

Hubbardsville Fire District

Board Oversight

AUGUST 2018



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

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Report Highlights

Hubbardsville Fire District

Audit Objective

Determine whether the Board provided adequate oversight of the District's financial operations and fuel inventories.

Key Findings

- The Board did not:
 - Annually audit the Treasurer's books and records or request to review budget-to-actual reports and bank statements.
 - Properly establish its capital reserve fund and obtain voter approval prior to issuing \$150,000 in debt.
 - Require perpetual diesel fuel inventory records, leading to unaccounted for fuel.
- The Treasurer did not maintain subsidiary revenue and expenditure accounts or perform bank reconciliations.

Key Recommendations

- Provide oversight of the Treasurer's duties and annually audit the Treasurer's books and records.
- Officially establish the capital reserve and obtain voter approval prior to issuing debt.
- Maintain perpetual inventory records and reconcile to physical inventories on hand.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Hubbardsville Fire District (District) is a district corporation of the State, separate from the Towns of Brookfield, Hamilton and Madison in Madison County. The District provides fire protection and emergency rescue services to approximately 12,240 residents over 160 square miles.

An elected five-member Board of Fire Commissioners (Board) governs the District and is responsible for the overall financial management. The Board appoints a Secretary-Treasurer (Treasurer) who acts as the chief fiscal officer and is responsible for the receipt, custody, disbursing and accounting for District funds, and for preparing periodic financial reports.

Quick Facts

Members	30
2018 Budget Appropriations	\$111,000
2017 Disbursements^a	\$315,805
2017 Deposits^b	\$262,452

a Includes \$185,000 for the purchase of a fire pumper-rescue truck

b Includes \$150,000 in bond proceeds

Audit Period

January 1, 2017 – February 28, 2018

Board Oversight

How Should the Board Oversee District Finances?

The board is responsible for overseeing the district's financial activities and safeguarding its resources. The board, in conjunction with the treasurer, should establish and implement procedures that help ensure that money is properly safeguarded, transactions are authorized and properly recorded in the accounting records and that the district complies with applicable laws, rules and regulations. It is also important that the board provides oversight by having someone periodically compare the treasurer's monthly reports with supporting documentation, such as budget-to-actual reports, trial balances and bank reconciliations including bank statements and canceled check images.

Additionally, the board should annually audit the treasurer's records. Town Law¹ requires the treasurer to produce all books, records, receipts, vouchers and canceled checks or check images to the board annually. An annual audit helps ensure that cash is properly accounted for and transactions are properly recorded.

Board oversight is particularly important when one individual is able to perform all aspects of a financial transaction.

The Board Needs To Improve Oversight of the Treasurer's Duties

The Board needs to provide additional oversight of the Treasurer's financial duties. The Treasurer performed all financial duties including receiving and disbursing cash, signing District checks, conducting bank transfers and maintaining the accounting records with little or no oversight. The Treasurer was also responsible for reconciling the District's bank accounts.

The Board reviewed a monthly report prepared by the Treasurer, which included the current month's cash balance for each bank account, revenues collected, total previous months' claims paid and claims presented for payment. However, the Board did not request budget-to-actual revenue and expenditure status reports. It also did not appoint someone to review the Treasurer's bank reconciliations, bank statements and canceled check images, which would have enabled the Board to provide additional oversight of the Treasurer's work and also monitor the District's finances.

Accounting Records Are Incomplete

The Treasurer's accounting records provide manual cash receipt and disbursement journals and running cash balances, but she did not maintain any subsidiary accounts to classify actual revenues and expenditures by account

¹ Town Law Section 177

code or type of expenditures. For example, the District budgets appropriations for things like equipment, repairs to buildings, fuel oil, liability insurance and utilities, but no records are maintained to track the actual expenditures and compare them to budgeted amounts throughout the year. Maintaining these subsidiary records is important because this information provides the foundation for the Board to develop its budgets and for the Treasurer to prepare periodic reports needed by the Board to monitor the District's financial operations such as budget-to-actual reports and the District's annual financial report.

In addition, the Treasurer told us that although she compares the checks clearing the bank to her disbursement journals, she does not reconcile the adjusted² bank statement balance to the cash recorded in her accounting records. This reconciliation would help verify that all cash receipt and disbursement transactions are captured and properly recorded.

We performed bank reconciliations for the District's two bank accounts as of December 31, 2017 and found that the adjusted bank statement balance for the checking account was \$2,152 higher than the cash recorded in the Treasurer's accounting records.

No Annual Audit of the Treasurer's Records

The Board did not annually audit the Treasurer's records to help verify that cash is properly accounted for and transactions are properly recorded. Board members told us they were unaware they were required to conduct an annual audit of the Treasurer's records as they believed their monthly audit of claims was sufficient. They were also unaware that the Treasurer was not performing monthly bank reconciliations or maintaining subsidiary accounts.

We reviewed all 93 check payments totaling approximately \$294,000 during our audit period to determine whether these disbursements were properly authorized, supported and for appropriate purposes. In addition, we reviewed all receipts deposited during our audit period totaling approximately \$262,452 (including real property tax receipts of about \$109,000 and bond proceeds of \$150,000) to determine whether deposits were made intact and properly recorded and supported. We also reviewed all four transfers to and from bank accounts totaling \$67,317 to determine if they were accurate and proper. Although our testing found no discrepancies, without the proper oversight, there is a risk that errors and irregularities could occur and not be detected or corrected in a timely manner.

² After considering outstanding checks and deposits in transit that have not yet cleared the bank

How Should a District Establish and Expend Funds From a Capital Reserve Fund and What Approvals Are Required To Issue Debt?

If a board chooses to accumulate money for future capital improvements and equipment, it must pass a resolution to formally establish a capital reserve fund and it must follow General Municipal Law (GML)³ requirements for establishing, funding, expending and transferring moneys from reserve funds.⁴ Effective January 1, 2007, the GML was amended to require that any resolution establishing a capital reserve fund in a fire district is subject to mandatory referendum.⁵ A capital reserve fund can be established for a specific item of equipment (e.g. ladder truck) or specific improvement (e.g. new firehouse) or for a type of equipment (e.g. fire apparatus) or improvement (e.g. land). An expenditure from a capital reserve fund established for a type of equipment or improvement can only be made following the adoption of a resolution, subject to permissive referendum requirements. Expenditures subject to permissive referendum require a district to publish a legal notice informing residents of the board's planned action to expend moneys from the "type" reserve. The legal notice also informs eligible voters of their right to file a petition to require the matter to be subjected to voter approval.

Prior to issuing bonds or bond anticipation notes for capital purposes, a board must first pass a resolution to authorize the debt.⁶ The bond resolution must then be approved at a regular or special election of district voters before it becomes effective and any bonds or bond anticipation notes may be issued.⁷

The Board Did Not Properly Establish its Capital Reserve Fund and Seek Voter Approval Prior To Issuing Bonds

District officials told us they have historically set aside money each year in a savings account to reserve funds for fire truck and equipment purchases, but they were unable to provide us with any documentation showing that the Board formally established a capital reserve fund for this type of purpose. Based on our review of the 2017 and 2018 annual budgets, the Board included a \$10,000 appropriation each year to finance the savings account. At the end of our audit period, the balance in the savings account was more than \$108,000.

3 GML Section 6-g

4 For guidance on reserve funds, District officials should refer to our Local Government Management Guide entitled *Reserve Funds* at osc.state.ny.us/localgov/pubs/lgmg/reservefunds.pdf

5 Prior to this amendment, the establishment of a fire district capital reserve fund for a specific item of equipment or specific improvement was subject to permissive referendum and a capital reserve for a type of equipment or improvement could be established by resolution with no referendum requirements.

6 Local Finance Law, Section 31.00

7 Local Finance Law Section 38.00; see also e.g. OSC Opn No. 98-19.

Although the Treasurer did not report the balance in the savings account as a capital reserve fund in the District's annual financial report, the Board has treated and characterized the funds set aside in the savings account as a capital reserve fund. For example, it has budgeted transfers to "reserve funds" and also referenced the reserve fund in certain public notices. Because of the District's course of conduct in treating this as a reserve fund, we believe the funds have a status of "de facto" capital reserve funds. In such instances, the District should take remedial actions to ratify the reserve fund. In general, these actions would include following the procedures which were required at the time the funds were reserved. Taking these actions also will help clearly convey the Board's intent regarding the future purpose and use of the funds and reduce the risk that subsequent Boards could use these moneys for purposes other than what this and previous Boards intended.

In May 2017, the District purchased a used fire pumper-rescue truck for \$185,000 from another fire district. The District issued \$150,000 in serial bonds and expended \$35,000 from its "savings account" (de facto capital reserve fund) to pay for the truck. The Board passed a resolution, subject to permissive referendum, in January 2017 to expend money from the District's equipment purchase de facto capital reserve fund to pay for part of the truck cost. The Board also adopted a bond resolution, subject to permissive referendum, prior to issuing the debt. However, fire district bond resolutions are subject to mandatory voter approval, not merely permissive referendum. The Board did not hold a regular or special election to allow District voters to vote on the issuance of the bonds as required by law⁸

When District officials do not follow proper procedures for establishing capital reserve funds and issuing debt, it reduces transparency of financial operations and the public does not have the opportunity to exercise its rights as provided in the law.

How Should the Board Oversee Fuel Inventory?

It is important that district officials properly account for district resources, including fuel inventories, and protect them from waste and abuse. A good system of internal control over inventories includes maintaining perpetual inventory records that identify quantities delivered, consumed and on hand. Physical safeguards and a periodic reconciliation of inventory records to physical fuel inventories (e.g., by using a measuring stick) can identify fuel loss due to leaks or unauthorized use. Material discrepancies resulting from these reconciliations should be promptly investigated and resolved. Also, it is a good business practice to ensure

⁸ The District's bond resolution contained estoppel provisions that should protect the District from a legal challenge based on going through the permissive, rather than mandatory referendum requirements.

that commodities are received prior to payment being made to the vendor to help protect taxpayer funds and avoid the risk of non-performance by a fully paid vendor.

The Board Did Not Oversee the District's Fuel Inventory

The District maintains an underground fuel storage tank for diesel fuel. The Board did not ensure that the District's diesel fuel supplies were properly accounted for and adequately safeguarded. While fire department members manually record on logs the gallons of diesel fuel dispensed into vehicles by driver, the Board has not designated anyone to maintain a perpetual inventory record to collectively show beginning inventory, fuel delivered, fuel consumed and the resulting balance of fuel remaining in inventory. Also, no one performs periodic physical inventories to determine how much fuel is in the tank and to reconcile the amount of fuel on hand with inventory records.

The absence of a reconciliation inhibits the Board's ability to identify and investigate potential discrepancies. For example, fuel could be pumped or siphoned directly from the tank for personal use, the fuel vendor could bill for more fuel than it delivers or fuel could leak from the tank without detection. Strengthening the inventory controls would give District officials greater assurance that diesel fuel purchased is safe from loss or misuse.

We performed an analysis of the Town's diesel fuel inventory from March 27, 2017 (a date the tank was out of fuel) to December 8, 2017 to assess if fuel purchased was reasonable as compared to fuel consumed according to the manual fuel usage log.⁹ We estimate there could be about 124 gallons of fuel valued at \$254 that is unaccounted for. While the dollar value of the fuel may not seem significant during the period we reviewed, the lack of controls over fuel inventory would make it difficult for District officials to detect larger amounts of fuel loss if they were to occur due to unauthorized use or leaks. Also, the District runs the risk of running out of fuel again if it does not take steps to periodically inventory the amount of fuel on hand.

Further, the District pays a local fuel vendor in advance for its diesel fuel and heating oil to be delivered to the District when needed. The District had a pre-paid balance of \$9,497 with the fuel vendor for its diesel and heating oil as of January 1, 2017. The District received fuel deliveries during our audit period totaling \$4,885 that reduced the pre-paid balance and it made another prepayment for

⁹ Since we found the manual log indicated on March 27, 2017 that the tank was out of fuel, we started our inventory analysis with a balance of zero on that date. We spoke with the Chairman and a Commissioner regarding the diesel fuel tank size, to help determine the maximum quantity of fuel the tank could hold, but both were unsure of the tank size. Since the first delivery after the District ran out of fuel was 323 gallons and subsequent deliveries were less than that, we used 325 gallons as the estimated maximum fuel tank capacity for our analysis.

fuel in November 2017 for \$6,000 that brought the pre-paid balance to \$10,612 at the end of our audit period on February 28, 2018. This prepaid balance is fairly significant given the size of the District's operations, representing nearly 10 percent of the District's 2018 budgeted appropriations of \$111,000. The District's practice of carrying a significant pre-paid balance could put it at risk if the vendor were to go out of business without delivering the balance of fuel or submitting a refund or has an insufficient supply of fuel to meet the District's demands. The District has not mitigated this risk by requiring the vendor to post a bond or other security to guarantee performance and to protect the taxpayers' interests.

What Do We Recommend?

The Board should:

1. Require the Treasurer to provide the Board with periodic budget-to-actual revenue and expenditure reports.
2. Appoint someone to periodically review the Treasurer's monthly bank reconciliations along with bank statements and canceled check images.
3. Annually audit the Treasurer's books and records.
4. In consultation with the attorney for the fire district, take action to ratify the "de facto" capital reserve fund by adopting an appropriate resolution, subject to referendum requirements if necessary.
5. Obtain voter approval of bond resolutions prior to issuing bonds or bond anticipation notes.
6. Ensure diesel fuel inventory records are maintained that identify the beginning inventory, the quantities of fuel delivered, dispensed and on hand. These records should be periodically reconciled to physical inventories of fuel and any differences should be promptly investigated and resolved.
7. Discontinue the practice of paying for fuel in advance of deliveries or consider requiring a bond or other security from the fuel vendor to protect the District.

The Treasurer should:

8. Maintain subsidiary revenue and expenditure accounts necessary for the preparation of financial reports.
9. Prepare monthly budget-to-actual reports and bank reconciliations. Any discrepancies identified in bank reconciliations should be resolved.
10. Properly report the capital reserve fund in the District's annual financial report.

Appendix A: Response From District Officials

HUBBARDSVILLE FIRE DISTRICT

P.O. Box 746 | Hubbardsville, NY 13355

HubbardsvilleFD@gmail.com

Dale Crumb

Board of Commissioners Chairman

Brynley Wilcox

District Secretary/Treasurer

July 23, 2018

Office of the State Comptroller
Attn: Rebecca Wilcox, Chief Examiner
Syracuse Regional Office, Room 409
333 East Washington Street
Syracuse, NY 13202-1428

Re: **Response to Draft Report of Examination and Corrective Action Plan**
2018M-107 – Audit Period: January 1, 2017 – February 28, 2018

To Whom It May Concern:

On behalf of the Hubbardsville Fire District, please accept this letter as the Board of Fire Commissioner's formal response to, and corrective action plan for, the findings and recommendations contained in your office's Draft Report of Examination of the Hubbardsville Fire District – Board Oversight.

First and foremost, I would like to thank you and your staff for the professional audit that was completed. We extend our gratitude to your onsite examiner and appreciate his willingness to travel to our district to discuss the findings with us during a meeting on Thursday, July 19, 2018.

As we discussed in the exit interview, the Board of Commissioners and newly appointed District Treasurer are in agreement with, and accepting of, the findings of the Report of Examination. Furthermore, the District would like to detail their Corrective Action Plan as described below:

Audit Recommendation(s):

- 1.) Require the Treasurer to provide the Board with periodic budget-to-actual revenue and expenditure reports.
- 2.) Appoint someone to periodically review the Treasurer's monthly bank reconciliations along with bank statements and canceled check images.
- 8.) Maintain subsidiary revenue and expenditure accounts necessary for the preparation of financial reports.
- 9.) Prepare monthly budget-to-actual reports and bank reconciliations. Any discrepancies identified in bank reconciliations should be resolved.
- 10.) Properly report the capital reserve fund in the District's annual financial report.

Implementation Plan of Actions):

With the newly appointed Treasurer, the financial records from January 2018 through June 2018 have been entered into QuickBooks, an electronic accounting software. At the July 2018 regular meeting of the District, the Board was presented with financial statements including a budget-to-actual report.

HUBBARDSVILLE FIRE DISTRICT

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HubbardsvilleFD@gmail.com

Dale Crumb

Board of Commissioners Chairman

Brynley Wilcox

District Secretary/Treasurer

Going forward, the Board will also review the prior month's bank reconciliation and all discrepancies will be resolved prior to the filing of the Annual Update Document. The District Treasurer will also be in contact with the Data Management Unit before the end of August 2018 in order to correct the reporting of the capital reserve fund.

Audit Recommendation(s):

- 3.) Annually audit the Treasurer's books and records.

Implementation Plan of Actions):

At the regularly scheduled January meeting, the Board of Commissioners will review the Treasurer's books and records; including—but not limited to—receipts, bank reconciliations, vouchers, canceled check images and financial statements.

Audit Recommendation(s):

- 4.) In consultation with the attorney for the fire district, take action to ratify the "de facto" capital reserve fund by adopting an appropriate resolution, subject to referendum requirements if necessary.

Implementation Plan of Actions):

Before the end of 2018, the Chairman of the Board and the District Secretary will reach out to the District's Attorney in order to draw up the appropriate resolutions necessary to making the capital reserve account legal.

Audit Recommendation(s):

- 6.) Ensure diesel fuel inventory records are maintained that identify the beginning inventory, the quantities of fuel delivered, dispensed and on hand. These records should be periodically reconciled to physical inventories of fuel and any differences should be promptly investigated and resolved.
- 7.) Discontinue the practice of paying for fuel in advance of deliveries or consider requiring a bond or other security from the fuel vendor to protect the District.

Implementation Plan of Actions):

The Chief, in collaboration with the Secretary, of the Hubbardsville Fire Department have begun tracking the amount of diesel fuel being used by each vehicle. The District Secretary has updated the contact information with the diesel vendor and monthly statements showing the current credit balance on the fuel account are now being maintained. The District will refrain from paying for fuel in advance of the deliveries in the future.

HUBBARDSVILLE FIRE DISTRICT

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HubbardsvilleFD@gmail.com

Dale Crumb

Board of Commissioners Chairman

Brynley Wilcox

District Secretary/Treasurer

Audit Recommendation(s):

- 5.) Obtain voter approval of bond resolutions prior to issuing bonds or bond anticipation notes.

Implementation Plan of Actions):

Should the Fire District require the issuance of a bond or bond anticipation note in the future, the Chairman of the Board of Commissioners will work closely with the District Attorney in order to assure that all General Municipal Laws are being followed and voter approval is sought out when required.

The Board of Commissioners remains committed to their responsibility over district funds and we thank you for this opportunity to enhance our financial oversight.

Respectfully,

Dale Crumb
Chairman of the Board of Commissioners
Hubbardsville Fire District

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, we performed the following audit procedures:

- We interviewed District officials and reviewed Board minutes to gain an understanding of the Board's oversight of financial operations including the audit of claims, fuel inventories, controls over the Treasurer's duties and procedures used to record and monitor financial assets and transactions.
- We reviewed the District's 2017 and 2018 budgets, bank statements, recorded cash balances and public legal notices to gain an understanding of the District's capital reserve fund.
- We reviewed all 93 check disbursements totaling approximately \$294,000 from the Treasurer's disbursement journals during the audit period to determine whether they were authorized, supported and disbursed.
- We reviewed all receipts deposited in bank accounts during our audit period to determine whether they were properly accounted for and deposited intact. We also reviewed all transfers to and from bank accounts during our audit period to determine whether they were accurate and proper.
- We compared the adjusted bank balances with the cash recorded in the Treasurer's accounting records as of December 31, 2017
- We compared fuel deliveries with fuel usage logs for the period from March 27, 2017 to December 8, 2017.
- We reviewed the fuel vendor statement and supporting invoices to identify the gallons of diesel fuel and heating oil purchased and delivered and the dollar amounts pre-paid by the District for diesel fuel and heating oil.

We conducted this performance audit in accordance with GAGAS, 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.

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.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

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/localgov/index.htm

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

SYRACUSE REGIONAL OFFICE – Rebecca Wilcox, Chief Examiner

State Office Building, Room 409 • 333 E. Washington Street • Syracuse, New York 13202-1428

Tel (315) 428-4192 • Fax (315) 426-2119 • Email: Muni-Syracuse@osc.ny.gov

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