

# Ridge Fire District

## Board Oversight of Treasurer's Fiscal Duties

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JANUARY 2022

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

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# Report Highlights

## Ridge Fire District

### Audit Objective

Determine whether the Ridge Fire District (District) Board of Fire Commissioners (Board) provided adequate oversight of the Treasurer's fiscal duties.

### Key Findings

The Board did not provide adequate oversight of the Treasurer's fiscal duties and could not explain why the bank balances presented on the Treasurer's reports for three consecutive months contained discrepancies totaling \$2.96 million. We also found:

- Adequate monthly reports were not prepared and shared with the Board.
- Bank reconciliations were not always accurate or timely, resulting in a \$10,244 discrepancy between the District's accounting records and bank statements.
- The budget was not entered into the accounting software. Therefore, the Board did not properly monitor the budget which contributed to the District exceeding its 2020 appropriations by \$77,968.

### Key Recommendations

- Maintain adequate and complete accounting records and provide Board with complete and accurate monthly reports.
- Board should review monthly bank reconciliations that are completed accurately and timely.

District officials agreed with our recommendations and indicated they will take corrective action.

### Background

The District, located in the Town of Brookhaven in Suffolk County, is governed by a five-member Board. The Board is responsible for the overall financial management and safeguarding of its resources.

The Board-appointed Treasurer acts as the chief fiscal officer and is responsible for receiving, disbursing and accounting for District funds and preparing financial reports. The Deputy Treasurer assists with these responsibilities. There were two Treasurers during the audit period. One Treasurer resigned in April 2019 and the Board appointed a successor at that time.

#### Quick Facts

2019 Budget	\$4.5 million
2020 Budget	\$4.5 million

### Audit Period

January 1, 2019 – September 30, 2020. We extended the scope to December 31, 2020 to include budget to actual results.

# Treasurer's Fiscal Duties

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A board is responsible for overseeing a district's financial activities and safeguarding its resources. A treasurer is the chief fiscal officer of a district, responsible for maintaining custody of all district money and disbursing money after board approval. In the treasurer's absence, a deputy treasurer may sign checks.

## What Is Effective Oversight of A Treasurer's Fiscal Duties?

A board, in conjunction with the treasurer, should establish and implement procedures that help ensure money is properly safeguarded, transactions are authorized and properly recorded in the accounting records and that the district complies with applicable laws, rules and regulations.

Board oversight is particularly important when one individual can perform all aspects of a financial transaction. When segregation of duties is impractical, active supervision and oversight become even more important. A board can provide oversight by periodically reviewing monthly reports with supporting documentation, such as budget status reports, a list of all money received and deposited, list of bills presented or paid and bank reconciliations including bank statements and canceled check images. When presented timely, these reports help to safeguard district resources and provide the board with information needed to make decisions about financial operations of the district.

## The Board Did Not Provide Adequate Oversight of Financial Operations

The Treasurer performed most accounting duties with limited oversight including recording disbursements, signing checks, performing transfers and reconciling the District's bank accounts. In addition, the Treasurer did not prepare adequate monthly reports, including a list of all money received and deposited, a list of bills presented or paid and a budget status report.

Treasurer's Reports and Bank Reconciliations: The Treasurer's monthly reports presented to the Board included a list of the bank account balances for the District's nine bank accounts. While the reports showed variances in the bank balance from one month to the next, they did not list the money received and deposited or disbursed and transferred to reconcile the beginning and ending book and bank balances.

We reviewed Treasurer's reports and bank reconciliations performed by the Treasurers and performed bank reconciliations for all nine District bank accounts for six months, including January through April 2019 and August and September 2020 to determine if Treasurer's reports were accurate, reconciliations were performed correctly and timely, funds were accounted for and receipts and disbursements appeared to be for reasonable District purposes.

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Board oversight is particularly important when one individual can perform all aspects of a financial transaction.

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We found the Treasurer’s reports did not always reflect accurate bank account balances and bank reconciliations did not always reflect the same information as the District’s financial records and were not always completed timely. The bank balances presented on the Treasurer’s reports for three of the months were inaccurate with discrepancies totaling \$2.96 million. For example, in February 2019, the Treasurer presented bank balances totaling \$16,484,851 to the Board however the actual bank balances totaled \$18,226,860 (Figure 1).

**Figure 1: Treasurer’s Reports Versus Bank Statements**

Month in 2019	Bank Balances on Treasurer’s Report	Actual Bank Balances	Difference
January	\$16,521,341	\$17,405,756	\$884,415
February	\$16,484,851	\$18,226,860	\$1,742,009
March	\$17,744,640	\$18,080,000	\$335,360
<b>Total</b>			<b>\$2,961,784</b>

Board members were unable to provide an explanation for the differences between the Treasurer’s report and the bank statements.

In addition, two of the six months of bank reconciliations performed by the Treasurer were completed two or three months after the Treasurer received the bank statements. For example, the bank reconciliations for April 2019 were not completed until July 2019. The Treasurer stated that the delay in completing bank reconciliations occurred because the long-term Treasurer resigned in April and she was newly appointed.

Further, when we reperformed bank reconciliations, we found that the District’s financial records did not always reflect the same information that was listed on the bank reconciliations performed by the Treasurer. We found discrepancies totaling \$10,244 between the District’s bank reconciliations, financial records and bank statements. A significant amount of the discrepancies was due to a deposit of \$9,201 made in January 2019 to correct an error that occurred in June 2018. The Chairman of the Board stated a Commissioner, who had signatory rights on the District bank accounts, personally banked at the same banking institution that District funds were maintained and unintentionally withdrew funds from the District’s bank account rather than his own line of credit. In a letter dated March 2019, the bank stated that in June 2018, it inadvertently processed three withdrawals from the District’s bank account rather than the Commissioner’s personal line of credit. The bank corrected the error in January 2019 by transferring \$9,201 into the District’s bank account from the Commissioner’s personal account. While the adjustment was listed on the District’s January bank reconciliation, the District’s accounting records did not accurately reflect the deposit until August 1, 2019, eight months after the deposit was made.

We found the Treasurer’s reports did not always reflect accurate bank account balances and bank reconciliations did not always reflect the same information as the District’s financial records. ...

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Additional discrepancies totaling \$1,043 were due to incorrectly recording the interest earned on the District bank accounts in the accounting records. For example, the March 2019 bank reconciliation listed interest earned on one bank account totaling \$519. However, the financial records did not include the interest earned on this date, rather it listed the interest earned on January 1, 2019, two months before the interest was earned. The current Treasurer was unable to provide an explanation to the discrepancies between the bank reconciliation performed by the former Treasurer and the financial records. These control weaknesses existed because the Board did not implement compensating controls, such as supervisory or other oversight procedures over the Treasurer's duties to reduce the risk of errors or irregularities occurring and not being detected.

Budget Status Reports: The current Treasurer presented the Board with a monthly report of actual revenues and expenditures, however, the reports for the 2020 calendar year did not include budgeted amounts for comparison. This occurred because the budget was not entered into the accounting software, so budget to actual reports were not generated. Therefore, the Board did not monitor the budget and had no certainty that actual revenues and expenditures were within budget estimates. As a result, the District's 2020 actual expenditures of \$4,615,261 exceeded appropriations of \$4,537,293 by \$77,968<sup>1</sup>.

Signatory Rights: The Treasurer and the Deputy Treasurer have signatory rights to the District's bank accounts. In addition, all five Commissioners had signatory rights in order to co-sign checks for more than \$5,000. However, the fact that a Commissioner had the ability to withdraw funds from a District account is an indication that the Board did not communicate to the bank that Commissioners are not to be the sole signature on any banking transaction. By not limiting check signing authority to the Treasurer and the Deputy Treasurer, the Board has diminished an important segregation of functions to help ensure District funds are safeguarded and properly expended.

Because the Board did not properly oversee the Treasurer's fiscal duties, actual expenditures exceeded appropriations and errors and irregularities occurred that were not detected or corrected in a timely manner.

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<sup>1</sup> We reviewed year-end budget-to-actual reports from the audited financial statement.

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## What Do We Recommend?

The Board should:

1. Ensure that the Treasurer maintains adequate and complete accounting records, and provides accurate monthly reports to the Board, including budget status reports for use in monitoring District operations throughout the year.
2. Ensure the Treasurer prepares monthly bank reconciliations on a timely basis and provides them to the Board for review.
3. Limit Commissioners' signatory rights to the District's bank accounts and communicate to the bank the Board's intent regarding dual signatures.

# Appendix A: Response From District Officials

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## Board of Fire Commissioners

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January 10, 2022

Via Email and First Class Mail

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Office of the State Comptroller  
NYS Office Building  
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Re: Report of Examination, Ridge Fire District; Board Oversight of Treasurer's Fiscal Duties; Audit - January 1, 2019-September 30, 2020 (Extended to December 31, 2020); 2021M – 165; Fire District Response and Corrective Action Plan

Dear Mr. McCracken:

This communication is sent as the response of the Board of Fire Commissioners (“Board”) to the draft audit report submitted by your office. In addition, we have also detailed the Corrective Action Plan (“CAP”) which we will undertake at our fire district to address the recommendations contained within your report. Initially, the Board would like to thank your office for its efforts and professional work in connection with the recent audit. Clearly, the recommendations made during the audit process, as well as within the report, will assist the Board in improving its fiscal duties.

Initially, the Board would like to note that there was no finding of fraud, waste, or abuse on behalf of the Board. We feel that this is, in part, attributable to the continuous efforts of the Board members to exercise proper fiscal constraints while contemporaneously providing a high level of firematic service to the residents of the fire district.

The report indicates in its key findings several practices that have been discontinued due to a change in the District’s Treasurer.

The following are the Board’s responses to each key recommendations stated in your report, as well as any corrective action that will be undertaken as to each such recommendation.



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Recommendations:

The fire district should:

1. Maintain adequate and complete accounting records and provide the Board with complete and accurate monthly reports.

**The District Treasurer who was employed by the District during the audit period at issue is no longer employed by the Fire District. The current District Treasurer does maintain adequate and complete accounting records, and does also provide the Board with complete and accurate monthly reports.**

2. Board should review monthly bank reconciliations that are completed accurately and timely.

**The District Treasurer who was employed by the District during the audit period at issue is no longer employed by the Fire District. The current District Treasurer does provide the Board with accurate and timely reconciliations. In addition, the Board will continue to review monthly bank reconciliations to insure that they are complete and accurate.**

In closing, this communication shall serve as our response and CAP as required by statute. The Board will not issue a separate CAP after the report is published. Notwithstanding, we will ask your office to accept this letter as the fire district's CAP.

Thank you.

Very truly yours,

Chairman, Ridge Fire District

## Appendix B: Audit Methodology and Standards

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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 Board oversight of the Treasurer's fiscal duties and financial operations.
- We reviewed January 2019 through April 2019 and August and September 2020 Treasurer's reports to determine whether they were complete, accurate and timely.
- We reviewed bank statements, cancelled checks and bank reconciliations (January through April of 2019 and August and September of 2020) for unusual transactions or withdrawals and determine if disbursements appeared to be for valid District expenditures.
- We performed and reviewed 54 bank reconciliations (January through April of 2019 and August and September of 2020) to determine the accuracy of the Treasurer's records.
- We reviewed the interest earned on all bank accounts in the audit period to determine if the District was receiving a return on investment.

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

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### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf)

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

[www.osc.state.ny.us/local-government/publications](http://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](http://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

[www.osc.state.ny.us/local-government/publications](http://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](http://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

[www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf](http://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](http://www.osc.state.ny.us/local-government/required-reporting)

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[www.osc.state.ny.us/local-government/academy](http://www.osc.state.ny.us/local-government/academy)

## Contact

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