

Brewster-Southeast Joint Fire District

Recordkeeping and Procurement

AUGUST 2018



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

Contents

- Report Highlights 1**

- Recordkeeping 2**
 - How Are Financial Operations Properly Recorded and Reported? . . . 2
 - Financial Records and Reports Were Inaccurate 2
 - OSC’s Uniform System of Accounts Was Not Used 3
 - Budgets Presented Were Improper in Content and Form 4
 - What Do We Recommend? 4

- Procurement 6**
 - How Should Professional Services Be Procured? 6
 - Competition Was Not Always Solicited for Professional Services . . . 6
 - What Do We Recommend? 7

- Appendix A – Response From District Officials 8**

- Appendix B – OSC Comments on the District’s Response 10**

- Appendix C – Audit Methodology and Standards 11**

- Appendix D – Resources and Services 13**

Report Highlights

Brewster-Southeast Joint Fire District

Audit Objectives

Determine whether:

- District financial activities were properly recorded and reported.
- District officials solicited competition for professional services.

Key Findings

- Accounting records were not accurate as of December 31, 2017. Cash accounts were incorrectly recorded, the operating bank account balance was understated by more than \$377,000 and the capital reserve balance was overstated by \$200,790. In addition, all 45 general ledger accounts did not comply with the Office of the State Comptroller's (OSC) uniform system of accounts for fire districts.¹
- District officials did not always solicit competition when procuring professional services.

Key Recommendations

- Ensure that cash and other accounts are accurately reconciled and recorded in a timely manner.
- Update financial records and reports to conform to OSC's uniform system.
- Ensure budgets are properly presented using OSC's uniform system and accurate budget amounts.
- Consider revising the procurement policy to require soliciting competition before awarding professional service contracts.

District officials disagreed with certain aspects of our findings and recommendations, but indicated that they planned to implement some of our recommendations. Appendix B includes our comments on the issues raised in the District's response letter.

Background

The Brewster-Southeast Joint Fire District (District) provides fire protection services for the Village of Brewster and Town of Southeast in Putnam County.

The District is governed by a Board of Fire Commissioners (Board) composed of five elected members who are responsible for overall financial management. The Board appoints a Treasurer who acts as the chief fiscal officer and is responsible for receiving and maintaining custody of funds, disbursing and accounting for those funds, preparing monthly and annual financial reports and meeting any other reporting requirements.

Quick Facts

| | |
|---------------------|---------------|
| 2018 Appropriations | \$1.6 Million |
| 2017 Revenues | \$1.6 Million |
| 2017 Disbursements | \$1.5 Million |

Audit Period

January 1, 2016 – January 17, 2018

¹ Refer to the Fire District Accounting and Reporting Manual available at: www.osc.state.ny.us/localgov/pubs/arm_fds.pdf

Recordkeeping

How Are Financial Operations Properly Recorded and Reported?

A board is responsible for the general management and control of district activities including overseeing financial operations. The treasurer is responsible for keeping an accurate account of all financial activities and providing financial reports to the board at monthly meetings.

Districts are required to use a uniform system of accounts for classifying and coding accounting transactions to account for assets, liabilities and fund balances as prescribed by OSC.² The classification system serves as a basis for the budget, financial accounting records and reports and administrative controls. Proper account coding facilitates posting entries in the accounting records and provides reporting consistency.

The board should review the budget to ensure it is complete, reasonable and mathematically accurate. In addition, treasurers are required to maintain a separate account for each appropriation made in the district's annual budget. Each account should show the amounts appropriated, expended and the unexpended balance.

Financial Records and Reports Were Inaccurate

The Treasurer did not maintain accurate accounting records. As a result, cash balances were incorrectly recorded.

As of December 31, 2017, the operating cash balance was understated by almost \$377,500. While the reconciled bank balance should have totaled approximately \$1 million, the amount the Treasurer recorded in the accounting records was approximately \$646,000. This occurred because the Treasurer incorrectly carried forward uncleared banking transactions from prior years dated as far back as 2015. The uncleared checks and payments list included two transfers between accounts of \$193,825 and \$169,261 (dated March 11, 2015 and December 31, 2016) and 10 stale dated checks totaling \$14,412.

Conversely, the capital reserve cash balance was overstated by \$200,790. This account's recorded balance was approximately \$311,300 and the reconciled bank balance was about \$110,500. The difference was due to unrecorded transactions as follows: a \$199,354 check for firefighting equipment that cleared the bank in December 2017, cleared prior year transactions of \$1,599, interest income totaling (\$373) and bank service charges of \$210.

During the audit period, the Treasurer did not always prepare bank reconciliations in a timely manner. In addition, the Treasurer's monthly reports provided to the Board were inaccurate as seven of 29 revenue and expenditure accounts were incorrectly recorded.

² Ibid.

As a result, certain revenues and expenditures were inaccurate. For example, Federal Emergency Management Agency grant revenues of \$153,046 were incorrectly recorded as a firefighter supplies and equipment expenditure. These revenues were recorded as an expenditure to offset the purchase of safety equipment totaling \$169,951, resulting in the understatement of both revenues and expenditures by \$153,046. Conversely, a returned check was incorrectly posted to reconciliation discrepancies resulting in a \$13,000 overstatement of revenues and expenditures. Worker's compensation costs of \$13,688 were incorrectly recorded as an insurance expenditure.

We compared the 2016 and 2017 general ledger accounts and identified 13 of 45 accounts that contained inaccurate balances. For example, fund balance (\$440,674) and accrued expenses (\$12,170) had unchanged balances, while retained earnings incorrectly had a balance of \$124,060 that was increased by the 2016 surplus to \$214,729. We also found three accounts that should have been closed out (ambulance donation fund, general fund checking and accounts receivable) that had incorrect nominal balances that carried forward from year-to-year.

The Treasurer told us that she was not trained to identify errors and lacked guidance in correcting the accounting system records. She also told us that bank reconciliations were prepared each month but due to printer issues they were not always printed in a timely manner. Improperly reconciled cash balances and incorrect recording of general ledger accounts resulted in inaccurate financial records and reports. While we did not identify any fraudulent transactions, untimely reconciliations increase the risk that errors and fraudulent transactions could occur and not be identified in a timely manner.

We reviewed these errors in the cash balances and recording of revenues and expenditures with the Treasurer and provided suggested adjusting entries and technical assistance with how to prevent these errors in the future. But still, as the Treasurer pointed out, she lacks training in municipal accounting.

OSC's Uniform System of Accounts Was Not Used

OSC provides guidance on the required uniform system of accounts for districts to classify and code accounting transactions. However, the accounts the Treasurer used to generate the general ledger and financial reports did not contain the account codes and names required. We compared the accounts used in the general ledger to OSC's system and found that all 45 account codes used did not comply and only nine account names complied. We also found that 25 of 34 accounts used in the monthly budget to actual report did not comply with these requirements.

Because both the Treasurer and Board were unaware of OSC's uniform system, they were unable to readily identify transactions and provide consistency in financial reports.

Budgets Presented Were Improper in Content and Form

We reviewed the budgets for 2016, 2017 and 2018 and found that the content and form were improper. For example instead of listing estimated revenues, the budgets incorrectly showed actual revenues listed as modified and preliminary estimates.

Appropriations and expenditure lines were improperly combined in four different account codes. For example the mechanic's payroll, employee benefits and workers' compensation amounts were incorrectly reported as contractual expenditures. In addition, the Treasurer's stipend was reported as personal services (even though she was not paid through payroll) and should have been included with contractual services. While a supplemental schedule was attached to provide an additional breakdown of appropriations, the budgets' presented were improper because appropriate uniform system account codes and names were not used.

District officials were unaware that the content and form of these budgets were improper or expenditure accounts were improperly combined. However, improperly presented budgets diminish the Board's ability to oversee operations and reduce transparency.

What Do We Recommend?

The Board should:

1. Ensure effective procedures are in place to properly account for and report financial activities.
2. Provide training for the Treasurer to properly account for and report financial activities.
3. Ensure that cash and other control accounts are accurately reconciled and recorded in a timely manner.
4. Ensure their budget is properly presented using OSC's uniform system and accurate budget amounts.

The Treasurer should:

5. Update financial records and reports and present budgets that conform to OSC's uniform system.
6. Attend training, such as the Accounting School offered by our office, to learn the proper methods of accounting for cash, revenues, expenditures and budget preparation.

Procurement

How Should Professional Services Be Procured?

New York State General Municipal Law (GML) Section 104-b requires a board to adopt written policies and procedures for the procurement of goods and services, such as professional services, that are not subject to competitive bidding requirements. GML states that goods and services that are not required by law to be bid must be procured in a manner to assure the prudent and economical use of public funds in the best interests of residents.

GML further requires the board to include in its policies and procedures, with certain exceptions, that the district secure alternative proposals (RFPs) or quotes for such goods and services, including professional services. One exception is for circumstances when, or types of procurements for which the district has determined alternative proposals or quotes will not be in the district's best interests.

While GML permits districts to set forth in their policies the circumstances when, or types of procurements for which the district has determined RFPs will not be in the district's best interests, using a competitive method, such as an RFP process, would help ensure that needed qualified services are obtained upon the most favorable terms and conditions. The use of a fair and open competitive process, written contracts and detailed board resolutions help provide guidance to officials and employees involved in the purchasing process and help ensure that competition is sought in a reasonable and cost effective manner.

Competition Was Not Always Solicited for Professional Services

The District's procurement policy does not require soliciting competition before awarding professional service contracts. The policy states that it may not be in the District's best interest to solicit quotes or proposals for professional services or services requiring special or technical skill, training or expertise. The policy further states that the provider must be chosen based on accountability, reliability, responsibility, skill, education and training, judgment, integrity and moral worth.

The Board did not always solicit competition for professional services. We reviewed the District's procurement of services from all 10 professional service providers who were paid a total of \$321,590 during the audit period to determine whether these services were procured using competitive methods. District officials did not use competitive methods such as quotes or RFPs to procure the professional services provided from five service providers who were paid \$86,231. For example, two providers were paid a total of \$56,684 in 2017 (\$34,439 for legal services and \$22,245 for firefighter physicals) without obtaining RFPs.

Board members told us that competition was not always used because their policy did not require RFPs and the selection of professional service providers was left to the Board's discretion. However, the Board could not provide documentation that they used other methods to assess the accountability, reliability, responsibility, skill, education and training, judgment, integrity and moral worth of the professional service providers of the District. Although, we found the services procured were for legitimate and appropriate purposes, without using competitive methods, District officials are not assured that professional services are being procured in the most economical way and in the District's best interest.

What Do We Recommend?

The Board should:

7. Consider revising their procurement policy to require soliciting competition before awarding professional service contracts or documenting why that was not in the District's best interest for each such procurement.

Appendix A: Response From District Officials



BREWSTER SOUTHEAST JOINT FIRE DISTRICT, 501 N. MAIN ST., BREWSTER, NY 10509

Please direct all correspondence to:
Renee Tassani
Brewster Southeast Joint Fire District
501 North Main Street
Brewster, NY 10509

July 2, 2018

Tenneh Blamah, Regional Chief
Office of the State Comptroller
Division of Local Government and School
Accountability
33 Airport Center Dr.
New Windsor, NY 12553.

Re: Response to Comments on Draft Report of Examination 2018M-86 for
the Brewster-Southeast Joint Fire District

Dear Chief Blamah:

We are in receipt of the above-referred draft Report of Examination 2018-M86 (the Report) for audit period January 1, 2016 to January 17, 2018 and are writing to thank you for your efforts in connection with the audit. We also specifically acknowledge your identification of the control deficiencies in our internal bookkeeping processes and would like you to note that, as of the date of this letter, we have already resolved all of identified deficiencies. Lastly, we ask that you take into consideration our response comments set forth below for incorporation into the final Report of Examination.

Foremost, in an unfortunate era of unprecedented fire department fraud, we believe that is important for the Report to acknowledge and emphasize for the residents of the District that while there may have been some deficiencies in the District's internal bookkeeping process regarding the use of [REDACTED], the District's audited financial statements and annual update document were correct; that no instances of fraudulent activity were identified; that the control deficiencies ([REDACTED] carryover error) were disclosed to the auditors at the commencement of the audit (as opposed to being discovered); and that the District maintains sound internal controls and policies.

See
Note 1
Page 10

Without incorporating these particular comments, the draft Report gives the uninformed reader the impression that the District's finances were inaccurately reported by hundreds of thousands of dollars, when in fact all reporting by the District was accurate (again, the District's audited financial statements were correct and annual update document were correct) and the Commissioners were fully aware of the discrepancy in [REDACTED]. Note that our monthly audit process, whereby we open our bank statements at the start of meeting and reconcile the funds in accounts as compared to checks written or funds debited,

See
Note 2
Page 10

allows up to keep strict control over our finances.

We believe that a more accurate Report would indicate that the District uses [REDACTED] as a means of internal bookkeeping; that upon the commencement of the audit, the District disclosed to the auditors that [REDACTED] perpetuated a carryover (and had for the past few years), that this carryover was accurately accounted for so that while the program may have had error, the District always had accurate figures before it and that instead of the draft Report making a key finding that the “Treasurer did not maintain accurate records” that a key finding should be that “the Treasurer should have caused the [REDACTED] error to be corrected” instead of allowing it to continue.

See
Note 3
Page 10

In response to the Key Finding that District officials did not always solicit competition when procuring professional services, we believe that the Key Finding should state that, “while the General Municipal Law does not require the District to solicit competition when procuring professional services, it is the recommendation of this Office that the District should solicit competition in an effort to find savings.” Again, this Key Finding gives the impression that the District is obligated to solicit competition for professional services, when, in fact, it is not. Notwithstanding, the District will expend efforts to solicit competition or, alternatively, state in the minutes of its meetings why it has chosen to not solicit so that the public is fully aware of the criteria it uses when hiring professionals. To the extent that is relevant, the District has hired traditionally hired those professionals who have significant institutional knowledge of both the District and the Department and its members and personnel.

We have the following additional comments:

Under Financial Records and Reports were inaccurate, it is imperative to note again that these comments only related to the use of [REDACTED] and not to the actual information that was presented to the District on a monthly basis, which was at all times, correct.

See
Note 3
Page 10

Additionally, with regard to bank reconciliations not being prepared in a timely fashion, the prior advice of the Comptroller was to have the Board of Fire Commissioners open the bank statements in an effort to eliminate the possibility of fraud by the Treasurer. This process results in a delay in preparing bank reconciliations. To now cite the Treasurer for that result based on a method promulgated by the Comptroller’s Office is completely unfair.

See
Note 4
Page 10

The District fully supports the Treasurer and her continued efforts to provide the District with competent services. The District will insure that the Treasurer obtains additional training in [REDACTED] and municipal accounting as recommended in the Report.

Under Budgets Presented Were Improper in Content and Form, we do not believe that the finding in the Report is an appropriate assessment of the Budget. While we fully intend on abiding by the recommendations in the Report, we ask that you consider an amendment to that statement. The District is always mindful of the budget and stays within the budget.

See
Note 5
Page 10

We thank you advance for consideration of all of the foregoing.

Sincerely,

Board of Fire Commissioners

Appendix B: OSC Comments on the District's Response

Note 1

District financial transactions were incorrectly recorded and reported. We found that bank reconciliations contained errors during our audit fieldwork. After interviews with the Treasurer, she disclosed that she was aware that the prior year adjusting entries created inaccurate balances that were not corrected in the records. Because our audit did not include a review of all District operations we cannot comment on whether fraud occurred. The accuracy of the audited financial statements and annual update document was not within the scope of our audit.

Note 2

The Treasurer's monthly bank reconciliations and reports to the Board were inaccurate. Deficiencies we identified during the audit and reports generated from the system and presented to the Board were inaccurate.

Note 3

Prior year adjusting entries created inaccurate balances that were not corrected in the records and cash balances were inaccurately recorded. As a result, all accounting records and reports the Treasurer provided to the Board that were generated from the accounting system were inaccurate.

Note 4

Reconciliations were not always prepared in a timely manner based on the dates they were printed. However, having the Board open the bank statements and review the activity is a good control that should be continued.

Note 5

The budgets presented did not use OSC's uniform system of accounts and actual revenues were reported instead of estimated revenues.

Appendix C: Audit Methodology and Standards

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 the Treasurer as to the financial operations of the District.
- We reviewed District policies to identify and gain an understanding of existing policies, processes and procedures.
- We prepared bank reconciliations for the four bank accounts as of December 31, 2017 using bank statements and District records to determine whether the Treasurer presented the Board with accurate monthly bank reconciliations.
- We verified timeliness of bank reconciliations by comparing bank statement end date with reconciliation date.
- We reviewed the December 31, 2017 profit and loss budget to actual report to Fire District ARM chart of accounts to determine whether accounts were properly named (categorized), within budget and accurately reported.
- We reviewed a recent profit and loss report dated November 9, 2017 through December 13, 2017, to determine whether accounts are properly named, formatted and accurately reported.
- We compared the general ledger with the filed 2017 annual update document to determine if the District is properly categorizing their accounts in the general ledger and as prescribed in the Fire District ARM.
- We compared beginning and ending 2016 and 2017 general ledger accounts for invalid or improper accounts, inaccurate and unchanged balances, and to calculate differences in ending 2016 and beginning 2017 account balances.
- We compared 2016 general ledger ending balances to actual revenues and expenditures reported on the 2018 budget to identify any differences.
- We reviewed Board minutes to determine whether professional service vendors were selected through competitive processes.
- We reviewed all ten professional service providers paid during the audit period to determine if their services were obtained through competitive methods such as quotes and RFP and followed District policy.

We conducted this performance audit in accordance with GAGAS (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.

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 relevant population size and the sample selected for examination.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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