



# North Patchogue Fire District

## Fuel Inventory and Cash Disbursements

### Report of Examination

Period Covered:

January 1, 2013 — June 30, 2014

2015M-81



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**

July 2015

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 North Patchogue Fire District, entitled Fuel Inventory and 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 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

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### EXECUTIVE SUMMARY

The North Patchogue Fire District (District), located in the Town of Brookhaven (Town) in Suffolk County, is a district corporation of the State, distinct and separate from the Town. The District covers 6.6 square miles and provides fire protection and emergency rescue services to approximately 18,000 residents. 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 assets.

The appointed District Treasurer (Treasurer) serves as the chief fiscal officer and is responsible for receiving, maintaining custody of and disbursing District funds, maintaining financial records and preparing monthly and annual reports. The District Manager is responsible for the day-to-day management of District operations, including purchasing activities and maintaining inventories of gasoline and diesel fuel purchased for use by the District, Hagerman Fire District, Medford Ambulance Company and South Country Ambulance Company. The District's actual expenditures for 2013 were \$3,920,680 and budgeted appropriations for 2014 were \$4,128,740, funded primarily with real property taxes.

#### **Scope and Objectives**

The objectives of our audit were to assess the District's monitoring and safeguarding of fuel inventory and its cash disbursements process for the period January 1, 2013 through June 30, 2014. We expanded our fuel scope back to January 1, 2010 and forward through December 31, 2014. Our audit addressed the following related questions:

- Did the District purchase fuel in an economical manner and maintain complete and accurate fuel inventory records to safeguard fuel?
- Does the Board ensure that cash disbursements are adequately supported, properly processed and for valid District purposes?

#### **Audit Results**

From January 2010 through December 2014, the District purchased 106,648 gallons of diesel fuel and 139,286 gallons of gasoline at a total cost of \$779,682. District officials did not purchase fuel in the most economical manner possible. Had the District purchased fuel from vendors listed on the State contract, it could have saved \$79,601. District officials also did not maintain complete and accurate fuel inventory records to safeguard and account for fuel. As a result, the District could not account for 17,559 gallons of gasoline (nearly 13 percent of the gasoline purchased), valued at approximately

\$54,850. In addition to maintaining the fuel for its own use, the District permitted another fire district and two ambulance companies<sup>1</sup> to use its fuel, without the benefit of a written agreement. The District's poor records also resulted in billing errors and uncollected amounts from these units that cost the District approximately \$15,000. Finally, the District did not ensure compliance with its Board-adopted vehicle use policy, resulting in the District having no assurance that fuel was used only for legitimate District purposes. This included more than 10,000 gallons of gasoline, valued at \$31,277, used by a Chief in performing his duties and commuting to and from his place of employment in New York City.

We also found that the Board has not established a thorough claims audit process to ensure that all cash disbursements are adequately supported and for valid District purposes. The Board also did not ensure that the Treasurer disbursed District money only after the Board directed her to do so by resolution. As a result, the Board did not properly audit any of the 1,474 claims, totaling \$4,386,641, paid during our audit period. Furthermore, at least 24 payments totaling \$296,306 cleared the bank before any Commissioner reviewed them. In addition, we identified questionable charges for out-of-state travel and local meals on the District's credit cards totaling \$26,809. Four Commissioners reimbursed the District a total of \$1,701 for personal purchases made on the District's cards. The Board's failure to enforce and follow its credit card policy results in it having no assurance that all credit card charges were actual and necessary District expenditures.

### **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 disagreed with some of the findings in our report. Appendix B includes our comments on issues District officials raised in their response.

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<sup>1</sup> The Hagerman Fire District, the Medford Ambulance Company and the South Country Ambulance Company use the District's fuel. For three months in 2010, the Village of Patchogue and the Patchogue Fire District also used the District's fuel.

# Introduction

## Background

The North Patchogue Fire District (District), located in the Town of Brookhaven (Town) in Suffolk County, is a district corporation of the State, distinct and separate from the Town. The District covers 6.6 square miles and provides fire protection and emergency rescue services to approximately 18,000 residents. The District's 120 active volunteer members responded to about 2,075 alarms in 2013 and 2014. The District's actual expenditures for 2013 were \$3,920,680 and budgeted appropriations for 2014 were \$4,128,740, funded primarily with real property taxes.

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 assets. The appointed District Treasurer (Treasurer) serves as the chief fiscal officer and is responsible for receiving, maintaining custody of and disbursing District funds, maintaining financial records and preparing monthly and annual reports.

The District Manager is responsible for the day-to-day management of District operations, including purchasing activities and maintaining inventories of gasoline and diesel fuel purchased for use by the District, Hagerman Fire District, Medford Ambulance Company and South Country Ambulance Company. Four different individuals served as District Manager during the period January 1, 2013 through December 31, 2014.<sup>2</sup>

## Objectives

The objectives of our audit were to assess the District's monitoring and safeguarding of fuel inventory and its cash disbursements process. Our audit addressed the following related questions:

- Did the District purchase fuel in an economical manner and maintain complete and accurate fuel inventory records to safeguard fuel?
- Does the Board ensure that cash disbursements are adequately supported, properly processed and for valid District purposes?

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<sup>2</sup> District Manager A held the position until his suspension on October 18, 2013; he officially resigned on December 20, 2013. The Emergency Medical Technician Supervisor served as Acting District Manager (District Manager B) from October 18, 2013 through April 2014. The District Secretary (District Manager C) assumed the District Manager responsibilities from May through September 2014, although the Board never officially appointed him as District Manager. The District hired District Manager D in October 2014.



**Scope and  
Methodology**

We examined the District’s oversight of fuel inventories and cash disbursements for the period January 1, 2013 through June 30, 2014. For our examination of fuel inventories, we expanded our scope to January 1, 2010 through December 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 is included in Appendix C 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 disagreed with some of the findings in our report. Appendix B includes our comments on issues District officials raised in their response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the New York State Town Law, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Secretary’s office.

## Fuel Inventory

The Board is responsible for establishing procedures to provide reasonable assurance that vehicle fuel is purchased in an economical manner, accounted for and used only for District purposes. The District Manager is responsible for ensuring that fuel supplies are adequately safeguarded, accounted for and protected against the risk of loss, waste and misuse.

The District maintained two above-ground fuel storage tanks at an unmanned substation: a 1,000-gallon tank for diesel fuel and a 500-gallon tank for gasoline. From January 2010 through December 2014, the District purchased 106,648 gallons of diesel fuel and 139,286 gallons of gasoline at a total cost of \$779,682. In addition to maintaining the fuel for its own use, the District also permitted another fire district and two ambulance companies<sup>3</sup> to use its fuel, without the benefit of a written agreement. The District used a computerized system intended to track the District's fuel use and determine the quantities used by and amounts due from other users.

District officials did not purchase fuel in the most economical manner possible. Had the District purchased fuel from vendors listed on the State contract, it could have saved \$79,601. District officials also did not maintain complete and accurate fuel inventory records to safeguard and account for fuel. As a result, the District could not account for 17,559 gallons of gasoline (nearly 13 percent of the gasoline purchased), valued at approximately \$54,850. In addition, the District's poor records resulted in billing errors and uncollected amounts from the other fire district and ambulance companies that cost the District approximately \$15,000. Finally, the District did not ensure compliance with its Board-adopted vehicle use policy, resulting in the District having no assurance that fuel was used only for legitimate District purposes. This included more than 10,000 gallons of gasoline (over 30 percent of the gasoline used by the District) valued at \$31,277 used by a Chief in performing his duties and commuting to and from his place of employment in New York City.

### Cost Savings

General Municipal Law (GML) and the District's procurement policy require that the District solicit competitive bids when purchases of the same<sup>4</sup> goods and commodities made within a 12-month period

<sup>3</sup> The Hagerman Fire District, the Medford Ambulance Company and the South Country Ambulance Company use the District's fuel. For three months in 2010, the Village of Patchogue and the Patchogue Fire District also used the District's fuel.

<sup>4</sup> For this purpose, commodities, services or technology that are similar or essentially interchangeable should be considered the same.



from a single vendor or multiple vendors exceed \$20,000. Soliciting bids encourages competition among vendors and provides taxpayers with reasonable assurance that goods and services are procured in a prudent and economical manner. Instead of soliciting bids, the District may opt to make these purchases through a State or county contract.

In the five-year period January 1, 2010 through December 31, 2014, the District purchased 106,648 gallons of diesel fuel costing \$346,757 and 139,286 gallons of gasoline costing \$432,925. In each of the five years, the District's aggregate fuel purchases exceeded the competitive bidding threshold of \$20,000 for purchase contracts. District officials did not solicit competitive bids or use a State or county contract for these fuel purchases. As a result, the District paid, on average, \$0.26 more per gallon for diesel fuel, or a total of \$27,317, and \$0.38 more per gallon for gasoline, or a total of \$52,284. Had the District used the State contract to purchase diesel fuel and gasoline, it could have saved \$79,601,<sup>5</sup> or approximately 10 percent of the \$779,682 actually spent on fuel.

## **Fuel Inventory Records**

The Board is responsible for establishing procedures to provide reasonable assurance that vehicle fuel is accounted for and used only for District purposes. The District Manager is responsible for ensuring that fuel supplies are adequately safeguarded, accounted for and protected against the risk of loss, waste and misuse. To accomplish this, fuel supply tanks should be measured,<sup>6</sup> prior to and after fuel delivery, to help ensure that the District pays for the correct number of gallons of fuel received. Inventory records should be maintained to account for the amount of fuel purchased and used and the balance of fuel remaining in the tanks. Inventory records should be periodically reconciled to physical inventories, and material discrepancies should be investigated and resolved. If a computerized system is used to track fuel use, appropriate controls should be in place to ensure only authorized individuals have access to the system, including each user having a unique ID and password and users' access being limited to only those functions necessary to fulfill their job responsibilities.

Fuel Management System (FMS) – The District's fuel tanks are located at an unmanned substation in a secluded area. Although there are security cameras on the premises, no one regularly reviews this video. Tanks and pumps are in a fenced area, but the gates are not locked. In addition to District members and employees, the Hagerman

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<sup>5</sup> This is on total fuel purchases. However, a portion of this savings would have been attributed to the other entities that purchase fuel from the District, as the District bills them at cost for the fuel used (see section entitled Billing Discrepancies).

<sup>6</sup> For example, via the use of a measuring stick or tank gauge

Fire District, Medford Ambulance Company and South Country Ambulance Company also have access<sup>7</sup> to the District's fuel pumps. To activate the pumps, fuel users must insert both a user card and a vehicle card and must input the fuel type (i.e., gasoline or diesel) and an odometer reading. However, District officials did not activate the optional odometer validity check feature in the FMS, so entering an invalid odometer reading (i.e., "0" or a reading lower than the previous entry for a given vehicle) would not prevent someone from activating the pump and, potentially, fueling a non-District vehicle. At least two individuals<sup>8</sup> possessed a key to the manual override switch that would allow someone to operate the pump without inserting the two cards.

The fuel pump transmits data to the FMS, which assigns a sequential number to each transaction. The FMS also records the date and time of each transaction, type of fuel pumped, odometer reading, quantity dispensed, vehicle that received the fuel and person who pumped the fuel. The vehicles and individuals are identified in the FMS by unique numerical codes. However, the District Manager and two other District employees were authorized to maintain the FMS with a single shared generic username and password. This gave them access to add, modify and delete fuel transactions without detection and without an effective audit trail. There was no vendor support available for the software because the District was running an outdated version of the software on an outdated operating system.

Each District Manager and the Emergency Medical Technician Supervisor were responsible for creating the user and vehicle cards. No one created and maintained a list of cards issued within the District or to the other entities using the District's fuel, and no card was ever returned or deactivated for retired vehicles or users. District Managers B, C and D told us that they had not deactivated any cards because they did not know how to do so (District officials contacted the vendor for directions and began to deactivate retired cards in December 2014). Because there was no record of all cards issued, the District has no assurance that retired user cards were not inappropriately used for personal purposes prior to deactivation. In addition, District officials cannot be certain that they deactivated all retired cards.

Records and Reconciliations – The District's records were not adequate to detect the loss of fuel because the District Manager did not maintain inventory records that show the amount of beginning inventory, fuel purchased, fuel consumed (per the FMS) and the

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<sup>7</sup> For three months in 2010, the Village of Patchogue and the Patchogue Fire District also used the District's fuel.

<sup>8</sup> A maintenance employee and a mechanic who went on leave in May 2014 but did not turn in his key until December 2014

resulting balance of fuel remaining in inventory. In addition, the District Manager did not implement procedures to require someone to be present during fuel deliveries to measure the tank before and after each delivery; instead, the vendor would just leave the delivery ticket in a mailbox at the fuel station. Therefore, the District Manager could not periodically reconcile fuel purchases and use with fuel remaining on hand to account for use. The Treasurer did attempt to reconcile fuel purchases to use every month, using FMS transaction reports. However, these transaction reports did not contain all vehicles receiving fuel. Although the Treasurer routinely identified large discrepancies, which she occasionally brought to District Manager A's attention, she did not resolve these discrepancies and report them to the Board. This incomplete reconciliation process also resulted in errors in billing to the other entities using the District's fuel (see section entitled Billing Discrepancies).

We attempted to reconcile the District's fuel purchases for the period January 1, 2010 through December 31, 2014 to the FMS transactions. The FMS transaction reports for this period show that there were 14,658 transactions completed during this period using 221 vehicle cards and 280 employee cards: 8,220 gasoline transactions, 5,297 diesel transactions and 1,141 with no fuel dispensed. There were also 14 deleted transactions during this time. As shown in Figure 1, the District purchased 139,286 gallons of gasoline, totaling \$432,925; however, only 121,727 gallons were dispensed, according to the FMS. Therefore, 17,559 gallons (13 percent), valued at approximately \$54,850, were unaccounted for.

**Figure 1: Gasoline Purchased vs. Used**

	2010	2011	2012	2013	2014	Total
Delivered	30,056	27,886	25,902	26,670	28,772	<b>139,286</b>
Used by District	7,242	7,227	6,413	6,092	5,963	<b>32,937</b>
Used by Other Entities	19,648	17,752	16,545	16,460	18,347	<b>88,752</b>
Used by Unknown <sup>a</sup>	0	0	38	0	0	<b>38</b>
Difference	3,166	2,907	2,906	4,118	4,462	<b>17,559</b>

<sup>a</sup> One vehicle was miscoded in the FMS and could not be associated with a particular entity.

Conversely, as shown in Figure 2, the District purchased 106,648 gallons of diesel fuel, totaling \$346,757; however, the FMS recorded that 112,987 gallons were dispensed. Therefore, the District recorded that it used 6,339 gallons (6 percent), valued at approximately \$20,450, more diesel fuel than it had purchased.

**Figure 2: Diesel Purchased vs. Used**

	2010	2011	2012	2013	2014	Total
Delivered	20,780	21,690	22,552	20,813	20,813	<b>106,648</b>
Used by District	6,963	6,338	6,413	6,240	6,049	<b>32,003</b>
Used by Other Entities	15,193	16,662	17,051	15,636	16,046	<b>80,588</b>
Used by Unknown <sup>a</sup>	0	0	396	0	0	<b>396</b>
Difference	(1,376)	(1,310)	(1,308)	(1,063)	(1,282)	<b>(6,339)</b>

<sup>a</sup> One vehicle was miscoded in the FMS and could not be associated with a particular entity.

These large discrepancies illustrate the District Manager's need to maintain fuel inventory records, periodically reconcile these to use records and investigate significant differences. District officials had no explanation for the large discrepancies between fuel delivered and fuel used. In February 2015, at the end of our field work, District Manager D had a calibration test performed on the District's fuel pumps and discovered that the diesel pump was registering 10 percent more fuel than was actually pumped and the gasoline pump was registering 10 percent less fuel than was actually pumped.<sup>9</sup> However, this still does not explain all of the discrepancies. Without proper controls over fuel inventory, District officials have no assurance that fuel purchased by the District is properly accounted for and used only for proper District purposes.

## Billing Discrepancies

When local governments agree to share services, each governing body should enter into a written agreement that defines the rights and responsibilities of each party and includes appropriate procedures to help ensure the long-term success of shared services.

The District did not enter into any written shared service agreements; however, it did have informal arrangements allowing the Hagerman Fire District, Medford Ambulance Company and South Country Ambulance Company<sup>10</sup> to use the District's fuel pumps. The District billed these users monthly for the cost of the fuel pumped. The Treasurer was responsible for compiling the bills based on a transaction report from the FMS, which identified each entity's vehicles by a unique code. The Treasurer sent a copy of the transaction report and a copy of the fuel vendor invoice with the bill to each unit. When the Treasurer received payment, she did not record it as a revenue, but instead recorded the transaction as an offset to the fuel expense

<sup>9</sup> An online manual is available that describes the procedure to calibrate the pumps. Therefore, the pumps could have been intentionally calibrated to these settings.

<sup>10</sup> The Hagerman Fire District, the Medford Ambulance Company and the South Country Ambulance Company use the District's fuel. For three months in 2010, the Village of Patchogue and the Patchogue Fire District also used the District's fuel.

account. No other District official reviewed the bills compiled by the Treasurer or reconciled the fuel transaction reports to the amount of fuel delivered (see section entitled Fuel Inventory Records).

We reviewed the District's fuel billings for the period January 1, 2010 through December 31, 2014 and found that the District did not bill the other entities accurately and did not remit the bills timely in all cases. This resulted in the District losing revenue totaling approximately \$15,000. Some examples follow.

- In December 2011, the District billed the Hagerman Fire District \$7,795 for 2,495 gallons of gasoline used from July 2010 through October 2011 that had not been previously billed because a vehicle had been coded incorrectly. The District never received payment of this bill. The Board was not made aware of the error or the non-payment and, therefore, did not make any attempts to collect this past due amount.
- Over the five-year period, the District under-billed the other entities for 2,306 gallons of gasoline valued at \$7,973 and over-billed them for 525 gallons of diesel fuel valued at \$2,270, for a net revenue loss of \$5,703.
- Two vehicles were incorrectly coded and could not be associated with the District or any of the other entities. The Treasurer did not know of these vehicles and had never billed any of the other entities for fuel used by these vehicles, which, over the five-year period, amounted to \$1,528 (396 gallons of diesel valued at \$1,398 and 38 gallons of gasoline valued at \$130).

These conditions existed because the District did not maintain adequate fuel inventory records and periodically reconcile those records. Furthermore, because the Treasurer only recorded when payments were received and did not record the amounts due as a receivable at the time they were billed, the District was unable to identify any uncollected amounts.

## Vehicle Use

District officials are responsible for establishing procedures to provide reasonable assurance that vehicle fuel is used only for District purposes. The Board adopted a vehicle use policy<sup>11</sup> that states the primary use of District vehicles is to respond to fire and other emergencies as required. The policy states that the Chiefs may only use their District vehicles within Suffolk County, unless the Chief is responding to mutual aid calls, drills and other firematic functions.

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<sup>11</sup> The vehicle use policy was adopted in 1992 and revised in 1994.

During the period January 1, 2010 through December 31, 2014, four Chiefs<sup>12</sup> used 18,692 gallons of gasoline valued at more than \$58,000 (57 percent of the 32,937 gallons used by the entire District). Three of these Chiefs generally used their vehicles to commute within Suffolk County. The fourth Chief used his vehicle to commute to his place of employment in New York City as well as to perform his duties and, in doing so, used 10,025 gallons<sup>13</sup> of gasoline valued at \$31,277.

Although the District's policy does not allow any other members or employees to take District vehicles home, District officials permitted a mechanic to commute with two different District vehicles (one gasoline and one diesel) because he lived a short distance from the fire house. During the five-year period, the mechanic used 1,544 gallons of diesel fuel valued at \$5,018 and 1,066 gallons of gasoline valued at \$3,326.

We attempted to determine whether the miles per gallon achieved by the Chiefs and mechanic were reasonable, or if frequent fueling might indicate they were fueling multiple vehicles. However, because the District did not activate the optional odometer validity check feature in its fuel management software, a valid odometer reading would not have to be input to operate the pump (i.e., the pump would accept "0" as an odometer reading). In addition, the mechanic was in possession of a key to the pump override switch, which would allow him to pump fuel without using the District's two-card system. Because the transaction reports for these vehicles contained inconsistent odometer readings, District officials could not determine whether the miles per gallon achieved indicated that only the authorized vehicles were fueled.

By not enforcing the Board-adopted vehicle use policy, the District permitted use of its vehicles that increased the District's gasoline and diesel fuel use, costing District taxpayers almost \$40,000. Furthermore, because District officials did not monitor compliance with the policy, they have no assurance that vehicle fuel was used only for District purposes.

## Recommendations

The Board should:

1. Either solicit competitive bids or use available State or county contracts for the purchase of gasoline and diesel fuel, in accordance with GML and the District's procurement policy, to ensure that fuel is obtained in the most economical manner.

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<sup>12</sup> The District has three Chiefs at any given time. One of these individuals served through December 31, 2013, and a new Chief started on January 1, 2014.

<sup>13</sup> This does not include fuel charged to the District's credit card.



2. Enter into written shared service agreements between the District and other entities to establish the contract periods, describe the services to be provided and document the basis for determining the District's entitlement to payments from the other entities.

The Board and District Manager should:

3. Require that each FMS user have a unique username and password.
4. Document and enact written procedures over the approval and issuance of FMS user and vehicle cards. Records should be maintained of all cards issued, the authorized users and vehicles to which the cards are assigned and which cards have been lost, deactivated or reprogrammed, including the current/past user(s).
5. Document and enact written procedures to ensure that the fuel supply is periodically measured and adequate fuel inventory records are maintained, including the beginning inventory and the quantities of fuel purchased, delivered, dispensed and on hand. FMS records should be periodically reconciled to physical inventories of fuel on hand. Any differences should be promptly investigated and resolved.

The Treasurer should:

6. Record amounts billed as accounts receivable so that any past due or uncollected amounts can be easily identified and appropriate action taken.

District officials should:

7. Take steps to identify amounts not billed for fuel used, correct billing errors and collect any amounts due from other entities.
8. Enforce and monitor compliance with the Board-adopted vehicle use policy.
9. Establish, implement and enforce procedures to provide reasonable assurance that vehicle fuel is used only for District purposes.

## Cash Disbursements

To adequately safeguard District money, the Board, in conjunction with the Treasurer, should establish and implement policies and procedures to provide reasonable assurance that cash disbursements are properly documented, 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 the Board authorizes payment.

The Board has not established a thorough claims audit process to ensure that all claims are adequately supported and for valid District purposes. The Board also did not ensure that the Treasurer disbursed District money only after the Board directed her to do so by resolution. As a result, the Board did not properly audit any of the 1,474 claims, totaling \$4,386,641, paid during our audit period. Furthermore, at least 24 payments totaling \$296,306 cleared the bank before any Commissioner reviewed them. In addition, we identified questionable charges for out-of-state travel and local meals on the District's credit cards totaling \$26,809. Four Commissioners reimbursed the District a total of \$1,701 for personal purchases made on the District's cards. Because the Board did not enforce and follow its credit card policy, it has no assurance that all credit card charges were actual and necessary District expenditures.

### Claims Auditing

The Board is responsible for establishing policies and procedures for the audit and approval of claims prior to payment to ensure that disbursements are for valid District expenditures and that goods or services have actually been received. New York State Town Law (Town Law) requires a majority of the Board as a whole to audit all claims against the District. The claims auditing process should be deliberate and thorough and should ensure that all claims are properly itemized and contain sufficient documentation to determine the nature of the purchases, that amounts represent actual and necessary District expenditures and that the purchases comply with statutory requirements. The Board must adopt a resolution approving the Board-audited claims for payment and directing the Treasurer to pay the approved claims. At a minimum, this resolution should specify the total number of claims and the total dollar amount the Treasurer is authorized to pay, and the resolution should be accompanied by an

abstract.<sup>14</sup> The Treasurer should not pay claims prior to Board audit except for those claims legally exempt from this requirement.<sup>15</sup>

The Board has not established a thorough claims audit process to ensure that all disbursements are adequately supported and for valid District purposes. We reviewed all 1,474 non-payroll check disbursements<sup>16</sup> totaling \$4,386,641 made from January 1, 2013 through June 30, 2014 and found that the Board, as a whole, did not audit any of the claims. Instead, Commissioners came in to the District individually to audit and sign available claim packets and, once three Commissioners signed the claims, the Treasurer paid the claims.<sup>17</sup> After paying the claims, the Treasurer prepared an abstract of the paid claims and presented it to the Board for approval at the next Board meeting. Board minutes did not acknowledge any Board audit of claims. Although there were resolutions to approve payment of a specific range of disbursement checks, these resolutions did not list the amount of claims to be paid, did not specifically instruct the Treasurer to issue payment and always occurred after the claims had already been paid.

We also found that fewer than three Commissioners indicated their review of 100 of the 1,809 claim vouchers attached to the disbursements, totaling \$412,051, including 16 vouchers for employee health insurance totaling \$305,337. In addition, 24 disbursements totaling \$296,306 cleared the bank before any of the Commissioners had signed the attached claim vouchers, including \$85,000 for an equipment lease and \$64,983 for catering. Commissioners' signatures were not dated for another 135 disbursements totaling \$297,378.

We also found that 904 of the 2,309 attached invoices, totaling \$1,035,442, did not include proof of receipt of the goods or services purchased, 64 invoices totaling \$281,996 were either not attached or not sufficiently itemized and disbursements totaling \$29,819 were for personal expenditures incurred by the Commissioners and District employees. For example,

- Proof of delivery was not attached to 292 invoices totaling \$241,252 for diesel and gasoline fuel purchases. One of the

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<sup>14</sup> An abstract, also known as a warrant, is a list of all claims audited and approved by the Board.

<sup>15</sup> The Board may adopt a resolution that authorizes the Treasurer to pay certain claims, including 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.

<sup>16</sup> The 1,474 disbursements comprised 2,309 invoices and 1,808 claim vouchers.

<sup>17</sup> Checks over \$3,000 must be signed by a Commissioner, in addition to the Treasurer.

Commissioners told us that the vendor could have billed them without actually delivering the fuel because no District personnel are present during fuel deliveries.

- Three disbursements included \$3,010 for repairs to a personal vehicle (\$2,061), a tire for an employee's personal vehicle (\$719), global roaming charges on a District-issued cell phone (\$193) and other miscellaneous charges on District-issued cell phones (\$37).<sup>18</sup> An employee reimbursed the District for the \$719 tire purchase. The Commissioners had no explanation for the remaining personal expenditures.

The Board did not ensure that detailed claims audit procedures were in place and did not perform a proper and thorough audit of claims. This increases the risk that payments are not for proper District purposes, that goods or services are not of the quality or price agreed upon or that goods and services are not actually received. Further, when the District pays claims before they are audited by the majority of the Board, it has an increased risk that District moneys could be used for inappropriate or unauthorized purposes.

## Credit Cards

The Board approved the use of 10 credit cards and authorized the five Commissioners, three Chiefs, the Treasurer and District Manager A to have custody, control and use of a card. The Board adopted a policy governing the use of these credit cards which specifically prohibits personal use of the cards, even if the individual intends to reimburse the District. The policy also states that the authorized individuals may use the cards only to pay valid District expenses and must complete claim vouchers indicating what the card was used for and submit backup documentation for each charge. Any meal charges must be supported by an itemized restaurant bill and an attendance list. The District does not have separate policies governing meal and travel expenses. In its 2012 and 2013 management letters to the District, the District's external auditor commented on the lack of receipts for credit card purchases and the frequency of personal charges appearing on the District's cards.

The District made payments on the 10 credit cards totaling \$73,831 during our audit period. We reviewed the documentation related to all of these charges and identified questionable charges totaling \$26,809, or more than 36 percent of the total charges on all 10 cards.<sup>19</sup>

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<sup>18</sup> All cell phone charges were included on one bill.

<sup>19</sup> Prior to the start of our audit, the Suffolk County District Attorney initiated an investigation of the credit card charges incurred by District Manager A and, in December 2014, indicted this individual on a charge of third degree grand larceny for making approximately \$5,000 of personal purchases on the District's credit card. For this reason, we did not comment on any exceptions related to District Manager A's credit card unless they were related to travel or meal expenses incurred on behalf of other District officials or personnel.

Out-of-State Travel – We identified 87 charges for out-of-state travel totaling \$20,493. Four Commissioners reimbursed the District a total of \$1,701 for personal expenditures, including airfare for their spouses and meals and rental cars for extended stays. None of the travelers provided proof of attendance at any of the registered conferences. For example,

- Two Commissioners, two Chiefs and a Department member traveled to Clearwater, Florida for a conference that took place from November 6 through November 9, 2013. Credit card charges for this conference totaled \$10,075, including \$3,918 for hotels, \$2,173 for airfare, \$1,960 for conference registration, \$1,465 for meals and \$559 for a car rental and miscellaneous expenses. None of the travelers provided proof that they attended the conference. In addition, the two Commissioners and the Department member each incurred an early departure fee at the hotel equal to one night's rate, totaling \$534.
- Four Commissioners traveled to Las Vegas, Nevada for a conference that took place May 6 and May 7, 2013. Charges related to this conference totaled \$9,652, including \$3,385 for airfare, \$2,100 for conference registration, \$2,093 for hotels, \$1,435 for meals, \$471 for a rental car and \$168 in miscellaneous expenses. All four Commissioners arrived in Las Vegas on May 2 – three of them with their spouses – four days prior to the start of the conference. One Commissioner stayed in Las Vegas until May 11, four days after the conference ended;<sup>20</sup> these extra days resulted in charges totaling \$1,812.<sup>21</sup> In addition, one of the Commissioners departed Las Vegas at 10:30 AM on May 6, indicating that he did not attend the conference, even though his travel expenses on the District's credit card, including conference registration, totaled \$2,460. None of the Commissioners provided proof that they actually attended the conference. Collectively, the four Commissioners reimbursed the District \$1,701 for their spouses' airfare, a car rental extension and a meal for one Commissioner's spouse.
- A District mechanic traveled to Orlando, Florida for a symposium in January 2013. Charges totaling \$767 appeared on District Manager A's credit card for the mechanic's conference registration (\$395) and airfare (\$352). The

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<sup>20</sup> This Commissioner reimbursed the District for additional days at the end of the trip for the rental car and only charged one night of his hotel stay to the District's credit card.

<sup>21</sup> This is based on three days, May 2-4; we allowed May 5 as a travel day.

mechanic did not provide proof that he actually attended the conference.

Meals at Local Restaurants – Fourteen charges at local restaurants, totaling \$6,316, did not have itemized receipts or attendance lists attached to the credit card statement to provide evidence that these were appropriate District expenditures. For example,

- A Chief charged \$1,262 at a restaurant in Sayville, Suffolk County. The attached attendance sheet stated that the meal was for an organizational meeting for Department members. However, the District's policy states that only Commissioners may charge meals for other people unless the Board explicitly gives its permission beforehand, and no evidence of such permission was attached. The itemized receipt for this meal included a \$300 charge for beverages.
- A Commissioner charged \$1,083 at a restaurant in Sayville, Suffolk County without stating the business purpose of the meal. All five Commissioners, two Chiefs, District Manager A, the Treasurer, the Emergency Medical Technician Supervisor and the District's attorney attended the meal.
- A Chief charged \$173 at a restaurant in Farmingdale, Nassau County. There was no indication of who attended the meal.

Credit card use has a high level of inherent risk because the majority of the purchases are made without pre-approvals. Because the Board did not enforce compliance with the District's credit card policy and provide sufficient oversight of the use of credit cards, there is no assurance that all credit card charges were actual and necessary District expenditures.

## Recommendations

The Board should:

10. Ensure that the majority of the Board, as a whole, conduct a deliberate, thorough and timely audit of all claims before the Treasurer makes payment to ensure that each claim includes an itemized invoice with enough detail to indicate that the claim was an actual and necessary District expense. Each Commissioner should sign and date the approved claims and the abstract to indicate their review.
11. Adopt a resolution to indicate the claims that the Treasurer is authorized to pay, ensuring 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.

12. Review the questionable credit card charges and recover any amounts that were not for valid District purposes.
13. Revise its credit card policy and/or adopt separate policies governing travel and meal expenditures to specify when those expenditures may be incurred and by whom, and what documentation is required to support the travel and meal expenditures.
14. Ensure that the District's credit card policy is enforced.

The Treasurer should:

15. Pay claims only after they have been audited and approved by the Board, except where the Board has adopted a resolution authorizing the Treasurer to pay claims that are legally permitted to be paid before they are audited.

**APPENDIX A**

**RESPONSE FROM DISTRICT OFFICIALS**

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

# NORTH PATCHOGUE FIRE DISTRICT

33 DAVIDSON AVENUE, NORTH PATCHOGUE, NY 11772

Phone (631) 475-1788, Fax (631) 475-1430

## BOARD OF FIRE COMMISSIONERS

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KATHRYN MACHTEL, Treasurer  
JOSEPH BADALA, District Manager

June 23, 2015

Mr. Ira McCracken, Chief Examiner  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
250 Veterans Memorial Highway  
Hauppauge, New York 11788-5533

Re: Report of Examination 2015M-081

Dear Mr. McCracken:

This is in response to your draft report on your examination of the fuel inventory system and cash disbursement controls of the North Patchogue Fire District. We have carefully reviewed the findings presented in the report and appreciate the recommendations given. The Board of Fire Commissioners takes its responsibilities very seriously and strives to provide effective oversight of the fire district operations. We have become aware of several deficiencies in our operations over the last nine months and have been proactive in addressing them in a timely manner as evidenced by many changes in the District, including a new District Manager, new District Secretary, new District Treasurer, and a new auditing firm.

While we are generally in agreement with your findings related to the fuel management system (errors in the method of recording fuel sales, failure to obtain lowest fuel costs, failure to reconcile physical inventories to reports generated by the fuel management system) and our failure to use claim warrants, there are several findings with which we disagree, and several that require clarification.

First, we would like to clarify and comment on several issues related to the fuel and the fuel management system (FMS).

- Fuel cost – Several years ago, the District did purchase its fuel under State contract; however, the fuel available under State contract was causing problems with our vehicles and equipment. The District had negotiated to purchase a higher grade fuel

See  
Note 1  
Page 25

from another source, at a price that matched the State contract. Over time, price increases had resulted in our costs exceeding those under State contract.

- Fuel unaccounted for – Although we had failed to perform reconciliations of physical inventories to reports generated by the fuel management system, resulting in unexplained differences, the District had the FMS tested (during the OSC audit) and found that the system’s calibration was in need of adjustment, resulting in more fuel being dispensed than was reported by the FMS.
- Fuel billing errors and uncollected amounts – Approximately \$15,000, which was cited in the audit report as being uncollected, was subsequently collected.
- Upon notification of the problems related to the fuel, the Board decided to cease use of the FMS. The District now purchases its fuel using the WEX Fleet Fuel Card system and no longer sells fuel to other Districts.

See  
Note 2  
Page 25

The following comments are related to “Vehicle Use”:

- With regard to the finding that the District did not ensure compliance with its Board-adopted vehicle use policy, it was stated that a Chief was using his District vehicle to commute to New York City. Please note that the District’s vehicle use policy in effect during the period of the audit did permit Chiefs to use their District vehicles to commute within Suffolk County, Nassau County, and the five boroughs of New York City. A copy of the policy was provided to the OSC auditors subsequent to the audit fieldwork.
- The report makes reference to a mechanic who was permitted to commute with District vehicles and states that “the mechanic used 1,544 gallons of diesel fuel valued at \$5,018 and 1,066 gallons of gasoline valued at \$3,326”. It should be noted that the mechanic lives within a half mile of the fire house and, accordingly, the vast majority of fuel used was for District purposes.

See  
Note 3  
Page 25

See  
Note 4  
Page 25

The report states that “the Board has not established a thorough claims audit process to ensure that all disbursements are adequately supported and for valid District purposes. We reviewed 1,474 non-payroll check disbursements, totaling \$4,386,641, made from January 1, 2013 through June 30, 2014 and found that the Board, as a whole, did not audit any of the claims....”. We strongly disagree with this finding, as it has been a long-standing practice to not disburse payments until a claim is reviewed, approved, and signed off by at least three members of the Board (a majority). We do believe that every claim paid during the audit period was properly reviewed, approved, and signed off, giving us reasonable assurance that all claims paid were appropriate claims. With regard to the claim warrant, we were not aware of the requirement to use a warrant. We have now implemented the use of claim warrants, which are prepared and approved prior to any claims being paid. In addition, the resolution approving the claims now list the number and dollar amounts of the claims on the warrant, and includes specific authorization to the Treasurer to issue the payments. In addition, it is now required that

See  
Note 5  
Page 25



the purchase order, packing slip and receiving report be included with each claim voucher and invoice presented for payment.

The following comments regarding travel and meals are related to the section of the audit report entitled “Credit Cards”:

- Although the District did have a written credit card policy in effect during the audit period, it did not have separate policies governing meal and travel expenses. The District has since adopted separate policies for meal and travel expenses, which have been implemented and are currently being enforced.
- The audit report refers to questionable charges related to credit cards, totaling \$26,809, all of which were related to attendance at out-of-state conferences and meals at local restaurants. Most of these charges were deemed “questionable” by your auditors due to the fact that no proof of attendance was provided for any of the registered conferences. That is due to the fact that most of the conferences do not provide proof of attendance certificates. District officials who have attended conferences cannot provide certificates of attendance when the sponsor does not provide them. Our conference attendees bring back educational materials, brochures from exhibitors, and other resources that leave no doubt of attendance at these conferences.

See  
Note 6  
Page 25

We disagree with several other audit findings related to out-of-state conferences and meals at local restaurants, as follows:

- In November 2013, two Commissioners, two Chiefs and a Department member attended a conference in Clearwater, Florida. Your report noted that an early departure fee was incurred for leaving one day early. The early departure was due to two of the Commissioners falling ill during their stay at the conference, requiring their return to New York.
- In May 2013, four Commissioners attended a conference in Las Vegas, Nevada. Your report states that one Commissioner “only charged one night of his hotel stay to the District’s credit card” and “departed Las Vegas at 10:30 AM on May 6, indicating that he did not attend the conference, even though his travel expenses on the District’s credit card, including conference registration, totaled \$2,460”. This is incorrect. No Commissioner departed Las Vegas at 10:30 on May 6, thereby missing the conference. The Commissioner referenced in your report stayed only the first night at the hotel, then stayed at a condo that he owns in Las Vegas. That Commissioner attended the entire conference and did not depart from Las Vegas on May 6.
- Also, with regard to the conference in Las Vegas, the audit report indicates that the conference was a two-day conference (May 6 and 7, 2013) and that the Commissioners arrived “four days prior to the start of the conference”. Please note that the conference began on May 3, 2013 and ended on May 7, 2013. In a Board resolution dated March 4, 2013, the Board approved the attendance of four Commissioners for the dates May 2

See  
Note 7  
Page 25

See  
Note 8  
Page 26

See  
Note 9  
Page 26

through May 7, 2013, allowing for the Commissioners to travel and arrive in Las Vegas the day before the start of the conference.

- The audit report states that a Chief charged \$1,262 at a restaurant for an organizational meeting for Department members and indicates that this was in violation of District policy, because “the District’s policy states that only Commissioners may charge meals for other people unless the Board explicitly gives its permission beforehand, and no evidence of such permission was attached”. Please note that such explicit permission was granted by the Board and documented in the minutes of the September 9, 2013 Board meeting.

See  
Note 10  
Page 26

- The audit report states that a Commissioner charged \$1,083 at a restaurant without stating the business purpose of the meal. All five Commissioners, two Chiefs, the District Manager, the Treasurer, the EMT Supervisor and the District’s attorney attended the meal. Please note that this meal was a training session of the Board and was documented in the Board minutes of December 2, 2013.

See  
Note 11  
Page 26

We are in agreement with all of your recommendations except number 12, as we do not believe that any of the credit card charges were questionable. All of these charges were pre-approved by Board resolutions and substantiated with proper documentation.

See  
Note 12  
Page 26

In closing, we would like to thank you and your staff for identifying areas where we can improve District operations. Most of the issues were promptly addressed as they were identified by your staff, during the audit. We are preparing a detailed corrective action plan which will be provided to your office.

Respectfully,

Paul Gonnely, Chairman  
Board of Fire Commissioners



## **APPENDIX B**

### **OSC COMMENTS ON THE DISTRICT'S RESPONSE**

#### **Note 1**

The District is not required to purchase its fuel through the State contract. However, a vendor agreeing to provide the State contract price does not qualify as an exemption to competitive bidding requirements under General Municipal Law.

#### **Note 2**

As stated in our report, the difference in pump calibration did not explain all of the discrepancies in the District's fuel inventory records.

#### **Note 3**

During our audit, the only vehicle use policy available was last amended in 1994. At our exit conference, District officials provided an amendment to the vehicle use policy and told us that the Board adopted the amendment in 2007. However, if this amendment was in effect during our audit period, it should have been available and included in the District's policy books.

#### **Note 4**

Due to the inadequacy of the District's fuel inventory records and controls over its fuel pumps, District officials have no evidence that "the vast majority of fuel used was for District purposes," or whether the mechanic could have fueled multiple vehicles.

#### **Note 5**

We question how thoroughly Board members could have reviewed the claims when nearly 40 percent of the invoices they approved were either not attached or not sufficiently itemized, did not include proof of the receipt of goods or services purchased, or were for personal expenditures incurred by the Commissioners and District employees.

#### **Note 6**

There were no educational materials, brochures, etc. attached to these claims, nor were these materials provided to us. Any materials presented by travelers in support of attendance at a conference should be attached to any claims for related expenditures so that the Board may perform a thorough review of the claims.

#### **Note 7**

If any additional fees were incurred for legitimate reasons, Board approval of any such fees should be attached to the claim for these expenditures.

#### Note 8

The District has confused two distinct statements that we made. The Commissioner that charged only one night of his hotel stay did not depart Las Vegas until May 11. We do not question that this Commissioner was in Las Vegas for the entire length of the conference. A different Commissioner departed on May 6. The conference registrations attached for both of these Commissioners indicated that they had registered for the conference that would take place on May 6 and May 7.

#### Note 9

While the conference registration confirmations for each Commissioner do indicate that the event ran from May 3 through May 7, each of these registrations indicates that the Commissioners registered only for the conference on May 6 and May 7 and not for any pre-conference events that may have been held from May 3 through May 5.

#### Note 10

This restaurant charge of \$1,262 was incurred in December 2012, nine months prior to the September 9, 2013 approval to which the District referred. The September 2013 approval was for an off-premises training event limited to a \$500 expenditure, not a meeting or a meal.

#### Note 11

This restaurant charge of \$1,083 was incurred in March 2013, nine months prior to the December 2, 2013 approval to which the District referred. This Board approval was for an off-premises training session and not for a meal.

#### Note 12

We questioned \$26,809 in credit card charges because District officials could not provide us with supporting documentation, such as proof of attendance at conferences and lists of attendees provided meals during meetings held at restaurants, to indicate that they were valid and necessary District purchases. District officials should request and review supporting documentation for these questionable purchases and recover any amounts that were not for valid District purposes.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to review processes and procedures over the District's fuel inventory and cash disbursements for the period January 1, 2013 through June 30, 2014. We expanded our scope to January 1, 2010 through December 31, 2014 to examine fuel purchases and fuel inventory records.

To accomplish the objectives of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed District officials and staff to obtain an understanding of the fuel use and inventory records maintained, physical controls over fuel inventory and the cash disbursements process, including the audit of claims and credit card use.
- We reviewed Board minutes and policies and procedures regarding the District's fuel inventory and its cash disbursements, particularly the audit of claims and credit card use.
- We extracted data from the District's fuel monitoring system, including user card numbers, vehicle card numbers and fuel transactions by transaction number to verify sequence and fuel transactions sorted by entity. We submitted this data to our Applied Technology Unit for analysis.
- We obtained a transaction report from the fuel vendor for all gasoline and diesel delivered from January 1, 2010 through December 31, 2014 and compared this to the District's paid invoices to ensure the District had accounted for all deliveries.
- We compared the prices per gallon that the District paid for gasoline and diesel fuel from January 1, 2010 through December 31, 2014 to the prices per gallon that were available through the State contracts for gasoline and diesel fuel during that period to determine how much the District could have saved by using the State contracts.
- We performed a reconciliation of all fuel transactions recorded in the fuel management system from January 1, 2010 through December 31, 2014 to the gasoline and diesel fuel delivered to determine whether the District had properly accounted for all fuel used and remaining on-hand.
- We reviewed all 1,474 non-payroll check disbursements totaling \$4,386,641 made during the period January 1, 2013 through June 30, 2014 and the supporting documentation, along with the related abstracts, bank statements and canceled checks, to ensure all disbursements were for legitimate District purposes and that the majority of the Board audited and approved each claim before the claim was paid.

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

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