



Lake Ronkonkoma Fire District Bidding and Treasurer's Office

Report of Examination

Period Covered:

January 1, 2013 – August 31, 2014

2015M-9



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2015

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 the Lake Ronkonkoma Fire District, entitled Bidding and Treasurer's Office. 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 Lake Ronkonkoma Fire District (District) is located in the Town of Brookhaven (Town) in Suffolk County. The District is a district corporation of the State, distinct and separate from the Town, and is governed by an elected five-member Board of Fire Commissioners (Board). The Treasurer is the District's chief fiscal officer whose duties include the receipt, custody, deposit, disbursement, reconciliation and investment of District funds. The Treasurer is also responsible for maintaining financial records and preparing monthly financial reports. The District Secretary is responsible for recording Board meeting proceedings, maintaining custody of all District records and receiving cash collected at the District. The District's operating budget totaled approximately \$3.3 million in 2015.

Scope and Objective

The objective of our audit was to review internal controls over selected financial operations for the period January 1, 2013 through August 31, 2014. Our audit addressed the following related questions:

- Did the Board seek competition for bidding in compliance with New York State General Municipal Law (GML)?
- Did the Board ensure that the Treasurer properly accounted for cash receipts and disbursements?

Audit Results

District officials made purchases of goods and services totaling more than \$1 million from 10 vendors¹ during our audit period that exceeded the statutory bidding threshold. We found that District officials did not consistently adhere to bidding or competitive offering requirements when procuring goods and services that cost more than the statutory bid threshold. As a result, we question whether the best price was obtained for more than \$450,000 of purchases made.

Specifically, District officials used bid specifications that may have created ambiguity as to whether the District intended to consider products that were reasonably equivalent when purchasing two ambulance vehicles for approximately \$348,000.

Further, goods and services totaling approximately \$106,225 purchased from four vendors² were for the same or similar commodities or services that, in the aggregate, exceeded the GML bidding thresholds.

¹ Excluding professional service providers

² Goods purchased were uniforms and diesel fuel.

These items were not competitively bid and did not qualify as an exception to the GML competitive procurement requirements. As a result, District officials do not have adequate assurance that they are procuring goods and services of the desired quality in the most prudent and economical manner, and there is an increased risk that District officials are not effectively guarding against favoritism, extravagance and fraud.

We also found that the Board did not ensure that the Treasurer properly accounted for cash collected and needs to improve its internal controls over cash disbursements. The Treasurer's office did not maintain a record of all funds received. Additionally, the Treasurer deposited 44 checks totaling more than \$72,000 from 12 to 196 days after the dates indicated on the checks.

Finally, while cash disbursements were properly accounted for, the Board did not ensure that the duties within the Treasurer's office were adequately segregated and did not implement adequate compensating controls. As a result of these deficiencies, there is a risk that money may be lost or misused, District officials cannot be sure that all cash collected was deposited and accounting records could be inaccurate.

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 disagreed with certain aspects of the findings and recommendations in our report, but indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

Introduction

Background

The Lake Ronkonkoma Fire District (District) is located in the Town of Brookhaven (Town) in Suffolk County. The District is a district corporation of the State, distinct and separate from the Town. The District provides fire protection and other emergency services in the community and maintains two buildings. The main building houses fire trucks, ambulance vehicles and equipment and a banquet hall that is rented to fire department members. The second building has a banquet hall that is rented to the general public.

The District is governed by an elected five-member Board of Fire Commissioners (Board). The Treasurer is the chief fiscal officer, whose duties include the receipt, custody, deposit, disbursement, reconciliation and investment of District funds. The Treasurer is also responsible for maintaining financial records and preparing monthly financial reports. The District Secretary is responsible for recording Board meeting proceedings, maintaining custody of all District records and receiving cash collected at the District. The District's operating budget totaled approximately \$3.3 million in 2015.

Objective

The objective of our audit was to review internal controls over selected financial operations. Our audit addressed the following related questions:

- Did the Board seek competition for bidding in compliance with New York State General Municipal Law (GML)?
- Did the Board ensure that the Treasurer properly accounted for cash receipts and disbursements?

Scope and Methodology

We examined internal controls over selected District financial operations for the period January 1, 2013 through August 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 are included in Appendix C 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 disagreed with certain aspects of the findings and recommendations in our report, but indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

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 District Secretary's office.

Bidding

Unless an exception applies, New York State General Municipal Law (GML) requires that purchase contracts in excess of \$20,000 be awarded to the lowest responsible bidder or on the basis of best value (e.g., competitive offer),³ and that contracts for public work in excess of \$35,000 be awarded to the lowest responsible bidder. In determining whether the dollar threshold will be exceeded, the District must consider the aggregate amount reasonably expected to be spent on all purchases of the same⁴ commodities, services or technology to be made within the 12-month period beginning on the date of the purchase, whether from a single vendor or multiple vendors.

When seeking competition by publicly advertising for bids from vendors, the District generally has discretion to establish reasonable standards and requirements that bidders must observe. Bid specifications⁵ must be specific enough so that vendors have enough information to formulate sound bids, but not so restrictive that they stifle fair and open competition among qualified vendors. Similarly, specifications may not contain conditions or restrictions which arbitrarily tend to limit the list of otherwise qualified bidders to achieve objectives not within the intent of GML. District officials generally must be prepared to justify any specifications as being in the public interest and consistent with the purposes of the bidding statute that tends to favor a particular bidder or otherwise has an anticompetitive impact.

When a brand name product represents an industry-wide standard, the brand name product may be specified as a standard of supply in lieu of drafting specifications containing a detailed product description, provided a statement is included in the specifications indicating that

³ A fire district may elect to award “purchase contracts” which exceed the statutory threshold (i.e., \$20,000) to a responsive and responsible offeror on the basis of “best value” as an alternative to an award to the lowest responsible bidder. However, the fire district must first authorize the use of best value by rule, regulation or resolution adopted at a public meeting. In assessing best value, non-price factors may be considered when awarding the purchase contract. The basis for a best value award must reflect, whenever possible, objective and quantifiable analysis.

⁴ For this purpose, commodities, services or technology that are similar or essentially interchangeable should be considered the same.

⁵ A bid specification is the document which lists the standards and requirements and provides bidders with the information necessary to prepare their bids. A specification generally may include, among other things, a description of the required item, the physical or functional characteristics of the item and the terms and conditions under which the procurement will be made.

products which are reasonably equivalent to the standard are acceptable. When a product is determined to be reasonably equivalent to the brand name, the District must accept that product as being in compliance with the specifications. Alternatively, the Board may adopt a standardization resolution that includes a full explanation as to why there is a need for standardization; after doing so, the District may provide in its specifications for a particular make or brand, to the exclusion of other competitors.⁶ District officials may reject a low bid if it does not comply with the specifications or if the bidder is found not to be a responsible bidder. In that case, the District should document its reasons for rejecting the bid to demonstrate that it acted in the best interest of the taxpayers.

District officials made purchases of goods and services totaling more than \$1 million from 10 vendors⁷ during our audit period that exceeded the statutory threshold. District officials did not consistently adhere to bidding or competitive offering requirements when procuring goods and services that exceeded the statutory threshold. As a result, we question whether the best price was obtained for more than \$450,000 of purchases the District made.

Restrictive Specifications – We reviewed purchases made from all 10 vendors that exceeded the statutory bidding threshold during our audit period. District officials used bid specifications for a purchase totaling approximately \$348,000 that may have created ambiguity as to whether the District intended to consider products that were reasonably equivalent.

During 2014, District officials purchased two ambulance vehicles for approximately \$348,000. Bids were solicited for this purchase and District documentation indicated that the successful bidder prepared the bid specifications.⁸ Bid specifications included specific brand names and model numbers for component vehicle parts but allowed bidders to take exception to any part of the bid and indicated that alternative products would be considered. District officials explained that the specifications were written specifically to require the exact placement

⁶ The Board may adopt a resolution to “standardize” and award purchase contracts for particular types or kinds of equipment, material, supplies or services. The standardization resolution must state that, for reasons of efficiency or economy, there is a need for standardization, and it must include a full explanation of the reasons for its adoption. Using a standardization resolution, however, is not an exception to the competitive bidding and competitive offering requirements of GML.

⁷ Excluding professional service providers

⁸ Courts have held that there is no absolute prohibition against a prospective bidder preparing specifications for the political subdivision, and the fact that specifications are prepared by a potential bidder does not necessarily mean the specifications have been tailored to that bidder to the exclusion of others or that they otherwise impair the competitive process. Such specifications, however, may at least be considered suspect in this regard and, therefore, warrant careful scrutiny. In this case, the Treasurer told us that the District had a vendor draft the bid specifications for the ambulances because the District did not have the technical knowledge to do so.

and size of supply cabinets because it reduced ambulance response times. For example, response times could be reduced if District personnel could find medical supplies in the same location regardless of which ambulance they were in. However, the Board members said they did not want or need to adopt standardization resolutions because the included specifications would allow the District to get the exact chassis and design they wanted.

In addition, certain bid specification provisions may have created ambiguity for potential bidders. For example, bid specifications state that the District would consider any valid concern by any bidder and consider minor exceptions to the specifications or alternates of equal or better performance, provided the exception or exceptions were steered towards meeting the “core design” intent and the exceptions were addressed no less than two days before the bid opening date.

Further, bid specifications included a caution that any bidder who submits a bid that takes “total exception” to the specifications or “bids submitted using standard designs or stock units” would be viewed as a bidder who did not make a valid bid and that alternate bids would not be considered. By suggesting that the District would consider minor exceptions and that “total exceptions” would not be considered, it is possible that potential bidders were uncertain whether reasonably equivalent products or alternates of equal or better performance would be accepted by the District. This could have resulted in vendors not submitting bids.

The District received two bids for this purchase. The unsuccessful bidder submitted two letters to District officials during the bidding process which alleged that the specifications were “proprietary” for a particular ambulance manufacturer. Additionally, the specifications stated that, under certain circumstances, the District could debar vendors from future contracts for defective work.⁹

Aggregate Purchases – Goods and services totaling approximately \$106,225 purchased from two of 10 vendors appeared to be the same or similar commodities or services that, in the aggregate, exceeded GML dollar thresholds. However, these purchases were not competitively bid and did not qualify as an exception to GML competitive procurement requirements.

⁹ Although certain statutory provisions, which are not at issue here, allow for debarment, the Courts have generally held that the authority to award contracts to the “lowest responsible bidder” does not authorize an awarding body or official to debar a vendor, prospectively, from future contracts. Therefore, we question whether there was authority to include in the specifications a provision to the effect that the District could, under certain circumstances, debar vendors from future contracts.

- District officials purchased uniforms from one vendor, spending \$25,584 in 2013 and \$25,896 from January 1 through August 31, 2014. Therefore, uniform purchases in both years exceeded the \$20,000 bid threshold. Officials did not seek competition for these purchases because they considered these purchases to be from a preferred vendor. However, GML does not provide a competitive bid exception for using a preferred vendor.¹⁰ Moreover, even if the purchase of uniforms was not the “same,” and therefore did not require the District to aggregate the purchases for purposes of determining whether the dollar threshold would be exceeded, the District would still be required to follow its procurement policies and procedures, which it did not.
- District officials purchased diesel fuel from a vendor for a total cost of \$23,559 in 2013 and \$31,186 from January 1 through August 31, 2014 without seeking competition. The District officials told us they believed diesel fuel was purchased using a vendor with a New York State (State) contract for diesel fuel. In that case, the purchase would be an exception to the competitive procurement requirements of GML. There is no evidence that this vendor was awarded a State contract for diesel fuel during the audit period. There is also no evidence that District officials determined which vendors held the State contract before making these purchases.

As a result of District officials not adhering to the aggregation requirements of GML, District officials do not have adequate assurance that they are procuring goods and services of the desired quality in the most prudent and economical manner. Furthermore, by inappropriately designating preferred vendors and allowing prospective bidders to prepare bid specifications, there is an increased risk that District officials are not effectively guarding against favoritism, extravagance and fraud.

Recommendations

The Board should:

1. Ensure that bid specifications are written to encourage competition from multiple vendors, while ensuring that the District acquires goods and service of appropriate quality.
2. Closely monitor the purchasing process to help ensure that purchases are made in accordance with GML and the District’s procurement policy.

¹⁰ New York State Finance Law Section 162 does provide an exception for purchasing commodities from a vendor that has a “preferred source status.” There is no indication, however, that this exception applies here.

3. Establish a process to determine whether reasonably expected aggregate purchases of the same or similar commodities, services or technology to be made within a 12-month period will exceed the statutory bidding requirements.

Treasurer's Office

The Treasurer, as chief fiscal officer, is responsible for keeping an appropriate, complete set of accounting records, including cash receipts and disbursements records with general ledger accounts that identify the cash balances of all District funds. Reconciling book balances to bank balances is an important step in maintaining control over cash. In addition, depositing money in a timely manner and recording the deposits helps to properly safeguard District assets. The Board is responsible for establishing policies and procedures to provide reasonable assurance that the Treasurer properly records and reports all District financial transactions. This responsibility includes monitoring the Treasurer's work and segregating the Treasurer's duties or instituting compensating controls when segregating duties is not practical.

The Board did not ensure that the Treasurer properly accounted for cash collected and needs to improve its internal controls over cash disbursements. The Treasurer's office did not maintain a record of all money received, and it deposited 44 checks totaling more than \$72,000 from 12 to 196 days after the dates indicated on the checks.¹¹ As a result, there is an increased risk that money may be lost or misused. In addition, while cash disbursements were properly accounted for, the Board did not ensure that the Treasurer's duties were adequately segregated and did not implement adequate compensating controls.

Cash Collections

The Board is responsible for establishing effective policies and procedures to ensure that all money is properly collected, accounted for and safeguarded. Cash records should provide sufficient detail to identify each transaction. In addition, it is essential for the Treasurer to deposit all money received as soon as possible, but within 10 days, to help prevent its loss or misuse.

The Board did not establish formal policies and procedures for handling cash collections. Consequently, no receipts were given for money received, and no log was maintained showing the amount collected, the date when it was received or from whom it was received. As a result, the Board does not have adequate assurance that all money received is deposited in the District's accounts.

During our audit period, District officials collected and deposited cash totaling \$365,208 comprising mainly cell tower rental fees, hall

¹¹ Because the Secretary did not maintain any records documenting when money was actually received, we used the check date to determine whether deposits were made in a timely manner.

rental fees and payments in lieu of taxes. Although the District has no formal written policies or procedures for handling cash collections, District officials indicated that the Secretary collects the cash. The Secretary did not issue receipts or record the amounts, dates or from whom cash was received. The Secretary places the cash in a locked file room, where it remains until he gives the cash to the Treasurer. The Treasurer prepares the deposit tickets, makes copies of any checks received and makes and records the deposits.

We reviewed 12 deposits¹² made between January 1, 2014 and June 30, 2014 that totaled \$106,018 (29 percent of all deposits made during the audit period). We examined deposit slips with attached copies of checks received and traced them to the bank statements and general ledger. All 12 deposits, comprising 62 checks, were accurately recorded. However, 44 of the 62 checks totaling \$72,338 were deposited from 12 to 196 days after the dates indicated on the checks.¹³

By not depositing money in a timely manner, cash collected remains unavailable to fund District operations and there is an increased risk that loss or theft could occur. Furthermore, because no record was maintained of cash collected, District officials cannot be certain that all cash collected was deposited.

Segregating Duties

It is important for the Board to establish policies and procedures and provide sufficient oversight of those officers and employees who receive or disburse cash. For example, one person should not control all phases of a transaction (cash custody, recordkeeping and reconciliation). The primary purpose for segregating cash custody, recordkeeping and reconciling duties is to prevent any one person from controlling all phases of a transaction and to prevent or detect errors, irregularities and fraudulent activity.

The Board is responsible for ensuring that duties are segregated and controls are in place to ensure that cash disbursements are properly documented and authorized. Where it is not practical to segregate duties, compensating controls should be established to prevent or detect errors and irregularities. Compensating controls can include such things as one person reviewing another's work or additional management reviews.

The Board did not ensure that the Treasurer's duties were adequately segregated. The Treasurer's office is operated by the Treasurer, with

¹² See Appendix B for information on our sample selection

¹³ Because the Secretary did not maintain any records documenting when money was actually received, we used the check dates to determine whether deposits were made in a timely manner.

the District Secretary assisting with cash collections. The Treasurer makes bank deposits and records cash receipts in the accounting records. In addition, the Treasurer prepares the cash disbursement abstracts, records disbursements in the accounting records, prints and signs all District checks and performs the bank reconciliations. The Treasurer performs all of these duties at his CPA firm's office. Even though the Deputy Treasurer performs at least one bank reconciliation each year and the Board reviews the bank reconciliations, because the Treasurer performs all these duties at an offsite location with no oversight, this review may not detect irregularities as effectively as someone independent performing the actual bank reconciliations.

To address this risk, we traced 12 previously selected deposits (see Cash Collections) from the bank statements to the accounting records and determined that all these deposits were recorded in the accounting records. We also reviewed 25 disbursements¹⁴ totaling about \$74,200 to determine if they were adequately supported and properly authorized.

While our review did not identify any errors or irregularities, the Board's failure to segregate duties and the lack of independent bank reconciliations could result in inaccurate accounting records. Even though the Board reviews the bank reconciliations, because the Treasurer is allowed to perform his duties without oversight at a location other than the District, there is an increased risk that errors and irregularities could occur and not be detected.

Recommendations

The Board should:

4. Establish and enforce formal policies and procedures to ensure that a record is maintained for all cash received, that receipts are issued to document the amount of cash collected and that all money collected is deposited within 10 days of being received.
5. Segregate the Treasurer's duties or, when this is not feasible, implement effective oversight procedures.
6. Ensure that someone who is not involved with depositing or disbursing cash or recording cash receipt and disbursement transactions performs bank reconciliations.

¹⁴ During our audit period, cash disbursements totaled \$5.68 million.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Please note that the District officials' response letter refers to page numbers that appeared in the draft report. The page numbers have been changed during the formatting of this final report.

Lake Ronkonkoma Fire District

BOARD OF FIRE COMMISSIONERS

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Mr. Ira McCracken, Chief Examiner
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NYS Office Bldg., Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5333

May 13, 2015

Dear Mr. McCracken:

RE: Report No. 2015M-9 Period – Jan.1 2013 through Aug. 31, 2014

This is in response to your letter dated March 31, 2015 concerning the above noted report. We have carefully reviewed your reported findings and thank you for your efforts. We have discussed and considered your findings and recommendations and offer the following:

Aggregate Purchasing:

The District uses the guidelines from the NY State procurement manual when it comes to aggregate purchases, and applying these guidelines it is our opinion that competitive bidding was not required in the examples mentioned in the report with one exception, the purchase of diesel fuel. The reported fuel purchase was a clerical misstep in which the state contract list was not properly checked for the expiration dates of the state contract. As such, diesel fuel was purchased from a vendor who no longer held the state contract. A procedure has been implemented to prevent such a scenario from recurring. The contract numbers and expiration dates are posted with the phone numbers to order fuel, and the fuel purchaser has been directed to make sure they specify the purchase to be according to the current contract number.

In all the other examples the auditors appear to have incorrectly aggregated all purchases from a vendor together, and not just those of like items and services. According to the State procurement manual regarding aggregate purchases, items need to be “interchangeable” to be considered the same for this purpose. With the exception of the diesel fuel, the other purchases were not “interchangeable” items or services.

See
Note 1
Page 21

With regard to uniform purchases, it appears the state auditors misunderstood the Districts use of the term “preferred vendor”. The District did not cite this designation as an exception to GML competitive bidding requirements, and does not consider it to be one. It is, however, an integral part of the procurement policy. As cited earlier, we do not believe competitive bidding was required as there are several different types of uniforms purchased (ex. Class A uniforms, Class B uniforms, EMS uniforms, etc.), and many different non-interchangeable items that make up each uniform. None of the like items came anywhere near the competitive bidding threshold. When it comes to our internal policy, the District did indeed follow its procurement policy when purchasing the uniforms from the District’s designated ‘preferred vendor’ for these purchases. The preferred vendor concept was proposed by our auditors as an integral part of the procurement policy and purchasing procedure. The designation is made for quantifiable and value based reasons. In this case, the designation was made due to past problems with changing uniform vendors and receiving substandard uniforms that did not match the color, style, or quality of the uniforms previously purchased. The current vendor has a solid reputation for quality, reliability, and consistency, and for these reasons was named the preferred vendor for uniform purchases.

See
Note 2
Page 21

See
Note 1
Page 21

See
Note 2
Page 21

See
Note 3
Page 21

Bidding:

The District disagrees with the opinion that the specifications for the pumper trucks were restrictive in such a way that inhibited competition, or were not in the public interest. The auditors considered the specifications to contain restrictive elements essentially because the successful bidder was involved in drafting the specifications. Notwithstanding, the auditors did not provide or articulate any actual elements of the specifications that were deemed unfairly restrictive other than the use of brand names without equivalency clauses and specific model numbers. The Board does not consider this language as unduly restrictive since there is an explicit “Exceptions to Specifications” clause that clearly states that exceptions of equal or superior quality would be allowed. In addition, any experienced and qualified bidder would easily clarify such issues by contacting the District on such matters of equivalency and substitutability.

See
Note 4
Page 21

In “footnote 7” (page 9) of the report it states that Courts have held that there is no absolute prohibition against a prospective bidder preparing specifications for the political subdivision, and the fact that specifications are so prepared by a potential bidder does not necessarily mean that specifications have been tailored to that bidder to the exclusion of others and to impair the competitive process. Such specifications however, may be considered suspect in this regard and therefore warrant scrutiny. The footnote also goes on to indicate that District officials said that “the District did not have the technical knowledge to do so” in reference to the preparation of the specifications. To clarify that notation, the Board believes that it has substantial technical expertise and knowledge concerning what it needs in order to properly serve the community, and is capable of articulating such matters. Special committees comprised of firefighters, Chiefs, and Board members are organized prior to any such purchases in order to develop the requirements. The Board believes that it was cost effective to allow a potential bidder to draft apparatus specifications in conjunction with the Committee’s input and review.

See
Note 5
Page 21

See
Note 6
Page 21

See
Note 7
Page 21

These specifications are intricate and require detailed technical knowledge, and the District does not have people on staff who can write such bid specifications in totality. Consequently, it would have to use an outside “writer” at significant cost and expense. With respect to the pumper specifications, the District believes the cost would have been between \$8,000 and \$10,000 to have the specifications document developed. Therefore, it is very cost effective to have a vendor write a specification, and for the District/Committee to review it with careful focus to prevent the writer from introducing self-serving restrictive items and language. The District believes it has done this and sees nothing in the specifications or bidder process which unfairly restricted competition.

Regarding the purchases of the two (2) ambulances, as with the pumper purchase, the District rejects any notion that the bid process or specifications created any undue restrictions, ambiguity, or unfairly restricted any potential bidders. The audit report states that certain specifications created ambiguity for potential bidders, but no potential bidders expressed that opinion. Moreover, if any bidder had questions the specifications provided a procedure whereby they could get clarification.

See
Note 8
Page 22

These specifications were developed in conjunction with the EMS personnel who use these vehicles on a daily basis, and we believe they were developed, and the vehicles purchased, in a cost effective manner with ample justification for the listed specifications. The audit report states that the district “included specifications that got them the exact chassis they want and the exact design they want”. We believe this is the purpose of the specification, that we get the vehicle we want which may be different from the one the ambulance manufacturer wants to sell us. These specifications have all been carefully considered to maximize the safety of the patient and care provider, and to the efficiencies needed in Emergency Medical Care.

Treasurer’s Office:

Cash Collections¹

The OSC states that “the Board did not establish formal policies and procedures for handling cash collections.....”

Here, the OSC examined 12 deposits made between Jan 1 and June 30, 2014 totaling \$106,018 (approximately 29% of the deposits for the entire audit period.) For some perspective, the total receipts during the 20 month audit period were roughly \$6,408,000, of which approximately \$6,000,000 are Brookhaven Tax levies deposited directly by wire into our bank account. Of the remaining receipts, \$2,600 represents interest income

¹ Note: The report uses the word “cash” to mean currency and checks. To limit exposure, our Treasurer’s office discourages the receipt of currency. Consequently, very little currency is processed through the books. Thus, comments made by the OSC relate to checks received.

credited by banks with the balance being the items reviewed by the OSC deposit examination described above.

The test for the period involved 12 deposits that had a combined total of 62 checks. The Auditors used the OSC's standard that checks should be deposited within 10 days of receipt.

See
Note 9
Page 22

The Auditors report that: "All 12 deposits comprising 62 checks were accurately recorded. However, 44 of the 62 checks totaling \$72,338 were deposited from 12 to 196 days after the date indicated on the check."

In this context, the auditors opined that: "By not depositing money in a timely manner, cash collected remains unavailable to fund the district operations and there is an increased risk that loss or theft could occur. Furthermore, because no record was maintained, of cash collected, District officials cannot be certain that all cash collected was deposited."

We have several issues with their findings and allegations. Initially, we consider their use of the date on the check as the date of "receipt", to start the 10 day cycle, flawed and misleading. Common sense would imply that since most of the checks are mailed to us, the date on the check is not an appropriate starting point to use as the date of receipt. Taking into account the date- time-deposit factor, it would eliminate a significant number of check deposits claimed to fall outside of the standard. Additionally, the overwhelming majority of "late deposit checks" were for tower rental receipts. The District's long standing policy, as well as good accounting procedures, provides that tower rental checks are held and deposited the first week of the month the rent is for. This practice provides for consistent deposits month to month, which is also another form of internal control and oversight.

See
Note 10
Page 22

See
Note 11
Page 22

The remaining checks deposited represented hall rental checks. The date on these checks almost always is many days before we actually receive them. Therefore, the 10 day deposit cycle measurement standard, used in this case, is inaccurate. Another factor which the auditors neglected to consider is the District's policy of not depositing hall rental checks until after the rental use occurs. This was the case for the longest reported deposit delay of 196 days. It involved a \$50 check received well in advance of the date the facility was to be used, but given to the District far in advance to "save the date". It was one of 7 checks aggregating \$1,050 counted as "late" deposits over 30 days. Finally, and concerning the auditors concern for loss or theft, the report failed to reference that all checks of this nature are kept in a locked, secured, and limited access file room and made payable to the "Lake Ronkonkoma Fire District." In view of the foregoing, it is the District's opinion that this comment, as presented, exaggerates and distorts this issue.

See
Note 12
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Notwithstanding the foregoing, the Auditors recommended that we log the checks received to enhance controls in this area. We believe that was a worthy recommendation which was immediately implemented.

Segregation of Duties:

The report states that the “ Treasurer prints and signs all checks, prepares the cash receipts and disbursement “abstract”, records disbursements, receipts, accounting transactions, make deposits, reconciles the bank account and performs all the duties a Treasurer would perform.” The auditors contend that since the Treasurer performs all these tasks, this results in a lack of segregation of duties and control.

The report continues: “Even though the Board reviews the bank reconciliation, because the Treasurer performs all these duties, with no oversight, this review may not detect irregularities as effectively as someone independent performing the actual bank reconciliation.”

We respectfully, but strongly, disagree with the Auditors comment for the following reasons:

The OSC admits that their testing of receipts and disbursements, including required supporting documentation, disclosed no irregularities. Therefore, an independent performance of bank reconciliations is not necessary. The District’s long standing monthly practice of reviewing reconciliations and testing of receipts and disbursements, performed by a Commissioner, is an adequate and generally accepted cost- effective audit control procedure and policy. Our monthly Commissioner’s audit control procedure involves the assigned Commissioner receiving:

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- A copy of the monthly “Quick Report” (“QR”) which details all receipt and disbursement activity for the month;
- A copy of the month end balance sheet which details all checking and savings account balances;
- The current month’s profit and loss statement (revenues received and expenses paid);
- A year-to-date profit and loss statement (revenues received and expenses paid);
- Copies of all bank statements. [Note: the audit Commissioner also receives the checking account statement from the bank unopened];
- A copy of the monthly reconciliation; and
- Access to the monthly transaction folder containing: the monthly cash requirements budget of anticipated receipts, disbursements, and funds transfer amount; all deposits (with related support); disbursement and receipts register (QR), wire transfers, bank statements, payroll reports, and tax levy wire receipt details (including year-to –date summary of levy warrants received).

Our monthly Commissioner’s audit procedure involves a review of all the previously outlined information. It also includes tracing a number of transactions from the QR to the bank statement, and from the bank statement to the QR. It involves tracing transactions (checks written) from the QR to the approved vouchers, and from the vouchers to the QR. Therefore, transactions are reviewed and tested flowing to and from source documents to

our disbursement and receipts records. Finally, it should also be noted that the Deputy Treasurer, at least once a year, independently performs the bank reconciliation and prepares the monthly Treasurer's report. Consequently, a different person other than the Treasurer performing these functions is considered a sound and mitigating practice.

Based upon the foregoing, the Board of Fire Commissioners, as well as our independent auditors, believe that our procedures are an adequate, comprehensive, and an effective oversight practice. Consequently, we intend to continue our current policies and procedures.

In summation, the Commissioners and District officers are extremely engaged and involved in the operations of the Fire District's affairs. This fact has been acknowledged by the OSC auditors. The Commissioners are acutely aware of all significant transactions and accounting matters. All Commissioners possess the ability to self access key financial matters and information pertaining to the District.

Conclusion:

In closing, myself and the other members of the Board would like to thank the OSC and its staff for all their dedication, effort, thought provoking discussions, insight, and recommendations.

Sincerely,

Brian D. Cook, Chairman
Board of Fire Commissioners

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The other example in our report is for uniforms purchased. As stated in the report, even if the uniforms purchased were not the “same,” and, therefore, did not require District officials to aggregate the purchases for purposes of determining whether the dollar threshold would be exceeded, District officials would still be required to follow the District’s adopted procurement policies and procedures.

Note 2

The District’s procurement policy does not contain the phrase “preferred vendor.” It does, however, state that all goods and services will be secured using a method that ensures the items are purchased at the lowest price and that favoritism will be avoided.

Note 3

In this case, the Board may adopt a standardization resolution to award purchase contracts for particular types or kinds of equipment, materials, supplies or services. The resolution must include a full explanation as to why there is a need for standardization. Upon adoption of a proper standardization resolution, District officials may provide for a particular make or brand in the specifications to the exclusion of other competitors. The use of a standardization resolution, however, is not an exception to the competitive bidding and competitive offering requirements of GML.

Note 4

This finding has been deleted from the report. However, in the future, District officials should consider that even experienced and qualified bidders may not think to contact the District on matters of equivalency, if not expressly instructed to do so in the specifications.

Note 5

This statement is made in footnote 8 of our report.

Note 6

During our audit field work, the Treasurer told us that District officials allowed the vendor to prepare the specifications, at no cost to the District, because officials did not have the skills necessary to write the specifications.

Note 7

There is no absolute prohibition against a prospective bidder preparing specifications for the District. However, these specifications warrant careful scrutiny as some may consider these specifications suspect in this regard, particularly when the bidder who prepared the specifications is awarded the contract.

Note 8

Our report states that certain bid specification provisions may have created ambiguity for potential bidders. While the specifications did provide procedures to obtain clarification, the need to do so may have been enough to discourage some vendors from submitting a bid.

Note 9

The Treasurer is required by New York State Town Law¹⁵ to deposit all money received within 10 days.

Note 10

We used the check date as “date of receipt” because the District had no records of when money was received. Therefore, we were unable to otherwise determine this date.

Note 11

It is not a good accounting procedure to hold rental checks received until the first week of the month in which the rent is due. Fire districts with revenues of \$500,000 or more are required to use the modified accrual basis of accounting, rather than the single-entry cash basis of accounting. Under the modified accrual basis, any tower rental fees received in the month before they are due are recorded as a deferred revenue. The revenue from the tower rental fees should be recorded once the amounts are due and have been received. For further guidance on accounting using the modified accrual basis, please see our Fire District Accounting and Reporting manual available at http://www.osc.state.ny.us/localgov/pubs/arm_fds.pdf.

Note 12

Town Law requires the Treasurer to deposit all money received within 10 days. Furthermore, banks are not required to honor checks that are more than six months (180 days) old.

Note 13

We tested a sample of receipts and disbursements. Therefore, while we identified no errors or irregularities, this is not a guarantee that none occurred. In addition, no errors or irregularities occurring in the past does not preclude them from occurring in the future. The District’s susceptibility to this is increased by allowing the Treasurer to perform his duties without oversight. For this reason, it is important for someone other than the person depositing, recording and disbursing District funds to perform the bank reconciliations.

Note 14

We noted in our report that the Deputy Treasurer performs at least one bank reconciliation each year and that the Board reviews the bank reconciliations. However, because the Treasurer performs all these duties at an offsite location with no oversight, this review may not detect irregularities as effectively as if someone independent performed the bank reconciliations.

¹⁵ See Town Law Section 177

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to review competitive bidding and the processes and procedures of the Treasurer's office for the period January 1, 2013 through August 31, 2014. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We reviewed District policies regarding procurement, cash receipts and cash disbursements.
- We interviewed District officials and employees to obtain an understanding of the District's control environment and specific controls that were relevant to using competitive bidding when procuring goods and services and the Treasurer's office operations.
- From a list of all claims paid during 2013 and 2014, we identified all vendors paid \$20,000 or more for purchases or \$35,000 or more for public works, including loan principal payments related to the purchase of two fire pumper trucks but excluding insurance companies and professional service providers. We then selected the largest claims paid to each vendor, which resulted in 10 claims for our review. Part of our review included identifying aggregate purchases of similar goods or services.
- We reviewed bid specifications, State contracts and Suffolk County contracts pertaining to the previously selected claims.
- We reviewed the deposits made during the first six months of 2014. We examined the deposit packets, including copies of checks, and traced them to the bank statements to verify District procedures and determine whether deposits were made intact and deposited within 10 days. We also traced the deposits to the general ledger to determine whether the cash receipts were accurately recorded in the accounting records.
- We reviewed 25 high-risk, non-payroll disbursements. We selected our sample to include payments made to utilities and those vendors with unusual names. We examined vouchers, invoices, canceled checks, disbursement records and Board minutes to determine if these disbursements were authorized, adequately supported and made for legitimate business 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.

APPENDIX D

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