

Theresa Fire District

Board Oversight and Financial Management

JUNE 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Board Oversight 2**
 - What is Adequate Oversight Over Financial Operations? 2
 - The Board Did Not Provide Adequate Oversight of Financial Activities 2
 - How Should A Board Manage Fund Balance?. 5
 - Fund Balance Levels were Unreasonable Due to an Inadequate Budget Process 5
 - What Do We Recommend? 7

- Appendix A – Response From District Officials 9**

- Appendix B – Audit Methodology and Standards 10**

- Appendix C – Resources and Services 12**

Report Highlights

Theresa Fire District

Audit Objective

Determine whether the Theresa Fire District (District) Board of Fire Commissioners (Board) provided adequate oversight to ensure that financial activities were properly recorded and reported and whether they properly managed fund balance.

Key Findings

The Board did not provide adequate oversight to ensure that financial activities were properly recorded and reported and did not properly manage fund balance.

- The Treasurer did not maintain adequate accounting records or provide regular financial reports to the Board. She also did not file required annual financial reports with the Office of the State Comptroller (OSC) in a timely manner. The 2017 through 2019 annual reports were filed between 331 and 1,018 days late.
- The Board did not audit all claims prior to payment and did not annually audit the Treasurer's records.
- The Board did not adopt realistic budgets based on historic trends.
- The District ended 2019 with \$345,000 in surplus fund balance – enough to fund nearly two years' of expenditures. We project the District will end 2020 with a surplus of \$308,800, 177 percent of 2021 appropriations.

Key Recommendations

- Ensure the Treasurer maintains adequate accounting records and provides financial reports to the Board.
- Audit all claims prior to payment and audit the Treasurer's records.
- Adopt realistic budgets based on historic trends.
- Develop and adopt financial plans for maintaining a reasonable level of fund balance.

District officials agreed with our findings and indicated they plan to initiate corrective action.

Background

The District, located in the Town of Theresa in Jefferson County, is governed by a five-member Board that is responsible for the District's overall financial management and safeguarding its resources.

A Board-appointed Treasurer acts as the chief fiscal officer and is responsible for receiving, disbursing and accounting for District funds and preparing financial reports.

2021 Quick Facts

Budgeted Appropriations	\$174,000
Real Property Tax Levy	\$164,000

Audit Period

January 1, 2019 – October 31, 2020

We extended our audit period back to January 1, 2017 to analyze historic financial trends and forward to December 31, 2020 to review operating results.

Board Oversight

What is Adequate Oversight Over Financial Operations?

A board is responsible for overseeing a fire district's fiscal activities and safeguarding its resources. An important aspect of this responsibility is to provide a process to routinely monitor and review the work performed by those who handle money as part of their district duties. Oversight becomes particularly important in operations that do not have adequate segregation of duties. If one person, such as the treasurer, performs nearly all financial duties (e.g., receives and disburses cash, maintains the accounting records and performs reconciliations), it may weaken control over the district's financial operations. It is essential that a board establish adequate internal controls that ensure transactions are authorized, properly reviewed and recorded; and that financial reports are prepared, accurate and filed in a timely manner.

A treasurer must maintain complete and accurate records to properly account for all district financial activities in a timely manner and to provide the board with monthly financial reports. For example, budget-to-actual reports include essential information the board needs to effectively manage and safeguard district resources. Reconciling bank account balances with the accounting records monthly allows fire district officials to determine whether all cash receipt and disbursement transactions were captured and correctly recorded in a timely manner. Also, the treasurer is required to prepare and submit the district's Annual Update Document (AUD) with OSC within 60 days after the close of the fiscal year.

As part of its oversight responsibilities, a board must audit claims against the district prior to payment and order the treasurer to pay the audited claims. However, the board may, by resolution, authorize payment in advance of claims audit for certain public utility services, postage, freight and express charges. Such claims must be presented for audit at the next board meeting. An effective claims auditing process ensures that every claim against the district is subjected to a thorough and deliberate review to verify that each claim contains adequate supporting documentation and the amounts claimed represent actual and necessary district expenditures.

Additionally, a board should annually audit the treasurer's records. As part of the audit, the treasurer is required to produce all books, records, vouchers and canceled checks or images. An annual audit helps ensure that cash is properly accounted for and transactions are properly recorded.

The Board Did Not Provide Adequate Oversight of Financial Activities

The Treasurer performed all financial duties, including receiving and depositing cash, preparing and signing checks, maintaining the accounting records and preparing bank reconciliations. However, the Board did not provide sufficient guidance or oversight to ensure the records were up-to-date, accurate and

reconciled with bank balances; all disbursements were reviewed and adequately supported; and financial records and reports were prepared, filed and audited in a timely manner.

Accounting Records and Reports – Accounting records and reports provide for a basis of checks and balances and determining whether district funds are accounted for. The Treasurer did not maintain basic accounting records and did not provide the Board with monthly budget-to-actual reports that show the original and modified budget, actual expenditures and revenues and budget variances to help facilitate budget monitoring. Instead, the Treasurer’s accounting records consisted of a checkbook register that provided a running cash balance, which the Treasurer informally presented to the Board with bank account balances quarterly. The Treasurer did not maintain other records – such as balance sheets and revenue and appropriation subsidiary records – needed to provide timely monitoring and reporting of finances.

Bank Reconciliations – The Treasurer did not prepare timely bank reconciliations, and the Board did not review or approve reconciliations or designate someone to review them. The most recently prepared bank reconciliation as of the end of fieldwork (November 2020) was for March 2020. The adjusted bank balance in the reconciliation agreed with the checkbook register balance. The Treasurer told us that she was not completing timely bank reconciliations because she fell behind in her duties. We prepared a reconciliation as of October 2020 and found the adjusted bank balance exceeded the checkbook register balance by \$176.

Claims Audit – The Board audits and approves most bills prior to payment at its monthly meetings, and the approved claims are listed in the minutes. However, the Treasurer electronically disbursed utility payments from the District’s checking account without Board audit and approval of the claims.

We reviewed 76 disbursements for claims totaling \$61,383¹ (including 37 check payments totaling \$53,053 and all 39 electronic payments for utilities totaling \$8,330). We reviewed these payments to determine whether they were authorized, supported, for proper District charges and recorded in the checkbook register. We found all payments were recorded in the checkbook register. However, we found the following discrepancies:

- Five of the 37 (14 percent) check payments for claims totaling \$5,258 were unsupported because they lacked invoices. Four of these claims totaling \$3,961 were for heating oil and diesel fuel, and the remaining claim was for routine service to fire equipment totaling \$1,297.
- None of the 39 electronic payments were audited and approved by the Board, and 24 of these payments (62 percent) totaling \$6,380 lacked

The Treasurer did not maintain basic accounting records and . . . provide the Board with monthly budget-to-actual reports . . . to help facilitate budget monitoring.

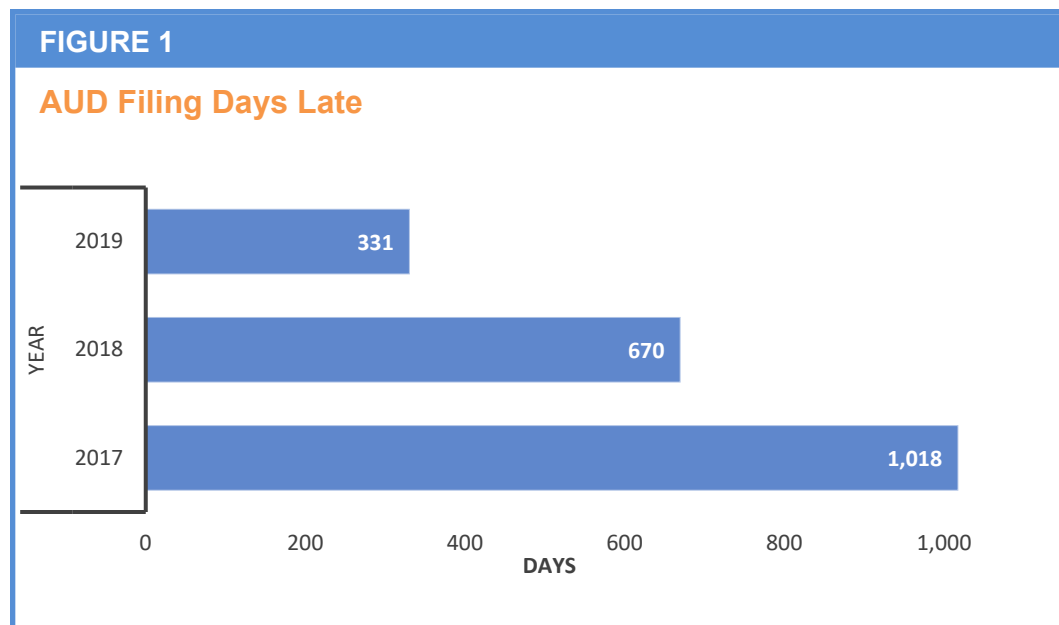
¹ Refer to Appendix B for information on our sampling methodology.

supporting documentation because the invoices were not on file. The payments were for cable, Internet, telephone/fax services and radio service for the fire trucks. We requested the Treasurer obtain invoices from the vendors. We reviewed the invoices and payments and determined they were proper District charges.

When the Board does not audit all claims and ensure they are supported by adequate invoices or other documentation, there is an increased risk that claims could be paid that are not for valid District purposes.

Annual Audit – The Board did not perform an annual audit of the Treasurer’s records. Several Board members told us they were unaware that the Treasurer’s records should be audited. In the absence of an annual audit, there is no independent verification that transactions have been properly recorded and cash has been properly accounted for, diminishing the Board’s ability to properly monitor financial operations.²

AUD Reporting – The Treasurer did not prepare and submit the required AUDs for the last three fiscal years (2017, 2018 and 2019) to OSC in a timely manner. Timely filing this report provides the Board, OSC and District taxpayers with a tool for monitoring the District’s financial operations. Subsequent to our inquiry, the Treasurer filed the past due AUDs for the last three fiscal years, which were between 331 and 1,018 days late (Figure 1).



² OSC has a publication on our website entitled Fiscal Oversight Responsibilities of the Governing Board at www.osc.state.ny.us/files/local-government/publications/pdf/fiscal_oversight.pdf which contains checklists to assist the Board in providing and documenting an effective audit of the Treasurer’s records.

The Board's ability to exercise financial oversight is hindered when it does not receive regular up-to-date financial reports to review, ensure the required reports are prepared, accurate and filed in a timely manner, or ensure that all disbursements are adequately supported prior to approval for payment. As a result, there is an increased risk that errors and irregularities could occur and remain undetected and uncorrected.

How Should A Board Manage Fund Balance?

It is essential that a board adopt realistic and transparent budgets that finance recurring expenditures with recurring revenues based on historic or known trends. The board should maintain a reasonable level of fund balance, which is the difference between revenues and expenditures accumulated over time. The board may appropriate a portion of fund balance to help finance the next year's budget. The appropriation of fund balance should result in a planned operating deficit (expenditures exceeding revenues) and a reduction of fund balance.

Fire districts are legally allowed to establish reserves and accumulate reasonable funds for certain future purposes (for example, capital improvements, fire apparatus and repairs). As such, the board should formally establish necessary reserves. Combining a reasonable level of surplus fund balance³ with specific legally established reserves provides safeguards for unanticipated events and other identified or planned needs.

A board also should adopt a policy that addresses the appropriate level of fund balance to be maintained and establish long-term financial and capital plans. Planning on a multiyear basis allows district officials to identify developing revenue and expenditure trends, determine the appropriate funding and use of reserve funds, and address equipment and capital needs by setting long-term priorities and goals. The board should use its fund balance policy and plans when developing the annual budget to ensure that fund balance is maintained at reasonable levels and include funding for necessary reserves in the budget as appropriate. Utilizing these plans also should help district officials and taxpayers see the impact of the board's fiscal decisions over time, ensuring the amount of real property taxes levied is not greater than necessary.

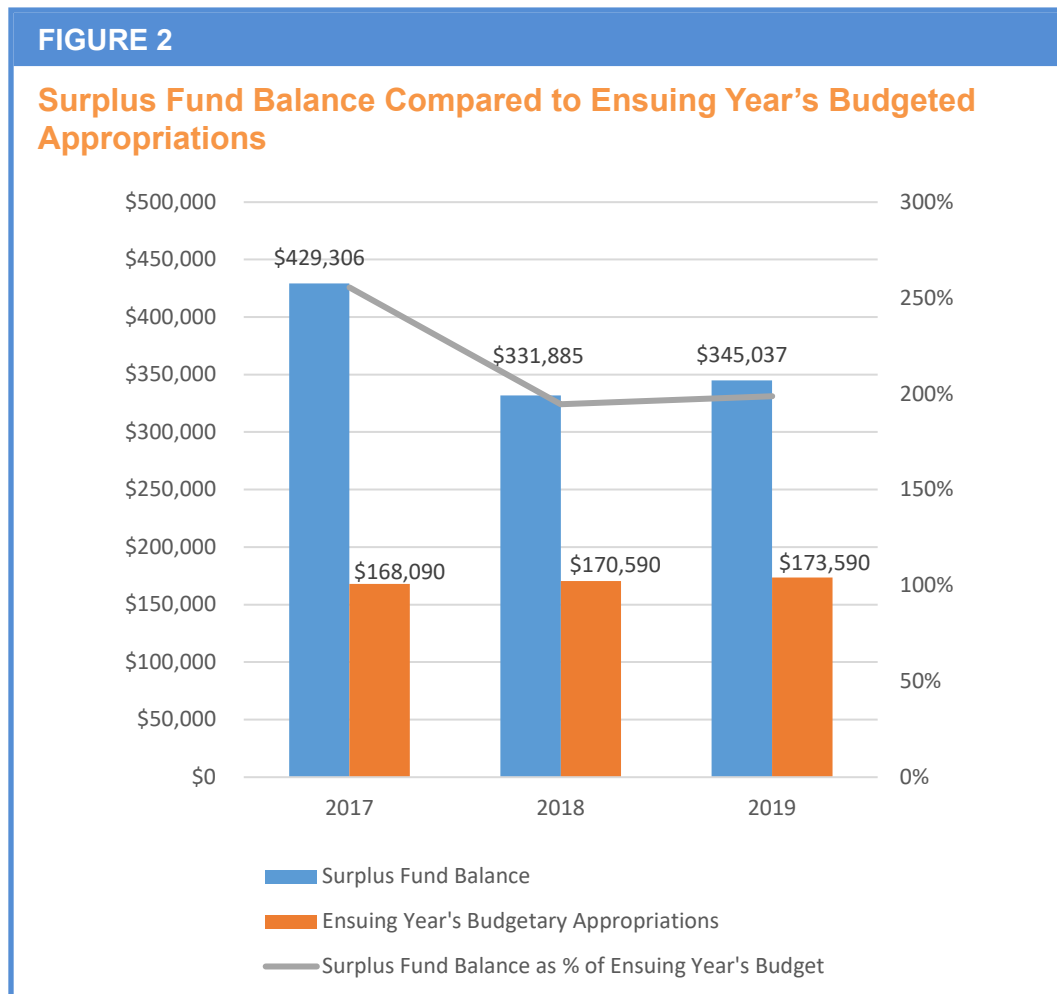
Fund Balance Levels were Unreasonable Due to an Inadequate Budget Process

The Board could improve its fund balance management and increase transparency during the budget process. Surplus fund balance averaged 216

The Board's ability to exercise financial oversight is hindered when it does not receive regular up-to-date financial reports...

³ Surplus fund balance is the total fund balance less the appropriated fund balance used to finance the next year's budget and restricted fund balance (reserve funds).

percent of the next year's budgeted appropriations from 2017 through 2019, which left the District with enough fund balance to fund nearly two years' worth of expenditures at the end of 2019 (Figure 2).



Because the Board does not receive any reports showing the breakdown of actual expenditures each year or budget-to-actual reports, it does not have complete financial information to base its budget decisions.

Although the District accumulated excessive surplus fund balance prior to our audit period, the Board has continued to maintain unreasonable levels of surplus fund balance throughout our audit period because it has not adopted realistic budgets based on historic trends. As a result, taxes levied may have been more than necessary to fund operations.

District officials told us the budget process consists of the Treasurer reviewing the checkbook register, totaling amounts spent on items such as fuel, utilities and firefighting equipment and adjusting those line items while trying to maintain consistent total budgeted appropriations. Because the Board does not receive any reports showing the breakdown of actual expenditures each year or budget-to-actual reports, it does not have complete financial information to base its budget decisions.

In 2017, officials overestimated appropriations and did not need to spend as much as budgeted for District operations. As a result, the District generated an operating surplus (revenues exceeded expenditures) of about \$67,000. Officials transferred most of the surplus into the District's 'New Equipment Fund' savings account (equipment account), which increased the balance to \$210,215. While it is prudent to save for future equipment needs, the Board's action was not transparent because the Board has not properly established a capital reserve for this purpose and did not include the equipment account's funding as a line item in the budget.

In 2018, the District incurred an operating deficit of \$97,421 resulting from purchasing a fire truck. The District budgeted \$35,000 for a truck payment; however, officials made a \$201,641 down payment on a truck and used \$130,000 from the equipment account to pay a portion of the costs. Had officials not made this large down payment, the District would have generated an operating surplus of about \$69,200 because appropriations for regular operating expenditures were overestimated in the budget.

Similarly, in 2020, the Board budgeted \$37,500 for the truck payment, but officials paid off the truck debt balance totaling \$143,922 in September 2020. We project the District will generate an operating deficit of \$31,200 due to this unbudgeted expenditure and will end 2020 with fund balance (and total cash balance) of \$318,800. The Board appropriated \$10,000 of this fund balance to finance the 2021 budget, leaving a surplus fund balance of about \$308,800 (177 percent of the next year's budget). The equipment account contains \$94,768 of this amount.

While officials told us they intend to use the equipment account to save for future equipment purchases, they had not established any formal reserves or a long-term capital plan. The Board also has not adopted a fund balance policy or financial plans outlining a reasonable level of fund balance to be maintained or the funding and use of reserves. As a result, it is difficult for the Board to demonstrate to taxpayers that the budgeted tax levy of \$164,000 for 2021 is not greater than necessary to meet the District's needs.

What Do We Recommend?

The Board should:

1. Ensure that the Treasurer maintains adequate and complete accounting records, and provides monthly and annual reports to the Board, including budget-to-actual reports for use in monitoring District operations throughout the year.
2. Ensure the Treasurer prepares monthly bank reconciliations and provides them to the Board or other designated official for review.

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3. Audit all claims before payments are made, ensuring that the claims have sufficient supporting documentation and are appropriate District expenditures. If the Board chooses to adopt a resolution allowing eligible claims to be paid in advance of audit, it should audit those claims at its next meeting.
 4. Annually audit the Treasurer's records and reports.
 5. Ensure that the Treasurer prepares and files the required AUD with OSC within 60 days of each fiscal year end.
 6. Adopt realistic budgeted appropriations that reflect the District's operating needs based on historic trends.
 7. Adopt a written fund balance policy that establishes reasonable level of fund balance to be maintained to meet the District's financial needs.
 8. Reduce surplus fund balance and use the excess as a financing source to benefit District taxpayers. Such uses include, but are not limited to:
 - Establishing and funding needed reserves;
 - Funding one-time expenditures; and
 - Reducing real property taxes.
 9. Develop multiyear financial and capital plans to provide a framework for preparing future budgets and managing the financing of future capital needs.

The Treasurer should:

10. Prepare and maintain accurate, complete and up-to-date accounting records.
11. Provide monthly and annual financial reports to the Board.
12. Prepare timely monthly bank reconciliations and provide the reconciliations and bank statements to the Board or its designee for review.
13. Prepare and submit the District's AUD to OSC within 60 days of each fiscal year end.

Appendix A: Response From District Officials

**TOWN OF THERESA FIRE DISTRICT
38422 State Route 37
Theresa, NY 13691**

To the Chief Examiner of the OSC, Syracuse Regional Office of NYS Comptroller

This is our draft audit report response of the Theresa Fire District. The Corrective Action Plan will follow under a separate cover.

The audit brought to our attention the yearly AUD reports that we were not aware of. Upon receiving the audit there is a page of resources, Appendix C, that would have helped immensely in discovery and developing the AUD reports in a timely fashion.

We do acknowledge our lack of due diligence in some monthly and yearly reports, statements etc.. Some reports were brought to our attention as delinquent which we tried to rectify as soon as possible.

The report finds our district "heavy" in cash of which has a purpose. But as a volunteer board facing a world-wide pandemic for the previous sixteen months many projects needed to be delayed or postponed. We have just started implementing these projects but due to a backlog of work for contractors, shared services, etc. we have no idea of a time schedule. Many of these projects were scheduled for fiscal year 2020.

As much as this audit has been ongoing for many months, and at times was trying to recover records from various vendors, it has proven to be quite interesting. We as commissioners have learned many things concerning the affairs of the district of which we were not aware.

Jeffrey Frederick
Chairman

April LaFirst
Treasurer

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board minutes and policies to gain an understanding of District operations including internal controls and oversight of the Treasurer's duties.
- We reviewed the Treasurer's accounting records to determine whether they were complete, adequate and accurate.
- We reviewed bank statements and the Treasurer's checkbook register to identify any missing or out-of-sequence check numbers during the audit period. We then determined whether there were any significant discrepancies.
- We reviewed the last completed bank reconciliation and associated bank statements (March 2020) to determine whether the bank statements were reconciled and accurate. In addition, we completed a bank reconciliation as of the end of our audit period (October 2020).
- We reviewed bank statements to account for all disbursements made during the audit period to determine whether the disbursement population was complete.
- We selected all 28 check disbursements totaling \$26,264 from the November 2019 and April 2020 bank statements to assess whether the claims were recorded, authorized, adequately supported and for proper District purposes. We selected these months because they contained the highest number of checks disbursed from each fiscal year.
- We selected nine check disbursements totaling \$26,789 from bank statements during our audit period to assess whether the claims were recorded, authorized, adequately supported and for proper District purposes. We used our professional judgment to select a sample that included higher risk disbursements for unusual items or excessive purchases; payments to the Treasurer, Board members and their spouses and/or known related parties; payments made for cable and phone bills and other items that could be converted to personal use.
- We reviewed all 39 electronic payments for utilities totaling approximately \$8,330 to determine whether they were recorded, authorized, adequately supported and for proper District purposes.
- We examined all four transfers out of District bank accounts totaling \$67,000 during our audit period and determined whether the funds were deposited into other District accounts.

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- We interviewed District officials and reviewed minutes to gain an understanding of the budget development process and how the Board monitors the budget during the year. We also made inquiries to determine whether the Board had established any reserve funds and adopted any formal financial plans.
 - We analyzed fund balance trends and calculated surplus fund balance levels from 2017 through 2019.
 - We calculated the results of operations and fund balance levels for 2017 through 2020 by using actual revenues received and expenditures incurred by reviewing bank statements and the checkbook register.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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 size of the relevant population and the sample selected for examination.

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. We encourage the Board to make the CAP available for public review.

Appendix C: Resources and Services

Regional Office Directory

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

<https://www.osc.state.ny.us/local-government/publications>

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

<https://www.osc.state.ny.us/local-government/publications>

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

<https://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf>

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

<https://www.osc.state.ny.us/local-government/publications>

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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