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March 21, 2014

Brian Pendell, President
Members of the Board of Directors
Cortlandville Fire Department
999 New State Route 13
Cortland, NY 13045

Report Number: 2014M-3

Dear Mr. Pendell and Members of the Board of Directors:

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 Cortlandville Fire Department (Department) which addressed the following question:

- Did the Board of Directors implement adequate controls over the Department's financial activities?

We discussed our 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 agreed with our findings and recommendations and indicated that they have initiated, or plan to initiate, corrective action.

Background and Methodology

The Department provides fire protection and rescue operations to the District. The Department has approximately 45 members. Its primary sources of revenue are foreign fire insurance taxes,¹ lottery ticket sales, annual calendar drive donations, swimming pool fill-up profits and general

¹ Any insurance company organized or incorporated outside of New York State which writes fire insurance policies on properties located in the State must pay 2 percent of the premium to the State, to be distributed to certain firefighting organizations.

donations. The Department's revenues totaled approximately \$135,351 and expenses totaled approximately \$236,846 for the 2013 fiscal year.

The Department is operated in accordance with its by-laws and governed by a seven-member Board of Directors (Board) which is responsible for the Department's overall financial management. The Department's members elect a Treasurer who is responsible for the Department's financial duties, which include receiving and disbursing funds with approval from the Department members and maintaining accurate accounting records. The Department also has a Lottery Account Clerk who receives and disburses ticket funds for the Department's lottery, performs related accounting duties and reports the transactions to the Treasurer for entry into the financial software.

We examined the internal controls over the Department's financial operations from January 1, 2012 through November 8, 2013. We interviewed Department officials and reviewed financial records and meeting 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 establishes a system of internal controls comprising policies and procedures that ensure transactions are authorized and properly recorded; that financial reports are accurate, reliable and filed in a timely manner; and that duties are properly segregated so that no one person controls all aspects of a transaction. For example, the same individual should not have custody of Department funds, maintain the financial records and perform reconciliations of the bank statements with the records. If such segregation of duties is not practicable, the Board should implement mitigating controls, such as management reviews. The Board is also responsible for adopting a code of ethics, as required by General Municipal Law, and ensuring that the Department complies with its by-laws. The Department's by-laws require that the Board audit the previous month's receipts, disbursements, account balances, bank statements and any other records as necessary, and that the Board provides a verbal report to the membership at the June and December Department meetings. These audits are especially important if there is a lack of segregation of duties.

The Board did not implement adequate controls over the Department's financial activities, develop adequate policies and procedures or adopt a code of ethics. The by-laws do not include any detailed financial procedures, that would adequately segregate the duties of day-to-day financial operations. As a result, the Treasurer and Lottery Account Clerk perform all their financial duties with little oversight. The Treasurer receives money, prepares and makes deposits, records receipts and disbursements (including lottery ticket funds) in the financial software and prints checks, and has the ability to sign checks. The Treasurer prepares a monthly list of the bills to be paid and presents financial reports to the general membership for acceptance and approval. He also prepares monthly bank reconciliations for the general checking and

foreign fire insurance bank accounts. Similarly, the Lottery Account Clerk collects money, prepares and makes deposits and prepares and signs checks relating to the lottery funds. Although she reports total receipts, disbursements and bank balances to the membership and Treasurer monthly, the concentration of key financial duties with two individuals, without adequate oversight or mitigating controls, increases the risk of errors or irregularities occurring without being detected and corrected. Additionally, we found that, as of November 2013, the Treasurer had not recorded the monthly lottery transactions since February 2013.²

Further, although all Department checks require two signatures, there is no evidence that the Board was consistently auditing the prior month's receipts, disbursements, account balances, bank statements and other records as required by the by-laws. There also was no evidence that the Board consistently reported the results of the audits in June and December to the Department members.

We reviewed 40 check images totaling \$13,582 and 24 electronic disbursements totaling \$13,829 from January 1, 2012 through November 8, 2013. Seven electronic payments did not have adequate supporting documentation for charges of \$2,284. Additionally, we could not find evidence that three electronic payments were approved by the membership. All of these disbursements appeared to be legitimate Department expenditures.

We also compared all recorded receipts to the bank statements and tax return for 2012 and confirmed that all receipts recorded were deposited and reported. Additionally, we reviewed a sample of lottery receipts³ and swimming pool fill-up revenues⁴ for 2013 and ensured that they were properly recorded and deposited.

We discussed other minor deficiencies with Department officials during our fieldwork. They stated that they have established a committee with plans to review and modify the by-laws in January 2014.

Recommendations

1. The Board should adopt detailed written policies and procedures to ensure a strong system of internal controls over the Department's financial operations.
2. The Board should adopt a code of ethics as required by law.
3. To reduce the risk associated with a lack of segregation of duties, the Board should implement mitigating controls over the Treasurer's and Lottery Account Clerk's financial

² As of November 2013, the Treasurer's last lottery transaction recorded in the financial records was dated February 28, 2013.

³ We reviewed lottery records for the month of May 2012 (which had the largest amount of recorded receipts) and for the same month in the following year (May 2013) to verify that these receipts were recorded and deposited.

⁴ We obtained the swimming pool fill-up requests for the 2013 fiscal year through November 8, 2013 and compared them to the amounts recorded. We also reviewed receipts for July and August 2013 to verify that they were recorded and deposited.

activities, such as reviewing monthly financial reports (including the approved list of bills) and comparing these reports to the bank statements and canceled check images.

4. The Treasurer should record all transactions in a timely manner.
5. The Board should comply with the Department's by-laws by auditing the records monthly and reporting the results of those audits to the membership in June and December.
6. Department officials should ensure that all disbursements are properly supported prior to approval and payment and that the membership's approval of disbursements is noted in the Department minutes.

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 and staff of the Cortlandville 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.

Cortlandville Fire Department Inc.

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March 13, 2014

H. Todd Eames, Chief Examiner
Office of the State Comptroller
Binghamton regional Office
44 Hawley Street
Binghamton, NY13901-4417

RE: RESPONSE TO REPORT NUMBER 2014M-3

Dear Mr. Eames,

The Cortlandville Fire Department Inc. (CVFD) would like to thank your office and its designees for the work they performed throughout the lengthy audit process of our organization's financial records. Through their due diligence they were able to conclude and make recommendations to the department that will enhance the abilities of the members charged with overseeing the fiduciary responsibilities of the Cortlandville Fire Department.

The CVFD has already begun to make the recommended changes to its BYLAWS, policies and procedures that will further increase the strength of our internal financial controls. These changes and additional controls will be detailed in our corrective action plan. We again appreciate the time spent by the OSC personnel and recognize that fact that we need to update and enrich some of our outdated financial controls.

Respectfully yours,

Brian Pendell, President
Cortlandville Fire Department Inc.