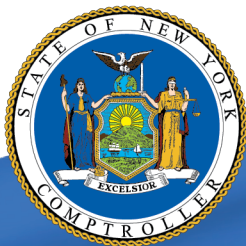


McLean Fire District

Financial Operations

OCTOBER 2018



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

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Report Highlights

McLean Fire District

Audit Objective

Determine if the Board provided adequate oversight of the District's financial operations.

Key Findings

- The Board did not ensure annual financial reports were filed.
- The Board did not approve disbursements prior to payment, but as a result of our audit, District officials implemented a voucher system to ensure Board approval. We commend them for taking prompt corrective action.
- The Treasurer did not adequately secure unused check stock.

Key Recommendations

- The Board should ensure the annual financial reports are filed timely.
- The Board should continue to use the voucher system established as a result of our audit.
- The Treasurer should secure District check stock.

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

Background

The McLean Fire District is a district corporation of the State, distinct and separate from the Towns and Villages of Groton and Dryden in Tompkins County.

The District is governed by an elected Board of Fire Commissioners (Board) composed of five members. The Board is responsible for the District's overall financial management and safeguarding its resources. The Chairman of the Board is the District's chief executive officer. The Board appoints a Treasurer, who acts as the District's chief fiscal officer. The District's primary purpose is to provide capital resources for the McLean Fire Department.

Quick Facts

2018 Real Property Tax Levy	\$201,671
2018 Budgeted Appropriations	\$231,060

Audit Period

January 1, 2016 – October 27, 2017

Financial Operations

How Should the Board Provide Oversight?

The Board is responsible for providing oversight of the District's fiscal operations and safeguarding its resources. This includes establishing internal controls to provide reasonable assurance that District resources are adequately safeguarded and accounted for and financial transactions are properly authorized. 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, it may weaken control over the District's financial operations. The Board should audit and approve expenditures prior to payment, and ensure that the Treasurer properly safeguards blank check stock to prevent unauthorized payments and misuse of District funds. The annual financial report, or AUD (annual update document), is a report of the District's financial position and results of operations. New York State General Municipal Law (GML) requires the Treasurer to file the AUD with the Office of the State Comptroller within 60 days of fiscal year end.

Disbursements Were Not Properly Authorized

The Treasurer performs most financial duties, such as collecting receipts,¹ writing checks, maintaining financial records and performing bank reconciliations. The Board reviews the Treasurer's monthly budget-to-actual reports, invoices, bank reconciliations, canceled check images and bank statements. However, the Treasurer routinely pays expenditures prior to the Board's audit and approval. Such disbursements totaled \$85,434 during our audit period. The Treasurer said he pays District expenditures prior to the Board's audit and approval if the payments are due prior to the Board meetings. While the Board does review and approve these payments retroactively at the following Board meeting, the routine practice of paying claims before Board review and approval carries a risk that they may not be for products or services as agreed upon or not for proper District purposes.

We judgmentally tested 32 of the 318 disbursements written to the Chairman, the Treasurer or potential personal use vendors² during our audit period, totaling \$15,420, and found they were adequately supported and were for proper District purposes. Furthermore, we matched the December 31, 2016 cash balance in the accounting records to the reconciled bank statement balance with no exceptions, and matched the October 31, 2017 cash balance to the reconciled bank statement with minor discrepancies which we communicated to District officials. As a result of our audit, District officials created a voucher system to ensure Board members audit and approve expenditures prior to payment. We commend them on taking prompt corrective action.

1 The majority of receipts are low-risk as they are derived from real property taxes.

2 For example, for cable, electric, phone, auto parts

Unused Check Stock Was Not Secure

The Treasurer did not adequately secure unused check stock. In February 2016, the Treasurer discovered three missing, unused checks and properly reported them to the Board. However, the Treasurer did not initially place a stop-payment order on the missing checks since he believed that no one would try to access the check stock in his private office, but contacted the bank to place stop-payment orders after we asked about the checks. District officials believe that, in December 2017, an individual with temporary access to the Treasurer's private office submitted two fraudulent checks (\$850 and \$2,357) to the bank, one of which (\$850) was processed before the stop-payment order; the bank refused to accept the other check. District officials promptly reported the theft to law enforcement and were fully reimbursed by the insurance company.

The Board Did Not Ensure the Annual Financial Reports Were Filed Timely

The Treasurer did not file the AUD for 2010 through 2016 because officials were unaware of the statutory requirement to do so. As a result of our audit, the Board contracted with an accounting firm to file all the outstanding AUDs. District officials' failure to file AUDs hinders transparency and could compromise their ability to secure financing for upcoming capital projects.

What Do We Recommend?

The Board should:

1. Continue to use the voucher system established as a result of our audit.
2. Ensure the District's check stock is adequately secured.
3. Ensure the AUDs are filed within 60 days of the close of the fiscal year.

The Treasurer should:

4. Secure District check stock.
5. File AUDs within 60 days of the close of the fiscal year.

Appendix A: Response From District Officials

McLEAN FIRE DISTRICT
2 STEVENS ROAD, P.O. BOX 222
McLEAN, NEW YORK 13102

9/21/18

To: office of The New York State Comptroller,

The Board of Fire Commissioners of the McLean Fire District acknowledge the findings of the audit and have put in place policies and practices to correct the findings.

McLean Fire District financial operations
2017M-296

Adelbert R. Carr

- Board Chairman

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 meeting minutes and Board reports and accounting records to gain an understanding of financial operations as well the Board oversight provided, including the policies and procedures in place.
- We examined bank statements to identify types and frequency of District receipts.
- We examined the Treasurer's bank reconciliations to determine whether they are being performed regularly and provided to the Board.
- We looked at District purchases to determine whether they received prior Board approval, were of an amount that would be subject to a procurement policy, and were for proper District purposes.
- We talked with District officials to determine why the AUD was not filed for 2010 through 2016.
- We spoke with the Treasurer and examined supporting documents to address the discovery of a fraudulent check drawn on the District's checking account.

We conducted this performance audit in accordance with GAGAS (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 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.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

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