



# Eastchester Fire District Internal Controls Over Financial Operations

## Report of Examination

Period Covered:

January 1, 2010 — December 31, 2011

2012M-94



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

September 2012

Dear Fire District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Fire Commissioner's governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Eastchester Fire District, entitled *Internal Controls Over Financial Operations*. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Eastchester Fire District (District) is located in the Town of Eastchester, and the Villages of Tuckahoe and Bronxville, in Westchester County. The District is a corporation of the State, distinct from the town and villages in which it is located, with the power to require the levy of taxes on real property. The District administers a fire protection company that has 72 paid firefighters, covers an area of roughly five square miles, and serves 34,000 residents. The District accounts for its financial activities in the general fund. The District's budget for fiscal years 2010 and 2011 totaled \$14,535,627 and \$14,489,855, respectively.

The Board of Fire Commissioners (Board), which comprises five elected commissioners, governs the District. The Secretary/Treasurer is the District's chief fiscal officer and is responsible for the custody, deposit, and disbursement of District money; maintaining proper financial records of District transactions; preparing monthly financial reports; and maintaining the Board's minutes and records. The District contracts with its external auditor to prepare quarterly financial reports and the annual report that is filed with the Office of the State Comptroller.

#### **Scope and Objective**

The objective of our audit was to evaluate the District's internal controls over financial operations for the period January 1, 2010 to December 31, 2011. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of the District's financial operations?
- Did District officials procure goods and services at the lowest cost?
- Did the Board properly audit District claims to safeguard District funds?

#### **Audit Results**

The Board did not fulfill its responsibilities of stewardship, oversight, and leadership. The Board did not comply with the law or the Office of the State Comptroller's (OSC) standards and did not establish sound business practices. Furthermore, the Board did not properly develop or monitor the District's budget and over-expended funds on various budget line items, which caused an operating deficit of \$195,000 in 2011. The Board did not develop a capital plan to address the District's deteriorating infrastructure, and the District addresses maintenance and repair needs on an emergency basis. In addition, the Board did not provide needed training to the Secretary/Treasurer; as a result, the District's financial records did not comply with accounting standards set forth by OSC. Finally, the Board did

not seek competition when procuring auditing services as required by Town Law. These control weaknesses put the District's assets at increased risk of loss.

Although the Board adopted a procurement policy, the policy does not include procedures for procuring professional services. The policy does provide a process for purchasing goods and services that are not required to be competitively bid. However, District officials did not always adhere to the policy and obtained professional services from 11 vendors, who received payments totaling \$394,191, without the benefit of competitive methods. In addition, the Board did not have written contracts with all of the District's professional services vendors. Furthermore, District officials did not obtain verbal and written quotations required by the policy for nine purchases totaling \$20,852. As a result, the District may not have paid the lowest prices for desired goods and services. These practices are not in the best interest of the District's taxpayers.

The Board did not develop a policy or procedures for auditing claims. We selected 15 vouchers totaling \$18,833 and found that these vouchers did not contain any evidence that the Board had audited them. In addition, the vouchers lacked sufficient documentation such as purchase approval, quotes and shipping slips to allow for a proper audit. Furthermore, the Secretary/Treasurer made prepayments that were not authorized by the Board. Without properly auditing and approving all claims before payment, the Board does not have adequate assurance that the purchases were properly approved or complied with District policies and regulations, or that the goods and services were actually received.

### **Comments of Local Officials**

The results of our audit and recommendations 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 recommendations and indicated they would initiate corrective action.

# Introduction

## Background

The Eastchester Fire District (District) is located in the Town of Eastchester, and the Villages of Tuckahoe and Bronxville, in Westchester County. The District is a corporation of the State, distinct from the town and villages in which it is located, with the power to require the levy of taxes on real property. The District administers a fire protection company that has 72 paid firefighters, covers an area of roughly five square miles, and serves 34,000 residents. The District accounts for its financial activities in the general fund. The District's budget for fiscal years 2010 and 2011 totaled \$14,535,627 and \$14,489,855, respectively.

The Board of Fire Commissioners (Board), which comprises five elected commissioners, governs the District. The Board designates the depositories for District funds, authorizes expenditures, and approves claims for payment. The Board appoints the Secretary/Treasurer annually at its organizational meeting. The Secretary/Treasurer is the District's chief fiscal officer and is responsible for the custody, deposit, and disbursement of District money; maintaining proper financial records of District transactions; preparing monthly financial reports; and maintaining the minutes and records of the Board. The District contracts with its external auditor to prepare quarterly financial reports and the annual report that is filed with the Office of the State Comptroller.

## Objective

The objective of our audit was to evaluate the District's internal controls over financial operations. Our audit addressed the following related questions:

- Did the Board provide adequate oversight of the District's financial operations?
- Did District officials procure goods and services at the lowest cost?
- Did the Board properly audit District claims to safeguard District funds?

## Scope and Methodology

We examined the Board's oversight of the District's operations, purchasing practices and claims processing for the period January 1, 2010 to December 31, 2011.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such

standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of  
District Officials and  
Corrective Action**

The results of our audit and recommendations 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 recommendations and indicated they would initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of 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. 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 of Fire Commissioners should make this plan available for public review in the Secretary/Treasurer's office.

## Board Oversight

The Board is responsible for managing and overseeing the District's overall fiscal affairs and safeguarding its resources. This responsibility includes establishing a system of internal controls which consists of policies and procedures that provide reasonable assurance that cash and other resources are properly safeguarded, transactions are authorized and properly recorded, financial reports are accurate, reliable, and filed in a timely manner, and that applicable laws, rules and regulations are observed. In addition, the Board has the responsibility for assigning authority to the appropriate individuals and developing the professional skills of key individuals within the organization.

An important component of any system of internal controls is the control environment or "the tone at the top." The control environment is the foundation of a good internal control system, providing discipline and structure upon which the other components are based. It reflects management's attitude about internal controls and includes the integrity, ethical values, and competence of the entity's personnel, and management's philosophy and operating style. When this foundation is not strong or the control environment is not positive, the overall internal control system will not be as effective as it should be. To establish an effective control environment, the Board must act with the highest ethical standards and carry out its oversight responsibilities in conformance with applicable laws, rules and guidelines that it expects its staff to follow. The Board must be a leader in diligently protecting public resources that are entrusted to it.

The Board did not fulfill its responsibilities of stewardship, oversight, and leadership. The Board did not comply with the law or the Office of the State Comptroller's (OSC) standards and did not establish sound business practices. Furthermore, the Board did not properly develop or monitor the District's budget and over-expended funds on various budget line items, which caused an operating deficit of \$195,000 in 2011. The Board did not develop a capital plan to address the District's deteriorating infrastructure, and the District has to make repairs on an emergency basis. In addition, the Board did not provide needed training to the Secretary/Treasurer; as a result, the District's financial records did not comply with accounting standards set forth by OSC. Finally, the Board did not seek competition when procuring auditing services as required by Town Law. These control weaknesses put the District's assets at increased risk of loss.

Budgeting – The Board’s role in overseeing the District’s financial condition is of particular importance. The Board is responsible for adopting realistic, structurally balanced budgets and monitoring the budget continually. The Board should obtain and review budget status reports as means to monitor the budget. These reports can provide the Board with information about year-to-date revenues and expenditures compared to budget estimates. At a minimum, these reports should identify unfavorable variances that require timely budget amendments to maintain control over spending and ensure compliance with applicable laws. The Board can establish a capital reserve to accumulate resources to finance the construction or acquisition of a capital improvement or a specific item or type of equipment. To provide transparency to the taxpayers, the Board should establish a capital plan and include provisions in the budget to transfer funds to these reserves.

We found deficiencies in the manner in which the Board budgeted for operations and capital purposes. The Board did not base operating budgets on expected results and did not forecast expected cash flow. For fiscal years ending 2006 to 2010, the Board accumulated unexpended surplus funds<sup>1</sup> of over \$4.2 million. This occurred because the District had operating surpluses in each of these five years totaling \$2.9 million. The operating surpluses occurred because the Board adopted budgets that included overestimated appropriations. For example, in the District’s 2010 adopted budget for fire contractual expenditures, the District budgeted \$1.1 million but actually expended \$688,000, a difference of \$412,000. Furthermore, in the same year, the District budgeted \$7.9 million for fire personal services but expended \$7.5 million, a difference of \$400,000. Because the Board adopted unrealistic budgets, the District’s taxpayers may have been taxed more than was needed during this period.

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<sup>1</sup> The Governmental Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term ‘unexpended surplus funds’ to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year’s budget (after Statement 54).

<b>Table 1: Results of Operations</b>						
<b>Fiscal Year</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Total</b>
Beginning Fund Balance	\$1,565,958	\$1,873,592	\$2,058,406	\$3,130,423	\$4,329,357	
Actual Revenues	\$11,606,876	\$12,998,446	\$13,519,089	\$14,508,174	\$14,637,806	
Actual Expenditures	\$11,412,135	\$12,813,632	\$13,037,100	\$13,309,240	\$13,771,639	
Operating Surplus	\$194,741	\$184,814	\$481,989	\$1,198,934	\$866,167	\$2,926,645
Interfund Transfers	\$112,893		\$590,028			
Fund Balance-Restricted	\$0	\$0	\$599,846	\$800,402	\$900,908	
Unexpended Surplus Funds	\$1,873,592	\$2,058,406	\$2,530,577	\$3,528,955	\$4,273,982	
<b>Total Year-End Fund Balance</b>	<b>\$1,873,592</b>	<b>\$2,058,406</b>	<b>\$3,130,423</b>	<b>\$4,329,357</b>	<b>\$5,174,890<sup>a</sup></b>	

<sup>a</sup> Includes a prior period adjustment of (\$20,634).

Board members stated that, in 2010, they intentionally accumulated this \$4.2 million in unexpended surplus funds (29 percent of 2011 budgeted expenditures) to fund renovations for the five fire houses. However, the Board did not have a capital plan or estimates of the costs to renovate the fire houses and therefore, could not support the accumulation of these moneys. A more transparent and appropriate method for accumulating funds for renovating the fire houses would be to include a specific budgetary provision for the transfer of funds to the capital reserve. An accurate estimate of the amount the Board intends to set aside in the capital reserve, when the budget is presented to District taxpayers, provides the voters the opportunity to decide whether they concur with this use of their tax money. The Board's current practice compromises the transparency of the budgeting process and denies the District's taxpayers the opportunity to decide in advance how their moneys should be expended.

Alternatively, in fiscal year 2011, the District incurred an operating deficit of approximately \$195,000. This deficit occurred because District officials over-expended several line items. Most significantly, District officials over-expended the building, repairs and maintenance budget line item by over \$422,000. This occurred because in 2010, the Board authorized a contract for replacement of the apparatus floor in Station 5; however, the Board did not include the appropriation for the cost of the floor or the financing method in the 2011 budget. Similarly, the District over-expended the following budget line items by a total of \$927,000:

<b>Table 2: 2011 Over-Expended Budget Line Items</b>	
<b>Budget Line Item</b>	<b>Amount Over-Expended</b>
Building Repair	\$422,000
Overtime Line	\$78,000
Labor Consultant	\$50,000
Workers' Compensation	\$162,000
Health Insurance	\$82,000
Other	\$78,000
Shop Equipment	\$55,000
<b>Total</b>	<b>\$927,000</b>

The deficit in 2011 occurred because the Board did not properly budget for operating expenditures and did not monitor the budget. The monthly Treasurer's reports used by the Board did not include a budget status report; therefore, the Board did not have a comparison of budgeted appropriations against actual expenditures. In addition, the Board did not assign anyone to monitor appropriations to ensure that sufficient moneys were available before expenditures were made. The failure to limit expenditures to available appropriations indicates that the Board is not using the budget to control spending. Although the District is currently in very good financial condition, and has \$4.2 million in unexpended surplus funds, these deficiencies increase the risk that moneys will not be available for necessary expenditures, which can result in depleted fund balance.

Capital Planning – Acquiring capital assets or financing capital improvements often requires significant outlays of cash. Capital assets such as machinery and equipment eventually break down and need replacement, and buildings and infrastructure need periodic repairs and renovations. If a municipality does not give adequate attention to asset replacement and improvement, it sometimes must operate in a crisis or emergency environment. To create an entity-wide, multi-year plan, the District should first establish capital program goals, objectives and criteria that are incorporated into a formal policy adopted by the Board. Such a policy will provide a framework for the District's long-term capital plan. A comprehensive policy should clearly identify the selection criteria for capital acquisitions and list, define, and rank the criteria in order of importance so that officials and others can effectively gauge capital acquisition requests. The District also should assess its capital assets by maintaining a detailed list of its infrastructure, buildings, and equipment.

After District officials address all aspects of the capital plan, the Board should approve the plan and formally adopt the annual budget, including the planned capital components. The Board and District

officials should periodically review the capital plan and make appropriate adjustments to ensure that projects remain on schedule and within budget. Overall, without comprehensive, long-term capital planning, local governments risk prioritizing projects inappropriately, as well as not funding them adequately.

The Board has not developed a capital plan and addresses needs as emergencies occur. The District has five fire houses and 16 vehicles (five pumpers, two ladders, one tower ladder, six pickups and suburbans, one bus, and one utility trailer). All five firehouses are in need of significant renovations; for example, in Stations 2 and 4, the apparatus floors are collapsing. The District has been shoring<sup>2</sup> the floors to try to maintain their integrity; in Stations 2 and 3, the roofs leak. The boiler in Station 4 is the original boiler that was installed in 1932. In addition, the average age of the District's vehicles are approximately 10 years. The replacement cost of these vehicles is approximately \$3.5 million. A long-term capital plan would help the Board better organize, prioritize and fund renovations and acquisitions and possibly avoid unnecessary costs.

Legal Compliance – Accounting Basis – The District's revenues are greater than \$500,000; therefore, it is required by law to use the modified accrual basis of accounting to maintain its financial records and report its financial activity. Under the modified accrual basis of accounting, revenues and other financial resources are recognized when they are measurable and available to finance that period's expenditures. Expenditures are generally recognized when the liability is incurred. This method provides a more accurate picture of the District's financial position than the cash basis of accounting, in which revenues and expenditures are recognized as cash is received and disbursed. The cash basis of accounting is not the desirable method to use because it can permit distortions in financial statement representations due to shifts in the timing of cash receipts and disbursements relative to underlying economic events near the end of a fiscal period.

The Secretary/Treasurer did not use the modified accrual basis of accounting to maintain the District's accounting records. Instead, she maintained the District's accounting records on a cash basis. The Secretary/Treasurer, who has worked for the District for over 20 years, stated that she has never received any accounting and budgeting-related training during her employment with the District. Therefore, she used the cash basis of accounting, which is method she is familiar with. As a result, the Board does not obtain financial data that provides a clear picture of the District's financial activities

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<sup>2</sup> Shoring is a general term used in construction to describe the process of supporting a structure to prevent collapse.

so that it can make sound financial decisions and provide oversight of budgetary controls.

Accounting Records – Complete and accurate accounting records maintained on a monthly and annual basis provide the Board with essential information it needs to effectively manage the District's finances. The information in these accounting records provides the foundation for the Board to monitor the District's financial operations and develop its budgets. In addition, good business practice requires that bank reconciliations are performed on a monthly basis. Bank reconciliations provide the opportunity for an internal verification of cash receipts and disbursements. General Municipal Law requires that checks or drafts that have been outstanding for more than one year be canceled and the amount returned to the fund which was originally charged.

The Board contracts with its external auditor to perform accounting duties and to prepare the annual financial reports. We found that the District's accounting records were not up-to-date and did not reflect the District's financial activities. In fact, the records had not been updated and bank reconciliation had not been performed for over five months. At the time of our review in January, 2012, the last completed bank reconciliation was performed for June 2011. That bank reconciliation reported over \$35,000 in outstanding checks that were written between January 2003 and December 2009 that had not been followed up on or canceled. Therefore, the District's accounting records do not reflect the actual amount of cash available to the District, which does not provide District officials with all information needed to make sound financial decisions. The external auditor stated that the District's records and bank reconciliations were not up to date because the Board did not sign the engagement letter in a timely manner and the auditor could not perform any work without the engagement letter.

Cash Deposits – Town Law requires cash to be deposited within 10 days of receipt. Timely deposits help to prevent the loss or misuse of District funds. We examined 26 cash receipts from the months of May and December 2011 totaling \$28,242.<sup>3</sup> Of the 26 deposits, 17 deposits totaling \$23,527 were deposited between 11 days to 30 days after receipt. The Secretary/Treasurer, who is responsible for making the deposits, stated that cash and checks are received sporadically; therefore, she keeps the receipts and deposits them at the end of the month. The Secretary/Treasurer was not aware that she was required to make deposits within 10 days of receipt of funds. Delays in making

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<sup>3</sup> See Appendix B, Audit Methodology and Standards, for details on our sample selection process.

deposits increase the risk of theft or loss, and reduce the District's interest income.

Legal Compliance – Audit Services – Town Law requires districts with revenues of \$200,000 or more to seek accounting and auditing services via a request for proposal (RFP) process. In addition, districts are required to prepare a corrective action plan within 90 days in response to any findings contained in the annual independent audit report or management letter, or any audit report issued by OSC.

The Board did not solicit RFPs for external audit services. Instead, the Board contracted annually with the accounting firm that it has been using for the last 30 years. According to the District's legal counsel, the Board was not clear on the interpretation of the law. Some members of the Board interpreted the law as stating an RFP for accounting and audit services was not required for a five-year period. However, using this time frame, the District would have had to issue an RFP at least six times, which it never did. In addition, the Board did not prepare a corrective action plan in response to findings contained in the annual independent audit report and management letter for fiscal years 2009 and 2010.

District officials stated the Board is planning on seeking auditing services via an RFP in fiscal year 2012. They added that the external auditors did not submit the management letter in a timely manner for 2010; therefore, District officials did not develop a corrective action plan. However, they did not provide an explanation for not developing a corrective action plan in response to the 2009 management letter.

Because the Board did not solicit competition for auditing services, it cannot be assured that it received these services at the most economical cost. Further, by not developing a corrective action plan in response to audit findings, the Board is not providing taxpayers with assurance that it will take the necessary action to safeguard District assets.

## **Recommendations**

1. The Board should take immediate action to strengthen the District's control environment by providing adequate oversight of the District's operations and ensuring the District is complying with relevant laws.
2. The Board should adopt realistic, structurally balanced budgets by using actual financial results from prior years to project future revenues and expenditures.

3. The Board should monitor operations throughout the year, and ensure that uncommitted appropriations are available before funds are encumbered or expended. The Board should not permit any appropriation account to be overdrawn.
4. The Board should establish a capital assets policy that reflects its long-term capital goals and objectives, and establishes parameters for the development and implementation of formal capital plans.
5. The Board should obtain training for the Secretary/Treasurer and implement the modified accrual basis of accounting.
6. The Board should provide more oversight, such as routine reviews of bank reconciliations and canceled checks, to minimize the increased risk of errors and/or irregularities occurring and going undetected and uncorrected.
7. The Board should develop procedures to address the timeliness of depositing cash receipts. The Secretary/Treasurer should make timelier bank deposits to reduce the risk of lost receipts.
8. The Board should comply with the law and seek auditing services via an RFP process and prepare a corrective action plan in response to audit findings.

# Procurement

An effective procurement process can help the District obtain services, supplies, and equipment of the right quality and quantity from the best qualified and lowest-priced source, and in compliance with Board policy and legal requirements. General Municipal Law (GML) requires fire districts to adopt internal written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements. The purpose of this requirement is to ensure the prudent and economical use of District moneys, to facilitate the acquisition of goods and services of desired quality at the lowest cost, and to guard against favoritism, extravagance, fraud and corruption. A properly designed internal control system also requires a sound purchase order process, including the formal approval of purchases prior to initiating transactions. It also is important for the Board to ensure that District officials enter into written agreements with professional service providers to provide a clear understanding of the services to be performed and the basis of payment.

Although the Board adopted a procurement policy, the policy does not include procedures for procuring professional services. The policy does provide a process for purchasing goods and services that are not required to be competitively bid. However, District officials did not always adhere to the policy and obtained professional services from 11 vendors, who received payments totaling \$394,191, without the benefit of competitive methods. In addition, the Board did not have written contracts with all of the District's professional services vendors. Furthermore, District officials did not obtain verbal and written quotations required by the policy for nine purchases totaling \$20,852. As a result, the District may not have paid the lowest prices for desired goods and services. These practices are not in the best interest of the District's taxpayers.

## Professional Services

An effective purchasing policy should require the use of competitive methods to obtain professional services. A request for proposal (RFP) process is one method to ensure that the District receives the desired service for the best price. District officials are responsible for obtaining a written agreement that provides both parties with a clear understanding of the services to be provided and the basis of compensation for those services.

The District's procurement policy was adopted in March 1992 and does not include procurement of professional services. The District paid 14 vendors a total of \$648,818 during the audit period for professional services. We found that the District obtained services

from 11 of the 14 vendors without the benefit of competition. The District paid these 11 vendors a total of \$394,191. Services procured from the 11 vendors included legal services costing approximately \$158,000, accounting and auditing services costing \$100,000, and realty services costing approximately \$59,000. We also found that the District did not have written agreements with three of the 11 vendors, who received \$42,652 during the audit period. According to District officials, the District repeatedly uses these vendors because it has a long history and relationship with them.

Without a competitive process and written agreements establishing the services to be provided, delivery timeframes, and compensation, the District may not be procuring services in the most prudent and economical manner and is at increased risk of paying for services that were not rendered.

## Quotes

The Board-adopted procurement policy requires that District officials and employees obtain three verbal quotes for purchases between \$1,000 and \$4,999. The policy also requires that the purchases' supporting documentation be attached to the voucher for payment.

District officials did not always obtain the necessary quotations outlined in the purchasing policy. We randomly selected and analyzed 12 purchases made from 12 different vendors totaling \$35,546 that required quotations. Nine of these purchases totaling \$20,852 did not have the required number of quotations. For example, the District paid \$2,153 for file cabinets and \$2,087 for truck parts; these purchases required three verbal quotations, but no quotes were documented. District officials stated that they typically use local vendors who have had a long-term relationship with the District.

District officials' failure to comply with the purchasing policy increases the possibility that the District paid more for goods and services, which results in unnecessary costs to District taxpayers.

## Recommendations

9. The Board should update the District's procurement policy to include the use of competitive methods when procuring professional services.
10. The Board should enter into written agreements with professional services providers.
11. District officials should implement the District's policy and obtain the required quotes when making purchases.

## Claims Auditing

The audit and approval of claims is one of the most critical elements of the District's internal control system. Town Law requires the Board to audit and approve all claims<sup>4</sup> against the District prior to directing the Secretary/Treasurer to pay them. The Board must adopt formal policies and procedures that include verifying that all claims are properly itemized and contain sufficient documentation to determine the nature of the purchase. Such policies and procedures should require verifying that amounts represent actual and necessary District expenses, and determining that the purchase complies with statutory requirements and District policies. Each claim should include a claim form (voucher), an approved purchase order, and an itemized receipt or invoice. Audited and approved vouchers should be listed on a warrant. All Board members should certify (sign) and date the warrants and adopt a resolution approving the warrants. The warrants must be specific as to the number and amount of claims that the Secretary/Treasurer is authorized to pay.

The Board did not develop a policy or procedures for auditing claims. The District paid approximately 1,700 claims totaling approximately \$11.4 million during our audit period. Although all vouchers were available for review prior to the Board meetings, the Board generally only reviewed and approved the warrants. Occasionally, Board members requested specific voucher packages to review; however, all vouchers were not audited by all Board members, as required by Town Law. In addition, although the Board adopted resolutions approving the warrants, the resolutions did not include the number or amount of vouchers the Secretary/Treasurer was authorized to pay. Furthermore, the individual vouchers were not signed and dated by any Board member to indicate approval.

Due to these control weaknesses, we randomly selected and reviewed the claims paid during the month of October 2011. During this month, the District made payments totaling \$357,247, which consisted of 74 vouchers. We selected 15 vouchers totaling \$18,833<sup>5</sup> to determine whether they were accurate, complete, legitimate, and had evidence of the Board's audit and approval. The 15 vouchers did not contain any evidence that the Board had audited them. In addition, the

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<sup>4</sup> The Board may, by resolution, authorize payment in advance of audit for claims for public utility services (electric, gas, water, sewer, and telephone), postage, freight, and express charges. However, the claims for such prepayments must be presented at the next regular Board meeting for audit.

<sup>5</sup> See Appendix B, Audit Methodology and Standards, for details on our sample selection.

vouchers lacked sufficient documentation such as purchase approval, quotes and shipping slips to allow for a proper audit.

Furthermore, the Secretary/Treasurer made prepayments that were not authorized by the Board. The prepayments included payments for tax certiorari cases, conferences, training and supplies. We reviewed all 52 vouchers totaling approximately \$5.4 million that were issued in fiscal year 2010 to determine the extent of the prepayments. We found that the Secretary/Treasurer made approximately \$468,000 in prepayments. Although the pre-paid claims appeared to have been for appropriate District expenditures, without properly auditing and approving all claims before payment, the Board does not have adequate assurance that the purchases were properly approved or complied with District policies and regulations, or that the goods and services were actually received. In addition, when claims are routinely paid without the Board's audit, there is an increased risk of misuse or diversion of District funds.

## **Recommendations**

12. The Board should develop policies and procedures for auditing claims.
13. The Board should ensure that all claims contain adequate supporting documentation and are audited and approved prior to payment.
14. The Secretary/Treasurer should not pay any claims, other than those allowed by law, which have not been audited and approved by the Board.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

FIRE DEPARTMENT  
of the  
TOWN OF EASTCHESTER, N.Y.

BOARD OF  
FIRE COMMISSIONERS

RAYMOND L. ALBANESE  
*Chairman*

-Raymond A. O'Hare  
-Dennis J. Winter  
-Richard Steigelman  
-Jerry Napolitano

HEADQUARTERS

255 MAIN STREET  
EASTCHESTER, N.Y. 10709-2901  
(914) 793-6402  
FAX (914) 793-8012

FIRE DISTRICT

MICHAEL P. GROGAN  
*Chief*

CARA M. PILIERO  
*Secretary to Board/Treasurer*

John P. Pettinella  
*Counsel*

Eastchester Fire District Response to the New York State  
Office of the Comptroller's Audit Findings

The Eastchester Board of Fire Commissioners ("Board") welcomes the opportunity to improve our internal controls over financial operations.

The Board truly understands our interests are directly aligned with that of the Office of the State Comptroller and our taxpayers, therefore we are very grateful for the vast time and energy expended to produce the audit findings.

The Board would especially like to thank the professionals of the OSC for their diligence and professional guidance during the entire audit process.

Recommendations and Board Response:

1. The Board should take immediate action to strengthen the District's control environment by providing adequate oversight of the District's operations and ensuring the District is complying with relevant laws.

Response -- The Board will adopt a formal policy for "Internal Controls" ("Policy") a copy will be provided to OSC within 30 days. The "Policy" will require the Board to review said Policy not less than annually and within 30 days of the Treasurer being appointed and or re-appointed each January.

2. The Board should adopt realistic, structurally balanced budgets by using actual financial results from prior years to project future revenues and expenditures.

Response -- The Board will produce a data file containing the last 6 years of actual budgets by line item. This history will aid as to tool to produce proposed budgets; copies will be provided at each budget workshop, budget hearing and budget meeting going forward.

3. The Board should monitor operations throughout the year, and ensure that uncommitted appropriations are available before funds are encumbered or expended. The Board should not permit any appropriation account to be overdrawn.

Response -- Board will seek to retain a certified CPA for the remainder of calendar year 2012 and all of 2013 to train and produce appropriate statement and reports.

4. The Board should establish a capital assets policy that reflects its long-term capital goals and objectives, and establishes parameters for the development and implementation of formal capital plans.

Response – Board will develop a long term capital improvement plan to address the needs of the Fire District and changes in fire load and emergency needs within the community. Completion date target will be March 31, 2013, copy will be supplied to OSC.

5. The Board should obtain training for the Secretary/Treasurer and implement the modified accrual basis of accounting.

Response –Board will seek to retain a CPA to train Secretary/Treasurer and require Secretary/Treasurer to attend course work in accounting, records managements, internal controls, digital records management as needed. The Board will also assess the workload and demands and staff according.

6. The Board should provide more oversight, such as routine reviews of bank reconciliations and canceled checks, to minimize the increased risk of errors and/or irregularities occurring and going undetected and uncorrected.

Response – The Board will increase view only online bank access to all Board members, in 2012 one board member has gained checking account access, the Board will direct the Chief of the Fire District to review all account actively. The Board will receive a monthly bank reconciliation report and review all cancelled checks and money wires monthly.

7. The Board should develop procedures to address the timeliness of depositing cash receipts. The Secretary/Treasurer should make timelier bank deposits to reduce the risk of lost receipts.

Response – The District's Treasurer will be directed to deposit all monies within 5 days and email the chief and Board when funds are deposited and if amount to be deposited exceeds \$10,000 than within 2 days.

8. The Board should comply with the law and seek auditing services via an RFP process and prepare a corrective action plan in response to audit findings.

Response – The Board will abide by the NYS OSC's interpretation of the law and will utilize an RFP process to select its auditors.

9. The Board should update the District's procurement policy to include the use of competitive methods when procuring professional services.

Response – The Board will address this issue within the Board's Policy of Financial Controls which is currently under review by the Board.

10. The Board should enter into written agreements with professional services providers.

Response – The Board will address this issue within the Board’s Policy of Financial Controls which is currently under review by the Board.

11. District officials should implement the District’s policy and obtain the required quotes when making purchases.

Response – The Board will address this issue within the Board’s Policy of Financial Controls which is currently under review by the Board.

Please do not hesitate to contact me with any questions or concerns.

Sincerely,

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Raymond Albanese, Chairman

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by the Board to safeguard District assets. To accomplish this, we performed an initial assessment of internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services. During the initial assessment, we interviewed appropriate Board and District officials, performed limited tests of transactions, and reviewed pertinent documents such as Board minutes and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected to audit the District's controls over financial operations, which included Board oversight and controls over purchasing and claims auditing for the period January 1, 2010, through December 19, 2011.

To accomplish our audit objectives and obtain relevant audit evidence, our procedures included the following tasks:

- We interviewed District officials to gain an understanding of the internal control policies and procedures used to control, record, and monitor cash assets and transactions.
- When testing the District's budgeting practices, we scheduled out all expenditures using the District's accounting scheme for 2011 (unaudited numbers) and compared them to the District 2011 budget. For 2010, we utilized the audited certified public accountant's report and the annual update document, and compared them to the 2010 Budget.
- When testing capital assets, we interviewed various District officials and went on a field review of the fire houses. For equipment, we obtained the District's inventory and insurance records and verified the vehicles, year of purchase, and original cost.
- When testing timelines of deposits, our population consisted of 176 cash receipts totaling \$95,824 during the 2011 fiscal year, which were organized by deposit date. We randomly selected two deposit dates which consisted of 26 cash receipts totaling \$28,242. We traced the cash receipts from source documentation to bank deposit receipts and credits on the bank statements to verify the timeliness of their deposit.
- We reviewed the accounting methods used by the District to determine if they were appropriate.
- We reviewed the minutes of the Board's proceedings to ascertain whether the Board properly authorized and approved all transactions.

- Our purchasing tests included: (1) We randomly selected 40 vendor names. (2) We grouped the number of payments and their totals to the corresponding vendor in the selection. (3) We developed a sample population of 372 payments totaling \$1,957,270. (4) Of the 372 payments, we randomly selected 38 payments totaling \$903,685. (5) Of the 38 payments, we selected 24<sup>6</sup> payments totaling \$175,667 and developed two categories to be examined: (a) Quotes and (b) Professional Services. Each category had 12 payments. We reviewed \$35,546 in payments made to 12 vendors to determine whether the District adhered to its purchasing policy regarding purchases made below competitive bidding requirements. We reviewed 12<sup>7</sup> payments totaling \$140,122 to determine whether the District used an RFP process to procure the services of professional service providers.
- We randomly selected the October 2011 warrant, which included 74 payments totaling \$357,247. We then selected 15 payments totaling \$18,833, beginning with the third payment and selecting every third payment thereafter to determine if payments made by the District were properly approved,<sup>8</sup> had sufficient documentation and were mathematically accurate.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>6</sup> The 24 payments were selected as a result of excluding 14 payments totaling \$728,018. These payments included tax certioraris, utility payments, bidding and miscellaneous payments.

<sup>7</sup> Of the 12 payments, two payments were made to the same vendor for different services-special projects.

<sup>8</sup> The term “approved” refers to whether or not District officials reviewed vouchers prior to payment to determine if the purchases were legitimate District expenditures.

## APPENDIX C

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