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September 26, 2014

Ronald Berti, Chairman
Members of the Board of Commissioners
Averill Park No. 2 Fire District
35 Eastern Union Turnpike
P.O. Box 116
Averill Park, NY 12018

Report Number: 2014M-183

Dear Chairman Berti and Members of the Board of Commissioners:

The Office of the State Comptroller (OSC) works to identify areas where fire district 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 fire district 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 Averill Park No. 2 Fire District (District) which addressed the following question:

- Did the Board of Fire Commissioners (Board) establish adequate controls to ensure that financial activity is properly recorded and reported and that District money is adequately safeguarded?

We discussed the findings and recommendation with District officials and considered their comments in preparing this report. The District's response is attached to this report in Appendix A. District officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town of Sand Lake and is located in Rensselaer County. The District covers approximately 12 square miles and serves

about 3,500 residents. The District's 2014 general fund budget totals \$555,869 and is funded primarily by real property taxes.

The Board consists of five elected members and is responsible for the District's overall financial management. The Board appoints a part-time Treasurer-Secretary (Treasurer) who is responsible for the District's financial duties, which include receiving and disbursing funds, maintaining accounting records, 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, 2013 through March 31, 2014. We interviewed District officials and reviewed Board minutes, District policies and financial records. We conducted this performance audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence which provides 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, which consists of policies and procedures that help ensure financial transactions are authorized and properly recorded; 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 submit an annual financial report of the District's financial condition to OSC within 60 days after the close of the fiscal year. This annual financial 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. In addition, fire districts with annual revenues of \$300,000 or more are required by law to obtain an annual independent audit of their records.

The Board needs to improve controls over the District's financial activities. The Board did not establish all of the adequate controls needed to ensure that financial activity is properly reported. The Treasurer maintained proper records which were summarized in monthly reports provided to the Board. However, the Board did not ensure that annual financial reports were submitted to OSC in a timely manner or that the required annual independent audit was performed. As a result, District officials are missing important tools to aid in making effective financial decisions.

The Treasurer maintains financial information using an electronic spreadsheet application to record the District's financial activities and prepare financial reports. The Treasurer also prepares

and makes bank deposits; prepares, signs,¹ and mails checks for payments to vendors; and performs bank reconciliations. At the monthly Board meetings, he provides detailed comprehensive financial information to the Board. This financial information includes bank reconciliations and bank statements, year-to-date budget-to-actual revenue and expenditure comparisons, reserve account activity, cash receipts and disbursements activity, proposed and finalized claim warrants, budget amendments, budget transfers and fuel use records. The bank reconciliations are reviewed and signed by a designated Board member and the Board as a whole votes to accept the Treasurer's monthly report. Additionally, the Board minutes reflect discussions held about other financial matters such as reconciling vendor accounts; approving warrants, budget transfers and amendments; monitoring utility bills; approving purchase requests; and reviewing bid documents and quotes received. Annually, the Treasurer prepares an end-of-year fiscal report that is submitted to the Board for review.

We examined the Treasurer's books and records and found that, overall, the books and records were adequately maintained and the monthly financial reporting was properly prepared. We then reviewed three months² of financial transactions. We traced the items listed on the Treasurer's monthly reports to the supporting documentation and found that cash receipts totaling \$605,644 were adequately supported and recorded. Budget amendments and transfers totaling \$638,346 were authorized by the Board and information presented on the warrants totaling \$48,720 agreed with the bank statements and canceled check images. Additionally, the information reflected on the bank statements agreed with Board-approved warrants and the accounting records.

Based on our examination, it appears that District money is adequately safeguarded. However, despite maintaining comprehensive, accurate and timely records, the Treasurer did not file the District's 2012 annual financial report with OSC until April 13, 2014, or 347 days late. Furthermore, although the Treasurer obtained an extension to file the 2013 annual financial report, this report was not submitted as of the end of our field work.³ The Treasurer told us he believed he submitted the 2012 report in the spring of 2013 after obtaining an extension. The Treasurer further stated he did not file the 2013 report because he was not sure how to account for bond refinancing in the report. District officials stated that they assumed the 2012 report was filed and therefore did not follow up with the Treasurer to verify whether the report was submitted on time.

District officials used a request for proposal process in March 2013 to award the contract for auditing the District's 2012 and 2013 financial statements. However, the audits have not been performed as of the end of our field work. Additionally, the Treasurer did not follow up with the accounting firm to verify when the audit would be performed. The Chairman stated that the Board should have better prioritized obtaining the independent audit and exercised appropriate oversight to ensure the audit would be performed in a timely manner. In January 2014, because the Board recognized a need for assistance with the District's financial reporting, it created the position of

¹ Checks over \$1,000 require the additional signature of a Board member.

² We judgmentally selected the month of March 2013 and randomly selected the months of June and September 2013 Treasurer's reports for examination.

³ Our last day of field work was May 25, 2014.

Deputy Treasurer and appointed a former Board member to that position to assist the Treasurer with his financial duties. District officials also stated that they recently engaged the accounting firm to conduct the 2012 and 2013 independent audits.

Recommendations

The Board should:

1. Ensure that the Treasurer completes and submits the annual financial reports with OSC in a timely manner each year.
2. Ensure that the required independent audit is performed each year.

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 should be prepared and forwarded to our office within 90 days. 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.

We thank the officials of the Averill Park No. 2 Fire District, Inc. for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

AVERILL PARK - SAND LAKE FIRE DISTRICT No. 2
Board of Fire Commissioners
Box 116
Averill Park, N.Y. 12018

September 9, 2014

Gabriel F. Deyo, Deputy Comptroller
Office of the State Comptroller
Division of Local Government & School Accountability
PSU - CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

RE: Comments on OSC Audit Report #2014M-183 and Corrective Action Report

Dear Deputy Comptroller Deyo:

The following represents comments and a Corrective Action Report submitted on behalf of the Board of Fire Commissioners for the Averill Park Sand Lake Fire District # 2,

The Board agrees with the audit's finding that the Board did not exercise sufficient oversight to prevent the late filing of the required annual financial reports with the OSC. As noted in the Audit Report, it is a matter of record that the 2012 Audit was filed electronically filed by the Treasurer, however, for whatever reason it was not received by the OSC. Similarly, the 2013 audit was delayed because of the need for the Treasurer to seek guidance and secure clarification on how to properly account for the bond refinancing which saved the District's Taxpayers over \$200,000.00.

The OSC audit reports states that the District's 2012 and 2013 Independent Audit reports had not been received by the Board by the end of the OSC's fieldwork, May 25, 2014. Please be advised that those reports were received by the Board in August 2014.

The Board agrees with the audit's finding that the Treasurer's monthly report and his books and records are properly prepared and maintained.

The Board agrees with the audit's finding that the District's money is properly safeguarded.

Corrective Action Plan

Starting in 2012, the OSC has mandated that Fire Districts file annual financial reports with them. These reports are lengthy and detailed. In the Fall of 2013 the Board recognized a need for assistance to the Treasurer as the position has grown over the years from its original scope and detail.

The Board created the position of Deputy Treasurer and filled it with a 22 year former Board veteran. It is critical that it be recognized that without outside prompting the Board not only diagnosed a potential financial reporting deficiency, but, acting unilaterally, added a seasoned individual with sufficient authority to assist the Treasurer in all aspects of his assigned tasks, including, but not limited to, assisting in the timely filing of annual OSC financial reports and the required annual independent audit.

Simultaneously, the Board will continue to exercise its required oversight by the creation of a Treasurer's yearly timeline for audit reporting.

This response was approved by the Board of Fire Commissioners at its September 9, 2014 meeting.

Sincerely,

Ronald E. Berti
Chairman