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February 7, 2014

John Kaminski, Chairman
Members of the Board of Fire Commissioners
Virgil Fire District
1195 West State Road
Virgil, NY 13045

Report Number: 2013M-329

Dear Mr. Kaminski and Members of the Board of Fire Commissioners:

The Office of the State Comptroller works to identify areas where local government 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 account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Virgil Fire District (District) which addressed the following question:

- Are District controls adequate to ensure that financial activity is properly recorded and reported and that District moneys are safeguarded?

The results of our audit 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 findings and indicated they planned to initiate corrective action.

Background and Methodology

The Virgil Fire District (District) is a district corporation of the State, distinct and separate from the Town of Virgil, and located in Cortland County. The District's general fund budget totaled \$215,255 for the 2013 fiscal year.

The Board of Fire Commissioners (Board) consists of five elected members and is responsible for the District's overall financial management. The Board appoints a Treasurer who acts as the District's chief fiscal officer. The Treasurer is responsible for receiving and maintaining 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 September 23, 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 consists of policies and procedures that 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, including the General Municipal Law requirement for a purchasing policy, investment policy and code of ethics.

The Treasurer must maintain complete, accurate and timely records to account for all of the District's financial activities properly. The Treasurer should prepare and submit monthly reports to the Board and is required to prepare and submit an annual financial report of the District's financial condition to the Office of the State Comptroller within 60 days after the close of the fiscal year. This report is an important fiscal tool, which provides the Board with necessary information to monitor District operations and other interested parties with a summary of the District's financial activities.

We found that the Board does not provide adequate oversight of District financial activities. Although the Board has adopted procurement, investment and code of ethics policies, it did not ensure that there were proper controls over cash disbursements or that the Treasurer was performing her duties properly. The Board reviews the claims at biweekly Board meetings. However, because it is not reviewing monthly bank statements or bank reconciliations, the Board cannot verify if it is approving all claims for payment. In addition, it cannot determine whether there are any discrepancies between bank and book cash balances. In addition, the Treasurer has not filed the annual update document (AUD) with the State Comptroller's Office for the years 2009, 2010, 2011 and 2012.¹

Due to these weaknesses, we verified that the 2013 real property tax cash receipts, totaling \$215,255, that the Treasurer recorded in the accounting records were deposited in the District's bank account. We also selected 199² check disbursements totaling \$314,858 and found minor discrepancies in claims processing that we communicated to District officials. For example, six claims for fuel and other purchases made on a credit card, totaling over \$430, did not have adequate supporting documentation. We determined that the disbursements with supporting documentation appeared to be for proper District purchases.

The Treasurer prepares and presents to the Board monthly reports to account for the District's financial activities. The monthly report includes an abstract of claims, statements of cash and

¹ District officials contacted OSC to work on filing the late AUDs prior to the start of our audit.

² We selected disbursements from the months of January 2012, June 2012 and January – June 2013

budget-to-actual reports. We determined that, the budget-to-actual reports were not accurate. For the 2012 fiscal year, we found over \$12,000 in revenue not recorded in the budget-to-actual report, comprising all revenues received that were not related to real property tax receipts. We also traced expenditures for the period May 19, 2013 through July 1, 2013 from the abstract and check register to the budget-to-actual report and found four checks for almost \$2,200 that were not recorded on the budget-to-actual reports.

Although the disbursements we reviewed during our scope period appeared to be for proper District purposes, disbursing District funds without proper Board oversight could result in errors and/or irregularities occurring and not being detected and corrected in a timely manner. Finally, without accurate monthly financial information or the AUD, the Board may not be able to make a proper assessment of the District's financial position.

Recommendations

1. The Board should:

- Establish proper disbursement procedures including procedures to ensure that all disbursements have proper supporting documentation before payments are approved,
- Review the Treasurer's bank reconciliations to verify that all disbursements are proper District charges and to verify the District's cash balances and
- Ensure it is receiving accurate financial reports to perform its duties.

2. The Treasurer should:

- Ensure that the reports to the Board are accurate and
- File the delinquent AUDs with the Office of the State Comptroller and file future AUDs in a timely manner.

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.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

VIRGIL FIRE DISTRICT

Physical Address
1195 West State Road
Virgil, NY

(607) 835-6400
Mailing Address
1195 West State Road
Cortland, NY 13045

Commissioners
Stan Connelly
Dave Denniston
John Kaminski
Gerald Power
Mike Ten Kate

To: The Office of the State Comptroller

From: Virgil Fire District

Date: January 22, 2014

Re: 2014 Virgil Fire District Audit Finding Response

We appreciate this opportunity to review our books and financial procedures. We are taking your recommendations seriously and putting the necessary corrective actions in place. We would respond to your findings and recommendations as follows:

- 1) A. The Board currently, and for the past several years, reviews all disbursements at every meeting. We compare the purchase order to the disbursement documentation and ask the question if all purchases were necessary and if the items have been received. We had a credit card statement with itemized charges for the six claims as mentioned in your report. We did not have the actual paper receipt from the gas pumps etc. We have put a new procedure in place to reconcile the credit card statements and verify that each paper receipt is attached. As your report noted all charges appear to be for proper purchases.
B. The Treasurer's bank statements and reconciliation have been monitored in the past on a periodic and surprise basis. We are implementing a plan to review these on a regular, once a month basis prior to a monthly meeting. The Secretary opens bank statements and reviews prior to the Treasurer having access.
C. The Treasurer was providing accurate and timely reports to the best of their ability. We had been working with the Treasurer to improve the format and accuracy of those reports. The Treasurer had also turned to an outside book keeper for addition help in getting the reports out of the system. These attempts had still not developed the desired results. The Fire District has hired a new Treasurer to ensure that the proper reports and documentation are ready for our meetings to insure oversight of the District's finances. The new Treasurer has extensive education and experience in the field of finances. The Treasurer is now required to take additional training to understand the legalities of working within a fire district and how funds are to be documented. We are in the process of updating our software and computers to better produce and support the appropriate documentation of the district's finances. We have participated in an external audit for the previous four years and implemented all suggestions that came out of those audits. It appears your offices recommendations are outside of the scope of those audits completed by two separate CPA firms. We were under

Treasurer

Leon Stoll

Secretary

Bonnie Haines

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the false impression that we were within accepted procedures after reviewing those state mandated audit findings that cost the district between 6 and 7 thousand dollars per year. We have learned through this process not to believe that these state mandated audits will give us accurate information to be in compliance with the State Comptroller's Office.

2) A. See 1C above

B. We as a Board had an understanding that the AUDs had in fact been filed. The Treasurer had been working with an outside book keeper to file these and we had been told we were waiting for a response from the comptroller's office before the next one could be filed. At this point that appears not to be the case and the Board will review all material that was submitted and assure that these are filed on a regular basis moving forward.

As a Board we take this report seriously and would welcome any other recommendations or input that you could offer to help us do a better job as elected officials.

Respectfully Submitted,

John Kaminski

Virgil Fire District Chair

Treasurer

Leon Stoll

Secretary

Bonnie Haines