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September 5, 2014

Richard Mathy, Chairman
Members of the Board of Fire Commissioners
Sauquoit Fire District No. 1
3040 Mohawk Street
Sauquoit, NY 13456

Report Number: 2014M-178

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

The Office of the State Comptroller works 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 Sauquoit Fire District No. 1 (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?

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 indicated they planned to initiate corrective action.

Background and Methodology

The Sauquoit Fire District No. 1 (District) is a district corporation of the State, distinct and separate from the Town of Paris, in Oneida County. The District's general fund budget totals \$111,698 for the 2014 fiscal year and is primarily funded through property tax revenue.

The District is governed by a five-member Board of Commissioners (Board) that is responsible for the District's overall financial management. The District has an elected Treasurer who is responsible for the District's financial activities, which include receiving and disbursing funds, maintaining accounting records, preparing monthly financial reports and meeting other reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2013 through February 28, 2014. 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 that include 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 Board needs to improve its oversight of the District's financial activities. The Board did not ensure that complete accounting records were maintained, that bank reconciliations were performed, that its annual financial report (AUD) was prepared and filed in a timely manner and that an annual audit of the Treasurer's records was performed. As a result, the Board does not have adequate assurance that cash has been properly accounted for. In addition, the Board, the Office of the State Comptroller (OSC) and District residents are deprived of a tool to monitor District operations. In addition, the Board has not adopted a budget in the format prescribed by OSC or followed the statutory requirements for adopting the budget and computing the tax levy limit. Finally, it may have levied taxes in excess of what was needed.

Records and Reports — The Treasurer is responsible for maintaining complete and accurate accounting records and for reconciling the District's accounting records to bank statements on a monthly basis. The Treasurer is also responsible for preparing and submitting the AUD to OSC within 60 days after the close of the fiscal year, as required by New York State General Municipal Law (GML). 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 activities. The Board could also consider providing additional oversight by conducting an annual audit of the Treasurer's financial records or hiring an external auditor to conduct an audit.

The Treasurer maintained a manual list of checks written from the general fund checking account and provided the Board with monthly budget-to-actual expenditure reports, along with bank statements and canceled check images. However, the Treasurer did not have complete records because she did not record deposits or maintain general ledger cash balances. As a result, the Treasurer could not prepare monthly bank reconciliations for any of the District's five bank accounts.¹ The District contracts with a certified public accountant to prepare and file the District's AUD. However the 2013 AUD,² which was due March 1, 2014, had not been filed. Prior year

¹ General fund checking account, general fund savings account and three (equipment, truck and repair) reserve accounts

² As of the end of our onsite fieldwork on April 10, 2014, the 2013 AUD was 40 days past the due date and had not yet been filed.

reports were also filed late. The District's 2010 report was 1,007 days late, the 2011 report was 649 days late and the 2012 report was 311 days late. In addition, the Board has not caused an audit of the books and records of the Treasurer.

Due to these weaknesses, we reviewed all 2013 bank statements and related transactions. In 2013, the District made 92 check disbursements, totaling \$70,403, which we reviewed for proper authorization and support, and 22 bank transfers, totaling \$118,026, which we verified were made among District bank accounts. We also verified that revenues, totaling \$110,484, were deposited to proper District accounts. We found minor deficiencies that we discussed with officials. Without maintaining adequate accounting records, including bank reconciliations, timely AUDs and audits of the Treasurer's books and records, the Board does not have the information to properly manage and monitor the District's finances, and District taxpayers cannot have reasonable assurance that District funds are accounted for properly. In addition, by failing to timely report to OSC, the District is not complying with GML.

Budget Process — The District's annual budget should be in the form prescribed by OSC showing the proposed appropriations and estimated revenues, estimated fund balances including amounts appropriated for the ensuing year's budget, amounts reserved for stated purposes pursuant to law and estimated fund balance. The budget document should consist of four columns, including financial activity from the most recently completed fiscal year, the current year's budget including all amendments to date, the ensuing year's preliminary budget and the ensuing year's adopted budget. The Board must adopt a proposed budget, make the proposed budget available to the public prior to holding a public hearing, hold a public hearing on the proposed budget, allow the public to comment on the proposed budget and then formally adopt the annual budget by Board resolution by the required date. Recent legislation has required that, prior to adopting the annual budget, fire districts must first calculate a real property tax levy limit which cannot be exceeded without the Board first passing an override resolution.³

The District's budgets for 2013 and 2014 were not presented in the prescribed format. The budgets showed only the proposed appropriations and estimated revenues. They did not include columns comparing the previous year's completed financial activity with the current year's modified budget and the ensuing year's preliminary budget. Additionally, the budgets did not contain estimated fund balance or reserve balances. As a result, the Board failed to provide taxpayers with complete and consistent budget information. Further, as of December 31, 2013, unassigned fund balance (cash in the bank) totaled approximately \$115,651 (or 104 percent of next year's budgeted appropriations of \$111,698) and reserves totaled \$320,680. When fund balance is kept at excessively high levels, money that could benefit District taxpayers is not being used, thereby placing an unnecessary burden on taxpayers.

We found no evidence in the 2013 minutes or elsewhere that the Board conducted a public hearing or formerly adopted the 2014 budget. In addition, the Board did not require the Treasurer to calculate the District's statutory property tax levy limit prior to adopting the budget. We found that the District's proposed 2014 tax levy exceeded the statutory limit by approximately \$1,144.

³ In 2011, the State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap, that restricts the amount of property taxes local governments can levy. Under this legislation, the property tax levied annually by local governments generally cannot increase more than 2 percent or the rate of inflation, whichever is lower, with some exceptions. Local governments are permitted to override the levy limit if certain actions are taken. The law became effective for fiscal years that begin in 2012.

Because the Board had not passed a resolution to override the statutory tax levy limit, as required by law, the District must place the excess amount (\$1,144) in a separate reserve bank account and use the excess, and any interest earned, to reduce the tax levy for the 2015 fiscal year.

Recommendations

The Board should:

1. Ensure that the Treasurer maintains adequate accounting records, including deposits and general ledger balances, and reconciles bank accounts monthly. Bank reconciliations should be presented to the Board monthly.
2. Ensure that the Treasurer files its AUD with the State Comptroller within 60 days after the close of the fiscal year.
3. Cause an annual audit of the Treasurer's financial records and document the results in the minutes.
4. Prepare the budget in the form prescribed by the State Comptroller, conduct a public hearing for the budget and formally adopt the budget.
5. Require the Treasurer to calculate the District's statutory tax limit.
6. Develop a plan to reduce the amount of fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to, using surplus funds as a financing source to reduce real property taxes, increasing necessary reserves or funding one-time expenditures.
7. Ensure that the Treasurer records the excess tax levy of \$1,144 in a reserve and deposits this amount in a separate District bank account. The excess funds, including any interest, should be used to reduce the tax levy for the 2015 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.

We thank the officials and staff of the Sauquoit Fire District No. 1 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.

Sauquoit Fire District #1
P.O. Box 86
Sauquoit, NY 13456

September 3, 2014

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428
Attn: Rebecca Wilcox, Chief Examiner

Re: Sauquoit Fire District No. 1
Report No. 2014M-178

Dear Mrs. Wilcox:

Thank you for the phone call from your staff today concerning our response letter to New York State. When that letter was drafted, we did not put our response on District letterhead, and I did not sign the same as Fire District Commissioner, so please accept this letter as proof that the letter sent to your office by our attorney on August 15, 2014, represents the District's answer to the above named report, and I am signing this letter to confirm the same. If you require anything further in order to file said response, please do not hesitate to contact me.

Sincerely,

Richard Mathy, Commissioner

RM/pmq

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August 15, 2014

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428
Attn: Rebecca Wilcox, Chief Examiner

Re: Sauquoit Fire District No. 1
Report No. 2014M-178

Dear Mrs. Wilcox:

Please be advised that this law office has been retained to assist the Sauquoit Fire District with respect to compliance with the recent audit completed by your office. I am in receipt of the letter dated July 28, 2014, and the findings and recommendations contained within. I have enclosed a copy of said letter for your reference. After discussion of the same with the governing members of the Sauquoit Fire District, their response to the same is as follows:

The District agrees that several items contained within the "Audit Results" need to be addressed, and will work in conjunction with your office that the proper steps are taken to assure both parties that the Fire District is in complete compliance with the law. In particular, the Fire District agrees that a system needs to be put in place whereby the Board receives from the Treasurer both the deposits and the expenses on a monthly basis, so as a true accounting can be before the Board. The Board also agrees that it should have proof that the Treasurer has instituted a system of general ledger balances, and that the Board is provided with proof that the bank accounts have been reconciled each month.

As for the AUD, it is agreed that there was an issue beginning in 2010, which is the timeframe which the State changed its filing policy from paper to electronic format. The Treasurer attempted to put together the necessary materials to file the AUD, but was unable to do so. Once the Board was made aware that the Treasurer was unable to properly file the AUD's, it hired Vincent Gilroy, a local CPA, to file both the delinquent AUD's and all AUD's in the future. Mr. Gilroy was able to resolve the previous filing periods, and is now retained to file all AUD's in the future, so the Board believes that this issue has been dealt with properly and resolved.

With respect to the budget process, the board has no objection to modifying its budget process to assure that it is in compliance with the OSC. Your letter discusses a particular format in which your

office would like to see the formal budget look like in the future, and we have in our possession a copy of the format which the OSC would like to see all budgets look like in the future, so the Board will incorporate the same in to next's year's budget process. This budget will also include proof that the Treasurer has properly calculated the District's statutory tax limit. The Board will also ensure that proof of public hearings held to pass all future budgets will be documented in the Board's records.

With respect to the \$1,144.00 overage from the previous tax period, the Board will take the advice of the OSC and place said amount in a segregated bank account for the purpose of using the same to reduce the tax levy for the 2015 fiscal year.

The next step for the Board will be to meet and pass resolutions to have on record all of the changes discussed, and then work to providing the OSC with a CAP that will detail in fact how the District will implement the recommendations of the OSC. The District understands that this CAP is due by October 28, 2014, and will work towards providing the same to you by that date.

Thank you for your assistance in this matter, and if you have any other questions or concerns about how the District will be resolving the issues presented in your July 28, 2014, letter, please do not hesitate to contact me.

Sincerely,

COSENTINO, SNYDER & QUINN

Patrick M. Quinn

/pmq

Enc.