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January 13, 2012

Mr. Melvin Sweeney, Chairman  
Members of the Board of Fire Commissioners  
Parishville Fire District  
6 Catherine Street, P.O. Box 547  
Parishville, NY 13672

Report Number 2011M-275

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

One of the Office of the State Comptroller's (OSC) 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 account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Parishville 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?

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 generally agreed with our recommendations and indicated they have begun to initiate corrective action.

### **Background and Methodology**

The Parishville Fire District is a district corporation of the State, distinct and separate from the Town of Parishville, in St. Lawrence County. The District's general fund budget totaled \$152,000 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 Secretary-Treasurer, who is elected, acts as the District's chief fiscal officer. The Secretary-Treasurer 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 financial reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2010 to July 31, 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 General Municipal Law (GML) requirements for a code of ethics, a procurement policy and an investment policy, and Federal requirements for payroll tax reporting and remittances, and miscellaneous income forms (1099 forms).

The Secretary-Treasurer must maintain complete, accurate and timely records to account for all of the District's financial activities. The Secretary-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 and District residents with necessary information to monitor District operations. Town Law requires the Board to conduct an annual audit of the Secretary-Treasurer's records.

We found that the Board needs to improve its oversight of the District's financial activities. The Board has not adopted purchasing<sup>1</sup> and investment<sup>2</sup> policies or a code of ethics<sup>3</sup> as required by GML. At the monthly Board meetings, the Secretary-Treasurer provides the Board with a verbal report of the District's bank balances; however, he does not provide the Board with periodic written financial reports showing cash balances or budget vs. actual results. The Secretary-Treasurer maintains a check book register that he reconciles with bank statements each month, but he does not maintain subsidiary revenue and expenditure accounts to help track financial transactions. Further, the Board does not review the monthly bank reconciliations for accuracy. The Secretary-Treasurer has not filed an annual financial report with the Office of the State Comptroller since 2002, and the Board has not conducted an annual audit of the Secretary-Treasurer's records since 2003, as required by Town Law. 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.

Although the Secretary-Treasurer has been withholding Social Security and Medicare taxes from his salary since he took office in 2003, he has not reported or remitted these taxes (including the District's share) to the Internal Revenue Service (IRS). Based on his annual salary from 2003 to

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<sup>1</sup> General Municipal Law Section 104-b

<sup>2</sup> General Municipal Law Section 39

<sup>3</sup> General Municipal Law Section 806

2010 (\$3,750 to \$4,000), we estimate the District withheld about \$2,350 for these taxes from his pay. In addition, the Secretary-Treasurer has not filed 1099s with the IRS to report payments to independent contractors who earned \$600 or more during 2010 for services rendered to the District. We identified three individuals providing services such as cleaning the fire house, repairing firefighting vehicles, and providing physicals to fire fighters. These individuals submitted vouchers and were paid at least \$1,650, \$1,200 and \$1,150, respectively, in 2010. Failure to prepare and file all required payroll reports and deposits in a timely manner with the IRS and to properly report required non-employee payments to the IRS could subject the District to significant interest and/or penalties.

Due to these deficiencies, we reviewed bank activity including bank deposits and all disbursements totaling \$76,300 made from July 2010 through April 2011.<sup>4</sup> Our review included the related supporting documentation such as bills, invoices and vendor statements. We also scanned the Secretary-Treasurer's checkbook register for the remainder of our audit period for any unusual or questionable payments and selected 20 disbursements totaling \$41,500 for further review of the supporting claim. Generally, we found that financial activity was properly recorded in the Secretary-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 nine disbursements totaling \$4,796. This includes \$2,000 paid to the Parishville Fire Department (Department) for an annual awards banquet for the firemen and rescue squad and \$1,800 paid to the Department for the Fire Chief's duties and expenses (i.e., mileage, meals). The District paid these claims without obtaining documentation, such as receipts or invoices, necessary to support these expenditures and allow the Board to determine whether the expenditures were proper.

## **Recommendations**

1. The Board should adopt purchasing and investment policies as well as a code of ethics.
2. The Board should require the Secretary-Treasurer to prepare and present written monthly reports to assist in monitoring financial activity.
3. The Board should review monthly bank reconciliations prepared by the Secretary-Treasurer.
4. The Secretary-Treasurer should maintain subsidiary revenue and expenditure ledgers to help facilitate the preparation of monthly and annual financial reports.
5. The Board should ensure that the Secretary-Treasurer files the District's annual financial reports with the Office of the State Comptroller in a timely manner.
6. The Board should audit the Secretary-Treasurer's records annually as required by Town Law.
7. The Board should ensure that the Secretary-Treasurer prepares the appropriate returns and remits the payroll taxes to the IRS.

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<sup>4</sup> We selected the 10-month period by using an unbiased judgmental sample. We then reviewed all activity during the selected period.

8. The Board should ensure that all vendors that are subject to the issuance of a 1099 form are properly identified and reported to the IRS as required.
9. The Board should ensure that all disbursements have adequate supporting documentation and are for legitimate District purposes.

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-Treasurer's office.

Sincerely,

Steven J. Hancox  
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.

PARISHVILLE FIRE DISTRICT

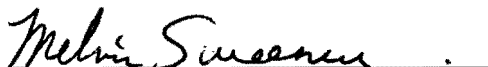
PARISHVILLE, NEW YORK


13672

To: Rebecca Wilcox, Chief Examiner, Office of State Comptroller  
From: Melvin Sweeney, Chairman, Parishville Fire District  
Evan Harper, Jr., Secretary/Treasurer, Parishville Fire District  
Re: Response Letter to the Draft OSC Audit Report  
Date: January 5, 2012

The two of us met with [REDACTED] at the Parishville, NY fire station on Wednesday, January 4, 2012. [REDACTED] reviewed the Draft OSC Audit Report very thoroughly, as well as the procedure for sending a Response Letter by January 30, 2012. He also informed us about the requirement for developing a written Corrective Action Plan within 90 days of our receiving the Final Report of this audit.

We agree with the findings in the Draft OSC Audit Report. We have already begun corrective actions by having members of the Board of Commissioners review the checkbook and bank statements for reconciliations and accuracy at our monthly meetings beginning with our September, 2011 meeting. An audit committee will be appointed at our January meeting to conduct an annual audit of all financial records for 2011 as required. We agree to develop a written Corrective Action Plan as required. If you need any more information, please contact us as soon as possible.

  
Melvin Sweeney, Chairman

  
Evan Harper, Jr., Secretary/Treasurer