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February 21, 2014

Raymond Fagel, Chairman
Members of the Board of Fire Commissioners
Rotterdam Princetown No. 5 Fire District
144 Dunnsville Road
Rotterdam, NY 12306

Report Number: 2013M-372

Dear Mr. Fagel and Members of the Board of Fire Commissioners:

The Office of the State Comptroller works to identify areas where fire district officials can improve their operations and provide guidance and services that will assist them in making 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 to account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Rotterdam Princetown No. 5 Fire District (District) which addressed the following question:

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

The results of our audit and recommendations 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 District is a district corporation of the State, distinct and separate from the Towns of Rotterdam and Princetown, in Schenectady County, and the Town of Guilderland in Albany County. The District's budget totaled \$330,888 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.¹ The Treasurer is responsible for receiving and maintaining custody

¹ The Board appointed the current Treasurer in January 2013. The prior Treasurer served for the 2008 through 2012 fiscal years.

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 through August 31, 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, which consists of policies and procedures that ensure transactions are authorized, periodic financial information is provided to the Board 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. Additionally, the Treasurer should prepare and submit monthly reports to the Board and is required to prepare and submit the annual update document (AUD) of the District's financial condition to the Office of the State Comptroller within 60 days after the close of the fiscal year.² 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 has not established adequate policies and procedures to ensure that the Treasurer prepares monthly bank reconciliations. We found that, while the Board established some controls, they lacked some key components to ensure that financial activity was properly recorded and reported to safeguard District moneys. Specifically, both the former and current Treasurer filed the District's AUDs late for the past five years and they failed to complete monthly bank reconciliations.

The former Treasurer filed the District's AUDs in an untimely manner for the 2008 through 2011 fiscal years. The AUD was submitted 585, 612, 286 and 279 days after the due date for the 2008 through 2011 fiscal years, respectively, for an average of 441 days late each year.³ For the 2012 fiscal year, the AUD was filed 41 days late. The current Treasurer used a consultant to assist him with completing and submitting the 2012 AUD. The former Treasurer did not maintain formal records to account for revenues and expenditures; instead, the District's financial activity was accounted for in a check book register. As a result, the former Treasurer did not have the necessary financial information to file the District's AUD in a timely manner. Without timely AUDs, the Board cannot adequately monitor the District's financial operations; annual amounts of revenues and expenditures are unavailable for the Board's consideration when developing annual budget estimates; and a summary of the District's annual financial operations is unavailable to the public.

² Additionally, the District can request a 60-day extension to file its AUD.

³ These filing dates assume that the District filed for an extension to file its AUD.

The Treasurer prepares and provides to the Board a monthly report that consists of a listing of all expenditures for the month and a book balance for the District's five bank accounts. He maintains accounting records in a computerized spreadsheet application, which is used to prepare monthly budget to actual reports for the Board's review. In addition, the Treasurer maintains bids and quotes for purchases according to District procurement policy. We found the current Treasurer's reports were accurate and adequate;⁴ however, the Treasurer did not prepare bank reconciliations. According to the Chairman and another Commissioner, the Board is satisfied with the monthly report it receives and does not require the Treasurer to complete bank reconciliations, because Board members open all bank statements. However, Board members only opening the bank statements does not mitigate the risk associated with the lack of bank reconciliations. Without bank reconciliations, the Board does not have assurance that the District's cash is adequately accounted for and reconciles between the Treasurer's records and the bank accounts.

As a result of the Treasurer's failure to prepare monthly bank reconciliations, we prepared bank reconciliations as of December 31, 2012 and August 31, 2013 and noted no material discrepancies. Even though we found no discrepancies with our testing, without monthly bank reconciliations, the Board cannot adequately oversee and monitor the District's cash balances and financial operations, or determine whether there are any differences between the bank statements and the Treasurer's records.

Recommendations

1. The Treasurer should prepare monthly bank reconciliations and the Board should regularly review the bank reconciliations.
2. The Treasurer should prepare and file the District's AUD with OSC within 60 days of the close of the fiscal 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 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.

Thank you for the courtesies extended to our staff during this audit.

Sincerely,

Gabriel F. Deyo

⁴ We traced the monthly Treasurer reports to the District's checkbook and judgmentally selected and traced 25 disbursements totaling \$143,688 to the checkbook.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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FIRE DISTRICT No. 5

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February 17, 2014

[REDACTED]
Office Of The NYS Comptroller
One Broad Street Plaza
Glens Falls, NY 12801

RE: Response to the Draft Audit Report of the Rotterdam-Princetown Fire District No. 5

Dear [REDACTED]

Please accept this letter as the response of the Board of Fire Commissioners to the NYS Draft Audit Report presented by representatives of the NYS Office of the Comptroller.

The Board of Fire Commissioners has reviewed the draft report and has taken immediate action during the audit process to improve financial reporting for the Fire District. The Secretary-Treasurer has worked with the Board to implement and improve financial reporting procedures, including meeting the recommendations as set forth in the audit report.

In answer to the recommendations, the Board of Fire Commissioners has instructed the Treasurer to take the following actions:

First issue: Reconciliation of the checking account bank statements on a monthly basis. Even though the treasurer was completing reconciliation on a monthly basis in the past, it was not done to acceptable standards.

In the future, written checks which have not cleared the bank, will be listed by date, business name and check number, and are balanced against the banking statement, to insure the bank statement and check book are balanced and equal. A written reconciliation report will be given at the monthly board meeting.

This procedure has actually been implemented since the state auditor made the recommendation during the audit process.

Second issue: The annual NYS AUD was not completed in a timely manner. The district has hired a consultant to assist in completing the annual AUD report and sending it to the state within 60 days of the close, of the fiscal year. In fact, the report was completed on line and has been sent to OSC prior to filing this response.

The Board of Fire Commissioners appreciates the time and efforts the Comptroller's Office has expended reviewing the financial operation of the district, and offering suggestions on making improvements. The board is dedicated to maintaining control and overseeing the financial operations of the Fire District. In addition to answering the recommendations by the Comptroller's Office in the draft report, the Board will begin a process to update various policies as they relate to the administration and finances of the Fire District.

Sincerely,

Ray Fagel
Chairperson
Board of Fire Commissioner