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Mark Walker, Chairman
Members of the Board of Fire Commissioners
Essex Fire District No. 2
1637 NYS Route 22
Essex, NY 12936

Report Number: 215M-167

Dear Mr. Walker and Members of the Board of Fire 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 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 Essex Fire District No. 2 (District) which addressed the following question:

- Are cash disbursements approved by the Board and properly recorded and reported by the Treasurer?

We discussed the findings and recommendation with District officials and considered their comments in preparing this report. District officials were also given an opportunity to respond within 30 days in writing to our findings and recommendations. We did not receive a written response within this time frame.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town Essex, in Essex County. The District's 2015 general fund budget appropriations totaled \$47,000 and are funded primarily with real property taxes.

The Board of Fire Commissioners (Board) is composed of five elected members and is responsible for the District's overall financial management. The Board appoints a Secretary/Treasurer (Treasurer) who is the District's chief fiscal officer. The Treasurer is responsible for the receipt, custody and accounting of District funds; disbursing funds to pay District bills; preparing monthly bank reconciliations; and preparing monthly and annual financial reports.

We examined internal controls over the District's cash disbursements from January 1, 2014 through April 30, 2015. 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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not our intent to project the results onto the entire population. Where applicable, information is presented concerning the value and size of the relevant population and the sample selected for examination.

Audit Results

The Board is responsible for establishing policies and procedures to ensure all payments are approved by the Board and for appropriate District purposes. Furthermore, New York State Town Law requires the Board to audit and approve all claims against the District.

The Treasurer, as chief fiscal officer, must ensure that cash is disbursed only after proper Board audit and approval of claims, disbursements are supported by appropriate documentation and District resources are used only for valid purposes. The Treasurer also must maintain complete and timely records to account for cash disbursements properly. The Treasurer should prepare, and the Board should review, bank account reconciliations on a monthly basis. The Treasurer should also prepare and submit monthly reports to the Board and an annual financial report of the District's financial condition to OSC within 60 days after the close of the fiscal year.

The Board does not provide adequate oversight of the District's cash disbursements. The Board has not adopted policies or procedures for cash disbursements. Furthermore, although the Board reviewed and approved each claim before the Treasurer made payments, the Board did not ensure that claims were supported by adequate documentation. The Treasurer did not maintain a ledger, checkbook register or other suitable record to account for cash disbursements and the balance of cash on hand. The Treasurer also did not prepare monthly bank reconciliations or reports, or prepare and file the District's annual reports with OSC for the past two years.

We reviewed all cash disbursements from January 1, 2014 through April 30, 2015. The Treasurer issued 91 checks totaling \$57,936 from the general checking account; however, four checks totaling \$418 were returned as duplicate payments. Of the remaining 87 checks, there were 12 checks totaling \$2,320 for which there was no invoice, statement, receipt or other form of supporting documentation.¹

Based on the vendors paid, the disbursements appeared to be for proper District purposes. However, the Board has not established procedures to ensure disbursements are properly audited and approved for payment, and the Treasurer does not maintain accounting records or prepare bank reconciliations or monthly Treasurer's reports. The Treasurer also has not filed the required annual

¹ One check totaling \$1,200 was to the Treasurer for her annual salary, four checks totaling \$343 were for phone bills or utilities, and seven checks totaling \$777 were for various District expenditures such as office supplies and association dues.

financial reports with OSC for the past two years. As a result, there is an increased risk that errors or irregularities could occur and not be detected and corrected in a timely manner. In addition, the Board's ability to provide oversight of cash disbursements and assess the District's financial condition and operations is negatively affected, and the District's taxpayers and other interested parties are prevented from having an annual accounting of the District's financial operations.

Recommendations

The Board should:

1. Adopt policies and procedures outlining the process when making disbursements; these procedures should require adequate supporting documentation for the Board's review when reviewing claims. The Board should not approve payments unless they are supported by appropriate documentation.
2. Require the Treasurer to prepare monthly bank account reconciliations and reports; the reconciliations should be included with the monthly reports presented to and reviewed by the Board.

The Treasurer should:

3. Maintain a disbursements journal or some other suitable record to adequately account for the financial transactions of the District.
4. Prepare and submit the District's annual financial report to OSC within 60 days of the end of the fiscal year.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of 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 Essex Fire District No. 2 for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller