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January 31, 2014

Fred Volpe, Chairman
Members of the Board of Fire Commissioners
Town of Oneonta Fire District
PO Box 264
Oneonta, NY 13820

Report Number: 2013M-243

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

The Office of the State Comptroller works 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 Town of Oneonta Fire District (District) which addressed the following question:

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

We discussed the findings and recommendations with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they intend to initiate corrective action. Appendix B includes our comments on issues raised in the District's response.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town of Oneonta and located in Otsego County. The District's general fund budget totaled approximately \$941,000 for the 2013 fiscal year.

The Board of Fire Commissioners (Board) consists of five 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. The District contracts with the City of Oneonta (City) for fire protection services within the District.

We examined the internal controls over the District's financial operations for the period January 1, 2012 through July 8, 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 and that the District complies with applicable laws, rules and regulations, including the General Municipal Law (GML) requirement for an investment policy and a code of ethics. In addition, the Board should review the calculation of the annual fire protection bill it receives from the City to ensure the District is billed in accordance with the contracted terms. Moreover, the Board should issue a W-2 form for the Treasurer's wages, and as an appointed official of the District, deduct the required withholdings from her gross pay.

The Treasurer must maintain complete, accurate and timely records to properly account for all 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 only legitimate District expenditures and for obtaining an audit of the District's records by an independent public accountant.

The Board did not establish adequate controls to ensure that financial activity was properly recorded and reported and to safeguard District moneys. Specifically, the Board did not:

- Adopt an investment policy or a code of ethics,
- Issue a W-2 form for the Treasurer's wages and deduct withholdings from her gross pay,
- Perform a thorough audit of claims before payments were made,
- Obtain an audit of the District's records by an independent public accountant or
- Verify the applicability of the wording in the contract relating to the calculation of the District's annual fire protection bill.

District officials told us they did not adopt an investment policy or a code of ethics and did not perform a thorough audit of claims because they believed that, based on the District's small size and the very few transactions that occur, policies and procedures would not be warranted. They

stated that the claims listed on the monthly Treasurer's reports are reviewed at the Board meetings.¹ At the maximum, the District has \$900,000 available to invest. The failure to adopt an investment policy puts District funds at risk of misuse. Without a code of ethics, District officials lack formal guidelines for addressing ethical issues. Finally, the failure to perform a thorough audit of claims could result in District funds being used for other than District purposes.

District officials did not issue a W-2 form or deduct appropriate withholdings from the Treasurer's gross pay because they never have in the past. The failure of District officials to submit the required wage statements to the Federal and State governments for all employees could result in the assessment of interest and penalties. District officials did not obtain an independent audit of the District's records because they did not believe it would be a good use of taxpayers' money due to the simplicity of the District's operations. Without an independent audit of the records, District officials cannot be assured that all financial information is accurate.

Due to these deficiencies, we reviewed 100 percent of the disbursements and bank transfers made during our audit period, which included 11 check disbursements and six bank transfers. While the financial activity was properly recorded and disbursements were for appropriate District purposes, four of the 11 check disbursements were signed only by the Treasurer,² including a check written to herself for wages. While this check was for the appropriate amount according to the Board-adopted budget, the risk exists that an inappropriate disbursement could be made without being detected or corrected in a timely manner.

Finally, the current contract the District has with the City for fire protection requires the use of documents that are not available to District officials at the time of billing to verify the contract amount.³ Lack of proper documentation could lead to inappropriate billing or the inability to verify the amounts billed. We verbally discussed other minor deficiencies with District officials during the conduct of our fieldwork.

Recommendations

1. The Board should establish a system of internal controls consisting of policies and procedures that provide guidance for District officials, including an investment policy and code of ethics.
2. The Board should perform a thorough audit of claims before payments are made.
3. The Board should issue a W-2 form for the Treasurer's services, deduct the required withholdings from her gross pay and report and remit the withholdings to the appropriate Federal and State agencies in a timely manner.
4. The Board should have an independent public accountant conduct an audit of the District's records.

¹ During our audit period, the Board typically met two times per year.

² The remaining seven check disbursements had dual signatures – the Treasurer and the Board Chairman – in accordance with the District's informal procedures.

³ The annual contract amount is approximately \$900,000.

5. The Board should negotiate a new fire protection contract with the City that would allow for the use of documentation that would actually be available at the time of billing to calculate the contract amount.

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.

Thank you for the courtesies extended to our staff during this audit.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Office of the State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

*Town of Oneonta
Fire Commissioner
Town Hall, West Oneonta
Ph. (607) 287-6868*

Re: Report Number 2013M-243

Dear SSSSSS,

We appreciate the efforts of the Office of the Comptroller in the performance of the audit of The Town of Oneonta Fire District. We have reviewed the referenced report and the various recommendations contained therein. Our response and action plan related to your five recommendations follows.

- 1.) The Board should adopt a system of internal controls.

We have added this as a top priority for 2014 fiscal year. A new Fire Commissioner is also a CPA and will set up a committee to design the fiscal policies and procedures which will help to safe guard the assets. It will include a code of ethics and an investment policy.

- 2.) The Board should perform a through audit of claims before payments are made.

As part of the above internal controls issue, a policy will be developed regarding the review and approval of invoices before they are paid.

- 3.) The board should treat the Treasurer as an employee.

The board has reviewed the IRS 20 Factor Test and has determined that the Treasurer is not an employee. However, the proper filing of form 1099 was not being performed. A 1099 will be issued for 2013.

See
Note 1
Page 7

- 4.) The board should have an independent public accountant conduct an audit of the District's records.

The board acknowledges the potential value of an independent audit. However, due to the nature of our district finances we have a small number of transactions and a relatively low risk of loss. The cost benefit analysis results in the cost of the audit not being justified.

See
Note 2
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- 5.) The Board should negotiate a new fire protection contract with the City that would allow for the use of documents that would be available at the time of the billing to calculate the contract amount.

This refers to the nomenclature error on the previous contract. The contract is up for renewal and the Board will take action to ensure that all documents used in calculations will be properly identified.

Please accept this as our response and corrective action plan.

Respectfully Submitted,

✓ Fred Volpe
Chairman
Town of Oneonta Fire District

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Under the Town Law (see Sections 174, 175 and 177), the position of fire district treasurer is a public office, and the statutory duties of that office may not be delegated to or performed by an independent contractor.

Note 2

Town Law Section 181-b provides that all fire districts with revenues of \$300,000 or more obtain an annual audit of their records to be performed by a certified public accountant or independent public accountant. There is no exception in the law based on the number of transactions in a fire district. Moreover, even when there is a relatively small number of transactions annually, an independent audit provides transparency and additional assurance to the taxpayers of the District and can identify opportunities to improve deficiencies in internal controls.