



Huntington Manor Fire District Cash Disbursements

Report of Examination

Period Covered:

January 1, 2013 — December 31, 2013

2014M-108



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2014

Dear 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 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 Huntington Manor Fire District, entitled Cash Disbursements. 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*

Introduction

Background

The Huntington Manor Fire District (District) is located in the Town of Huntington in Suffolk County. The District is a district corporation of the State, distinct and separate from the Town. The District covers approximately 15 square miles and serves nearly 42,500 residents. The District provides fire, rescue and emergency services and has 130 active volunteer members who responded to 958 alarms in 2013.

The District is governed by an elected five-member Board of Fire Commissioners (Board). The Board is responsible for the District's overall financial management, including establishing appropriate internal controls and safeguarding cash. Additionally, the Board is responsible for conducting a thorough audit of each claim presented before approving and releasing the claim for payment. The District Treasurer (Treasurer) is the District's chief fiscal officer and is responsible for receiving, maintaining custody of and disbursing District funds. The District's operating expenditures for the fiscal year ended December 31, 2013 were \$6,687,686, which were funded primarily with real property taxes.

Objective

The objective of our audit was to determine whether the Board provides adequate oversight of the District's cash disbursements process. Our audit addressed the following related question:

- Are District procedures over cash disbursements appropriately designed to safeguard District assets?

Scope and Methodology

We examined the District's cash disbursement procedures and related records and reports for the period January 1 through December 31, 2013.

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 is 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.

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. 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 District Secretary's office.

Cash Disbursements

The Board is responsible for establishing a system of internal controls over cash disbursements to provide reasonable assurance that cash and other resources are properly safeguarded, transactions are authorized and applicable laws, rules and regulations are observed. This includes ensuring that all claims are properly audited and are paid only after a warrant is certified by the Board authorizing payment. It is also important that the Board provides proper oversight of the check-signing process to ensure that all money disbursed is for District purposes.

The District's procedures over cash disbursements have not been appropriately designed to safeguard District assets. A majority of the Board does not audit claims prior to the Treasurer releasing payment. Also, the Board has authorized the District Secretary (Secretary) to sign checks using the Treasurer's signature stamp, and the Secretary is using the stamp without being supervised by the Treasurer. As a result of these weaknesses, District officials do not have adequate assurance that all cash disbursements are for valid District expenditures.

Claims Audit

Town Law requires the Board to audit and approve all claims against the District and, by resolution, order payment by the Treasurer of the amounts allowed. The Treasurer should not pay claims prior to Board audit except for those claims legally exempt from this requirement.¹ The Treasurer must list claims for payment on an abstract² and provide the supporting documentation for each claim to the Board so that the Board can thoroughly review the claims to determine whether they are appropriate District expenditures. After the Board audits and approves the claims, each Board member must sign and date each claim and the abstract to indicate their approval. The Board must then adopt a resolution to approve the abstract, which must include the total number and dollar amount of claims that the Treasurer is authorized to pay.

District officials told us that the Board approves abstracts by resolution at its meetings, usually after examining only a few of the claims listed. That same night, after the Board meeting, the Board Chairman reviews and signs each claim indicating his approval. However, because the Chairman does not date his signature, there is

¹ The Board may adopt a resolution that authorizes the Treasurer to pay certain claims, related to public utility services (i.e., electric, gas, water, sewer and telephone), postage, freight and express charges, before they are audited by the Board. However, the Treasurer must present these claims to the Board for audit at the next regular Board meeting.

² An abstract, also known as a warrant, is a list of claims.

no way to determine when he approved the claims. After the Board approves the abstract, the Treasurer directs the Secretary to print and mail the checks. The Secretary then adds the check numbers for the claims paid on the abstract and presents this revised abstract to the Board at its next monthly meeting, at which time the Commissioners then sign the abstract to indicate their final approval to pay the claims. However, the majority of claims are paid without being audited by a majority of the Board Chairman and Commissioners.

The District processed and paid 1,065 claims totaling \$2,020,503 from January 1 through December 31, 2013. We reviewed 30 claims totaling \$168,715 paid during August 2013³ and found that all 30 claims were paid and cleared the bank without a clear indication of having been audited. For example, the District wrote a \$114,308 check to a vendor for fire rescue insurance that cleared the bank the day before the Board saw it listed on an abstract and was aware that it existed. In addition, the Treasurer added two claims totaling \$1,141⁴ to the same abstract after the Board meeting. The Board stated that it is informed of each claim at least by phone or a text message before it is paid. However, we found no documentation to indicate that the Board was aware of these two claims until the Treasurer presented the final abstract to the Board, well after the claims were paid.

Although two of the 30 claims totaling \$2,149 we reviewed were for utilities, which would have met the legal criteria for being paid before audit, the Board did not adopt a resolution authorizing the Treasurer to pay utilities, postage and freight prior to the Board's audit of the claims. Because the Board did not adopt such a resolution, all 30 claims were improperly paid before being audited by the Board.

When the District pays claims before they are audited by at least a quorum of the Board, it has an increased risk that District moneys could be used for inappropriate or unauthorized purposes.

Signature Stamp

As the District's chief fiscal officer, the Treasurer is the official custodian of all District moneys and is responsible for depositing these moneys in designated banks and disbursing them, generally only upon receipt of a signed abstract or certified payroll. As such, the Treasurer is authorized to sign all checks issued on the District's behalf. The Board may also appoint a Deputy Treasurer to sign checks in the Treasurer's absence or inability. However, the Deputy Treasurer must sign their own name when signing District checks. A signature stamp should be used only by the individual whose name it

³ We selected claims paid during August 2013 because this month had the largest number of disbursements during our audit period. Refer to Appendix B for further information on our sample selection.

⁴ \$910 paid to an optometrist and \$231 paid to a bakery

bears or under that person's direct supervision, and it should be stored in a secure location.

An important principle of internal control requires that no individual has uncontrolled access to the entire claims payment processing cycle. The Board must segregate the claims processing duties of preparing the abstracts, entering payments into the accounting system and printing and signing the checks, or it must provide oversight of and routinely monitor the work performed by the individual who has these incompatible duties.

The Board adopted a resolution authorizing the Treasurer to sign all District checks and authorizing the Secretary to sign checks using the Treasurer's signature stamp upon authorization of the Board and Treasurer. However, the Secretary told us that she maintains custody of the Treasurer's signature stamp and uses it to apply the Treasurer's signature to all checks, whether or not the Treasurer is present. Because the Treasurer does not sign checks or routinely supervise the Secretary while she is using the signature stamp to sign checks, the Treasurer has relinquished her check-signing responsibilities to the Secretary.

Furthermore, in the Treasurer's absence, the Secretary has incompatible financial duties because she performs all of the District's claims payment duties without supervision. The Secretary prepares the abstracts, enters the payments into the accounting system and prints and signs the checks with the Treasurer's signature stamp. As a result, the Secretary can initiate, pay and record payments without the Treasurer's oversight. The Secretary could add claims to abstracts that were not approved by the Board and use the Treasurer's signature stamp to make unauthorized payments. Because the Board does not audit the claims and signs the abstracts after the payments are made, it cannot ensure that all payments made are for valid District purposes.

Although our review of 30 claims totaling \$168,715 did not reveal any material discrepancies,⁵ the District has an increased risk that unauthorized payments could occur and could remain undetected.

Recommendations

1. A least a quorum of the Board should audit all claims before they are paid and sign and date the approved claims and abstract, in addition to adopting a resolution to indicate the claims that the Treasurer is authorized to pay. The Board should ensure that the resolution includes specific information about all audited and approved claims, including the total number and dollar amount of claims that the Treasurer is authorized to pay.

⁵ All payments appeared to be for valid District purposes. Refer to the Claims Audit section for further information on our review of these claims.

2. If the Board is inclined to allow the Treasurer to pay claims legally permitted to be paid before they are audited, it should adopt a resolution to this effect.
3. The Treasurer should pay claims only after they have been audited and approved by the Board, except for those claims that are legally allowed to be paid before Board audit.
4. The Treasurer should maintain control of her signature stamp. If the Treasurer allows another individual to use her signature stamp, she must supervise this individual while he/she is using it to sign checks.
5. The Board should consider appointing a Deputy Treasurer or alternate signatory to sign checks, only with their own signature, in the Treasurer's absence.
6. The Board should segregate the Secretary's claims payment duties so that this individual does not control all aspects of the claims payment processing cycle. If it is not feasible to adequately segregate the Secretary's duties, the Board should establish compensating controls to routinely monitor and review the Secretary's work during the Treasurer's absence.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

VIA E-MAIL/ FACSIMILE/ REGULAR MAIL

June 5, 2014

Mr. Ira McCracken
Chief Examiner of Local Government
And School Accountability
Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: Huntington Manor Fire District;
Cash Disbursements
Report of Examination;
2014 M-108;
Response to Draft Report and Corrective Action Plan

Dear Mr. McCracken:

This communication will confirm that the Board is in receipt of your draft report and the amended findings and would like to submit our comments on the report following the exit conference. We would also ask that this Response be considered as our Correction Action Plan since we have developed a plan to address the findings and recommendations in the audit report. The Board understands that it has an obligation to issue a Response and Corrective Action Plan, and believes that this communication achieves both objectives. The Board views the audit and the report as an opportunity to review and improve upon our practices and procedures and we certainly intend to take this opportunity to improve these practices and procedures.

The following are our specific comments with reference to findings in the report [as amended] that has been presented to us:

CLAIMS PROCESSING

The report raised concerns about Board practices and procedures with regard to processing and paying claim vouchers. The Board will institute a new procedure where all Commissioners will review each claim voucher and its back-up documentation prior to or at the meeting at which it is approved to the extent that such action is feasible, but at minimum at least

three members consisting of the approving majority at the Board meeting will have reviewed and approved the claim vouchers that are ordered paid at a meeting.

Thus, when claim vouchers are submitted for payment approval at a meeting a list or warrant of all such claim vouchers together with the actual claim vouchers (with their backup documentation) will be submitted to the members of the Board present. Only those claim vouchers that have been reviewed and approved for payment by a minimum of three Commissioners (quorum and majority of the Board) will be paid. The approval will be done in the form of a resolution authorizing the payment of the list or warrant of approved claim vouchers. The approved warrant will be attached to the minutes of the meeting. Review of the actual claim vouchers will also be indicated by the Commissioner signing the claim voucher form.

PREPAYMENT OF CLAIMS BY THE TREASURER

The Board will follow the procedures outlined in Town Law § 176 with regard to permitting the Treasurer to prepay certain claims in advance of Board meetings. Under the new procedure the Treasurer will be permitted to make payments for the following types of claims in advance of the Board meeting and Board audit;

- fixed salaries,
- compensation for services of officers or employees regularly engaged by the fire district at agreed wages by the hour, day, week, month or year unless so required by resolution of the board of fire commissioners adopted at the organization meeting in the month of January,
- the principal of or interest on obligations issued by the fire district,
- fixed amounts becoming due on lawful contracts for the purchase of water for fire protection, and
- amounts which the fire district may be required to pay to the state employees' retirement system on account of contributions for past and current services of firemen.

In addition the Board will adopt a specific resolution to expand the prepay items to include claims for;

- light,
- telephone,
- postage,
- freight and
- express charges.

These prepayments will be listed on the warrant of claims for the next meeting and ratified by the Board when it approves the warrant.

Items that are not covered by this list will not be prepaid and will await a Board meeting. If a finance charge or late charge is imposed it will be paid as part of doing business in accordance with state law restraints.

TREASURER STAMP

The Board will discontinue the use of a signature stamp by the Treasurer unless she is actually using the stamp. Others will not be permitted to use the stamp. The stamp will be locked in her desk and not available for others to use. The Board will consider the appointment of a deputy treasurer. The Secretary will not have access to the Treasurer's stamp and thus, her claims processing duties will not raise segregation issues.

CORRECTIVE ACTION PLAN

The Board would respectfully request that this response also be considered its corrective action plan for purposes of statutory compliance.

Very truly yours,

CARLO A. CONTE
Chairman
Board of Fire Commissioners

Cc: Board of Fire Commissioners, Huntington Manor Fire District

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We interviewed appropriate District officials to obtain an understanding of the organization and the accounting system and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes and financial records and reports. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we evaluated the District's internal controls for the risk of potential fraud, theft or professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected cash disbursements for further audit testing. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed District officials and staff about existing internal controls over the cash disbursements process, including the Board's audit of claims and the use of the Treasurer's signature stamp.
- We reviewed policies and procedures over cash disbursements, particularly the audit of claims and the check-signing function.
- We identified August 2013 as the month with the largest number of claims. We then judgmentally selected 30 claims from this month based on vendor names and largest dollar amounts. We examined each of these claims and the supporting documentation, along with the related warrants and canceled checks, to ensure purchases were for legitimate District purposes and that the Board audited and approved each claim before the claim was paid.

We conducted this performance audit in accordance with 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.

APPENDIX C

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