

# Fly Creek Fire District

## Non-Payroll Disbursements

SEPTEMBER 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Fly Creek Fire District

### Audit Objective

Determine whether the Fly Creek Fire District's (District) non-payroll disbursements were supported, for proper District purposes, competitively procured and audited prior to payment.

### Key Findings

While the District's non-payroll disbursements were supported, for proper District purposes and audited prior to payment, the Board of Fire Commissioners (Board) did not ensure purchases were made at the best price.

- District officials could not demonstrate that they sought competition for disbursements totaling \$53,425.
- The Treasurer performed all aspects of the disbursements process with little oversight or mitigating controls.
- The Board did not ensure competition was sought prior to approving purchases, and it did not develop and adopt a written procurement policy to address seeking competition for goods and services below the competitive bidding thresholds.

### Key Recommendations

- Implement mitigating controls over the Treasurer's disbursements duties.
- Develop and adopt a written procurement policy.
- Seek competition for purchases.

District officials agreed with our findings and indicated they would initiate corrective action.

### Background

The District is located in the Town of Otsego in Otsego County.

The District is governed by an elected five-member Board responsible for the overall financial management and safeguarding of its resources. The Board is also responsible for establishing appropriate controls over cash disbursements and for auditing and approving claims for payment.

The elected Treasurer is the chief fiscal officer and is responsible for receiving, maintaining custody of, disbursing and accounting for District funds. The current Treasurer started in January 2022.

#### Quick Facts

|                     |           |
|---------------------|-----------|
| 2022 Appropriations | \$187,674 |
|---------------------|-----------|

#### Non-Payroll Disbursements in Audit Period

|        |     |
|--------|-----|
| Number | 251 |
|--------|-----|

|        |           |
|--------|-----------|
| Amount | \$191,287 |
|--------|-----------|

#### Non-Payroll Disbursements Reviewed

|        |     |
|--------|-----|
| Number | 121 |
|--------|-----|

|        |          |
|--------|----------|
| Amount | \$76,955 |
|--------|----------|

### Audit Period

January 1, 2021 – April 30, 2022

# Non-Payroll Disbursements

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## What Are Adequate Controls Over Non-Payroll Disbursements?

A fire district board is responsible for overseeing a fire district's financial activities and safeguarding its assets. To fulfill this duty, it should establish adequate internal controls over the disbursements process so that no one individual controls all aspects of the transaction (e.g., initiating and approving electronic transfers, signing checks and reconciling bank accounts). If this is not possible, the board should implement mitigating controls such as ensuring someone independent of these processes reviews the bank statements, canceled check images and electronic transfers on a regular basis.

Additionally, the board is required to perform a thorough audit of claims before they are paid to ensure they are supported with itemized receipts, are appropriate fire district expenditures and comply with board-adopted policies. The board should annually audit the treasurer's records to help ensure money is properly accounted for. An annual audit is especially important when one individual is able to perform all aspects of a financial transaction.

New York State General Municipal Law Section 103 requires that purchase contracts involving expenditures in excess of \$20,000 and contracts for public work involving expenditures in excess of \$35,000 be competitively bid. The board is required to adopt written procurement policies and procedures governing the procurement of goods and services that are not subject to competitive bidding requirements. An effective procurement policy helps ensure the prudent and economical use of public money and guards against favoritism, improvidence, extravagance, fraud and abuse. In general, the procurement policy should require that alternative proposals for goods or services be secured through issuing written requests for proposals (RFPs) or obtaining written or verbal quotes or any other appropriate method of competitive procurement. The procurement policy may set forth circumstances or types of procurements for which solicitation of alternative proposals will not be in the fire district's best interest and should describe procedures for maintaining adequate documentation to support and verify the actions taken.

## Controls Over Non-Payroll Disbursements Are Inadequate

The Treasurer performed all aspects of the disbursements process including preparing and signing checks, transferring funds electronically between bank accounts, recording disbursements and reconciling the bank accounts. The Treasurer provided the Board with a list of bills and supporting documentation for the Board's review and approval each month. However, no one separate from the Treasurer reviewed the bank statements or canceled check images to ensure they were proper, Board-approved expenditures. Additionally, there was no evidence in the Board meeting minutes that the Board performed an annual audit of the Treasurer's records.

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The Treasurer performed all aspects of the disbursements process. ...

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We reviewed a sample of 111 canceled checks totaling \$47,428 and all five electronic payments totaling \$238 and determined all disbursements reviewed were supported, for proper District purposes and audited prior to payment. In addition, we reviewed all three withdrawals totaling \$235,000 and the only check made payable to “cash” totaling \$150,000 and determined that they were appropriately deposited into other District bank accounts, essentially acting as bank transfers.

However, without adequate mitigating controls, there is an increased risk that unauthorized disbursements could occur and go undetected by the Board.

### **The Board Has Not Adopted a Procurement Policy**

The Board did not establish or adopt a written procurement policy to provide guidance for procuring goods and services below the competitive bidding thresholds, for professional services or exceptions for not seeking competition.

According to the Treasurer and three Board members, the Board required officials to solicit competition by obtaining quotes for any purchase that exceeds \$500. Therefore, we reviewed all 17 disbursements, totaling \$53,425, which were greater than \$1,000 to focus our testing on the largest disbursements. District officials could not demonstrate that they sought competition for any of these disbursements. These included:

- Five disbursements totaling \$28,152 for insurance,
- Five disbursements totaling \$7,927 for heating oil,
- \$7,532 for re-piping of a boiler,
- Two disbursements totaling \$4,100 for attorney fees,
- \$2,244 for ambulance tires,
- \$1,432 for a trash pump,
- \$1,025 for a fire extinguisher, and
- \$1,013 for truck repairs.

We compared the heating oil purchased with the State contract pricing option and found the District could have saved a minimal amount if it had been able to purchase through the State contract.

Board members stated they were unaware of the requirement for a written procurement policy. In addition, the Board did not ensure that competition was sought prior to approving purchases. Without an adequate written procurement policy, the Board did not have assurance that District money was used in the taxpayers’ best interest.

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## What Do We Recommend?

The Board should:

1. Implement mitigating controls over the Treasurer's disbursements duties such as having someone independent of the process review bank statements and canceled check images.
2. Perform an annual audit of the Treasurer's records.
3. Develop and adopt an adequate written procurement policy to include detailed guidance for procuring goods and services not subject to competitive bidding requirements.
4. Ensure competition is sought for purchases to help ensure the prudent and economical use of District money in the taxpayers' best interest.

# Appendix A: Response From District Officials

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Fly Creek Fire District  
Board of Fire Commissioners  
PO BOX 218  
Fly Creek, New York 13337

Office of State Comptroller

September 15, 2022

Division of Local Government and School Accountability

110 State Street , 12<sup>th</sup> Floor

Albany, New York 12236

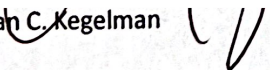
Dear Sir:

The Fly Creek Fire District has received the Report of Examination, and agrees with the report.

The Board will write a Corrective Action Plan and address the key findings of the audit, and report back how the findings will be corrected and the proper procedures for future reference.

Thank you.

Sincerely,

Joan C. Kegelman   
Chair of the Board of Commissioners

## Appendix B: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Board members and District officials and reviewed Board meeting minutes, bank reconciliations and financial records and reports to gain an understanding of the disbursements process.
- We scanned the bank statements and selected all three withdrawals totaling \$235,000 and the only check made payable to "cash" totaling \$150,000. We traced them to a deposit into another District bank statement to determine whether they were for proper District purposes.
- We scanned bank statements and used our professional judgment to select 111 canceled check images, totaling \$47,428, that could be used for personal use, such as electric, heating oil, phone, Internet, local stores or unusual vendors, and all five electronic payments totaling \$238. We traced them to the bills and invoices and Board-approved list of bills to determine whether they were adequately supported, audited and approved by the Board prior to payment and for proper District purposes.
- We selected all<sup>1</sup> 17 disbursements greater than \$1,000, totaling \$53,425, and reviewed all supporting documentation to determine whether District officials sought competition.
- We reviewed all 12 heating oil purchases and compared them to the State contract prices to determine whether District officials could have saved money by purchasing from State contract.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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.

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<sup>1</sup> We excluded a \$20,000 bond payment for an ambulance purchased before our audit period, a \$1,471 payment for the ambulance's annual service plan and a \$1,000 payment for an annual fee for District software. We excluded these from testing because we would not expect competition to be sought for these payments during our audit period.



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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. We encourage the Board to make the CAP available for public review.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/local-government/fiscal-monitoring](http://www.osc.state.ny.us/local-government/fiscal-monitoring)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/local-government/publications](http://www.osc.state.ny.us/local-government/publications)

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### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf](http://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf)

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