

Franklin-Treadwell Fire District

Disbursements

MAY 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Franklin-Treadwell Fire District

Audit Objective

Determine whether Franklin-Treadwell Fire District (District) officials provided adequate oversight to ensure disbursements were authorized, supported and for appropriate District purposes.

Key Findings

Although District officials had some good controls over disbursements, the Board did not always provide adequate oversight of the Treasurer's activities.

- The Board of Fire Commissioners (Board) did not properly segregate duties over disbursements or implement adequate mitigating controls.
- The Treasurer processed 55 electronic transfers and 10 cash withdrawals totaling \$856,347 without Board oversight.

Aside from minor exceptions which we discussed with District officials, disbursements were authorized, supported and for appropriate District purposes. However, the failure to review disbursement activities increases the risk for unauthorized and inappropriate transactions.

Key Recommendations

- Provide additional oversight to mitigate the lack of segregation of duties.
- Establish written procedures over electronic transfers to ensure no one person can both initiate and approve electronic transfers.

District officials agreed with our recommendations and indicated they have taken corrective action.

Background

The District provides fire protection and emergency services to the residents in the Towns of Franklin and Meredith pursuant to a contractual agreement.

The District is a district corporation of the State, distinct from the Town of Franklin in Delaware County.

An elected five-member Board governs the District and is responsible for its overall financial management.

The Board-appointed Treasurer is the chief fiscal officer and is responsible for receiving, maintaining custody of, disbursing and accounting for District funds.

Quick Facts

2020 Appropriations	\$252,151
Disbursements Paid During Audit Period	\$486,279
Residents Served	4,000

Audit Period

January 1, 2019 – June 30, 2020

Disbursements

What Are Adequate Controls Over Disbursements?

The board is responsible for overseeing the district's financial activities and safeguarding its assets. To fulfill this duty, it should ensure that duties are properly segregated so that no one person controls all aspects of a financial transaction. For example, no one person should initiate and approve electronic transfers of funds. If this is not possible, the board should implement mitigating controls such as ensuring someone independent of these processes reviews the bank statements, canceled check images and electronic transfers on a regular basis. It is also important that the Board provide oversight by reviewing monthly reports such as budget-to-actual and trial balance reports. The treasurer should also account with the board for all money received and disbursed during the preceding fiscal year and produce all books, records, receipts and canceled check images for examination.

The board should also thoroughly audit and approve all claims before they are paid and ensure only approved, appropriate district expenses are paid. To ensure disbursements are for appropriate district purposes, claims should include original invoices or other supporting documentation that sufficiently itemize the goods purchased or services rendered.

Controls Over Disbursements Could Be Improved

The Board did not properly segregate duties over disbursements or implement adequate mitigating controls. The Treasurer had the ability to perform all aspects of a disbursement transaction, including transferring funds electronically between bank accounts, preparing bank reconciliations and maintaining the accounting records. Although the Board required checks to be signed by both the Treasurer and the Chairman of the Board, we found certain checks included only the Treasurer's signature. However, District officials generally ensured that claims were authorized, supported and for appropriate District purposes prior to payment.

The Treasurer provided the Board with a list of bills and supporting documentation, a summary of cumulative expenditures to date by expense type and a balance sheet showing available cash each month; the Board reviewed and approved these bills and reports each month. In addition, the Board hired a CPA to prepare the annual financial report of all money received and disbursed, which included a review of bank statements, check registers and invoices in excess of \$500. However, because no one reviewed electronic fund transfers and bank reconciliations or compared canceled check images to Board-approved abstracts to ensure all disbursements were for appropriate District purposes, the risk still remains that the Treasurer could make an inappropriate disbursement without it being detected or corrected.

The board did not properly segregate duties over disbursements or implement adequate mitigating controls.

Check Disbursements – We reviewed all bank statements and canceled check images within our audit period, and selected:

- All 20 payments to key District officials totaling \$10,528,
- A sample of 11 payments to utility vendors totaling \$8,337, and
- All 38 disbursements paid during May 2019 and January 2020 totaling \$216,828.

We also compared the totals per the Treasurer’s list of bills to the total amounts approved according to the Board minutes for seven months of our audit period. Aside from minor exceptions which we discussed with District officials, disbursements were authorized, supported and for appropriate District purposes.

Electronic Transfers – The Treasurer transferred funds between the District’s bank accounts as needed to pay the monthly bills and to fund reserves as approved in the budget. We reviewed all 55 electronic transfers and 10 cash withdrawals totaling \$856,347 that the Treasurer made during the audit period and found that all were made without oversight. For example, the Board did not review bank statements to ensure these withdrawals and transfers were for appropriate District purposes. Aside from immaterial discrepancies we discussed with District officials, we determined these transactions were for appropriate District purposes.

The failure to review disbursement activities increases the risk for unauthorized and inappropriate transactions.

What Do We Recommend?

District officials should:

1. Segregate disbursement duties or provide mitigating controls by:
 - a. Requiring someone other than the Treasurer review the bank statements, canceled check images, monthly transfers and bank reconciliations to ensure only approved, legitimate expenses are paid.
 - b. Establishing written procedures for electronic transfers to ensure that no one person could both initiate and approve electronic transfers.

Appendix A: Response From District Officials



Franklin-Treadwell Fire District
Box 151 Franklin, New York 13775

To: Office of the New York State Comptroller
From: Franklin – Treadwell Fire District
Subject: Disbursements Report of Examination 2020M-16

After our review of the audit 2020M-16, we agree with the reported findings.

Corrective Action Plan:

Franklin – Treadwell Fire District, Disbursements, 2020M-16

a. Requiring someone other than the Treasurer review the bank statements, canceled check images, monthly transfers and bank reconciliations to ensure only approved, legitimate expenses are paid.

1. The board has appointed and approved a Commissioner to oversee the district's financial activities. This board member will provide oversight by reviewing monthly reports of disbursements, bank account statements, canceled check images and ensure any electronic fund transfers have been approved by the board. Along with reviewing monthly invoices and other supporting documentation. Implementation Date: April 13, 2021.

b. Establishing written procedures for electronic transfers to ensure that no one person could both initiate and approve electronic transfers.

1. The treasurer is responsible to provide copies of all monthly financial activities to include; bank account statements, electronic fund transfers and canceled check images, to the Board for review at our monthly meeting as a treasurer's report which is on our monthly meeting agenda. Implementation Date: January 5, 2021.

2. The Board is responsible for the approval and review of any electronic fund transfers, this approval will take place at monthly board meetings, after a report from the treasurer of any needed electronic fund transfers. Implementation Date: January 5, 2021.

Alan Lapp, Vice Chairperson

4/13/2021

Date

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board minutes, financial records and reports, the District's code of ethics and procurement policies to gain an understanding of the disbursement processes and Board oversight.
- We reviewed all 55 electronic transfers and all 10 cash withdrawals conducted during the audit period between the District's savings and checking accounts totaling \$856,347 to determine whether expenses were appropriate and funds were deposited into a legitimate District bank account.
- We emailed conflict of interest forms to six District officials, reviewed the returned completed forms and bank statements and made inquiries of management to determine whether any prohibited interests in contracts existed.
- We reviewed bank statement canceled check images and selected all 20 payments, totaling \$10,528, paid to key District officials during the audit period to determine whether they were authorized, supported and for appropriate District purposes.
- We used our professional judgment to select two months (May 2019 and January 2020) and reviewed all 38 disbursements totaling \$216,828 that cleared the bank during those two months to determine whether disbursements were authorized, supported and for appropriate District purposes.
- We reviewed bank statement canceled check images and used our professional judgment to select a sample of 11 payments made to utility vendors totaling \$8,337 to determine whether these payments were authorized, supported and for appropriate District purposes.
- We compared the Treasurer's listing of bills to the total amount of bills approved according to the Board meeting minutes to determine whether the Board approved all bills listed for seven months (January 2019 through May 2019, January 2020 and February 2020). We traced a sample of bills for two months (February 2019 and December 2019) from the Treasurer's listing to the bank statement canceled check images to determine whether payments were made that were not approved during those two months.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of New York State 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 you CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

BINGHAMTON REGIONAL OFFICE – Ann C. Singer, Chief Examiner

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel (607) 721-8306 • Fax (607) 721-8313 • Email: Muni-Binghamton@osc.ny.gov

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