



Islip Terrace Fire District

Claims Audit and Payroll

Report of Examination

Period Covered:

January 1, 2013 — May 31, 2014

2015M-49



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2015

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 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 Islip Terrace Fire District, entitled Claims Audit and Payroll. 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 New York State 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

EXECUTIVE SUMMARY

The Islip Terrace Fire District (District) is located in the Town of Islip (Town) in Suffolk County. The District is a district corporation of the State, distinct and separate from the Town, and is governed by an elected five-member Board of Fire Commissioners (Board). The District Treasurer (Treasurer) is the District's chief fiscal officer and is appointed by the Board. The Treasurer is responsible for the receipt, custody and disbursement of District funds. Board responsibilities include approving the annual operating budget, adopting District policies, auditing District claims and ordering the Treasurer to pay claims.

The District's 2014 adopted general fund budget was about \$2.47 million, which was funded primarily with real property taxes. During 2013, the District's total expenditures were \$2.45 million, including about \$455,600 for salaries and wages.

Scope and Objective

The objective of our audit was to examine the District's claims audit process and payroll procedures for the period January 1, 2013 through May 31, 2014. Our audit addressed the following related questions:

- Did the Board ensure that disbursements were properly audited and authorized prior to payment?
- Did the Board ensure that pay rates and time and attendance were properly authorized and recorded?

Audit Results

The Board needs to improve its claims auditing procedures. We found that the Board did not authorize payment of claims by resolution, but instead allowed claims to be paid before its meetings after approval by any three Commissioners.

The Board also did not require the Treasurer to provide it with an abstract listing all the claims, which the Commissioners could then review and compare with the individual claim vouchers when performing the claims audit. We found no evidence documented in the Board minutes that the Board approved an abstract before the Treasurer paid the February and March 2014 disbursements. As a result, there is a risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

The Board also needs to improve controls over payroll to ensure that pay rates are properly authorized and time and attendance is properly recorded. During 2013, salaries and wages totaled about \$455,600, or 18 percent of total District budget appropriations. However, District officials were unable to provide any documentation showing Board approval for the 2013 salary and wage increases for six District employees. In 2014, District officials gave 3 percent raises to all District employees without Board approval and no documentation was maintained to determine if the Board approved the Treasurer/Secretary's annual \$65,000 salary.

Finally, while the District has a time clock system, not all District employees were required to use it or sign and certify that the hours reported on the time cards was accurate. Slightly more than half of the timecards we reviewed were not signed by the District Supervisor, and a Commissioner, and two salaried employees, who are not required to use the time clock system, did not consistently complete any other form of time record.

When payroll is paid without Board-authorized rates, employees could be paid at a higher rate than the Board intended. In addition, not maintaining accurate time records and processing time cards without employees' signatures and supervisory approvals compromises payroll payment accuracy and increases the risk of improper payments or unauthorized absences

Comments of District 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 planned to initiate corrective action.

Introduction

Background

The Islip Terrace Fire District (District) is located in the Town of Islip (Town) in Suffolk County. The District is a district corporation of the State, distinct and separate from the Town, and is governed by an elected five-member Board of Fire Commissioners (Board). The District covers nearly 1.4 square miles in the Town of Islip and serves approximately 5,600 residents with four fire companies and one emergency services squad. The District has approximately 95 volunteer members and has five full-time and 25 part-time employees.

The Board is responsible for the District's overall financial management. Board responsibilities include approving the annual operating budget, adopting District policies, auditing District claims and ordering the Treasurer to pay claims. The District's 2014 adopted general fund budget was about \$2.47 million, which was funded primarily with real property taxes. The District's total expenditures for 2013 were \$2.45 million, which included salaries and wages totaling about \$455,600.

The District Treasurer (Treasurer) is the District's chief fiscal officer and is appointed by the Board. The Treasurer is responsible for the receipt, custody and disbursement of District funds. The District Secretary (Secretary) is responsible for recording Board proceedings and retaining the District's administrative records. During the audit period, the Treasurer and Secretary duties were performed by one individual; however, District officials have since divided these duties.

Objective

The objective of our audit was to examine the District's claims audit process and payroll procedures. Our audit addressed the following related questions:

- Did the Board ensure that disbursements were properly audited and authorized prior to payment?
- Did the Board ensure that pay rates and time and attendance were properly authorized and recorded?

Scope and Methodology

We examined selected District claims and payroll records for the period January 1, 2013 through May 31, 2014.

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 planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the New York State Town Law (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.

Claims Audit

Town Law requires a majority of the Board as a whole to audit all claims against the District and, by resolution, order the Treasurer to pay the amounts allowed.¹ It is essential for the Board to conduct a deliberate and thorough review of all claims to determine whether the proposed payments are for proper and valid charges against the District, the goods and services were actually received or rendered and the expenditures were incurred by authorized District officials. The Board's authorization to pay each claim should also be documented in the Board minutes.

The Treasurer is responsible for preparing an abstract (list of claims) which identifies each claim and includes the vendor, account code to be charged and the amount to be paid. It is important for the Board to review the abstracts and supporting documentation, including bank statements, to ensure that all claims are properly documented, the Treasurer has submitted all claims for audit and all checks are properly and accurately prepared.

After the Board audits and approves each claim listed on an abstract, this document becomes an order authorizing the Treasurer to pay the claims, and thus it should specify the total number of claims and the total dollar amount the Treasurer is authorized to pay. Additionally, comparing prepared vendor checks with the amounts listed on the abstract can assist the Board in detecting unauthorized or erroneous checks before they are sent to vendors or distributed to employees.

The Board needs to improve its claims processing procedures. We found that the entire Board did not authorize payment of claims by resolution, but instead allowed claims to be paid before its meetings after approval by any three Commissioners. Because the claims were approved by three Commissioners, not the entire Board, claims were not properly authorized and all Commissioners were not given an opportunity to review all claims.

As a matter of practice, all claim vouchers were available for Board members to review and approve as soon as the Treasurer prepared the claims. However, three Commissioners² would approve the claims before a Board meeting and the Treasurer would then prepare the checks.³ Once signed, the checks were mailed without any approval

¹ The Board may, by resolution, authorize the payment of claims for utilities, postage and freight before audit. However, these claims must be audited and approved by the Board at its next meeting.

² The first three Commissioners to visit at the Board room, which was sometimes several days before a meeting

³ The Treasurer and one Commissioner signed all District checks.

by the Board as a whole at the Board meeting. In addition, the Board did not require the Treasurer to provide it with an abstract listing all the claims, which the Board could then review and compare with the individual claim vouchers when performing the claims audit.

Because the Board was not provided with this list, it cannot be sure that all District claims are reviewed and approved before payment. Further, the approval of claims was not documented in the Board minutes. The minutes also did not include sufficient information showing the total dollar amount of claims authorized for payment.

We reviewed all disbursements made from February 1 through March 31, 2014 totaling \$276,798 for gaps in check number sequences and duplicate payments. We also compared the disbursement journal with bank statements and canceled or voided checks to determine if any inconsistencies existed. We also reviewed all blank check stock inventory and bank reconciliations completed for February and March 2014.

Finally, we examined 20 claims totaling \$18,120 paid during February and March 2014 to determine whether these disbursements were Board-approved and legitimate District expenditures. Our review of Board minutes showed no evidence that the Board approved an abstract before the Treasurer paid these disbursements. Further, the checks for 10 of these claims totaling \$4,214 cleared the bank before the subsequent Board meeting. Our review did not disclose any material discrepancies and the disbursements we reviewed appeared to be proper District purchases.

According to the Treasurer, in the past District officials followed the practice of submitting an abstract for the entire Board's approval. However, the Treasurer told us she no longer submits an abstract to the Board because the Board did not require it and District officials felt it was sufficient to have at least three Board members (a majority) approve the claims before the checks are released for payment.

As a result of these deficiencies, claims are paid without proper Board authorization and there is an increased risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

Recommendations

1. The entire Board should audit all claims before payment and properly document approval in the minutes, including the total number of claims and total amount approved for payment.
2. The Treasurer should verify that the Board audited and approved each claim for the amount listed on the abstract and should ensure that checks are disbursed only after the audit.

Payroll

Payroll costs represent a significant portion of District operations, and, therefore, it is important that the District has good controls over payroll records. To properly control and account for payroll costs, the Board should adopt policies and procedures requiring Board approval of pay rate increases and adopt provisions to ensure that time worked is properly approved, documented, monitored and controlled so employees are only paid those amounts to which they are entitled. Additionally, District officials should periodically monitor these procedures to determine if they are being correctly and consistently applied. Board-approved pay rates provide important controls over payroll costs and help prevent other District officers and department heads from establishing different pay rates or salary schedules without proper approval.

The Board needs to improve controls over payroll to ensure that pay rates are properly authorized and time and attendance is properly recorded. During 2013, salaries and wages totaled about \$455,600, or 18 percent of total District budget appropriations. However, District officials were unable to provide any documentation showing Board approval for the 2013 salary and wage increases for six District employees. Additionally, in 2014, District officials gave 3 percent raises to all District employees without evidence of Board approval. Finally, no documentation was maintained to determine if the Board approved the Treasurer/Secretary's annual \$65,000 salary.

An important component of accounting for employees' time worked is maintaining a system that accurately captures the time that employees work. While the District has a time clock system, not all District employees were required to use it. In addition, employees were not required to sign and certify that the hours reported on the time cards were accurate. While it has been the District's practice to have the time cards reviewed and signed by the District Supervisor (Supervisor) and one Commissioner, this was not consistently done.

We reviewed payroll payments for all seven District employees (five full-time and two part-time) for the three-month period March 1 through May 31, 2014, which included six biweekly pay periods. Although not Board-approved, we used the "2014 wage rate" table prepared by the Treasurer to compare pay rates with the amounts paid.

While the amounts paid to five employees who used the time clock system agreed with the time records, none of the time cards we reviewed were signed by an employee. In addition, 16 of 30 timecards

we reviewed were not signed by the Supervisor and a Commissioner. Two salaried employees who are not required to use the time clock system did not consistently complete any other form of time record. One of these employees maintained a calendar detailing time worked, but, because her supervisor did not routinely review it, the calendar was insufficient to support the time she worked. Finally, we found no resolution documenting Board approval for the 3 percent pay raise given to District employees or the Treasurer/Secretary.

When payroll is paid without Board-authorized rates, employees could be paid at a higher rate than the Board intended. In addition, not maintaining accurate time records and processing time cards without employees' signatures and supervisory approvals compromises payroll payment accuracy and increases the risk of improper payments or unauthorized absences.

Recommendations

The Board should:

3. Approve all employee pay rates and rate increases before employees are paid.
4. Require that all employees complete a time reporting record or time sheet and that all time sheets or time cards are reviewed and signed by employees, their respective supervisors and the Supervisor and Commissioner before payroll processing.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

ISLIP TERRACE FIRE DISTRICT

264 Beaverdam Road
Islip Terrace, New York 11752

May 13, 2015

Office of the State Comptroller
Division of Local Government & School Accountability
PSU-CAP Submission
110 State Street 12th fl.
Albany, N.Y. 12236

ISLIP TERRACE FIRE DISTRICT
CLAIMS AUDIT AND PAYROLL /January 1, 2013-May 31, 2014
REPORT # 2015M-49
Please be advised our Audit response will also serve as our CAP

The BOFC would like to note a major transition of personnel during the audit period had taken place, and since then all of the recommendations have been instituted and are in place to date.

CLAIMS AUDIT RECOMMENDATION: The entire Board should audit all claims before payment and properly document approval in the minutes, including the total number of claims and the total amount approved for payment.

RESPONSE:

IMPLEMENTATION PLAN OF ACTION/DATE/RESPONSIBLE PARTY.

Effective November 24, 2014 the District Treasurer submits the monthly warrants and claims to the BOFC for review and approval. In addition the BOFC has kept its policy which requires a three signature voucher approval before presenting to the Treasurer for check preparation. The Treasurer then prepares the warrants and claims report along with the checks at the Board meeting where the amounts are included in the minutes.



John Faracco
Robert Schmidt
Tony Chiofalo
Peter Peluso
Tony Maieli

Chairman
Vice Chairman
Commissioner
Commissioner
Commissioner

Phone: (631) 581-1560
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ISLIP TERRACE FIRE DISTRICT

264 Beaverdam Road
Islip Terrace, New York 11752

PAYROLL AUDIT RECOMMENDATION:

Approve all employee pay rates and rate increases before employees are paid.

Require all employees complete a time reporting record or time sheet and that all time sheets or time cards are reviewed and signed by the employee, their respective supervisor and the Manager and Commissioner before payroll processing.

IMPLEMENTATION PLAN OF ACTION/DATE/RESPONSIBLE PARTY:

RESPONSE:

Effective January 1, 2015. All yearly pay rate increases are attached/included in the Organizational meeting minutes for the year.

Effective January 1, 2015, all employee time cards are signed by the District Supervisor, reviewed and signed off by a Commissioner and processed by the District Treasurer. In addition any salaried employees complete a time stated calendar which is signed by their Supervisor and attached to their payroll records.

Signed:

John Faracco, Chairman
ISLIP TERRACE FIRE DISTRICT

DATE: 5-13-15

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the District's claims audit process and payroll procedures. To accomplish our audit objective and to obtain valid audit evidence, our procedures included the following:

Claims Audit

- We reviewed policies and procedures related to claim vouchers and cash disbursements.
- We interviewed District officials and reviewed Board minutes to gain an understanding of the policies and procedures used to control, record and monitor claims auditing activity.
- We reviewed the District's cash disbursements journal, blank check stock inventory, bank statements, positive pay statements,⁴ canceled and voided checks, bank reconciliations and bank statements during February 1 through March 31, 2014 to determine if there were any inconsistencies. We chose our test period to include the most current completed months of financial activity during our audit period.
- We reviewed District cash disbursements for our previously selected test period to identify check sequence gaps and unauthorized payments.
- We examined 20 claims vouchers paid during our test period to determine if those claims contained proper Board approvals. We also reviewed controls and the propriety of District cash disbursement processes, which included the District's positive pay and bank statement activity. To select our sample, we chose every seventh claim paid during the test period.
- We reviewed Board minutes from January 27, 2014 through April 14, 2014 to document any Board authorizations of abstracts or claims.

Payroll

- We reviewed policies and procedures related to payroll and leave accruals.
- We interviewed District officials involved in the payroll process to gain an understanding of the District's payroll and leave accrual procedures and practices as they pertained to all employees.
- We reviewed District employee agreements and Board minutes for employment terms, conditions and agreements.

⁴ Positive pay is a fraud protection system with the District's bank. The District sends check information in an encrypted electronic file to the bank. The bank allows a check to clear if there is an exact match with a check in the file.

- We reviewed and determined the accuracy of payroll payments against Board-approved rates and individual employment agreements for all employees paid during the three-month period March 1 through May 31, 2014. We chose our test period to include the most current completed months of payroll activity during our audit period.
- We reviewed and traced leave time from sign-in sheets to payroll and employees' accrued leave records for these employees to determine whether leave time was properly earned, used and accounted for.
- We reviewed electronic payroll data for these employees for our audit period.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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