

South Butler Fire District

Board Oversight of Financial Operations

APRIL 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
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Report Highlights

South Butler Fire District

Audit Objective

Determine whether the South Butler Fire District (District) Board of Fire Commissioners (Board) provided adequate oversight of the District's financial operations.

Key Findings

The Board did not provide adequate oversight of the District's financial operations and did not adopt or enforce key financial policies. As a result:

- The Treasurer lacked guidance to adequately perform financial duties and thus: did not maintain sufficient banking or purchasing records, funded and disbursed money from reserves without authorization and paid unapproved claims.
- Officials could not demonstrate the District obtained the best available prices on purchases we reviewed.
- The Board adopted inaccurate and structurally imbalanced budgets and did not properly establish, fund or use reserve funds.
- Fund balances and real property tax levies were higher than needed to fund operations.

Key Recommendations

- Adopt adequate financial policies and procedures to define, segregate and oversee financial duties.
- Develop appropriate and structurally balanced budgets.
- Audit and approve all claims prior to payment.

District officials disagreed with some of our findings, but indicated they will take corrective action. Appendix B includes our comments on issues raised in the District's response.

Background

The District encompasses parts of the Towns of Butler and Savannah in Wayne County.

The District is governed by an elected five-member Board, responsible for the general management and control of the District's financial operations.

The Secretary/Treasurer (Treasurer) is the District's chief fiscal officer and is responsible for receiving, disbursing and accounting for funds; preparing annual financial reports; and meeting any other reporting requirements.

Quick Facts

December 31, 2019

Reserve Balances	\$190,986
Unassigned Fund Balance	\$44,532
2020 Appropriations and Real Property Tax Levy	\$86,560

Audit Period

January 1, 2018 – March 10, 2020.

We extended the audit period back to January 1, 2017 to review the results of operations and budgetary and fund balance trends.

Board Oversight

What Is Effective Oversight of Financial Operations?

A board is responsible for overseeing a fire district's financial activities and safeguarding its resources. It is essential the board establish a system of internal controls which consist of clearly defined policies and procedures over key financial areas such as receipts and deposits; disbursements; claims processing, audit and approval; required financial records and reports; budgeting and online banking, to ensure that financial duties are properly segregated; financial transactions are authorized and properly accounted for; financial reports are accurate, reliable and filed in a timely manner; and the district complies with applicable laws, rules and regulations.

Oversight becomes particularly important in operations that do not have adequate segregation of duties. If one person, such as the treasurer, performs nearly all financial duties (e.g., receives and disburses cash, maintains the accounting records, performs reconciliations and prepares financial reports), it may weaken control over the district's financial operations. When segregation of duties is not practicable, it is essential for the board to implement compensating controls, including having someone review monthly bank statements, reconciliations and canceled checks to ensure revenues are properly recorded and deposited and expenditures are made as authorized.

In addition, the board must adopt a procurement policy – which provides competitive procurement procedures for purchases not subject to competitive bidding requirements.

To fulfill its responsibility for ensuring that resources are used effectively and transparently, the board should implement detailed budgeting policies and procedures to ensure it adopts realistic structurally balanced budgets based on historical trends or other known factors, and monitors the budget continually. Fire districts are required to use the uniform system of accounts for classifying and coding accounts used in budgets, financial accounting records and reports as prescribed by the Office of the State Comptroller (OSC). The board also must ensure it accurately calculates and stays within the district's statutory spending limitation. Exceeding the statutory spending limit requires voter approval at a special district election.¹

A board may retain a reasonable amount of fund balance necessary to ensure the orderly operation of the fire district, address unforeseen circumstances and provide cash flow to compensate for timing differences between when revenues are received and expenditures are made. The board may also establish and fund

¹ Refer to the OSC publication: *Fire District Accounting and Reporting Manual*

https://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/arm_fds.pdf.

reserves to finance the future costs of various items or purposes, in compliance with specific statutory requirements.² The board should adopt financial policies or plans that establish reasonable balances or funding goals for fund balance and authorized reserves and address how and when they will be funded, used and replenished, in compliance with applicable statutory requirements. Retaining more fund balance than reasonably necessary can result in unnecessarily high real property tax levies.

A board's oversight responsibility also includes auditing all claims before approving them for payment, by resolution, based on itemized vouchers, and performing, or contracting for, an annual audit of the treasurer's books and records. As part of this audit, the treasurer is required to produce all books, records, receipts, orders, vouchers and cancelled checks or check images. The board should ensure that the completion and results of the audit are included in its meeting minutes and documentation is filed detailing how the audit was performed and the records reviewed. Detailed board policies and procedures related to the audit and approval of claims and annual audit of the treasurer's records can assist the board in managing financial operations and ensuring statutory compliance, adequate recordkeeping and reporting, and that payments are made only for appropriate and approved disbursements.

The Board Did Not Adopt Adequate Financial Policies or Procedures

The Board did not adopt adequate financial policies or procedures to properly oversee the District's financial operations or to guide the Treasurer in her duties, which led to the deficiencies described throughout this report.

The Board adopted a one page procurement policy that was inadequate and not enforced. The policy required that for all purchases, a request to purchase be presented to the Board for approval, in writing with a brief justification, and recorded for public perusal to assure establishment of a competitive price. The policy further requires submittal of a voucher and sales receipt for all purchases, and verbal or written quotes for all purchases costing more than \$499 and all public works contracts over \$1,000. While the policy describes information that quotes must contain, it does not specify procedures for retaining the documentation or separately address the process and required documentation for soliciting professional services or using sole-source providers. Furthermore, the Board did not require compliance with its policy. District officials did not use vouchers to support any disbursements, and did not retain documentation for all quotes received, or sufficiently record them in the Board meeting minutes. As a result, the Board and officials could not demonstrate that they obtained the best available prices on the taxpayers' behalf for all purchases we reviewed.

The...
one page
procurement
policy... was
inadequate
and not
enforced.

² See OSC publication:
<https://www.osc.state.ny.us/files/local-government/publications/pdf/reservefunds.pdf>

The Board has not adopted financial policies to segregate duties and establish internal controls over key areas such as: receipts and deposits; disbursements; claims processing, audit and approval; required financial records and reports; budgeting and on-line banking. As a result, the Treasurer and other District personnel lacked guidance to adequately perform their financial duties.

Absent policies to segregate financial duties and establish ongoing review procedures, the Board allowed the Treasurer to develop her own procedures and perform all key financial duties including receiving, depositing and disbursing funds, transferring funds between bank accounts, maintaining the financial records and reconciling bank accounts without sufficient oversight or guidance.

In addition, the Board did not adopt an online banking policy to segregate or provide secondary approvals or controls over banking duties and did not execute an adequate agreement with the bank that specified requirements by both parties for procedures and approvals of various transaction types. The District only had a letter it had provided to the bank on request, summarizing the District's banking policies, which stated that no approvals were required for the Treasurer to make deposits or bank account transfers. As a result, District officials did not adequately segregate online banking duties. In addition, the Board did not appoint someone independent of the financial operations to review the monthly bank statements, canceled check images and reconciliations to potentially identify any questionable transactions. Furthermore, the Treasurer did not print cancelled check images from the District's on-line banking system to substantiate transactions or meet the New York State minimum record retention requirements of 6 years, and the Treasurer and Board Chair said they were unwilling to pay the banking fee to obtain them for our review or their required records. The lack of cancelled check images for Board review severely limits its ability to provide effective oversight.

The Board's failure to adopt policies and procedures for processing and overseeing key financial duties resulted in its inability to oversee the Treasurer's transactions adequately, which increases the likelihood of errors and irregularities occurring and going undetected.

The Board Did Not Implement Appropriate Budgeting Practices

The District did not have budgeting policies or procedures to ensure appropriate practices were used, and did not use the up-to-date budget template and statutory spending limit calculation forms prescribed by OSC. As a result, the Board adopted inaccurate budgets that were not structurally balanced and included incorrect spending limitation calculations.

We reviewed the District's budgets for fiscal years 2017 to 2020 and found that the District used old budget forms with outdated accounts and account numbers. Additionally, the District did not include anticipated non-real property

... [T]he Board did not appoint someone independent of the financial operations to review the monthly bank statements, canceled check images and reconciliations to potentially identify any questionable transactions.

tax revenues in its budget, or an estimate of year-end fund balance, as required. When calculating the statutory spending limitation, the Treasurer also used the assessment roll for the wrong calendar year and did not include payments for salaries/stipends as an exclusion. Furthermore, she did not include the \$20,000 appropriation to fund the capital reserve on the applicable exclusion line.

The Treasurer explained that she prepared the budgets and spending limitation calculations based on the former Treasurer's records and reports and was not aware of the updated budget format. However, we noted that the Treasurer had updated copies of the OSC fire district accounting and reporting manual, which included updated forms and instructions. We recalculated the statutory spending limit and found the District exceeded the statutory spending limit, when it adopted its 2017 and 2020 budgets, by \$3,242 and \$1,504 respectively. However, the spending limit calculation form also includes an exclusion for expenditures from reserves, and a note encouraging the use of this form during the fiscal year to determine the actual spending limit margin, since total reserve usage may not be known at budget time. Therefore, expenditures did not exceed the actual/re-calculated spending limitation at year-end. However, the Board should ensure the Treasurer is properly preparing the budget and spending limitation calculation and review and approve them in detail.

In addition, the adopted budgets resulted in real property tax levies that covered the entire amount appropriated, because the Treasurer did not include other routinely-received revenues, such as hall, land, and ambulance rental and lawn mowing fees. The Treasurer said she believed these revenues to be immaterial. As a result, the Board underestimated revenues by \$24,716 or 10 percent during the audit period (2017 – 2019). Beginning in 2019, the Treasurer attempted to budget the new rental revenue for a land rental agreement. However, the Treasurer told us she had not wanted to decrease the necessary tax levy amount, and thus she increased the total appropriations on the budget summary, but did not actually increase any individual account codes or the total on the appropriations pages. As a result, the Board adopted budgets that were not structurally balanced for 2019 and 2020 and collected more real property taxes than were needed to fund District operations.

We also found the District overestimated appropriations each year by a total of approximately \$15,000 or 6 percent. Actual expenditures also included an additional \$31,079 in unbudgeted purchases and repairs, but they were paid for using money from a reserve fund, which did not affect the total budget variance or operating surpluses, which totaled \$39,782. The Board's inaccurate budgets and resultant operating surpluses lead to increased fund balances that were not clearly designated for Board-identified needs, and have resulted in excessive real property tax levies.

... [T]he Treasurer told us she had not wanted to decrease the necessary tax levy...

The Board Did Not Effectively Manage Fund Balance

The Board did not adopt fund balance or reserve policies or a long term financial plan to establish reasonable and necessary amounts of fund balance and reserves to maintain or the circumstances and manner in which excessive fund balance should be used.

We found that the Treasurer has been accounting for reserve funds held in separate bank accounts for several years, but did not separately report them as reserved cash and restricted fund balance in the general fund on the Annual Update Document (AUD) filed with OSC. We recalculated restricted and unassigned fund balance and found that unassigned fund balance as of December 31, 2019 was \$44,532 or 51 percent of the 2020 budget (Figure 1).

Figure 1: Restated Restricted and Unassigned Fund Balance

	2017	2018	2019
Reported Unassigned Fund Balance	\$184,994	\$217,837	\$235,518
Reported Unassigned Fund Balance as a Percentage of Next Year's Budget	225%	257%	272%
Restricted Fund Balance (Reserves)	\$143,366	\$180,453	\$190,986
Restated Unassigned Fund Balance	\$41,628	\$37,384	\$44,532
Ensuing Year's Budget	\$82,250	\$84,865	\$86,560
Unassigned Fund Balance as a Percentage of Next Year's Budget	51%	44%	51%

Without documented Board analysis or plans and justification for retaining such high balances, the District's unassigned fund balance seems to exceed what is reasonably necessary to address unexpected circumstances or events.

Additionally, the restricted fund balance increased by \$47,620 or 33 percent in the three years reviewed to \$190,986. Officials had no documented plan or justification for the need for and potential use of the large capital reserve or of the repair reserve.

Given the large reserve balances combined with the sizeable unrestricted fund balance, without documented need or purpose, the District has levied more property taxes than needed to fund operations. Any excess balances not justified in Board-adopted policies or financial plans should be used to reduce real property tax levies in coming years or fund justified and properly established reserves in accordance with applicable statutory requirements and documented plans for their use.

The Board Did Not Properly Establish, Fund or Use Reserves

The Board did not adopt a policy or plan related to the maintenance of reserves, and demonstrated a lack of understanding of related statutory requirements and

a lack of control over reserve activity. The District maintained a capital reserve for several years, but had no documentation that it was officially established. The Treasurer told us that she had discussed the establishment of reserves with the District's attorney and, in November 2017, the Board reestablished the capital reserve and established a new repair reserve. However, the authorizing resolution was significantly deficient and did not specify the type of reserves or under what statutes they were established, and included improper approval procedures for expenditures from the reserves.

Capital Reserve – The resolution indicated this reserve was established for major repair or replacement of fire equipment and apparatus, would be funded with a designated amount from the yearly tax revenue, and required a unanimous vote by the Board for approval of expenditures. However, New York State General Municipal Law (GML), Section 6-g requires a board resolution subject to permissive referendum to expend funds from a capital reserve. Therefore, the District must publish a notice and hold a public referendum if a signed petition is filed by resident taxpayers within 30 days after the adoption of the resolution to spend reserve money. Furthermore, we found no indication that the establishment of this reserve was approved by voters in a mandatory referendum, as required for the establishment of a fire district capital reserve.

The Board budgeted for and funded the reserve \$20,000 annually, and added an extra \$10,000 in 2017. The District last used this reserve in 2016 for the purchase and installation of a storage unit to house fire department equipment. While it is questionable whether this use fits into the established purpose of this reserve – repair or replacement of equipment – we note that the purchase was made before the resolution was passed to officially establish the reserve. When we inquired about authorization of the extra \$10,000 funding, the Treasurer said it was in part to reimburse the fund for the \$7500 used in 2016, as required; however, there are no such payback provisions related to capital reserve expenditures, and we found no Board minutes discussing or authorizing the additional transfer.

Repair Reserve – The resolution also established a “Reserve Account” but did not specify what kind of reserve or under what statute it was created. The Treasurer generally refers to it as a repair reserve, which seems consistent with the resolution establishing it for major unexpected expenses related to building, property or utility repair not otherwise covered by insurance or the budget. The resolution indicated that a designated amount will be transferred into the reserve account by the Board from unexpended money from the previous year's budget, and that a majority vote of the Board is required for approval of expenditures.

However, a majority Board vote is not sufficient for approval of expenditures from a repair or capital reserve. Under the assumption that the Board intended to establish a repair reserve, GML, Section 6-d requires a public hearing on the proposed expenditure from a repair reserve. In an emergency, the District may

The resolution... did not specify what kind of reserve or under what statute it was created.

use repair reserve money, by Board resolution without holding a public hearing, but must repay the amount used within the next two fiscal years. In addition, the District first funded this reserve account in January 2017 and first used it on November 7, 2017, both before the November 28, 2017 resolution to establish the reserve.

Furthermore, instead of Board resolutions to fund the reserve at year-end – with the exception of one \$10,000 transfer in March 2018 - the Treasurer began depositing all non-tax operating revenues into this account, including \$17,900 in rental revenue and a \$2,243 insurance reimbursement, without Board authorization.

We reviewed all expenditures from this reserve totaling \$31,079 in 2017 through 2019. These expenditures included an \$8,000 furnace in 2017, \$3,919 in lighting upgrades in 2018, and \$8,160 for driveway resurfacing and \$11,000 radio room expansion in 2019. We found that the Board did not formally approve these uses of reserve money by resolution, did not hold public hearings prior to the use of the reserve money - denying taxpayers their statutory right to question and voice opinions on the expenditures - or pass emergency purchase resolutions with provisions to repay the money in the next two fiscal years. The Treasurer said she was not aware of the public hearing or pay back provisions required for the use of the repair reserve.

The Board Did Not Perform an Adequate Claims Audit

The Board did not adopt policies or procedures for the audit and approval of claims and did not perform an adequate claims audit or approve claims by resolution before they were paid. The Treasurer explained that she lists all checks and disbursements paid on her monthly treasurer's report which is reviewed by the Board along with all invoices/receipts which require three Commissioners to initial and date as their approval for payment. However, we found this approval process generally occurs after payment has already been made. Additionally, the Board did not require the use of itemized vouchers, as required by the District's procurement policy or the retention of supporting documentation related to policy-required quotes.

We reviewed all 292 disbursements totaling \$138,730 made between January 1, 2018 and December 31, 2019 and found that none had an itemized voucher as required. We were also unable to verify that dual signatures were used on 278 checks totaling \$137,425 because the Treasurer did not acquire and retain canceled checks or check images. However, fourteen disbursements had copies of checks as supporting documentation, which did have dual signatures. We also identified the following deficiencies:

- 204 (70 percent) disbursements totaling \$80,102 cleared the bank prior to the Board meeting in which they were reported and approved, further demonstrating the Treasurer’s practice of paying claims prior to Board audit or approval.
- Twenty-four disbursements totaling \$5,442 were made without itemized invoices for fuel reimbursements to the Department.
- Of 49 purchases tested totaling \$97,465 that required documented quotes in compliance with the District’s procurement policy, 29 disbursements totaling \$45,288 (23 totaling \$23,750 required verbal quotes, and six totaling \$21,538 required written quotes) did not have evidence of two verbal or written quotes, as required by the procurement policy. The Treasurer told us that she does not retain quotes once the item is purchased, which leaves the Board and taxpayers with no assurance that the District obtained goods and services at the best available price or quality.
- The District made payments for services totaling \$3,230 in 2018 and \$4,335 in 2019 (Figure 2) to the Treasurer and three other individuals (for cleaning, lawn mowing and snow removal services). The Treasurer did not issue the required IRS Forms 1099-MISC to each of these individuals who were paid more than \$600 for services during a calendar year. The Treasurer said “1099’s have never been prepared or issued before or since she became the Treasurer.” It is critical that the Board and Treasurer correctly determine whether the individuals providing services are employees or independent contractors and report wages in accordance with rules, regulations and the law.

Figure 2: Individuals Requiring IRS Form 1099

Service Provider	2018	2019	Total
Treasurer	\$800	\$800	\$1,600
Cleaner	630	735	1,365
Lawn Services	1,800	1,800	3,600
Snow Removal		1,000	1,000
Total	\$3,230	\$4,335	\$7,565

Without thorough auditing, adequate documentation and timely approval of claims before payment, the Board cannot ensure that disbursements are for appropriate District expenditures and in compliance with rules, regulations or laws.

The Board Did Not Annually Audit the Treasurer’s Records

The Board did not conduct an annual audit of the Treasurer’s books and records. Although the Treasurer said that she does present the Board with a report of all District financial activities for each year along with her books and records at the

organizational meeting, the Board Chair said she thought the annual audit was an unnecessary process because the Board reviews activity on a monthly basis. However, the District does not hold a meeting in December, further delaying review of year-end payments made without Board approval. An annual audit is the Board's last defense to ensure that the District's financial transactions are appropriate, approved and accurately documented, mathematically correct and in compliance with applicable policies, rules, regulations and laws.

A closer review of monthly reports and accounting records, as well as the annual financial report, during an annual audit may have helped the Board identify some of the concerns identified in this report.

What Do We Recommend?

The Board should:

1. Adopt, implement and enforce policies and procedures that establish and segregate financial duties or provide for additional oversight measures over key financial areas such as receipts and deposits, disbursements, claims audit and approval, financial records and reports, budgeting and on-line banking.
2. Amend and clarify, and enforce the provisions of, the procurement policy to ensure statutory compliance and adequate documentation and approval of efforts to make purchases in the most cost effective manner.
3. Execute a banking services agreement with the District's banking institution to clearly establish responsibilities and expectations, including arrangements to receive and retain canceled check images for District records in compliance with records retention requirements.
4. Review monthly bank statements, canceled check images and reconciliations to ensure all financial activity is appropriate and accurately recorded.
5. Adopt structurally balanced budgets that include all anticipated revenues and expenditures and estimated fund balance, and correctly calculate the statutory spending limitation.
6. Develop and adopt financial plans and policies for the maintenance of a reasonable level of fund balance and reserves and to ensure proper authorization, documentation, and legal compliance for all funding and use of reserves. Use any excess funds to reduce real property tax levies in coming years or fund justified and properly established reserves in accordance with applicable statutory requirements and documented plans for their use.

-
7. Audit and approve (by resolution) all claims prior to payment ensuring that an itemized voucher is attached with supporting invoices, proper approvals noted, and documentation of applicable quotes, as well as supporting details and approvals documented in the Board minutes.
 8. Require the Treasurer to issue 1099's to all applicable service providers each year.
 9. Conduct and document an annual audit of the Treasurer's financial records and reports.

The Treasurer should:

10. Make arrangements to receive and retain canceled check images for District records in compliance with records retention requirements.
11. Maintain more detailed minutes to describe all Board actions, especially approvals of purchases, bid awards, reserve activity and all other financial matters.
12. Pay all bills only after so ordered by Board resolution based on Board-audited itemized vouchers.
13. Maintain quotes, bids and supporting documentation for compliance with the procurement policy.
14. Issue IRS Form 1099's to each individual paid over \$600 for services in a calendar year.

Appendix A: Response From Fire District Officials

**South Butler Fire District
Board of Commissioners
PO Box 26
South Butler, New York 13154**

Commissioners: Georgianna Bartholomew
Wm VanDeLister
Wm Forjone
Michael Andrus
Victoria Rewa

19 March 2021

Subject: Board Oversight of Financial Operations – OSC Audit

See Note 1 Page 17

- **The Board did not provide adequate oversight of the District’s financial operations and did not adopt or enforce key financial policies:**

- Treasurer lacked guidance to adequately perform financial duties: did not maintain sufficient banking or purchasing records, funded and disbursed money from reserves without authorization and paid unapproved claims.

RESPONSE:

- All invoices are on file and each had documentation corresponding back to the check number; date paid; amount paid and was initialed by at least three commissioners.

All expenditures (other than normal monthly utilities) are always discussed during monthly meetings and if approved, paid as agreed. **We will agree that documentation, to include estimates, could be better documented in the monthly meeting reports.**

At no time are funds disbursed without authorization; on unapproved claims; or without a mandatory second signature on a check. When a repair/maintenance invoice is received it is also brought to the attention of the fire chief to verify that work was been completed and expenditures listed on the bill is actual work done prior to payment.

Copies of checks have never been included with monthly statements and when calling the bank, they stated there was a fee per check.

A letter has been sent to the bank requesting copies of all checks (front and back) be included with each statement. We have not received a response, but are prepared to change banks if they cannot comply without charge.

- Officials could not demonstrate the District obtained the best available prices on purchases reviewed.

RESPONSE:

- We are a small volunteer fire department in a very isolated area. Resources are limited and most companies will not travel to or accommodate a “one-time” service to our area. Example: When a vehicle is in need of repair or maintenance, it can’t be out of service for an indefinite period of time. We have one local repair shop that can accommodate a fire engine. However, the most

reliable repair shop is an hour away and charges travel time to and from their shop, otherwise one of the firemen (and second driver) takes the vehicle to them. Even though the cost may be higher, the service is reliable and repairs are always quality.

When items are ordered for delivery and for on-site use, prices are compared and the lowest price is generally chosen – quality and follow-up service, if required, are always considered.

Again, we will agree that documentation, to include estimates, could be better documented. Some of the questioned invoices have already been addressed in a separate response to the auditors. At least five (5) resources are sole source due to the area (county) we are in or due to their specialized services required to maintain equipment.

- The Board adopted inaccurate and structurally imbalanced budgets and did not properly establish, fund or use reserve funds.

RESPONSE:

- Several areas require a response:
 - **Budgets** - the secretary/treasurer called the OSC Rochester office with questions regarding the budget and asked for assistance several times. The District received a first-time yearly rental check for a cell tower. Not knowing how to address the additional funds when preparing the budget, the OSC was called and the response received was... “Are you asking how to maintain your budget without decreasing the bottom-line budget requirement? That will take some creative accounting!” We were told to **increase** our budget line by the amount of the rental dollar amount, place the dollar amount on the additional revenue receipt line, then deduct it and the budget line would stay the same. During the entrance briefing with the OSC, they all laughed and said “Oh, we know who you talked to – one of his best lines is “creative accounting”!
 - **Use of Reserve Funds** - The fire department was in need of a storage unit to hold fire hose and miscellaneous equipment. We didn’t have money in the budget to purchase a storage unit, but we did have money in the Capital Reserve account. The District lawyer was contacted and asked if or how we could use our Capital Reserve account to make this purchase. We were told to figure the total dollar amount required, itemizing each item (such as stone base, delivery, lighting, shelving etc), then prepare a permissive referendum to be publicized, with a 30-day waiting period, prior to final purchase. *(all that information was on a laptop that was totally wiped out with the ‘ransomware’ virus)*. And the funds would have to be paid back – half by the end of the first year, following a final payment the second year. We followed those instructions. (At the time, there was no other account available that could have been used for this purchase)
 - **Additional Reserve Funds:** A commissioner and the treasurer attended a commissioners training course in 2017. During the course another fire department asked what they could do if they had an emergency but the budget could not accommodate the cost of repairs. The District lawyer stated “That happens more than you would imagine, that is why you should establish a repair reserve fund, funded by surplus monies left

See Note 2 Page 17

over from your yearly budget.” The account should have a ‘reasonable’ balance with specific purposes and a written plan. *(from our notes)*
Suggest the OSC and lawyers get on the same page.
We will comply with providing clearer defined policies and procedures as long as we have the correct guidance to follow.

See
Note 3
Page 17

- Fund balances and real property tax levies were higher than needed to fund operations.

RESPONSE:

- Fund balances – Our Capital Reserve account is maintained and has been explained as funds to purchase a replacement fire engine within the next three years. It was established years ago and has been funded with \$20K yearly prior to the current treasurers taking over the position.
This will be properly documented on future budget forms and submissions to OSC along with written policy/procedures to be addressed in CAP.
- The OSC was contacted several years ago with questions on determining real property tax levies. In addition, an on-line OSC course was attended and the question was brought up on how to break the budget down when more than one area (split coverage) is covered by one fire department. I was told someone would get back to me – that didn’t happen, so I called OSC and was told “our budget was so small the breakdown and end result would be insignificant”.
- During a conversation with OSC auditor, the “new” budget form was held up across the table. It was asked of OSC for assistance when filing it out. The response was “It looks complicated and I don’t understand it myself!” The form was tucked into a notebook on the side and not brought up again.

See
Note 1
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Addressing recommendations:

OSC recommendations will be addressed in the Corrective Action Plan

Additional comments in reply to the OSC audit statements within the report (by page):

- **Page 3 -**
 - *Audit and approve all claims prior to payment:* There is never an invoice paid without Board approval. Expenditures, other than utilities, are discussed prior to purchase. Once approved, if there is a change in the cost, the treasurer contacts the chairperson and he/she contacts the Board members regarding any changes and they agree or disagree to pay or it may be pushed to the next meeting for discussion.
 - *Quick Facts: Unassigned Fund Balance:* This is a regular savings account that is used to hold the tax revenue funds until it is needed for transfer to the checking account to pay invoices. This account was formed years before any of the current board members were elected and has been followed by each treasurer for as long as I can follow it back. This also holds true on how the funds are disbursed for the Capital Reserve Account i.e., for the purchase of major equipment/fire engine.
- **Page 4 –**
 - *Second Para – “receives and disburses cash”:* Twice cash has been received for hall rentals – it has been verified by a second person and promptly deposited into the bank (it’s a specific amount - \$200.00,

See
Note 4
Page 17

See
Note 5
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which can't be altered or shorted) It is reported to the Board in the next meeting and documented on the Financial Statement. Additionally, at no time is cash disbursed or withdrawn, by anyone, in any District account. There is always a paper trail.

- *Second Para – “someone review bank statements”*: Bank statements are reviewed quarterly by the Board members in addition to a quarterly Financial Statement and list of expended funds to date.

See
Note 4
Page 17

- **Page 5 –**

- *Third Para – “Vouchers”*: We receive itemized invoices for 90% of purchases, therefore duplicating the invoice on a voucher is redundant. This will be addressed in the CAP.

“Retain documentation of quotes”: Quotes, whether accepted or not, have always been retained. We also send letters of acceptance/nonacceptance to those submitting bids. Some of the meeting minutes state that a quote or quotes are attached. When looking through my documents (meeting minutes), those documents are no longer attached, or even in the file. Note: all documents were provided to the auditor in their original form and no one else has access to those documents except the secretary. At no time are any quotes (or District documents) thrown out.

See
Note 6
Page 17

- *Fourth/Fifth Paras - “Segregation of duties”*: All transactions are reported to the Board on monthly Treasurer’s Reports. The person that co-signs the checks verifies the transactions by initialing the deposit receipt, the transaction noted in the checkbook, and the Board members view and sign off on bank statements that they can trace back to deposits/internal transactions. At no time are cash funds withdrawn by anyone. Further explanation is requested to clarify.

See
Note 5
Page 17

- **Page 6 –**

- *Shaded area* – The Board reviews bank statements quarterly; deposits/transfers are noted on every monthly Treasurers report which is presented to the Board members. In addition, Financial Statements are provided with each set of bank statements to verify account balances along with each bank record book.

- *Budgeting practices – (bottom half of page)*: Second request for a sample of budget template and spending limit calculation forms
- *Annotating rental for tower, hall usage, etc.* – Rental for the tower is a 5-year lease, expiring in 2021. This is subject to renewal, cancellation, changes to payment agreement, etc. and is received in November. In addition, hall rental is sporadic and never assured as a definite “income” source. For example, due to the ‘pandemic’, the hall has not been rented for two years and for the 2020 year, we did not receive the usual \$500. for lawn maintenance – how do you enter \$\$\$ when they may or may not apply?

See
Note 1
Page 17

- **Page 7 –**

- *Second Para – “... revenues to be immaterial”* – The Treasurer said she believed the revenues to be **unrealistic** because there was never a guarantee of receiving those funds.

“land rental agreement” – refer to above area highlighted as “Budgets” under third finding.

See
Notes
1 & 2
Page 17

- *Last Para* – **All accounts were reported separately** on the AUD filed with OSC. We have four (4) accounts – all account numbers and dollar amounts were reported separately on ALL reports, whether in house or to the town or state.

See
Note 7
Page 18

In conclusion, to repeat, we are a very small **VOLUNTEER** Fire District/Fire Department with a budget in the mid \$80's. When the auditor arrived, she asked for our thumb drive which contains all our monthly meeting reports, treasurers' reports, financial statements and much more. She was continually asking for reports which she already had access to via the thumb drive, plus many other documents, but the requests never stopped. This audit should have been completed in a month, at the most, and the findings would have been the same. Agree, our policies and procedures need to be documented much better and followed - that doesn't take months to identify. If we were a District that handled hundreds of thousands of dollars, we could see a longer time frame, but for almost a year and a half, this audit drug on. We are **volunteers**, most with full time jobs and families, and this audit invaded our personal time much longer than necessary. Whatever she was looking for, she didn't find, and wouldn't find because there was/is nothing illegal to find.

See
Note 8
Page 18

Also, please have her return our door key to PO Box 26, South Butler, NY 13154

The South Butler Fire District is currently without a Chairperson due to the recent passing of Alan Keebler. A chairperson will be selected at our next meeting in March 2021. The current Board (listed above) has authorized the Secretary/Treasurer to sign this document as representative of the Board. The OSC office in Rochester is also aware of this action.

See
Note 9
Page 18

Bertha E. (Dolly) Twist,
Secretary/Treasurer
(signing as representative for the Board)
South Butler Fire District
Board of Directors

Appendix B: OSC Comments on the District's Response

Note 1

Throughout the District's response, the Treasurer has attributed quotes and actions to OSC staff that we have no recollection of and for which there is no documentation to support. These comments in no way reflect the actions and professional approach we bring to our audits and our relationship with local officials. During this audit, we documented numerous instances when we provided technical assistance and clear and detailed explanations to the Treasurer on the various issues raised in this response. This technical assistance included supplying the Treasurer with written guidance, both electronically and hard copy, and referring to the resources and publications already in her possession that contained the information she sought or needed, which included the updated budget and statutory spending limit forms and reserve fund requirements.

Note 2

We disagree with the District's recollection and characterization of the entrance conference.

Note 3

During the audit, we confirmed the Treasurer had a copy of the most recent Reserve Funds Local Government Management Guide – which summarizes the applicable statutes and requirements. In addition, we provided officials with technical assistance and copies of the applicable laws and related guidance.

Note 4

Town Law (Section 176-4a) requires the Board to audit, and order payment by resolution of, all claims based on its review of itemized vouchers. Furthermore, the District's procurement policy requires submittal of a voucher and sales receipt for all purchases. The Board generally did not see or approve invoices until after they were paid.

Note 5

This criteria paragraph is using common terminology intended to refer to those responsible for the receipt, deposit, and disbursement of fire district money, not solely money that is received or disbursed in "cash" form. The report did not indicate that "cash" was disbursed or withdrawn.

Note 6

To ensure we reviewed everything available from District personnel, we made multiple requests for any additional quotes or documentation throughout the audit. We reviewed and considered all documentation provided and returned all documentation reviewed on-site.

Note 7

We added 'in the general fund' to that paragraph to clarify that the District had reported all general fund cash as unassigned fund balance when, in fact, the majority of it was restricted in reserve funds.

Note 8

Unfortunately, the availability of District and OSC personnel led to delays in receiving and analyzing District records. The effects of the pandemic also contributed to further delays.

Note 9

We returned the door key immediately upon learning the key remained in our possession.

Appendix C: 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 and District policies, to gain an understanding of the District's internal controls, budgeting process and financial condition.
- We reviewed the Treasurer's records and reports to determine whether they were complete, accurate and timely.
- We reviewed the results of operations from 2017 through 2019. We recalculated unassigned fund balance by deducting recorded but unreported restricted fund balance (reserves) and analyzed changes in total fund balance. We calculated unassigned fund balance as a percentage of the ensuing year's appropriations and compared budgets to actual operating results.
- We reviewed all receipts from known revenue sources, including real property taxes, rental revenues, hall rentals, donations and miscellaneous revenues to determine whether they were recorded and deposited – and to what bank account.
- We obtained and reviewed 2018 and 2019 bank statements and reconciliations for unusual transactions or withdrawals.
- We recalculated bank reconciliations to ensure accuracy of the Treasurer's records.
- We requested Board resolutions to determine whether the District's reserves were properly established. We conducted an analysis of recorded reserve activity and all Board minutes to determine if reserves were properly recorded, used and reported.
- We reviewed all 292 cash disbursements totaling \$138,730 for fiscal years 2018 and 2019 to determine whether claims were approved before payment and were supported by adequate documentation and for appropriate purposes.
- We requested cancelled check images; however, District officials had not retained them and were not willing to pay the bank fees in order to obtain them.

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.

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 your 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 D: 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

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