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November 22, 2013

Sandra VanValkenburgh, Chairperson
Members of the Board of Fire Commissioners
Summit Fire District
1566 Charlotte Valley Road
Summit, NY 12175

Report Number: 2013M-264

Dear Ms. VanValkenburgh and Members of the Board of Fire Commissioners:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage local government officials to reduce costs, improve service delivery and account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Summit Fire District (District) which addressed the following question:

- Are District controls adequate to ensure that financial activity is properly recorded and reported and that District moneys are safeguarded?

The results of our audit have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background and Methodology

The Summit Fire District is a district corporation of the State, distinct and separate from the Town of Summit, and is located in Schoharie County. The District's general fund budget totaled \$127,000 for the 2013 fiscal year.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The Board appoints a Treasurer who acts as the District's chief fiscal officer. The Treasurer is responsible for receiving and maintaining custody of District funds, disbursing and accounting for those funds, preparing monthly and annual financial reports and meeting any other reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2012, to July 26, 2013. We interviewed appropriate District officials and reviewed financial records and Board minutes. We conducted this performance audit in accordance with 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.

Audit Results

The Board is responsible for overseeing the District's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls consisting of policies and procedures that ensure transactions are authorized and properly recorded; that financial reports are accurate, reliable and filed in a timely manner; and that the District complies with applicable laws, rules and regulations.

The Treasurer must maintain complete, accurate and timely records to properly account for all of the District's financial activities. The Treasurer should prepare and submit monthly reports to the Board and is required to prepare and submit an annual financial report of the District's financial condition to the Office of the State Comptroller within 60 days after the close of the fiscal year. This report 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 activities. The Board is also responsible for performing a thorough audit of claims before they are paid to ensure that District funds are used for only legitimate District expenditures.

The District does not have adequate financial policies and procedures. The Board has not adopted purchasing, investment or code of ethics policies, as required by statute.

We found that, while the Board generally provided adequate oversight over cash disbursed from the general fund, it did not provide the same oversight over cash disbursed from the District's building reserve account. For example, the Board did not review or approve any disbursements being made out of this checking account; it allowed the Treasurer to generate, sign and disburse checks with little to no oversight. While the Treasurer maintained a file that contained the bank statements, vendor invoices and copies of disbursement checks from the building reserve account, the Treasurer did not provide this file to the Board for its review. We also found that the Board did not audit claims from this account, because the Treasurer did not prepare claim vouchers for the Board's review prior to moneys being disbursed from the account. Furthermore, the Treasurer did not prepare monthly bank reconciliations for the building reserve account activity, but submitted monthly financial reports to the Board and filed the required annual financial report with the Office of State Comptroller.

We captured bank statement activity for all disbursements, totaling \$261,551, from February 2011¹ through June 2013. We reviewed bank statements, vendor invoices and copies of checks for the building reserve account. We traced all 27 checks totaling \$48,247 that cleared the bank, according to the 2012 bank statements, to the manual check ledger, computerized accounting

¹ Bank account was opened in February 2011

records and check images. Based on the payee names on the disbursement checks, the payments were made to vendors the District normally does business with; however, since the Treasurer did not prepare claim vouchers with supporting documentation to be approved by the Board, we could not be certain that the disbursements were for legitimate District expenditures. Disbursing District funds without proper Board oversight does not adequately safeguard District moneys and could result in District funds being misappropriated.

Recommendations

1. The Board should adopt a procurement policy, investment policy and code of ethics, as required by statute. The Board also should review these policies at least on an annual basis and update them as necessary.
2. The Board should ensure that all disbursements follow the established review and approval procedures currently being followed for general fund disbursements.
3. The Board should require that the Treasurer complete monthly bank reconciliations for all District bank accounts. The reconciliations should be presented to the Board for review, along with the supporting bank statement and images of the fronts and backs of canceled checks.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the 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. The Board should make the CAP available for public review in the Secretary's office.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.

The Summit Fire District
P.O. Box 10, Summit, NY 12175
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November 12, 2013

H. Todd Eames
Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear Sir:

With reference to the recent audit of the Summit Fire Department and recommendations made to us by your staff, be advised that at last evening's meeting, the Board undertook steps to adopt a procurement policy, an investment policy and a code of ethics. These documents will be brought up for a final vote at our December 2013 meeting and are expected to be approved.

The Board has adopted as a procedure, and instructed the Treasurer that all disbursements shall follow the same established review and approval procedures which are currently followed for general fund disbursements.

The Board has further instructed the Treasurer to complete monthly bank reconciliations for all district bank accounts and present them to the Board for review along with the bank statements and images of both front and backs of canceled checks.

Should you require any additional information or documentation, please feel free to call.

Sincerely,

Sandra-Lynn Van Valkenburgh
Chairman, Board of Fire Commissioners