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March 2017

Robert Lundquist, Chairman
Members of the Board of Fire Commissioners
Kenilworth Fire District No. 2
84 Hawthorne Avenue
Tonawanda, NY 14223

Report Number: 2017M-17

Dear Chairman Lundquist 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 Kenilworth Fire District No. 2 (District), which addressed the following question:

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

We discussed the results 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 agreed with our findings and recommendation and indicated they have initiated corrective action.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town of Tonawanda in Erie County. The District is primarily funded by real property taxes. The District's 2017 general fund budget totals approximately \$690,800.

The District is governed by a Board of Fire Commissioners (Board) consisting of five elected members responsible for the District's overall financial management. The Board appoints a Treasurer 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, preparing monthly and annual financial reports and meeting any other reporting requirements.

We examined the District's financial operations for the period January 1, 2015 through December 27, 2016. 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 financial 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 to ensure financial reports are accurate and reliable. It is also important that the Board provides oversight by periodically reviewing detailed monthly reports with supporting documentation, such as bank reconciliations and canceled check images. Board oversight is particularly important when a single individual has the ability to perform all aspects of a financial transaction.

While we found that the District's financial activity is properly recorded and reported and money is safeguarded, we also found that the Board does not provide sufficient oversight over the Treasurer, whose duties are not adequately segregated. The Treasurer is responsible for all aspects of the District's cash transactions, including receipting, disbursing and recording, as well as preparing bank reconciliations.

The Board reviews the check register that the Treasurer provides monthly and performs a proper claims audit. However, the Board does not review the bank reconciliations or canceled check images. Further, while the Board annually contracts with a certified public accounting firm to perform an annual audit, the Treasurer does not provide monthly financial reports to the Board during the year. These budget-to-actual revenue and expenditure status reports could serve as a tool for the Board to perform its oversight duties.

We reviewed all check payments totaling approximately \$540,000, wire transfers for payments of debt principal and interest totaling approximately \$375,000 and transfers between and within the District's bank accounts totaling approximately \$900,000 for the period October 1, 2015 through September 30, 2016 to determine whether the disbursements and transfers were properly authorized and supported. We found that all were properly authorized, supported and for an appropriate District purpose.

Because the Treasurer performs incompatible duties that are not properly segregated with little Board oversight, a periodic review of the monthly budget-to-actual status reports and bank reconciliations could provide mitigating controls. Although we did not find any material discrepancies, there is a risk that errors and irregularities could occur and not be detected or corrected in a timely manner.

Recommendation

1. The Board should provide oversight of the Treasurer's duties throughout the year, including a periodic review of the Treasurer's monthly budget-to-actual revenue and expenditure reports, bank reconciliations and supporting documentation, such as bank statements and canceled check images.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of New York State Town Law, a written corrective action plan (CAP) that addresses the findings and recommendation 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 and staff of the Kenilworth Fire District No. 2 for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

KENILWORTH FIRE DISTRICT No. 2

TOWN OF TONAWANDA
84 HAWTHORNE AVENUE
BUFFALO, NEW YORK 14223
Phone/Fax 716-834-1007

March 21, 2017

Mr. Gabriel Deyo
Deputy Comptroller
110 State Street
Albany, New York 12236

Dear Mr. Deyo:

The Board of Fire Commissioners has responded to recommendations and implemented corrective action plan (CAP) immediately. The corrective action plan consists of the District Treasurer monthly report will now include a budget to actual revenue and expenditure report. This report will also be included into the monthly meeting minutes. The other corrective action plan is Board of Fire Commissioners will review bank reconciliations reports with bank statements and canceled checks. After completing the review, both reconciliation report and bank statement will be signed.

Sincerely yours,
Board of Fire Commissioners
Kenilworth Fire District No. 2

Robert D. Lundquist
Chairman