



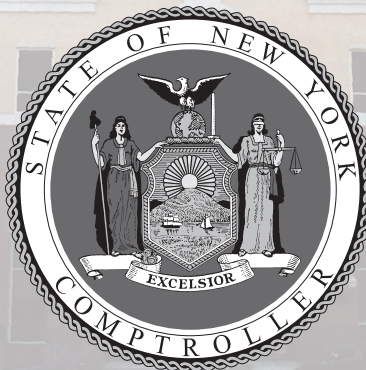
Wassaic Fire District Purchasing and Claims Processing

Report of Examination

Period Covered:

January 1, 2015 — September 30, 2016

2017M-8



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2017

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 the Wassaic Fire District entitled Purchasing and 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Wassaic Fire District (District) is in Dutchess County and its 2016 budgeted appropriations totaled \$808,250. The Board of Fire Commissioners (Board) is composed of five elected members and is responsible for the District's overall financial management and safeguarding its resources. The Treasurer is responsible for the receipt and custody of District funds and for disbursing and accounting for those funds. The Secretary is responsible for keeping a complete and accurate record of the proceedings of each Board meeting and all Board-adopted rules and regulations.

Scope and Objective

The objective of our audit was to examine the District's purchasing practices and claims processing for the period January 1, 2015 through September 30, 2016. Our audit addressed the following related questions:

- Did District officials procure goods and services in accordance with District policy and established law?
- Were claims supported by adequate documentation, for appropriate purposes and audited and approved prior to payment?

Audit Results

District officials did not ensure that goods and services were procured in accordance with District policy and established law. District officials did not seek competition for the services of 11 professionals totaling \$290,500 and did not obtain the required number of quotes for 17 purchases totaling \$41,870. In addition, District officials did not have written agreements with four professionals for services totaling \$27,048. As a result, there is an increased risk that goods and services may not be procured in the most economical manner. In addition, the District may not be receiving all of the professional services it is contracting for or could be paying more for those services than intended.

The Board did not ensure that all claims were supported with adequate documentation, for appropriate purposes and approved prior to payment. We reviewed 36 claims totaling \$390,079 and determined that 26 claims totaling \$311,774 had deficiencies including a lack of receiving slips, invoices, vouchers and original receipts; 18 of these claims had more than one deficiency. In addition, District officials used a debit card for 25 transactions totaling \$7,017. The use of the debit card allows payments to be directly withdrawn from the District's account before they are approved, which provides no opportunity for District officials to determine if the purchases are legitimate before payments are made. Further, 16

of the debit card transactions totaling \$6,222 did not have itemized receipts or evidence of receipt and one transaction totaling \$86.49 had no voucher. Although the majority of purchases appeared to have been for valid purposes, there is an increased risk that purchases will not be for valid, legitimate and proper purposes.

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 they planned to initiate corrective action.

Introduction

Background

The Wassaic Fire District (District) is a district corporation of the State, distinct and separate from the Town of Amenia, in Dutchess County. The District's 2016 general fund budget appropriations totaled \$808,250¹ and were funded primarily by real property taxes.

The Board of Fire Commissioners (Board) is composed of five elected members and is responsible for the District's overall financial management and safeguarding its 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 the proceedings of each Board meeting and all Board-adopted rules and regulations.

Objective

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

- Did District officials procure goods and services in accordance with District policy and established law?
- Were claims supported by adequate documentation, for appropriate purposes and audited and approved prior to payment?

Scope and Methodology

We examined the District's procurement and claims processing for the period January 1, 2015 through September 30, 2016.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

¹ The 2016 budget included a one-year increase of \$500,000 to obtain a contract for ambulance services; the budget is usually around \$300,000.

**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 they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 181-b of New York State Town Law, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the Secretary's office.

Purchasing

General Municipal Law (GML) requires the Board to adopt policies and procedures for the procurement of goods and services when competitive bidding is not required. The use of competition provides taxpayers with the greatest assurance that goods and services are procured in the most prudent and economical manner without favoritism.

The Board's adopted purchasing policy requires the use of requests for proposals (RFPs) or solicitations of quotes before awarding professional service contracts or procuring items that fall under the competitive bidding thresholds but exceed the policy thresholds.² The policy also outlines documentation requirements for awarding contracts and requires adequate documentation of the actions taken with each purchase.

District officials need to ensure that District staff comply with the Board's purchasing policy. Staff did not always seek competition or obtain the required number of quotes when purchasing goods and services. In addition, District officials did not have written agreements with four professionals for services totaling \$27,048. As a result, there is an increased risk that goods and services may not be procured in the most economical manner and that the District could be paying more for professional services than intended.

Professional Services

The District's purchasing policy requires the use of RFPs or solicitations of quotes before awarding professional service contracts and requires that District officials maintain documentation for awarding contracts and of the actions taken with each purchase. Written agreements between the District and professional service providers (professionals) provide both parties with a clear understanding of the services expected and the compensation for those services. Therefore, it is important for the District to enter into written agreements with professionals that indicate the contract period, services to be provided and basis for compensation.

We reviewed the procurement of services from 12 professionals totaling \$665,499. District officials sought competition for services from one professional who was paid \$375,000. However, there was no evidence that District officials sought competition for services from 11 professionals who were paid \$290,500.

² The thresholds are \$100 to \$10,000 for purchases and \$1,000 to \$20,000 for public works.

Figure 1: Professional Services Obtained Without Competition

Professional Service ^a	Expenditure
Banking (2)	\$188,144
Financial Advisor/Administrator of the Length of Service Award Program (2)	\$44,815
Insurance (2)	\$25,367
Medical Testing	\$10,035
Information Technology	\$7,713
Audit	\$6,500
Equipment Testing	\$5,126
Attorney	\$2,800
Total	\$290,500
^a Total number of professionals in each category is shown in parentheses.	

Although District officials provided explanations as to why they chose some of the professionals (e.g., sole source providers, a limited number of local options and past experience), proper documentation of these explanations and the rationale was not maintained, as required by the policy. Further, although the Board had written agreements with eight professionals who were paid \$628,451 that outlined the service terms, compensation schedules or both, the Board did not have written agreements or the District could not locate the agreements for four professionals who were paid \$27,048.

Although the services were for legitimate and appropriate District purposes, by not seeking competition, District officials cannot assure residents that they are procuring services from the most economically beneficial and qualified professionals without favoritism and that these procurements were in the District's best interests. In addition, without written agreements the District may not be receiving all of the services contracted for or could pay more for services than intended.

Competitive Quotes

The District's purchasing policy requires that officials obtain and document verbal and written quotes prior to procuring items that fall under the competitive bidding thresholds but exceed the policy thresholds.³

³ Purchases between \$100 and \$499 require one to three verbal quotes; between \$500 and \$999 require at least three verbal quotes; between \$1,000 and \$4,999 require three written quotes and between \$5,000 and \$9,999 require more than three written quotes. Public works contracts between \$1,000 and \$4,999.99 require three verbal quotes; between \$5,000 and \$9,999.99 require three written quotes and between \$10,000 and \$19,999 require more than three written quotes.

We reviewed 17 payments totaling \$41,869 made to 13 vendors and found the District did not have any quotes for 11 purchases totaling \$26,770 and did not have the required number of quotes for six purchases totaling \$15,100. In addition, we reviewed the quotes that were provided and found the District overpaid for a truck repair by \$843.⁴ District officials were unaware of this at the time of payment because quotes were not attached to the voucher packages (See Claims Audit). Although the purchases were for legitimate and appropriate District purposes, District officials do not have adequate assurance the District is receiving the best price.

Recommendations

The Board should ensure:

1. District officials seek competition when procuring professional services or document the rationale in instances when they do not seek competition.
2. The District has written agreements with professional service providers that detail the contract period, services and compensation.
3. District officials obtain verbal or written quotes for purchases that are under bidding thresholds but exceed the policy thresholds.

⁴ District officials told us the price exceeded the initial quote because they added something after it was ordered. However, this explanation was not documented.

Claims Processing

The Board is responsible for both ensuring that funds are disbursed for proper purposes and performing a thorough audit of claims before they are paid. A thorough claims audit helps ensure that all claims are properly itemized and contain documentation to determine the nature of the purchases, that amounts represent actual and necessary expenditures and that the purchases comply with established requirements.

The Board did not ensure that all claims were supported with documentation and that claims were for appropriate District expenditures. Twenty-six claims totaling \$311,774 had deficiencies including a lack of receiving slips, invoices, vouchers and original receipts. In addition, the District has a debit card that was used for 25 transactions totaling \$7,017. Many of these transactions did not have sufficient documentation and the use of the debit card allows payments to be directly withdrawn from the District's bank account before approval. Although the majority of purchases appeared to have been for valid purposes, there is an increased risk that purchases will not be for valid, legitimate and proper purposes.

Claims Audit

The audit and approval of claims is one of the most critical elements of the internal control system. Town Law requires the Board to audit and approve all claims⁵ prior to directing the Treasurer to pay them. The Board must adopt formal policies and procedures for making purchases and handling claims that:

- Include a verification that all claims are properly itemized, show evidence of department head approval and contain sufficient documentation to determine the nature of the purchases.
- Establish that amounts represent actual and necessary District expenses and that the purchases comply with statutory requirements and District policies.

Each claim should include a claim form that contains a detailed description, an itemized receipt or invoice and documentation that the items were received. Audited and approved claims must be listed on abstracts that the Board has certified (signed) and dated, and the

⁵ The Board may, by resolution, authorize payment in advance of audit for public utility services (electric, gas, water, sewer and telephone), postage, freight and express charges. However, the claims must be presented at the next regular Board meeting for audit.

resolutions adopted by the Board to approve these abstracts must be specific as to the number and amount of claims that the Treasurer is authorized to pay. Board approval of claims should also be documented by the signatures or initials of individual Board members on the claims, along with the dates approved.

The District paid approximately 400 claims totaling \$1.1 million during our audit period.⁶ The Board did not audit the claims to ensure that all claims were supported with documentation and that they were appropriate District expenditures. We reviewed 36⁷ claims totaling \$390,079 and determined that 26 claims totaling \$311,774 had recordkeeping deficiencies; 18 of these claims had more than one deficiency.

- Sixteen claims totaling \$46,990 did not contain receiving slips.
- Six claims⁸ totaling \$257,661 did not contain invoices and three of the six claims did not contain receiving slips.
- Two claims totaling \$6,237 did not contain vouchers or any other supporting documentation such as invoices or backup.
- Two claims totaling \$886 for gas and diesel fuel did not contain original receipts.

These deficiencies occurred because the Board did not adopt policies and procedures to guide District officials when making purchases and handling claims and because the Board did not conduct a proper audit of claims. Although the majority of purchases appeared to have been for valid purposes, there is an increased risk that District funds could be expended for non-District purposes.

Debit Cards

Debit cards pose significant risks because individuals have direct access to the District's bank account and unauthorized use may not be readily detected. Unlike using a credit card, where a statement is received and the purchase can be examined before payment, using a debit card allows a payment to be directly withdrawn from the bank account at the time of purchase before approval is authorized and

⁶ The voucher package is presented to the Board to review prior to payment. The Secretary prepares the voucher package, which includes the voucher (cover sheet) and invoice.

⁷ Debit card purchases were reviewed separately.

⁸ The claims were for repayment of the tax anticipation note, a utility vehicle, a note payment for fire truck purchase, the annual inspection dinner contribution to the fire company (one in 2015 and one in 2016) and the Length of Service Award Program contribution.

provides no opportunity to determine if the purchase is legitimate before it is paid. Therefore, it is essential that the Board establish a formal policy for using these cards.

The Board's adopted debit card policy states that the card is to be used to purchase necessary and miscellaneous equipment and supplies for the District. The policy also states that receipts shall be attached to vouchers and submitted to the Board for approval. The Board Chair and the Fire Chief are responsible for ensuring card security and overseeing card use, while the Treasurer is responsible for recording the debit card transactions on the monthly bank statements in the accounting records.

We reviewed all 25 transactions totaling \$7,017 made with the District's debit card during our audit period. Sixteen transactions totaling \$6,222, or 88 percent, did not have itemized receipts attached, evidence of receipt or both. These purchases were for office supplies, food, vehicle parts or gas, and therefore could have been for valid District purposes. Further, we found one debit card transaction totaling \$86.49 for which no voucher was completed; based on the description in the accounting records, this transaction was for antivirus software. District officials were not able to provide supporting documentation.

Allowing the use of debit cards places significant funds at risk for misappropriation. Had District officials used credit cards instead, payments would not have been issued until after the charges were verified. Furthermore, District officials did not follow the Board's established policy and retain receipts or supporting documentation for all debit card transactions or perform thorough reviews of these transactions. As a result, there is an increased risk that funds could be misused and go undetected.

Recommendations

The Board should:

4. Conduct a proper audit of claims to ensure that all vouchers are properly itemized, show evidence of department head approval and include original supporting documentation including receiving slips, vouchers and original invoices.
5. Ensure District officials follow the policy that requires receipts for purchases with debit cards to be attached to vouchers and submitted to the Board for approval.
6. Consider ending its practice of using debit cards and instead consider using credit cards for purchases.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Wassaic Fire District

P.O. Box 176

Wassaic, New York 12592

(845) 373-7028

April 13, 2017

State of New York
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive
Suite 103
New Windsor, NY 12553

Re: Wassaic Fire District

Dear Sir/Madam:

Please accept this letter as the Wassaic Board of Fire Commissioner's response to the recent audit of the Wassaic Fire District entitled Purchasing and Claims Processing.

The Board of Fire Commissioners understand and acknowledge the recommended changes which the Comptrollers Office have indicated should be made in order to procure goods and services in accordance with Fire District policy and established law. Further, the Board recognizes that claims against the Fire District to be supported by adequate documentation, are for appropriate purposes and are audited and approved before payment.

The Board of Fire Commissioners' Corrective Action Plan includes the following:

1. The Board will seek competition when procuring professional services or document the rationale in instances when the Board does not seek competition.
2. The Board will have written agreements with professional service providers that detail the contract period, services to be provided and compensation

Wassaic Fire District

P.O. Box 176

Wassaic, New York 12592

(845) 373-7028

paid.

3. The Board will review and revise the Board's policy for obtaining verbal or written quotes for purchases that are under bidding thresholds but exceed the policy thresholds.
4. The Board will establish a uniform policy of auditing claims to ensure that vouchers are itemized and include receipts or supporting documentation.
5. The Board has discontinued the use of debit cards.

Very truly yours,

Wassaic Fire District
Board of Fire Commissioners

By: Jeff Barnett-Winsby, Chairman

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed minutes of the Board’s proceedings and District policies as they related to the scope of our audit.
- We interviewed District officials to gain an understanding of the procurement process for professional services.
- We reviewed vendor histories to identify all 12 professionals paid \$1,000 or more during our audit period, which totaled approximately \$655,499. We reviewed documentation for these 12 professionals to determine if the District was seeking competition in awarding contracts. For those services where the District did not seek competition, we inquired with District officials for an explanation. We used professional judgment to determine if the services were for legitimate and appropriate District purposes.
- We determined if the District had written agreements with the 12 professionals to indicate the contract period, services to be provided and compensation to be paid.
- We reviewed 17 payments totaling \$41,869 made to 13 vendors to determine if District officials obtained verbal or written quotes. We used professional judgment to determine if the purchases were for legitimate and appropriate District purposes.
- We selected and reviewed 36 claims and related documentation (two claims that required competitive bidding, 16 claims paid to the professionals and 18 claims under the competitive bidding threshold) to determine if the District adequately reviewed claims prior to authorizing payment.
- We reviewed all checking account bank statements to identify debit card transactions. We determined if these charges were adequately supported and made for proper District purposes.

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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