



Harford Fire District Records and Reports

Report of Examination

Period Covered:

January 1, 2014 – March 3, 2016

2016M-170



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2016

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 Fire Commissioner 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 Harford Fire District, entitled Records and Reports. 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 Harford Fire District (District) is a district corporation of the State, distinct and separate from the Town of Harford and Cortland County in which it is located. The District's 2016 general fund budgeted appropriations total approximately \$99,000 and are funded primarily by real property taxes.

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 Board appoints a Secretary-Treasurer (Treasurer) who is the District's chief fiscal officer. The Treasurer 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.

Objective

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

- Did the Treasurer maintain adequate records and reports?

Scope and Methodology

We examined the District's financial records and reports for the period January 1, 2014 through March 3, 2016. We extended our scope back to January 1, 2013 to determine if District revenues were properly deposited.

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.

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 agreed with our findings and indicated they plan to initiate 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

¹ One Board position is currently vacant.

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.

Records and Reports

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 confirm transactions are authorized and properly recorded. The Board also should ensure no single individual has the ability to perform all aspects of a financial transaction and that financial reports are accurate and reliable. The Treasurer is the District's chief fiscal officer and is responsible for performing virtually all of the District's financial duties. These duties include maintaining a record of all receipts, expenditures and account balances; reconciling the accounting records to the bank statements; providing the Board with timely, accurate and useful financial information; and filing annual financial reports with the Office of the State Comptroller.²

While it is the Treasurer's responsibility to complete and file an annual financial report, the Board should have procedures in place to review this report for accuracy and ensure the Treasurer completes and submits it in a timely manner. Moreover, the Board should provide oversight by conducting an annual audit of the Treasurer's records.

The Treasurer did not maintain adequate records and reports. For example, the Treasurer's accounting records were inaccurate and, at times, illegible. In addition, the Treasurer's financial reports were inconsistent, untimely and inaccurate. The Board did not complete an annual audit of the Treasurer's records. Without accurate records and reports, the Board cannot make informed financial decisions.

Records – The Treasurer's accounting records – including the check register, Board meeting minutes, Treasurer's report and budget-to-actual report – were an inaccurate reflection of the District's financial activities. For example, the running balance in the Treasurer's check register was not mathematically accurate; the December 31, 2015 balance was underreported by \$633. In addition, a \$20,000 deposit from April 22, 2015 was not recorded in the check register in a timely manner. Rather, it appeared as an undated mathematical adjustment to the running balance in September 2015. This inaccuracy went undetected because neither the Treasurer nor any other District official performed bank reconciliations.

² All fire districts in New York State are required to prepare and file an annual financial report with the State Comptroller within 60 days after the close of each fiscal year.

Monthly Reports – The Treasurer did not provide the Board with timely, accurate and useful financial information. For example, the Treasurer provided the Board with only two budget-to-actual reports in 2015, and they were inaccurate. Specifically, the reports did not list all payments. For example, the electric expenditure category in the December 2015 budget-to-actual report listed 12 monthly payments, but the total amount was underreported by \$147 due to the Treasurer incorrectly recording three monthly payments. Additionally, when the Treasurer did provide the Board with financial information, the information was limited to the unreconciled check register balance.

Annual Reports – Annual financial reports were not completed within the 60-day requirement for 2014 or 2015. As of March 21, 2016, the Treasurer provided proof of filing for the 2014 annual financial report, more than a year past the deadline date, and told us that the 2015 report would be filed in the near future. The annual financial reports were not filed in a timely manner because the Treasurer did not maintain an annual compilation of account balances. Financial information must be both current and accurate to be useful for managing the District.

These discrepancies occurred because the Board did not segregate key financial duties and did not implement compensating controls. The Treasurer was responsible for all aspects of financial transactions, including receiving and opening mail; receiving and depositing cash receipts; transferring funds between bank accounts; preparing, signing and mailing checks; and recording transactions. Although the Vice Chairman of the Board receives a copy of the checking account bank statement and visually inspects the canceled check images for appropriateness, no one compares the canceled check images to the Board-approved abstracts (lists of claims to be paid) to ensure that the checks are for legitimate and approved District expenditures.

Although the Board minutes indicated that the Board performed an audit of financial records, we determined that this internal audit was not thorough. For example, according to the Chairman, the only audit procedure performed was that the Deputy Treasurer visually inspected all bank accounts at a bank terminal to ensure the account balances agreed with amounts reported on bank statements. Because the Board did not thoroughly review cash receipts and bank reconciliations, compare canceled check images to Board-approved abstracts, or even note that an annual financial report had not been completed, it is not performing an effective annual audit.

Due to these deficiencies, we traced all disbursements from the 2014 and 2015 bank statements to invoices, canceled check images and the Treasurer’s check register to determine whether all payments were authorized and for legitimate District expenditures and that

amounts and payees agreed. In total, there were 67 disbursements totaling \$36,531 in 2014 and 84 disbursements totaling \$74,065 in 2015. Generally, these transactions were supported by adequate documentation and all appeared to be for valid District purposes. All claims were signed by four Commissioners before a disbursement was made.

We also traced all of the District's cash receipts from 2013 through 2015, which consisted of \$275,870 in real property taxes and \$1,400 from the sale of a District vehicle, from supporting documentation to bank statement deposits. We found no discrepancies. In addition, for 2015, we traced 100 percent of the bank transfers and payroll disbursements to supporting documentation. While we found minor discrepancies, due to the lack of adequate controls and oversight, there is an increased risk that errors and irregularities could occur and remain undetected and uncorrected. During fieldwork, we provided guidance and assistance to the Treasurer regarding basic recordkeeping functions, and the Treasurer subsequently prepared a correct bank reconciliation.

Recommendations

The Board should:

1. Segregate key financial duties or, if it is not practical to adequately segregate key financial duties, implement compensating controls.
2. Ensure that the Treasurer files the annual financial report within the prescribed statutory period.
3. Perform an annual audit³ of the Treasurer's records and reports, or assign an officer, employee or independent public accountant to do so.

The Treasurer should:

4. Maintain accurate, timely and legible records.
5. Attend training regarding recordkeeping and financial reporting.
6. Complete monthly bank reconciliations and budget-to-actual reports.
7. File the annual financial report within the prescribed statutory period.

³ Board members should refer to our publication entitled *Local Government Management Guide – Fiscal Oversight Responsibilities of the Governing Board*.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Harford Fire District
PO Box 62
Harford, New York 13784-0062

June 29, 2016

Office of The State Comptroller
Division of Local Government and School Accountability
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Sent Via Email to: [REDACTED]

Re: Response to draft report of audit

Dear Sir/Mam:

This letter is confirmation of my meeting on June 8, 2016 with the auditors from OSC. The auditors provided a copy of the draft audit findings and reviewed same with me.

The draft audit findings were reviewed by the all of the Commissioners of the Harford Fire District at our regular meeting on June 15, 2016.

The Harford Fire District accepts all of the findings and recommendations in the report. The District makes no request for changes or corrections to the report. The District will provide a detailed Corrective Action Plan within 90 days of the Draft Audit Report. The District has already implemented some corrective actions per the recommendations in the report. The staff and the audit report from the OSC have been very helpful as we modernize and improve the process of managing the business of the Harford Fire District.

Best Regards,

Thomas R. Ball
Chairman, Harford Fire District

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed the Board minutes for January 2014 through January 2016, interviewed District officials and examined existing policies to gain an understanding of the District's financial operations and budgeting procedures.
- We reviewed all 2014 and 2015 bank statements and traced all disbursements to claim vouchers to determine if they were properly authorized and were for legitimate District expenditures.
- We analyzed financial trends by detailing all year-end bank account balances for 2014 and 2015.
- For 2015, we verified whether all disclosed bank accounts were accounted for and all transfers and deposits were traced to another appropriate District account or revenue source. We also inspected the recording of the transactions for timeliness.
- We examined the Treasurer's reports for 2014 and 2015, as recorded in the Board minutes, to determine if bank reconciliations were prepared and if all account balances were reported correctly.
- We performed a bank reconciliation for December 2015 and January 2016.
- We traced 100 percent of payroll disbursements for 2015 from bank statements to the federal wage and tax statements and to the employer's annual federal unemployment tax return.
- We interviewed District officials regarding annual financial reports that were not submitted to our office for 2014 or 2015 and provided the District with contact information to assist the District with filing.

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

APPENDIX C

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