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September 19, 2014

Edward Gibson, President
Members of the Board
Pulteney Volunteer Fire Department
P.O. Box 35
Pulteney, New York 14874

Report Number: 2014M-175

Dear Mr. Gibson and Members of the Board:

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

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

- Are Department controls adequate to ensure that financial activity is properly recorded and reported and that Department moneys are safeguarded?

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

Background

The Department is a volunteer organization located in the Town of Pulteney (Town) in Steuben County. It is affiliated with the Pulteney Fire District No. 2 (District) and provides fire protection services to the Town. The Department has approximately 45 active members who responded to 32 fire calls in 2013. Its revenues and expenditures for 2013 totaled \$77,288 and \$82,380, respectively. The Department's primary sources of revenues are from fundraising, donations and foreign fire insurance premium tax¹ moneys.

¹ Insurance companies organized or incorporated outside of New York State (State) that write fire insurance policies on properties located in the State must pay 2 percent of the premium to the State. New York State Insurance Law provides that the treasurer or fiscal officer of the fire department affording fire protection should receive these funds.

The Department is operated in accordance with its bylaws and governed by a seven-member Board of Directors (Board). The Board is responsible for the general management of the Department's financial affairs. The Treasurer is responsible for all funds; including making deposits; preparing, signing and endorsing checks; maintaining accurate financial records; and submitting a monthly report of the Department's financial condition at the Board's monthly meetings and the annual meeting. In addition, the Treasurer must submit a report of bills paid in the previous month at each regular meeting.

We examined the internal controls over the Department's financial operations for the period January 1, 2013 through April 29, 2014. We interviewed appropriate Department officials and reviewed financial records and Board minutes. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Audit Results

The Board is responsible for overseeing the Department's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls comprising policies and procedures to ensure that transactions are authorized and properly recorded; that financial reports are accurate, reliable and filed in a timely manner; and that the Department complies with its bylaws and applicable laws, rules and regulations. The Board is also required to adopt a code of ethics that provides standards of conduct and procedures for disclosure of interests.

While not required by the bylaws or statute, sound business practices require that the Board develop a budget, physically review and approve bills prior to their payment, review the computerized financial records, annually audit the Treasurer's records and review the bank statements and reconciliations – especially if financial duties are not segregated – to ensure that funds are used for legitimate Department expenditures. The Board must also ensure that all funds received from fundraising events are properly accounted for and recorded.

The Board does not provide adequate oversight of the Department's financial activities. Although the Department's bylaws specifically detail the Board's responsibilities and the Treasurer's duties, they do not adequately segregate the Treasurer's duties or ensure that the Board provides oversight of the Treasurer. The Treasurer maintained appropriate financial records and disbursements were generally for reasonable Department expenditures; however, we found deficiencies in financial reporting, the audit of claims and the recording and deposit of cash receipts. In addition, the Board has not adopted written financial policies or procedures addressing cash receipts, disbursements or claims processing. As a result, the Treasurer makes all deposits, disburses cash without the Board's prior approval, performs all recordkeeping functions and prepares bank reconciliations without independent oversight.

Although the Treasurer prepares a monthly report detailing cash balances, receipts and disbursements to be approved that month, he does not distribute these reports but reads them aloud at the Board meetings. Further, the Board does not audit the individual claims for accuracy or

examine them for supporting documentation. We also found that the annual report provided by the Treasurer did not accurately total revenues and expenditures and that the Treasurer did not file the annual foreign fire insurance report for 2013 as required.² Additionally, we were unable to verify when entries were recorded in the financial records because the Treasurer stated that the software allows entries to be post-dated and he sometimes used this feature. Lastly, the Board did not conduct an annual audit of the Treasurer's records, adopt an annual budget or develop a code of ethics.

Due to these deficiencies, we reviewed all 179 disbursements from January 1, 2013 through February 28, 2014, totaling \$97,739, for authorization, adequate support, appropriateness and accuracy. We found that 175 disbursements totaling \$97,212 were paid prior to Board approval, including 11 debit card purchases. Further, 34 disbursements totaling \$27,752 did not have adequate supporting documentation, although they appeared to be consistent with the Department's other expenditures.

We also reviewed recorded receipts and deposits, totaling \$90,121, for January 1, 2013 through February 28, 2014 and compared the Department's fundraising reports for 2013 with recorded and reported revenue and deposits. While the total amount of recorded receipts was deposited, the individual fundraising amounts detailed in the records and reports did not agree; therefore, we were unable to verify that each of the fundraising receipts was properly recorded and deposited. Although the discrepancies were not significant, when individual receipts are not properly recorded, the Department is unable to ensure that all moneys collected for fundraising activities were accounted for and properly deposited.

Department officials have recently begun to implement corrective measures. In January 2014, the President began to review and sign off on the bank statements and reconciliations. On March 31, 2014, the Department adopted a purchasing policy. Additionally, the Treasurer has made the necessary accounting and software updates for providing an updated report of revenues and expenditures.

Department officials also stated that the members adhere to the District's code of ethics, which they approved. However, the law requires that the Department adopt its own code of ethics.

The weaknesses in the Board's oversight creates a risk that Department resources may not be used for appropriate purposes or that related decisions may not be the best interest of the general membership.

We discussed other minor deficiencies with Department officials during the conduct of our fieldwork.

Recommendations

To ensure an adequate system of internal controls over Department operations, the Board should:

² New York State General Municipal Law requires that fire companies, departments and benevolent association treasurers who receive and use foreign fire insurance premium tax proceeds file an annual report of the receipts, expenditures and balances relating to such moneys.

1. Adopt financial policies and procedures that adequately segregate duties and provide for oversight.
2. Adopt a code of ethics to provide standards of conduct expected of Department personnel.
3. Audit and approve all claims, ensuring that each claim includes an itemized invoice with enough detail to support the claim as an actual and necessary Department expense, prior to payment.
4. Conduct an annual audit of the Treasurer's books and records.
5. Prepare and adopt an annual budget.

The Treasurer should:

6. Provide the Board with written copies of the monthly reports.
7. Prepare and file the annual foreign fire insurance tax report when due.
8. Ensure that financial reports generated from the system are accurate.
9. Reconcile fundraising reports with the cash turned over for deposit and ensure all fundraising activity is recorded and deposited properly and in a timely manner.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days. 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 this plan available for public review.

We thank the officials of the Pulteney Volunteer Fire Department for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

The Department officials' response to this audit can be found on the following page.

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September 2nd, 2014

Mr. Gabriel F. Deyo
Deputy Comptroller
Division of Local Government
and School Accountability

We would like to thank you for your audit and recommendations to help us as an organization. It is our goal to continually improve. As part of this continual improvement process our organization has been creating, updating and improving many policies, practices and procedures to make us a better organization. The recommendations identified during your audit have allowed us to continue this improvement by bringing in a third party to review our organization. As your report reflects we have begun the process of implementing corrective actions to your findings during the audit and we will continue this process with the submission of a corrective action plan to your office.

As a recommendation to assist other organizations, please consider the creation of guideline information for Fire Companies. It is our belief that providing pro-active guidance to organizations will enable continual improvement and responsibility. This pro-active approach will assist other fire companies along with your office by creating stronger more responsible organizations within this state.

Best Regards,

Edward Gibson
President