audit period. The District was unable to provide any records for 2010 and 2011 (e.g., bank statements, canceled check images, vouchers, invoices, etc.). We requested that the District obtain bank statements, canceled check images and deposit compositions from the bank for the period January 1, 2009 through February 27, 2014. We reviewed all bank documentation to determine the cash receipts and disbursements that cleared the bank and to identify any unusual transactions.
- We compared disbursements (1,354 totaling \$1,531,502, including bank transfers) with claim vouchers and supporting documentation. We interviewed the District Chairman and fire chief to determine if vouchers had Board approval and disbursements were adequately supported and proper District expenditures. We also compared the total amount of payments made to the former Treasurer to her authorized compensation.
- We requested vendor statements from certain vendors and compared District payments to the vendor account history to determine if any disbursements to vendors were made for non-District purchases.
- We reviewed deposit compositions (revenue totaling \$1,565,971, including bank transfers) to identify any repayments made by the former Treasurer, to compare payments received with rental deposit returns (when there was sufficient information to determine who the returns were for) and to calculate the timeliness of deposits.
- We sent confirmations to four area banks to verify the existence of bank accounts and balances and determine if there were any unidentified bank accounts opened for the District.
- We compared the amounts in the District's annual financial reports to the revenues and expenditures identified through bank activity to determine if the reports filed by the District were accurate. We also compared the District's cash bank balance at the end of December 2013 to the District's 2014 budget appropriations to evaluate the District's financial condition.

- We reviewed transfers (made by check) from District accounts to determine if all money was appropriately deposited into District accounts.
- We obtained and reviewed copies of the District's budgets for 2010 through 2013 from the Town of Pulteney.
- We reviewed reserve fund balances and inquired about resolutions establishing the reserves.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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