



Orient Fire District Cash Reserves and Credit Cards

Report of Examination

Period Covered:

January 1, 2014 — February 28, 2015

2015M-319



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
EXECUTIVE SUMMARY	2
INTRODUCTION	4
Background	4
Objectives	4
Scope and Methodology	4
Comments of District Officials and Corrective Action	5
CASH RESERVES	6
Recommendations	6
CREDIT CARDS	8
Audit of Claims	8
Travel and Conference Expenses	9
Meals and Refreshments	12
Recommendations	13
APPENDIX A Response From District Officials	14
APPENDIX B Audit Methodology and Standards	17
APPENDIX C How to Obtain Additional Copies of the Report	19
APPENDIX D Local Regional Office Listing	20

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2016

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 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 the Orient Fire District, entitled Cash Reserves and Credit Cards. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Orient Fire District (District) is a district corporation of the State, distinct and separate from the Town of Southold, in Suffolk County (County). The District's expenditures for 2014 were \$636,916, and budgeted appropriations for 2015 were \$669,295, funded primarily with real property taxes.

The District covers approximately five square miles and serves approximately 900 residents. The Board of Fire Commissioners (Board) is composed of five elected members and is responsible for the District's overall financial management and for safeguarding District resources. The Board appoints a Treasurer and a Secretary. The Treasurer acts as the District's chief fiscal officer and is responsible for the receipt and custody of District funds, disbursing and accounting for those funds, preparing monthly and annual financial reports and meeting any other reporting requirements. The Secretary is responsible for keeping a complete and accurate record of Board proceedings and all Board-adopted rules and regulations.

Scope and Objectives

The objectives of our audit were to assess the District's controls over cash investments and credit card expenditures for the period January 1, 2014 through February 28, 2015. We expanded our scope period for credit card expenditures back to January 1, 2012. Our audit addressed the following related questions:

- Did the Board ensure its cash reserves were invested appropriately?
- Did the Board ensure that meal and travel expenditures charged to District credit cards were adequately supported and for business-related purposes?

Audit Results

The Board did not adequately safeguard District funds. Its adopted investment policy did not limit depositories to banks and trusts, as required by General Municipal Law, and listed a brokerage firm as a depository where the District invested \$328,063 in cash from two of its reserve funds. Furthermore, the written agreement with the firm lists the Board members as the accounts' signatories rather than the Treasurer. These practices weaken the safety, security and liquidity of funds, as required by law.

The Board also did not exercise appropriate oversight or establish sound policies and procedures related to credit card use. The District's policies for credit card use and travel expenditures were inadequate, and the Board did not establish a policy covering meals and refreshments. Further, District officials did not comply with existing policies, and the Board did not provide oversight to ensure that District funds were used for legitimate District business purposes.

The Board allowed the Treasurer to pay credit card claims prior to Board approval. Moreover, the Board did not conduct a thorough audit of claims but approved claims for payment without sufficient supporting documentation. We reviewed all 37 credit card claims for the period January 1, 2012 through February 28, 2015, consisting of 842 charges totaling \$162,708, and found that many of the claims had at least one deficiency. For example, 33 claims with 777 charges totaling \$149,063 (92 percent of the dollar amount reviewed) were paid by the Treasurer prior to Board audit, and 234 charges totaling \$44,706 (28 percent) did not have receipts attached.

District officials also did not enforce the District's travel policy and did not have an adequate policy for meals and refreshments. The Board did not ensure that travel was authorized in advance and did not require members to provide itemized receipts and proof of attendance to support their travel expenditures. For example, 111 charges for travel-related expenditures outside the County, totaling \$21,128, did not have receipts attached to the claims vouchers as required. During the same 38-month period, 74 charges for meals and refreshments totaling \$8,204 were also not supported by an itemized receipt.

Because the Board did not provide oversight and ensure that all credit card charges were properly audited and adequately supported, there is no assurance that all credit card charges made by District officials were actual, necessary and reasonable District expenditures.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated that they have taken, or plan to take, corrective action.

Introduction

Background

The Orient Fire District (District) is a district corporation of the State, distinct and separate from the Town of Southold and the County of Suffolk in which it is located. The District covers approximately five square miles, maintains one main firehouse and two outlying structures and provides fire protection and emergency rescue services to approximately 900 residents. The District had 64 active volunteer members who responded to 96 alarms in 2014 and had 62 active volunteers in 2015. The District's expenditures for 2014 were \$636,916 and budgeted appropriations for 2015 were \$669,295, funded primarily with real property taxes.

The District is governed by an elected five-member Board of Fire Commissioners (Board). The Board is responsible for the District's overall financial management, including establishing internal controls to ensure that assets are properly safeguarded. The Board is also responsible for providing a thorough audit of each claim before approving it for payment. The Treasurer is responsible for receiving, disbursing and maintaining custody of District funds, and the Secretary is responsible for keeping a complete and accurate record of Board proceedings and all Board-adopted rules and regulations.

Objectives

The objectives of our audit were to assess the District's controls over cash investments and credit card expenditures. Our audit addressed the following related questions:

- Did the Board ensure that its cash reserves were invested appropriately?
- Did the Board ensure that meal and travel expenditures charged to District credit cards were adequately supported and for business-related purposes?

Scope and Methodology

We examined the District's credit card expenditures and cash investments for the period January 1, 2014 through February 28, 2015. We expanded our audit scope period for credit card expenditures back to January 1, 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 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 recommendations and indicated that they have taken, or plan to take, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of the 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. 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 this plan available for public review in the District Secretary's office.

Cash Reserves

General Municipal Law (GML) requires the Board to adopt and annually review a comprehensive investment policy that establishes procedures and instructions for depositing and investing District moneys in a manner that complies with statutory requirements and safeguards public funds. GML provides that local governments may designate one or more bank or trust companies, located and authorized to do business in New York State, for the deposit of public funds. Officials may temporarily invest moneys not required for immediate expenditure in special time deposit accounts, in certificates of deposit issued by a bank or trust company,¹ in New York State obligations or in United States obligations. The law emphasizes safety, security and liquidity over yield, because improper investments could result in a risk of market fluctuation and the loss of principal.

The Board adopted an investment policy, last updated in February 2014, which designates the Treasurer as custodian of District funds. However, the policy does not limit depositories to banks and trusts, as authorized by GML. The policy listed a brokerage firm (firm) as a depository, with which the District opened a securities account for the deposit and investment of its two reserve funds totaling \$328,063 (the capital improvement reserve with a balance of \$60,510 and the truck reserve with a balance of \$267,553).² The District's written agreement with the firm states that the firm is not a bank and that deposits are not insured by the Federal Deposit Insurance Corporation (FDIC). While the firm invested most of the District's money with various banks, the reserve accounts were not invested with a bank or trust located and authorized to do business in New York State. In addition, GML requires any amounts in excess of FDIC coverage to be secured by a pledge of eligible securities. There is no indication in the agreement between the District and the firm that the moneys are secured. Furthermore, the agreement lists the District's Board members as the signatories on the accounts, rather than the Treasurer.

As a result of not complying with GML requirements, the Board has not adequately safeguarded District funds.

The Board should:

Recommendations

1. Amend its investment policy, close any improper accounts and ensure that all District moneys are deposited and invested as authorized by GML.

¹ Located and authorized to do business in New York State

² As of February 2015

2. Adhere to its investment policy and ensure that the Treasurer invests cash on its behalf.

Credit Cards

The Board is responsible for monitoring fiscal operations and ensuring that assets are safeguarded and used appropriately. To fulfill this duty, the Board should adopt policies and procedures to ensure that transactions are authorized and for legitimate business purposes. This includes ensuring that all claims are properly audited, all expenditures are supported and claims are paid only after the Board authorizes payment.

It is critical that the Board oversees the use of District credit cards. An effective system of internal controls requires the Board to adopt a credit card policy that identifies authorized users, defines credit limits, describes the types and circumstances of purchases allowed and specifies the prior approval and documentation needed to support each purchase. The policy also should include procedures for Board monitoring of credit card use to ensure accountability and responsibility.

The Board did not exercise appropriate oversight or establish sound policies and procedures related to credit card usage and did not provide sufficient oversight of travel expenses and meal expenditures. The District's policies for credit card use and travel expenditures were inadequate, and the Board did not establish a policy for meals and refreshments. District officials did not comply with existing policies, and the Board did not provide oversight to ensure that funds were used for legitimate District business purposes. Due to a lack of formal policies and the Board's failure to properly audit all claims, District officials took a lax approach to the use of District-issued credit cards and the payment of related charges.

Audit of Claims

The Board must audit all claims against the District and, by resolution, direct the Treasurer to make payments for approved, actual and necessary amounts. A thorough claims audit process verifies that all claims are properly itemized and contain sufficient documentation for the Board to determine the nature of the purchase, verifies that the amounts represent actual and necessary District expenses and verifies that the purchases comply with statutory requirements. The Treasurer may not pay claims prior to Board audit except for those claims legally exempt from this requirement.³ Credit card claims must be audited prior to payment, as they do not fall within the statutory exceptions in New York State Town Law.

³ For example, public utility services, postage, freight and express charges. These claims still have to be presented for audit at the next Board meeting.

The Board allowed the Treasurer to pay credit card claims prior to Board approval. Moreover, it did not conduct a thorough claims audit and approved claims for payment without sufficient supporting documentation. We reviewed 37 credit card claims for the period January 1, 2012 through February 28, 2015, composed of 842 charges totaling \$162,708,⁴ and compared the check dates to the Board audit signature dates. Of 37 claims, 33 claims with 777 charges totaling \$149,063 were paid by the Treasurer prior to Board audit.⁵ The Treasurer explained that she made payments prior to Board meeting dates to avoid late fees being charged to the District.

Additionally, 234 charges totaling \$44,706 did not have receipts attached, and 71 charges totaling \$12,065 had receipts that were not sufficiently itemized. Despite the policy requirement for cardholders to provide an explanation for missing receipts, none of the credit card statements contained any such explanations. Because most of the charges were for travel/conference and meal expenditures,⁶ we examined those in detail (see findings in the next two sections).

Because the Treasurer paid credit card claims prior to audit and the Board did not conduct a thorough claims audit, claims were paid without adequate support and the Board does not have adequate assurance that all credit card charges were actual and necessary District expenditures.

Travel and Conference Expenses

GML allows fire districts to pay for actual and necessary expenses for travel, meals, lodging and registration fees at conferences or conventions attended by authorized district officials, employees or officers. To ensure travel-related expenditures are legitimate District costs, the Board should establish a travel and conference policy and monitor compliance with it. The policy should give clear and specific guidelines with respect to attendance and associated costs in order to minimize the risk of excessive expenditure of public funds, and it should delineate methods of tracking these expenses, such as the review of detailed travel and expense vouchers.

The Board established a travel policy which provides guidance for attendance and associated costs. The policy requires itemized receipts to be retained by District officials and submitted to the District so that the Treasurer can reconcile charges made to the credit card statements.

⁴ These claims included all travel and conference charges and all meals and refreshments charges, as described in this report, and all claims for other charges incurred during our audit period.

⁵ Many claims had more than one deficiency.

⁶ Of all 842 charges incurred totaling \$162,708, there were 321 travel-related charges (38 percent) totaling \$61,164 and 180 charges for meals and refreshments (21 percent) totaling \$22,290.

However, District officials did not have any procedures to enforce compliance with the policy. The Board did not ensure that travel was authorized in advance and did not require travelers to provide itemized receipts and proof of attendance to support their travel expenditures. Without such documentation, the Board has no means of determining whether the charges are necessary and appropriate.

From January 1, 2012 through February 28, 2015, District credit cards were used to pay for 22 trips outside Suffolk County to attend conferences, seminars and other training events. Charges included registration fees, lodging, meals, airfare, tolls, transportation and gasoline. There were 321 travel-related charges on District credit cards totaling \$61,164, of which 111 charges totaling \$21,128 did not have receipts attached to the claims vouchers. Further, 15 charges totaling \$1,512 had receipts that were not itemized.

In addition, 11 of the trips had no Board resolutions authorizing the travel in advance. The authorizations we did find in the minutes were vague, generally granting permission to “members” rather than specific individuals, and did not always provide the number of members authorized to travel. Further, District officials did not attach proof of completion or training certifications, where applicable, to support travel expenditures.

Travel-Related Charges in 2012 – During 2012, District officials charged 138 travel-related expenses totaling \$21,021. Of these, 48 charges totaling \$9,516 were not supported by receipts. An additional 12 charges totaling \$938 were supported by receipts that were not itemized.

Many of these unsupported claims were related to a trip to Laughlin, Nevada for a conference⁷ which the Board authorized three members to attend for training purposes from October 15 through October 18, 2012. The District’s credit cards were used to pay \$7,182 in associated charges. Seventeen charges totaling \$4,846 were missing receipts, and other charges were unauthorized or questionable. The Board resolution authorized payment of the registration costs (which included lodging) for three members, to include \$600 for the first registrant and \$500 for each additional registrant, plus meals. The resolution required the attendees to pay for their own transportation, and did not provide the name or title of the individuals authorized to attend.

⁷ The 2012 International Association of Dive Rescue Specialists (IADRS) conference

The District paid \$2,100 for four registrations to this conference, rather than \$1,600 for three as authorized. Our review showed that three members attended the conference. Two registration charges were not supported by registration forms and the claims did not indicate the names of the registered participants. The District also paid \$1,650 for two airline charges with nothing attached to the claim to support the charges, and the claim did not indicate the travelers' names or destinations. Further, while the Board resolution indicated that participants should pay for their own travel, only one individual reimbursed \$412 of the \$1,650. Finally, there were no training certificates or proof of completion with the claims or in personnel files to show that training was completed at this conference. Other questionable charges included:

- Two charges totaling \$395 appear to be for lodging at a Las Vegas hotel after the conference, but the charges were not supported by receipts or authorized by Board resolution.
- One charge of \$134, supported by a receipt and signed for by a chief, was for a hotel room located one half mile from the conference site during the same time as the conference. There was no indication of why this additional room was necessary when lodging was included in the registration fee.
- Two charges for meals totaling \$486 were supported with receipts but predated the conference. For example, one charge of \$417 for dinner at a Las Vegas restaurant occurred two days before the start of the conference.

Travel-Related Charges in 2013 – During 2013, District officials incurred 100 travel-related charges totaling \$21,277. Of these, 32 charges totaling \$6,915 were not supported by receipts. For example, officials paid \$2,953 for registration and airfare related to a conference, without any support attached to the claim. In addition, no receipts were provided for hotel charges related to a Baltimore convention and for trips to Verona, Saratoga and Albany, New York, totaling \$1,951.

Travel-Related Charges in 2014 – During 2014, officials incurred 83 travel-related charges totaling \$18,866, of which 31 charges totaling \$4,697 were not supported by receipts. For example, District officials did not submit five receipts totaling \$2,351 for hotel charges related to a 2014 Baltimore convention and for conferences in Albany and Rochester, New York. Additionally, no receipts were attached to \$79 in claims for food at the Albany conference.

By not ensuring that all travel is authorized by the Board and properly supported, District officials did not enforce their own policy or adhere to GML. As a result, District credit cards have been used for unsupported purchases, and there is limited assurance that all charges were actual, necessary and reasonable expenses of the District.

Meals and Refreshments

Generally, meals are considered a personal expense unless the District has official business that must be conducted during a typical mealtime. These situations could include Board meetings, work sessions or other meetings attended by District officials outside of their work area for extended periods of time, or events that prevent District volunteers or other personnel from taking time off to eat during mealtime. Accordingly, when the Board determines it is appropriate to permit expenditures for meals or refreshments, District officials incurring these expenditures must maintain sufficient supporting documentation to justify that there was a business purpose. The Board must adopt written policies and procedures to establish rationale for meal purchases, confirm that meal and refreshment expenses are actual and necessary by requiring sufficient support for the charges, and ensure that charges are reasonable.

The Board has not adopted a policy for meals and refreshments. While the District's credit card policy includes constraints on meal charges during non-local travel, it does not address meals and refreshments purchased within the local area. During the period January 1, 2012 through February 28, 2015, District officials incurred 180 meal and refreshment charges totaling \$22,290 using their District-issued credit cards. Of this amount, the District did not have adequate support for 147 charges totaling \$18,196. For example:

- Seventy-four charges totaling \$8,204 were not supported by itemized receipts attached to the claims vouchers.
- Twenty-four charges totaling \$2,227 could be attributed to District business such as Board meetings, work sessions or other meetings attended by District officials, but there was no documentation to indicate the need to expend funds for a meal. For example, a credit card was used to charge \$106 for two individuals at a local restaurant at 9:00 p.m. with the notation "Chiefs meeting" on the receipt. While the individual using the card was a chief, it was not evident who the second individual was or why a meal was necessary.
- Thirty-six meal charges totaling \$6,494 were attributed⁸ to training events. While all these charges had receipts, not

⁸ Traced from various records: credit card statements, receipts or sign-in sheets

all were supported by an official training record or sign-in sheet. Other charges occurred in the evening after a training event had ended. None of the charges contained a list of the individuals who participated in the meals. In the absence of a policy for meals and refreshments, it was not clear whether these were necessary charges.

- Thirteen miscellaneous charges totaling \$1,271 could be traced to receipts but could not be tied to District-sponsored events.

Without written policies and procedures for credit card use requirements and without effective monitoring by the Board, the District will continue to be at risk of paying for inappropriate purchases.

Recommendations

The Board should:

3. Ensure that all credit card claims are properly audited prior to payment by the Treasurer.
4. Ensure that all travel is preapproved by the Board.
5. Ensure that all credit card charges are actual, necessary and reasonable charges supported by itemized receipts and consider developing a travel voucher or expense report to document, organize and account for travel-related charges.
6. Investigate the questionable charges identified in this report and seek reimbursement where appropriate.
7. Require travelers to provide documentation of training, such as training certificates, for all appropriate travel expenditures charged to District credit cards.
8. Develop and adopt a written policy and formal procedures to ensure that food purchases are adequately supported and are necessary District expenditures.

The Treasurer should:

9. Ensure that sufficient supporting documentation is attached to each claim that is submitted to the Board for audit and payment approval.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



ORIENT FIRE DISTRICT

23300 Main Road, Orient, NY 11957
631-323-2445 • Fax 631-323-9706
orientfired@optonline.net

Mr. Ira McCracken
Chief Examiner
Office of the State Comptroller
NYS Office Bldg, 3A10
250 Veteran Memorial Highway
Hauppauge, NY 11788-5533

Orient Fire District Cash Reserves and Credit Cards
Audit Report Number 2015M-319

Thank you for conducting an audit of our fire district. On behalf of the taxpayers, we want to thank you for your time and diligence in your review. The fire district is always desirous of improving our operations and we find your audit helpful in this effort. Our Corrective Action Plan will be integral of our response.

With regard to your findings.

- (1) Our investment policy has been revised to require that all funds are held in New York State depositories authorized to do business and located in New York State. We will ensure that all funds are so held. We are reviewing all of our present funds.
- (2) We will add the treasurer as an authorized signature on the investment accounts as you suggested, but we disagree that not having this officer as a signator presents any risk to the District.
- (3) Regarding travel. We have created a travel planner to plan proposed and track actual travel expenses. We have revised our practices to require commissioner approval for all travel expenses. We will ensure that all receipts are collected and reviewed and that no expense is reimbursed without an itemized receipt or proof of payment.
- (4) With regard to a policy for meals and refreshments, the District will enforce its travel policy and ensure that travel is confined to the limits as provided by the GSA.

- (5) Regarding the credit cards. Prior to the audit, the Board of Fire Commissioners was working with its new attorney to review and revise a new credit card policy. That policy was in fact completed though not adopted during the period of your audit. The Board did in fact pay some credit card bills in advance of the audit in order to avoid late fees. However, we disagree that the Board took a “lax approach” to reviewing them. The credit card statements were always reviewed in depth shortly after the credit card was paid. However, we recognize the best practice is to review the purchases prior to payment of the credit card. We have moved the payment date for the credit card to after our board meeting to permit for review and audit of the claims prior to payment. We do agree that there were instances where items were paid without supporting documentation and that practice has ceased. However, we always verified that such purchases were legitimate expenditures even if there were missing receipts.

Additionally, our policy has been modified to detail every person who holds a credit card by title and have added the existing credit limits to the policy.

We disagree that travel was not approved in advance, but it is more likely that the approval was not properly recorded in detail. We will enhance our minutes to record the actual approvals of travel expenses, the names of members approved, and other related approvals.

We have investigated all credit card charges raised in this report and have determined that they are all valid.

- (6) Regarding the policies for meals and refreshments, we have now adopted such a policy which sets limits upon the amount to be expended per person and establishes other rules for both the awards dinners and all other events and occasions.
- (7) We will continue to ensure that all training that confirms attendance through a certificate is documented utilizing the certificate.
- (8) To the extent that we have not specifically responded to one of your suggestions, we can ensure that we have and will continue to adopt and implement such suggestions.

Joseph Wysocki
Chairman of the Board
Orient Fire District
Orient, New York

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objectives of this audit were to review processes and procedures over the District's cash investments and credit cards for the period January 1, 2014 through February 28, 2015. Due to a lack of controls over District credit card use, we extended our scope period back to January 1, 2012 for further examination of credit cards. To accomplish the objectives of this audit and obtain valid audit evidence, our procedures included the following:

- We reviewed the District's investment policy to determine the types of investments for which the District set aside cash and for what purpose.
- We reviewed the District's investment account statements and cash account agreements with the firm to ascertain the composition of the investments and to determine who held authority to invest funds on behalf of the District.
- We researched relevant legal provisions to determine if the District's investments were appropriately invested in a bank or trust company authorized to do business in the State.
- We reviewed applicable policies, such as the financial policies, travel policies and credit card policy, to determine if the District complied with its internal policies.
- We interviewed District officials, such as Board members and the Treasurer, to obtain an understanding of the control environment over credit card use, the audit of credit card claims and accountability over expenses charged on credit cards.
- We obtained 37 credit card claim vouchers, containing 37 credit card statements paid from January 1, 2012 through February 28, 2015, from claim voucher packets and determined if each of the District's claim vouchers had appropriate supporting documentation for all credit card charges in the form of itemized receipts.
- We reviewed the credit card claim vouchers to determine when the Board members audited each claim and compared the dates to the dates of payment made by the Treasurer.
- We reviewed charges to determine their nature and separated the travel-related charges from charges for meals and refreshments.
- We reviewed travel charges for adequate support. We examined Board minutes to determine if the Board authorized trips prior to the event, and we requested and examined supplementary documentation such as training certificates or proof of completion for these events.
- We reviewed meal and refreshment charges made in the local area for adequate support. We determined if these charges were for business purposes by analyzing documentation available with the claims vouchers, such as credit card statements and itemized receipts, to ascertain

whether the charges were actual, necessary and supported. We also looked for guest lists attached to the receipts to determine if District officials were having the meal.

- We reviewed supplementary documentation, such as sign-in sheets or attendance rosters, to trace dates, times, locations and attendees of training to the dates, times and locations of the meals. If a charge could not be traced to a stated purpose, we reviewed sign-in sheets to assist in our determination of a business purpose behind the meal charges and the reasonableness of those charges.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit 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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