

Town of Brownville Joint Fire District

Board Oversight

JANUARY 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Town of Brownville Joint Fire District

Audit Objective

Determine whether the Board provided adequate oversight of District financial operations.

Key Findings

- We tested 75 of 480 disbursements made during our audit period, totaling \$31,300, and found that 15 totaling \$7,159 were not audited and approved by the Board.
- The District used debit cards to make purchases totaling approximately \$14,000. The Board did not audit and approve the associated claims before payment.
- The Board did not contract for an independent audit of its 2017 records as required by law.
- Certain Treasury duties were improperly assigned to a professional service provider and third-party vendors (vendors) had access to District bank accounts to withdraw electronic payments.

Key Recommendations

- Ensure the Board audits and approves claims before payment, except as otherwise provided by law.
- Discontinue the use of debit cards.
- Obtain an annual independent audit of the records.
- Ensure the Treasurer controls the disbursement of funds and discontinue allowing vendors to access the bank accounts.

Except as specified in Appendix A, District officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action. Appendix B includes our comment on an issue raised in the District's response letter.

Background

The Town of Brownville Joint Fire District (District) maintains three fire stations in the Villages of Brownville and Dexter and the Hamlet of Pillar Point. District operations are manned by the Brownville Volunteer Fire Department and the Dexter Volunteer Fire Department, which provide fire protection and emergency rescue services to approximately 5,845 residents over 65.9 square miles.

An elected five-member Board of Fire Commissioners (Board) governs the District and is responsible for overall financial management. The Board appoints a Treasurer-Secretary (Treasurer) who acts as the chief fiscal officer and is responsible for receiving, disbursing and accounting for District funds. The Board engages a professional service provider as the District accountant to file annual financial reports and to provide bookkeeping services.

Quick Facts

Members	50
2018 Appropriations	\$383,690
2017 Disbursements	\$312,797
2017 Revenues	\$333,103
Number of Disbursements for the Audit Period	480

Audit Period

January 1, 2017 – March 31, 2018

Board Oversight

How Should the Board Oversee District Finances?

A board is responsible for overseeing district financial activities and safeguarding its resources. The board, in conjunction with the treasurer, should establish and implement procedures to help ensure money is properly safeguarded, transactions are authorized and properly recorded in the accounting records and that the district complies with applicable laws, rules and regulations.

With limited exceptions, New York State Town Law (Town Law) requires fire district boards to audit all claims before payment.¹ Effective claims auditing procedures ensure that every claim against a district is subjected to a thorough and deliberate review and contains adequate supporting documentation to determine whether it complies with statutory requirements and district policies, and the amounts claimed represent actual and necessary expenditures. Further, it is important the board audit and approve claims before payment and document its approval by adopting resolutions that specify the number and dollar amount of claims the treasurer is authorized to pay.

Town Law requires the Board to obtain an independent audit of district records when annual revenues exceed \$300,000.² An annual audit helps ensure that cash is properly accounted for and transactions are properly recorded. While district officials may engage a professional service provider to perform certain accounting functions, the duties of a district treasurer including the custody and disbursement of public funds, in the absence of express statutory authority, may not be delegated to that provider.

Good business practices dictate that a written contract be entered into for professional services, to provide both parties with a clear understanding of the services to be provided and the compensation for those services. Further, vendors should not be allowed to withdraw funds directly from a district bank account.

The Board Needs to Improve Oversight of Finances

The Board received monthly financial reports provided by the Treasurer that it used to monitor financial operations. However, we identified deficiencies related to the Board's claims audit process and annual audit responsibilities that it should address to improve its oversight of financial operations.

¹ In accordance with New York State Town Law (Town Law), Section 176, the Board may, by resolution, authorize payment in advance of audit for claims for public utility (light and telephone), postage, freight and express charges. However, the prepaid claims must be presented and audited by the Board at its next regular meeting.

² New York State Town Law, Section 181-B

Audit of Claims – The Treasurer compiles bills and invoices and provides the claims to the Board for payment authorization. Although Board members signed the claims to show their approval, they did not document the date of their audit. In addition, the Board resolutions approving claims showed approval dates one month after the Treasurer paid claims and did not specify the number and dollar amount of claims the Treasurer was authorized to pay. As a result, we were unable to determine whether certain claims were approved by the Board before or after the Treasurer paid them.

Debit Cards – The Board Chair and Treasurer used debit cards to make purchases totaling approximately \$14,000 during our audit period.³ None of these disbursements were audited and approved by the Board before payment. District officials maintain a separate bank account specifically for debit card transactions that had an average monthly balance of \$1,770 during our audit period.⁴

While using a separate bank account for these transactions helps decrease financial exposure in the event a debit card is lost or misused, using a debit card poses additional risks because it allows a payment to be directly withdrawn from the District's bank account and unauthorized use may not be quickly detected. Unlike using a credit card, where a statement is received and the purchase can be examined before payment, using a debit card provides no opportunity for the Board to determine whether the purchase is legitimate and proper before it is paid.

Annual Audit – The Board did not contract for an independent annual audit of the records even though the District received more than \$300,000 in revenues during 2017. The Treasurer and Board members told us that they were unaware that an annual audit was required.⁵ Officials further told us that they are obtaining quotes for an independent audit of the 2018 records.

Some Disbursements Lacked Board Approval or Proper Support

We reviewed claims for 75 disbursements made during the audit period totaling approximately \$31,300 (including 17 purchases totaling \$4,706 made with debit cards) to determine whether they were properly authorized, supported, and for appropriate purposes.

³ We reviewed 17 of these purchases as part of our disbursements testing to determine whether they were properly authorized, supported and for appropriate purposes.

⁴ The Treasurer instructed the accountant to transfer funds from the savings account to the debit card bank account on an as-needed basis.

⁵ Refer to our publication, *Fire District Accounting and Reporting Manual* available at www.osc.state.ny.us/localgov/pubs/arm_fds.pdf

Our review disclosed that the Board did not audit 15 claims totaling \$7,159 (includes four debit card transactions totaling \$1,580). Two of these claims totaling \$5,037 were submitted by the accountant for accounting services. In addition, officials were unable to provide us with supporting invoices or receipts for six of these claims, totaling \$343. However, based on the payees and discussions with District officials, these disbursements, for association dues (\$125), emergency medical service supplies (\$113) workers' compensation insurance (\$95) and office supplies (\$10), were appropriate.

While we did not find any inappropriate payments, when claims are paid before or without Board audit or they lack adequate supporting documentation, there is an increased risk that the District could make payments that are not for legitimate purposes.

The Board Improperly Assigned the Accountant Financial Duties

The Board did not properly assign duties to the accountant⁶ and did not implement compensating controls to properly oversee his work. The accountant recorded debit card transactions in the accounting system, processed the Treasurer's payroll checks,⁷ performed online bank transfers and reconciled the bank accounts.⁸ The Treasurer received and deposited funds, entered most financial transactions in the accounting system, and prepared and signed checks. The accountant also performed some of these duties when the Treasurer was unavailable. In addition, the accountant was an authorized signatory on District bank accounts and able to make bank transfers, duties that should not be delegated.

The Board provided limited oversight of the accountant's work, and District officials did not review the bank reconciliations or bank statements and canceled checks to help ensure disbursements were proper. As a result, there is an increased risk that errors or irregularities could occur and remain undetected.

In addition, officials told us that both the Treasurer and the accountant used the same user name and password to access the accounting system. When users share accounts, accountability is diminished and improper activity in the system may not be able to be traced back to an individual user.

Officials paid the accountant a total of \$5,037 for accounting services in 2016 (\$2,110) and 2017 (\$2,927) based on invoices submitted at the end of each year.

⁶ The accountant is a former Treasurer for the District and owns an accounting firm.

⁷ The Treasurer is the only individual on the District's payroll.

⁸ The Treasurer began reconciling bank statements as of March 2018.

While the invoices were itemized by task,⁹ there were no written agreements specifying how much he should be paid or the services to be provided.

Vendors Had Access to District Funds

The District contracted with three vendors for internet, phone, cable, fax and natural gas and electric services. These vendors had access to and electronically withdrew payments from the District's general fund bank account. The Treasurer told us that before making these withdrawals, the vendors sent invoices to the District indicating the amount to be withdrawn and date. However, there is no legal authority for a third-party to directly access District funds. Instead, the Treasurer should disburse all such funds by check.¹⁰

During our audit period, these vendors initiated withdrawals totaling \$31,772 and had access to an average \$33,803 of District money each month. We reviewed vendor withdrawals of almost \$2,600 for natural gas and electricity services and almost \$800 for internet, phone, cable and fax to determine whether they were supported by invoices and were legitimate expenditures.

We found all these withdrawals were supported by invoices, audited and approved by the Board and legitimate District expenditures. However, because these vendors have access to the District's bank account and the Treasurer does not initiate the disbursement by check, funds could be placed at unnecessary risk for loss or misappropriation.

What Do We Recommend?

The Board should:

1. Include the total number and dollar amount of claims in its payment approval resolutions.
2. Discontinue the use of debit cards.
3. Ensure that an annual independent audit of the records is completed.
4. Audit and approve claims before disbursements are made, except as otherwise provided by law.
5. Ensure that claims contain adequate supporting documentation before authorizing payment.

⁹ For example, the invoices showed services such as bank reconciliations, recording debit card transactions, Form 1099 preparation and filing, unemployment registration and New York State filings. The invoices also showed the accountant provided the District with discounts for serving a community organization totaling \$3,037 for 2016 and 2017.

¹⁰ Town Law, Section 177

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6. Ensure that the disbursement of funds is controlled by the Treasurer, not a professional service provider.
 7. Designate an official to periodically review bank statement reconciliations, bank statements and canceled check images.
 8. Require separate and unique user names and passwords for each individual with access to the computerized accounting records.
 9. Enter into a written agreement with the accountant that specifies the nondiscretionary services to be provided and the compensation for those services.
 10. Discontinue allowing vendors to access the bank accounts.

The Treasurer should:

11. Pay claims only after they have been audited and approved by the Board, unless otherwise provided by law.

Appendix A: Response From Fire District Officials



Town of Brownville *Joint Fire District*



January 15, 2019

VIA EMAIL AND REGULAR MAIL

Ms. Rebecca Wilcox, Chief Examiner
Local Government and School Accountability
Office of the New York State Comptroller
c/o Local Government and School Accountability - Syracuse Region
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

ATTN: Principal Examiner [REDACTED]

RE: Town of Brownville Joint Fire District Board Oversight Report of Examination
2018M-205

Dear Ms. Wilcox:

Thank you for your office's preliminary draft findings ("Report") which was received on December 17, 2018 and the subject of our meeting on January 9, 2019 with your staff. The Report has been reviewed and discussed by the Board of Fire Commissioners and officers of the Town of Brownville Joint Fire District (the "Fire District") following the exit conference with Senior Examiner [REDACTED] on January 9, 2019.

We are grateful for the professionalism shown by the Comptroller's staff, whose suggestions and observations for our assuring continued awareness of protection of the Fire District's financial accountability has been extremely valuable since the field work by your office.

In particular, we are very appreciative of confirmation that the audit found no indications of any fraud, theft or other possible misconduct by fire district officials in dealing with public funds. The thoroughness of your office's review of all disbursements and finding is further assurance that all taxpayer dollars are being spent properly.

We are in agreement with the audit's findings and have begun the process of implementing measures to improve the Fire District's management and oversight of the Fire District's fiscal affairs as outlined in your recommendations. We also welcome this opportunity to prepare and present our completed corrective action plan, which provides a detailed account of how we have used the audit findings and recommendations to positively improve operations and internal controls.

The Board of Fire Commissioners has carefully considered the Report of Examination as well as each of the recommendations, and believes it is in the best interest of both the Fire District and the taxpayers of the Fire District to combine its response with its Correction Action Plan.

P.O. BOX 2
Brownville, NY 13615

Accordingly, this audit response is also serving as the Correction Action Plan.

Audit Recommendation #1:

The Board should include the total number and dollar amount of claims in its payment approval resolutions.

Implementation Plan of Action: The Board will audit and approve all claims on a voucher approved by the Board and will total the number and dollar amounts of claims in its resolution approving payment and ordered the treasurer to pay such claims as allowed and approved.

Implementation Date: Immediately

Person Responsible for Implementation: Board of Fire Commissioners; Treasurer

Audit Recommendation #2:

The Board should discontinue the use of debit cards.

Implementation Plan of Action: The Board has adopted a comprehensive policy guiding the use of credit and debit cards, which is consistent with all legal requirements. The Board has taken substantial steps to assure that any purchases utilizing a debit card are pre-approved and in the amounts allowed. The Board also monitors and authorizes only those sums needed for debit card purchases in an isolated, separate fund to minimize any potential for fraud or criminal conduct by non-District third parties. The Board is also aware of the protections afforded the Fire District under the federal Fair Credit Billing and Electronic Funds Transfer Acts in the event of lost or stolen credit or debit cards, which includes protection for any unauthorized credit or debit transaction. Additionally, the Fire District has obtained insurance coverage in the event of any fraudulent transactions to further protect taxpayer assets.

Implementation Date: Immediately

Person Responsible for Implementation: Board of Fire Commissioners; Treasurer

Audit Recommendation #3:

The Board should ensure that an annual independent audit of the records is completed.

Implementation Plan of Action: The Board will ensure that an independent audit of the records is completed.

Implementation Date: Immediately

Person Responsible for Implementation: Board of Fire Commissioners; Treasurer

See
Note 1
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Audit Recommendation #4:

The Board should audit and approve claims before disbursements are made, except as otherwise provided by law.

Implementation Plan of Action: The Board will audit and approve claims before disbursements are made, except as otherwise provided by law.

Implementation Date: January 15, 2019

Person Responsible for Implementation: Board of Fire Commissioners; Treasurer

Audit Recommendation #5:

The Board should ensure that claims contain adequate supporting documentation before authorizing payment.

Implementation Plan of Action: The Board will ensure that all claims contain adequate supporting documentation, as required and outlined in its Procurement Policy.

Implementation Date: Immediately

Person Responsible for Implementation: Board of Fire Commissioners; Treasurer

Audit Recommendation #6:

The Board should ensure that the disbursement of funds is controlled by the Treasurer, not a professional service provider.

Implementation Plan of Action: The Board will ensure that the disbursement of funds is controlled by the Treasurer, after audit and authorization by the Board of Fire Commissioners. The Fire District's accountant has been engaged to assist the Treasurer and not to perform the Treasurer's statutory duties.

Implementation Date: Immediately

Person Responsible for Implementation: Board of Fire Commissioners; Treasurer

Audit Recommendation #7:

The Board should designate an official to periodically review bank statement reconciliations, bank statements and canceled check images.

Implementation Plan of Action: The Board has adopted a policy that the bank statements reconciliations and cancelled checks are reviewed periodically and according to the Board's policy.

Implementation Date: Immediately

Person Responsible for Implementation: Board of Fire Commissioners; Treasurer

Audit Recommendation #8:

The Board should require separate and unique user names and passwords for each individual with access to the computerized accounting records.

Implementation Plan of Action: Any person authorized by the Board of Fire Commissioners with access to the computerized accounting records of the Fire District shall have and shall use separate and unique user names and passwords.

Implementation Date: Immediately

Person Responsible for Implementation: Board of Fire Commissioners; all authorized users

Audit Recommendation #9:

The Board should enter into a written agreement with the accountant that specifies the nondiscretionary services to be provided and the compensation for those services.

Implementation Plan of Action: The Board will enter into a written agreement with its accountant which shall describe the duties and compensation for such services.

Implementation Date: Immediately

Person Responsible for Implementation: Board of Fire Commissioners

Audit Recommendation #10:

The Board should discontinue allowing vendors to access the bank accounts.

Implementation Plan of Action: No vendor shall have any access to any Fire District bank accounts and all utility and other payments shall be made following audit and approval of a voucher and upon resolution ordered the Treasurer to pay such claims in the amounts allowed.

Implementation Date: Immediately

Person Responsible for Implementation: Board of Fire Commissioners; Treasurer

Letter to Office of the State Comptroller
January 15, 2019
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Audit Recommendation #11:

The Treasurer should pay claims only after they have been audited and approved by the Board, unless otherwise provided by law.

Implementation Plan of Action: The Treasurer shall pay claims only after they have been audited, approved and ordered paid by the Board of Fire Commissioners by resolution unless otherwise authorized by law and the further resolution of the Board of Fire Commissioners.

Implementation Date: Immediately

Person Responsible for Implementation: Board of Fire Commissioners; Treasurer

Again, we wish to thank your team of examiners for their thorough examination of the Fire District's records and the time spent with Fire District officials in explaining the audit process and their findings.

Very truly yours,

TOWN OF BROWNVILLE JOINT FIRE DISTRICT

By: _____
Todd LaSage, Chairman

Appendix B: OSC Comment on the District's Response

Note 1

Although the Board has put procedures in place to pre-approve debit card purchases, it must audit all claims before payment. Using a debit card, which allows a payment to be directly withdrawn from the bank account at the time of purchase, makes it impossible for the Board to audit the claim before payment.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board minutes to gain an understanding of Board oversight of financial operations including the audit of claims, controls over the Treasurer's and the accountant's duties and procedures used to record and monitor financial transactions.
- We randomly selected 50 cash disbursements made during the audit period totaling \$13,391 from the vendor payment history to determine whether they were authorized. The total population of disbursements was 480.
- We judgmentally selected 25 higher risk payments made during the audit period totaling \$17,924 to determine whether these payments were authorized, correctly recorded, supported and disbursed. We included payments to officials, large dollar amounts, unrecognized vendors, credit card payments, purchases from vendors unrelated to District operations and abbreviated names in our sample.
- We reviewed all 15 bank statements during our audit period for electronic withdrawals made by the three vendors that provided internet, phone, cable, fax and natural gas and electricity totaling \$31,772.
- We compared the adjusted bank balances with the cash recorded in the accounting records as of December 31, 2017 and March 31, 2018 to verify that the book balances at the end of the fiscal year and the last month of our audit period agreed to the adjusted bank balances.

We conducted this performance audit in accordance with GAGAS (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 the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

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 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.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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