



THOMAS P. DiNAPOLI
COMPTROLLER

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

GABRIEL F. DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

August 2015

Ed Mennig, Chair
Members of the Board of Fire Commissioners
Smithfield Fire District
5422 Buyea Rd
Morrisville, NY 13408

Report Number: 2015M-113

Dear Mr. Mennig and Members of the Board:

The Office of the State Comptroller (OSC) 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 Smithfield 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?

We discussed our 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 generally agreed with our recommendations and indicated they plan to take corrective action.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town of Smithfield, and is located in Madison County. The District's 2015 general fund budget totaled \$68,996 and was primarily funded by real property taxes and revenues from a fire protection contract with the Town of Fenner.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The Board-appointed Secretary-Treasurer (Treasurer) is responsible for the District's financial duties, including receiving and disbursing funds, maintaining accounting records, preparing necessary periodic financial reports, filing the District's annual financial report with OSC and meeting other reporting requirements.

We examined internal controls over the District's financial operations for the period January 1, 2014 through February 28, 2015. We extended the scope of our audit back to 2012 to review budget-to actual comparisons of expenditures. We interviewed appropriate District officials and reviewed financial records, District policies 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 help ensure financial 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 Board is responsible for performing a thorough audit of claims before they are paid to ensure that District funds are used for legitimate District expenditures.¹ The Board should also conduct an annual audit of the Treasurer's records. An annual audit serves as an important control procedure because it gives the Board an opportunity to verify that cash has been accounted for and transactions have been properly recorded.

The Treasurer must maintain complete, accurate and timely records to properly account for all of the District's financial activities. The Treasurer should prepare and submit monthly financial reports to the Board and is responsible for preparing and submitting the District's annual financial report to OSC 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.

We found that the Treasurer generally maintained adequate financial records. The Treasurer maintains cash balances on savings and check registers and maintains an electronic spreadsheet to track the District's budget-to-actual expenditures. The Treasurer provides financial information to the Board at monthly Board meetings. This financial information includes a monthly Treasurer's report which lists disbursements for the month and includes the beginning and ending cash balance, deposits and withdrawals for the District's two bank accounts and one certificate of deposit. The Treasurer also presents budget-to-actual reports to the Board one or two times during the year. The Board reviews the Treasurer's monthly reports and documents its acceptance of the reports in the Board minutes. Additionally, the Board audits vendor claims for payment and several Board members sign each claim to document their approval.

¹ New York State Town Law allows the payment of certain claims in advance of audit, including those for public utility services, postage, freight and express charges. These claims must be presented at the next regular Board meeting for audit.

Although the Board receives monthly financial reports from the Treasurer, the Board did not provide instructions or deadlines to the Treasurer for the preparing and filing of the annual financial report. As a result, the Treasurer has not submitted the required annual financial reports to OSC for the 2010 through 2014 fiscal years.

In addition, the Treasurer does not provide the Board with bank reconciliations for review and there is no evidence that the Board reviews bank statements or canceled checks. By reviewing the canceled checks along with the monthly bank statements and reconciliations, the Board could improve its oversight of the District's finances by ensuring that the payee names and amounts match what was approved and that reported cash balances are accurate.

Further, the Treasurer does not provide the Board with a budget-to-actual report monthly. Without receiving such reports, the Board cannot effectively monitor the District's expenditures and make budget modifications as needed. For example, we found that the District overexpended appropriations in two of the last three years, with no indication that the Board made necessary budget modifications. We reviewed budget-to-actual reports for fiscal years 2012 through 2014 and found that the District overexpended its budget in both 2012 and 2013.

We also found that the Board does not review cash receipts, bank statements, canceled checks or bank reconciliations while conducting the annual audit, causing the audit to be ineffective.

We reviewed all bank statements during our audit period for unusual activity, such as unsupported cash withdrawals or transfers. We also verified that all revenues² the District received during our audit period were deposited into District bank accounts and that the cash recorded in the Treasurer's records agreed with reconciled bank balances. In addition, we traced 78 check payments totaling \$53,417³ to claims and accounting records to determine whether the disbursements were proper and accurately recorded. We did not find any unusual bank activity. In addition, we found that District staff deposited and accurately recorded all known revenues received during our audit period. Also during the audit period, the Board properly reviewed all disbursements, which were proper District expenditures, and District staff accurately recorded them in the District's accounting records.

However, we did find that seven disbursements totaling \$13,857 were inappropriately paid before being audited by the Board. Although the Board audited the claims after they were paid, they were not the type that were allowable to have been paid prior to being audited. When claims are paid prior to Board audit, the District has an increased risk that it could pay claims that are not for legitimate District expenditures.

Recommendations

The Board should:

1. Ensure that the Treasurer prepares and files annual financial reports with OSC within 60 days after the close of the fiscal year.

² During our audit period, the District received property tax revenue totaling \$48,296, revenue from leasing a parking lot totaling \$1,200 and fire protection contract revenue totaling \$37,750 (\$18,500 in 2014 and \$19,250 in 2015).

³ We reviewed all canceled checks that cleared the bank during our audit period.

2. Review bank statements, canceled checks and bank reconciliations as part of the monthly review of the Treasurer's report.
3. Ensure that the Treasurer provides it with monthly budget-to-actual reports.
4. Perform an adequate annual audit of the Treasurer's records and document the results in the Board minutes.
5. Ensure that all claims are paid only after they are audited, with the exception of those that are allowed by law to be paid in advance.

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 District for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

SMITHFIELD FIRE DISTRICT
c/o Marianne Webb
5422 Buyea Road
Morrisville, NY 13408

July 28, 2015

Office of the State Comptroller
Syracuse Regional Office
Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

Dear Ms. Wilcox:

This letter is to confirm that the Smithfield Fire District is in receipt of the draft Report of Examination 2015M-113, covering the period from January 1, 2014 through February 28, 2015. This audit report reviewed activities in the nature of internal controls, claims processing and Board oversight as well as reporting and audit procedures. The Board views this experience as an opportunity to learn and improve our financial practices and our intent is to utilize the opportunity as such.

In general, the Board is in agreement with the findings of the Comptroller's office. We would note, however, in reference to items #2 and #4, that the listed documents are provided to the Board and that the Board duly reviews them. We do understand the Comptroller's position that since no notation exists in the minutes, there is no adequate proof of such and will strive to correct that omission.

Additionally, the Board and the Treasurer have already begun working together to address the audit findings and to institute new procedures and policies to insure better oversight and reporting in the future.

As previously stated, the review by your office and the recommendations offered will allow us to improve our operations and better manage our financial responsibilities. We appreciate your input and assistance in identifying the areas in which we can improve and we thank you for this opportunity to respond.

Sincerely yours,

Ed Mennig, Chairman
Board of Fire Commissioners
Smithfield Fire District