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August 16, 2013

Jon W. Storms, Chair  
Members of the Board of Fire Commissioners  
Carthage-Wilna Fire District  
685 South James Street  
Carthage, NY 13619

Report Number: 2013M-191

Dear Mr. Storms 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 Carthage-Wilna 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 recommendation have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendation. Appendix B includes our comment on an issue raised in the District's response letter.

### **Background and Methodology**

The Carthage-Wilna Fire District (District), located in Jefferson County, is a district corporation of the State, distinct and separate from the Town of Wilna. The District's general-fund budget totaled \$563,000 for the 2012 fiscal year.

The Board of Fire Commissioners (Board) comprises five elected members and is responsible for the District's overall financial management. The Board appoints a Secretary-Treasurer who serves 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, 2012, to March 31, 2013. 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, the Board should establish a system of internal controls consisting of policies and procedures to ensure that 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 purchasing policy, investment policy, and code of ethics.

The Secretary-Treasurer must maintain complete, accurate, and timely records to properly account for all of the District's financial activities. Additionally, the Secretary-Treasurer should reconcile the District's accounting records to the bank statements on a monthly basis, prepare and submit monthly reports to the Board, and prepare and submit an annual financial report of the District's financial condition to the Office of the State Comptroller (OSC) within 60 days after the close of the fiscal year. This annual financial report is an important fiscal tool that provides the Board with necessary information to monitor District operations and provides other interested parties with a summary of the District's financial activities. The Board is also responsible for performing a thorough audit of claims before they are paid to ensure that District funds are used for only legitimate District expenditures. Town Law requires the Board to obtain an annual audit of the District's records by an independent public accountant.

The Board generally provides adequate oversight of District financial activities. It has adopted purchasing and investment policies and a code of ethics, as required by statute, and has ensured that procedures for financial recording and reporting were developed. The Secretary-Treasurer submitted monthly financial reports to the Board, including monthly bank reconciliations that the Board reviews and approves. The Secretary-Treasurer has filed the required annual financial report with OSC in a timely manner, and the Board contracts with an independent auditor to perform an annual audit of the Secretary-Treasurer's records. Lastly, the Board audits all District claims by reviewing each claim and signing off on the abstract (list of claims to be approved for payment), and the Board minutes indicate the approval to pay these claims.

Although the Board passed a resolution to pay claims that are allowed<sup>1</sup> to be paid prior to audit, it also passed a separate resolution to pay other bills prior to audit that are not allowed by Town Law. For example, the Board approved the payment of claims prior to audit for certain vendors that supply trash pickup, health insurance, office supplies, auto parts, payroll accounting services, and fire-related services.

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<sup>1</sup> Town Law permits the Board to pass a resolution to authorize the payment in advance of audit of claims for light, telephone, postage, freight and express charges. These claims must be presented at the next regular Board meeting for audit.

Even with adequate Board oversight, there is a certain level of inherent risk that exists with cash disbursements in the District. We reviewed 99 claim payments<sup>2</sup> totaling \$101,584 to determine whether disbursements made by the District were properly recorded and supported and whether claims appeared to be for valid District purposes. Of the 99 claims, 27 claims totaling \$25,038 paid prior to audit were not allowable exceptions under Town Law, including claims the Board improperly authorized to be paid in advance of audit (e.g., health insurance and trash removal) as well as claims for which we found no Board authorization (e.g., credit-card payments, equipment rental, training, and physical examinations). The Chairman and Secretary-Treasurer stated that these types of claims are routinely paid prior to audit to avoid late fees. However, when such claims are not authorized by law to be paid prior to audit, there is an increased risk that District funds could be expended for inappropriate purposes.

We also reviewed all bank statement activity for our audit period to determine whether all non-check withdrawals were appropriate, and reviewed bank reconciliations for two months during the audit period: December 2012 and March 2013. Generally, we found that financial activity was properly recorded in the Secretary-Treasurer's records and supported, and that disbursements appeared to be for proper District purposes. We discussed some minor deficiencies with District officials during our fieldwork.

## **Recommendation**

1. The Board should ensure that all claims, other than those exceptions allowed by Town Law, are audited and approved by the Board before the Secretary-Treasurer pays the claims.<sup>3</sup>

Pursuant to Section 181-b of the Town Law, a written corrective action plan (CAP) that addresses the findings and recommendations in this report should 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 District Secretary's office.

Sincerely,

Andrew A. SanFilippo  
Executive Deputy Comptroller  
Office of State and Local Government  
Accountability

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<sup>2</sup> We reviewed 72 claims totaling \$46,821 paid in the months of May 2012, November 2012 and February 2013. We also reviewed a risk-based sample of 27 claims paid during our audit period totaling \$54,763 (payments that appeared unusual or excessive, or were made to District officials or related parties).

<sup>3</sup> Board members should refer to our publication entitled *Local Government Management Guide – Improving the Effectiveness of Your Claims Auditing Process*.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

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Carthage-Wilna Fire District  
**Combined** Response and Corrective Action Plan  
Audit Report #2013M-191

The Board has reviewed the Office of the State Comptroller's audit. We thank the OSC for recognizing and acknowledging our continuous efforts to oversee the Carthage-Wilna Fire District's budget, spending, internal controls and auditing practices.

The audited months included February 2013. It was reported in the audit that bills paid prior to approval included claims for equipment rental, training, physical examinations, trash removal, health insurance and credit cards, as examples. Although this statement is somewhat misleading the Board recognizes the root of the statement being taken from inappropriate wording in our 2013 Organizational Meeting minutes. The Board pre-approved recurring services to be used, not pre-approved payment of those services. In reviewing paid claims, the only ones actually paid prior to approval were health insurance and credit cards.

See  
Note 1  
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Recommendation #1. *The Board should ensure that all claims, other than those exceptions allowed by Town Law, are audited and approved by the Board before the Secretary/Treasurer pays the claims.*

## Corrective Action Plan:

This corrective action plan has been unanimously approved by our Board of Fire Commissioners.

The Secretary/Treasurer has contacted the credit card company and changed the due date in an attempt to coincide with the Board meeting beginning with September 2013 payment.

Health insurance is an annual contract, paid monthly, and will continue to be paid prior to the monthly Board meeting. We contacted our insurance agent regarding this issue. All health insurances are due by the first of the month and paid a month in advance. Although there is a 30-day grace period it is strongly advised against paying in that period because of the risk of being canceled from the particular carrier or placed into a different group, either choice could result in paying higher premiums. Health insurance is a stable and recurring monthly claim with no change in the amount due until a new yearly contract is entered into and then again becomes stable with the new charges.

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Jon W Storms, Chairman  
Board of Fire Commissioners

8-7-2013  
Date

## **APPENDIX B**

### **OSC COMMENT ON THE DISTRICT'S RESPONSE**

#### Note 1

The exceptions cited in our report were based on testing of the entire audit period. Of the 27 claims totaling \$25,038 that were paid prior to Board audit during the audit scope period, 15 claims totaling \$18,565 were for health and dental insurance and credit cards, with the balance being for various purposes referenced in our report. The claims paid in the month of February 2013 prior to Board audit (for health and dental insurance, credit card charges, and training), like those cited for the audit period as a whole, should have been audited and approved for payment before the payments were made.