



Richland Fire District Board Oversight

Report of Examination

Period Covered:

January 1, 2015 — July 31, 2016

2016M-374



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2017

Dear Fire 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 the Richland Fire District, entitled Board Oversight. 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 Richland Fire District (District) is a district corporation of the State, distinct and separate from the Town of Richland in Oswego County. There is one fire company located within the District, the Richland Fire Company, whose members comprise the District's fire department (Department). The District's 2016 general fund budgeted appropriations totaled \$72,920 and were funded primarily by real property taxes.

The Board of Fire Commissioners (Board) is composed of five elected members and is responsible for the District's overall financial management and safeguarding its resources. The Board appoints a Secretary-Treasurer (Treasurer) who is the District's chief fiscal officer. The Treasurer 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 financial reporting requirements. The Treasurer is also responsible for keeping a complete and accurate record of all Board meeting proceedings and Board-adopted rules and regulations.

Objective

The objective of our audit was to examine internal controls over District financial operations. Our audit addressed the following related question:

- Did the Board provide adequate oversight of District financial operations?

Scope and Methodology

We examined the District's internal controls over financial activities for the period January 1, 2015 through July 31, 2016. We extended our scope period back to January 1, 2012 to determine the amount of foreign fire insurance money received by the District.

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 are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

**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 generally agreed with our recommendations and indicated they planned to initiate corrective action.

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 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.

Board Oversight

The Board is responsible for overseeing the District's financial activities and safeguarding its resources. To fulfill these duties, it is essential that the Board develop and implement policies and procedures to help ensure transactions are authorized and properly recorded, claims are reviewed and approved before payment and applicable laws, rules and regulations are followed.

The Board needs to improve its oversight of District financial operations. The Treasurer maintains custody of foreign fire insurance revenues on the Department's behalf. The foreign fire insurance money was placed in the District's general fund checking account and commingled with the District's other funds. Because the Treasurer did not keep separate accounting records showing the receipts, disbursements and balance of each fund, the Treasurer could not determine how the money was spent or the amount of foreign fire insurance money currently on hand.

Furthermore the Board, rather than the Department membership, determined how the foreign fire insurance money was to be spent. The Board did not audit and approve all claims before payment, ensure that the Treasurer filed annual foreign fire insurance reports with the State Comptroller or adopt a code of ethics as required by General Municipal Law (GML).

Foreign Fire Insurance Money

New York State Insurance Law (Insurance Law) generally imposes a tax on the premiums of fire insurance policies written on property in the State by foreign and alien insurers.¹ Foreign fire insurance money is generally paid to the fire department treasurer or other fiscal officer.²

Although custody of foreign fire insurance money is retained by the Treasurer, Insurance Law generally provides that the money be used for the Department's benefit, as determined by the Department's membership. Except as provided by a special act of the State Legislature, foreign fire insurance money may be spent for any purpose the Department membership determines to be for the Department's benefit, provided the expenditure is not illegal or contrary to public policy.

¹ Foreign and alien insurers generally refers to insurers incorporated or organized under the laws of another state or country.

² If the fire department does not have a treasurer or other fiscal officer, then the money should be paid to the fiscal officer of the authority having jurisdiction and control of the fire department.

Over the last five years, the District received \$10,828 in foreign fire insurance money, or an average of \$2,166 each year. While the Treasurer maintained custody of this money, she did not deposit the money in a separate bank account or maintain separate records to account for these funds. Instead, the Treasurer deposited the foreign fire insurance money in the District's general fund checking account and commingled it with the District's other funds. In addition, the Treasurer did not keep separate accounting records to show the receipt, disbursement and balance of these funds. As a result, District officials are unable to determine how the foreign fire insurance money was spent or the amount currently on hand.

The Board, rather than the Department's membership, determined how the foreign fire insurance money was to be spent. District officials told us that Department members may attend Board meetings and request that certain purchases be made from the foreign fire insurance money. However, the Board ultimately approved or denied these requests. Furthermore, even when the Board approved a request, without separate accounting records and because the money was not kept in a separate bank account, the Treasurer could not verify that the purchase was made with foreign fire insurance money, as opposed to other District funds.

Lastly, GML provides that every entity receiving and disbursing foreign fire insurance funds file an annual report with the Office of the State Comptroller (OSC) showing the amount of foreign fire insurance money received during the year, an account of all expenditures and the remaining balance at year-end.

The Treasurer told us that she filed such reports in the past but did not retain copies. An annual foreign fire insurance report has not been filed with OSC for the last four years.

Audit of Claims

The Board is responsible for establishing controls to provide reasonable assurance that District resources are adequately safeguarded and accounted for and that financial transactions are properly authorized. To fulfill this duty, it is important that the Board review and approve claims before payment³ to help ensure that District funds are used for legitimate expenditures.

The Board did not hold regular meetings for six months⁴ of our audit period. While the Board held regular monthly meetings from

³ The Board may, by resolution, authorize payment in advance of audit for claims for light, telephone, postage, freight and express charges. However, the claims for such prepayments must be presented to the Board for audit at the next regular meeting.

⁴ In 2015, the Board did not meet in January, June, July or August. In 2016, the Board did not meet in June or July.

September through May, during which the Treasurer presented claims for its review and approval, the Board did not meet from June through August. The Treasurer paid claims during the months that the Board didn't meet and the Board Chair (Chair) reviewed them. However, these claims were not reviewed and approved by the entire Board before payment, as required.

We reviewed 33 claims totaling \$35,055. We found that 16 claims totaling \$23,469 (for firefighting equipment and utilities paid when the Board held regular meetings) were approved by the Board, for legitimate District expenditures and adequately supported, except for one claim totaling \$39, which the Board did not approve.

The Board did not review and approve the remaining 17 claims totaling \$11,586 which the Treasurer paid during the months when the Board did not hold a regular meeting. We reviewed these claims to determine if they were adequately supported and for proper District purposes. All of these claims were properly supported and for proper District purposes. However, without the Board's review and approval of all claims before payment, there is an increased risk that unauthorized or improper claims could be paid without detection.

Code of Ethics

GML requires that the Board adopt a code of ethics. The code of ethics establishes standards of conduct reasonably expected of District officers, employees and the Department's volunteer members.

The Board has not adopted a code of ethics as required by GML. Because of this weakness, we reviewed all disbursements during our audit period to look for payments to District officials or other related parties (including spouses, employers and business interests) that could potentially create a conflict of interest under GML.

Our review did not disclose any such payments to District officials or other related parties. While our review did not reveal any inappropriate payments, District officials and volunteer members still need a code of ethics to provide clear guidelines that define the District's expected standards of conduct.

Recommendations

The Treasurer should:

1. Maintain separate accounting records showing the receipt, disbursement and balance of foreign fire insurance money.
2. Deposit foreign fire insurance money in a separate bank account so it will not be commingled with other District funds.

3. Expend foreign fire insurance money for the Department's benefit as determined by Department membership, provided the expenditures are not illegal or contrary to public policy.
4. Prepare and file annual foreign fire insurance reports with OSC.

The Board should:

5. Audit and approve all claims before payment to help ensure claims are adequately supported and for appropriate District purposes.
6. Adopt a code of ethics to set forth expected standards of conduct for the guidance of District officers, employees and Department volunteer members.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

*RICHLAND FIRE COMMISSION
PO BOX 200
RICHLAND NEW YORK 13144*

January 16, 2017

Audit Responses and Corrective Action Plan

Regarding Audit of Claims:

The Board has never had regular scheduled meetings during the summer months since the Fire District was established. The bills, checks and bank statements have been reviewed by one or two commissioners during this time and at the first meeting in September all documents reviewed. The \$39 claim that was not documented to be approved, was approved by three commissioners, for one of the commissioners to pick up batteries for smoke detectors. Unfortunately this was not correctly documented.

Corrective Action Plan:

1. The Treasurer will maintain a separate ledger for receipt, disbursement and balance of Foreign Fire Insurance Money.
2. A separate bank account has been approved by the board for the deposit of Foreign Fire Insurance Money to eliminate funds being commingled.
3. Foreign Fire Insurance Money will be expended for the benefit of the entire department membership, with minutes from Fire Department meetings being obtained to verify majority approval of the Department.
4. Foreign Fire reports will be filed annually to OSC.
5. The Board will approve all claims before payment. A resolution has been established to authorize the payment claims of lights, telephone, postage,

RICHLAND FIRE COMMISSION
PO BOX 200
RICHLAND NEW YORK 13144

freight and express charges in advance of audit. The claims for such prepayments must be presented to the Board for Audit at the next regular meeting. If other claims are to be paid throughout the months with no regular meeting a special meeting will be called for the payment and approval of such claims.

6. A code of ethics has been outlined and will be adopted by vote by February, 2017 to set forth standards of conduct for the guidance of District officers, employees and Department volunteer members.



Hugh Joyner, Chairman, Richland Fire Commission

1/16/17



Katherine Mosher, Treasurer, Richland Fire Commission

1/16/17

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and reviewed District records and bank statements to gain an understanding of the processes for foreign fire insurance money.
- We reviewed the District's accounting records and outside source documentation to quantify the amount of foreign fire insurance money the District received from January 1, 2012 through July 31, 2016.
- We interviewed District officials and reviewed Board minutes to gain an understanding of the claims audit process.
- We randomly selected 20 cleared check payments from the bank statements totaling \$24,159 and traced them to supporting documentation and Board minutes to determine whether the payments were adequately supported, approved by the Board and made for valid District purposes.
- We judgmentally selected 17 cleared check payments from the bank statements (which included four cleared checks previously selected) totaling \$11,586 and traced them to supporting documentation to determine whether the payments were adequately supported, approved by the Board and made for valid District purposes. We selected these payments because they were made during months when the Board did not have a regular meeting.
- We reviewed District policies and procedures to determine if District officials had developed and adopted a code of ethics as required by GML.
- We reviewed all disbursements during our audit period to determine if payments were made to any District officials, their spouses, employers or business interests.

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.

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