



West Nyack Fire District Claims Processing

Report of Examination

Period Covered:

January 1, 2013 — June 24, 2014

2014M-259



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2014

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 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 West Nyack 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 New York State 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 West Nyack Fire District (District) is a district corporation of the State. The District is located in Rockland County and is governed by the Board of Fire Commissioners (Board) which comprises five elected members. The District provides fire protection services for portions of the Town of Clarkstown residents.

The Board is responsible for the District's overall financial management, including establishing appropriate internal controls over District operations and recordkeeping, monitoring the controls to ensure that assets are properly safeguarded and ensuring that financial transactions are executed in accordance with statutory and managerial authorization.

The District Treasurer (Treasurer) is the chief fiscal officer and is responsible for the receiving, maintaining custody and disbursing of, and accounting for, District funds and for preparing monthly and annual financial reports. The Treasurer accounts for the District's financial activities in the general fund. The District's general fund appropriations for the 2013 and 2014 fiscal years were \$805,500 and \$800,500, respectively.

Objective

The objective of our audit was to examine the District's claims processing. Our audit addressed the following related question:

- Do District officials comply with Board policies to ensure that claims are appropriate and adequately supported?

Scope and Methodology

We examined the District's internal controls and policies over claims processing and reviewed records and reports for the period January 1, 2013 through June 24, 2014.

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 recommendations and indicated that they planned to take, or have already taken, corrective action.

The Board has the responsibility to initiate corrective action. 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, pursuant to Section 35 of the General Municipal Law. 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 Secretary's office.

Claims Processing

The audit and approval of claims is a critical element of the District's internal control system. New York State Town Law requires the entire Board to audit and approve all claims against the District and, by resolution, order the Treasurer to make payments for approved amounts. A thorough claims audit process verifies that all claims are properly itemized and contain sufficient documentation to determine the nature of the purchases, that amounts represent actual and necessary District expenditures and that the purchases comply with statutory requirements. The Treasurer should not pay claims prior to Board audit except for those claims legally exempt from this requirement.¹ Board approval should be documented by the signatures or initials of the majority of Board members with dates reviewed on each claim and by entries in the Board minutes.

We found that District officials approved the payment of claims that did not comply with District policy. Over 61 percent of the credit card transactions reviewed did not have documentation to support the purchases as required by District policy. Expense reports submitted for travel advances did not match the receipts that were submitted. In addition, the reimbursements to District officials for the use of personal cell phones were made without the required cell phone bills. As a result, District taxpayers do not have adequate assurance that all claims paid were for legitimate District expenditures.

Credit Card Usage

An effective system of internal controls over credit card use requires the Board to establish a policy that describes the appropriate use of credit cards and the procedures for monitoring card use. It is important that the policy identify the individuals who are authorized to use the credit cards, describe the types of purchases allowed, stipulate the documentation required to support the purchases and address the methods to recover funds from improper use of the credit cards.

The Board-adopted credit card policy authorizes one credit card account, identifies the positions of individuals who are authorized to use the credit card and outlines the parameters for credit card use. The credit card policy states that after a District credit card is used, a voucher must be filled out indicating what the card was used for.

¹ The payment of fixed salaries, principal or interest on obligations and fixed amounts becoming due on lawful contracts for the purchase of water for fire protection are legally exempt. In addition, the Board may authorize by resolution the payment in advance of audit of claims for electric, telephone, postage, freight and express charges. All claims must be presented to the Board for audit at the next regular meeting.

All necessary original receipts and invoices should be attached to the voucher which must be submitted to the Treasurer before the next monthly meeting. The Board will review the voucher for approval of payment; a majority of signatures (three) is required for payment. Any charges that are not approved by the Board shall be reimbursed to the District by the individual who used the card. Six District officials were issued credit cards for the one credit card account.

The District charged a total of \$26,872 for 96 credit card transactions during our audit period. We reviewed all of the transactions and found that 53, or 55 percent, of the transactions totaling \$13,346 did not have original receipts attached and six of the transactions, or 6 percent, totaling \$1,081 had inadequate documentation. These transactions included three payments of \$6,568 to a computer company, one payment of \$819 to a hotel and one payment of \$1,048 to a hardware supply company.

We analyzed the noncompliant transactions and found that of the six District officials who were assigned credit cards, two submitted all required documentation. Three of the remaining four users, who failed to comply with the policy, were Commissioners who were responsible for auditing the credit card claims. The Board approved the payment of the credit card bills after the Treasurer noted that there were missing receipts on the credit card statements. According to the Treasurer, if the Board knows that charges are legitimate, they will approve the charges for payment without the required documentation.

Credit card use has a high level of inherent risk because the majority of the purchases are made without pre-approvals. Because the Board did not enforce compliance with the District's credit card policy and provide sufficient oversight of the use of credit cards, there is no assurance that all credit card charges were actual and necessary District expenditures.

Travel Advances

New York State General Municipal Law allows a fire district to pay for actual and necessary expenditures for travel, meals, lodging and registration fees incurred in attending a conference or convention by authorized officials or employees. It is important that the Board adopt and enforce formal policies that give clear and specific guidelines with respect to attendance, associated costs and documentation requirements for conferences or conventions to minimize the risk of excessive expenditures.

The District has standard operating procedures (SOP) that establish guidelines as to who may travel for conventions and conferences, the process for authorizing travel, what costs may be reimbursed and the documentation that must be submitted with reimbursement

requests. The SOP states that no cash advances will be given to a member who has been authorized to attend a conference or training. Instead, a District credit card should be used for all expenditures. Incidental expenditures may be reimbursed upon the submission of a signed statement of travel expenditures on a District form detailing expenditures with appropriate original receipts. The claims must be submitted within 30 days.

The District allows the Commissioners and District officials to attend out-of-state training. In 2013, five District officials spent \$6,575 to attend the Firehouse Exposition in Baltimore, Maryland. Of that, \$1,256 were travel advances which were given to three officials despite the District's policy prohibiting travel advances. We reviewed these travel advances and found that the expense reports submitted were approved by the Board without requiring all supporting documentation. For example, the total on the three expense reports was \$100 more than the total of the submitted receipts. In addition, one of the expense reports was not submitted in a timely manner. The report was submitted two months after the travel occurred.

The Board issued travel advances despite the SOP stating that they were not allowed. In addition, the Board failed to comply with the SOP because it did not require original receipts to be submitted in a timely manner. According to the Treasurer, if the Board knows the expenditures are valid, travel expenditures will be approved without the original receipts.

Cell Phone Reimbursements

The widespread use of cell phones requires guidelines setting objective criteria for determining need and assigning cell phones to District officials in a cost-effective manner. Like any other District asset, cell phones should be properly controlled and their usage carefully monitored. During our audit period, the District paid approximately \$12,000 for the use of cell phones, air cards and tablet computers by certain officers.

The District has a cell phone policy which states that officials who decline a District cell phone are eligible for reimbursement for use of their privately owned cell phones. In order to be reimbursed, the official must submit a voucher with the current cell phone bill attached. The District's policy does not set a maximum reimbursement rate.

During the audit period, cell phone reimbursements totaling \$1,275 were made to two District officials. We reviewed the 17 reimbursement payments and found that 16, or 94 percent, of the transactions totaling \$1,210 were not supported by paid receipts or invoices as required by the District's policy.

The Board did not adequately audit the cell phone reimbursement claims. Therefore, there were instances where it failed to enforce compliance with the District's cell phone policy. As a result, taxpayers cannot be assured that the reimbursements were for legitimate District expenditures.

Recommendations

The Board should:

1. Audit all claims and ensure that each claim includes an itemized invoice with enough detail to indicate that the claim was an actual and necessary District expense.
2. Ensure that the District's credit card policy is enforced.
3. Comply with the District's policy of not issuing travel advances and approve only those travel expenditures that follow the District's SOP.
4. Require supporting documentation for cell phone reimbursements, in accordance with District policy.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

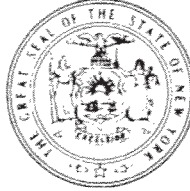
The District officials' response to this audit can be found on the following pages.

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October 07, 2014

Tenneh Blamah
Chief Examiner of Local Government
And School Accountability
Office of the State Comptroller
33 Airport Center Drive, Suite 103
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Re: West Nyack Fire District
Internal Controls and policies over claims processing
Report of Examination;
2014M-259
Response to Draft Report and Corrective Action Plan

Dear Tenneh Blamah:

This letter is to confirm that the Board of West Nyack Fire District has received your draft report and has accepted the findings that you have indicated along with your recommendations following our recent exit conference. We would ask that this letter serves as a written audit response to the draft audit report and a corrective action plan in response to the final audit report. The board has viewed your audit report as an opportunity to improve our policies and procedures as they relate to claims processing.

The following is our response to the various points that were raised in your initial draft report for claims processing that was presented to the board.

Claims Processing

The report of examination indicated that the District Officials approved payment of claims that did not comply with District Policy. The District will institute new policies and procedures as they relate to Claims. The treasurer will not pay claims prior to Board audit except for the claims that are legally exempt from this requirement. The claims approval process will be in the form of signatures or initials of a majority of the Board members along with dates and proper documentation in the board minutes. In addition, before a voucher is presented for approval, the original invoice must be attached to the documentation that is to be presented to the board. Prior to the approval for payment of any District expense, the board will determine if the purchase complies with all statutory requirements.

Credit Card Usage

The board will establish an effective system of internal control over the use of credit cards and establish a policy that describes the appropriate use of credit cards and the procedures for monitoring credit card use. The policy will identify the individuals that are authorized to use the credit cards, describe the various types of purchases that can be placed on the credit cards and the necessary documentation required to support the disbursement. The board will require at least three signatures in order to authorize payment. During the approval process, if it is determined that a credit card was utilized for improper use, the board may seek reimbursement from that individual. Finally, the board will not approve any credit card statement for payment unless the original credit card statement and receipts are attached.

Travel Advances

The Board will adopt and enforce formal policies and procedures that specify who is authorized to attend, associated cost and the required documentation requirements for conferences and conventions to minimize the risk of excessive expenditures. The District's policy states that no cash advances for travel will be given to a member that is authorized to attend a conference and that the expenses associated with the conference will be placed on the District's credit card. Since use of the District's credit cards are restricted to certain officials, the District's policy has been amended to allow for cash advances under certain circumstances. All requests for cash advances must be in writing and approved by a majority of the Board before any check can be issued. Any member seeking reimbursement for incidental expenditures must submit a signed statement of the travel expenditures along with original receipts supporting the claim to the Board. If the claim for reimbursement is submitted without the necessary documentation and not within thirty days of the convention, the Board may not reimburse the expenditure.

Cell Phone Reimbursements

The District's cell phone policy states that if you decline a cell phone offered by the District you are entitled to reimbursement for your privately owned cell phones. The District has reviewed and discussed this audit finding and has implemented the following policies and procedures. In order for a cell phone reimbursement to take place, the member must submit the current cell phone bill along with the amount due from the District for District use. The methodology in calculating the amount due must be presented along with the previous mentioned documentation for the board to review. The District has also established a maximum reimbursement rate along with a detailed review of the methodology used. The District will no longer reimburse cell phone usage unless adherence to the policies and procedures are presented.

The Board wishes to thank the Office Of The State Comptroller for all their valuable recommendations that are currently being implemented and the courtesy extended to us during the course of the audit.

Very truly yours,

John A. DeNicola Jr.
Chairman
Board of Fire Commissioners

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to assess Board oversight of claims processing for the period of January 1, 2013 through June 24, 2014. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials to determine what processes were in place and gain an understanding of the District's financial operations.
- We reviewed the minutes of the Board's proceedings to obtain an understanding of the District's policies and procedures.
- We reviewed the District's policies and procedures for developing and reporting information relevant to financial activities. This included gaining information on District officials' fiscal responsibilities.
- We reviewed the District's financial records and reports. We obtained and reviewed bank statements with checks images attached and corresponding claims. We tested the accuracy and validity of selected claims.
- We reviewed credit card statements and tested payments for credit card transactions.
- We obtained all available documentation pertaining to the travel advances issued for conventions and tested expenditures.
- We tested reimbursements to District officials for personal cell phone use.
- We reviewed annual update documents filed with the State Comptroller's Office.

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 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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