



# Yaphank Fire District

## Claims Processing

### Report of Examination

Period Covered:

January 1, 2012 — December 31, 2012

2013M- 51



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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May 2013

Dear District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and the Board of Fire Commissioners 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 Yaphank 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 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 Yaphank Fire District (District) is located in the Town of Brookhaven in Suffolk County and serves 14.1 square miles in the areas of Yaphank, Shirley and Medford. The District was incorporated in 1926, serves a population of over 6,000 residents and has 110 members who provide fire, rescue, and emergency services. The District's general fund expenditures were \$1,477,872 and \$1,593,997<sup>1</sup> for the years ended December 31, 2011, and December 31, 2012, respectively. The District's primary source of revenue is real property taxes.

The District is governed by an elected five-member Board of Fire Commissioners (Board), with one member appointed as Chairman. The Board is responsible for the District's overall financial management including establishing internal controls and safeguarding cash. The Board appoints a Treasurer who acts as the District's chief fiscal officer. The Treasurer is responsible for processing all of the District's claims for payment. The Board is responsible for providing a thorough audit of each claim before approving them for payment.

## Objective

The objective of our audit was to examine the claims auditing process. Our audit addressed the following related question:

- Does the Board properly audit claims to ensure that District assets are adequately safeguarded?

## Scope and Methodology

We examined the claims auditing process for the period January 1, 2012 to December 31, 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 are included in Appendix C of this report.

## Comments of District Officials and Corrective Action

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

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<sup>1</sup> Unaudited

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 should 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.

## Claims Processing

The audit and approval of claims is one of the most critical elements of the District's internal control system. Town Law requires the Board to audit and approve all claims against the District prior to directing the Treasurer to pay them. The one exception to this is the Board may, by resolution, authorize payment in advance of audit for claims related to public utility services (i.e., electric, gas, water, sewer, and telephone), postage, freight, and express charges. However, claims for such prepayments must be presented at the next regular Board meeting for audit. It is essential for each Commissioner to conduct a thorough review of each claim to determine whether it is a proper and valid charge; to verify that the purchase was properly authorized; and to ensure that each claim is itemized, includes a receipt for the goods or services purchased, and includes confirmation of receipt. Board approval should be documented by the signatures or initials of individual Commissioners on the claims and by entries in the minutes of the Board proceedings.

The District paid claims totaling \$1,043,810 during the audit period January 1, 2012, through December 31, 2012. District officials explained that each Commissioner is assigned to separate committees, which include areas such as equipment, radios, and trucks. When an invoice is received, it is provided to the Commissioner assigned to that area. It is that Commissioner's responsibility to review the claim and determine if it is a proper District expenditure. Because of this procedure, the entire Board does not audit all claims. At monthly meetings they simply receive a warrant<sup>2</sup> of claims for approval.

In addition, the Treasurer processes and pays certain claims prior to the Board's approval. The Board passed a resolution which allows the Treasurer to pay specific bills prior to audit. However, instead of including only those specific exceptions allowed by Town Law, the resolution also allows credit card bills to be paid in advance of the Board's audit. The District's claims processing procedure requires that one of the Commissioners review the printed checks against the approved warrant prior to the checks being released.

Because the Board does not audit the claims, we selected 55<sup>3</sup> claims totaling \$220,040 paid during the audit period to determine if the

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<sup>2</sup> A list of claims, which includes the amounts claimed, the account codes, and the fund to be charged

<sup>3</sup> See Appendix C for sampling methodology.

claims were for legitimate District purposes and audited prior to payment. The claims we tested appear to be for a proper District purpose; however, none of them were audited by the entire Board. Further review of the 55 claims revealed that:

- Eighteen claims totaling \$176,855 were paid prior to the Board approving the warrant at the monthly meeting. Of the 18 claims, only four claims totaling \$3,094 were for allowable exceptions under Town Law. However, none of these four claims were subsequently audited or approved by the Board as required. The other 14 claims were payments for items such as computer services, refreshments, and training workshops. For example, a \$1,544 payment for computer services was approved by the Board at an October 2, 2012 Board meeting but the check was cashed on September 18, 2012, 14 days prior to the Board approving the warrant. Computer services are not an allowable exception under Town Law.
- Fifty-three claims totaling \$214,344 did not follow District procedure and were paid prior to the Commissioner certifying the warrant. For example, a \$2,749 payment for supplies was certified by the Commissioner on June 13, 2012; however, the check was cashed on June 8, 2012, five days before the Commissioner's certification.
- Nineteen claims totaling \$172,775 were not reviewed by the assigned Commissioner. For example, a \$164,000 payment for length of service award program contributions did not have a Commissioner signature on the claim.
- Twelve claims totaling \$21,751 included a blank claim voucher signed by a Commissioner. Because the voucher was blank with no identifying information, there was no way to confirm that the Commissioner intended to approve the invoice it was attached to. For example, a claim for \$5,304 for electrical repair services included a District voucher which was signed by a Commissioner; however, all other information on the voucher was blank. The name of the vendor, date, dollar amount, description, and certification had not been filled in.
- Five claims totaling \$1,039 did not include sufficient support, such as an itemized invoice or receipt, to enable a proper audit. For example, a \$210 payment made for the installation of blinds had no invoice attached to the claim packet.

Without properly auditing and approving all claims before payment, the Board does not have adequate assurance that the purchases were

adequately approved or that the goods and services were actually received. In addition, by routinely paying claims without the Board's audit, there is an increased risk of the misuse or diversion of District funds.

### **Recommendations**

1. The Board should establish a proper resolution that allows the Treasurer to pay claims for allowable exceptions under Town Law prior to an audit by the Board.
2. The Board should ensure that all claims, other than those exceptions allowed by Town Law, are audited and approved by the Board before the Treasurer pays the claims. Claims allowed by Town Law and authorized by Board resolution for the Treasurer to pay prior to audit should subsequently be presented to the Board for audit and approval.
3. The Board should ensure that every claim is sufficiently itemized and contains the necessary supporting documentation to ensure that it is a proper District charge.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# YAPHANK FIRE DISTRICT

31 Main Street  
YAPHANK, NEW YORK 11980



BOARD OF FIRE COMMISSIONERS

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GREGORY SANDELL  
DONNA HOLECEK  
CHARLES MAPES  
MICHAEL L. HAMILTON, TREASURER  
LINDA IVANS, SECRETARY

(631) 924-3200  
FAX (631) 924-3166

May 13, 2013

The Board of Fire Commissioners for the Yaphank Fire District would like to submit the following response to the 2012 NY State Audit report.

Each Commissioner is assigned to an area of responsibility, i.e. buildings and grounds, insurance, uniforms, etc. When an invoice is received, the secretary attaches any shipping documents or receipts and gives it to the Commissioner responsible for that area for their approval and signature.

All goods and services received by the Board of Fire Commissioners are subject to the following procedure: All purchases and services are approved by the Board of Commissioners at a regularly scheduled public meeting. However, there are times where an emergency arises - damaged equipment must be repaired or replaced, a building system serviced. Prior to the emergency expenditure, all members of the Board are contacted and three Commissioners must give their approval. The emergency expenditure will be given to the area Commissioner for payment approval and the expenditure will appear on the subsequent Warrant.

The Treasurer prepares a Warrant, which lists all claims approved for payment, to be presented and read aloud at the public portion of the regular meeting. All claims for payment which appear on the Warrant are present at the meeting should a question arise about a specific claim. Once the Warrant is approved, it will be signed by all Commissioners present at the meeting and the Treasurer is directed to make the payments.

The Board assigns a Commissioner to compare the Warrant to the checks written to ensure that they are accurate and the check is written as it is presented on the Warrant.

The Treasurer usually prepares the Warrant a few days prior to the regularly scheduled meeting. Many times, the Board will receive a claim for payment after the Warrant has been prepared. To prevent a vendor from having to wait an additional 30 days for payment and the District incurring a late fee, if the item has been received and all documentation is available, the claim will be presented at the regular meeting for payment. These "late starters", if approved for payment, will appear on the next monthly Warrant as previously approved.

The audit report purports that the claims for payment are not properly audited. The Board contends that their system of pre-approving all expenditures at the public meeting, having a Commissioner verify

See  
Note 1  
Page 11

the claims validity, the public reading of the Warrant and the required Commissioner signatures on the Warrant satisfy the requirement for individual Commissioners to appear on each claim voucher.

The audit claims that the Board does not audit claims properly and cites the following examples:

- a) Checks clearing before appearing on a Warrant
- b) Claims with no Commissioner's signature
- c) Blank vouchers with only a Commissioner's signature
- d) A completed voucher with no invoice attached.

See  
Note 2  
Page 11

The checks clearing prior to the Warrant, the claims without vouchers and the blank vouchers can all be traced to claims which arrive after the Warrant for the month has been prepared (as stated earlier the "late starters"). These "late starters" are read aloud at the public portion and approved for payment by the Board. No signatures were sought out at that point since it appears to be redundant. The claim cited in the report as not having a voucher was for the LOSAP program. This, too, was a "late starter" and is usually received from the LOSAP management company without a voucher. If a claim for payment is submitted without a voucher, typically utility bills, a blank voucher will be attached. When the treasurer receives the claim for payment with an attached signed voucher he knows that it was reviewed and payment is approved. The last incident cited was a claim for \$210.00 for the installation of blinds. Our volunteers come from all walks of life and have many different skills; in this case we hired one of our members to install blinds. Their claim for payment is usually accepted on our voucher. The voucher is itemized as to the work performed and the cost for service.

See  
Note 3  
Page 11

The first four examples cited point out that we need more documentation for the "late starters". It is simply not enough to approve them at a meeting and then remit the payments. As a result of this audit, the following changes have been enacted.

- All checks will not be remitted until after a Commissioner has verified that the checks written match the checks presented on the Warrant and the "late starters".
- All "late starters" which are approved for payment will appear in the minutes on the month in which they were approved.
- The "late starters" must be scrutinized for documentation and validity and then signed by the Commissioner responsible for that area.
- All claims will have attached vouchers which will be completed with the name of the claimant and cite, at minimum, the attached invoice number.

The auditors who performed the audit on the 2012 books touched every facet of our operation. I would like to point out that although the auditor states that while the areas of concern cited could increase our risk of misuse or diversion of District funds, none were noted during their audit. Nor were there misuses or diversions ever noted in our independent audit conducted each year, as required under NY State law. We take their discoveries very seriously and will make every effort to comply with their recommendations.

Respectfully submitted,

William Peters, Jr.  
Chairman of the Board, Yaphank Fire District

## **APPENDIX B**

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

#### Note 1

Town Law requires the Board to audit and approve all claims against the District prior to directing the Treasurer to pay them. Public reading of the warrant, the Commissioners' signature on the warrant and an individual Commissioner's review of a claim is not a sufficient substitute for the legal requirement that the Board audit and approve all claims.

#### Note 2

The examples cited are additional problems that we identified with claims, in addition to the claims not being properly audited.

#### Note 3

All claims require invoices, receipts or some other supporting documentation to confirm that it is a proper and valid charge against the District. Any deviation should be clearly documented within the claim packet to enable a proper audit.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if the Board provided adequate oversight of fiscal operations. To accomplish this, we performed an initial assessment of the internal operations so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, the Length of Service Award Program (LOSAP), and information technology.

During the initial assessment, we interviewed appropriate District officials to obtain an understanding of the organization and the accounting system, performed limited tests of transactions, and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected claims auditing. To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following:

- We randomly<sup>4</sup> selected 54 claims and one judgmentally<sup>5</sup> selected claim for review out of a total of 658 claims.
- We compared check stubs to canceled check images to verify that the information presented on the check stubs was identical to the canceled checks.
- We compared the following dates: check stub date, date the check cleared the bank, date warrant was approved by Board, and date the warrant certification was completed to determine if the warrant was reviewed and approved prior to the checks being mailed and cashed.
- We reviewed individual claims to confirm that each claim voucher was certified by a Commissioner, the supporting documentation included in the claim packet was sufficient, the voucher was audited by the Board, and the expenditure was for a valid District purpose.

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

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<sup>4</sup> Using a random number generator formula

<sup>5</sup> Check disbursed to a District official

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