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September 2017

James Rant, Chairman
Members of the Board of Fire Commissioners
Terryville Fire District
19 Jayne Blvd
Port Jefferson Station, NY 11776

Report Number: 2017M-136

Dear Chairman Rant and Members of the Board of Fire Commissioners:

The Office of the State Comptroller works to identify areas where fire district officials can improve their operations and provide guidance and services that will assist them in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage fire district officials to reduce costs, improve service delivery and account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Terryville Fire District (District), which addressed the following question:

- Did the Board provide adequate oversight over the Treasurer's duties?

The results of our audit and recommendation have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

Background and Methodology

The District is a district corporation of the State, distinct and separate from the Town of Brookhaven and Suffolk County, in which it is located. The District covers approximately eight square miles and provides fire protection and emergency rescue services to about 25,000 residents in the hamlets of Terryville and Port Jefferson Station. The District's 2016 operating expenditures totaled approximately \$4.4 million, funded primarily by real property taxes.

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 and a Secretary. The Treasurer acts as the chief fiscal officer is responsible for the receipt and custody of District funds, disbursing and accounting for those funds, preparing monthly

and annual financial reports and meeting any other reporting requirements. The Secretary is responsible for keeping a complete and accurate record of Board meeting proceedings and all Board-adopted rules and regulations.

We examined the internal controls over the District's financial operations for the period January 1, 2016 through March 31, 2017. We interviewed District officials and reviewed financial records and Board minutes. We conducted this performance audit in accordance with generally accepted government auditing standards. 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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not our intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

Audit Results

The Board is responsible for overseeing the District's financial activities and safeguarding its resources. To fulfill these duties, it is essential that the Board develop and implement internal controls, which include clear policies and procedures that promote effective operations, the prudent use of resources and provide for proper Board and District official oversight. When practical, duties should be separated so that one individual does not control all phases of a financial transaction. For example, the duties of cash custody, recordkeeping and disbursement should be separated, if possible. When segregating duties is not possible, active supervision and oversight become even more important components of effective internal controls.

The Board needs to improve oversight of the Treasurer, whose duties were not adequately segregated. The Treasurer is responsible for most aspects of District cash transactions (depositing, disbursing and recording) and preparing bank reconciliations. The Treasurer is also responsible for all aspects of payroll, including adding and deleting employees, making payroll changes, receiving and processing regular and overtime timesheets and printing, signing and distributing payroll checks. Because these duties are incompatible, it is imperative that the Board regularly monitors transactions processed by the Treasurer.

The Board performs a proper claims audit and reviews the monthly bank reconciliations, cash summary and budget status reports provided by the Treasurer. However, the Board does not review the bi-weekly payroll until after the Treasurer distributes payroll checks.

We randomly selected 10 claims totaling \$74,037 for review to determine whether these claims were reviewed and approved by the Board before payment, properly authorized, adequately supported, accurately recorded and for appropriate purposes. We randomly selected 10 payments totaling \$38,909 recorded in the cash disbursement journal and 10 cancelled checks totaling \$9,487 for review to determine whether these payments were accurately recorded and proper expenditures. Except for minor discrepancies, discussed with District officials, all of these disbursements were properly authorized, supported, recorded and for appropriate purposes.

We randomly selected eight employee payments from the September 2016 payroll register and compared the amounts paid to collective bargaining agreements, personnel hire sheets and time records to determine whether these payments were properly authorized and supported. We also randomly selected two employee names listed on the payroll change report to determine whether these changes were Board-approved. We did not find any discrepancies.

Although we did not find any material discrepancies, because the Treasurer performs payroll duties that are inadequately segregated with little Board oversight, there is a risk that errors and irregularities could occur and not be detected or corrected in a timely manner.

Recommendation

The Board should:

1. Review and certify each payroll before the Treasurer distributes the paychecks.

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.

We thank the officials of the Terryville Fire District for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Terryville Fire District

19 Jayne Boulevard
Port Jefferson Station, NY 11776-2934
(631) 473-9303 • FAX (631) 473-2442

BOARD OF FIRE COMMISSIONERS 2017

James Rant, Chairman
Mileen Antignano
Doree Brett
Bernard Reynolds
Michael G. Dyroff

Stephan J. Petras, District Manager
Wilfredo Silvestry, Asst. District Manager
Frank Triolo, District Secretary
Margaret Girona, District Treasurer
Christopher P. Ring, Attorney

August 24, 2017

Ira McCracken, Chief Examiner
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Re: Draft Report of Examination 2017M-136

Dear Mr. McCracken,

We would like to take this opportunity to thank your office and staff for their courteousness and professionalism shown throughout the examination. We appreciate your willingness to assist us in surveying how we conduct our operations. This letter will serve as both the response to the "audit draft", and the Fire District's corrective action plan.

1. **Recommendation:** Review and certify each payroll before the Treasurer distributes the paychecks.

Fire District Response: We fully agree that an independent review prior to payroll processing should be performed. However, this situation was caused due to a contractual obligation and the Fire District did have mitigating controls in place. Due to recent changes in contractual obligations, we now will be able to effectuate this control.

Previously, the Fire District's payment of payroll was subject to the timeframe stated in the union contract from 2007. In 2016, the Fire District and union agreed to a new union contract. The former contract required weekly payroll which ended on Monday morning at 6:00 to be paid the following Thursday. To do this the Fire District needed to gather all payroll information Monday, and submit the payroll to the payroll processor by noon that day.

The Fire District was aware that the former contract created a situation where the processing time frame was too tight to allow a second review by a Board member prior to transmittal, and had been at issue with this in the former contract. The Fire District established mitigating controls over this situation where a Board member would be provided an independent feed of the payroll information from the processor, which included a report of edits and any changes to

the payroll database (ex. new employee, changes in rates, and changes in titles). The Board member would review all the information and inquire as applicable and sign a statement that they have performed the independent review. The assignment of the Board member to review payroll is rotated among the Board members monthly, and is set forth at the Fire District Annual Organizational Meeting.

Corrective Action Plan: Implemented. With much negotiation on the part of the Fire District, the new union contract allows for a “lag” of 1 week between hours worked and payment. This will now allow an independent review of payroll “prior” to disbursement. Policies and procedures have been updated to update the review process.

See
Note 1
Page 7

2. **Recommendation:** Regularly monitor and review transactions processed by the Treasurer.

District Response: This comment is not factual as all transactions other than payroll (mentioned in Recommendation 1) already are regularly monitored and reviewed by someone other than the Treasurer. Cash receipts, cash disbursements, bank reconciliations, and all other financial transactions are all monitored by Fire District staff and Board members on a rotating schedule, as per the Fire District’s existing policies.

Non Factual Statements:

Contained in the draft report referenced above:

Audit Results Section:

(A) *“The Treasurer is responsible for all aspects of district cash transactions (receiving, depositing, disbursing and recording) and preparing bank reconciliations.”*

See
Note 2
Page 7

(B) *“Although we did not find any material discrepancies, because the Treasurer performs duties that are inadequately segregated with little Board oversight, there is a risk that errors and irregularities could occur and not be detected or corrected in a timely manner.”*

Corrective Action Plan: Based on the above, the Board does regularly monitor and review transactions processed by the Treasurer, and will continue to monitor and review transactions performed by the Treasurer.

Thank you again for your valuable input.

Sincerely,

James Rant
Chairman, Board of Fire Commissioners

: Board of Fire Commissioners
Frank Triolo, District Secretary
Margaret Girona, District Treasurer
Stephan Petras, District Manager

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We revised our report and excluded this recommendation.

Note 2

We revised our report to reflect that the Treasurer did not receive cash and clarify that a risk remains because the Treasurer performs payroll duties that are inadequately segregated.