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March 14, 2014

James Dutton, Chairman
Members of the Board of Fire Commissioners
Caledonia Joint Fire District
P.O. Box 149
Caledonia, New York 14423

Report Number: 2013M-350

Dear Mr. Dutton 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 Caledonia Joint Fire District (District) which addressed the following question:

- Have District Commissioners provided adequate oversight of the financial operations of the District to ensure that assets are safeguarded?

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 generally agreed with our findings and recommendations and indicated they have initiated, or plan to initiate, corrective action.

Background and Methodology

The Caledonia Joint Fire District, located in Livingston County, is a district corporation of the State, distinct and separate from the Town and Village of Caledonia. The District's 2013 budget totaled \$292,725, funded primarily through real property tax revenue.

The Board of Fire Commissioners (Board) comprises five elected members and is responsible for the District's overall financial management. The Board appoints a Treasurer/Secretary (Treasurer) who serves as the District's chief fiscal officer. The Treasurer is responsible for the receipt and custody of District funds, for disbursing and accounting for those funds, for preparing monthly and annual financial reports and for meeting any other reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2012 through October 16, 2013. 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 fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls which include policies and procedures to ensure that transactions are authorized and properly recorded; that financial reports are accurate, reliable and filed in a timely manner; and that the District complies with applicable laws, rules and regulations. Town Law requires the Board to audit and approve all claims against the District before they are paid to ensure that District funds are used for only legitimate District expenditures. The Board may, by resolution, authorize payment in advance of audit of claims for public utility services, postage, freight and express charges. Such claims must be presented for audit at the next Board meeting. In accordance with Town Law, the Board is required to prepare and adopt an annual budget in a format prescribed by the Office of the State Comptroller that includes detail of appropriations and estimated revenues for the ensuing year, a breakdown of the components of estimated fund balance as of the end of the current year, and comparative columns with the prior year's actual amounts and current year's amended budget to date.

Additionally, the Treasurer must maintain complete, accurate and timely records to account for all of the District's financial activities. It is also important for the Treasurer to prepare and submit detailed monthly reports to the Board for effectively monitoring District operations.

We found that the Board generally provides adequate oversight of District financial activities but should make certain improvements. The Board has adopted a code of ethics and purchasing and investment policies, as required by statute, as well as other policies and procedures for key financial areas, including the processing of cash receipts and payroll. The Board also procured an annual external audit of its records and implemented recommended corrective action.

However, although the Board audits and approves claims for payment at its monthly meetings, the Treasurer processes and pays certain claims prior to the Board's audit which are not statutorily authorized for payment in advance of audit. In addition, the Board did not use the prescribed budget format and adopted budgets which did not include the required comparisons to prior years, the detail for non-property tax revenue estimates or estimated fund balance. Furthermore, the monthly reports provided by the Treasurer include only year-to-date information and do not provide detail for the current month's activities, which makes it more difficult for the Board to monitor operations on a monthly basis.

We reviewed and tested all 343 disbursements made from January 2012 through June 11, 2013, totaling \$385,498, to determine if they were for proper District purposes and were properly recorded, supported and audited prior to payment. Of these, 53 claims totaling \$66,429 were

improperly paid prior to Board audit because they were not for types of expenses allowed to be prepaid under Town Law. These included the following examples:

- Four payments totaling \$13,012 which were not included on any abstracts (lists of claims) presented at subsequent Board meetings. The majority of this amount was for the purchase of a utility vehicle (\$12,503). During our exit discussion,¹ District officials showed us documentation for these discrepancies, which were items added to or changed on the abstract when Board members audited the claims at their meeting and caught mistakes made by the Treasurer. We commended Board members for their thorough audit procedures and discussed ways to document such changes to make them part of the official records (minutes and abstracts) of approved payments.
- Seventeen payments totaling \$8,859 to the District's attorney which the Board authorized to be paid at the beginning of each month (prior to the Board's monthly meetings).
- Fourteen store purchases by the Treasurer, totaling \$2,067, paid by check at the time of purchase.²

While some of the prepayments were for purchases that had been discussed and approved by the Board (as indicated in the minutes), the Board must still audit and approve the claims, with the invoices and supporting documentation, before the Treasurer makes payment. For example, the Treasurer made a \$23,582 payment for the installation of a new generator prior to the Board's audit and approval of the claim and invoice documentation. Although the Board acknowledged the prepayment at its next meeting, it was still improper since the Board's authority to allow prepayment of claims in advance of Board audit applies only for utilities and postage.

Additionally, the District was unable to provide sufficient support³ for 18 disbursements totaling \$21,600 for rent to the Village for the Village fire hall. Further, for four claims totaling \$22,891 for purchases that required quotes to comply with the District's purchasing policy, we found no evidence in the minutes or attached to the claims that the required quotes had been obtained.

Without properly auditing and approving all claims before payment, the Board does not have adequate assurance that the purchases were properly approved or that the goods and services were actually received. In addition, there is an increased risk that District funds could be expended for inappropriate purposes.

We also reviewed all bank statement activity for our audit period, ensured that any non-check withdrawals⁴ were appropriate and reviewed bank reconciliations for January 2012 through May 2013. Generally, financial activity was properly recorded and disbursements were for valid District expenditures. We discussed other minor deficiencies with District officials during our fieldwork.

¹ We met with District officials on February 11, 2014 to discuss the findings in the draft audit report.

² These purchases were generally made at an office supply store.

³ The claims contained only a voucher with no other supporting documentation, and the District was unable to provide us with an updated lease agreement or other District approval of current rent payments.

⁴ The District made only one non-check purchase, to re-order checks, and made all bank account transfers by check.

Recommendations

1. The Board should ensure that all claims have appropriate supporting documentation and (other than exceptions allowed by Town Law) are audited and approved by the Board before the Treasurer pays the claims.
2. The Board should prepare and adopt budgets in the prescribed format and ensure that the Treasurer provides sufficiently detailed monthly reports for the Board to monitor operations against the budget.

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

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

**CALEDONIA FIRE DISTRICT
3089 MAIN STREET
PO BOX 149
CALEDONIA, NY 14423**

February 28, 2014

Office of the State Comptroller
Division of Local Government & School Accountability
PSU - CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

Re: Caledonia Fire District Audit

Thank you for your office's preliminary report presented to us at the audit exit interview on February 11, 2014. This report was reviewed and discussed by the Board of Fire Commissioners and the Fire District's Secretary/Treasurer.

We are grateful for the professionalism shown by the site auditor, together with her suggestions and observations in the interest of taxpayer protection.

In particular, we are very appreciative that the audit found no indication of fraud, theft or other possible misconduct by Fire District officials in dealing with the public funds.

We are in agreement with your findings and have begun the process of implementing measures to improve the management and oversight of the District's fiscal affairs as outlined in your recommendations.

The Board of Fire Commissioners has carefully considered the Report of Examination as well as each point contained therein, 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.

Accordingly, this audit response is also serving as the Correction Action Plan, required pursuant to G.M.L. 181-b.

Audit Recommendation #1:

The Board should ensure that all claims have appropriate supporting documentation, and (other than exemptions allowed by Town Law) are audited and approved by the Board before the Treasurer pays the claims.

The Board of Fire Commissioners and the Secretary - Treasurer have reviewed the applicable sections of Town Law, wherein it states what expenditures may and may not be paid prior to audit. To eliminate the store purchases made by check prior to audit, the Fire District has updated the District's Credit Card Policy which will now required that all

purchases made by credit card by approved at a Fire District Meeting and the expenditure will be included with the vouchers at the next Fire District Meeting.

Implementation Date: February 12, 2014.

Person Responsible for Implementation: Board of Fire Commissioners and Secretary/
Treasurer

The District signed a lease with the Village of Caledonia in October 2013 for the remainder of 2013 and has signed a lease with the Village of Caledonia for 2014. As part of the future Organizational Meeting Agenda, a lease for the current fiscal year will be approved by the Board of Fire Commissioners and a signed copy with the Village will be filed with the District Secretary.

Implementation Date: Immediately and Ongoing

Person Responsible for Implementation: Board of Fire Commissioners and Secretary

As part of the audit process which is set out as the Board obligation pursuant to Town Law, and as part of the supporting documentation eluded to in your report, a written notation will be made on all payment vouchers that the individual in charge of pre audit or the Board itself, will review the Fire District's Procurement Policy before a recommendation to pay is made. This will assure ourselves that the process of determination that the price paid for item(s) was arrived at after compliance with the Fire District's policy.

Implementation Date: Immediately and Ongoing.

Person Responsible for Implementation: Board of Fire Commissioners and Treasurer

A resolution was made at the February 2014 District Meeting amending an earlier resolution which states that reimbursement for the Attorney and Fiscal Consultant will be included in a voucher to be reviewed by the Commissioners and payment be made after the voucher is approved for payment at the monthly district meeting.

Implementation Date: February 2014 District Meeting

Person Responsible for Implementation: Board of Fire Commissioners and Treasurer

If an error in the amount of a check presented for approval at a District Meeting is found during the review of the payment vouchers, the corrected amount will be noted in the meeting minutes, the corrected amount of the new check will be authorized by a resolution and the new check and corrected amount will be added to the abstract.

Implementation Date: February 12, 2014 District Meeting.

Person Responsible for Implementation: Board of Fire Commissioners and Treasurer.

Audit Recommendation #2:

The Board should prepare and adopt budgets in the prescribed form and ensure that the Treasurer provides sufficiently detailed monthly reports for the Board to monitor operations against the budget.

Starting with the 2015 Budget, the Treasurer will include actual expense and receipt amounts for the prior two budget years, the adopted and actual amounts of the prior year budget with budget information presented at the Budget Hearing in October, included in the District Meeting minutes when the budget is adopted and presented to the Town Clerk. The Treasurer has used this format in the preparation process of the budget, but did not include it with the final budget information for the minutes and filed with the Town Clerk. This will provide a mechanism for the Board members to review prior years expenditures for a particular category or categories of expense with the current year expenditure. Any large variations can then be questioned by the Board.

Implementation Date: 2015 Budget Year Preparation

Person Responsible for Implementation: Fire District Treasurer

Commencing with the February 2014 monthly meeting, the Treasurer will provide the Commissioners with a detailed monthly report, which will become part of the monthly meeting minutes. This report will contain adopted and actual amounts of the current year's budget. This will provide a mechanism for the Board members to review current year expenditures for a particular category or categories of expense against the budgeted amount. That way if an expenditure is going to be over budget in particular category, this can be questioned by the Board.

Implementation Date: February 12, 2014 District Meeting

Person Responsible for Implementation: Fire District Treasurer

The Chairman of the Fire District and the Fire District Secretary/Treasurer will continue to review the minor errors that were noted to us by the examiners and will correct them in the next couple of months.

We would like to thank your team of examiners for through examination of the Fire District's records and the time spent with us in explaining the audit process and their findings.

Very truly yours,
Caledonia Fire District

✓ James Dutton, Chairman

cc: Mr. Edward V. Grant Jr., Chief Examiner
Members of the Board of Fire Commissioners
Fire District Secretary/Treasurer
Fire District Attorney