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December 2016

Dr. Edward Franklin, President  
Painted Post Fire Department  
261 Steuben Street  
Painted Post, New York 14870

Report Number: 2016M-312

Dear Dr. Franklin and Fire Department Members:

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 those 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 Painted Post Fire Department (Department) that addressed the following question:

- Did the Board and membership ensure that Department receipts were safeguarded and disbursements were appropriate?

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 that they have initiated corrective action.

### **Background and Methodology**

The Department provides fire protection services for the Villages of Painted Post and Riverside in Steuben County. The Department's expenditures totaled approximately \$17,000 for 2015, which were funded by foreign fire insurance tax proceeds totaling \$10,704; a pancake breakfast and boot drive totaling \$1,032; dues; and miscellaneous donations.

The Department is operated in accordance with its bylaws, which stipulate that a Board composed of four elected members is responsible for the Department's overall financial management. The active members elect a Treasurer who acts as the Department's chief fiscal officer. The bylaws govern the Treasurer's responsibilities.

We examined the internal controls over the Department's financial operations for the period January 1, 2015 through July 27, 2016. 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, the Board should establish a system of internal controls that consists of policies and procedures that ensure transactions are authorized and properly recorded; financial reports are accurate, reliable and filed in a timely manner; and the Department complies with its bylaws and applicable laws, rules and regulations. While not required by the bylaws or statute, the Board should also review and approve bills prior to payment, especially if financial duties are not segregated, to ensure that funds are used for legitimate Department expenditures.

The Board should improve its oversight of the Department's fiscal activities and the safeguarding of its resources. The bylaws do not adequately segregate the Treasurer's duties. They require the Treasurer to receive all Department moneys, pay all bills and report the Department's financial status at regular Department meetings; however, they do not provide for mitigating controls such as someone other than the Treasurer reviewing and reconciling the bank accounts.

The bylaws also require the President to call for an annual audit of the Department's books and financial records by the Village Clerk/Treasurer or authorized alternate. The annual audit was ineffective since it consisted of a comparison of the bank statement balance to the check register, and did not include other items such as disbursements or canceled checks.

In addition, the Board has not adopted any written policies or procedures addressing cash receipts and disbursements, procurement or claims processing. As a result, the Treasurer did not issue duplicate receipts for donations; made all deposits and disbursed cash without the Board's prior approval; and performed all recordkeeping functions. Although the Treasurer provided a monthly report that listed paid disbursements and deposits for the Board's review, the report did not include a reconciled bank statement for the Board's review and verification.

Receipts – The Department's collections from its main source of revenue (foreign fire insurance) are directly deposited into the Department bank account, and duplicate receipts are not required or issued for dues and donations. Therefore, we reviewed Board meeting minutes for records of dues, donations and collections from the breakfast fundraiser and identified \$189 in dues, \$3,173 in donations and \$1,032 received from the fundraiser during the audit period. We traced these amounts to the Treasurer's report and bank deposits and found that all recorded collections were included in the report and deposited. However, without issuing duplicate receipts, the Department does not have a reliable and accurate record of cash received, which increases the risk of error, loss or theft.

Disbursements – Due to the lack of segregation of duties and effective mitigating controls, we reviewed all 73 disbursements from our audit period, totaling \$30,905, for adequate support and

for reasonable Department purposes. In general, disbursements were adequately supported and for reasonable Department purposes. However, without properly reviewing and approving all bills before payment, the Board does not have adequate assurance that the purchases were for a valid Department purpose, increasing the risk that Department funds could be used for inappropriate purposes.

Finally, we found that the Board had not adopted a code of ethics as required by law.

## **Recommendations**

The Board should:

1. Amend the bylaws to provide for adequate segregation of duties and oversight.
2. Provide for an effective independent review of the Department's financial transactions.
3. Require that, where there is no other documentation, duplicate receipts be issued for money received including the amount and date.
4. Adopt a code of ethics that sets forth guidance for Department officers and members regarding expected standards of conduct.

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 Painted Post Fire Department for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo  
Deputy Comptroller

## **APPENDIX A**

### **RESPONSE FROM DEPARTMENT OFFICIALS**

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



Painted Post Fire Department  
261 Steuben Street  
Painted Post, NY 14870



November 23, 2016

Office of the State Comptroller  
The Powers Building  
16 W. Main Street, Suite 522  
Rochester, NY 14614

Attn: Mr. Edward V. Grant, Jr., Chief Examiner

RE: Painted Post Fire Department Audit Initial Response

Thank you for taking the time to review our audit with me on November 14, 2016.

We have taken these steps to begin to comply with the audit recommendations.

1. We adopted the recommended accounting procedure for our October Open House fund raiser that your office was able to review and found to be in compliance. We will continue this procedure for all future events.
2. We will purchase and use a duplicate receipt book as recommended and provide a receipt for all donations to fire department.
3. We have informed the membership at the past three monthly meeting that all expenditures of department funds must have membership approval before funds can be disbursed. The secretary is recording authorizations for ease in future account tracking.
4. We are modifying the suggested template for a Code of Ethics for the fire department and anticipate having the membership adopt it before the start of our 2017 fiscal year.
5. We are working with the Village Clerk to comply with the annual audit recommendations that were made. If necessary, will contract with an independent auditor for this service.

We will develop the CAP once the final report has been received.

Respectfully Submitted by;

Dr. Edward A. Franklin Jr.  
President, Painted Post Fire Department