

Newark Valley Fire District

Board Oversight

MAY 2020



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

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Report Highlights

Newark Valley Fire District

Audit Objective

Determine whether District officials established adequate controls over financial activities to safeguard assets.

Key Findings

- There were control weaknesses in the community hall rental process.
- Documentation of compliance with the procurement policy was incomplete.
- Although monthly financial reports were accurate and reliable, the Board did not perform an annual audit of the Treasurer's records for 2017 and 2018.
- The Treasurer did not file required annual update documents with the Office of the State Comptroller as of the end of our audit.

Key Recommendations

- Improve controls over community hall rentals.
- Improve documentation of compliance with the procurement policy.
- Provide for an annual audit of the Treasurer's records.
- File annual financial reports within 60 days of the close of the fiscal year.

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

Background

The Newark Valley Fire District (District) is a district corporation of the State, distinct and separate from the Town of Newark Valley in Tioga County. The District provides fire protection and emergency rescue services to approximately 4,000 residents over 57 square miles.

An elected five-member Board of Fire Commissioners (Board) governs the District and is responsible for the overall financial management. The Board appoints a Secretary-Treasurer (Treasurer) who acts as the chief fiscal officer and is responsible for receiving, disbursing and accounting for District funds and preparing periodic financial reports.

Quick Facts

Members	25
2019 Budgeted Appropriations	\$346,469
2018 Disbursements	\$344,641
2018 Receipts	\$328,641

Audit Period

January 1, 2018 – November 30, 2019

Board Oversight

What Controls Should Officials Establish?

A board is responsible for overseeing a fire district's financial activities and safeguarding its assets. To fulfill this duty, it is essential that the board establish controls to ensure that transactions are authorized and properly recorded; financial reports are accurate, reliable and filed in a timely manner; and the district complies with applicable laws, rules and regulations, including the New York State General Municipal Law (GML) requirement for a procurement policy,¹ investment policy² and code of ethics.³ The board is also responsible for performing a thorough audit of claims before they are paid to ensure that they are supported and district funds are used for legitimate expenditures. Lastly, New York State Town Law (Town Law)⁴ requires the board to perform an annual audit of the treasurer's records, or hire an external auditor to perform an audit, when the district has revenues of \$300,000 or more.

The treasurer must maintain complete, accurate and timely records to properly account for all district financial activities. Additionally, the treasurer should reconcile district accounting records to bank statements on a monthly basis. The treasurer should prepare and submit monthly reports to the board and is required to prepare and submit an annual financial report, commonly referred to as the annual update document (AUD), of the district's financial condition to the Office of the State Comptroller (OSC) within 60 days after the close of the fiscal year.

District Officials Mostly Established Adequate Controls

In most respects, District officials established adequate controls to safeguard assets. The Treasurer maintained complete, accurate and timely records to properly account for all District financial activities. The Treasurer reconciled the accounting records to the bank statements on a monthly basis for all accounts. The Treasurer also prepared and submitted monthly reports to the Board. However, these reports did not include the community hall rental activity until May 2018, when the Board requested this information.

We identified weaknesses in the community hall rental process. The Treasurer was responsible for receiving, recording and depositing all rental fees, without using a rental agreement form or issuing press-numbered receipts. While the Treasurer reported the fees to the Board, there was no supporting documentation to verify the accuracy of the reporting. We reviewed the Treasurer's records and bank activity and found that fees totaling \$4,600 were deposited into a

1 New York State General Municipal Law (GML), Section 104-b

2 GML, Section 39

3 GML, Section 806

4 New York State Town Law (Town Law), Section 181-b

District bank account. Although there was no supporting documentation for the hall rentals, the Treasurer's accounting records and bank activity for the fees reasonably matched. We also found minor discrepancies that we communicated to District officials.

Lastly, the Board established the required code of ethics and procurement policy, but did not have an investment policy in place. Furthermore, the procurement policy has not been updated since October 1, 2014. We used our professional judgment to select five large purchases totaling over \$51,000 and requested documentation that the required number of written quotes or bids were obtained. Although we found that District officials did not retain documentation that they were obtaining quotes in compliance with the procurement policy for these five purchases, they all appeared to be for reasonable District purposes. For example, the District paid \$17,000 for truck repairs without first obtaining three written quotes as required by the policy.

Without adequate policies and procedures, the risk is increased that errors or irregularities could incur without detection or correction.

Officials Did Not Perform Annual Audits or Ensure the AUDs Were Filed Timely

The Board reviewed the Treasurer's reports each month, including bank reconciliations, bank statements and canceled check images. The Board also performed a thorough audit of claims to ensure they were supported and for legitimate expenditures.

However, the Board did not perform an annual audit of the Treasurer's records or hire an external auditor for the 2017 and 2018 fiscal years, even though it was required under Town Law. The Board believed that only real property tax revenues counted towards the \$300,000 requirement and an external audit was too costly.

In addition, the Treasurer did not prepare and submit the required AUD for the 2017 or 2018 fiscal years. The 2016 AUD was filed 169 days late, due to difficulties reporting long-term assets and liabilities.

Without proper oversight and an audit of the Treasurer's records, there is an increased risk that financial information could be inaccurately reported and collections and disbursements may not be properly accounted for.

What Do We Recommend?

The Board should:

1. Improve controls over community hall rentals, including utilizing a rental agreement form and press-numbered receipts for all rental fees collected.
2. Adopt an investment policy and update the procurement policy as needed.
3. Retain documentation of quotes or bids obtained in accordance with the District's procurement policy.
4. Provide for an annual audit of the Treasurer's records, and obtain an external audit when required in the future.
5. Ensure that the Treasurer files the AUD within 60 days of the close of the fiscal year.

Appendix A: Response From District Officials

NEWARK VALLEY FIRE DISTRICT
7151 State Route 38, P.O. Box 266
Newark Valley, New York 13811

COMMISSIONERS

Robert Haney
Roger Karaim
Kenneth Schneider
James VanNordstrand- Chairman
John Frieman

Renee' Callahan, Secretary/
Treasurer

Meeting first Wednesday of
the month at 7:00 P.M.

April 9,2020

VIA EMAIL AND REGULAR MAIL

██████████ Principal Examiner
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c/o Local Government and School Accountability \ Binghamton Region
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Binghamton, New York 13901- 4417

RE: Newark Valley Fire District Report of Examination
2020M-040

Dear ██████████

Thank you for your office's preliminary draft findings ("Report") which was received by email on April 6,2020 and the subject of our teleconference meeting on April 9,2020 with our staff. The Report has been reviewed and discussed by the Board of Fire Commissioners and officers of the Newark Valley Fire District (the Fire District").

We are grateful for the professionalism shown by the Comptroller's staff who were extremely congenial and helpful, including providing suggestions and forms for use. It was a pleasure working with your staff, especially with the mutual goal of assuring continued awareness of the Board of Fire Commissioner's duty of protect the assets and taxpayers of the Fire District.

In particular, we are very appreciative that the audit found no indications of any fraud, theft or other possible misconduct by the fire district officials in dealing with public funds. The thoroughness of your office's review of all disbursements and findings, is further assurance that all taxpayer dollars are being spent properly.

We are in agreement with the audit's findings and have not only begun the process of implementing measures to improve the Fire District's management and oversight of the Fire District's fiscal affairs as outlined in your recommendations, but we have already completed several of the recommendations. We also welcome this opportunity to prepare and present our completed corrective action plan, which provides a detailed account of how we have used the audit findings and recommendations to positively improve operations and internal controls.

The Board of Fire Commissioners has carefully considered the Report of Examination as well as each of the recommendations, and believes it is in the best interest of both the Fire District and the taxpayers of the Fire District to combine its response with its Correction Action Plan.

Accordingly, this audit response is also serving as the Correction Action Plan.

Audit Recommendation #1:

The Board should improve controls over community hall rentals, including utilizing a rental agreement form and press-numbered receipts for all rental fees collected.

Implementation Plan of Action:

The Board of Fire Commissioners ("Board") has adopted and implemented a new system and documents for the use of the community hall.

Implementation Date: February 5, 2020

Person Responsible for Implementation: Board, Treasurer

Audit Recommendation #2:

The Board should adopt an investment policy and update the procurement policy as needed.

Implementation Plan of Action:

The Board has adopted an Investment Policy, utilizing the sample provided by your office and has adopted an updated Procurement Policy.

Implementation Date: February 5, 2020

Person Responsible for Implementation: Board of Fire Commissioners

Audit Recommendation #3:

The Board should retain documentation of quotes or bids obtained in accordance with the District's procurement policy

Implementation Plan of Action:

As part of the updated Procurement Policy adopted by the Board, the Policy requires the retention of quotes or bids obtained.

Implementation Date: February 5, 2020

Person Responsible for Implementation: Board of Fire Commissioners, Treasure.

Audit Recommendation #4:

The Board should provide for an annual audit of the Treasurer's records, and obtain an external audit when required in the future.

Implementation Plan of Action:

The Board with the assistance of its legal counsel, is preparing the required RFP for audit proposals pursuant to Town Law 181-b and will be distributing the RFP in short order to qualified auditing firms for return and evaluation by the Board. The Board will engage an auditing firm for obtaining the required external audit.

Implementation Date: Immediate and on-going

Person Responsible for Implementation: Board of Fire Commissioners, Treasurer.

Audit Recommendation #5:

The Board should ensure that the Treasurer files the AUD within 60 days of the close of the fiscal year.

Implementation Plan of Action:

The Board will monitor and work with the Treasurer to assure that the AUD is filed annually, within 60 days of the close of the Fire District's fiscal year.

Implementation Date: Immediate

Person Responsible for Implementation: Board of Fire Commissioners, Treasurer.

Again we wish to thank your team of examiners for their thorough examination of the Fire District's records and the time spent with Fire District officials in explaining the audit process and their findings.

Very truly yours

Newark Valley Fire District

**James Van Nordstrand, Chairman
Board of Fire Commissioners**

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 to gain an understanding of controls and financial condition, including all revenues and reserve funds.
- We assessed the accounting system and records and the Treasurer's financial reports for accuracy.
- We reviewed all policies and procedures to determine whether they were adequate.
- We reviewed all bank account activity for the audit period for unusually large dollar transactions or withdrawals and account openings or closings.
- We reviewed bank reconciliations at the end of the most recently completed year (December 2018) and the most recently completed month (November 2019) to determine whether they were timely and accurate.
- We assessed the filing status of annual financial reports and the causes for late filing or non-filing.
- We assessed financial condition, and compared the Treasurer's reports to the Treasurer's records and to bank activity.
- We used our professional judgment to select four months (February 2018, August 2018, May 2019 and November 2019) and reviewed all claims and abstracts to determine whether they were Board-approved and included adequate supporting documentation. We selected these months without any expectation that there was a higher risk than in other months. This testing included 94 disbursements totaling over \$83,000.
- We used our professional judgment to select five purchases over \$2,500, since these purchases require at least three written quotes according to the District's procurement policy. These purchases did not have any higher risk associated with them and were selected for a variation in vendors and goods purchased. We looked for documentation of written quotes in vouchers and in Board minutes, and requested documentation from the Treasurer and two Commissioners.
- We reviewed all four disbursements paid to the sole employee in 2019 totaling \$5,887 to determine whether they were approved and appropriate.

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

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