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October 3, 2014

Brian Williams, Chairman
Members of the Board of Commissioners
Flanders Fire District
19 Firehouse Lane
Flanders, NY 11901

Report Number: 2014M-199

Dear Chairman Williams and Members of the Board of Commissioners:

The Office of the State Comptroller works to identify areas where fire district officials can improve their operations and provide guidance and services that will assist them in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage fire district officials to reduce costs, improve service delivery and account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of Flanders Fire District (District), which addressed the following question:

- Did the Board of Fire Commissioners (Board) ensure that disbursements were properly processed?

We discussed the findings and recommendations with District officials and considered their comments in preparing this report. The District's response is attached to this report in Appendix A. District officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background and Methodology

The District is located in the Town of Southampton in Suffolk County. The District is a district corporation of the State, distinct and separate from the Town, covers approximately 20 square miles and serves approximately 4,400 residents. The District has 48 active volunteer members, who responded to 100 alarms in 2013.

The District is governed by an elected five-member Board responsible for the District's overall financial management, including establishing appropriate internal controls and safeguarding cash. Additionally, the Board is responsible for approving an annual budget. The District Treasurer (Treasurer) is the District's chief fiscal officer and is responsible for receiving, maintaining custody

of and disbursing District funds, maintaining financial records, and preparing monthly and annual reports. The District's budgeted appropriations for 2014 are \$684,200.

We examined the District's cash disbursements for the period January 1, 2013 through March 31, 2014. We interviewed District officials and key employees and reviewed financial records and Board minutes. We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

Audit Results

The Board is responsible for establishing policies and procedures to ensure that all payments are for appropriate District purposes. It is important that those procedures include controls to both prevent and identify inappropriate disbursements. Town Law requires the Board to audit and approve all claims against the District and, by resolution,¹ order the Treasurer to pay the allowed amounts. It is important that the Board's authorization to pay claims is documented. Generally, this documentation is provided by preparing an abstract, which lists each individual claim to be audited and approved.

After the Board audits and approves each claim listed on an abstract, this document becomes the warrant or order authorizing the Treasurer to pay the claims. At a minimum, a warrant should include the claim number, the claimant's name, the approved payment amount and the fund and appropriation account to be charged. A warrant should also specify the total number of claims and the total dollar amount the Treasurer is authorized to pay. Additionally, comparing prepared vendor checks with the warrant can assist the Board in detecting unauthorized or erroneous checks before they are sent to vendors or distributed to employees.

The Treasurer, as chief fiscal officer, must ensure that cash is disbursed only after a proper Board audit, such disbursements are supported by appropriate documentation, and District resources are used only for valid purposes. Prior to disbursement, the Treasurer should verify that the Board audited and approved each claim for the amount listed on the warrant.

The Board adopted a policy requiring that no bill be paid unless at least three Commissioners approve the bills as evidenced by at least three Commissioners' signatures on each voucher and as stated in the Board minutes. However, we found this policy was insufficient. The policy does not require the Treasurer to provide the Board with an abstract listing all the claims, which the Commissioners could then review and compare with the individual vouchers, when performing the claims audit. Because the Board is not provided with a list of claims, it reviews and approves each individual claim presented. Therefore, the Board cannot be assured that it is reviewing and approving all District claims prior to payment. In addition, we found nothing in the Board minutes to show which claims the Board approved, because all the minutes we reviewed included the

¹ The Board should be presented with a listing (abstract) of each individual claim to assist in reviewing and approving each claim for payment. The Board should also adopt a resolution approving the audited and approved claims which includes how many claims were approved and the total dollar amount of claims approved for payment.

general statement “All bills and vouchers were audited and approved.” The minutes also did not include sufficient information showing the total dollar amount of claims authorized for payment.

As a result of these weaknesses, we performed certain tests to determine whether the disbursements we reviewed were Board-approved and legitimate District expenditures. We obtained an electronic transaction report for the audit period from the Treasurer.² The District issued 516 checks totaling \$789,710. We sorted the disbursement data by check number to detect any gaps in check number sequences, as well as duplicate payments. We also compared disbursements with the claim vouchers and canceled or voided checks and reviewed all disbursements made from December 1, 2013 through February 28, 2014, totaling \$117,587, to determine if any inconsistencies existed between the disbursement reports, vouchers and canceled checks. Finally, we reviewed all check stock inventory and bank reconciliations completed for December 2013 through February 2014.

Our testing disclosed no material discrepancies and the disbursements we reviewed appeared to be for proper District purposes. However, because the Board has not established adequate procedures to ensure that all disbursements are properly audited and approved before payment, there is a risk that errors or irregularities could occur and not be detected and corrected in a timely manner. Additionally, disbursements could be made that the Board did not authorize.

Recommendations

1. The Board should compare all claim vouchers with a list of checks to be approved before payment and include a statement in the minutes detailing the total number of claims and total amount approved for payment.
2. The Treasurer should compare an approved warrant with the checks before signing and sending them to vendors.

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. 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.

We thank the officials and staff of the Flanders Fire District for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

² We excluded all bank account transfers, automatic payments and deposits listed on the reports.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

FLANDERS FIRE DISTRICT
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September 18, 2014

Mr. Ira McCracken, Chief Examiner
NYS Office Bldg Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 117788

Dear Mr. McCracken,

We would like to thank the Comptroller's office for meeting with The Flanders Fire District and assisting us in fine tuning our internal procedures. The Board of Fire Commissioners has carefully reviewed your findings and suggestions and is eager to implement enhanced methods of operations.

We are very pleased that you spent a significant amount of time with us in reviewing our operations and our records. We are also pleased that we are only required two suggestions as to our processes and that no discrepancies were found in our actual records.

As to the suggestions, you suggested:

The Board should compare all claim vouchers with a list of checks to be approved before payment and include a statement in the minutes detailing the total number of claims and total amount approved for payment.

The Treasurer should compare an approved warrant with the checks before signing and sending them to vendors.

We will ensure that the Treasurer creates a list of approved checks prior to sending them to the vendors. We do note however that we already ensure that only checks which have been approved vouchers are paid and that vouchers are only paid if they have at least three signatures attached.

We will also, as a Board, compare all claim vouchers with the list of checks to be approved before the items are paid, and will attach such list to the minutes.

We would like this document to serve also as our Plan of Correction. Please note that we have already implemented these suggestions into our practice. A warrant abstract with certification of abstract which includes all liabilities to be paid with a total was implemented in September.

Should you believe there are other improvements which can be made by our District, please do not hesitate to contact us.

Very Truly Yours,

Brian Williams
Chairman
Flanders Fire District