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March 2017

William Durnin, Chairman
Members of the Board of Fire Commissioners
Lyon Mountain Fire District
9 Firehouse Road
Lyon Mountain, NY 12952

Report Number: 2017M-2

Dear Chairman Durnin 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 Lyon Mountain Fire District (District) which addressed the following question:

- Are cash disbursements only made for proper purposes, adequately documented and supported and approved by the Board prior to being made?

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

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Towns of Dannemora, Ellenburg and Saranac in Clinton County. The District's 2016 general fund budget appropriations totaled approximately \$462,000 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 Treasurer and a Secretary. The Treasurer 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 cash disbursements process for the period January 1, 2015 through October 31, 2016. We interviewed 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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not our 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.

Audit Results

District officials are responsible for ensuring that all cash disbursements are for valid business purposes, supported by appropriate documentation and properly approved by the Board. Additionally, with limited exceptions,¹ New York State Town Law (Town Law) requires the Board to audit all claims against the District and by resolution order the Treasurer to pay the amounts allowed.

Effective claims auditing procedures ensure that every claim against the District is subjected to a thorough and deliberate review and contains adequate supporting documentation to determine whether it complies with statutory requirements, and that the amounts claimed represent actual and necessary District expenditures. Lastly, Town Law does not authorize the use of a debit card by the District to make cash disbursements.

On a monthly basis, the Treasurer provides the Board members with the claims for its audit and approval. The Board performs a deliberate audit of each claim before the Treasurer is authorized to make payment, which is indicated by the Commissioners' initials on each individual claim and adoption of a Board resolution. However, the Board could improve the audit process to ensure all claims are audited before payment, when required. The Board approved the Treasurer's use of a debit card to purchase office supplies and postage. The use of a debit card is not permitted by law and severely weakens controls over District officials' ability to monitor and secure District cash.

We reviewed 30 judgmentally selected cash disbursements totaling \$32,702 to determine whether these disbursements were supported by adequate documentation, for appropriate District purposes, and whether the related claims were audited and approved before payment. We found that 29 of these disbursements were adequately supported and for appropriate purposes and the related claims were audited and approved by the Board before payment. However, one disbursement for \$738 lacked any supporting documentation, was not supported by a claim and no evidence was provided to us to indicate that it was approved by the Board. We discussed this disbursement with District officials and determined that this payment was for fire equipment and for appropriate District purposes.

In addition, we reviewed all 36 disbursements for claims totaling \$79,760 that were paid during the two randomly selected months of March and November 2015. We found that two claims totaling \$364 were not audited or approved by the Board. One payment was for a truck repair for \$237 and the other was for an audit report for \$127. District officials were unable to explain why

¹ The Board may, by adopting a resolution, authorize payment in advance of audit for claims for public utility services (light and telephone), postage, freight and express charges. However, any prepaid claims must be presented at the next regular Board meeting for audit.

these two payments were never reviewed and approved by the Board. While these payments were for legitimate District purposes, these claims should not have been paid without the Board's audit and approval.

Using a debit card to make purchases puts the District's cash at risk because it results in an immediate cash withdrawal from the District's bank account. Thus cash can be disbursed without the Board's knowledge and approval and fraudulent card use could occur and remain undetected.

We reviewed the District's bank statements to identify all non-check related disbursements made from January 1, 2015 through October 31, 2016 and identified eight such disbursements totaling \$919 for purchases made using the debit card.

We reviewed the debit card disbursements and found that all these disbursements were supported by receipts and for proper District purposes, such as office supplies and postage. Additionally, the corresponding claims, which were prepared after these disbursements were actually made, were presented for Board review and approval at the next Board meetings.

Although we did not find any material discrepancies with the District's cash disbursements, when claims are paid without the Board's prior approval and debit cards are used to acquire District assets, there is a material risk that unauthorized District disbursements could occur and remain undetected. Furthermore, there is no legal authority for the District to use debit cards to make purchases.

Recommendations

The Board should:

1. Ensure all claims are approved by the Board before payment.
2. Discontinue the use of debit cards.

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.

We thank the officials of the Lyon Mountain Fire District 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.

LYON MOUNTAIN FIRE DISTRICT

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Lyon Mountain NY 12952
Fax (518) 735-4334 or Fax (518) 735-4668

February 27th 2017



Office of the State Comptroller

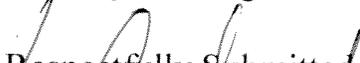
Dear Sir:

This communication is in response to the recent OSC audit of the Lyon Mountain Fire District exit interview conducted by [REDACTED] and [REDACTED] from NYS office of the State Comptroller office, indicating our Corrective action plan on the findings of the OSC Audit.

This is the Lyon Mountain Fire District response and also serves as our corrective action plan.

Debit Card, The Lyon Mountain Fire District no longer has a debit card issued to the Lyon Mountain Fire District treasurer that practice ceased on December 31st 2016

Also the Lyon Mountain Fire District Board of Fire Commissioners will make it a priority to ensure all claims are supported by proper documentation and approved by the Board of Fire Commissioners at our monthly meeting before payment


Respectfully Submitted

William J Durnin
Chairman
Lyon Mountain Fire District