



# Franklinville Joint Fire District Claims Processing

## Report of Examination

Period Covered:

January 1, 2016 – May 25, 2017

2017M-141



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	1
<b>INTRODUCTION</b>	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
<b>CLAIMS PROCESSING</b>	4
Recommendations	5
<b>APPENDIX A</b> Response From District Officials	7
<b>APPENDIX B</b> Audit Methodology and Standards	10
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	11
<b>APPENDIX D</b> Local Regional Office Listing	12

# State of New York Office of the State Comptroller

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

November 2017

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 Franklinville Joint Fire District entitled Claims Processing. 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*

# Introduction

## Background

The Franklinville Joint Fire District (District) is a district corporation of the State, distinct and separate from the Town of Franklinville in Cattaraugus County. The District's 2017 general fund budgeted appropriations totaled \$349,000 and are funded primarily by real property taxes and fire protection contracts.

The Board of Fire Commissioners (Board) is composed of five elected members and is responsible for the District's overall financial management and safeguarding its resources. The Board appoints a Treasurer who also serves as the Secretary. The Treasurer acts as the chief fiscal officer and is responsible for the receipt and custody of District funds, disbursing and accounting for those funds and preparing monthly and annual financial reports.

## Objective

The objective of our audit was to examine the District's claims processing procedures. Our audit addressed the following related question:

- Were claims adequately supported, properly authorized and approved before payment and for valid District purposes?

## Scope and Methodology

We examined the District's claims processing procedures for the period January 1, 2016 through May 25, 2017.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

## 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 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 Secretary's office.

## Claims Processing

An effective claims processing system ensures that every claim against the District is approved by the official who made the purchase and contains enough supporting documentation to show that it is an actual and necessary expenditure. Furthermore, the Board should audit all claims against the District and by resolution order the Treasurer to pay the amounts allowed, as required by New York State Town Law (Town Law).<sup>1</sup> Resolutions adopted by the Board to approve claims for payment should specify the number and dollar amount of claims that the Treasurer is authorized to pay. Town Law does not authorize the use of a debit card to make purchases. District claims processing procedures should be included in a Board-adopted written policy.

The majority of purchases are made by the Chief or two assistant chiefs and invoice approval is typically the Chief's responsibility. While the claims we reviewed were for valid purposes they did not always include approval by the official who made the purchase or have adequate supporting documentation, such as evidence that officials obtained the required number of quotes.<sup>2</sup> Officials also used debit cards to make purchases totaling more than \$7,300. The Board has not adopted a written claims processing policy.

The District paid 305 claims totaling \$208,714 from January 12, 2016 through February 8, 2017. We reviewed 92 of those claims totaling \$154,531<sup>3</sup> (including debit card transactions) to determine whether they had supporting documentation, included departmental approval and were audited and approved by the Board before payment. We found the following deficiencies:

- Officials indicated they obtain quotes when required but do not maintain the documentation. For example, we found that quotes were not maintained for turnout gear (\$9,335), tires (\$4,800) and a rescue boat (\$4,600).
- Officials made 18 purchases totaling \$7,324 using District debit cards, which included the rescue boat (\$4,600), batteries (\$588), books (\$446) and a laptop computer (\$432). All these

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<sup>1</sup> The Board may, by adopting a resolution, authorize payment in advance of audit for claims for public utility services (light and telephone), postage, freight and express charges. However, the claims for such prepayments must be presented at the next regular Board meeting for audit.

<sup>2</sup> The District's procurement policy states that purchases between \$2,001 and \$9,999 require written quotes from at least three separate vendors.

<sup>3</sup> See Appendix B for more information on our sampling methodology.

disbursements were adequately supported and for proper purposes.

The Chief and assistant chiefs primarily used debit cards to purchase miscellaneous District equipment and supplies. The Chief told us that he usually notifies the Treasurer in advance of debit card purchases,<sup>4</sup> while the assistant chiefs must verbally notify him before using the card. The Chief and assistant chiefs are responsible for ensuring card security and overseeing card use, while the Treasurer is responsible for recording the debit card transactions in the accounting records.

However, debit cards pose significant risks because individuals have direct access to the District's bank account and unauthorized use may not be readily detected. Unlike using a credit card, where a statement is received and the purchase can be examined before payment, using a debit card allows a payment to be directly withdrawn from the bank account at the time of purchase before approval is authorized and provides no opportunity for the Board to determine if the purchase is legitimate before it is paid.

- Board resolutions approving claims for payment did not indicate the number or dollar amounts of claims that were audited and approved for payment.
- None of the claims we reviewed contained approval by the official who made the purchase.

When claims are paid without a thorough Board audit and lack appropriate documentation, there is an increased risk that inappropriate purchases could occur and remain undetected.

## **Recommendations**

The Board should:

1. Develop a comprehensive written policy governing claims processing procedures.
2. Discontinue the use of debit cards.
3. Ensure the resolution authorizing payment of claims contains sufficient information as to the number and dollar amount of claims authorized for payment.
4. Perform a thorough and deliberate examination of all claims and ensure that all claims have departmental approval before authorizing payment.

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<sup>4</sup> The Treasurer indicated that for large purchases (e.g., rescue boat) the Chief will discuss with the Board prior to purchase.

5. Ensure officials follow the procurement policy and maintain documentation providing evidence of written quotes.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

Franklinville Fire District  
75 N Main St  
Franklinville, NY 14737

10-30-17

Buffalo Regional Office  
Jeffrey Mazula, Chief Examiner  
295 Main St  
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Buffalo, NY 14203-2510

Office of the New York State Comptroller  
Division of Local Government & School Accountability  
PSU-CAP Submission  
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Albany, NY 12236

Unit Name: Franklinville Fire District  
Audit Report Title: Claims Processing  
Audit Report Number: 2017M-141  
Subject: **AUDIT RESPONSE AND CAP**

For each recommendation included in the audit report, the following is our corrective action taken or proposed.

**Audit Recommendation:**

1. Develop a comprehensive written policy governing claims processing procedures.
2. Discontinue the use of debit cards.
3. Ensure the resolution (monthly minutes) authorizing payment of claims contains sufficient information as to the number and dollar amount of claims authorized for payment.
4. Perform a thorough and deliberate examination of all claims and ensure that all claims have departmental approval before authorizing payment.
5. Ensure officials follow the procurement policy and maintain documentation providing evidence of written quotes.

**Implementation Plan of Action:**

1. Write and adopt a comprehensive policy for claims processing.
2. Change all debit cards to credit cards and develop a credit card policy.
3. Include the check numbers and amount of those checks that have been approved for payment on the monthly minutes.
4. Have the department head who has given rise to the claim sign the invoice prior to payment.
5. Amend the procurement policy and keep quotes obtained for purchases.

**Implementation Date:**

1. On or before 12/31/2017
2. On or before 12/31/2017
3. Immediately
4. Immediately
5. On or before 12/31/2017

**Person Responsible for Implementation:**

1. Franklinville Fire District Commissioners and Secretary/Treasurer
2. Franklinville Fire District Commissioners and Secretary/Treasurer
3. Franklinville Fire District Secretary/Treasurer
4. Person who has given rise to the claim and Secretary/Treasurer
5. Franklinville Fire District Commissioners and Secretary/Treasurer

Signed:

\_\_\_\_\_  
David Dickinson, Chairman

\_\_\_\_\_  
Date

10/30/17

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed Board minutes, policies and financial records and interviewed District officials to gain an understanding of claims audit procedures and the procurement process.
- We reviewed a sample of 92 claims to determine whether they were for valid purposes, included approval by the official who made the purchase and contained adequate supporting documentation. We examined all claims paid during three randomly selected months (March, May and November 2016), selected a judgmental sample of all claims in excess of \$5,000 and reviewed all debit card transactions.

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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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Tracey Hitchen Boyd, Assistant Comptroller

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