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July 2015

John Sanford, Chairman  
Members of the Board of Fire Commissioners  
Arkville Fire District  
43365 State Highway 28  
Arkville, New York 12406

Report Number: 2015M-65

Dear Mr. Sanford 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 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 Arkville Fire District (District) which addressed the following question:

- Did the Board of Fire Commissioners (Board) provide adequate oversight of the financial activity to safeguard District assets?

We discussed the findings and recommendations 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 agreed with our recommendations and indicated they have taken or plan to take corrective action.

### **Background and Methodology**

The District is a district corporation of the State, distinct and separate from the Town of Middletown, and is located in Delaware County. The District's general fund budget totals approximately \$35,000 for the 2015 fiscal year.

The Board consists of five members, including the Chairman, and is responsible for the District's overall financial management. The Board appoints a Treasurer who acts as the District's chief fiscal officer and 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 through December 31, 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 financial activities and safeguarding its assets. To fulfill this duty, it is essential that the Board establish policies and procedures that ensure transactions are authorized and properly recorded, that financial reports are accurate and reliable and that the District complies with applicable laws, rules and regulations, including the New York State General Municipal Law requirement that the District have a purchasing policy, code of ethics and an investment policy.

In addition, the Board should perform a thorough audit of claims before they are paid and periodically review bank reconciliations and bank statements and compare canceled check images to approved abstracts to ensure that District funds are used for only legitimate District expenditures. Finally, the Board should ensure that the Treasurer's monthly reports are accurate and conduct an annual audit of the Treasurer's financial records.<sup>1</sup>

The Board members believe they provide adequate oversight. However, they lack key procedures for the oversight of financial activity to safeguard District assets. The Board has not adopted a purchasing policy, code of ethics or an investment policy. The Treasurer does prepare bank reconciliations and submits detailed financial reports and abstracts of claims for payment to the Board on a monthly basis and the Board members do authorize all claims for payment as documented in the Board minutes monthly. However, the Board does not periodically review the bank reconciliations and bank statements or compare canceled check images to approved abstracts to verify that prior approved claims were in fact paid as directed.

Additionally, the Treasurer's monthly reports were not accurate reflections of the prior months' activities. The Treasurer was not consistently providing reconciled monthly reports with supporting bank statements and accounting record balances for the same period of time. For example, the beginning balance for the January 2015 monthly report for the general fund checking account did not match the bank balance because the Treasurer had used the bank activity from January 27, 2015 as the beginning balance, when in fact this balance accounted for almost four weeks of activity in January. Lastly, although the Board members were conducting an annual audit of the Treasurer's records, they were only briefly examining portions of the Treasurer's records and were not following the proper steps to provide a thorough audit. For example, they did not review deposits for timeliness or verify that the reconciled bank balance agreed with the cash balance recorded in the accounting records.

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<sup>1</sup> <http://www.osc.state.ny.us/localgov/firedist/internalauditprocess.pdf>

We reviewed all 55 check and electronic fund disbursements totaling almost \$25,700 for calendar year 2014. We also reviewed all 10 cash receipts totaling almost \$38,600 for calendar year 2014. We found all disbursements were for District purposes and were recorded and supported and all cash receipts were recorded by the Treasurer in the accounting records and were deposited in the District's bank account. However, control deficiencies expose the District to the risk that errors and irregularities could occur and not be detected and corrected in a timely manner.

### **Recommendations**

The Board should:

1. Adopt a purchasing policy, code of ethics and investment policy.
2. Periodically review bank reconciliations and bank statements and compare canceled check images to approved abstracts.
3. Conduct a thorough annual audit of the Treasurer's records.

The Treasurer should:

4. Present properly reconciled monthly reports with supporting bank statement and accounting record balances for the same period of time.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the New York State 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 of the Arkville Fire District for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo  
Deputy Comptroller

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# Arkville Fire District

P.O. Box 301  
Arkville, NY 12406

June 18, 2015

Office of the State Comptroller  
Binghamton Regional Office  
H. Todd Eames, Chief Examiner  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, New York 13901

Re:  
Arkville Fire District  
Report Number 2015M-65  
Audit response and corrective action plan

Dear Mr. Eames:

This letter will confirm that the Board of Commissioners is in receipt of the audit findings and recommendations and hereby submit its comments on the audit report following the exit conference. The Board has carefully reviewed the audit report and prepared a Corrective Action Plan. Please accept this letter as our response and corrective action plan. The Board views the audit report as an opportunity to review and improve upon our practices and procedures and we certainly intend to utilize this opportunity as such.

For each recommendation included in the audit report, the following is our response and corrective action taken or proposed.

1. The audit report recommends that the Board adopt a purchasing policy, code of ethics and investment policy. The Board is currently reviewing a purchasing policy, code of ethics and investment policy to adopt at a following meeting.
2. The audit report recommends to periodically review bank reconciliations, bank statements and compare canceled check images to approve abstracts. The Board will appoint a commissioner to review and compare bank statement and check images to approved abstracts at each meeting.
3. The audit report recommends an annual audit of Treasurer's records. The Board will review and perform an annual audit of the treasurer's records within 60 days of the end of their fiscal year.

4. The audit report recommends that the Treasurer present properly reconciled monthly reports with supporting bank statements and accounting record balances for the same period of time. The Board recommends that the Treasurer present reports to the Board of Commissioner at each meeting to be accurate and supported by bank statements and accounting records that will be reviewed by the Board.

Thank you for this opportunity to respond to your findings and recommendations.

Sincerely,

John J Sanford, Chairman  
Arkville Fire District