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December 24, 2014

Daniel Baldwin, President
Members of the Executive Board and Board of Directors
Ira Volunteer Fire Department, Inc.
12591 State Route 176
Cato, New York 13033

Report Number: 2014M-266

Dear President Baldwin and Members of the Executive Board and 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 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 Ira Volunteer Fire Department, Inc. (Department) which addressed the following question:

- Are Department controls adequate to ensure that financial activity is properly recorded and reported and that Department moneys are 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 a not-for-profit organization that was incorporated in 1945. The Department, located in the Town of Ira (Town) in Cayuga County, has approximately 40 members and responds to over 100 calls annually. The Town contracts with the Department to provide fire protection services to its residents. The Department's primary sources of revenues are the fire protection contract, foreign fire insurance premium¹ tax moneys and annual fundraising activities. During our

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

audit period, the Department's revenues were approximately \$112,000 in 2012 and \$170,000² in 2013, and its disbursements totaled \$259,333.³

The Department is governed by its Constitution and Bylaws (bylaws), which were last updated in May 2013. The Department's officers are a four-member elected Executive Board (Board), comprised of the President, Vice President, Secretary and Treasurer, and a five-member elected Board of Directors (Directors). The Board and Directors are responsible for the general management and control of the Department's financial affairs. The President is the Department's chief executive officer, while the Treasurer serves as the Department's chief fiscal officer and is responsible for the receipt, custody, disbursement, accounting for and reporting of Department moneys. The Treasurer is required to provide monthly financial reports to the Board, Directors and membership, and is required to present the Department's books and records to the Vice President⁴ and Directors quarterly for audit. In addition, the Department has a Fire Chief who primarily oversees Department operations related to fire and rescue services and is involved in the oversight of Department finances related to these services.

We examined the internal controls over the Department's financial operations for the period January 1, 2012 through March 17, 2014. 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

The Board and Directors are responsible for overseeing the Department's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board and Directors establish a system of internal controls that consists 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. The Board and Directors are also required to adopt a code of ethics that provides standards of conduct and procedures for disclosure of interests.

The bylaws require that purchases are made by purchase order and approved by the President. The bylaws require the Treasurer to pay the bills and do not authorize the Treasurer to spend money unless approved by the Board. The bylaws also require that the Vice President and Directors audit the Department's books and financial records quarterly. While not required by the bylaws or statute, a well-functioning claims audit process, especially if financial duties are not segregated, can help to ensure that funds are used for legitimate Department expenditures. Additionally, the bylaws require that the Treasurer deposit Department moneys within 15 days of receipt.

² Revenues for 2013 include a promissory note (loan) that the Department is paying back, which was used to assist with a large purchase of turnout gear made during this year.

³ Total disbursements are from January 1, 2012 through January 31, 2014. Disbursement information was originally compiled and reviewed prior to bank statements being available or all bills having been paid for February 2014.

⁴ If the Vice President cannot complete a quarterly audit, the President will do so.

The Board and Directors have attempted to provide oversight of Department financial activities, but some of these oversight processes could use improvement. Although the Department's bylaws specifically detail the Board's and Directors' responsibilities and the Treasurer's duties, these guidelines do not adequately segregate the Treasurer's duties. In addition, the Board and Directors have not adopted adequate written policies or procedures addressing cash receipts and disbursements,⁵ procurement or claims processing. As a result, the Treasurer makes all deposits, disburses cash and performs all recordkeeping functions. While the Treasurer provides monthly reports to the Board detailing receipts, disbursements and cash balances, the Treasurer has not prepared proper bank reconciliations. Although we did not find significant deficiencies with the bank reconciliations we performed for the audit period, failure to perform bank reconciliations will allow errors to remain undetected and uncorrected.

The Board minutes noted that the Audit Committee completed quarterly audits; however, there was no formal documentation of the procedures performed during these audits and the records reviewed. Department officials provided consistent explanations of the procedures performed during quarterly audits, but these procedures typically only included the review of cash disbursements;⁶ they did not include a review of cash receipts or deposits. In addition, the Board and Directors have not adopted a code of ethics. The weaknesses in the Board's and Directors' oversight creates a risk that Department resources may not be used for appropriate purposes or that related decisions may not be in the best interest of the general membership.

Due to these deficiencies, we reviewed 574 disbursements totaling \$259,333 for authorization, adequate support, appropriateness and accuracy. We found that disbursements were generally properly supported, recorded and appropriate in relation to Department operations. However, Department officials are not adhering to the purchase order system required by the bylaws, and the Board does not review bills prior to the Treasurer making payment. The membership approves purchases in advance, but the Vice President and Directors review the associated bills and invoices only during quarterly audits, which could be several weeks after a bill was actually paid. This increases the risk that payments could be made for inappropriate purposes and not be detected and corrected in a timely manner.

We also reviewed 123 bank deposits totaling \$282,762 for proper recording, support and timeliness.⁷ In general, deposits were properly recorded in the manual ledger. However, we could not verify that all fundraising proceeds were properly deposited because Department officials did not maintain adequate supporting documentation or complete a secondary review at the conclusion of the events. Although we could not verify that all receipts were deposited, we did check for deposits during the time frames of the fundraising events held during our audit period and determined that associated deposits were made. Of the 44 deposits associated with fundraising events, 12 were made between one to seven days late, based on bylaw requirements. Because Department officials do not issue receipts for collections, we could not determine whether the other 32 deposits were made in a timely manner. We verbally discussed other minor deficiencies with Department officials during the conduct of our fieldwork.

⁵ Including written policies and procedures over credit, debit and purchase cards

⁶ Included review of the following associated records: bank statements, ledger, bills and other supporting documentation

⁷ We reviewed disbursements and deposits were made during the period January 1, 2012 through January 31, 2014. Cash receipts supporting documentation refers to support for collections related to fundraising events.

Recommendations

The Board and Directors should adopt an adequate system of internal controls over Department operations, including:

1. Adopting financial policies and procedures that adequately segregate duties and provide oversight, including policies and procedures related to cash receipts and disbursements, procurement and claims processing. If it is not practical to segregate duties, the Board should establish mitigating controls.
2. Adopting a code of ethics.
3. Implementing a purchase order system, as the bylaws require, and conducting a proper audit of claims prior to approving them for payment.
4. Adequately conducting and documenting quarterly audits of all Department financial activity and records.
5. Implementing a proper system of documentation and review for collections related to fundraising events.

The Treasurer should:

6. Prepare formal bank reconciliations and provide this information to the Board and Directors for review.
7. Ensure that Department moneys collected are deposited within 15 days of receipt, as the bylaws require.

The Board and Directors have 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 and Directors to make this plan available for public review.

We thank the officials of the Ira Volunteer Fire Department, Inc. 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.



[REDACTED]
Cato, NY 13033
315-626-2607
[REDACTED]

12-1-14

To: New York State office of the Comptroller
Albany, New York

Re: Audit results for the IRA Vol. Fire Dept. Inc

Dear Comptroller,

In November of 2014, a meeting was held with members of the IRA Vol. Fire Dept. advising of the results of the Audit by the Comptroller's office in the Spring/Summer of 2014.

The results were read to the members and the findings have been accepted by the members of the Fire Dept. We agree with those results and will be taking steps to correct the items discussed at that meeting.

Thank you very much,

Terry McGillis, Chief
IRA Vol. Fire Dept Inc.
12591 State Route 176
Cato, NY 13033
315-882-5861

Cc: File
Executive Board
Board of Directors