New York State Comptroller
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The Internal Audit Process

For Fire Districts

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Introduction: Fiscal Oversight

As members of the Board of Fire Commissioners (Board), you represent the legislative body responsible for governing the general affairs of the fire district. This responsibility includes providing fire district officers and employees with direction on how to conduct fire district business. You provide this direction by formulating, adopting and monitoring compliance with general policies and procedures (e.g., investment and procurement policies). Fire districts with revenue of $400,000 or more must obtain an external annual audit of their records by an independent certified public accountant or an independent public accountant. (see New York State Town Law, §181-B). The report must be presented to the Board with a copy provided to the town boards served by the fire district and the Office of the State Comptroller (OSC) within 180 days following the end of the fiscal year audited. Fire districts with annual revenues of less than $400,000 may obtain independent audits but are not required to do so. In addition to having an external annual audit, it is a good practice for the Board to conduct an internal audit of the officers and employees who handle money as part of their fire district duties.

The Board is responsible for the general management and control of fire district finances (Town Law, §§176, 179, 181, 181-A, 181-B). An important part of this responsibility is to routinely monitor and review the work performed by those who handle money as part of their fire district duties. This oversight becomes particularly important in operations that do not have adequate segregation of duties. If one person, such as the treasurer, performs nearly all financial duties (e.g., receives and disburses cash, maintains the accounting records and performs reconciliations), it may weaken controls over the fire district's financial operations.

Ideally, a fire district should have enough staff to ensure proper segregation of duties. However, due to potential costs, hiring additional personnel may not be an option. In such cases, it's essential for Board members to take a more active role in providing oversight and helping to ensure the integrity of the fire district's financial operations. Implementing a strong internal audit function is a key component of this oversight.

The Internal Audit Process

The Internal Audit Authority

Pursuant to Town Law, §177, at the annual organizational meeting, the treasurer shall:

- Account with the Board for all money received and disbursed during the preceding fiscal year,
- File a detailed statement in writing of the receipts and disbursements of the preceding year, and
- Produce all books, records, receipts, orders, vouchers and canceled checks (or check images).

In addition, the Board may require the treasurer to produce their books, records, receipts, orders, vouchers and canceled checks (or check images) for examination at any time.

What Is an Audit?

In this context, an audit is:

- A formal or official examination and verification of an account book, and
- A methodical examination and review.

What Is the Purpose of an Audit?

An audit provides assurance that public money is handled properly (e.g., money received is deposited in a timely manner, transactions are recorded properly, accountability is maintained), identifies conditions that need improvement and provides oversight and review into the financial operations of every officer and employee who receives money as part of their official fire district duties. At a minimum, an internal audit allows the Board to assess operations.

The Board should not assume that the treasurer's work requires no oversight or review. As the body responsible for the overall management and control of the fire district's finances, the Board must actively oversee and review the fire district's financial operations.

Who Is Responsible for Performing the Internal Audit?

Generally, the Board is responsible for performing the internal audit.

Important Concerns in the Internal Audit/Oversight Process

Bank Accounts and Reconciliations

- Are bank reconciliations being performed in a timely manner and are they available for review?
- Are all bank accounts in the fire district's name known to the Board?
- Does the adjusted bank balance (cash in the bank, adjusted for outstanding checks and deposits in transit) for each account agree with a book cash record?
- Who reconciles the bank accounts and how often?
- Does anyone verify the reconciliations?

Receipts and Disbursements

- Is money being deposited in a timely manner and intact (e.g., in the same monetary form as received)?
- Are payments properly authorized, recorded and supported by appropriate documentation?
- Are receipts for the year comparable with those of the previous year(s)? Do the receipts appear to be reasonable for the size of the operation in comparison with other years? Are major variations explainable?

Records

- Are records (ledgers, cash books, etc.) posted and up to date?
- Are transactions properly recorded?
- Are the records neat and orderly?
- Are records maintained in detail to support control account balances?

Reports

- Are periodic financial reports, and the Annual Financial Report (AFR) to the State Comptroller, prepared and submitted in a timely manner?
- Do the reports agree with the records?

Other

- What kinds of receipts and disbursements would you expect to reasonably find?
- Is there any oversight provided during the year of the work performed by the treasurer? If there is an individual helping the treasurer, does the treasurer review the work of the assistant?
- Is there any discussion of duties for internal control purposes?
- Are there significant safeguards for the protection of records and cash, such as a safe or locked file cabinet, offices with locks on the doors, regular deposits of cash, etc.?
- If authorized, are credit card purchases supported and for appropriate fire district purposes?

What Should Board Members Do if They Have Concerns About the Treasurer's Records?

If board members have concerns while reviewing the treasurer's records, they should communicate directly with the treasurer to seek clarification or an explanation. If the concerns remain, the Board should contact our Office for further guidance.

Cooperation

The internal audit of the treasurer's financial records is a key way the Board fulfills its responsibility for the general management and control of the fire district's finances. For this process to be carried out timely, cooperation is essential between the treasurer, any individuals assisting the treasurer, and the Board.

Treasurer's Finance Related Duties: An Overview

The treasurer serves as the chief fiscal officer of the fire district. Some of the finance-related duties and responsibilities of the treasurer include:

- Receiving, having custody of, and disbursing fire district money (Town Law, §177);
- Issuing receipts for money received (cash, checks and money orders) if there is no other evidence satisfactory for audit (New York State General Municipal Law (GML), §99-b);
- Depositing all money into the official fire district bank account within 10 days after receipt (Town Law, §177). However, for security purposes, money received should be deposited as soon as possible after receipt. More frequent deposits, even daily, are recommended when amounts received are significant and are in the form of cash;
- Maintaining a proper record of all fire district investments (GML, §11);
- Maintaining a record of each issue of bonds and notes when designated to do so by the finance board (New York State Local Finance Law (LFL), §163.00);
- Except as otherwise provided by law, disbursing money on order (resolution) of the Board (Town Law, §177);
- Disbursing money by checks payable to person entitled thereto (Town Law, §177), except for petty cash expenditures (Town Law, §176(4-c));
- Temporarily investing idle money when authorized by the Board (GML, §§11, 6-g; LFL, §165.00);
- Preparing an Annual Financial Report within 60 days after the close of the fiscal year and filing the report with the State Comptroller (GML, §30). Also, preparing and filing a financial statement detailing the receipts and expenditures of the district in the office of the town clerk of each town in which any part of the fire district is located (Town Law, §181(6));
- At the fire district's annual organizational meeting, accounting to the Board for all money received and disbursed during the preceding year and producing all books, records, receipts, orders, vouchers and canceled checks (or check images);

- Filing a detailed statement in writing of the receipts and disbursements of the preceding year at the annual organizational meeting. However, if authorized by resolution of the Board, a copy of the Annual Financial Report to the State Comptroller may be substituted for the detailed statement and submitted to the Board within 60 days of the end of the fiscal year (Town Law, §177);

- At any time, upon request of the Board, producing for examination books, records, receipts, orders, vouchers, and canceled checks (Town Law, §177);

- Presenting a list of expenditures from the petty cash fund, if any, for audit at each meeting of the Board (Town Law, §176(4-c)); and

- Preparing a debt statement and filing it with the State Comptroller and the fire district secretary prior to the public sale of bonds. The debt statement must show the district's debt contracting power and the amount of obligations proposed to be sold. Debt statement forms are furnished by the State Comptroller (LFL, §§109.00, 132.00, 141.00)

Checklist for Review of Treasurer's Records

Determine the types of funds in use and if separate cash receipt and disbursement books are maintained for the various funds or if a single cash receipt book and single cash disbursement book are maintained. The following checklist can be used for each fund maintained.

Cash Receipts Book	**YES**	**NO**
Is the cash receipts book kept up-to-date?	☐	☐
Is the cash receipts book maintained in a manner to identify date received, payor, purpose and the amount (either individually or totals referenced to subsidiary receipt records, such as real property taxes)?	☐	☐
Are deposits identified?	☐	☐
Are duplicate deposit slips kept?	☐	☐
Do deposit amounts agree with cash receipt amounts?	☐	☐
Are deposits made timely?	☐	☐
Are deposits recorded and up-to-date?	☐	☐

Last Recorded Deposit: Date _____ Amount _____

Is the receipt book totaled and summarized at the end of each month?	☐	☐

Cash Disbursements Book **YES** **NO**

Is the cash disbursements book kept up to date? ☐ ☐

Is the cash disbursements book maintained in a manner to identify amounts disbursed, either individually or totals referenced to abstracts, payrolls? ☐ ☐

Are pre-numbered checks used for all disbursements other than petty cash? ☐ ☐

Are all checks signed by the treasurer? ☐ ☐

Are canceled checks (or check images) returned with bank statements and maintained on file? ☐ ☐

Are all unused checks properly controlled? ☐ ☐

Is the cash disbursement book summarized and footed? ☐ ☐

Are all checks recorded up to date? ☐ ☐

Last Recorded Check: # _____ Date _____ Amount _____

Note: The first check of the current batch should be numbered one more than the last check of the previous batch **YES** **NO**

Cash Reconciliations

Are bank accounts reconciled? ☐ ☐

Is the reconciliation performed timely after the bank statements are received? ☐ ☐

Last Bank Reconciliation for Each Bank Account: ☐ ☐

Date Performed _____ Month Ending _____

Does the reconciled bank balance agree with cash balance recorded in the accounting records? ☐ ☐

Other Concerns	YES	NO	N/A
Does total year-end recorded cash agree with that reported in the Annual Financial Report?	☐	☐	
If you maintain any receivables, are receivable control accounts maintained?	☐	☐	☐
If you maintain any receivables, is there an indication that the receivable control accounts are reconciled to the detail subsidiary records?	☐	☐	☐

Investment Records	YES	NO
s an investment record maintained?	☐	☐
Is the record complete and up to date?	☐	☐

Indebtedness Records	YES	NO
Is an indebtedness register maintained?	☐	☐
Is the register complete and up to date?	☐	☐

Property Records	YES	NO
Are property records (inventories of fixed assets, such as equipment maintained?	☐	☐
Are the records up to date?	☐	☐
Are all fixed assets included in the records?	☐	☐
Are physical inventories taken and compared to the records?	☐	☐

Interim Financial Reports	**YES**	**NO**
Are interim reports prepared (budget/actual, trial balances, etc.)?	☐	☐
Are the reports distributed to the Board?	☐	☐

Payrolls	**YES**	**NO**	**N/A**
If you have department heads, are payrolls approved by the department heads?	☐	☐	☐
Are pay rates in accordance with union contracts or Board resolution (if applicable)?	☐	☐	☐
Is leave time accounted for (if applicable)?	☐	☐	☐

Overall Evaluation

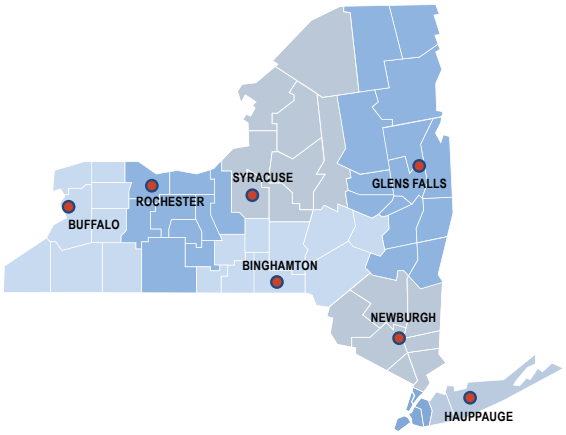
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Technical Assistance is available at any of our Regional Offices

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