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February 14, 2014

Chestley Mitchell, Chairman
Members of the Board of Fire Commissioners
Ischua Fire District
5635 Route 16
Hinsdale, NY 14743

Report Number: 2013M-367

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

The Office of the State Comptroller works to identify areas where fire district 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 fire district 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 Ischua 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 funds are safeguarded?

We discussed the findings and recommendations with District officials and considered their comments in preparing this report. The District's response is attached to this report in Appendix A. District officials agreed with our recommendations and indicated they have already initiated, or plan to initiate, corrective action.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town of Ischua and located in Cattaraugus County. The District's general fund budget totaled \$46,100 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. An elected Treasurer acts as the District's chief fiscal officer. The Treasurer is responsible for receiving and maintaining 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 through November 27, 2013. We interviewed 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.

The Treasurer must maintain complete, accurate and timely records to properly account for all District financial activities. The Treasurer should also 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 (OSC) 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. In the absence of an external audit, the Board should provide oversight of the Treasurer by conducting an annual audit of his financial records. Further, the Board 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 generally did not provide adequate oversight of District financial activities. The Board did not audit the Treasurer's financial records or provide adequate evidence that claims were audited prior to payment. The Treasurer has not filed the required annual financial report with OSC since 2009. The Treasurer also did not receive or review canceled checks (or check images) and did not prepare monthly bank reconciliations to determine whether any differences existed between bank records and the check register. These control deficiencies increase the risk that errors and irregularities could occur and go undetected and remain uncorrected.

Due to these deficiencies, we reviewed the Treasurer's financial records and 58 claims totaling \$41,447 that were paid during the period January 1, 2013 through May 30, 2013. While there were only minor discrepancies and the payments appeared to be for legitimate District purposes, District officials provided no documentation to show that these claims were audited and approved by the Board prior to payment. According to District officials, the Board audited claims at each regular monthly Board meeting. However, the Board minutes indicated only that claims were approved and the total amount of individual claims to be paid was not included. When claims are paid prior to or without a thorough Board audit and authorization, there is an increased risk that District officials could pay claims that are not for valid District purposes or are for services that were not actually received.

We also obtained from the District's bank 10 canceled check images¹ for disbursements totaling \$29,967 and reviewed them to ensure that they were accurately recorded and reported to the Board and were for legitimate District purposes. Although we found no discrepancies with these payments, when canceled checks are not received and reviewed, the risk of errors and irregularities occurring and not being detected and corrected in a timely manner increases significantly.

We also discussed other minor deficiencies with District officials during our fieldwork.

Recommendations

1. The Board should ensure that the Treasurer completes and files the delinquent annual financial reports for 2010, 2011 and 2012 with OSC.
2. The Board should ensure that Board minutes contain adequate information that claims were properly audited prior to payment.
3. The Board should conduct an annual audit of the Treasurer's financial records.
4. The Board should direct the Treasurer to request that the District's financial institution provide canceled checks or check images.
5. The Treasurer should prepare monthly bank reconciliations and the Board should review them for accuracy.

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's office.

We thank the officials and staff of the Ischua Fire District for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

¹ We judgmentally selected material payments and those made to District officials.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

**ISCHUA FIRE DISTRICT
5634 RT. 16
ISCHUA, N.Y. 14743
716-557-8819**

**Mr. Robert E. Meller, Chief Examiner
Office of The State Comptroller
295 Main St.
Buffalo, N.Y. 14203**

2-2-14

Dear Mr. Meller,

On behalf of the Board of Fire Commissioners of the Ischua Fire District, I would like to take this opportunity to thank you for the recent audit of our financial affairs. We found that the audit was most thorough and we will be taking immediate steps to insure a more streamlined and effective method of overseeing our financial affairs.

Regarding the recommendations of your agency We reviewed the recommendations with your representative and came up with the following conclusions:

Recommendation 1) The board will oversee the completion of the past due financial reports and will ensure that they are completed in an expedient manner.

Recommendation 2) Minutes will now contain adequate information to insure that claims are being properly reviewed for payment.

Recommendation 3) It was suggested that we do an annual audit of the Treasurers financial records and it was decided that this would be conducted twice a year. June and December.

Recommendation 4) All bank reconciliations now include copies of cancelled checks. This practice was discontinued by our banking institution several years ago. We explained our situation and they had no problem returning to the old policy of providing copies of checks on a monthly basis.

Recommendation 5) The Treasurer will provide the monthly bank statements at all monthly meetings to insure accuracy and review by the board.

Additionally, we instituted a ledger system that will reflect all activity on a monthly basis for the board to review and confirm by signature of at least the Chairman of the Board that the review of the ledger was completed.

This letter will serve as both our response to the audit conducted and our corrective action plan.

Lastly, your representative was most helpful and courteous as well as knowledgeable of the subject matter. He is an asset to your agency and the people of the state of New York and should be commended for his ability. We can not say enough to express our gratitude to him and your agency.

Respectfully,

**Chet Mitchell, Chairman
Board of Fire Commissioners
Ischua Fire District**