



# Hughsonville Fire District

## Internal Controls Over Cash Disbursements

### Report of Examination

Period Covered:

January 1, 2013 — January 31, 2014

2014M-159



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

August 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 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 Hughsonville Fire District, entitled Internal Controls Over Cash Disbursements. 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 Hughsonville Fire District (District) is a district corporation of the State, distinct and separate from the Town of Wappinger and Dutchess County. The District provides approximately 9,000 residents with fire protection.

The District is governed by an elected five-member Board of Fire Commissioners (Board) which is responsible for the District's overall financial management. The Board is responsible for 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 District's chief fiscal officer and is responsible for the receipt, custody, disbursement of and accounting for District funds and for recording the District's financial activities in the general fund. The District's general fund's budgeted appropriations for 2013 totaled \$808,793.

## Objective

The objective of our audit was to examine the controls over cash disbursements. Our audit addressed the following related question:

- Does the Board ensure that disbursements are for proper District purposes and are adequately supported?

## Scope and Methodology

We examined the internal controls over cash disbursements for the period January 1, 2013 through January 31, 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 initiate, or have already initiated, corrective action.

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 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.

## Cash Disbursements

The Board is responsible for overseeing the District's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls consisting of policies and procedures that ensure cash disbursements are for proper District purposes and are adequately supported. The Board is required to audit all claims prior to payment to ensure they include appropriate documentation, such as itemized invoices and receipts, receiving documentation and evidence that verbal or written quotes were obtained as required by the District's procurement policy.

The Board did not perform a proper audit of vouchers prior to payment or ensure that adequate supporting documentation was attached. Consequently, 18 vouchers totaling \$23,605 were not approved by the Board prior to payment, six vouchers totaling \$24,899 had no invoice attached and 62 vouchers totaling \$151,796 had no receiving or other supporting documentation attached. In addition, credit card purchases totaling \$2,146 were not supported by documentation and credit card purchases, totaling \$1,051, were not approved by the Board. Finally, 17 vouchers totaling \$51,730 did not include verbal or written price quotes. As a result of these deficiencies, the Board did not have adequate assurance that goods and services were purchased at the lowest cost, were actually received and were for proper District purposes.

### Voucher Processing

The audit and approval of claims made against the District is one of the most important ways for the Board to ensure that all disbursements are for proper District purposes. Town Law requires the Board to audit and approve all claims prior to directing the Treasurer to pay them. It is essential for each Board member to conduct a thorough review of each voucher and supporting documentation. Each voucher should be sufficiently itemized, include an original receipt or invoice for the goods or services purchased and include a signed receiving slip to show confirmation that the goods or services were received. Board approval directing the Treasurer to pay the audited vouchers should be formally documented in the Board minutes. District policy also states that only itemized statements or invoices will be acceptable proof of an expense.

The Board did not perform a proper audit of vouchers and did not ensure that all disbursements were approved prior to payment. Even though the Board had adopted adequate policies and procedures, the Board members did not adhere to them. For the audit period, the Treasurer disbursed a total of 578 payments<sup>1</sup> for claims totaling

<sup>1</sup> Five-hundred and thirty-four for fiscal year 2013 and 44 for January 2014

\$687,854. We randomly selected 160 disbursements totaling \$242,078 that were approved by the Board and found discrepancies, as follows:

- Eighteen claims (11 percent) totaling \$23,605 were not approved by the Board before payment was made. For example, a disbursement totaling \$3,000 for entertainment for the Annual Inspection Dinner was not approved by the Board until nine days after the check was issued to the vendor.
- Six vouchers totaling \$24,899 had no invoice attached.
- Sixty-two claims (74 percent) totaling \$151,796 had no receiving documentation acknowledging the receipt of goods or services (84 vouchers totaling \$158,675 should have had receiving or other supporting documentation attached).

By allowing the Treasurer to make payments in advance of audit and authorizing payment of claims without sufficient documentation, the Board did not provide sufficient oversight of the District's financial activities and adequately safeguard its resources. The Board did not have adequate assurance that purchases complied with policies and procedures that the goods and services paid for were actually received or that the payments were for valid District purposes.

## **District Credit Cards**

The District's credit card policy requires receipts for all credit card purchases to be attached to District purchase orders and submitted to the Treasurer. A receipt must include the name of the individual who incurred the charge, the purpose for the charge, an additional description of the item(s) purchased if not clearly detailed on the receipt and the amount of the charge. The purchase order is then submitted to the Board for payment approval. The District's food and beverage policy requires all receipts for each event at which food is provided to be forwarded to the District Secretary along with a purchase order indicating the event, hours of the event and number of members attending. Attaching a completed sign-in sheet satisfies this requirement. If a purchase was for a hosted event, supporting documentation (e.g., announcement of the event) should be attached to the purchase order along with a class roster.

We examined the documentation for charges totaling \$5,435 on three credit card statements and found that purchases totaling \$2,146 (39 percent of the credit card purchases tested) were not supported by sufficient documentation. For example, although transactions for food and beverages totaling \$224 were supported by receipts, they lacked proper itemization of the charges. In addition, the receipts did not indicate the hours of the event and the number of members in attendance as required by the District's policy. Furthermore, purchases



totaling \$1,051 did not have vouchers or other documentation to indicate that the Board approved the purchases.

Without the supporting documentation required by the District's policies, Board members cannot determine whether the credit card purchases were for proper District purposes or if the District had spent a reasonable amount for meals purchased for members and event attendees.

## **Competitive Quotations**

The District's procurement policy outlines the documentation and quotation requirements when the statutory competitive bidding thresholds have not been reached.<sup>2</sup> Purchases that do not require competitive bidding should be supported by written documentation, such as a record of obtaining verbal or written price quotes from vendors, or a memo detailing the circumstances that led to an emergency purchase. The District's policy details the types and numbers of quotations that should be obtained. Quotations are not required for a purchase of goods or services from a sole source provider; however, District officials must document on the voucher that the vendor was the sole source for the item purchased. If the purchaser cannot obtain the required number of quotes, the attempts to obtain the required number of quotes should be documented on the voucher.

Although the District had adopted a procurement policy that detailed specific guidelines for procuring goods and services that were not subject to competitive bidding, the Board has not developed procedures to ensure that officers and employees comply with the policy. We randomly selected 52 vouchers totaling \$222,950 from a population of 208 vouchers totaling \$643,665 paid during the audit period. The sample was made up of amounts over the purchase threshold of \$500 that required quotes to be obtained before the purchases were made. Of the 34 applicable<sup>3</sup> purchases totaling \$101,351 that required quotes, 17 vouchers totaling \$51,730 did not include or otherwise demonstrate that quotes (verbal or written) had been obtained by the purchaser or indicate why the required quotations were not obtained before making the purchase.

District officers and employees made purchases without soliciting competitive quotations and the Board approved vouchers for payment that did not include evidence of compliance with the District's

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<sup>2</sup> The District's procurement policy states that before a purchase is made, purchase contracts estimated to be between \$501 and \$2,999 require two verbal quotes, those between \$3,000 and \$4,999 require two written quotes and those between \$5,000 and \$25,000 require three written quotes.

<sup>3</sup> Some disbursements that were over the \$500 threshold were not applicable, such as for credit card payments, insurance premiums or sole source providers such as the Marina slip.



procurement policy. As a result, the Board does not have assurance that the District purchased the goods and services at the lowest cost.

## **Recommendations**

1. The Board should ensure that all disbursements are properly supported with appropriate documentation prior to payment of the vouchers.
2. District officials should establish procedures to ensure that officers and employees obtain the required number of quotations for purchases of goods and services. Whenever necessary, the purchaser should document the reason why the required quotations were not obtained before making a purchase.
3. The Board should ensure that vouchers include evidence of compliance with the District's procurement, credit card and food and beverage policies before approving them for payment.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



Tel: (845) 297-4194  
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**Board of Fire Commissioners**

Ronald P. Andrews – Chairman  
William Spinelli – Deputy Chairman  
Erin Corbett, Jason Morse, Sr.,  
Robert Scott Bostwick

# *Hughsonville Fire District*

P.O. Box 545 – Town of Wappinger  
Hughsonville, New York 12537

[www.HFD45.org](http://www.HFD45.org)



Meets Second Wednesday and  
Fourth Monday of Each Month

Timothy N. Laffin – Chief of Department  
Edward J. D'Anna – 1<sup>st</sup> Assistant Chief  
Tyler J. Pettit – 2<sup>nd</sup> Assistant Chief

July 28, 2014

To Whom It May Concern:

We are writing in response to your draft audit findings. We want to thank the Comptroller's office for meeting with the commissioners and taking the time to assist our Board of Fire Commissioners with improving our internal procedures. The Board of Fire Commissioners has carefully reviewed your findings and suggestions and is eager to implement enhanced methods of operation.

We want to be clear that although we recognize that there could be better documentation and better practices, there were no improper expenditure of funds and we do not believe that your audit findings make any such accusations or conclusions. Therefore, it is our intent to improve our procedures and to ensure better documentation which indicates compliance with our policies. We thank you for the numerous compliments as to the sufficiency of our policies.

Regarding the vouchers, your comments are in line with our present policies. We will ensure that our documentation establishes the District's policies were enforced. As our policy requires, all vouchers will contain sufficient documentation and will be audited. The Board members are reviewing the policies to become better familiar with them so as to permit more careful documentation.

We do note that in 2013 and to date, with rare exception or unless otherwise permitted by law, the Board of Fire Commissioners was always presented with an abstract of the bills to be paid and always approved the abstract to be paid. The District will continue to be diligent in its review of the vouchers and will ensure that all vouchers contain the documentation required by the District in its policies.

To address most of your cited shortcomings in our processes, we are revising our voucher forms so as to capture the information that you suggest and our policies presently require.

We are implementing better shipment receipt acknowledgement procedures to ensure that all items ordered were actually received and are accounted for properly. We will be implementing a package receipt log, which ultimately will be presented to the treasurer to ensure that payment is proper. Again, we view your comments as requiring better documentation.

The treasurer has been instructed to be more diligent when demanding invoices so as to ensure that every voucher will have an invoice attached. We recognize that this has been more of an issue with credit card purchases and will be diligent in obtaining such receipts and invoices and attaching the same to the vouchers. We will thus enhance our documentation.

As to your comments that we are lacking proper documentation purchases, we will ensure that our minutes and vouchers better reflect our efforts at obtaining the required number of verbal or written quotes. The quotes were obtained, and reports are given to that fact, but the documentation memorializing those quotes could be better.

This document will also serve as our plan of correction.

If you have any questions, please do not hesitate to contact us.

Sincerely,

\_\_\_\_\_  
Ronald P. Andrews, Chairman

\_\_\_\_\_  
William Spinelli

\_\_\_\_\_  
Erin Corbett

\_\_\_\_\_  
Jason Morse, Sr.

\_\_\_\_\_  
Robert Scott Bostwick

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

The objective of our audit was to examine the internal controls over cash disbursements for the period January 1, 2013 through January 31, 2014. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials to gain an understanding of the District's policies and procedures.
- 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 financial records and reports. We obtained and reviewed bank statements, canceled checks and voucher packets. We tested the accuracy and validity of a randomly selected sample of claims paid by the District.
- From the 2013 and 2014 cash disbursement journal reports, we eliminated the automated clearing house electronic payment and paycheck transactions. We selected 160 checks (150 in 2013 and 10 in January 2014) using the random sample generator. We compared the selected check information to the check lists presented to and authorized for payment by the Board to determine whether claims were audited and approved before payment. We then reviewed the voucher file associated with each check to determine if proper and sufficient supporting documentation was attached to each voucher. We also reviewed the monthly bank statements and check images to verify that the checks matched the authorized information in the District's records.
- We reviewed credit card statements and supporting documentation for credit card transactions.
- We examined the documentation for charges totaling \$5,435 on three credit card statements from the total population of 13 credit card statements totaling \$38,572. These statements were selected in the aforementioned random sample of checks from the cash disbursement journal reports. We scanned the voucher packets for supporting documentation, quality of documentation, unusual items or excessive purchases and payments to Board members and related parties.
- We examined 52 randomly selected claims totaling \$222,950 from a population of 208 claims totaling \$643,665 that were paid during the audit period. We selected all 34 claims that required verbal or written quotes according to the District's procurement policy and determined if such quotes were obtained by the purchasers.

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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