

THE INTERNAL AUDIT PROCESS FOR FIRE DISTRICTS

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THE INTERNAL AUDIT PROCESS FOR FIRE DISTRICTS

I. INTRODUCTION - FISCAL OVERSIGHT

As members of the Board of Fire Commissioners, you represent the legislative body responsible for governing the general affairs of the fire district. This responsibility includes providing fire district officers and employees with direction for the conduct of fire district business. You provide this direction by formulating, adopting and monitoring compliance with general policies and procedures (e.g., investment and procurement policies). Recent statutory changes now require certain fire districts to obtain an external audit by a qualified professional (see Town Law, §181-B). While an external annual audit is something all fire districts may want to consider (see Town Law, §176(32)), in the absence of an external audit, the Board should provide for an internal audit of the officers and employees who handle moneys as part of their fire district duties.

The Board of Fire Commissioners is responsible for the general management and control of fire district finances (Town Law, §§176, 179, 181, 181-B). An important aspect of this responsibility is to provide a process to routinely monitor and review the work performed by those who handle moneys as part of their fire 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 your fire district's financial operations.

The ideal situation would be to employ sufficient staff so that duties are properly segregated. However, because of the economics involved, the hiring of additional staff to adequately segregate duties may not be a feasible solution. This is where Board members need to become involved to help ensure that sufficient oversight they are providing over the district's financial operations. The internal audit function is an important step in the oversight process.

II. THE INTERNAL AUDIT PROCESS

The Internal Audit Authority

Pursuant to Town Law, §177, at the annual organizational meeting, the treasurer shall:

- ◆ Account with the Board of Fire Commissioners for all moneys received and disbursed during the preceding fiscal year,
- ◆ File a detailed statement in writing of the receipts and disbursements of the preceding year, and
- ◆ Produce all books, records, receipts, orders, vouchers, and cancelled checks (or check images).

In addition, the Board of Fire Commissioners may require the treasurer to produce his/her books, records, receipts, orders, vouchers, and cancelled checks (or check images) for examination at any time.

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What is an Audit?

In this context, an audit is:

- ◆ A formal or official examination and verification of an account book, and
- ◆ A methodical examination and review.

What is the Purpose of an Audit?

An audit provides assurance that public moneys are handled properly (e.g., timely deposit of moneys received, transactions recorded properly, accountability maintained); identifies conditions that need improvement; and provide some oversight and review into the financial operations of every officer and employee who receives moneys as part of their official fire district duties. At a minimum, an internal audit allows the Board of Fire Commissioners to assess operations.

The Board of Fire Commissioners should not assume that the treasurer needs no oversight or review of the work he or she performs. Because the Board is responsible for the general management and control of fire district finances, it needs to exercise oversight and review of the financial operations of the district.

Who is Responsible for Performing the Internal Audit?

Generally, the Board of Fire Commissioners is responsible for performing the internal audit.

Important Concerns in the Internal Audit/Oversight Process

Bank Accounts and Reconciliations

Are bank reconciliations being performed, are they done currently and are these reconciliations documented and available for review?

- ◆ Does the adjusted bank balance (cash in bank, adjusted for outstanding checks and deposits in transit) agree with a book cash record?
- ◆ Who reconciles the bank accounts and how often?
- ◆ Does anyone verify the reconciliations?

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Receipts and Disbursements

- ◆ Are moneys being deposited timely and intact, (e.g., in the same monetary form as received)?
- ◆ Are payments properly authorized, accounted for (recorded in the records) and supported by appropriate documentation?
- ◆ Are receipts for the year comparable with those of the previous year(s)? Do the receipts appear to be reasonable for the size of the operation in comparison with other years? Are major variations explainable?

Records

- ◆ Are records (ledgers, cash books, etc.) posted and up-to-date?
- ◆ Are transactions properly recorded?
- ◆ Are the records neat and orderly?
- ◆ Are records maintained in detail to support control account balances?

Reports

- ◆ Are periodic financial reports, and the Annual Update Document to the State Comptroller, prepared and submitted in a timely manner?
- ◆ Do the reports agree with the records?

Other

- ◆ What kinds of receipts/disbursements would you expect to reasonably find?
- ◆ Is there any oversight provided during the year of the work performed by the treasurer? If there is an individual helping the treasurer, does the treasurer review the work of the assistant?
- ◆ Is there any discussion of duties for internal control purposes?
- ◆ Are there significant safeguards for the protection of records and cash, such as a safe or locked file cabinet, offices with locks on the doors, regular deposits of cash, etc.?

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What should Board Members do if they have concerns about treasurer's records?

If Commissioners have concerns during the review of the treasurer's records, they should discuss them with the treasurer to try to get an explanation. If the Board still has concerns, the Board should contact our Office for further guidance. Someone from our staff will provide on-site assistance to assess the situation if it is warranted.

Cooperation

The internal audit of the treasurer's financial records is a process by which the board exercises its responsibility of general management and control of fire district finances. In order for this process to occur in a smooth and timely manner, there must be cooperation between the treasurer, others assisting the treasurer if applicable, and the Board of Fire Commissioners.

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III. TREASURER'S FINANCE RELATED DUTIES - AN OVERVIEW

The treasurer serves as the fiscal officer of the fire district. Some of the finance-related duties and responsibilities of the treasurer include:

- ◆ Receiving and having custody of moneys belonging to or due to the district (Town Law, §177);
- ◆ Issuing receipts for moneys received (cash, checks and money orders) if there is no other evidence satisfactory for audit (General Municipal Law (GML), §99-b);
- ◆ Depositing all moneys into the official district bank account within 10 days after receipt (§177). However, for security purposes, moneys received should be deposited as soon as possible after receipt. More frequent deposits, even daily, are recommended when amounts received are significant and are in the form of cash;
- ◆ Maintaining a proper record of all fire district investments (GML, (§11));
- ◆ Maintaining a record of each issue of bonds and notes when designated to do so by the finance board (Local Finance Law (LFL), §163.00);
- ◆ Except as otherwise provided by law, disbursing moneys on order (resolution) of the board of Fire Commissioners (Town Law, §177);
- ◆ Disbursing moneys by checks payable to person entitled thereto (Town Law, §177), except for petty cash expenditures (Town Law, §176(4-c));
- ◆ Temporarily investing idle moneys when authorized by the board of fire commissioners (GML, §§11, 6-g; LFL, §165.00);
- ◆ Preparing an Annual Update Document within 60 days after the close of the fiscal year and filing the report with the State Comptroller (GML, §30). Also, preparing and filing a financial statement detailing the receipts and expenditures of the district in the office of the town clerk of each town in which any part of the fire district is located (Town Law, (§181(3)));
- ◆ At the district's annual organizational meeting, accounting to the Board of Fire Commissioners for all moneys received and disbursed during the preceding year and producing all books, records, receipts, orders, vouchers, and cancelled checks (or check images);

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- ◆ Filing a detailed statement in writing of the receipts and disbursements of the preceding year at the annual organizational meeting. However, if authorized by resolution of the Board of Fire Commissioners, a copy of the Annual Update Document to the State Comptroller may be substituted for the detailed statement and submitted to the Board within 60 days of the end of the fiscal year (Town Law, §177);
- ◆ At any time, upon request of the Board of Fire Commissioners, producing for examination books, records, receipts, orders, vouchers, and cancelled checks (Town Law, §177);
- ◆ Presenting a list of expenditures from the petty cash fund, if any, for audit at each meeting of the Commissioners (Town Law, §176(4-c)); and
- ◆ Preparing a debt statement and filing it with the State Comptroller and the fire district secretary prior to the public sale of bonds. The debt statement must show the district's debt contracting power and the amount of obligations proposed to be sold. Debt statement forms are furnished by the State Comptroller (LFL, §§109.00, 132.00, 141.00).

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IV. CHECKLIST FOR REVIEW OF TREASURER'S RECORDS

Determine the types of funds in use and if separate cash receipt and disbursement books are maintained for the various funds or if a single cash receipt and single cash disbursement book are maintained. The following checklist can be used for each fund maintained.

<u>Cash Receipts Book</u>	<u>YES</u>	<u>NO</u>
◆ Is the cash receipts book maintained up-to-date?	<input type="checkbox"/>	<input type="checkbox"/>
◆ Is the cash receipts book maintained in a manner to identify date received, payor, purpose and the amount (either individually or totals referenced to subsidiary receipt records e.g., real property taxes)?	<input type="checkbox"/>	<input type="checkbox"/>
◆ Are deposits identified?	<input type="checkbox"/>	<input type="checkbox"/>
◆ Are duplicate deposit slips kept?	<input type="checkbox"/>	<input type="checkbox"/>
◆ Do deposit amounts agree with cash receipt amounts?	<input type="checkbox"/>	<input type="checkbox"/>
◆ Are deposits made timely?	<input type="checkbox"/>	<input type="checkbox"/>
◆ Are deposits recorded up-to-date?	<input type="checkbox"/>	<input type="checkbox"/>
<i>Last Recorded Deposit:</i>		
<i>Date</i>	_____	_____
<i>Amount</i>		
◆ Is the receipt book totaled and summarized at the end of each month?	<input type="checkbox"/>	<input type="checkbox"/>

<u>Cash Disbursements Book</u>	<u>YES</u>	<u>NO</u>
◆ Is a cash disbursements book maintained up-to-date?	<input type="checkbox"/>	<input type="checkbox"/>
◆ Is the cash disbursements book maintained in a manner to identify amounts disbursed, either individually or totals referenced to abstracts, payrolls?	<input type="checkbox"/>	<input type="checkbox"/>
◆ Are pre-numbered checks used for all disbursements other than petty cash?	<input type="checkbox"/>	<input type="checkbox"/>
◆ Are all checks signed by the treasurer?	<input type="checkbox"/>	<input type="checkbox"/>

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Indebtedness Records

YES NO

- ◆ Is an indebtedness register maintained?
- ◆ Is the register complete and up-to-date?

Property Records

YES NO

- ◆ Are property records (inventories of fixed assets, such as equipment) maintained?
- ◆ Are the records up to date?
- ◆ Are all fixed assets included in the records?
- ◆ Are physical inventories taken and compared to the records?

Interim Financial Reports

YES NO

- ◆ Are interim reports prepared (budget/actual, trial balances, etc.)?
- ◆ Are the reports distributed to the Board?

Payrolls

YES NO N/A

- ◆ If you have department heads, are payrolls approved by the department heads?
- ◆ Are pay rates in accordance with union contracts or board resolution (if applicable)?
- ◆ Is leave time accounted for (if applicable)?

Overall Evaluation
