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September 13, 2013

Mr. A.J. Pantel, Chairman
Members of the Board of Fire Commissioners
South Fallsburg Fire District
10 Railroad Plaza
Fallsburg, NY 12733

Report Number: 2013M-181

Dear Mr. Pantel 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 account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the South Fallsburg 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 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 plan to initiate corrective action. Appendix B includes our comment on the issue raised in the District's response letter.

Background and Methodology

The South Fallsburg Fire District (District) is a district corporation of the State, distinct and separate from the Town of Fallsburg, and located in Sullivan County. The District's general fund budget totaled approximately \$306,000 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 Treasurer acts as the District's chief fiscal officer and 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 May 13, 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 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 requirement for a purchasing policy, investment policy, and code of ethics.

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 for legitimate District expenditures and for performing an annual audit of the Treasurer's records.

While the District does have adequate financial policies, it does not have certain financial procedures in place. The Board has adopted purchasing, investment, and code of ethics policies, as required by statute. However, the Board has not ensured that procedures concerning certain financial recording and reporting were developed. The Treasurer submits a budget-to-actual financial report to the Board only at the end of the fiscal year and has not filed the required annual financial report with the Office of State Comptroller since the 2008 fiscal year. Although the Treasurer identifies checks that have cleared the bank, he does not perform proper bank reconciliations. The Board authorizes each claim for payment and indicates its approval by affixing Board member signatures to the claims, but the Board minutes do not indicate the approval to pay these claims. In addition, the Board contracts with an independent auditor to perform an annual audit of the Treasurer's records; however, the last completed audit was performed in 2010 for the 2008 fiscal year.

Due to these deficiencies, we reviewed all 329 check disbursements for the period January 1, 2012 through April 30, 2013, totaling \$455,528 and found that disbursements appeared to be for proper District purposes. We also verified that the cash receipts of \$300,645 in the 2012 fiscal year and \$305,756 in the 2013 fiscal year for real property taxes and \$10,184 for foreign fire insurance for the scope period were recorded by the Treasurer in the accounting records and were deposited in the District's bank account.

Although the disbursements reviewed during our scope period appeared to be for proper District purposes, disbursing District funds without proper Board oversight is not an adequate safeguard of District moneys and could inhibit the timely detection of errors and/or irregularities and the proper assessment of the District's financial position.

Recommendations

1. The Board should ensure that the annual audit of the financial records is performed in a timely manner.
2. The Treasurer should provide the Board with budget status reports on a monthly basis.
3. The Board should ensure that formal written procedures are in place for financial recording and reporting.
4. The Treasurer should reconcile the District's accounting records to the bank statements monthly and follow up on any differences.
5. The Board should ensure that the Annual Financial Report is filed with the Office of the State Comptroller within 60 days of the close of the fiscal year.

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 should make this plan available for public review in the District Treasurer's office.

Sincerely,

Andrew A. SanFilippo
Executive Deputy Comptroller

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

South Fallsburg Fire District

SO. FALLSBURG, N.Y. 12779

BOARD OF
FIRE COMMISSIONERS

[REDACTED]
Office of State Comptroller
NY State Office Building
44 Hawley Street
Binghamton, NY 139011-4417

Subject:
Audit of Financial Records
Period of 1/1/12 through 5/13/13 Inclusive
Report No. 2013M-181

August 28, 2013

Dear [REDACTED]

Thank you for the opportunity to receive a current overview of the activities and processes the board of commissioners and treasurer follow in the course of administering and controlling the financial affairs of the South Fallsburg Fire District. [REDACTED] and [REDACTED] were both professional and thorough, but not in any way heavy handed. Many questions were asked to clarify our records. Conversely we had the opportunity to obtain direct answers to our questions in order to verify we were on the right track.

I was somewhat disappointed in the limited scope of the overview of the districts operations.

We have a LOSAP Program in place that for the time being consumes approximately 10% of our budget. It would be beneficial not only to our district, but to the many to be able to ascertain the financial efficacy of the program. Specifically I would want to know if the rate of return on invested monies was within normally acceptable range – considering today's market. Secondly, an opinion regarding the fees charged – Again to confirm they are within the "reasonable and proper" range would also reassure the board that the taxpayers and firemen are getting a fair shake.

As you know, the South Fallsburg Fire District is required to get an annual independent audit of our finances. Again an indication of the fees paid for this service would be helpful.

Both the aforementioned are outside the statutory limitation on spending and it's imperative that costs be contained; particularly on these types of expenditures.

With specific attention to the recommendations I offer the following:

1. The annual independent audits are not up to date. I have spoken with our CPA and another year is ready for presentation to the board. The corporate tax deadline being 9/15, the process will continue; the worst (catching up) being behind us.
2. Currently the board refers to the budget as non-recurring and or unusual expenditures are being contemplated. We will follow your advice and make record of the monthly review in the meeting minutes.
3. Written procedures for financial recording will be formulated. We currently use normal business practices methods. We hope to be on a [REDACTED] system at some time in the future. However, with no more than 20-25 checks written per month the board and treasurer have been comfortable with current practices.
4. The aforementioned being said; formal reconciliation will be adopted. Currently all statements are checked for bank charges and other possible debits, that all deposits are credited and that all checks are cleared. This existing methodology did in fact catch a vendor's double invoicing error.
5. The annual financial reports will be caught up as the independent audits proceed. Regretfully the board and current treasurer were unaware of this deficiency.

One small point of fact within the draft needs to be corrected. The treasurer is an elected position as our current treasurer is. Prior to the last election cycle the board had to appoint the treasurer due to a lack of candidates to run for the position.

If any further comments need clarification or explanation is required please don't hesitate to contact us.

Respectfully,

A.J Pantel
Fire District Chairman

Original sent via US Mail

See
Note 1
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APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

We have updated the report to reflect this change.