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August 26, 2011

Mr. James McFadden, Chairman
Members of the Board of Fire Commissioners
North Brookfield Fire District
9199 Main Street
North Brookfield, NY 13418

Report Number: 2011M-129

Dear Mr. McFadden and Members of the Board of Fire Commissioners:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government 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 local government officials to reduce costs, improve service delivery, and to account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the North Brookfield Fire District (District) which addressed the following question:

- Are District controls adequate to ensure that financial activity is properly recorded and reported and that District moneys are safeguarded?

We discussed the findings and recommendations with District officials and considered their comments in preparing this report. The District's response is attached to this report in Appendix A. District officials agreed with our findings and recommendations and indicated they planned to initiate corrective action.

Background and Methodology

The North Brookfield Fire District is a district corporation of the State, distinct and separate from the Town of Brookfield, and is located in Madison County. The District's general fund budget totaled \$52,000 for the 2011 fiscal year.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The Treasurer is an elected official who acts as the District's chief fiscal officer. The Treasurer is responsible for the receipt and custody of District funds, for disbursing and accounting for those funds, for preparing monthly and annual financial reports, and for meeting any other reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2010 to April 30, 2011. We interviewed appropriate 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.

Audit Results

The Board is responsible for overseeing the District's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls, which consists of policies and procedures that ensure transactions are authorized and properly recorded; that financial reports are accurate, reliable, and filed in a timely manner; and that the District complies with applicable laws, rules and regulations, including the General Municipal Law (GML) relating to the investment of District moneys.

The Treasurer must maintain complete, accurate and timely records to account for all of the District's financial activities properly. The Treasurer should prepare and submit monthly reports to the Board and is required to prepare and submit an annual financial report of the District's financial condition to the Office of the State Comptroller within 60 days after the close of the fiscal year. This report is an important fiscal tool, which provides the Board with necessary information to monitor District operations and provides other interested parties with a summary of the District's financial activities. Town Law requires the Board to conduct an annual audit of the Treasurer's records.

We found that the Board needs to improve its oversight of the District's financial activities. The Treasurer has not filed an annual financial report with the Office of the State Comptroller since 2003.¹ The Treasurer provides the Board with a verbal report of bank balances as of the date of the Board meeting, but does not provide the Board with periodic written financial reports showing cash balances or budget vs. actual results. In addition, although the Treasurer maintains a check book register, she does not maintain subsidiary revenue and expenditure accounts to track financial transactions and does not perform monthly bank reconciliations to identify and correct any differences between bank records and District cash records. The Board's annual audit of the Treasurer's records merely consists of a comparison of the Treasurer's year end check book balance with the amount shown on the year end bank statement. These control deficiencies expose the District to the risk that errors and/or irregularities could occur and not be detected and corrected in a timely manner.

In addition, the District has not adopted an investment policy governing the investment of District moneys as required by GML. In 2007 the District invested \$15,000 with a local insurance agent and received a promissory note stating the money would be returned in one year along with eight percent interest. GML governs the temporary investment of municipal moneys and does not authorize investments of this nature. At the end of our audit fieldwork, the moneys had not been returned to the District nor had District officials sought or received any information from the agent relating to this investment.

¹ The current Treasurer was not in office during this entire period. She took office in 2007, filling the unexpired term of the previous Treasurer.

To address the identified internal control deficiencies, we reviewed bank activity including bank deposits and all disbursements, totaling \$91,709, made from January 2010 through April 2011, including the related supporting documentation such as bills, invoices and vendor statements. Generally, we found that financial activity was properly recorded in the Treasurer's checkbook register and supported, and that disbursements appeared to be for proper District purposes. However, the District could not provide supporting documentation for six disbursements totaling \$1,448.

We discussed other minor deficiencies with District officials during the conduct of our fieldwork.

Recommendations

1. The Board should ensure that the Treasurer files the District's annual financial reports with the Office of the State Comptroller in a timely manner.
2. The Treasurer should maintain subsidiary revenue and expenditure ledgers to help facilitate the preparation of monthly and annual financial reports.
3. The Treasurer should prepare monthly reports to assist the Board in monitoring financial activity and perform monthly bank reconciliations and present these to the Board for review.
4. The Board should conduct a more thorough annual audit of the Treasurer's records.
5. The Board should adopt a comprehensive investment policy as required by General Municipal Law.
6. District officials should retrieve the \$15,000 invested with the local insurance agent in 2007 (with any interest earned to date), and in the future only invest District moneys in compliance with the Law and the District's investment policy.
7. The Board should ensure that all disbursements have adequate supporting documentation.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the 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.

Sincerely,

Office of the State Comptroller
Division of Local Government
and School Accountability

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.

North Brookfield Fire District

9199 Main Street
North Brookfield, NY 13418

August 17, 2011

Rebecca Wilcox, Chief Examiner
Syracuse Regional Office
State Office Building, Room 409
333 E. Water Street
Syracuse, NY 13202-1428

Dear Ms Wilcox:

We have received your draft report on the examination of the North Brookfield Fire District report number 2011M-129. We acknowledge the findings and will take them into consideration when we submit our corrective action plan.

Sincerely,

A handwritten signature in black ink, appearing to read "James McFadden". The signature is stylized with a large, sweeping loop at the end.

James McFadden
Chairman NBF