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January 13, 2012

Mr. Ed Brady, Chairman
Members of the Board of Fire Commissioners
Redwood Fire District
PO Box 606
Redwood, NY 13679

Report Number: 2011M-225

Dear Mr. Brady 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 Redwood 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 plan to initiate corrective action.

Background and Methodology

The Redwood Fire District is a district corporation of the State, distinct and separate from the Town of Alexandria, in Jefferson County. The District's general fund budget totaled \$123,752 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 Board appoints a Secretary-Treasurer who acts as the District's chief fiscal officer. The Secretary-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 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 the General Municipal Law requirement for a code of ethics, a procurement policy and an investment policy.

The Secretary-Treasurer must maintain complete, accurate and timely records to account for all of the District's financial activities properly. 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 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 Secretary-Treasurer's records. The Board also is responsible for performing a thorough audit of claims before they are paid to ensure that District funds are used for only legitimate District expenditures.

We found that the Board needs to improve its oversight of the District's financial activities. Although the Board has adopted investment and procurement policies, it does not periodically review and update these policies, and officials were unable to locate the full text of the procurement policy. Additionally, the Board has not adopted a code of ethics as required by law. The Secretary-Treasurer has not filed an annual financial report with the Office of the State Comptroller since 2001. Each month, the Secretary-Treasurer provides the Board with a check detail report and budget vs. actual report for revenues and expenditures, but does not report cash balances to the Board. In addition, the Secretary-Treasurer does not record activity from two¹ of the District's three bank accounts in the computerized accounting records, and she did not know how to obtain reports from the accounting system showing the cash balance and activity in the checking account.² As a result, she did not reconcile the bank accounts with the accounting records. Because the Secretary-Treasurer did not reconcile book balances to adjusted bank balances on a monthly basis and submit the reconciliations to the Board for review, the Board could not be assured that cash had been accounted for properly.

¹ A savings account and "Vehicle Replacement" bank account

² The Secretary-Treasurer learned how to print cash flow reports from the District's accounting system during our fieldwork.

Board minutes did not identify bills audited and approved by the Board for payment. Although Board members initialed each bill submitted to the District for payment, they did not always document the dates they audited the bills. Therefore, bills could have been paid before they were audited by the Board. In addition, during our audit period, the District's bank did not provide canceled checks or check images for the District's checking account. Without canceled checks or images, the Board does not have the ability to verify that payments were made as indicated on the claims. Lastly, the Board did not conduct an annual audit of the Treasurer's records, as required by law.

Due to these deficiencies, we reviewed all bank statements for any non-check withdrawals or electronic transfers and requested copies of check images from the bank for the audit period. We tested all disbursements made for six months of our audit period, October 2010 through March 2011. We also selected what we considered high risk payments from the remainder of our audit period, which included disbursements to District officers or their family members and vendors that we did not recognize or that were not of a nature expected to do business with a fire district. We tested 64 disbursements totaling \$62,132.

In general, we found that financial activity was properly recorded and supported, and that disbursements appeared to be for proper District purposes. However, the District made a payment for \$10,025 in June 2011 to a public utility company; it was the only payment made for electricity during our audit period, and it was to pay for services received since October 2009. The Chairman told us that the monthly bills from the utility company were sent to the District's email account, but no one printed the bills to initiate payment. The District paid approximately \$1,300 in late fees as a result of the late payment.

We verbally discussed other minor deficiencies we found during our testing with District officials.

Recommendations

1. The Board should adopt a code of ethics as required by statute. The Board also should review its investment and procurement policies at least on an annual basis and update them as necessary.
2. 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.
3. The Board should audit the Secretary-Treasurer's records annually, as required by Town Law.
4. The Secretary-Treasurer should maintain adequate accounting records, including cash balances for all of the District's bank accounts. The Secretary-Treasurer should reconcile these accounts on a monthly basis and present them to the Board for review.
5. The Board should ensure that all disbursements are paid in a timely manner. The Board also should ensure that the Secretary-Treasurer adequately documents the claims and the amounts that have been approved for payment in the minutes.

6. The Board should ensure that the District receives, or has access to, canceled checks or images for its bank accounts.

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.

REDWOOD FIRE DISTRICT
Board of Fire Commissioners
PO Box 606
Redwood, NY 13679

TO: Steven Hancox
Office of the State Comptroller

FROM: Edward Brady
Chairperson

DATE: December 29, 2011

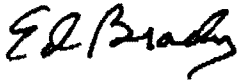
RE: Audit Response

The Redwood Fire District appreciates the energy and direction given to us in the recent audit. While the draft results note that in general the financial activity was properly recorded and supported we also were found to be sorely lacking in the details of recording our activities as a municipality mandated by law. We agree with these findings.

Please know that the board intends to comply with every recommendation as immediately as possible. We are aware that there is a formal 90 day corrective action plan that is expected from us where in we will detail the progress in each category of your recommendation.

We appreciate the help given to us by the auditor.

Sincerely,



Ed Brady

cc: 