

Pine City Fire District No. 1

Board Oversight

DECEMBER 2017



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

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Report Highlights

Pine City Fire District No. 1

Audit Objective

Determine whether the Board ensured that financial activity was properly recorded and reported and that District money was safeguarded.

Key Findings

The Board:

- Did not provide oversight of the Treasurer.
- Improperly allowed the Chief and Assistant Chiefs to fuel their personal vehicles.
- Did not establish reserves per statute.

Key Recommendations

- The Board should provide oversight of the Treasurer including reviewing reconciled bank statements and cancelled checks, auditing claims and performing an annual audit.
- Revise the fuel policy to provide reimbursement based on actual expenditures or standard mileage.
- Establish reserve funds in accordance with law.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on the District's response.

Background

The Pine City Fire District No. 1 (District) is a district corporation of the State, distinct and separate from the Town of Southport (Town) in Chemung County.

The Board of Fire Commissioners (Board) consists of five elected members responsible for the District's overall financial management. The elected Treasurer serves as the District's chief fiscal officer and is responsible for receiving, disbursing, maintaining custody of, and accounting for District funds, and preparing monthly and annual financial reports.

The District provides equipment to and rents a fire hall from the Pine City Volunteer Fire Department, Inc. (Department).

Quick Facts

2017 Appropriations	\$153,040
2016 Revenues	\$428,890
2017 Parcels Protected	967
2017 Square Miles Protected	12

Audit Period

January 1, 2016 - July 14, 2017. We extended our scope back to January 1, 2013 to review fuel usage.

Board Oversight

What is Effective Board Oversight?

The Board is responsible for overseeing the District's fiscal activities and safeguarding its resources. An important aspect of this responsibility is to provide a process to routinely monitor and review the work performed by those who handle money as part of their District duties. 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 and performs reconciliations), it may weaken control over the District's financial operations. It is essential that the Board establish policies and procedures that ensure duties are sufficiently segregated; transactions are authorized and properly recorded; financial reports are accurate, reliable and filed in a timely manner; and the District complies with applicable laws, rules and regulations.

For example, New York State Town Law (Town Law) requires the Board to:

- Audit all claims.
- Obtain an independent audit when annual revenues exceed \$300,000.
- Ensure that any reimbursements for travel are based on actual and necessary expenses.
- Attend financial training within 270 days of taking office each term.

New York State General Municipal Law (GML) requires the Treasurer to complete an Annual Update Document (AUD) in a timely fashion.¹ Additionally, GML provides requirements for the establishment of capital reserve funds to ensure that the public is allowed to participate in the decision and reserves are funded and expended in a transparent fashion.

The Board Should Provide Oversight Of Financial Operations

Board members have not provided adequate financial oversight, which may be caused by their lack of training and understanding of their fiscal responsibilities. The Board did not audit District claims. The Board reviewed and approved a list of claims to be paid, but did not review the claims to verify each purchase was properly authorized or that the supporting documentation was sufficient. Even though the financial duties are concentrated with the Treasurer, the Board did not receive or review bank statements or cancelled check images, review bank reconciliations or perform an annual audit of the Treasurer's records to ensure the accuracy of the monthly financial reports. Finally, the Board did not ensure that the Treasurer prepared and filed the District's annual report for the 2012 through

¹ The AUD is an important fiscal tool which provides the Board with necessary information to monitor District operations and provides other interested parties with a summary of the District's financial condition and activities.

2016 years. Although the Treasurer did prepare and file these reports during the completion of our fieldwork, they were not done timely and so provided little financial monitoring or useful financial information for the Board. The Board also did not engage a certified public accountant or an independent public accountant to audit its 2016 financial records.

Due to the lack of Board oversight, we reviewed all bank statement activity for the period January 1, 2016 through May 31, 2017. We found that cash receipts and disbursements were properly recorded and reported on the monthly Treasurer reports.

The Treasurer paid 155 claims totaling \$318,275. Of those claims, 37 (24 percent) totaling \$34,406 lacked adequate supporting documentation, such as a rental agreement with the Department, itemized credit card receipts, details of firemen physicals and insurance invoices. Although these claims appeared to have been for District purposes, without adequate documentation, the risk of expending District funds for non-District purposes increases. Furthermore, the absence of a written agreement between the District and the Department may result in a misinterpretation of financial responsibilities.

How Can The Board Reimburse District Travel?

Town Law allows for the District by resolution to provide a reasonable mileage allowance to Department officials or reimburse actual and necessary expenses incurred in executing the duties of his/her office. In fixing the mileage allowance, the Board may consider the cost of gasoline, but may not exceed the standard federal income tax mileage allowance for business-related travel.

Inappropriate Use of Fuel in Personal Vehicles

Instead of paying a mileage allowance or reimburse actual expenses to the Department's chiefs for the use of their personal vehicles when responding to fire calls, the Board inappropriately allowed each chief to use 25 gallons of fuel every month (300 gallons annually). Each chief was provided a fuel key for the Town's fuel pumps and the District was billed for this usage. The unallowable personal use of fuel could create a risk of theft as well as sales and income tax concerns for the Town and/or District.

District officials also did not monitor or reconcile fuel usage. As a result, District officials were unaware that the former Assistant Chief's fuel usage exceeded the monthly allotment until Town officials notified the District of higher than normal usage. Over the last four years, the former Assistant Chief exceeded the allotment by almost 700 gallons (See Figure 1).

Figure 1: Former Assistant Chief's Excess Gallons of Fuel

Year	Excess Gallons
2013	47
2014	148
2015	236
2016	257
Total	688

The Board determined the reimbursement amount due by calculating the average fuel cost for the period January 1, 2014 through June 30, 2016, and agreed on monthly reimbursement payments in the amount of \$65 from the former Assistant Chief until the \$1,375 is repaid. Because the Board failed to request reimbursement for the 47 gallons from 2013 totaling \$105, the reimbursement will not cover all the excess fuel costs.

How Can The Board Establish Reserves?

The Board may establish reserves to restrict a reasonable portion of fund balance for various purposes, also in compliance with statutory directives. Legally established reserves can provide many benefits to the District and the residents it serves. Available money can be set aside to finance all or part of planned projects, thereby reducing the need to issue costly debt. Reserves can also provide a degree of financial stability by providing an alternative to cutting services or raising taxes.

To properly establish any reserve fund allowed by law, the Board must adopt a resolution that describes the reserve's purpose. In some instances, the resolution does not take effect until the District's qualified electors approve it by a vote (mandatory referendum).

In situations where a local government does not follow the proper procedure to establish a reserve fund, but accumulates money for a purpose for which it may establish a reserve fund and treats the money as a reserve fund through a persistent course of conduct, we believe the accumulated money constitutes a de facto reserve fund.² In these situations, the local government should legalize the reserve fund by following the proper procedure to establish the fund.

² A de facto reserve is one for which the courts have held that a persistent course of conduct in treating and characterizing funds as a reserve fund is sufficient to prevent the District from claiming any different status for them.

Reserve Funds Were Not Properly Established

Although District officials stated they had two reserve funds totaling \$174,522 as of January 1, 2017, the Board did not establish the capital and repair reserves in compliance with GML. There was no indication that Board resolutions were adopted or that public notice requirements had been met. In addition, the Board held no mandatory referendum to approve the capital reserve.

During fieldwork, the Board adopted resolutions establishing the repair and capital reserves. However, the resolutions contained sample language instead of being District specific.

What Do We Recommend?

The Board should:

1. Provide appropriate fiscal oversight by:
 - Performing an independent review of bank statements and reconciliations and cancelled checks.
 - Auditing and approving all claims on a monthly basis prior to payment and ensure approval is documented in the minutes.
 - Performing an annual audit of the Treasurer's records and reports.³
 - Submitting a request for proposal for an audit of the 2016 fiscal year and filing the audit report with the Town Board and the State Comptroller.
2. Attend and complete the mandatory fiscal oversight training as soon as practicable.
3. Establish a written contract with the Department that outlines the rental period, responsibilities of each party and the compensation to be paid.
4. Ensure that the Treasurer prepares and submits AUDs within 60 days of the close of the fiscal year.
5. Update the fuel policy to include an appropriate mileage allowance or reimbursement method.
6. Consider requesting reimbursement for the \$105 in excess fuel costs from the former Assistant Chief.

³ Board members should refer to our publication entitled Local Government Management Guide – Fiscal Oversight Responsibilities of the Governing Board.

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7. Review the legal requirements for reserve funds and ensure that the District complies with the statutory provisions for establishing and using reserve funds, including taking any steps necessary to legalize the existing reserve funds.

Appendix A: Response From District Officials

Pine City Fire District No. 1

1463 Pennsylvania Avenue P.O. Box 72
Pine City, New York 14871

November 6, 2017

Mr. Edward V. Grant Jr., Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
The Powers Building
16 West Main Street Suite 522
Rochester, New York 14614-1608

Re: Pine City Fire District No. 1, Report #2017M-166

Dear Mr. Grant,

The Board of Fire Commissioners has carefully reviewed the draft of the above examination entitled “Board Oversight” for the time period of January 1, 2016 through July 14, 2017. The Board offers the following response and corrective actions to address the recommendations contained in the report.

Recommendation 1: Provide appropriate fiscal oversight by:

- *Performing an independent review of bank statements and reconciliations and cancelled checks.*
- *Auditing and approving all claims on a monthly basis prior to payment and ensure approval is documented in the minutes.*
- *Performing an audit of the Treasurer’s records and reports.*
- *Submitting a request for proposal for an audit of the 2016 fiscal year and filing the audit report with the Town Board and State Comptroller.*

The Board has implemented the following procedures at its monthly meetings: detailed bank reconciliations and the bank statements are available and reviewed by the Board and all claims are reviewed prior to approval by the Board. This information is in addition to the summary reconciliations that are contained in the monthly Treasurer’s report. This process was implemented at the September 2017 Board meeting. The Board will also annually perform an audit of the Treasurers records and reports at the February monthly meeting to ensure they are accurate and complete. The Board disagrees with request for an external

audit, due to the cost, which was not budgeted, and the fact that the Office of the State Comptroller just examined the 2016 fiscal year.

See
Note 1
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Recommendation 2: Attend and complete the mandatory fiscal oversight training as soon as practicable.

The Board will ensure that members that have not fulfilled this requirement will do so with the next member that is required to do so.

Recommendation 3: Establish a written contract with the Department that outlines the rental period, responsibilities of each party and the compensation to be paid.

The Board is working with the Department and will have a lease agreement in place for the next, and succeeding, fiscal year that will contain the period, cost and responsibilities of each party.

Recommendation 4: Ensure that the Treasurer prepares and submits AUDs within 60 days of the close of the fiscal year.

The Board will ensure that the AUD is submitted as required. The Treasurer will have the AUD reviewed by the Board at its February meeting, along with the annual audit of the records.

Recommendation 5: Update the fuel policy to include an appropriate mileage allowance or reimbursement method.

The Board has established a fuel policy, which includes the reimbursement method, quarterly, and is being implemented for the second half of 2017 and going forward.

Recommendation 6: Consider requesting reimbursement for the \$105 in excess fuel costs from the former Assistant Chief.

The Board will consider the information contained in the request, but at this time the Board feels the reimbursement agreement is adequate as currently in place.

Recommendation 7: Review the legal requirements for reserve funds and ensure that the District complies with the statutory provisions for establishing and using reserve funds, including taking any steps necessary to legalize the existing reserve funds.

The Board will be following the recommendation to legally re-establish the reserve funds, since the District was not able to show proof that they were legally established in the past, due to amount of time since the establishment of such reserve (Repair Reserve) and a change in the District's legal counsel (Capital Reserve).

The Board is pleased that the auditor found that the District has maintained appropriate records of cash receipts and disbursements, as reported in the monthly Treasurer's reports, and found the District's financial records to be accurate and reasonable. We appreciate the recommendations provided by the audit and assistance the auditor has provided, the District, in revising its policies and procedures, and pointing out the available resources available from the Office of the State Comptroller.

See Note 2 Page 10

Sincerely,

11/6/17

Roy White Jr.
Chairman
Board of Fire Commissioners

Appendix B: OSC Comments on the District's Response

Note 1

Town Law requires the Board to obtain an audit of the District's records by an independent certified public auditor or public auditor when annual revenues are \$300,000 or more. Our audit does not alleviate the Board's fiscal responsibility to complete or obtain an audit of the District's records.

Note 2

Although the Treasurer's reports accurately reflected cash receipt and disbursement transactions per the bank statements, adequate supporting documentation was not maintained to determine if all financial transactions were recorded.

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, we performed the following audit procedures:

- We interviewed District officials to gain an understanding of the internal controls related to financial operations.
- We compared the fuel usage to the policy created in October 2016 to determine if it was reasonable.
- We traced 2016 receipts and disbursements from bank statements to the Treasurer's monthly reports.
- We reviewed all 155 claims paid from January 1, 2016 through May 31, 2017 totaling \$318,275 to determine if they were supported, audited and for a District purpose.
- We reviewed the bank reconciliation at 2016 fiscal year end and for May 2017 for timeliness and form.
- We reviewed bank statements for the period of January 1, 2016 through May 31, 2017 for unusual transactions, withdrawals and open and closed accounts.

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 D: 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

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