



THOMAS P. DiNAPOLI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

GABRIEL F. DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

March 2017

Mike Davis, President
Members of the Board
Thurston Fire Company
P.O. Box 281
Campbell, New York 14821

Report Number: 2016M-429

Dear President Davis and Members of the Board:

The Office of the State Comptroller works to identify areas where fire company 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 company 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 Thurston Fire Company (Company) which addressed the following question:

- Did the Board ensure that financial activity is properly recorded and reported and that Company moneys are safeguarded?

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

Background and Methodology

The Company provides fire protection services for the Town of Thurston in Steuben County. The Company receives money from fund-raising, foreign fire insurance tax, donations and other activities. For the 2015 fiscal year, the Company's revenues totaled \$2,623 and expenses totaled \$2,233. As of October 31, 2016, the Company's 2016 revenues totaled \$2,119 and expenses totaled \$2,462.

The Company is operated in accordance with its bylaws which stipulate that a Board composed of seven elected members is responsible for the Company's overall financial management. The

membership annually elects a Secretary/Treasurer who acts as the Company's chief fiscal officer. The bylaws state that the Secretary/Treasurer is responsible for the receipt and custody of Company funds, for disbursing and accounting for those funds, for preparing financial reports for the regular meetings and annually and for meeting any other reporting requirements.

We examined the internal controls over the Company's financial operations for the period January 1, 2015 through November 14, 2016. We interviewed Company officials and reviewed financial records and Board minutes. We traced donations and refunds to bank deposits. In addition, we reviewed all disbursements for the period January 1, 2015 through October 31, 2016 to determine if there was adequate support and approval and if they were legitimate Company expenditures. 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 Company's fiscal activities and safeguarding its resources. It is essential that the Board establish internal controls that provide for an adequate segregation of duties or mitigating controls to help ensure transactions are authorized and properly recorded and that financial reports are accurate, reliable and filed in a timely manner. Also, the bylaws indicate that the Secretary/Treasurer shall not make any disbursement unless certified by at least two members of the finance committee, while the Company's bill paying policy states that the membership will vote on the acceptance of the bills at each monthly meeting. In addition, the finance committee must complete an annual audit of the Secretary/Treasurer's books and records and submit an audit report at the January meeting. Finally, the Board must ensure that the Company complies with the New York State General Municipal Law requirement for a code of ethics.

The Board could improve its oversight of the Company's fiscal activities and the safeguarding of its resources. The bylaws do not adequately segregate the Secretary/Treasurer's duties. The Secretary/Treasurer receives all Company moneys, pays all bills, verbally reports the Company's financial status at regular Company meetings and keeps a record of the Company's monthly meeting minutes. Although the Secretary/Treasurer read the paid bills to the membership each month for approval, no review of the vouchers, invoices or bank statements was made by members of the finance committee prior to payment. In addition, the finance committee did not complete an annual audit of the Secretary/Treasurer's books and records in January 2015 or 2016.

Also, the adopted policies for credit cards, procurement and bill paying were inadequate. For example, although the credit card policy includes a \$50 threshold, it lacks a requirement for receipts and procedures for monitoring credit card use to promote accountability and responsibility. The procurement policy does not include thresholds or information required to be obtained, such as verbal or written quotes. Finally, we could not confirm whether the Board has adopted a code of ethics to guide officers and members regarding expected standards of conduct. Although we were given a code of ethics, it was a copy of the Thurston Fire District's code of ethics and had not even been minimally modified to delete "District" and replace it with "Company" and there was no evidence that the code was adopted by the Company. Furthermore, because of the various close personal and family relationships of the Board that might present

opportunities to circumvent internal controls or exploit inadequate controls, additional oversight is necessary. In such a situation, even if collusion is not present, exercising an appropriate level of skepticism when considering the risk of fraud may be difficult. Therefore, it is imperative that management monitor performance regularly and, where possible, bring in someone independent to assist. Without adequate policies, members are unsure of their responsibilities and controls are weakened.

We reviewed all 56 Company disbursements from our audit period totaling \$4,695. Thirty-nine disbursements totaling \$3,274 were made using the Company debit card and 17 disbursements totaling \$1,421 were paid by check. Further, 23 of the debit card purchases totaling \$1,893 exceeded the \$50 threshold in the credit card policy. Although 39 disbursements totaling \$3,727 were approved by the membership, 26 purchases totaling \$1,975 were approved after the purchases were made. In addition, 17 disbursements totaling \$968 were not approved by the membership at all. Finally, seven disbursements totaling \$606 did not have adequate support such as an itemized receipt to allow for a determination as to whether they were appropriate. Furthermore, based on the vendors involved, the purchases were questionable.

Without an adequate segregation of duties or mitigating controls, annual audits, adequate policies, a code of ethics and proper reviews and approvals of bills before payment, there is an increased risk that Company funds could be used for inappropriate or illegitimate purposes.

Recommendations

The Board should:

1. Ensure that the Secretary/Treasurer does not make disbursements unless they are certified by at least two members of the finance committee and have adequate support.
2. Ensure the finance committee completes an annual audit of the Secretary/Treasurer's books and records.
3. Update Company policies to ensure they are adequate. Examples include a requirement for credit card receipts, procedures for monitoring credit card use, procurement thresholds and verbal or written quotes.
4. Ensure that the updated policies are followed.
5. Design and explicitly adopt a code of ethics that sets forth guidance for its officers and members on the standards of conduct reasonably expected of them and ensures, to the extent possible, the appearance of self-interest, partiality or economic impropriety is avoided.

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 Thurston Fire Company for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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

Thurston Fire Company Inc
7475 County Route 333
PO Box 281
Campbell NY 14821

March 5, 2017

Office of The New York State Comptroller
Division of Local Government and School Accountability
Rochester Regional Office
Edward V Grant Jr., Chief Examiner
The Powers Building
16 West Main Street – Suite 522
Rochester, NY 14614-1608

This is in response to the Audit conducted for our Fire Company. Report number 2016M-429.

We agree with most of your findings in the audit. We agree that we as the Fire Company Board must up-date the policies and By-Laws to reflect that the Secretary and Treasurer positions are independent of each other and must be more specific in each of the prospective duties. We also agree that the previous mentioned items must be up-dated as there are contradictions in the By-Laws of purchasing/paying procedures and therefore contradictions in our written policies on this. We are also working on getting a better system in place for auditing the Treasurers books. We will also work on clarifying better internal controls as to financial spending. As to the comment that some of the vendors involved in the purchases are questionable; we usually have approximately a combined \$2000.00 in our accounts at any one time. We spend this on snacks, drinks, cleaning supplies, clerical supplies and other small miscellaneous items for the Fire Company. Therefor most of our receipts show grocery/department store purchases. Our Fire District covers all other financial items. As for the reference that we do not have a code of ethics, we as a Board strongly disagree with your findings. We have adopted a code of ethics that the Thurston Fire District accepted and adopted. It is based on the model code that New York State set forth. It was adopted in 2007. We will send in a Corrective Action Plan within the time specified.

See
Note 1
Page 7

Michael Davis
President
Thurston Fire Company Inc

APPENDIX B

OSC COMMENT ON THE COMPANY'S RESPONSE

Note 1

We have modified our report to more clearly state our concerns with the Company's ethics policy.