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October 2017

John Mase, President
Pine City Volunteer Fire Department, Inc.
1463 Pennsylvania Avenue
P.O. Box 72
Pine City, New York 14871-0072

Report Number: 2017M-140

Dear President Mase and Department Officials:

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 Pine City Volunteer Fire Department, Inc. (Department) which addressed the following question:

- Did Department officials ensure that financial activity was properly recorded and reported, and that Department moneys were safeguarded?

The results of our audit and recommendations have been discussed with Department officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Department officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on the issues raised in the Department's response letter.

Background and Methodology

The Department is a volunteer organization located in the Town of Southport (Town), in Chemung County. The Department is affiliated with the Pine City Fire District and provides fire protection services to the Town. The Department has approximately 35 active members who responded to 198 fire calls in 2016. For 2016 Department revenues were \$57,670 and expenses were \$44,153.

The Department's primary sources of revenues are from fundraising, building and hall rentals, memorials, donations and foreign fire insurance tax¹ moneys.

The Department is operated in accordance with its bylaws and governed by the officers, consisting of a President, Vice-President, Treasurer, Recording Secretary, Financial Secretary and the five-member Board of Directors (Board). The Board and officers are elected by the membership and responsible for the Department's general management. The President is the Department's chief executive officer and the Treasurer is the chief fiscal officer.

We examined the internal controls over the Department's financial operations for the period January 1, 2016 through June 19, 2017. 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

Department officials are responsible for overseeing the Department's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that officials establish a system of internal controls, which consist 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. Finally, the Board must ensure that the Department complies with the NYS General Municipal Law requirement for a code of ethics.

The bylaws stipulate the following: the President is responsible for ensuring the bylaws are properly enforced, the Financial Secretary is responsible for collecting and recording all dues and the Treasurer is responsible for all other financial duties, including receiving and disbursing funds, maintaining accounting records and preparing monthly² and annual financial reports. The Financial Secretary is also required to issue receipts when collecting dues and to receive a receipt from the Treasurer when remitting dues. In addition, the Board shall audit the Treasurer's books once every six months and the membership are responsible for approving all of the Treasurer's disbursements.

While not required by the bylaws, sound business practices require the issuance of duplicate receipts for all collections where no other evidence of receipt exists, that Department officials physically review bills prior to membership approval and review the bank statements and reconciliations – especially if financial duties are not segregated – to ensure that funds are used for legitimate Department expenses. Department officials must also ensure that all revenues are properly accounted for, recorded and reported.

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

² The monthly report is required to detail all income, expenses and balances on hand at each regular meeting.

The President did not enforce the bylaws and the bylaws did not adequately segregate the Treasurer's duties. In addition, Department officials have not adopted written financial policies or procedures addressing cash receipts, disbursements, claims processing or fundraising accountability. As a result, Department officials did not provide adequate oversight of the Department's financial activities. We identified the following weaknesses:

- Revenues were collected by various Department officials and were not adequately documented to indicate the amount and source of the money received.
- Duplicate receipts were not issued for any collections or remittances.
- The Treasurer's duties were not segregated as he made all deposits, performed all recordkeeping functions, paid all claims and prepared bank reconciliations without independent oversight.
- The Treasurer did not file an annual report of revenue and expenses with the Secretary as required.
- The Treasurer provided monthly oral, rather than written, reports to the membership of revenues, bills to be paid and cash balances, but individual claims were not reviewed prior to the payment approval.
- The Board did not perform an audit of the Treasurer's records even though an audit is required every six months.
- The Department does not have a code of ethics as required by statute.³
- The Department did not obtain required licensing for its games of chance, purchase dispensing machines and bell jar tickets from licensed vendors, maintain records and report the results to the NYS Racing and Wagering Board as required.

Due to these deficiencies, there is an increased risk that errors and irregularities may occur and go undetected and uncorrected in a timely manner.

We reviewed the Treasurer's records for the period January 1, 2016 through May 16, 2017. We found that he maintained appropriate financial records of the receipts and disbursements. When the financial record information was compared to the bank statements, the activity appeared to be accurate and reasonable. However, we were unable to determine if the 227 disbursements totaling \$55,513 were authorized because the monthly meeting minutes did not include any specific information, such as the vendors and amounts approved for payment. Further, 33 disbursements totaling \$4,024⁴ did not have proper supporting documentation. However, the disbursements appeared to be appropriate Department expenses.

³ When we requested the Department's code of ethics, we were given the Pine City Fire District's code of ethics.

⁴ Disbursements included food purchases, such as pizza, vending machine items and janitorial services.

While all recorded receipts totaling \$71,929⁵ were deposited, we were unable to verify that the amount recorded included all revenues received because duplicate receipts were not issued for any collection or remittance, there was no building rental agreement with the Pine City Fire District, fundraising reports were not prepared for all activities and those that were prepared were inadequate and hall rental agreements were not submitted with remittances to the Treasurer. For example, the fundraising reports did not include the number of tickets or items sold. Further, although Department officials indicated that press-numbered tickets were sold for 50/50 and ham and turkey raffles, no one retained records documenting the number of tickets purchased or remaining at the end of the event. Without this documentation, the risk of loss or theft increases.

Recently, Department officials have started to implement corrective measures. At the June 2017 chicken barbecue, the Treasurer documented the number of items sold and provided detail for the related expenses, such as whether they were paid by check or cash, and the amount of the total deposit. However, officials did not have at least two people on hand to count the cash and certify how much money was remitted to the Treasurer.

Recommendations

Department officials should:

1. Amend the bylaws to provide for adequate segregation of duties and oversight of the Treasurer's position.
2. Develop and adopt written financial policies and procedures addressing cash receipts, disbursements, claims processing and fundraising accountability.
3. Audit all claims prior to approval and ensure detailed approval is documented in the Board minutes.
4. Adopt a code of ethics that sets forth guidance for Department officers and the membership regarding expected standards of conduct.
5. Ensure adequate documentation, such as duplicate receipts and hall rental agreements, is maintained for all moneys collected.
6. Obtain the required licensing for its games of chance, purchase gaming supplies from licensed vendors, maintain records and report the results to the NYS Racing and Wagering Board as required.

The Board should:

7. Perform a biannual audit of the Treasurer's books as required by the bylaws.

⁵ The total deposits included \$2,700 in startup funds. Therefore, total revenues were \$69,229, which included \$32,825 from fundraising activities, \$23,800 in rent from the Pine City Fire District, \$4,585 in memorials and donations, \$3,515 in foreign fire insurance proceeds, \$2,238 in vending machine sales, \$1,772 in miscellaneous revenue, \$350 in hall rentals, \$72 in dues and \$72 in interest.

8. Develop and enter into a written rental agreement with the Pine City Fire District that indicates at the least, the contract period, responsibilities of each party and the basis for compensation.

The President should:

9. Enforce the Department's bylaws.

The Treasurer should:

10. Submit an annual report of all revenues and expenses with the Secretary as required in the bylaws.
11. Provide Department officials and the membership with written monthly reports that detail information for receipts and disbursements.

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 Department officials 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 pages.

PINE CITY VOL. FIRE DEPT., INC.
PO BOX 72
1463 PENN. AVE
PINE CITY, NY 14871-0072

Gabriel F. Deyo
Deputy Controller
Office of the state Comptroller
State Street
Albany, New York 12236

Dear Mr. Deyo,

The Pine City Fire Department has received your Report 2017M-140 dated Aug. 28,2017. We thank you for your report and the recommendations therein. This letter provides our responses to that letter and our action plan for each of the audit findings and related recommendations.

Audit Finding 1: Revenues were collected by various Department officials and were not adequately documented to indicate the amount and source of the money received.

The Pine City Fire Department (the Department) states that all revenues collected by the Treasurer were properly recorded and reflected in its books and records. Indeed, the Department notes that the audit found no evidence of unreported revenues or asset losses during the audit.

See
Note 1
Page 13

The Department believes that the nature and extent of the historical financial documentation of revenues was adequate because it met the requirements of the bylaws and the needs of the membership. Revenues have been reported to the membership at each scheduled meeting, which has been and remains a significant mitigating control with respect to the risk of material unreported revenues or asset losses.

See
Note 2
Page 13

See
Note 3
Page 13

The President and Board nonetheless agree that additional documentation is beneficial, and will provide oversight to strengthen its controls processes to include the following for all cash receipts that are material in amount:

- The Department will require the use of a standard cash count sheet and have two unrelated persons count cash near in time to the receipt of cash at events and other times when cash is collected. Each of the counters will initial the cash count sheet, evidencing their responsibility for the count;
- The Treasurer shall reconcile cash deposited to the cash count sheets;
- The Board of Directors will be responsible for oversight collection of dues and non-revenues. The Board of Directors will accumulate adequate documentation of the cash received including the amount and source of the money received. The Treasurer will reconcile the funds deposited to this documentation.

The Department has already increased the nature and extent of revenue-related documentation. The Department commits to fully implement these improvements to documentation no later than October 15, 2017.

Audit Finding 2: Duplicate receipts were not issued for any collections or remittances.

Recommendation 5: Ensure adequate documentation, such as duplicate receipts, is maintained for all moneys collected.

While the Bylaws require receipts for dues collected from members, the Department has never required the issuance of duplicate receipts, nor do the Bylaws require the issuance of duplicate or single receipts for other collections or remittances. Historically, receipts have been generated whenever requested or required.

See
Note 2
Page 13

The Department states that all revenues collected by the Treasurer were properly recorded and reflected in its books and records. Indeed, the Department notes that the audit found no evidence of unreported revenues or asset losses during the audit.

See
Note 1
Page 13

The Department believes that its historical practices with respect to revenues and receipts were adequate because they met the requirements of the bylaws and the needs of the membership. Revenues have been reported to the membership at each scheduled meeting, which has been and remains a significant mitigating control with respect to the risk of material unreported revenues or asset losses.

See
Note 3
Page 13

The President and Board nonetheless agree that the use of duplicate receipts and improvements in the documentation of revenues collected is beneficial. In effect, Aug 14 2017, the Treasurer will issue duplicate cash receipts for collections and remittance. This requirement, however, will not apply to transactions that are individually immaterial in amount, incidental in nature or otherwise adequately documented.

See
Note 4
Page 13

Audit Finding 3: The Treasurer's duties were not segregated as he made all deposits, performed all recordkeeping functions and prepared bank reconciliations without independent oversight.

Recommendation 1: Department officials should amend the bylaws to provide for adequate segregation of duties and oversight of the Treasurer's position.

The Department acknowledges that the volunteer who serves as Treasurer has performed recordkeeping functions and prepared bank reconciliations, as well as fighting fires and serving in other volunteer capacities. The Department also acknowledges that Treasurer has not had the help of other volunteers in managing deposits and financial recordkeeping functions. However, the Department respectfully disagrees that the Treasurer served without independent oversight.

See
Note 5
Page 13

The Treasurer provides both oral and written financial reports, including periodic revenues, expenses and the balances of assets and liabilities. These are provided to the officers and the

See
Note 6
Page 13

membership at each regularly scheduled meeting. The written financial report is filed with the minutes of the meeting. These minutes are approved at the next meeting. At the meeting, members have an opportunity to ask questions or request additional information. This oversight by the membership and the officers is regular and timely. This process has been and remains a significant control with respect to the risk of material unreported revenues or asset losses.

The President and Board nonetheless agree that additional oversight and support of the Treasurer is beneficial. To enhance the segregation of duties, no later than the October 2017, the Board of Directors will review the bank reconciliations each month. In addition, to more clearly document the completion of the monthly oversight, the Treasurer will distribute a written financial report to the members, including a detailed list of disbursements, and a list of bills to be approved for payment at each regularly scheduled meeting. The Department will continue to include this financial report in its minutes.

Audit Finding 4: The Treasurer did not file an annual report of revenue and expenses with the Secretary as required.

Recommendation 10: The Treasurer should submit an annual report of all revenues and expenses with the Secretary as required in the bylaws.

The Department agrees that no single, formal annual report was filed with the Secretary. However, the Department respectfully asserts that all the information required in an annual report was provided to the Officers and membership on a monthly basis. The cumulative annual report was not requested of the Treasurer, as this information had already been provided on a more timely basis.

Beginning no later than the year end 2017, the Treasurer will generate and the Secretary will file a cumulative annual report, in addition to the monthly reports currently included in the minutes.

Audit Finding 5: The Treasurer provided monthly oral, rather than written, reports to the membership of revenues, bills to be paid and cash balances, but individual claims were not reviewed prior to the payment approval.

Recommendation 11: The Treasurer should provide Department officials and the membership with written monthly reports that detail information for receipts and disbursements.

The Department respectfully disagrees with this finding, because it is factually inaccurate. The Treasurer provides both oral and written financial reports, including periodic revenues, expenses and the balances of assets and liabilities. First, the Treasurer provided an oral report to the officers and the membership, by reference to a written report, at each regularly scheduled meeting. Then, the written financial report was filed with the minutes of the meeting. These minutes are approved by the membership at the following meeting. At the meeting, members have an opportunity to ask questions or request additional information. This oversight by the membership and the officers is regular and timely. This process has been and remains a

See
Note 6
Page 13

See
Note 3
Page 13

significant control with respect to the risk of material unreported revenues or asset losses.

The President and Board nonetheless agree to more clearly document the completion of the monthly oversight by the membership and provide written reports at the same time as the oral report. Beginning no later than September 2017, the Treasurer will distribute a written financial report to the members, including a detailed list of disbursements, at each regularly scheduled meeting. The Department will continue to include this financial report in its minutes.

Audit Finding 6: The Board did not perform an audit of the Treasurer's records even though an audit is required every six months.

Recommendation 7: The Board should perform a bi-annual audit of the Treasurer's books as required by the bylaws

Recommendation 3: Department officials should audit all claims prior to approval and ensure detailed approval is documented in the minutes.

Recommendation 2: Department officials should develop and adopt written financial policies and procedures addressed cash receipts, disbursements, claims processing and fundraising accountability.

While the Bylaws require an "audit" every six months, it is unclear what procedures are required. It would be inefficient and excessive to conduct an audit in compliance with generally accepted government auditing standards. Currently, the Treasurer's financial reports are made at each regularly scheduled meeting, and are subject to the oversight of the membership.

See
Note 7
Page 13

The Department respectfully disagrees that it is effective and efficient to "audit" all claims prior to the approval by the membership. Given the large number of small disbursements, many of which are reasonable, customary and appropriate, we believe that existing review of disbursements at the monthly meeting is appropriate. The Department agrees that increased documentation of disbursements in the monthly financial report is reasonable and appropriate to increase the effectiveness of this control. Effective for the reports after September 1, 2017, the monthly report to the membership will include a detailed list of disbursements.

See
Note 8
Page 14

The President and the Board will implement the following procedures to fulfill the requirement to "audit" in compliance with Bylaw requirements and will consider revisions to the Bylaws to more clearly describe the nature and extent of bi-annual review procedures:

- The President or Vice President and Board of Directors will compare the current periodic financial statements to prior periods, and obtain an understanding of the differences period-to-period;
- The President or Vice President and/or Board of Directors will review the bank reconciliations and confirm the veracity of reported bank balances by reference to supporting documentation from the bank, such as the bank statements;

- The President or Vice President and/or Board of Directors will review the detailed bank statements for the prior six months and the cash disbursement history to scan for inappropriate payments;
- The President or Vice President and/or Board of Directors will select on a judgmental basis, a sample of transactions and review the underlying supporting documentation to ensure that the disbursement is proper and properly recorded. The sample size shall be as large as they believe appropriate in the circumstances, but not less than 5 transactions.
- The President or Vice President and/or Board of Directors will inquire of any other balance or transaction that they deem appropriate in the circumstances, and obtain supporting documentation satisfactory based on their judgment, knowledge of the organization.
- The President or Vice President and/or Board of Directors will report the completion of these procedures at the regularly scheduled meeting of the membership, together a description of significant findings, if any.

Unless and until the Bylaws are revised to more clearly stipulate an “audit” requirement, these procedures will be completed semiannually beginning the period ended December 31, 2017.

See Note 7 Page 13

In addition, no later than January 2018, the President and Board of Directors will prepare written financial policies and procedures addressed cash receipts, disbursements, claims processing and fundraising accountability. These will be presented to the membership for comment and approval.

Audit Finding 7: The Department does not have a code of ethics as required by statute. ³

Recommendation 4: Department officials should adopt a code of ethics that sets forth guidance for Department officers and the membership regarding expected standards of conduct.

The Department is affiliated with the Pine City Fire District and all its volunteer members must comply with the code of ethics of the Pine City Fire District, We erred in the belief that this was our code of ethics

The Department now has its own code of ethics effective Jan 2018

Audit Finding 8: The Department did not obtain required licensing for its games of chance, purchase dispensing machines and bell jar tickets from licensed vendors, maintain records and report the results to the NYS Racing and Wagering Board as required.

Recommendation 6: Department officials should obtain required licensing for its games of chance, purchase dispensing machines and bell jar tickets from licensed vendors, maintain records and report the results to the NYS Racing and Wagering Board as required.

The Department erred in its understanding and compliance with requirements of the NYS Racing and

Wagering Board. Effective immediately upon receiving notice from the auditor of these requirements, the Department ceased games that require licensing.

The Department will, in the future, either change its fundraising practices or fully comply with the requirements of the NYS Racing and Wagering Board.

Recommendation 8: The Board should develop and enter into a written rental agreement with the Pine City Fire District that indicates at the least, the contract period, responsibilities of each party and the basis of compensation.

The Department accepts this recommendation and has written a rental agreement to be approved by both parties no later than December 31, 2017

Recommendation 9: The President should enforce the Department's bylaws.

The Department is comprised of dedicated firefighters who are committed to doing the right thing. The President will enforce the organization's bylaws.

We are pleased that the auditor found that we have maintained appropriate financial records of receipts and disbursements and that, when compared to the bank statements, the activity was found to be accurate and reasonable.

See Note 1 Page 13

We are grateful for the time that the auditor from the Office of Controller spent with our Department and our volunteers, and for the suggestions provided during the course of the audit field work which was executed from May 2017 to August 2017.

Sincerely,

John Mase, President
Pine City Volunteer Fire Department, Inc.

APPENDIX B

OSC COMMENTS ON THE DEPARTMENT'S RESPONSE

Note 1

We were unable to verify that the amounts recorded and reported for revenues and disbursements were accurate and complete because of a lack of supporting documentation.

Note 2

The bylaws require that duplicate receipts be issued for some transactions, which did not occur.

Note 3

Oral financial reports to the Board and membership without verification through a review of supporting documentation, such as bank statements, receipts, claims and fundraising reports, is not a mitigating control.

Note 4

Sound business practices require the issuance of duplicate receipts for all collections where no other evidence of receipt exists, regardless of its amount.

Note 5

Department officials have not adopted financial policies and procedures, conducted required biannual audits, or reviewed supporting documentation to verify the Treasurer's oral or written representations, such as fundraising reports.

Note 6

Multiple Department officials, including the Treasurer, told us that the Treasurer provides an oral Treasurer's report at the meetings. In addition, the Secretary's official meeting minutes did not include a written Treasurer's report.

Note 7

We agree that it would be inefficient to perform an audit in accordance with government audit standards. Therefore, Department officials are responsible for developing adequate audit procedures to verify the accounting records and reports are accurate. At a minimum, an audit should include a review of bank statements, cancelled checks, receipts and fundraising reports as well as supporting documentation. An audit provides the needed oversight when financial duties are not adequately segregated.

Note 8

While not required by the bylaws or statute, it is essential that the Board review and approve bills prior to payment, especially if financial duties are not segregated, to ensure that funds are used for legitimate Department expenditures, regardless of amount. This audit can be done monthly in conjunction with the monthly meeting but it should include a review of the claims and supporting documentation and not simply be looking at a list of proposed payments.