



# East Clinton Fire District

## Internal Controls Over Financial Operations

Report of Examination

Period Covered:

January 1, 2011 — April 30, 2012

2012M-194



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

February 2014

Dear Fire District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Commissioners governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the East Clinton Fire District, entitled Internal Controls Over Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

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



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

The East Clinton Fire District (District) is located in the Town of Clinton, in Dutchess County. The District is governed by an elected five-member Board of Fire Commissioners (Board) and has 57 volunteer members. The District is required to have a Treasurer, who may also serve as the District Secretary. The District's budgets for 2011 and 2012 were \$515,500 and \$524,500, respectively, funded primarily with real property taxes.

### **Scope and Objective**

The objective of our audit was to examine internal controls over financial operations for the period January 1, 2011 through April 30, 2012. We extended our review of annual financial reports back to 2006 and forward to February 2013. Our audit addressed the following related questions:

- Were funds expended for gifts and loans appropriate?
- Did the Board improperly delegate the duties of the Treasurer and Secretary to an independent contractor?
- Did the Board ensure that District funds were used as intended and accounted for properly?

### **Audit Results**

District officials improperly made gifts and non-interest bearing loans of public moneys to members of the District's fire department in excess of \$26,000. This included the payment of personal expenses including utility bills, cable television bills, college fees, books and rent.

The District retained an independent contractor to perform the duties of Secretary-Treasurer. However, Town Law requires that the positions of fire district treasurer and district secretary be public offices. The duties of these positions may not be delegated to an independent contractor.

Also, during our 16-month audit period, the District paid the Secretary-Treasurer a total of \$118,940, of which \$113,340 represents hourly payments using the Secretary-Treasurer's \$20 hourly rate. This would equate to the Secretary-Treasurer working over 11 hours a day, seven days a week, every week, for 16 months. We question whether these hours could have been worked as reported. The District had no records to document or authenticate the hours that it paid.

The Board did not have written policies and procedures over financial operations including investments, cash receipts and deposits. As a result, bank accounts totaling approximately \$463,000 were listed as reserve funds even though the Board could not provide evidence that it met the legal requirements to establish reserves for those moneys. In addition, receipts in some cases were held in excess of 200 days before deposit. The Secretary-Treasurer only reconciled one of the District's bank accounts on a monthly basis. Consequently, the District was incorrectly charged a variety of bank fees totaling \$2,340 that were not caught because reconciliation of other accounts was not done.

Finally, we found that the Board did not obtain the legally required independent annual audit and that the Secretary-Treasurer did not file an annual financial report with the State Comptroller's Office for 2011.

This report has been referred to the Dutchess County District Attorney.

### **Comments of District Officials**

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 planned to take corrective action.

# Introduction

## Background

The East Clinton Fire District (District) is located in the Town of Clinton, in Dutchess County. The District is a district corporation of the State, distinct and separate from the Town, and is governed by an elected five-member Board of Fire Commissioners (Board). The District covers approximately 26 square miles and serves about 2,500 residents. The District's fire department has 57 volunteer members and provides services such as fire rescue, scene support, fire drills and fire safety training. The Board is responsible for the overall financial management of the District, including establishing appropriate internal controls to ensure that assets are properly safeguarded and that financial transactions are executed in accordance with statutory and managerial authorization. The Board also has the power to levy taxes on real property located in the District.

The District is required to have a Treasurer, who may also serve as the District Secretary. The Secretary-Treasurer is responsible for the receipt, custody, disbursement and accounting of District funds and for preparing monthly and annual financial reports, including the annual financial report to the Office of State Comptroller (OSC). The Secretary-Treasurer is also responsible for recording the proceedings of Board meetings and for retaining custody of all the District's records, books and papers. The Board appointed the Secretary-Treasurer in 2007. The District's budgets for 2011 and 2012 were \$515,500 and \$524,500, respectively, funded primarily with real property taxes.

## Objective

The objective of our audit was to examine internal controls over financial operations. Our audit addressed the following related questions:

- Were funds expended for gifts and loans appropriate?
- Did the Board improperly delegate the duties of the Treasurer and Secretary to an independent contractor?
- Did the Board ensure that District funds were used as intended and accounted for properly?

## Scope and Methodology

We examined gifts and loans, the Treasurer's office and the District's financial reporting for the period January 1, 2011 through April 30, 2012. We extended our review of annual financial reports back to 2006 and forward to February 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

**Comments of  
Local Officials and  
Corrective Action**

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 planned to take corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of 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. 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 of Fire Commissioners should make this plan available for public review in the District Secretary's office.

## Gifts and Loans

Fire districts are established to provide fire protection and to respond to other types of emergencies, and they do not have authority to make gifts or loans of public money to district members, fire departments or their families. Fire districts are not authorized by law to establish a welfare fund and cannot lend money to members of the fire district's department or their families.

Contrary to the law, the District established a welfare fund in 2009. Deposits to the fund have totaled approximately \$27,000, consisting mainly of transfers from the District's general fund and \$3,000 from the East Clinton Fire Company (Company). District officials used \$26,157 of the welfare fund to pay the personal bills of District officials and Company members, including utility bills, cable television bills, insurance, college fees, books and rent. In addition, the District made two interest-free loans in 2011 to two Commissioners and their spouses, totaling \$8,500.

Subsequent to discussing the issue with District officials, the Board Chair closed the fund. However, the District has not sought to recover the gifts and the loans have not been repaid.

This report has been referred to the Dutchess County District Attorney.

### **Recommendation**

1. The Board should confer with the District's legal advisor about seeking reimbursement of previous gifts and loans made with public moneys.

## Treasurer's Office

Town Law requires that the positions of fire district treasurer and secretary be public offices. Therefore, the duties of these positions may not be performed by an independent contractor. A fire district, however, may hire consultants to assist in performing the duties of these offices.

District officials advised us that the Secretary-Treasurer is an independent contractor. According to the Board Chair, the Secretary-Treasurer was hired to perform the Treasurer's duties and other activities. Board minutes from 2011 and 2012 describe the compensation for the Treasurer as \$350 per month, plus \$20 per hour for financial reports. If, as District officials maintain, the District retained an independent contractor to perform the duties of either the Secretary or the Treasurer, this was improper because these duties may not be performed by independent contractors.<sup>1</sup>

Minutes from Board meetings in 2011 and 2012 also indicate that the person retained as an independent contractor to perform the functions of Secretary-Treasurer was also retained at the rate of \$20 per hour to maintain records for the District's Length of Service Award Program (LOSAP).<sup>2</sup> Because the recordkeeping function does not appear to involve a significant amount of discretion and is not specifically imposed on any particular fire district officer, we believe the District had authority to retain an independent contractor to perform the

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<sup>1</sup> The office of fire district treasurer is elective, but may be made appointive by resolution of the board of fire commissioners subject to voter approval. If the treasurer's office is appointive, the board must appoint a treasurer annually. The office of fire district secretary is always appointive. The board must appoint a secretary annually to serve for a one-year term. A fire district treasurer may also act as secretary. Both a fire district treasurer and secretary are subject to certain residency requirements, and must take and file with the town clerk an oath of office. In addition, the treasurer must give an undertaking and file it with the town clerk. A fire district treasurer and a fire district secretary may receive compensation. Normally, the compensation for each office is established by board resolution and any salary or other cash compensation is paid through the payroll system. The Board adopted a resolution which appointed an individual as Secretary-Treasurer for a five-year-term commencing on January 1, 2007. This resolution was improper because Board appointments to the offices of Secretary and Treasurer may be made only one year at a time. Moreover, based on the wording of the resolution, it is not entirely clear whether the Board thought it could appoint a Treasurer without first obtaining voter approval to convert the office from elective to appointive. The Board Chair advised us that she has no recollection of such voter approval and that District records pre-dating 2007 were destroyed.

<sup>2</sup> The LOSAP (effective January 1, 2008) provides municipally-funded pension-like benefits for the recruitment and retention of active volunteer firefighters.

function.<sup>3</sup> However, during the audit period, there were no written contracts between the District and the Secretary-Treasurer to outline the work to be performed or pay rate.

During our 16-month audit period, the District paid the Secretary-Treasurer a total of \$118,940. Monthly compensation of \$350 would have accounted for \$5,600 of the payments. Since the remaining \$113,340 represents hourly payments using the Secretary-Treasurer's \$20 hourly rate, she would have needed to bill the District for approximately 350 hours per month or over 80 hours per week. This would equate to the Secretary-Treasurer working over 11 hours a day, seven days a week, every week, for 16 months.

We question whether these hours could have been worked as reported. The District had no records to document or authenticate the hours that they paid. The claims submitted by the Secretary-Treasurer were not itemized to include necessary information such as the hours worked, even though she was paid on an hourly basis.

## **Recommendations**

2. The Board should confer with the District's legal advisor and take such steps as may be necessary to ensure that the Secretary-Treasurer is a duly selected and qualified public officer, rather than an independent contractor.
3. If the Board decides to hire a consultant to assist District officials in performing their duties, the Board should ensure that there is a comprehensive written contract that details the services to be provided and the pay rate for each service. The consultant should submit itemized claims that detail each service provided and the number of hours for each service.

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<sup>3</sup> A contract for the performance of the recordkeeping function with an officer of the District, however, would raise an issue of potential conflict of interest under article 18 of the General Municipal Law.

## Financial Reporting

The Board is responsible for ensuring that District funds are used as intended and accounted for properly. To fulfill this duty, the Board should adopt written policies and procedures covering financial activities such as investments, cash receipts and deposits, and it should ensure that funds are legally restricted if they are being saved for a specific purpose, such as a capital improvement. The Board must also ensure that the Treasurer deposits all moneys in a timely manner and reconciles all bank accounts on a monthly basis. In addition, the Board must obtain an independent annual audit and ensure that the Treasurer prepares annual financial reports.

The Board did not have written policies and procedures covering financial activities such as investments, cash receipts and deposits. As a result, the Secretary-Treasurer listed District bank accounts totaling approximately \$463,000 as reserve funds even though the Board could not provide evidence that it met the legal requirements to establish reserve funds for those moneys. In some cases, funds were held in excess of 200 days prior to deposit, and only one bank account was reconciled. Consequently, District officials failed to detect a variety of incorrectly charged bank fees totaling \$2,340. In addition, the Board did not obtain the required independent annual audit, and the Secretary-Treasurer did not file the required financial reports with OSC for 2006 to 2010 in a timely manner and has not yet filed the 2011 financial report. The lack of annual audit and untimely financial reports diminish the Board's ability to adequately manage the District's finances.

### **Policies and Procedures**

The Board is responsible for managing and overseeing the District's fiscal affairs and safeguarding its resources. This responsibility includes establishing a system of internal controls which consists of policies and procedures that provide reasonable assurance that cash and other resources are properly safeguarded; transactions are authorized and properly recorded; financial reports are accurate, reliable, and filed in a timely manner; and applicable laws, rules and regulations are observed. The Board must adopt a comprehensive investment policy and should adopt policies and procedures for monitoring and controlling cash receipts and deposits as well as for reimbursement, travel, cell phones and disbursements.

The Board did not have written policies and procedures over financial operations. Due to the lack of policies and procedures, the District has no standards or guidance for managing District finances and maintaining financial records. The lack of policies and procedures

has contributed to the deficiencies discussed throughout this report and increases the risk that errors or irregularities could occur and remain undetected and uncorrected.

## **Reserve Funds and Bank Accounts**

Fire districts may establish different kinds of reserve funds in accordance with General Municipal Law (GML). To establish a reserve fund, the Board must adopt a resolution that states the kind of reserve fund being established. In some cases, the resolution must contain additional information and/or is subject to referendum requirements. For example, the Board may, by resolution subject to a mandatory referendum, establish a capital reserve fund to accumulate moneys to finance the cost of specific or types of certain capital improvements or equipment.<sup>4</sup> The Board may also adopt a resolution, without referendum, to establish a repair reserve fund to finance certain repairs to capital improvements and equipment. Expenditures from reserve funds must also be authorized by Board resolution. A resolution authorizing an expenditure from a reserve fund must state the purpose and amount of the expenditure and, in some cases, is subject to additional procedural steps, such as compliance with public hearing or referendum requirements.

In situations where a local government does not follow the proper procedure to establish a reserve fund, but accumulates moneys for a purpose for which it may establish a reserve fund and treats the moneys as a reserve fund through a persistent course of conduct, we believe the accumulated moneys constitute a de facto reserve fund. In these situations, the local government should legalize the reserve fund by following the proper procedure to establish the fund.

The Secretary-Treasurer provided us with a list of the District's 11 bank accounts with a combined balance of \$613,364 as of December 2011. Of the 11 accounts, eight were classified as reserve funds, totaling \$462,598.64. However, there was no documentation to indicate how and why the reserve accounts were established. The Secretary-Treasurer told us that she decided to label these accounts as reserves.

The District's 2011 and 2012 budgets include three reserve funds. The Board Chair told us that the Board established these three reserve funds because they were included in the District's annual budgets. However, District officials were unable to provide us with the Board resolutions or any other documentation relating to the establishment

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<sup>4</sup> Prior to January 1, 2007, the establishment of a capital reserve fund to finance the cost of a specific capital improvement or specific item of equipment required a resolution of the board of fire commissioners, subject to permissive referendum requirements. A resolution of the board of fire commissioners establishing a capital reserve fund to finance a type of capital improvement or equipment was not subject to any referendum requirement.

of such reserves. Without this documentation, there is no assurance that the Board followed the proper procedures to establish reserve funds or that the moneys set aside will be used as intended. The Board Chair told us that the District will close the bank accounts in question and will do what is required to properly establish reserves. During our fieldwork, the District began to close the accounts.

## Deposits

Town Law requires the Treasurer to deposit all moneys within 10 days of receipt. The Secretary-Treasurer does not record the date cash and checks are received, which makes it impossible for District officials to determine whether funds are deposited timely. We compared the date on the checks received against the deposit dates for all funds received during our audit period and found that on average it took approximately 108 days from the date on the checks to the date of deposit. While two deposits were made timely, the rest were made after the 10-day requirement, most taking two months or more.

Check Date	Deposit Date	Amount	Number of Days Between Check Date and Deposit Date
September 15, 2010	January 31, 2011	\$ 316.17	138
October 20, 2010	January 11, 2011	\$129.08	83
November 4, 2010	January 31, 2011	\$ 2,248.95	88
December 3, 2010	January 11, 2011	\$1,000.00	39
December 12, 2010	March 18, 2011	\$382.00	96
March 9, 2011	April 8, 2011	\$515,000.00	30
April 16, 2011	January 10, 2012	\$ 25.00	269
May 15, 2011	January 10, 2012	\$10.00	240
June 11, 2011	January 10, 2012	\$ 40.00	213
July 14, 2011	January 10, 2012	\$1,200.00	180
October 5, 2011	January 10, 2012	\$ 895.10	97
October 24, 2011	January 10, 2012	\$1,104.90	78
November 10, 2011	January 11, 2012	\$ 4,056.84	62
March 12, 2012	March 21, 2012	\$1,200.00	9
March 22, 2012	March 27, 2012	\$ 524,500.00	5
<b>Total</b>		<b>\$1,052,108.04</b>	

When deposits are not made timely, there is an increased risk that District funds will be lost or stolen.

## **Bank Reconciliations**

Good business practices require the performance of monthly bank reconciliations that trace bank balances to general ledger balances. Discrepancies should be documented and investigated, and necessary adjustments to the general ledger should be made in a timely manner. All reconciliations should be subject to an independent review. These procedures help ensure the accuracy of the accounting records and financial reports and help safeguard cash.

The Secretary-Treasurer does not perform monthly reconciliations of all bank accounts. Only the District's general checking account is reconciled monthly. The Board Chair told us that she reviews the reconciliations. However, we did not find any indication of such reviews. The Secretary-Treasurer told us that the other accounts have very little activity in them, which is why she does not reconcile them.

Not performing monthly reconciliations of bank accounts increases the risk that discrepancies could occur and not be detected and resolved. For example, during the audit period, the bank incorrectly charged the District a variety of bank fees totaling \$2,340. The bank reversed \$700 of the charges, but the remaining \$1,640 in fees have yet to be reversed. If the Secretary-Treasurer had performed bank reconciliations, she may have identified these errors and corrected them sooner.

## **Annual Independent Audit**

Fire districts with annual revenues of \$200,000 or more are required by law to obtain an annual independent audit of their records.<sup>5</sup> In addition, GML requires a LOSAP sponsor to obtain an annual independent audit. A copy of the audit must be provided to the program sponsor and to OSC. LOSAP audits must be completed within 270 days of the end of the sponsor's fiscal year.

The District has annual revenues in excess of \$200,000 and sponsors a LOSAP but has never obtained the required annual independent audits. The Board Chair told us that she was not aware that the District needed these annual audits. The District is in the process of publishing a request for proposals to obtain an independent audit for 2011.

Because the District did not obtain annual independent audits, the Board and other users of the District's financial statements could not properly assess the District's financial activities or financial condition.

## **Annual Update Documents**

The maintenance of complete and accurate accounting records provides the Board with essential information it needs to effectively manage the District's finances. The information in these accounting

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<sup>5</sup> GML was recently amended and the revenue threshold was increased to \$300,000 beginning with 2013 calendar year audits.

records provides the foundation for the Board to monitor the District's financial operations and develop its budgets. In addition, GML requires the Treasurer to prepare and file an annual financial report of the District's financial condition, known as the Annual Update Document (AUD), with OSC within 60 days of the close of the fiscal year.

The District did not submit the required AUDs for fiscal years 2006 to 2010 in a timely manner. The District filed its 2006 AUD on November 21, 2011 and its 2007 to 2010 AUDs in January 2012. The Secretary-Treasurer and Board Chair explained that the District Attorney's office had custody of the District's 2006 and 2007 records for investigation purposes. Subsequent to the field work, the Secretary-Treasurer filed the 2011 AUD report in February 2013.

The District has not filed AUDs in a timely manner. As a result, the Board does not have an important fiscal tool to properly manage and monitor the District's finances, and District taxpayers cannot have reasonable assurance that District funds are accounted for properly.

## **Recommendations**

4. The Board should adopt written policies and procedures covering financial activities including investments, cash receipts and deposits, reimbursements, travel, cell phones and disbursements.
5. The Board should review the legal requirements for reserve funds and ensure that the District complies with the statutory provisions for establishing and using reserve funds, including taking any steps necessary to legalize the existing reserve accounts.
6. The Secretary-Treasurer should record the dates that checks and cash are received and deposit all moneys within 10 days of receipt.
7. The Board should ensure that the Secretary-Treasurer reconciles all bank accounts monthly, and the Board should ensure that the reconciliations are reviewed by a person independent of the Secretary-Treasurer.
8. The Board should direct the Secretary-Treasurer to continue to pursue the reversal of the remaining \$1,640 in erroneous bank charges to the District.
9. The Board should obtain an independent audit of the District's financial records on an annual basis, as required by law and LOSAP requirements.
10. The Board should ensure that the Secretary-Treasurer prepares and submits AUDs within 60 days of the close of the fiscal year.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

The District's response letter refers to an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.



## East Clinton Fire

POBox 181. 9 Firehouse Lane Clinton Corners, NY 12514

November 4, 2013

Tenneh Blamah  
NYS Office of State Comptrollers  
Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

Dear Ms. Blamah,

The Board of Fire commissioners have reviewed the Audit findings 2012M-194, period covering January 1, 2011-April 30, 2012. The Fire Commissioners met and discussed the findings within the report. Enclosed is our addressing of the issues and our corrective action plan.

In 2007 the Chairmen of the Commissioners was investigated and subsequently arrested of 3<sup>rd</sup> degree felony grand larceny of District funds. In 2008 the Case was abated due to the death of the Chairman. During this time period and until recently there has been little to no communication from the Dutchess County District Attorney's office. Recently the NYS police and the District Attorney's office determined that the East Clinton Fire Districts records were destroyed or were missing all along. When the Current Chairman and Secretary /treasurer took office, the long and tedious task of reestablishing all records was under taken. This Audit came at the successful completion of the filing of the financial reports for 2006-2012 with the assistance of the NYS Comptroller office in Albany.

Many of the policy issues were either addressed during the time of the audit or will be addressed within the next few months. The commissioners will continue to make improvements and corrections outlined by the audit recommendation section. The District will continue to work towards correcting all deficiencies.

All assistance from the NYS Comptroller office has been greatly appreciated.

Sincerely,

Stephanie Bonk  
Chairman  
East Clinton Fire District Commissioners

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine internal controls over the District's financial operations. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures, Board minutes, and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected gifts and loans, the Treasurer's office and financial reporting for further testing. To achieve our audit objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed District officials and reviewed Board minutes to ascertain whether proper authorizations and approvals were given for all transactions.
- We interviewed District officials to gain an understanding of the District's policies and procedures, including those to control, record and monitor cash assets and transactions.
- We reviewed the Board minutes to determine if there were Board resolutions to establish reserve funds.
- We traced cash receipts from source documentation to the bank statements to determine if they were properly accounted for and deposited on a timely basis.
- We reviewed all bank statements for the audit period and performed bank reconciliations for February, March and April 2012 (the most recent available).
- We inquired to determine if the District had obtained an annual audit or filed AUDs in a timely manner.

We conducted this performance audit in accordance with GAGAS. 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.

## APPENDIX C

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