



THOMAS P. DiNAPOLI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

ANDREW A. SANFILIPPO
EXECUTIVE DEPUTY COMPTROLLER
OFFICE OF STATE AND LOCAL GOVERNMENT
ACCOUNTABILITY
Tel: (518) 474-4593 Fax: (518) 402-4892

June 28, 2013

Mr. Rudi Compton, Chairman
Members of the Board of Fire Commissioners
Killawog Fire District
602 Jennings Creek Road
Killawog, NY 13794

Report Number: 2013M-111

Dear Mr. Compton 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 Killawog Fire District (District) which addressed the following question:

- Did the District establish adequate controls to ensure that financial activity is properly recorded and reported and to safeguard District moneys?

The results of our audit have been discussed with District officials, and their comments, which appear in Appendix A, have been considered when preparing this report.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town of Lisle and located in Broome County. The District's general fund budget totaled approximately \$88,000 for the 2013 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 Treasurer 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, 2012 to March 1, 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, it is essential that the Board establish a system of internal controls consisting 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) requirement for a purchasing policy, investment policy and code of ethics. Furthermore, the Board should retain a reasonable portion of fund balance to use as a financial cushion in the event of unforeseen financial circumstances. Reserve funds should be formally established by Board action, as outlined in GML.

The Treasurer must maintain complete, accurate, and timely records to properly account for all of the District's financial activities. Additionally, the Treasurer should reconcile the District's accounting records to the 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 of the District's financial condition to the Office of the State Comptroller within 60 days after the close of the fiscal year. This annual financial 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. The Board is also responsible for performing a thorough audit of claims before they are paid to ensure that District funds are used only for legitimate District expenditures, and for performing an annual audit of the Treasurer's records.

The Board has adopted purchasing, investment, and code of ethics policies, as required by statute. The Board also has ensured that procedures concerning financial recording and reporting were developed. The Treasurer provides the Board with detailed and up-to-date disbursement and receipt financial activity including bank reconciliations, ledgers, and claim packets. The Board does authorize each claim for payment and indicates its approval by affixing appropriate signatures to the claims, and the Board minutes indicate the approval to pay these claims.

The Treasurer has submitted monthly reports to the Board and filed the required annual financial report with the Office of State Comptroller. However, the Board has retained excessive levels of fund balance. Fund balance as of December 31, 2012 totaled approximately \$229,000 which represents 260 percent of next year's budgeted appropriations. District officials told us that approximately \$189,000 of this fund balance was for a reserve fund established approximately 17 years ago. District officials were unable to provide us with formal documentation of the

establishment of this reserve fund. Furthermore, even if this money was reserved, the current unrestricted unappropriated fund balance is still excessive at 44 percent of next year's budgeted appropriations.¹ If fund balance is kept at excessively high levels, moneys that could benefit the District are not being used, thereby placing an unnecessary burden on taxpayers.

In addition, the Board does not conduct an annual audit of the Treasurer's records or contract with an independent auditor to perform such an audit to ensure that District funds were used for legitimate District purposes.

Even with Board oversight, there is a certain level of inherent risk that exists with cash in a fire district. Due to this inherent risk, we reviewed 18 claims totaling \$5,012 to determine whether disbursements made by the District were properly recorded and supported with appropriate documentation, and that claims appeared to be for valid District purposes. In addition, we reviewed 11 claims totaling \$6,610 to determine whether disbursements payable to personal use vendors were supported by adequate documentation and for valid District purposes. We also reviewed two real property tax receipts totaling \$81,269 to verify that cash receipts recorded by the Treasurer in the accounting records were deposited in the District's bank account. Additionally, we performed limited testing of all fiscal year 2012 monthly reports that the Treasurer prepared, including the annual financial report, to determine if they were accurate. Our examination revealed only minor recording exceptions, which we discussed with District officials.

By not properly recording and accounting for the reserve funds, the public is not provided with an accurate financial position which hinders the transparency of the District's finances. Furthermore, the failure of the Board to audit the Treasurer's records could allow irregularities and errors to occur and not be detected in a timely manner.

Recommendations

1. The Board should develop a plan to reduce the amount of fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - a. Using surplus funds as a financing source
 - b. Funding properly established reserves to finance future capital needs
 - c. Paying off debt
 - d. Funding one-time expenditures.
2. The Board should audit the Treasurer's records annually or contract with an independent auditing firm to do so.

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,

¹ The unrestricted unappropriated fund balance represents 44 percent of the next year's budgeted appropriations or approximately \$39,000.

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,

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

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Killawog Fire District
Members of the Board of Fire Commissioners
602 Jennings Creek Road
Killawog, NY 13794

Office of the State Comptroller
Binghamton Regional Office
H. Todd Eames, Chief Examiner
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Report Number: 2013M-111

Please accept this Audit Response and Corrective Action Plan for The Killawog Fire District. For each recommendation included in the audit report, the following is our response and corrective actions taken. *This response and corrective action plan was approved by the Killawog Fire District Commissioners on June 19, 2013.*

The Killawog Fire District, Members of the Board of Fire Commissioners are in agreement with the two findings and recommendations with the Office of the State Comptroller.

Audit recommendations:

1. The Board should develop a plan to reduce the amount of fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - a. Using surplus funds as a financing source
 - b. Funding properly established reserves to finance future capital needs
 - c. Paying off debt
 - d. Funding one-time expenditures.
2. The Board should audit the Treasurer's records annually or contract with an independent auditing firm to do so.

Implementation Plan of Actions:

1. The Killawog Fire District has on March 20, 2013 established two different reserve funds for the Killawog Fire District, a Capital Equipment Reserve Fund and a Building Reserve Fund.
 - A. The purpose of the Capital Equipment Reserve Fund is to accumulate moneys to finance the cost of *New or Replacement Fire Fighting Equipment*.
 - B. The purpose of the Building Reserve Fund is to accumulate moneys to finance the cost to *Repair District Buildings*.

Implementation Date: March 20, 2013

2. Audit of Treasurer's records annually

- A. A member of the commissioner board already reviews each transaction recorded with the checkbook and treasurer's report at each monthly meeting and is signed off on in our accounting book. Also, it will be stated in our monthly meeting minutes, who had audited the checkbook for that month.
- B. Each member of the board is also given an updated balance sheet with all financial information documented. A detailed breakdown of the balance sheet is reviewed and discussed at each monthly meeting. Any discrepancies or concerns are addressed at that time each month, implementation has already been in place.
- C. The Board of Commissioner will also perform a yearly Audit starting with January 1, 2013 to December 31, 2013, to be implemented at the beginning of the 2014 year, either by the Board of Commissioners or an outside auditing firm.

Implementation Date: Current and ongoing for January 2014

June 19, 2013

Mr. Rudi Compton, Chairman
Killawog Fire District