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February 2017

John Hobart, Chairman
Otisco Fire District
P.O. Box 571
Tully, NY 13159

Report Number: 2016M-415

Dear Chairman Hobart 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 Otisco Fire District (District) which addressed the following question:

- Did the Board have adequate financial management procedures in place to annually report the District's financial activity, review monthly reports and ensure District audit requirements were met?

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 agreed with our recommendations and indicated they planned to initiate corrective action.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town of Otisco, in Onondaga County. The District's 2016 general fund budgeted appropriations totaled approximately \$354,000 and were funded primarily by real property taxes.

The Board of Fire Commissioners (Board) is composed of five elected members and is responsible for the District's overall financial management and safeguarding its resources. The Board-appointed Secretary-Treasurer (Treasurer) acts as the District's chief fiscal officer and is responsible for the District's financial duties, including receiving and disbursing funds, maintaining accounting records, preparing necessary financial reports, filing the District's annual financial report with the Office of the State Comptroller (OSC) and meeting other reporting requirements.

We examined the internal controls over the District's financial operations for the period January 1, 2015 through July 31, 2016. 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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not our 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.

Audit Results

The Board is responsible for overseeing the District's financial activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls to help 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 obtain an independent audit of the District's records when annual revenues are \$300,000 or more.¹ An annual audit helps ensure that cash is properly accounted for and transactions are properly recorded.

The Treasurer must maintain complete, accurate and timely records to properly account for all of the District's financial activities and should prepare and submit financial reports to the Board. In addition, the Treasurer is required to prepare and submit an annual financial report of the District's financial condition to OSC within 60 days after the close of the fiscal year.

While it is the Treasurer's responsibility to file the annual financial report, the Board should have procedures in place to review the report for accuracy and ensure the Treasurer completes and submits it in a timely manner. These reports are important fiscal tools that provide the Board with necessary information to monitor District operations and provide other interested parties with a summary of the District's financial activities.

The Board needs to improve its oversight of the District's finances. The Board was unaware that the Treasurer has not filed an annual financial report with OSC for the last three years (2013 through 2015). Because the Board did not ensure that the Treasurer prepared the annual financial report in a timely manner, it did not have important information needed to monitor the District's financial activities.

Also, the Board did not contract for an independent annual audit of the Treasurer's records even though the District received more than \$345,000 in revenues during 2015. Board members told us they did not know they were required by law to have an audit. However, the Board included \$4,000 in its 2016 budget for an audit in the event it determined that one should be conducted. Without an

¹ The audit must be completed within 180 days after the close of the fiscal year.

audit, the Board has less assurance that the District's cash is properly accounted for and transactions are properly recorded.

In addition, while the Treasurer provides the Board with monthly reports of budget-to-actual results, cash balances and bills to be approved for payment, she does not present bank reconciliations and bank statements to the Board for review. The Treasurer told us she provided monthly bank reconciliations and statements to the Board only when requested and Board members told us they never requested them for review. As a result, the Board does not have any assurance that all cash reported on the bank statements has been properly accounted for and recorded in the accounting records.

We reviewed the Treasurer's bank reconciliations through the end of our audit period and found that the cash balance in the savings account was \$30,000 higher than was reported in the District's accounting records. We also noticed that this variance existed since November 2011.

The Treasurer told us that she routinely transferred funds from the savings account to the checking account to pay bills. The Treasurer believed the bank transferred the funds to the checking account incorrectly from another non-District bank account. The Treasurer accounted for this transaction in the savings account bank reconciliation as an outstanding transfer due back to the bank since November 2011.

Board members were unaware of this reconciling transaction until we brought it to their attention. District officials then contacted the bank and obtained a copy of a \$30,000 check that was deposited in the District's savings account in November 2011. They also located Board meeting minutes indicating that the funds originated from the sale of a District pumper truck.

District officials told us they believed that the former Chairman did not inform the Treasurer of his deposit of the funds into the savings account. Had the Treasurer provided the Board with monthly bank reconciliations, the Board would have been aware of the reconciling transaction and noticed the significant discrepancy in this account.

We also randomly selected 50 claims² totaling \$115,509 paid during our audit period and did not find any discrepancies. Specifically, the claims were supported with adequate documentation, audited and approved by the Board; were properly recorded in the accounting records; and were for legitimate District purposes. They also agreed with canceled checks. In addition, we determined that the Treasurer properly deposited real property taxes totaling \$345,790 for 2015 and \$344,053 for 2016 into the District's bank accounts.

Although we did not find any discrepancies with these claims and the deposit of real property taxes, because the Board does not review monthly bank reconciliations and bank statements the District has an increased risk that improper payments could be made without detection.

² Disbursements for our audit period totaled approximately \$456,000. We selected every fourth check disbursement from the Treasurer's accounting records during our audit period to obtain a sample of 50 claims (selecting the next check in sequence for outstanding and voided checks).

Recommendations

The Board should ensure that:

1. The Treasurer prepares and files annual financial reports with OSC within 60 days after the close of the fiscal year.
2. An independent accountant performs an annual audit of the Treasurer's records as required by law.
3. The Treasurer submits bank reconciliations and bank statements monthly to the Board for review.

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. 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 of the Otisco Fire District for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Otisco Fire District

P.O. Box 571
Tully, NY 13159

February 6, 2017

Office of the State Comptroller
Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
333 East Washington Street
Syracuse, NY 13202-1428

Re: Otisco Fire District Audit #2016M-415

Dear Ms. Wilcox,

This letter is to confirm that the Town of Otisco, Board of Fire Commissioners has received the draft audit report from your office dated January 11, 2017.

What follows is our response, including our Corrective Action Plan.

1. Audit Finding: The Treasurer prepares and files annual financial reports with OSC within 60 days after the close of the fiscal year.

District Response: We accept this recommendation. It is our position that the Fire District has prepared internal financial reports annually and such reports have been reviewed by the Board of Fire Commissioners. However due to changes in the electronic submittal process, the filing of the 2013 annual report was not in balance causing the submittal for that year and the following years to be delayed.

Corrective Action Plan: The Treasurer is in the process of finalizing the 2013, 2014 and 2015 financial report submissions with the assistance of the Office of the State Comptroller. All reports, including the 2016 financial report will be submitted electronically and finalized no later than 3/31/17.

2. Audit Finding: An independent account performs an annual audit of the Treasurer's records as required by law.

District Response: We accept this recommendation. It is our position that the Fire District Treasurer was not aware that the financial audit requirements had changed.

Corrective Action Plan: The Fire District will issue a Request For Proposal for an independent financial audit to be completed by 6/30/17.

3. Audit Finding: The Treasurer submits bank reconciliations and bank statements monthly to the board for review.

District Response: We accept this recommendation.

Corrective Action Plan: The Fire District Treasurer began providing bank statements and reconciliation reports to the board at the November 2016 monthly meeting. The Board of Fire

Commissioners review and sign each reconciliation report during their monthly meeting.

In closing, we would like thank the Office of the State Comptroller's audit team for their professionalism, thoroughness and courtesy displayed during the audit. We consider the audit an opportunity to ensure proper oversight in the management of the district's finances.

Respectfully,

John Hobart, Chairman
Town of Otisco
Board of Fire Commissioners