



Town of Owego Fire District Board Oversight

Report of Examination

Period Covered:

January 1, 2011 — December 13, 2012

2013M-26



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2013

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 Town of Owego Fire District entitled Board Oversight. 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 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 Town of Owego Fire District (District) is a district corporation of the State, distinct and separate from the Town of Owego and Tioga County in which it is located. The District provides fire protection services to approximately 7,800 people over an area of 80 square miles. The District's 2012 budget appropriations were approximately \$1.2 million, which were funded primarily with real property taxes, fire protection service revenue from other governments, and grants from local governments.

The Board of Fire Commissioners (Board) consists of five elected members, with one member appointed as Chairman, and is responsible for the District's overall financial management. The Board appoints a Treasurer who acts as the District's chief fiscal officer and is solely responsible for receiving and disbursing District money and maintaining records summarizing such activity.

The District hired a payroll vendor to process payroll, including making direct deposits and remitting the related withholdings. A key employee is the District Manager whose duties include handling personnel management, ensuring compliance with the Occupational Safety and Health Administration and training requirements, certifying most of the District's claims, and monitoring fuel usage. One of the Commissioners is responsible for maintaining the District's asset list.

Objective

The objective of our audit was to assess the Board's oversight of cash disbursements, assets, and fuel inventories. Our audit addressed the following related question:

- Did the Board of Fire Commissioners ensure that all disbursements were made, and goods and services are used, only for proper District purposes?

Scope and Methodology

We assessed selected District activities for the period January 1, 2011, to December 13, 2012.

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 B of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials

generally agreed with our recommendation and indicated that they plan to take corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the 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 Clerk's office.

Board Oversight

The Board is responsible for overseeing the District's fiscal activities and safeguarding its resources. To fulfill this duty, the Board is required to audit all claims prior to their payment. The Board should also ensure that only District officials have access to the District's bank accounts and that all approved signatures are valid. Finally, the Board must also safeguard District assets and inventories and ensure that they are used only for District purposes.

The Board did not audit and approve claims after the transactions occurred and prior to the Treasurer paying those claims. The Board did discuss many purchases prior to those purchases being made, thus ensuring that the goods purchased were for District purposes. However, without auditing the claims prior to payment, the Board could not be sure that the amounts paid were aligned with its previously established expectations. In addition, the payroll vendor has access to a District bank account with a significant amount of District cash. Finally, District officials could not account for more than 50 percent of fuel delivered to two of the three District fire stations.

Claims Audit — The audit and approval of claims is one of the most critical elements of oversight provided by the Board. Town Law requires the Board to audit and approve all claims against the District prior to directing the Treasurer to pay them.

We reviewed 47 claims totaling almost \$360,000 paid by the Treasurer and found that the Board did not audit any of the 47 claims.¹ While Board minutes included the Board's discussion of plans to make 36 of these purchases totaling \$350,000 prior to the actual purchase, the Board approved only a list of checks prepared by the Treasurer without reviewing the underlying claims. Although individual Board members signed some claims, these claims often represented their own reimbursements for purchases that they had initiated. For example, one Board member had signed a claim reimbursing himself for nearly \$1,000 for two computers he purchased for the District. The Board believed that the District Manager's review of claims, along with their review of the check list, provided sufficient oversight.

Payroll Vendor — As an officer of the District, the Treasurer is the custodian of all moneys received and disbursed by the District. The Treasurer's duties cannot be delegated to any independent contractor without specific statutory authority that allow the Treasurer to do so.

¹ Refer to Appendix B for further information on the sample selection.

Therefore, a third-party payroll vendor should not have unlimited access to a District bank account. In addition, District officials should periodically confirm that signatures on bank accounts are valid.

The Board allowed the District's payroll vendor to access and withdraw money from a District account that at one point had a balance of nearly \$429,000. Each payroll period the vendor makes a disbursement for the total amount necessary for the salaries paid by direct deposit, total taxes, other withholdings, and the fee for their services.² In addition, we found that one of the two District officials' signatures electronically applied to the checks by the vendor is no longer a valid signatory of the account.

District officials told us that the vendor had to have access to the District's account to conduct business with the District. The District provided us with information related to the bonding of the vendor's employees; however, it is more prudent to have controls in place to prevent a theft than to protect for it after the fact.

Assets and Fuel Inventory — The Board is responsible for ensuring that an accurate record of District assets is maintained and the District's fuel inventory is used for appropriate purposes. The Board did not establish procedures to ensure that District inventories are used for proper District purposes. While staff at each of the three fire stations recorded fuel consumption on fuel logs, District officials could not account for more than 25 percent (298 gallons out of 1,177 gallons delivered) of unleaded fuel and diesel delivered during the periods we tested.³ This included more than 50 percent (239 gallons out of 461 gallons delivered) of the fuel delivered to two of the fire stations. While reviewing the fuel logs, we noticed periods when there were lapses in recorded entries (date and use) indicating that all fuel used for District purposes may not have been properly recorded. While the District Manager routinely checked one station's fuel log⁴ for reasonableness, he did not provide the same oversight for the other two stations.

The District's asset list did not include all assets. We selected 11 items purchased during our scope period to test the asset control listing and to verify the assets were present. We were able to verify all of the 11 items were in proper District locations, but only two of the assets were included on the asset list. Therefore, nine assets, valued at over \$6,500, were not on the asset list. District officials told us that the District was not finished with transitioning between the systems used to record assets.

² Checks are also drawn from this same account for salaries paid to new employees who are not yet paid by direct deposit.

³ See Supra, note 1.

⁴ The log he did review had a variance of only about 8 percent.

The Board did not recognize the risks that occur when certain fundamental duties are not performed. Without basic oversight such as a sound claims audit process, or appropriate access to District assets, payments could be made for other than District purposes, or assets could be lost or misused without detection, or only detected after it occurred. In particular, allowing a vendor to have direct access to a District bank account removes any ability to prevent errors or irregularities from occurring. While verifying that those employees are bonded is a step toward recovery of any funds that could be misappropriated, it leaves the decision of liability to yet another third party, the bonding insurance company.

Recommendations

1. The Board should conduct a thorough and deliberate audit of all claims prior to payment to ensure that all claims have sufficient supporting documentation and ensure that the minutes clearly identify the specific claims that the Board approved.
2. The Board should ensure that only appropriate District officials have access to District bank accounts. District officials should monitor the use of their signatures and ensure that the signatures on the District's account are valid.
3. The Board should ensure that assets and inventories purchased by the District are properly recorded and monitored for appropriate use. This includes maintaining a more complete record of fuel use to enable a comparison to delivery receipts.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



TOWN OF OWEGO FIRE DISTRICT

P.O. BOX 370
OWEGO, NEW YORK 13827-0370

CHAIRMAN	WALTER JONES
COMMISSIONER	BRUCE DALE
COMMISSIONER	PATRICA HICKEY
COMMISSIONER	LARRY SINGLETON
COMMISSIONER	JOSEPH STOCKS
FIRE DISTRICT MANAGER	KEVIN FORD

APRIL 8 ,2013

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417
teames@osc.state.ny.us

RE: Town of Owego Fire District Report of Examination

We are in receipt of the preliminary draft findings of the Town of Owego Fire District report of examination. The Town would like to thank you for your professional manner conducting this examination. We have found the audit covering January 2011 to December 2012 to be a positive process to further improve our financial operations.

Recommendation 1:

Board did not conduct a thorough audit and deliberate audit of all claims prior to payment to ensure that all claims have sufficient supporting documentation and the minutes clearly identify claims the board approved.

District Response 1:

The Board is changing its purchasing policy to ensure that all claims are audited prior to payment by all board members attending the scheduled monthly meetings. The audited claims will be documented in the meeting minutes. The Board will ensure that each claim is valid, approved, legal, and mathematically correct.

Recommendation 2:

The Board should ensure that only appropriate District officials have access to District bank accounts. District officials should monitor the use of their signatures and ensure that the signatures on the Districts account are valid.

District Response 2:

At each organizational meeting in January, the Board passes a resolution giving only the Treasurer and Chairman of the Board authorization to sign Fire District checks. Please refer to Resolution 20xx06, Subject: Designation of Official Depository for Fire District Funds and Signature Requirements.

In order to ensure timely and reliable payment to employees, the Board contracts a payroll service to handle payroll. The Board also gives the payroll service access to its Payroll account. After discussing this with auditors from the Office of the State Comptroller, the Board agrees that the payroll service should not have access to the large amount of money typically held in the Payroll account. To resolve this concern, the Board will open a second Payroll account to which the payroll service does not have access, will move all money from the existing account to the new account, and will set up biweekly transfers from the new account back to the existing account in the approximate amount of the biweekly payroll. The Treasurer will ensure that the running balance in the existing account remains near zero.

The Board also agrees to update signatures on file at the payroll service to reflect the current Treasurer and Chairman of the Board. These signatures are used to sign payroll checks for employees not using direct deposit.

Recommendation 3:

The Board should ensure that assets and inventories purchased by the District are properly recorded and monitored for appropriate use. This includes maintaining a more complete record of fuel use to enable a comparison to delivery receipts.

District Response 3:

The District concurs the inventories need to be more carefully monitored. As a result, the District is instituting a more stringent inventory control policy. This policy will set requirements for addition of, tracking and removal of inventoried items. In addition, inventoried items will be recorded with computer software. We believe this will result in a better control of the District's physical assets.

The District has implemented the same fuel recording procedure used at its primary dispensing location to all other locations. The district is also reviewing its fuel usage recording procedure with the intent of making it more accurate and complete. An automated recording system is being considered

Sincerely,

Walter Jones
Town of Owego Fire District Chairman

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We assessed the Board's oversight of the District's cash disbursements, assets and inventories for the period January 1, 2011, through December 13, 2012. To accomplish our audit objective and obtain valid and relevant audit evidence, we performed the following procedures:

- We interviewed District officials and reviewed Board minutes and relevant financial records, such as bank statements, abstracts, claims packages, vendor-generated payroll reports, fuel use reports, fuel delivery receipts, and inventory lists.
- We sampled 26 checks from the general checking account from months with high volumes of check transactions. For each check, we traced the payee, check number and amount from check images to vouchers and to the cash disbursements journal to verify that there was supporting documentation available and that the payments had been recorded accurately in District accounting records.
- We scanned check images for all bank accounts for all months in our audit period for checks made to the Treasurer, Manager, and personal-use vendors. We traced a sample of 15 of these checks to vouchers and to the cash disbursements journal, using the check number, payee and amount on check images to verify that there was supporting documentation available and that the payment was recorded accurately in District accounting records.
- We reviewed all six check images for checks written from reserve accounts during our audit period and traced the check number, payee, and amount from the check images to vouchers, to abstracts, and to the cash disbursements journal to verify that there was supporting documentation available and that the payments were recorded accurately in District accounting records.
- We located eight of the 10 District computers (one for the Manager, one for the Treasurer, one for each of three fire stations and one for each of the five Commissioners) by touring the District's three stations and through inquiry of District personnel. We used an auditing program on a sample of District computers to test whether they have been used for non-District purposes.
- We selected a sample of 11 payments made for assets from the cash disbursements journal which we considered susceptible to theft or abuse, traced them to the inventory list and located all of the 11 items by touring the District's three stations where equipment is stored and by inquiring of District personnel.
- We reviewed wire transfer and check activity on payroll account bank statements for the audit period to gain an understanding of the frequency and amount of each type of wire transfer and check disbursement. During the review we scanned the statements for disbursements that did not occur at a regular frequency or that were for unusually high amounts.

- We selected nine recurring wire transfers (four from 2011 and five from 2012 to sample one of each type) from months with relatively high wire transfer activity (June 2011, December 2011, May 2012, and October 2012) to test for appropriateness by tracing to supporting records, including payroll journals, cash requirement reports, invoices from the payroll vendor, and Employees' Retirement System reports. District officials could not provide us with wire confirmations.
- We compared gallons of fuel per delivery receipts and invoices from the fuel delivery vendor (diesel and unleaded) with fuel logs for October 2011 and October 2012. October 2011 fuel logs were unavailable, so we also tested January 2012. Because deliveries were less frequent at two of the three District stations, the test period at those stations was March 2012 to September 2012.
- We reviewed the bank reconciliations for two months (November 2011 and May 2012) for all bank accounts and verified their accuracy. We verified that the bank balance used in the reconciliation agreed to the balance per the bank statement, verified mathematical accuracy, and verified that the adjusted cash balance according to the bank statement agreed to the accounting records. For outstanding checks, we verified on the bank statement that they cleared the bank in subsequent months.
- We asked two Fire Commissioners why they do not conduct a formal claims audit process.

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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