

Copiague Fire District

Mechanic Shop Operations

AUGUST 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Mechanic Shop Operations 2**
 - How Should the Board Ensure That Shop Operation Is Financially Self-Sufficient and Work Is Limited to Authorized Vehicles?. 2

 - The Board Did Not Monitor Shop Operation to Ensure That It Was Self-Sufficient 3

 - The Board Did Not Ensure All Parts Purchased and Services Provided Were For Approved Vehicles or District Purposes. 5

 - Labor Rates Charged Were Not Authorized, Accurate or Consistent . 7

 - How Should District Officials Safeguard Collections? 8

 - The District’s Collections Process Was Inadequate 8

 - How Should the Board Safeguard and Account for Auto Parts Purchased? 10

 - The District Did Not Maintain an Auto Parts Inventory System 10

 - How Should the Board Maintain Adequate Internal Controls Over the Shop’s Financial Software? 10

 - District Officials Did Not Monitor the Shop’s Software Transactions. . 11

 - What Do We Recommend? 12

- Appendix A – Response From District Officials 14**

- Appendix B – OSC Comments on the District’s Response 17**

- Appendix C – Audit Methodology and Standards 18**

- Appendix D – Resources and Services. 23**

Report Highlights

Copiague Fire District

Audit Objective

Determine whether the Copiague Fire District (District) Board of Fire Commissioners (Board) and District officials adequately monitored the mechanic shop's (Shop's) financial condition and safeguarded District assets.

Key Findings

The Board and District officials did not adequately monitor the Shop's financial condition or safeguard District assets, resulting in a 36-month operational deficit totaling \$676,389. As a result, District taxpayers are paying for the majority of the costs for providing services that do not benefit them.

The Board allows Shop employees to use the Shop and equipment for personal business. We observed the senior mechanic fixing six privately-owned vehicles during normal business hours; he earned overtime on some of these days. Over a 34-month period, the senior mechanic was paid \$40,971 in overtime. The Board also provided the senior mechanic with a vehicle for personal use as a fringe benefit.

Shop employees used at least \$5,365 of District funds to purchase auto parts to repair vehicles not owned by the District or municipalities the Shop services. We also examined one parts invoice where 81 parts were purchased; however, for 72 parts totaling \$3,208, we could not determine what vehicles were repaired or whether the cost of the parts were recovered from the vehicle owners.

Key Recommendations

Establish policies, procedures and internal controls to ensure self-sufficiency and the safeguarding of District assets.

District officials disagreed with certain findings in our report. Appendix B includes our comments on issues District officials raised in their response.

Background

The District is located in the Town of Babylon in Suffolk County. The District is governed by an elected five-member Board responsible for the District's overall financial management and safeguarding its resources.

The Board appointed a District Manager to oversee the daily functions within the District, including the Shop. The District hired a senior mechanic, a junior mechanic and a driver for its Shop. The Shop operates inside the District's headquarters in an annex building.

The Shop began operating in 2015 to provide parts and services to District vehicles. Additionally, the District entered into an inter-municipal agreement with several other municipalities to provide parts at cost and labor at rates below market value.

2017-2019 Shop Quick Facts

| | |
|-------------------|-------------|
| Revenues | \$521,384 |
| Expenditures | \$1,197,773 |
| Operating Deficit | \$676,389 |

Audit Period

January 1, 2017 – August 31, 2019

Appendix C includes details on our scope extensions.

Mechanic Shop Operations

The Board is responsible for providing financial oversight of the District's mechanic shop (Shop). The Shop employs a senior mechanic and a junior mechanic and is managed by the District Manager. The Shop provides services to District-owned vehicles and to vehicles of other municipalities that the District has entered into either a verbal or written agreement with. The vehicles serviced typically include firefighting vehicles, such as fire trucks, or rescue vehicles, such as ambulances. The District also services its own vehicles, including the Chief's vehicle and vehicles used for District purposes, such as running errands or traveling to training.

The Board entered into inter-municipal agreements with 14 other municipalities and one private company to provide mechanical services. Such services included auto parts at cost and labor at a rate below market value. Mechanical services completed for one of the 14 municipalities included work done for that municipality and a second private company associated with the municipality.

The District generally purchases parts to be used in all repairs and bills the respective customers at cost for each part. The Shop does not provide services to generate a profit, and the services charged are below fair market value. The District is also certified to perform inspections for other municipalities as well as its own vehicles free of cost.

How Should the Board Ensure That Shop Operation Is Financially Self-Sufficient and Work Is Limited to Authorized Vehicles?

The board should establish policies and procedures over the shop and monitor shop operations to ensure adequate internal controls are developed and operations are self-sufficient. To assess the shop's financial condition, the board should ensure that separate, complete, accurate, timely and reliable accounting records are maintained.

The board should ensure the shop has a complete budget which includes revenue and appropriation estimates. Budget-to-actual revenues and expenditures should be closely monitored so operational changes can be made when needed to address operational losses. The board should also ensure labor rates charged for services are sufficient to cover operational costs such as labor, fringe benefits (e.g., health insurance, retirement benefits, etc.) and overhead costs, and the cost of parts are recovered from vehicle owners. When needed, labor rate adjustments should be made to ensure operations are financially self-sufficient.

In addition, policies and procedures should ensure that only board-authorized vehicles are serviced by the shop and that vehicle parts purchased are for valid district purposes. Effective management also requires a board to establish policies and procedures that provide guidance and oversight for employees involved in enforcing labor rate charges. The board should assess labor rates

periodically, at least annually, that will be charged to all shop customers. Written agreements or board resolutions should be used to document labor rates for services provided, and labor fees should be monitored to ensure that customers are billed at the board-approved labor rate.

The Board Did Not Monitor Shop Operation to Ensure That It Was Self-Sufficient

The Board did not develop a complete budget for the Shop, maintain separate accounting records for its operations or monitor the Shop’s financial operation to determine whether it was self-sufficient. The Board also did not ensure that the Shop was self-sufficient and reported all of the Shop’s revenues and expenditures in the District’s general fund. As a result, the District did not properly bill other municipalities for the actual costs associated with the services provided. Therefore, the District and its taxpayers subsidized other municipalities’ repair costs.

Operating Deficit –

Because District officials did not maintain separate Shop accounting records, the Board has no basis to evaluate the benefit of these intermunicipal agreements to the District. We analyzed revenues and expenditures associated with the Shop from 2017 through 2019 and found that, in each year, the Shop had an operating deficit that ranged between \$142,358 and \$287,973 (Figure 1), with combined deficits totaling \$676,389.



Expenditures – We

analyzed Shop expenditures and compared the costs associated with other municipalities’ vehicle repairs to the District’s vehicle repairs. Based on the costs reported on the District’s Invoice Profit Summary Report (Report) for parts and labor, the percentage of expenditures for the repair of other municipalities’ vehicles accounted for 88 percent, 99 percent and 96 percent in 2017, 2018 and 2019, respectively, of the District’s total repair costs.

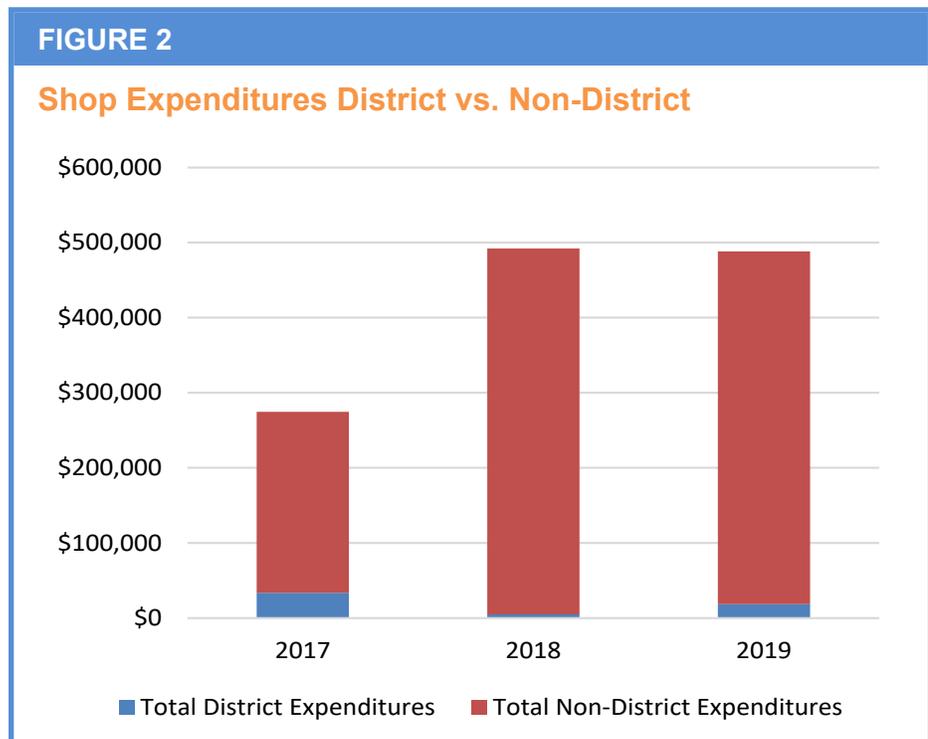
As shown in Figure 2, the vast majority of the District's expenditures were to repair vehicles for other municipalities. In addition, the costs associated with the Shop's operations include a 2017 Chevrolet Silverado purchased in 2018 as a fringe benefit for the senior mechanic. The senior mechanic uses this vehicle to run Shop errands and then takes it home after work and on the weekends.

If the Board maintained records to account for the Shop's operating activities separately, it would have had

the necessary financial information Board members needed to make informed decisions about the Shop's financial condition. As a result, the Shop is operating at a deficit, while more than 95 percent of the expenditures were for repairing vehicles for municipalities with a different tax base. Therefore, instead of sharing costs in a more equitable manner, a taxpayer inequity has been created due to the District's taxpayers having to cover the costs associated with repairing vehicles for other municipalities.

District officials stated they built the Shop to provide services shared by the District and other municipalities with the intention to financially benefit all participants. However, the Shop incurred significant operational deficits to primarily provide services to other municipalities. District officials could not explain why they are performing services for two private, for profit, businesses.

Adequate financial records showing revenues and expenditures would allow the Board to make informed decisions on whether to renew or terminate the agreements with other municipalities, or request an adjustment to the labor rates. Records to account for the Shop's operating activities separately would provide the Board with the necessary information to make informed decisions about the Shop's financial condition.



The Board Did Not Ensure All Parts Purchased and Services Provided Were For Approved Vehicles or District Purposes

The Shop provided services and parts for vehicles that are not owned by the District and not owned by other municipalities. The District also provided repair services for fire trucks and rescue vehicles for two private, for profit, companies.

Auto Parts – We identified 61 invoices from an auto parts store for 139 car parts purchased totaling \$5,365 that were not parts for the make or model of the District’s vehicles or for vehicles owned by municipalities serviced by the District. Additionally, we reported on 64 car parts purchased totaling \$2,899 in another report, Copiague Fire District: Cash Disbursements, 2019M-225. In aggregate, we identified 203 car parts, totaling \$8,264. While the make of the District’s and the other municipalities’ vehicles are Ford and Chevrolet, the District purchased foreign parts for Volkswagen, Infiniti, Nissan, Toyota and Honda vehicles. The District also purchased a part for a motorcycle and parts for other American vehicles that the District does not own and are not typically owned by other municipalities.

In February 2022, after the completion of our fieldwork, District officials took the following disciplinary action against the two employees who purchased the auto parts that were not for approved District purposes. Both employees:

- Each reimbursed the District \$2,297, for a total of \$4,594.
- Were suspended from work without pay for one week during a 10-day pay period. One employee had pay withheld totaling \$2,016 for five days and the other employee had \$1,236 withheld. During the same pay period, the District also paid these employees overtime totaling \$1,058 and \$751, respectively. In effect, the employees replaced a combined total of about 56 percent of their lost wages by working overtime. When considering the overtime paid, the employees had payroll withholdings totaling \$1,443 for the pay period, instead of a combined total of \$3,252 (difference of \$1,809).

As a result, of the \$8,264 we identified as improper parts purchased, the District was reimbursed \$7,846 (a shortage of \$418).

Vehicles Observed – We observed nine vehicles at the Shop that were being worked on either during office hours or shortly after. Six vehicles were observed on the Shop lift and three vehicles were being worked on inside or near the garage (Figure 3). While District officials told us they authorized the senior mechanic to use the Shop to work on private vehicles after his workday, not during, we observed privately owned vehicles being serviced during the work day and on days the senior mechanic was paid overtime.

For example, one of the vehicles was registered to a District vendor. His car was being serviced both during the senior mechanic’s workday and after. We also

We identified ...
139 car parts
purchased
totaling \$5,365
that were not
parts for the
make or model
of the District’s
vehicles or for
vehicles owned
by municipalities
serviced by the
District.

identified five parts purchased on three invoices totaling \$242 for parts that were either for, or could be used for, the year, make and model of this vehicle. These parts were purchased on the same days the vendor's car was being serviced.

Figure 3: Private-Owner Vehicles Observed by Audit Team

| Make | Model | Color | Date Observed | Time Observed | Overtime Paid |
|------------------------|------------------------|--------|--|--------------------|-----------------|
| Nissan | Armada | Blue | July 1, 2019 | 3:34 PM | \$0 |
| Hyundai | Sedan | Gray | August 29, 2019 | 3:40 PM | 41.10 |
| Ford | Mustang | White | September 4, 2019 | 3:36 PM | 0 |
| Honda | CR-V | White | September 5, 2019 | 3:45 PM | 137.00 |
| Hyundai | SUV | Gray | September 13, 2019 | 3:40 PM | 0 |
| Ford | SUV | White | September 25, 2019 | 3:45 PM | 178.10 |
| Honda | Pilot | Silver | September 26 and September 27, 2019 | 3:50 PM 7:29 AM | 6.85 |
| Unable to Determine | Unable to Determine | Red | September 27, 2019 | 3:39 PM | 0 |
| Dodge | Neon | Gray | November 4, 2019 | 4:30 PM | 41.10 |
| Total | | | | | \$404.15 |

Additionally, we observed another non-District vehicle being serviced during the senior mechanic's workday at 3:45 pm; the senior mechanic worked until 6:06 pm and was paid \$178 for 2.6 hours of overtime on that day. The senior mechanic earned \$40,971 in overtime from January 1, 2017 through November 4, 2019.

We photographed two of the three cars for which we were not able to identify the license plates. We observed a blue Nissan with the hood lifted on July 1, 2019 and a red vehicle on the car lift on September 27, 2019 (Figures 4 and 5).

FIGURE 4

Blue Nissan Armada observed July 1, 2019



FIGURE 5

Red SUV observed September 27, 2019



Because we observed the cars either during the senior mechanic's work hours or shortly after, we also documented \$404.15 in overtime earned by the senior mechanic on five out of the nine days we observed private cars.

Due to lack of oversight, District resources were used for non-District purposes. Additionally, the District can be liable for any property loss or damage for cars that are not owned by District customers.

Private Companies – Fire districts, as public entities, should not be involved in a commercial enterprise or private venture. Providing services to a private company can give the appearance of operating in a proprietary manner with an emphasis on generating a profit.

The District provided repair services on fire trucks and rescue vehicles for customers of two private companies. According to the District's Manager and senior mechanic, the two private companies sell fire and other emergency response vehicles, as well as perform repair work on the vehicles under warranty with the private companies. However, if the private companies were unable to perform the necessary repair work, both would send the vehicle to the District for repair. During the audit period, the District received payment from the two private companies for 16 invoices totaling \$26,812.

The District performed the repair work for both private companies without a written agreement. The District charged the private companies below fair market value for the repair services, similar to the rate charged to certain municipalities that have entered into a written or verbal intermunicipal agreement with the District for repair work. Although three local car dealerships told us they charged between \$139 and \$140 per hour for labor in 2019, the District billed the two private companies at significantly reduced hourly rates of \$72 and \$82 per hour.

Had the Board monitored Shop operations, it could have prevented the District's resources from being used for non-District purposes.

Labor Rates Charged Were Not Authorized, Accurate or Consistent

While the Shop generated 530 invoices that included labor rate charges for services provided to 15 customers between January 1, 2017 and August 31, 2019, totaling \$237,972, the Board did not adopt or implement policies and procedures to effectively monitor Shop operations to ensure a standard Board-approved labor rate was applied and billed for services.

Approved Rates – We found that 10 of the 15 customers the District does business with did not have Board-approved labor rates during the audit period. Additionally, two customers did not have an agreement for any of the invoices we reviewed; however, they did have an agreement for the last month of the audit period.

...[Ten]...
customers...did
not have Board-
approved labor
rates. ...

We examined labor rates on 65 invoices with labor fees totaling \$30,548 – which included at least one invoice for each of the 15 customers – and found three customers had Board-approved labor rates for some or all invoices in our test. However, the remaining 12 customers did not have Board-approved labor rates. We found a total of \$22,673 in non-Board-approved labor fees were applied on 48 of the 65 invoices we reviewed. One of the customers, an individual, had an invoice for \$402 which District officials told us that this invoice represented an estimate for work that was performed by the senior mechanic on his own time.

Failing to establish approved labor rates and to effectively monitor the Shop billing operations has resulted in customers being billed without Board-approved rates and, in some instances, a loss of revenue from labor fees.

How Should District Officials Safeguard Collections?

A board should adopt policies for the handling of collections and procedures to provide reasonable assurance that customers are billed and payment is received and deposited in a timely manner for all services performed. Invoices should have a due date to encourage customers to pay within a certain period of time. Controls should also ensure that payments that are not received are readily identifiable and collected. A collection log should be used to record all collections and compared to all deposits. Also, services performed should be reconciled to collections and an accounts receivable aging system should be used to identify payments that are not received in a timely manner. New York State Town Law (Town Law) Section 177 requires that, once money is received, the district treasurer must deposit and secure all money collected within 10 days.

The District’s Collections Process Was Inadequate

The Board and District officials did not establish adequate internal controls over Shop collections. The Board did not adopt written collection policies. District officials did not adequately oversee the collection function, such as ensuring a log was maintained to record daily collections, all customers were billed for services provided, and the Treasurer deposited payments received in a timely manner. The District’s software is capable of generating an accounts receivable aging report; however, District officials have not used it because they were not aware of this capability. As a result, some payments were not received until almost a year after some services were rendered.

The District’s Report is generated from the Shop software assigning invoice numbers and providing a summary of all services performed, including date of service. However, the invoices used to bill customers do not have a due date. The District Manager receives checks from customers and remits the money collected, along with the corresponding invoice, to the Treasurer for deposit. However, there

District officials did not adequately oversee the collection function. ...

are no controls in place to verify that all services performed as indicated in the District's software for Shop operations have been billed or that all funds collected by the District Manager have been remitted to and deposited by the Treasurer. Additionally, customer accounts are not monitored to identify and collect unpaid balances.

We selected 195 transactions listed on the District's Report, totaling \$173,667, to determine whether payments were collected and deposited in a timely manner for all services performed. We found discrepancies with 23 transactions totaling \$33,467.

- Eleven transactions totaling \$12,126 were paid with customer checks dated between 90 and 277 days after the services were performed. Although the District Manager stated he follows up on payments not received in 90 days, we were not provided with any written evidence of follow-up actions taken.
- Checks for four transactions totaling \$6,820 were deposited between 12 and 15 days after the deposit tickets were prepared. We could not determine the extent of late deposits because District officials and employees did not maintain a collection log and could not provide us with any support to determine when payment was actually received.
- Eight invoices totaling \$14,521 could not be traced to a collection, deposit ticket or bank statement. District officials said three of the invoices, totaling \$9,607, were actually estimates and the services were not provided. Officials provided documentation to support one invoice totaling \$6,287 was an estimate but lacked documentation to support the remaining two that were not invoiced. They also told us the remaining five invoices totaling \$4,914 were not sent to customers. After we brought it to District officials' attention, they told us this was an oversight and have since collected \$4,588 on four of the invoices. Therefore, \$3,646 remains unsupported or uncollected.

We also compared the total of the Shop's record of services performed for other municipalities and private companies, as listed on the Report, to the Shop's revenue as reported in the District's financial statements for the three fiscal years, 2017 through 2019. During this time, the District recorded services to other companies and municipalities totaling \$578,790 in the financial software, while the audited financial statements reported as revenue the collections the District Manager remitted to the Treasurer, which totaled \$521,384, a difference of \$57,406.¹

Because District officials did not reconcile services performed and recorded sales, recorded sales were not the same as revenue reported in the audited financial statements. As previously noted, District officials attribute \$9,607 to estimates

¹ This amount includes the \$14,521 reported on the Report with no corresponding payment received by the District.

being reported as invoices and another \$4,914 as unbilled invoices. However, officials could not identify or explain the remaining \$42,885 difference.

How Should the Board Safeguard and Account for Auto Parts Purchased?

A board must establish policies, procedures and an inventory system to help ensure that all auto parts purchased are accounted for and used for valid district purposes. An effective inventory system should identify parts purchased, used and on hand. The records must be current, complete, accurate and easily traceable to parts on hand or customer invoices when parts are used.

The District Did Not Maintain an Auto Parts Inventory System

The Board did not establish an inventory control process to ensure that all parts purchased were used for a valid District purpose; either to repair a vehicle for a municipality that has vehicles serviced by the District or to repair one of the District's vehicles.

The District Manager prepares an open purchase order for auto part vendors and the senior mechanic or junior mechanic order the parts from the vendors as needed. The software has an inventory tracking function which would trace parts from the purchase to use of the parts, indicate the vehicle the part was used for, and account for all parts that are on hand. However, District officials were not aware of these functions. Consequently, parts purchased were not monitored. As a result, the District has no assurance the parts purchased were actually used to repair authorized vehicles or that the parts the District purchased were properly billed.

We selected one claim from the vendor that the District purchased the majority of parts from. This claim consisted of 40 invoices with 81 auto parts purchased totaling \$3,440. We were not able to trace 72 parts, totaling \$3,208, to invoices or to repairs on District vehicles. Due to the District's failure to establish an inventory system, there is no assurance that all auto parts purchased were free of misuse, theft or waste.

We were not able to trace 72 parts, totaling \$3,208, to invoices or to repairs on District vehicles.

How Should the Board Maintain Adequate Internal Controls Over the Shop's Financial Software?

A board is responsible for effectively establishing procedures to ensure the software used in the shop accurately reflects the customer and amount charged for each transaction. Any changes to the software should be captured in an audit trail report and monitored by someone independent of shop operations. To accomplish this, the board must ensure that reports are monitored and any changes or inconsistencies are identified and investigated.

District Officials Did Not Monitor the Shop's Software Transactions

The Board did not establish policies and procedures to monitor the Shop's software and account for all changes and inconsistencies on Shop reports. Although both mechanics have access to the software, only the senior mechanic records all services provided to the District's and other municipalities' vehicles in the software. The software generates invoices and the Report. The invoice, which the District Manager prints and mails to customers, provides the invoice number, date of service, customer name and address, the vehicle identification number and a description of the vehicle being repaired. Additionally, it itemizes all parts and services provided. The Report is a summary of all invoices for a specified period of time and includes the invoice number and date, the customer name and the total amount of both parts and labor charged. According to District employees, no one monitors or reviews transactions that are entered in the software. Failure to monitor the changes or inconsistencies in the reports generated by the software could result in errors or irregularities at the District's expense.

Inconsistencies on Reports – We reviewed four Reports printed on November 8, 2018, March 25, 2019, September 11, 2019 and September 24, 2019. These Reports included transactions that occurred from January 1, 2017 through August 31, 2019. We found the following inconsistencies in transactions:

- A transaction for \$143, with an invoice dated September 2017 for parts only, was listed on the Report printed on November 8, 2018; this transaction was not reported on the other three subsequent Reports. The invoice number was missing on all three Reports. The entry did not have a complete customer name; instead, it had three initials. The senior mechanic told us that this entry was a mistake and deleted.
- A transaction for \$2,476, which appeared only on the September 24, 2019 Report, described as a repair on one of the District's vehicles in March 2016, was assigned invoice number 248. This invoice number was chronologically between two transactions in May 2017. This transaction was a revision to the District's software because invoice 247 was dated May 22, 2017, and invoice 249 was dated May 24, 2017. District officials did not provide a reason why this revision was made.

Because deletions and items out of sequence on the District's Shop software are not monitored and investigated, there is no assurance that valid transactions were not deleted, and the customer was subsequently billed. These deletions would not be detected and investigated by District officials.

Inconsistencies Between Report and Invoices – During our review of transactions on the Reports from January 2017 through August 2019, we identified nine transactions totaling \$18,241 that had a municipality listed on the Report; however, the corresponding invoices listed a private company. The private

company received invoices from the District and made the payments. Therefore, a review of the Report would reflect that work was done for a municipality when it was actually work performed for, and paid by, a private company. Officials told us that the private company had one of the municipality's vehicles under warranty and sent the vehicle to the District because it could not complete the repair. However, although the vehicle repaired was owned by a municipality, the District was performing services for the private company, which was not reflected on the Report. Furthermore, the owner of this private company is also the former Commissioner of the municipality that the District serviced on behalf of the private company.

The invoice information in the Shop's software can be changed at any time without being reflected on the Report. Although these changes would be captured on a change report, there is no one printing and reviewing this report. As a result, there is no assurance that all customers and amounts charged as summarized on the Report accurately reflect the actual amount charged when invoices are created and mailed out for billing.

When the Board fails to monitor the Shop's internal controls by ensuring that data cannot be altered once it is recorded, the District has no assurance that the Shop's transactions were free from misuse, theft or waste.

What Do We Recommend?

The Board should determine whether the District should continue Shop operations and, if so, how to manage operations to avoid the current situation in which the District can break even at best, but most likely lose money by repairing vehicles for other municipalities.

If the operation is to be continued, the Board should:

1. Adopt a separate budget and prepare separate accounting records for Shop operations. Once the records are prepared, monitor the results of operations to ensure that the Shop is self-sustaining.
2. Review all agreements with other municipalities to ensure that these municipalities are being charged sufficiently to cover the District's cost of providing services, including salaries and benefits, equipment, tools and other Shop expenses.
3. Establish policies and procedures to ensure that parts purchased and services provided are for valid District purposes.
4. Seek reimbursement for goods and services purchased that were not valid District expenses.

-
5. Review overtime paid to the senior mechanic and recover any amounts determined to have been paid for non-District purposes.
 6. Enter into a written agreement with municipalities that have vehicles being serviced and establish an agreed-upon rate for services provided by the District.
 7. Ensure that any review of labor rates, if required by the written agreement, is documented in the minutes of the Board's meetings. This resolution should state whether rates will remain the same as the previous year.
 8. Assess labor rates at least annually to be charged to all District customers.
 9. Adopt written policies and develop procedures for the collection, recording and deposit of collections from Shop operations to ensure that collections are deposited within 10 days, as required by Town Law.
 10. Ensure that a reconciliation of services performed to collections is conducted.
 11. Adopt policies and procedures that establish an inventory tracking system to account for the purchase, use and inventory of vehicle parts that are on hand.
 12. Establish policies and procedures to ensure that change reports are periodically reviewed and all changes to invoices are investigated. The review should be conducted by an individual independent of Shop operations.

District officials should:

13. Monitor services provided as recorded in the District's software to ensure that all customers are billed for services performed.
14. Require payment from customers that were billed for services already performed before any additional services are provided to these customers.
15. Update invoices to include a due date and a late payment fee for late payments.
16. Establish a system to monitor the aging of accounts receivables to identify when it is necessary to follow up with customers for unpaid services performed.
17. Periodically print invoices and compare to the Report to account for any deletion or inconsistencies including transactions that are out of sequence.

Appendix A: Response From District Officials



BOARD OF FIRE COMMISSIONERS

Capiague Fire District

320 Great Neck Road
Capiague, New York 11726

(631) 842-1100 Fax (631) 842-1408



July 15, 2022

Office of the New York State Comptroller
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Re: Capiague Fire District
Mechanic Shop Operations
2021 M-93

Gentlemen:

This communication represents the response and corrective action plan of the Board of Fire Commissioners to the above captioned report prepared by your office. The Board disputes your assertion concerning the economic impact of the mechanic shop operations on the Fire District's taxpayers. The Board however acknowledges that your report covering thirty-six months of mechanic shop operations contained recommendations that could improve the efficiency and accountability of shop operations and the shared services agreements that the District has implemented.

After reviewing your report and the impact of the mechanic shop operations on fire department performance the Board of Fire Commissioners has determined to maintain the mechanics shop. In making this decision, the Fire District also took into account cost associated with repairing Fire Department vehicles prior to the inception of the mechanics shop. In this regard, the Board would refute the assertion in your report that District officials "could not explain why the shop was built". Furthermore, four of the five current Commissioners were in office at the time the mechanics' shop operations were instituted. Not one of these Commissioners were questioned on this topic.

See
Note 1
Page 17

If your office had spoken to these Commissioners they would have explained the rationale for the mechanics shop. The goal of the mechanics shop was to effectuate savings for the Fire District taxpayers. In this regard outside vendors' expenses for repair and maintenance of Fire District for the three years prior to commencement of mechanic shop operation totaled \$676,494.00, which exceeds the alleged three-year operational deficit cited in your report. The cost for these outside vendors for truck repair and maintenance would have only increased over the last years especially with the current inflation rates.

See
Note 2
Page 17

The other factor in the Board’s decision to create the mechanics shop was to enhance Fire District and Fire Department operations by repairing and maintaining vehicles internally. Fire department vehicles were repaired and maintained in a more expeditious manner in the “in house” repair shop.

Over time the Board determined that the mechanics shop provided an opportunity to enter into shared services agreements with other municipalities for vehicle repair and maintenance. In this regard, the Board was only following the urgings of your office to enter into shared services agreements. The Board initially based the cost of participating in the shared service program on the salary of the mechanic. In retrospect this analysis was flawed in that it did not take into account the other factors contributing to the cost of operation of the mechanics shop. The Board believes that your analysis stated in the report “that the percentage of expenditures for the repair of other municipalities vehicles accounted for 88 percent, 99 percent, and 96 percent in 2017, 2018 and 2019 respectively of the District’s total repair costs” is incorrect. The Copiague Fire District fleet of vehicles was by far the largest participant in the shared services program. In addition the mechanics were not comprehensively documenting the repairs and maintenance of Copiague Fire District vehicles during the time in question since they were not billing for this time. These factors impact your analysis of Copiague’s proportion of services received under the program. Your position that the shop’s deficit is an abuse to the taxpayers of the Copiague Fire District is incorrect. If the shop operated without a deficit the other participants in the program would be totally subsidizing Copiague’s repair and maintenance costs which would be unfair and not in concert with the concept of a shared services program.

| |
|--------------------------|
| See Note 3 Page 17 |
|--------------------------|

The Board based on the analysis in your report has implemented an increase to the labor costs for participants in the program. This increase seeks to more equitably manage mechanic shop’s costs beyond employees’ salary to include employee benefits and utilities pertaining to shop operations. The Board has also adopted policies for the operation of the shared services program that address many of the recommendations in your report. A copy of the policies and procedures are appended to this response. The Board hopes that these new policies and procedures will strengthen a shared services program that has benefited many fire and rescue entities and municipal entities including the Copiague School District.

The Board has also improved the operation of the Fire District software programs that relate to shop operation. By instituting additional training of shop employees and the District Manager, the District is now able to track all parts purchased and their use in repair or maintenance of participants’ vehicles. In this regard the District Manager is adding all parts purchased from outside vendors to the Fire District’s parts inventory to track the utilization of all parts adequately.

Office of the New York State Comptroller
July 19, 2022
Page 3

The Board of Fire Commissioners issues a directive to all mechanic shop employees in May of 2021 prohibiting the employees from working on private vehicles in the mechanics shop. This would include private companies. The employees are aware that a violation of this directive would lead to disciplinary proceedings and probable termination from employment. The District has also received reimbursement from the shop employees for the amount of the shortage stated in your report and any overtime improperly paid to employees.

In conclusion, the Board has upgraded the operations of the mechanics shop and the shared services program to the benefit of the Copiague Fire District and the municipalities that utilize this service.

Yours truly,

Julian Wellington
Chairman of the Board

Appendix B: OSC Comments on the District's Response

Note 1

Although we met with four Commissioners during the audit, the explanation for building the Shop was provided after we shared the draft audit report. Therefore, we updated the report to include District officials' explanation.

Note 2

The operating deficit is not "alleged." District records support the deficit calculation, which was shared with officials during the audit. Effective Shop management could result in actual savings for District taxpayers.

Note 3

Officials acknowledge the shared service agreements are flawed because they did not take all Shop operating costs into consideration when calculating the cost to participate in the shared services program. Because the District did not properly bill for shared services, the District's taxpayers subsidized other municipalities' repair costs.

The District's Business Manager and the Shop's mechanics told us that all vehicles they work on, including the District's vehicles, are entered in the Shop's software. Because the analysis is based on records from the Shop's software, which officials stated are complete, we disagree that the audit's analysis is incorrect.

When entering into a shared service agreement, as described in our publication for *Shared Services in Local Government*,² all costs should be considered and allocated fairly. All municipalities should benefit from shared services rather than one or more municipalities gaining at the expense of another municipality.

² [Local Government Management Guide - Shared Services in Local Government \(state.ny.us\)](https://www.state.ny.us/external/osc/local-government-management-guide)

Appendix C: Audit Methodology and Standards

We conducted this audit 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.

We extended our audit scope to:

- November 4, 2019 to document cars observed at the District.
- December 31, 2019 to review auto parts purchased, determine whether the District was self-sufficient, and to compare recorded revenue in the financial statement to sales recorded in the District's Report in review of cash collected.
- March 31, 2022 to review the District's disciplinary actions against the employees who purchased auto parts that were not for approved District purposes.

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

To determine whether the Shop was self-sufficient:

- We obtained Shop revenues from the District's financial statements.
- We obtained Shop expenditures from the general ledger expenditure code the District uses to record these expenditures. We then removed the portion of expenditures related to the repair of the District's vehicles. We calculated the portion related to the District's expenses by calculating the percentage of labor and parts (as stated on the Report) that was for the repair of the District's vehicles. We allocated based upon labor and parts because the general expenditure code included work subcontracted from the District to outside mechanics.
- We obtained Shop salaries, including overtime from District payroll records.
- We reviewed invoices for dental and medical insurance billing to obtain the District's cost to provide medical and dental benefits to Shop employees.
- We obtained an estimate from the New York State Employee Retirement System (ERS) of the District's employer's contribution for the Shop employees.
- We calculated depreciation expense for the vehicle purchased for the senior mechanic.
- Once we calculated the medical, dental, pension expenditures and the vehicle depreciation, we calculated and excluded the portion that pertained to the repair of the District's vehicles. We calculated this amount by dividing the dollar amount of labor for District vehicles over labor for all vehicles. We did not include the cost of utilities in our calculation.

To determine whether collections were safeguarded:

- We quantified total sales to other municipalities as listed on the Report from January 2017 through August 2019, which totaled \$488,477. We tested \$173,667 of this amount, or 36 percent of the total population.
- We compared the date of service to the check date and the deposit ticket date to the date deposited in the bank to determine whether collections were received and deposited in a timely manner. We used copies of checks as references because the Treasurer did not use a receipt or check log to record the date checks were received from customers.
- We interviewed District officials to get an explanation of any transaction in our test that had no corresponding payment for services.
- We compared the Shop revenue in the District's audited financial statements for 2017, 2018 and 2019 to the sales reported in the District's Report. We then interviewed the external CPA to gain an understanding of where the audited financial statement revenue was obtained from.

To determine whether payment was received for all services provided:

- We requested invoices for all transactions in our test. We then traced the transactions to copies of checks received from customers to bank deposit tickets and the bank statement.

To determine whether all expenditures were District-related:

- We interviewed District officials, Shop employees and the Shop software provider to gain an understanding of Shop operations.
- We obtained a list of the District's record of services performed as listed on its Report and a NYSDMV listing of inspections performed to determine whether the District provided services to any individual or private companies.
- We compared all invoices for work performed for private companies with the corresponding check received for payment of the services to determine whether services were performed for the private company as listed on the Report.
- We obtained and reviewed a list of vehicles that the District performed inspections on from NYSDMV to determine whether all inspections were conducted on municipal vehicles.
- We documented vehicles we observed that did not appear to be vehicles typically owned by municipalities. In the instances that we were able to document the license plate, we obtained a list of the vehicle owners from NYSDMV. We reviewed the list of car owners to determine whether any were District vendors, officials or employees. We also reviewed payroll records to document any overtime earned on the days we observed these cars.

-
- We reviewed all invoices from the vendor that the District normally purchases car parts from. We documented all parts that were purchased which were not for the make and model of cars owned by the District and typically not owned by other municipalities. We compared these parts to the make and model of cars that we observed at the District.

To determine whether District customers were charged below fair market value labor rates:

- We called three local car dealerships and requested their current labor rates. We applied a consumer price index from the U.S. bureau of labor statistics to compute what the value of services charged in 2017 would be in 2019.

To determine whether labor rates were established and monitored effectively:

- We reviewed the Report and quantified the invoices with labor fees from January 1, 2017 through August 31, 2019. There were 565 invoices with labor fees totaling \$252,064. We then removed all invoices with labor fees for work done for the District. There were 530 invoices with labor fees totaling \$237,972 remaining.
- We then used a random number generator to select three invoices from each customer serviced in 2017 and 2018 and two invoices from each customer in 2019. We selected 65 invoices with labor fees totaling \$22,673. The 65 invoices were 12 percent of the population of 530 invoices.
- We reviewed invoices for all transactions in our test. We computed the labor rate for each transaction by dividing the labor fees by the hours worked.
- We requested work agreements or Board resolutions to determine whether customers had a Board-approved labor rate. For those customers with Board-approved rates, we reviewed labor fees charged to determine whether they were charged in accordance with Board-approved rates.
- We compared agreed-upon labor rates for customers who had agreements with the actual labor rate charged to determine whether the customer was charged the agreed-upon rate.

To determine whether District officials maintained an effective inventory system for auto parts purchased:

- We interviewed District officials to gain an understanding of the procedures for the purchase of auto parts and whether the District had any inventory tracking system.
- We selected the District's largest auto parts provider for all three fiscal years. This vendor received 33 payments totaling \$102,710 from January to August 2019. We used our professional judgment and selected one claim from this vendor. We selected this claim because, after removing issued credits, it

had 40 invoices with 81 parts listed totaling \$3,440, which had more invoices than the average claim for this vendor. In our judgment, each claim had approximately 30 invoices.

- We reviewed all invoices from the selected claim. We conducted a test to determine whether we could trace all parts purchased on the vendor invoices to the use of the part on customer invoices for services performed. We reviewed all invoices from the date of the purchase to two weeks after purchase. We determined two weeks were sufficient because District officials informed us that parts are purchased on an as-needed basis.

To determine whether there were adequate controls for the Shop's financial software:

- We interviewed District officials and employees to determine the process of recording and billing customer transactions. We also interviewed officials to determine whether Shop reports were monitored.
- We requested and reviewed Reports printed on November 8, 2018, March 25, 2019, September 11, 2019 and September 24, 2019. We then reviewed transaction on all four reports from 2017 through August 31, 2018. We documented any inconsistencies.
- We used our professional judgment to identify and review all invoices paid from one municipality. We selected this municipality because we were aware that the invoices were issued to and payments were received from a private company for these services. We interviewed District officials to get an explanation for the invoices and payments.
- We interviewed the provider of the Shop software to gain an understanding of how the software records transactions and generates invoices.

To review the District's disciplinary actions against the employees who purchased auto parts that were not for approved District purposes, we reviewed:

- The written agreements between the District and the mechanic shop employees to determine the District's disciplinary actions for their purchase of auto parts that were not for District purposes.
- Timecards and payroll journals for the pay periods February 14, 2022 through February 27, 2022 and February 28, 2022 through March 13, 2022 to verify that both mechanic shop employees were suspended for one week without pay.
- Bank statements from December 2021 through March 2022 to verify that reimbursements from the two mechanic shop employees were deposited into the District's bank account.

-
- Cash ledgers for all funds for December 2021, January 2022, February 2022 and March 2022 to verify reimbursement from both mechanic shop employees.

We conducted this performance audit in accordance with GAGAS (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 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.

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. We encourage the Board to make the CAP available for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

HAUPPAUGE REGIONAL OFFICE – Ira McCracken, Chief Examiner

NYS Office Building, Room 3A10 • 250 Veterans Memorial Highway • Hauppauge, New York
11788-5533

Tel (631) 952-6534 • Fax (631) 952-6530 • Email: Muni-Hauppauge@osc.ny.gov

Serving: Nassau, Suffolk counties



Like us on Facebook at facebook.com/nyscomptroller

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)