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June 6, 2014

Cheryl Hutchins, President
Members of the Executive Committee
Camillus Volunteer Fire Department
5801 Newport Road
Camillus, NY 13031

Report Number: 2014M-072

Dear Ms. Hutchins and Members of the Executive Committee:

The Office of the State Comptroller works to identify areas where local 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 local 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 Camillus Volunteer 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 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 generally agree with our recommendations and indicated they plan to initiate corrective action.

Background and Methodology

The Camillus Volunteer Fire Department is incorporated under the Not-For-Profit Corporation Law and located in the Town of Camillus (Town) in Onondaga County. The Department provides fire protection to the Village of Camillus (Village) and also to the Town through a fire protection contract. The Village receives revenues for fire protection provided to the Town by the Department. The Department receives moneys from foreign fire insurance taxes, donations, reimbursements from the Village, and other fund raising activities. From January 2012 through October 2013, the Department received \$81,171 and disbursed \$88,514.

The Department is operated in accordance with its bylaws.¹ Department officials informed us that, under the bylaws, an Executive Committee (Committee), consisting of the Department's 16 elected officers, is responsible for the Department's overall financial management. The Department President is the chairman of the Committee. The Department's membership elects a Treasurer who has responsibilities relating to the receipt and custody of Department funds, disbursing and accounting for those funds and preparing monthly financial reports.

We examined internal controls over the Department's financial operations for the period January 1, 2012 through October 31, 2013. We interviewed appropriate Department officials and reviewed financial records and Departmental meeting 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

According to Department officials, the Committee is responsible for overseeing the Department's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Committee establish a system of internal controls, which consists of policies and procedures that ensure transactions are authorized and properly recorded; disbursements are made only for proper purposes; financial reports are accurate, reliable and filed in a timely manner; and the Department complies with its bylaws and other applicable laws, rules and regulations.

Records and Reports – The Treasurer should maintain complete, accurate and timely records to account for all of the Department's financial activities properly. The Treasurer should prepare and submit both monthly and annual reports to the Committee. These reports are an important fiscal tool which provides the Committee with information necessary to monitor Department operations and gives other interested parties a summary of the Department's financial activities.

Department controls are not adequate to ensure that financial activity is properly recorded and reported and that Department moneys are safeguarded. The Department had three Treasurers during our audit period.² The former Treasurers generally recorded the Department's financial activity properly through July 2013. However, at the time of our audit fieldwork, the Department had not maintained accounting records from July 1, 2013 through October 31, 2013 (the end of our audit period). The President informed us that, due to turnover in the Treasurer position, the

¹ Although beyond the scope of this audit, we note that in certain respects the bylaws appear to be inconsistent with Article 10 of the Village Law, the Not-For-Profit Corporation Law and the Department's certificate of incorporation. For example, the Not-For-Profit Corporation Law generally requires a not-for-profit corporation to be managed by its "board of directors," and the Department's certificate of incorporation requires it to have between three and nine "directors," but the bylaws do not vest management of the Department in a board of directors and, in fact, contain no reference to directors. Department officials should consider having the bylaws reviewed by the Department's counsel.

² The first Treasurer served from January 2004 until December 2012. The second Treasurer served from January 2013 and resigned at the end of July 2013. The Department did not have a Treasurer from August 2013 until elections were held on December 5, 2013, when the third Treasurer was elected by the membership.

Department hired an accounting firm to compare bank statement activity to the transactions recorded from January 1, 2012 through June 30, 2013. The firm also had to verify that activity after June 30, 2013 was recorded in the check book (the only accounting record maintained for the period). As of the time of our audit fieldwork, the Department had not received the final report from the accounting firm.

At the monthly Committee meetings, the Treasurer provides the Committee with a verbal report that includes the Department's beginning cash balances, total cash received and expended and ending cash balances; however, the Treasurer does not provide the Committee with monthly or annual written financial reports. In addition, while the bylaws require the Auditing Committee to examine the Treasurer's accounts on a monthly basis and to report on them at the next monthly meeting, Department officials provided no evidence that the Auditing Committee routinely reviewed the Treasurer's monthly bank statements, canceled checks and bank reconciliations to verify that bank account balances agreed with the records and transactions were appropriate.

Cash Disbursements – The Department's bylaws state that all bills against the Department shall be referred to a two-member Auditing Committee for consideration before being acted upon. The bylaws, however, are unclear as to what action the Auditing Committee is supposed to take after considering the bills referred to it. The bylaws also state that the Treasurer shall make no disbursements until bills are approved by Department vote, and they require that vouchers for such disbursements be signed by the President and Secretary. The bylaws are unclear as to what point in the disbursement process the President and Secretary are required to sign the vouchers. Because the bylaws are unclear on these important points, Department officials do not have specific guidelines regarding their disbursements responsibilities, which increases the risk that errors or irregularities can occur without detection or correction.

To determine if Department officials complied with the cash disbursement procedures set forth in the Department's bylaws, we reviewed the minutes of 19 monthly Department meetings.³ The minutes for five months stated that bills were approved by the membership but there was no written evidence (e.g., initials or signatures of Auditing Committee members on vouchers) that the Auditing Committee had reviewed any bills during the period. The President told us that, prior to each meeting, he asks the members of the Auditing Committee if there are any problems with bills that were submitted to them prior to the vote by Department members, but he does not share the results of the Auditing Committee's review with the general membership.

Moreover, the Department made 282 debit card purchases totaling \$29,724 during our audit period. Debit cards are a more risky means of purchasing and they violate the Department's bylaws because purchases are made before approval is given. Credit cards would provide greater control because the bills could go through the Department's approval process prior to payment, while debit cards allow for cash to be directly withdrawn from the Department's bank account.

We reviewed two randomly selected months of Department disbursements consisting of 29 vouchers totaling \$12,781 to determine if these bills contained adequate support, were made for proper Department purposes and were approved prior to payment. Six vouchers totaling \$1,275 did not contain receipts or other supporting documents; 28 vouchers totaling \$12,711 did not

³ Our audit period consisted of 22 months. However, Department officials were unable to provide us with the minutes for three of these months: June 2012, July 2012 and February 2013.

contain evidence of being approved for payment by Department members (approval was not documented in the minutes of the membership meeting); and none were signed by the President and Secretary as required.

We also reviewed 13 cash withdrawals totaling \$7,273 and seven transfers totaling \$9,267 during our audit period. All of the transfers were supported by a corresponding deposit into another Department bank account. However, there was no supporting documentation on file to explain the purpose of 12 cash withdrawals totaling \$1,923.⁴ Although the President provided reasonable verbal explanations that four of these withdrawals totaling \$1,168 were made for Department events and participation in community events, he could offer no explanation for eight withdrawals totaling \$755 and there was no documentation on file to show who made these withdrawals.

Food and Meal Purchases – The Department provides meals to members who volunteer to stay at the station during the day or night to respond to fire calls. The Department generally has two volunteer crews each week for this purpose. One of these crews is known as the E-94 Crew and the other is known as the Standby Crew. According to the President, the E-94 crew is a group of Department members who volunteer to stay at the station during the day on Mondays so that they may immediately respond to local fire calls. Other area fire departments have similar crews who stay at their respective stations ready to take calls during the rest of the work week.

The Department's Standby Crew is composed of Department members who volunteer to stay ready at the station during other times of the week for a number of reasons including times when covering for another local department while that department attends a function or is actively fighting a fire, when weather conditions may prevent members from getting to the fire station quickly when responding to a call, or when a large number of members are on vacation, out of town or attending a function. According to the President, volunteering for the E-94 and Standby Crews is open to all members. The Department did not retain records of those members who were part of these crews during our audit period.

The President stated that, for both the E-94 and the Standby Crews, it is the Department's practice to provide a meal to members who have volunteered their time. Meals may be purchased using a Department debit card or by check from the Department's general checking account. In total, the Department disbursed \$13,007 for meals at restaurants during our audit period.⁵ The Department's debit card was used on 138 occasions totaling \$10,795 for purchases of food at local restaurants. The Department also issued 11 checks totaling \$2,212 for food purchases at restaurants. We examined a random sample of 22 claims and supporting documents related to food purchases totaling \$2,143 and found that five of these claims (34 percent) totaling \$499 did not contain receipts or other supporting documents. For the other 17 claims that did contain receipts, there was no list of the Department members who were provided food. Since the Department does not retain a record of which of its members were part of the E-94 or Standby Crews, Department officials have no way of determining if these meals were only for Department members and for a Department purpose.

⁴ We identified an additional \$5,350 cash withdrawal that lacked adequate support. This withdrawal is addressed later in the report under "Foreign Fire Insurance Money."

⁵ The President told us that they took the fire vehicles to restaurants when eating out and that, if called to a fire, the server would keep the food warm for them until they got back.

Finally, to the extent that the E-94 and Standby Crews are supposed to stay at the fire station to shorten response times, expenditures of Department moneys for meals consumed at restaurants could very well be inconsistent with this purpose. Meals consumed at restaurants could serve to delay the crews' response times if, in the event of an emergency call during a meal, it was necessary for the crew to return to the fire station before responding to the call.

Foreign Fire Insurance Money – New York State imposes a tax on fire insurance policy premiums paid by “foreign” and “alien” insurers.⁶ As a rule, fire departments are entitled to receive the tax collected from the area they protect. These moneys may be expended for any purpose which the members of the fire department, and the fire department or municipal treasurer having custody of the moneys, determine to be for the use and benefit of the fire department. It is improper for a fire department to make direct cash payments of foreign fire insurance tax moneys to individual firefighters for their personal use.

The Department maintains a separate bank account for moneys received from the foreign fire insurance tax. During our audit period, the Department received \$38,694 in foreign fire insurance tax revenues and disbursed \$52,873 of its foreign fire insurance moneys. We reviewed the Department's foreign fire insurance disbursement records from January 2012 through October 2013 to determine if the expenditures made during this period were for proper purposes. We found questionable disbursements totaling \$9,400 and another questionable disbursement of \$920 of general fund moneys, as discussed in more detail below.

In June 2012, the Department wrote 27 checks totaling \$4,050 to Department members who planned to attend the 2012 New York State Association of Fire Chiefs (NYS AFC) Conference. Check amounts were determined based on rank or standing in the Department, with Chiefs and Executive Officers receiving \$250, Captains receiving \$200, Lieutenants receiving \$150 and other members receiving \$100. In June 2013, a cash withdrawal of \$5,350 was made and distributed to Department members who planned to attend the 2013 NYSAFC Conference. Distribution of this money was also based on rank or position within the Department. Chiefs received \$750, Captains and Executive Officers received \$250, Lieutenants received \$200 and other members received \$100.

According to the minutes of Department meetings, those receiving conference moneys could use it for purchasing items at the conference such as food, tee shirts and jackets. The President further explained that, in addition to the food and clothing items that were allowed to be purchased, it was also understood that funds could be used for incidental items such as registration fees,⁷ fuel, tolls and equipment items for sale at the conference. According to the President, those receiving checks and cash payments for attending these conferences were supposed to present receipts at the monthly meeting following the conference to prove that they

⁶ A “foreign insurer” is an insurer organized under the laws of another state; an “alien insurer” is an insurer incorporated or organized under the laws of a foreign nation or of any province or territory not included under the definition of “foreign insurer.”

⁷ Registration fees generally ranged from \$5 for general one-day admission to \$80 for full four-day registration; however, many fire exhibitors at this conference provide free admission tickets to members of fire departments wanting to attend.

attended. If a member spent less than the amount that they were given, they were not required to return the rest of the money to the Department.⁸

While it would be permissible for the Department to use foreign fire insurance tax moneys to pay actual and necessary expenses for Department members to formally or informally attend the NYSAFC conference, in this case the members were given direct cash payments (not as reimbursement), and the cash payments could have been used for personal expenses or retained for personal use. Because there are no records showing how the money was spent by the members, Department officials have no way to determine how much of the \$9,400 paid to members was a legitimate use of the foreign fire insurance money and how much may have been used for personal expenses.⁹

In addition to the foreign fire insurance moneys provided to the Chiefs each year by the Department (\$250 in 2012 and \$750 in 2013), the Village also provided two Chiefs with a check for \$1,000 each in 2012 and three Chiefs with a check for \$1,000 each in 2013 to be used for expenses incurred at the NYSAFC Conference each year. Each Chief was issued a letter from the Village detailing how the advanced money could be spent and instructing them to return all unspent money, along with receipts for expended moneys, to the Village within two weeks of the end of the conference. In May 2013 (nearly a year after the 2012 conference), the two Chiefs provided the Village with \$1,080 in receipts to show the moneys they expended during the 2012 conference. The Department then reimbursed the Village the remaining \$920 the Chiefs had received in their advances, using the Department's general fund moneys. We found no evidence in the minutes that the Department membership approved this payment, as required. Given that the Chiefs did not have receipts showing \$920 was used for expenditures related to the Department, we question why the Department reimbursed the Village for the unused advance rather than requiring the Chiefs to repay the moneys with their personal funds.¹⁰

We discussed other minor deficiencies with Department officials during the conduct of our fieldwork.

Recommendations

1. The Committee should ensure that the Treasurer maintains complete, accurate and timely records.
2. The Treasurer should prepare and submit monthly and annual financial reports to the Committee.
3. The Committee should consider using credit cards in place of debit cards.

⁸ Department officials did not retain any documentation showing who actually attended the conference.

⁹ In September 2013, the Department transferred \$3,685 from its general bank account, as a partial reimbursement, into the foreign fire insurance bank account for the funds used at the fire conferences in 2013 and 2012. The President told us that the \$3,685 transfer was intended to reimburse the foreign fire insurance bank account for funds distributed in excess of \$100 per member for the conferences since the membership believed that there should not have been any payment differentials based on rank.

¹⁰ The Chiefs settled the advances they received for the 2013 conference in June 2013, prior to the start of our audit. They supplied receipts to the Village showing they expended \$1,639 during the conference and returned their respective unexpended moneys totaling \$1,361 directly to the Village.

4. The Committee should review the cash disbursement procedures in the Department's bylaws and consider amending the bylaws to clarify the procedures relating to:
 - The approval of vouchers by the President and Secretary before referral to the Auditing Committee,
 - The review of vouchers by the Audit Committee prior to submitting them for approval by the Department's membership and
 - Recording by the Secretary in the minutes of all actions taken by the membership in connection with vouchers presented for payment.
5. The Committee should ensure that all disbursements are supported by receipts or documentation to adequately explain the purpose of each disbursement. Receipts related to food purchases should include a list of attendees.
6. The Committee should discontinue direct cash payments to members from the Department's foreign fire insurance account.

The Committee 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 Committee to make this plan available for public review.

We thank the officials and staff of the Camillus Fire Department 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 pages.

CAMILLUS VOLUNTEER FIRE DEPARTMENT, INC.
5801 Newport Road
Camillus, New York 13031

May 19, 2014

Gabriel F. Deyo, Deputy Comptroller
State of New York
Office of the State Comptroller, Division of Local
Government and School Accountability
110 State Street
Albany, New York 12236

Re: Report Number: **2014M-072**

Dear Mr. Deyo:

We wish to express our thanks to your Department for the time and professional assistance with the review of our financial records. The Camillus Volunteer Fire Department ("CFD") recognizes the importance of rigorous financial controls.

As your report recognizes "[t]he former CFD Treasurer generally recorded financial activity properly through July 2013." As you noted we were operating without a treasurer for 7 months thereafter. Fortunately we were able to elect a new Treasurer this month, and this new Treasurer has prior experience with the fire department finances and will help to regulate the appropriate policies and procedures.

All monies received for fire protection services provided to the Village of Camillus and the Town of Camillus are held and managed by the Village of Camillus and are not under control of the CFD.

Those funds held by CFD are the foreign fire insurance monies (2% monies) and general fund which are comprised of funding, donations and bequests. The purpose of the 2% monies is restricted to be used for the benefit of the fire department and its members. The NYS Handbook for 2% funds describes the primary uses for these funds to be banquets, picnics, uniforms and other costs which benefit all members.

On average, a member of CFD volunteers twenty hours a week for training and to provide fire and emergency protection to Camillus. There is no monetary personal benefit derived from membership in the CFD.

We are confident that the expenditures under audit were for legitimate and authorized purposes. However, we recognize the importance of internal checks and balances for financial reporting. Our newly elected corporate officers are committed to reinforcing the required policies and procedures.

A corrective action plan will be submitted as directed. The CFD will work with its Fire Commissioners, the Village of Camillus and the Town of Camillus to ensure the public has access to all the reports and Corrective Action Plan.

Again, we thank the State for their guidance throughout this process.

Very truly yours,

Cheryl Hutchins, President
Camillus Volunteer Fire Dept, Inc