



Sidney Fire Department and Related Fire Companies

Financial Activities

Report of Examination

Period Covered:

January 1, 2013 — April 23, 2014

2014M-213



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2014

Dear Fire Department and Company Officers:

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 to account for and protect their entity's assets.

Following is a report of our audit of the Sidney Fire Department and Related Fire Companies, entitled Financial Activities. This audit was conducted pursuant to Article V, Section 1 of the New York State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for Department officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Sidney Fire Department (Department) is a volunteer organization located in the Village of Sidney (Village) in Delaware County and provides fire protection services to the Village and the Towns of Sidney and Unadilla. The Department disbursed more than \$107,000 during our audit period. The Department's primary sources of revenues are from gaming activities,¹ foreign fire insurance premium tax moneys, fees for services, donations and hall rentals. The Village owns the fire trucks, two fire buildings and related equipment. The Department owns the fire hall, furniture and fixtures.

The Department is governed by a nine-member Board of Directors (Board),² which is responsible for the general management and control of the Department's financial affairs. According to the Department's bylaws, the Treasurer is responsible for the Department's financial duties, which include receiving, disbursing and keeping an accurate account of all Department funds.

There are three Fire Companies (Company) that make up the Department: Cartwright Hook and Ladder #1, Phelps Hose Company #1 and MacDonald Hose Company #2. These three Companies have approximately 70 members who responded to about 200 calls during 2013. The Companies disbursed more than \$37,000 during our audit period. Each Company is governed by the bylaws and supplies the manpower to run Village-owned fire equipment. Each Company's primary sources of revenues are from fund-raising activities and donations.

According to the bylaws, each Company Treasurer is responsible for keeping an accurate account of all cash receipts and disbursements, disbursing all funds authorized by the Company members and reporting to Company members at their regular monthly meetings. Moreover, each Company elects a Company Trustee to represent the Company on the Department's Board. Each Trustee is responsible for auditing the Company Secretary's and Treasurer's records annually.

¹ There are two gaming activities: Bingo and Bell Jar. Each gaming activity has two Trustees who are responsible for counting and depositing cash collections from each gaming activity, submitting weekly and quarterly reports to the New York State Racing and Wagering Board and disbursing funds related to those gaming activities.

² President, Vice President, Fire Chief, Secretary, Treasurer and four Department Trustees (one Trustee from each Fire Company and one Trustee from the emergency service squad)

Objective

The objective of our audit was to evaluate internal controls over selected financial activities. Our audit addressed the following related question:

- Did the Board ensure that cash receipts and disbursements were properly accounted for?

Scope and Methodology

We examined the Department's and Companies' cash receipts, disbursements and accounting records for the period January 1, 2013 through April 23, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Department and Company officers and their comments, which appear in Appendix A, have been considered in preparing this report. Department and Company officers generally agreed with our findings and recommendations and indicated they plan to initiate corrective action.

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 in the Secretary's office.

Financial Activities

The Board is responsible for overseeing the Department's fiscal activities and safeguarding its and each Company's resources. The Board establishes internal controls for the Department and for each Company, as outlined in the bylaws it adopts. These bylaws should establish comprehensive procedures to ensure that all transactions are authorized and properly recorded and that duties are properly segregated so that no one person controls all aspects of a transaction. If such segregation of duties is not possible, the Board should implement mitigating controls, such as reviews of financial records. The Board should also monitor operations to ensure the bylaws are being followed.

The Board did not ensure that cash disbursements and receipts were properly accounted for because it did not implement proper internal controls over the Department and the three Companies. We found that 134 of the Department's and Companies' expenditures totaling \$47,093 lacked sufficient support and/or Board approval to verify that they were appropriate. In addition, the Department's and Companies' records were insufficient for us to determine if the Treasurers deposited all the moneys they collected. If the Board does not improve its controls, the Department's and Companies' funds remain at risk of being used for inappropriate purposes.

Cash Disbursements

The Board and Company members should ensure that disbursements are properly authorized, supported and recorded. The Board should also ensure that the bylaws are written clearly and concisely and describe each job description, along with all related duties. In addition, the Board should ensure that a proper audit is performed by the Trustees and that the Trustees document all issues found during their audit.

Department – The bylaws state that the Treasurer should disburse Department funds under the direction of the Department and present the vouchers at the annual meeting or whenever called upon. The Treasurer is also required to keep an accurate account of funds expended. The bylaws require Department checks to be countersigned by the President or Secretary. The bylaws specify that the Bell Jar and Bingo Trustees are responsible for the operation of the Bell Jar and Bingo games and the Trustees must sign checks for the Department relating to their respective games. Finally, the bylaws require the Trustees to perform an annual audit of the financial records for the Department, Bingo and Bell Jar, and to present the results to the Board.

The Treasurer disbursed 120 Department checks totaling \$58,800, the Bell Jar Trustees disbursed 45 checks totaling \$14,400, and the Bingo Trustees disbursed 106 checks totaling \$34,200 during our audit period. We tested 94 disbursements totaling \$36,562³ and found that, although these disbursements were generally properly recorded in accordance with the bylaws, the Bell Jar account check register for the period prior to January 2014 was missing. Therefore, we were unable to test if any of the \$14,400 in disbursements were recorded. In addition, some disbursements lacked sufficient support to determine whether they were for appropriate Department purposes. These disbursements do not appear to be fraudulent, based on vendor names that seem appropriate for a fire department or company and corroborating evidence from other Company officers. We found discrepancies with 92 disbursements totaling \$36,162:

- We tested 57 disbursements made by the Treasurer totaling \$26,100 and found that the Board did not authorize 55 disbursements totaling \$25,700. In addition, 30 of the unauthorized disbursements totaling \$16,300 were not supported.
- We tested 15 Bell Jar disbursements totaling \$7,600 and found that none were Board approved and one disbursement totaling \$2,216 was not supported.
- We tested 22 Bingo disbursements totaling \$2,862 and found that the Board did not review any of them. However, all of these disbursements were properly supported.

Moreover, while all Department checks did have both the Treasurer's and the President's signatures (as a countersignature), we reviewed the checkbook and found that the President had pre-signed some checks; this circumvents the bylaws requirement. Additionally, while the Treasurer submitted a report to the Board every other month, it did not contain sufficient detail for the Board to verify what checks were issued because just the total disbursements were listed. Finally, the Trustees performed the required annual audit but did not use the bank statements and instead compared the check stubs to the associated invoices. Without a detailed review of the bank statements when completing an audit, errors or irregularities would not have been detected and corrected.

While the Board established some internal controls in its bylaws, certain requirements were not clear, and the Board did not monitor personnel to ensure that they were adhering to the bylaws. For example,

³ See Appendix B, Audit Methodology and Standards, for details on our sample selection

the bylaws did not clearly state that the Board needed to approve the Department-related disbursements and did not specifically discuss approval of the Bell Jar and Bingo funds disbursements.

As a result, there were \$36,162 in disbursements that lacked evidence of Board approval and \$18,516 of these disbursements that were not supported. Without proper oversight, there is a risk that fraud, waste or abuse will go undetected, and disbursements could be made for non-Department purposes.

Fire Companies – The bylaws state that the Treasurer should make all disbursements as authorized by the Company. In addition, the bylaws require the Treasurer to keep an accurate account of money expended and then report a state of finance at each monthly meeting. Finally, the Trustee of each Company is required to perform an annual audit of the records and present the results to the Company membership.

We tested 63 disbursements totaling \$22,700⁴ that were made from the three Companies. In general, the disbursements we tested were properly recorded in accordance with the Department’s bylaws. However, the Phelps Hose Company #1 Treasurer did not always record debit card or external transfer transactions. In addition, for two of the three Companies, some disbursements lacked sufficient support to determine whether they were for appropriate Company purposes. These disbursements do not appear to be fraudulent, based on vendor names that seem appropriate for a fire company and corroborating evidence from other Company officers. In total, we found discrepancies with 42 disbursements totaling \$10,931:

- The Treasurer of the Cartwright Hook and Ladder Company #1 made 23 disbursements totaling \$9,100. We tested all disbursements and found that all contained at least one discrepancy. Specifically, nine totaling \$2,100 were not supported and 17 totaling \$7,500 were not properly authorized.
- The Phelps Hose Company #1 Treasurer made 20 disbursements totaling \$3,800. We tested all disbursements and found discrepancies with 19 totaling \$1,831. Specifically, six totaling \$431 were not supported, and 13 totaling \$1,400 were not properly authorized.
- The Treasurer for MacDonald Hose Company #2 made 95 disbursements totaling \$24,300. We reviewed 20 disbursements totaling \$9,800 and verified that they were properly authorized and supported.

⁴ See Appendix B, Audit Methodology and Standards, for details on our sample selections.

Moreover, we found that the Treasurers for Phelps Hose Company #1 and Cartwright Hook and Ladder #1 submitted a report to the Board monthly. However, it was not clear which disbursements were authorized by the Company for payment because the Treasurer's report did not list in detail the claims to be paid. Further, the Board meeting minutes did not include all approved payments. The Trustees performed the required annual audit but did not use the bank statements. Instead, they compared the check stubs to the associated invoices. Without a detailed review of the bank statements when completing an audit, errors or irregularities would not be detected and corrected.

The Board designed some internal controls in its bylaws but did not monitor personnel to ensure that they were adhering to the bylaws. In addition, the Company Secretaries⁵ and Treasurers did not clearly document the Companies' authorization for certain disbursements. As a result, \$8,900 in disbursements were not properly approved and \$2,531 were not properly supported. Without proper oversight, there is a risk that fraud, waste or abuse will go undetected, and disbursements could be made for non-Company purposes.

Cash Receipts

The Board should ensure that all receipts are collected, deposited and recorded by creating policies and procedures that fit the Department's and Companies' needs while maintaining proper internal and compensating controls. The Board should then monitor operations to ensure that its policies and procedures are being followed.

Department – The bylaws state that the Department Treasurer must receive all moneys paid to the Department and keep an accurate account of the money received. The Trustees are required to perform an annual audit of the records.

The Treasurer did not maintain sufficient documentation for us to verify that all the moneys generated by some of the Department's fund-raising efforts were reported, deposited and recorded properly. For example, no one in the Department could provide supporting documentation, such as a calendar of events or rental applications, to determine how many times the hall was actually rented. Further, the Department did not maintain inventory records of Bingo cards to verify the number of Bingo card sales. However, we did test 42 cash receipts totaling \$33,100, which included Bell Jar, Bingo, foreign fire insurance moneys and contracts with municipalities, and determined that they were properly recorded and deposited in an appropriate bank account.

⁵ This applies to Phelps Hose Company #1 and Cartwright Hook and Ladder #1.

These weaknesses occurred because the bylaws did not provide for sufficient oversight of the sales and cash collection processes. For example, there are no specific requirements such as documents to be maintained or inventory procedures in relation to moneys received. However, the Department has some adequate procedures in place over the deposit of Bingo receipts because two people count money collected, while two different people deposit the money. In addition, while the Department uses cameras to record sales activities for Bingo and Bell Jar moneys, these recordings do not fully mitigate the risks associated with lack of oversight. While the recordings may identify the fault – after a problem is detected – and provide some level of deterrence, absent a review of the entire footage each time, cameras do not serve as a detective control over cash collections.

Without proper controls, the Board cannot ensure that all receipts are properly collected, recorded and deposited.

Fire Companies – The bylaws state that each Company’s Treasurer must keep an accurate account of all receipts, deposit all moneys into the Company’s bank accounts as soon as possible and report on the Company’s state of finances at each regular meeting.

The Companies did not maintain sufficient documentation for us to verify that all the moneys generated by the Department’s fund-raising efforts were reported, deposited and recorded properly. All the moneys we tested totaling \$18,324⁶ that the Companies reported were deposited and recorded, generally. However, we were not able to determine if all receipts collected were reported because the three Companies did not have documentation to support collections:

- Phelps Hose Company #1 uses a boot drive as its main source for reporting fund-raising activities; however, the Company did not maintain documentation for us to determine who collected the funds, the location of the boot drive and how much was collected from each location.
- MacDonald Hose Company #2 holds a barbeque chicken dinner and sells calendars for fund-raising activities. However, the report of sales for the chicken dinner was prepared by the Treasurer (who makes the deposits) and no supporting documentation was provided to validate sales. In addition, there was no documentation maintained to verify calendar sales.

⁶ See Appendix B, Audit Methodology and Standards, for details on our sample selection.

- Cartwright Hook and Ladder #1 uses a turkey raffle for fund-raising activities. Company officials established proper internal controls over cash collected at this event by having multiple people collect cash and prepare the report of sales. However, we were not able to test if all money collected was reported as no supporting documentation was provided to validate sales.

These weaknesses occurred because the bylaws did not provide for sufficient oversight of the sales and cash collection processes. For example, there are no specific requirements such as documents to be maintained or inventory procedures in relation to moneys received. Without proper controls, the Board cannot ensure that all Company receipts are properly collected, recorded and deposited.

Recommendations

The Board should ensure that cash receipts and disbursements are properly accounted for by:

1. Ensuring that its bylaws are clear and address proper internal controls for cash disbursements and receipts for the Department (including Bell Jar and Bingo) and Companies.
2. Ensuring that the Trustees are performing a thorough audit of the Treasurers' records and that the Board receives a written report on the outcome of the audit.
3. Monitoring to ensure that the bylaws are being followed.
4. Ensuring that the approvals of disbursements are properly authorized and noted in the minutes.

The President should:

5. Discontinue the practice of pre-signing checks.

The Treasurers should:

6. Ensure that supporting documentation is maintained on file for all disbursements.
7. Ensure that proper cash receipts documentation is maintained on file.
8. Prepare detailed financial reports providing certain information such as when disbursements were made.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

SIDNEY FIRE DEPARTMENT, INC.

72 River Street
Sidney, New York 13838
Phone 561-2312

October 1, 2014

H. Todd Eames, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901 – 4417

Sir:

The Board of Directors of the Sidney Fire Department, Inc. have reviewed the draft copy of your audit report 2014M-213. We agree with the findings of your audit and are prepared to make all necessary corrections.

We sincerely appreciate your concerns and look forward to working with your office.

Sincerely,

Kevin Maddalone, President
Sidney Fire Department, Inc.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the Department's and Companies' internal controls over financial activities for the period January 1, 2013 through April 23, 2014. To accomplish our objective and to obtain appropriate audit evidence, we performed the following procedures:

Fire Department

- We reviewed the bylaws and Board minutes and interviewed Department officers to gain an understanding over their operations.
- We tested 94 cash disbursements totaling \$36,500 (20 randomly selected and 74 judgmentally selected based on payments to officers and personal use vendors) to determine if they were properly recorded, supported and approved.
- We determined that the Department, Bingo and Bell Jar grossed \$212,200 in cash receipts before Bingo-related disbursements. We tested 42 cash receipts totaling \$33,100 (40 randomly selected within Bingo and Bell Jar and two judgmentally selected from the Department based on moneys received from other municipalities) to determine if cash reported was deposited and recorded.

Fire Companies

- We reviewed Department bylaws and Company minutes and interviewed Company officers to gain an understanding over their operations.
- We tested 63 disbursements totaling \$22,700 (a random sample of 20 for MacDonald Hose Company #2 and 100 percent of disbursements for the other two Companies) to determine if they were properly authorized, recorded and approved.
- For MacDonald Hose Company #2, we tested nine cash receipts totaling \$11,627 (we judgmentally selected 100 percent of those receipts over \$100 that dealt with fund-raising) per the Treasurer's report to determine if all receipts reported were recorded and deposited. For Cartwright Hook & Ladder #1, we traced fund-raising amounts per the Company's spreadsheet (totaling \$6,697) to the deposit per the bank statement to ensure that the amount of cash reported was deposited into its bank account. For Phelps Hose Company #1, we attempted to verify that the money reported at the fund-raising event was deposited; however, no documentation was available to verify the amounts collected.

We conducted this performance audit in accordance with GAGAS. 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.

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