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December 2015

Paul Wheeler, Board President
Copenhagen Fire Department
P.O. Box 364
Copenhagen, NY 13626

Report Number: 2015M-270

Dear Mr. Wheeler 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 Copenhagen Fire Department (Department) which addressed the following question:

- Are Department controls adequate to ensure that financial activity is properly recorded and reported and that Department money is safeguarded?

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 agreed with our recommendations and plan to take corrective action.

Background and Methodology

The Department is affiliated with the Village of Copenhagen (Village) and is located in the Town of Denmark in Lewis County. The Department contracts with the Village as well as the Towns of Denmark, Champion, Harrisburg and Pinckney to provide fire protection services. The Department also receives revenue from fundraising, foreign fire insurance premiums and hall rentals. For the 2014 year, the Department's revenues totaled \$145,500 and expenses were \$171,620. The Department has a Drill Team whose major source of revenue is from various fundraising activities held throughout the year. The Drill Team's chief financial officer (CFO) maintains and accounts

for the Drill Team's money separately from other Department operational funds. For 2014, Drill Team revenues totaled \$25,400 and expenses were \$24,240.¹

The Department's Board of Directors (Board) is composed of 13 elected members and is responsible for the overall financial management and safeguarding of Department resources. The Board elects a President, Treasurer and Secretary. The Treasurer acts as the Department's chief fiscal officer and, according to the Department's bylaws, is responsible for the receipt and custody of all Department funds (except for those of the Drill Team), disbursing and accounting for those funds and preparing monthly and annual financial reports. The Secretary is responsible for keeping a complete and accurate record of each Board meeting and all Board-adopted rules and regulations.

Department bylaws do not identify Drill Team officers or functions. Department officials told us that Drill Team members must be either current or retired Department members. One of the Drill Team's three elected Captains serves as the Drill Team's CFO and is responsible for receiving and disbursing Drill Team funds and preparing a monthly report. The Drill Team has no separate bylaws and maintains its own bank account separate from the accounts maintained by the Treasurer.

We examined the internal controls over the Department's financial operations for the period January 1, 2014 through July 31, 2015. 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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not our intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Audit Results

The Board is responsible for establishing policies and procedures that help ensure cash is properly safeguarded and transactions are authorized and properly recorded in the Department's accounting records. Board oversight becomes particularly important in smaller departments which may not have an adequate system of controls because one individual is asked to perform duties that should optimally be segregated. Duties are not adequately segregated when one person performs several key functions, such as receiving and disbursing cash, maintaining the accounting records and performing bank reconciliations. If such a segregation of duties is not practical, the Board should implement compensating controls, such as reviewing monthly bank reconciliations and annually auditing the financial records to ensure that funds are used for legitimate Department expenses and properly accounted for and reported.

¹ In addition to the \$24,240 in expenses recorded for the Drill Team, the Department paid about \$1,300 out of its main operating fund for the insurance on Drill Team vehicles and fuel used to transport vehicles to and from Drill Team events. Also, the Village paid more than \$35,000 to Lewis County for workers' compensation insurance associated with Drill Team activities.

The Board has not established an effective system of controls over the Department's and Drill Team's cash receipt and disbursement activities and has not provided the necessary oversight to mitigate the risk associated with the inadequate segregation of duties performed by the Treasurer and Drill Team CFO. The Board has not adopted policies or procedures addressing cash receipts and disbursements functions performed by the Treasurer and Drill Team CFO and it does not require the review and approval of claims prior to or after payments have been made. Although the Department's bylaws state that an auditing committee consisting of three members shall examine the accounts of the Treasurer and the Drill Team immediately prior to the annual meeting and, additionally, at least once a year, no such audit was conducted during our audit period.

Records and Reports The Department's bylaws require the Treasurer to receive and disburse all money except for that of the Drill Team, maintain the accounting records and prepare and submit monthly financial reports to the Board. The bylaws do not mention a Drill Team CFO and the Board has provided no other job description or list of required duties for this official.

Both the Treasurer and the Drill Team CFO prepare monthly financial reports that detail cash balances and list receipts and disbursements that occurred during the month. The Treasurer maintains computerized accounting records while the Drill Team CFO does not maintain any written accounting records. Furthermore, neither the Treasurer nor the Drill Team CFO prepared monthly bank reconciliations or presented copies of bank statements and canceled checks to the Board for its review. As a result, both individuals are performing their Departmental duties without oversight and could potentially use Department money inappropriately. According to both officials, no one on the Board has ever asked for these records. Lastly, the Treasurer has not filed the required Federal 990 Forms with the Internal Revenue Service (IRS)² and would be hampered in his attempt to do so because the Drill Team CFO does not provide the Treasurer with information pertaining to the Drill Team's financial activity.

Cash Receipts The Board has not established adequate controls to ensure that all money received is properly recorded and deposited. During our audit period, the Treasurer and Drill Team CFO made deposits totaling \$232,241 and \$43,757, respectively, into Department and Drill Team accounts. The Treasurer's deposits consisted primarily of checks issued to the Department by neighboring towns for fire protection and foreign fire insurance money, which we were able to trace to signed contracts and other support. In addition, the Treasurer's deposits include approximately \$33,700 from the Department's annual field days held at the end of July each year.³ The Drill Team deposits consisted mostly of cash and were derived from numerous fundraising events such as snowmobile drag races, horse pulling contests and clambakes.

Because the Board had not established effective cash receipt policies, the Treasurer and Drill Team CFO follow informal procedures for documenting receipts from fundraising activities. For example, the Treasurer records the initial expense (start-up withdrawal of cash from the bank) and then deposits the revenue collected, while the Drill Team CFO prepares summary sheets after major fundraising events, listing the revenues and expenses for each event.

We compared the money received on the Drill Team CFO's summary sheets to deposit records for our audit period and found that they generally matched. However, the Drill Team CFO could not

² Organizations exempt from income tax are required by IRS regulation to file Form 990.

³ The Treasurer deposited approximately \$18,100 in July 2014 and approximately \$15,600 in July 2015.

provide us with summary sheets for three major fundraising events held in February and March of 2015. These events generated deposits totaling approximately \$7,100 according to information on the bank statements. The Drill Team CFO told us that there were no summary sheets for these three events because of a malfunctioning computer. Because neither the Treasurer nor Drill Team CFO use numbered tickets or issue duplicate receipts to track money collected at fundraising events, Department officials are unable to determine if all the money collected at these events was deposited into Department or Drill Team accounts.

Cash Disbursements Controls over cash disbursements also need to be improved. The Treasurer and Drill Team CFO each submit written financial reports to the Secretary at monthly meetings. The Treasurer brings the bills listed on his monthly reports to the meeting and reads them aloud. However, no one actually reviews these bills prior to approving his report. The Drill Team CFO does not bring the bills listed on his report to meetings or describe the purchases for the members. According to Department officials, the Drill Team CFO generally reads aloud cash balances and the total of receipts and disbursements. As a result, there is no assurance that all expenses are legitimate Department or Drill Team expenses. During our audit period, the Department Treasurer and Drill Team CFO disbursed a total of \$261,158 and \$41,939,⁴ respectively, without any review and approval of the actual bills by the Board or the membership.

The Department has four debit cards which are used for various Department purchases throughout the year and are issued to the President, Treasurer, Chief and one other member of the Department. The Drill Team CFO also has a debit card, which he uses for Drill Team purchases.⁵ Similar to disbursements made by check, neither the Board nor the membership review support for any debit card transactions. During our audit period, Department officials made 136 debit card disbursements totaling \$17,618, while the Drill Team CFO made 194 debit card disbursements totaling \$20,070. The use of debit cards has inherent risks because it provides the users with direct access to the Department's bank accounts.

To address these control deficiencies, we selected and reviewed judgmental sample of 115 check disbursements totaling \$83,201 and 31 debit card transactions totaling \$2,966 from the Department's bank accounts maintained by the Treasurer.⁶ We reviewed supporting documentation for each disbursement, such as bills, invoices and vendor statements. We found that these disbursements generally were supported and appeared to be made for Department purposes.

We also reviewed a judgmental sample of 36 disbursements for two months totaling \$4,873 listed on the Drill Team CFO's monthly reports,⁷ consisting of 22 debit card and 14 check disbursements. The Drill Team CFO did not provide any documented support for six of these disbursements

⁴ These totals represent all disbursements, whether by check or debit card.

⁵ Debit card purchases made using the cards issued to the four Department officials are drawn from a Department checking account controlled by the Treasurer. Purchases made using the Drill Team CFO's card are drawn from the Drill Team checking account.

⁶ Our review of the Treasurer's disbursements includes two randomly selected months of disbursements, March 2014 and September 2014; disbursements in January 2015, which were selected during our risk assessment process; and disbursements made per the Department's bank statement from June 6 through July 6, 2014, which we reviewed when we verified data reliability.

⁷ Our review of Drill Team disbursements encompassed April and May 2015. Because the Drill Team CFO does not maintain accounting records, we verified that disbursements reported on his monthly reports were also on the bank statements and that all disbursements reported on the bank statements agreed with his monthly reports.

totaling \$747. The Drill Team CFO provided us with the following verbal explanations for these six items:

- One check for \$300 was written to himself to provide startup money for a fundraising event which he stated he deposited back into the bank after the event was over.⁸
- Two of these checks totaling \$263 were written to an individual as reimbursement for clambake supplies and team jackets purchased.
- One check for \$90 was written to an individual for meat sold at a fundraiser.
- One debit card transaction for \$54 was for the purchase of a hard drive for his computer. (This explanation is consistent with the Drill Team CFO's statement that he was unable to print reports in February and March 2015 because his computer had malfunctioned.)
- One check for \$40 was written to purchase tickets for a fundraiser.

While the Drill Team CFO's explanation for most of these unsupported disbursements appear to be of a similar nature to other disbursements made during our audit period, without the necessary support such as receipts or invoices, Department officials and members could not determine if these disbursements were for appropriate Drill Team purposes.

Since the Board has not adopted and enforced cash receipt and disbursement policies and procedures and has not provided adequate oversight of financial activities, the Board is limited in its ability to monitor operations and ensure that Department money is appropriately spent.

Recommendations

The Board should:

1. Consider assigning the custody of the Drill Team's funds to the Treasurer to ensure that a comprehensive set of accounting records is maintained from which necessary financial reports can be derived. If the Board chooses to continue to have the Drill Team CFO maintain custody of Drill Team funds, then it should require appropriate accounting records.
2. Consider amending the bylaws or developing written policies and procedures to achieve effective controls over cash receipt and disbursement activity. At a minimum, procedures should:
 - Require that cash receipt records be maintained that will enable Department officials to identify the source of all revenues received and implementing

⁸ We reviewed deposits records for that time period and saw a \$300 deposit along with other deposits on the same day. However, the Drill Team CFO was unable to provide us with a summary report for the fundraising event in question. Therefore, Department officials were unable to determine the sources of the deposits made during this time.

procedures to effectively account for fundraising cash receipts and ensure all money collected is deposited timely and intact into Department accounts.

- Require the review and approval of disbursements prior to payment along with the requirement that all claims contain sufficient support to ensure the disbursements are for proper Department purposes.
3. Provide oversight of the duties performed by the Treasurer and Drill Team CFO throughout the year, including a review of all the Department's bank statements, canceled checks, monthly bank reconciliations and other financial records (including those of the Drill Team).
 4. Ensure that an annual audit of the Treasurer's and Drill Team CFO's records is performed by the Audit Committee in accordance with the bylaws.
 5. Ensure that the Treasurer and the Drill Team CFO perform monthly bank reconciliations of all their respective Department-related accounts.
 6. Ensure that the Treasurer prepares and files the annual form 990 (or equivalent) with the IRS.
 7. Consider the use of credit cards in place of debit cards or preauthorize purchases so the Board is able to review and approve purchases prior to paying the related claims.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must 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. The Board should make the CAP available for public review in the Secretary's office.

We thank the officials of the 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.

Copenhagen Fire Department, Inc.



"HOME OF THE CUBS"

Copenhagen, N.H. 13626

December 7, 2015

Office of the State Comptroller
Division of Local Government & School Accountability
PSI - CAP Submission
110 State Street, 12th Floor
Albany, NY 12246

RE: COPENHAGEN FIRE DEPARTMENT, INC.
Audit Report No: 2015M-270

Dear Sir:

The Copenhagen Fire Department accepts and appreciates the findings of the State Comptrollers Auditors, as were outlined in the Audit report.

The Officers/Board of Directors have adopted, by unanimous passing votes of the Membership of our Department, the following Auditor's Recommendations:

Proposal 1. Use Credit Cards versus other means of payment for all purchases, with a sign-in/sign-out spreadsheet with a column for explanation of what the purchase was for and for who;

Proposal 2. Fuel Log Sheet with a spreadsheet to be kept monthly;

Proposal 3. Ticket Counts will be done for every event with a spreadsheet for tallies;

Proposal 4. Revised Function Sheet, to be used for every function held on the premises and off by the CVFD;

Proposal 5. Paid Prior Policy Statement to pay each of the included items, and to add Staples and Credit Card Statements to be sure they are paid on time.

We truly appreciate your time and consideration, and thank you.

Sincerely,

Paul Wheeler
President
Copenhagen Volunteer Fire Department

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