



Forestburgh Fire District Financial Activities

Report of Examination

Period Covered:

October 1, 2013 — July 31, 2015

2015M-203



Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	3
FINANCIAL ACTIVITIES	4
Accounting Records and Reports	4
Disbursements and Payroll	5
Receipts	5
Recommendations	6
APPENDIX A Response From District Officials	7
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2015

Dear Fire District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Commissioners governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Forestburgh Fire District, entitled Financial Activities. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Forestburgh Fire District (District) is a district corporation of the State, distinct and separate from the Town of Forestburgh, in Sullivan County. The District's 2015 general fund budgeted appropriations total approximately \$191,000 and are funded primarily by real property taxes. The District also receives rental payments from the operator of a cellphone tower on its property. The District has six bank accounts which include two reserve bank accounts.

The Board of Fire Commissioners (Board) is composed of five¹ elected members and is responsible for the District's overall financial management and safeguarding its resources. The Treasurer is elected and also serves as the District's Secretary. The Treasurer acts as the District's chief fiscal officer and is responsible for the receipt and custody of District funds, disbursing and accounting for those funds, preparing monthly and annual financial reports and meeting any other reporting requirements. The Treasurer is also responsible for keeping a complete and accurate record of the proceedings of each Board meeting and all Board-adopted rules and regulations. Two Treasurers served during our audit period. The former Treasurer held the position from October 2013 through September 2014, and the current Treasurer started in October 2014.

Objective

The objective of our audit was to examine the District's financial activities. Our audit addressed the following related question:

- Did the Board provide adequate oversight of financial activities to safeguard District assets?

Scope and Methodology

We examined the internal controls over the District's financial operations for the period October 1, 2013 through July 31, 2015. We interviewed District officials and reviewed financial records and Board minutes.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

¹ One Board position is currently vacant.

**Comments of
District Officials and
Corrective Action**

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 that they have taken, or plan to take, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of New York State 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. 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 this plan available for public review in the Secretary's office.

Financial Activities

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 procedures that ensure transactions are authorized and properly recorded and that financial reports are accurate and reliable. The Board should provide oversight of the Treasurer by conducting an annual audit of her financial records.

While the Board did provide limited oversight, the accounting records were not adequate and there were numerous errors in the financial reports. Additionally, some payments made were not Board-approved, certain required payments were not made and most money was not deposited in a timely manner.

Accounting Records and Reports

The Treasurer, as chief fiscal officer, is responsible for performing basic accounting functions, including maintaining accounting records, providing monthly financial reports to the Board and filing the annual financial report with the Office of the State Comptroller. The accounting records and reports must be complete, accurate and current to be relevant and useful for managing District operations.

The only accounting records maintained are the budget-versus-actual report² and notations on check stubs of vendor, date and amount. Neither the former nor current Treasurer kept any type of accounting records detailing payroll and cash balances. Therefore, neither Treasurer could perform bank reconciliations. Moreover, the current Treasurer does not maintain any accounting records documenting all revenues received. The budget-versus-actual reports were not adequate because they did not report bank balances and did not include all of the revenues received and disbursements made. For example, the April 2015 report did not include \$37,800 in approved disbursements. Furthermore, the required annual financial report has not been filed with our office since 2012.

The current Treasurer told us that she is not maintaining all accounting records or submitting adequate reports because she is still learning her duties. The Board hired a certified public accountant to bring the accounting records up to date, file any necessary reports and provide training to the Treasurer. Without adequate accounting records and reports, the Board cannot make informed financial decisions and may have adopted budgets not reflective of actual needs.

² Documenting yearly budgeted amounts, expenditures by month, expenditures by category to date and amount remaining

Disbursements and Payroll

The Board has a responsibility to audit all claims (invoices) submitted to the District for payment. In addition, employees should be paid at Board-approved rates, and any withholdings from employees' paychecks should be reported to the proper agencies.

We reviewed 62 transactions totaling \$51,400 and determined that they were for proper District purposes. Although the Board properly audited 37 claims totaling \$44,800 prior to payment, we found that 26 disbursements totaling \$6,600³ were not Board-approved. The majority of these were electronic payments to utility vendors. Although the Board preapproved the payment of utilities, as noted in its reorganizational meeting minutes of January 14, 2014 and January 13, 2015, no one reviewed and approved the actual invoices.

Additionally, we tested 17 payroll checks totaling \$12,300 made to the Chief and Treasurers and found that all \$970 in tax withholdings were not remitted or reported to the New York State Department of Taxation and Finance and the Internal Revenue Service. Moreover, due to the lack of payroll accounting records, we could not determine if these employees were paid at Board-approved rates. Generally, the net amounts paid per the canceled checks seemed reasonable as compared to the budget.

Receipts

The Board should ensure that all receipts collected are deposited. In addition, New York State Town Law (law) requires cash collections to be deposited into the District's bank accounts within 10 business days of receipt.

We tested all the local cell tower rental revenues totaling \$31,900 and all the real property tax revenues totaling \$325,400 (a total of \$357,300 in revenues) and determined they were all deposited, with the exception of four local cell tower rental payments totaling \$5,800. The checks remitted by the owner of the cell tower, dating from April 2015, were onsite at the District and had not yet been deposited⁴ as of the end of our fieldwork (August 2015). Further, we found that 21 receipts totaling \$31,500 were deposited an average of 54 days⁵ from the dates of the checks.

The Treasurer performs all aspects of disbursements⁶ and receipts. Although the Board provides some oversight (by auditing the

³ This includes one disbursement to a vendor of more than the Board-approved amount.

⁴ After the conclusion of our fieldwork, we reviewed the August 2015 bank statements and verified these checks were deposited.

⁵ We allowed 13 days from the date of a check (10 per the law and three for mailing). The deposits ranged from 20 to 119 days late.

⁶ The Chairman countersigns the checks.

claims monthly) and one commissioner opens and reviews the bank statements, the Board does not perform the required annual audit which would be a more comprehensive review. District officials told us that the annual audit was not performed because the bookkeeping has not been up to date since 2013.

Without proper oversight, there could be disbursements made for non-District purposes or receipts collected that are not deposited. In addition, the District could be charged fees for not filing payroll reports in a timely manner. For example, because the District did not turn over payments to the New York State Unemployment Insurance⁷ office, it was initially assessed a \$2,000 fine (which was waived).

Recommendations

To fulfill its oversight responsibilities, the Board should:

1. Ensure that adequate accounting records are maintained, bank reconciliations are prepared and required reports are submitted.
2. Conduct a thorough annual audit of the Treasurer's records.
3. Audit all claims before payment, including preapproved utility payments.

The Treasurer should:

4. Maintain adequate accounting records that include payroll, all revenues and running cash balances.
5. Perform bank reconciliations.
6. Submit complete Board reports including budget-to-actuals.
7. Submit all required reports and remit appropriate payroll withholdings to external governmental agencies.
8. Deposit cash receipts in a timely manner.

⁷ A division of the New York State Department of Labor

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Forestburgh Fire District

Written Response to Draft Audit Report

Thank you for the opportunity to respond to the “Draft Audit Report”

As the Board reviews the Draft Audit Report, we recognize and appreciate the auditor’s notations that this Board has had two Treasurers in the past two years. Since the auditor’s only reviewed the period from October 2013 to July 2015, they would not have noted the fact that there were actually four Treasurers in the past four years. The Forestburgh Fire District is a very large district in geographic area, yet very small in population. Because the Treasurer must reside within the District, the search for a person with minimal accounting skills was extremely difficult. Our current Treasurer has agreed to obtain a level of training and expertise in accounting principles pertaining to Fire Districts, more specifically training in the use of ██████████ as an accounting program and the Board has agreed to provide same. That training has begun and will continue as long as needed. The Board has also hired a CPA to assist in that process and to ensure that all reports are completed appropriately and in a timely manner.

This District has never met the statutory financial threshold for annual audit by an outside CPA. The Board does recognize the need for such following four Treasurers in the same number of years. Again as we stated, a CPA has been retained for this purpose, and it is this Board’s intent to maintain the retention of a CPA.

In the audit process, auditors identified several payments made to vendors without Board approval. More specifically, the majority of these payments were for utility bills of which the Board has Authorized by Resolution to be paid when received to avoid late charges. The Board does acknowledge that formal vouchers were not always presented for review with all other bills and vouchers. This issue has already been changed and the Treasurer will prepare and present a voucher

including each monthly bill for all such payments. These payments are for Electric and Telephone bills only.

The auditors have identified issues regarding payroll disbursements and how checks and deductions were handled. The Board will be changing the way the Chief and Treasurer are compensated. Effective immediately any remuneration will be considered a stipend and a 1099 form will be prepared and issued at the end of the year. Our CPA has already corrected any past discrepancy with regard to tax deductions and reporting.

Auditors have identified an issue of untimely revenue deposits. The Treasurer is aware of the requirements and the Board will see that those requirements are met.

This Board recognizes and accepts the findings of the auditors and will take immediate action to correct any deficiencies noted in the "Draft Audit Report" We look forward to the full report for review and action as needed.

Respectfully,

(James E. Steinberg Sr., Chairman

Forestburgh Fire District

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and reviewed minutes to document District operations and gain an understanding of internal controls.
- We judgmentally selected the months of April 2014 and April 2015 to determine the accuracy of the budget-versus-actual reports for each of the treasurers. We selected the month of April to represent one complete monthly report for each year.
- We reviewed all eight disbursements totaling \$900 paid to the Chairman, Treasurer, Chief and Commissioners to determine if they were Board-approved, proper District expenditures and properly recorded and reported.
- We judgmentally selected the months of December 2013, June 2014, December 2014 and June 2015 and reviewed five utilities payments and six payments to vendors of office and personal-use products, totaling \$3,400, to determine if the expenditures were Board-approved, proper District expenditures and properly recorded and reported. We selected these months as the midpoint and endpoint of each fiscal year.
- We selected a random sample of 19 disbursements totaling \$41,000 to determine if they were Board-approved, proper District expenditures and properly recorded and reported.
- We reviewed all 24 electronic payments totaling \$5,800 to determine if they were Board-approved, proper District expenditures and properly recorded and reported.
- We reviewed all 17 payroll disbursements totaling \$12,300 for our scope period to determine if they were Board-approved, proper District expenditures and properly recorded and reported.
- We tested all 24 tower rental payments and real property tax payments totaling \$357,300 that should have been received during our scope period to determine if they were deposited in full.
- We reviewed all 23 cash receipts totaling \$356,900 (these include 20 of the receipts mentioned above plus three other miscellaneous receipts) deposited for our scope period to determine if they were deposited in a timely manner.

We conducted this performance audit in accordance with GAGAS. 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.

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