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January 31, 2014

Bernard Payne, President  
Members of the Executive Committee  
Lily Dale Volunteer Fire Company, Inc.  
15 South Street  
Lily Dale, NY 14752

Report Number: 2013M-336

Dear Mr. Payne and Members of the Executive Committee:

The Office of the State Comptroller works to identify areas where fire company officials can improve their operations and to 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 Lily Dale Volunteer Fire Company, Inc. (Company) which addressed the following question:

- Are Company controls adequate to ensure that financial activity is properly recorded and reported and that Company moneys are safeguarded?

We discussed the findings and recommendations with Company officials and considered their comments in preparing this report. The Company's response is attached to this report in Appendix A. Company officials agreed with our recommendations and indicated they have already initiated, or plan to initiate, corrective action.

### **Background and Methodology**

The Company is located in the Town of Pomfret, in Chautauqua County. During the fiscal year April 1, 2012 through March 31, 2013, the Company deposited approximately \$34,000 into its bank accounts. The Company contracts with the Town of Pomfret to provide fire protection services and received approximately \$27,000 from the Town for the 2012-13 fiscal year. The Company also receives moneys from fund raising, hall rentals, donations and foreign fire insurance.<sup>1</sup>

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<sup>1</sup> Company expenses included the following major categories: insurance (\$10,900), utilities (\$5,300), supplies (\$5,300), fund raising costs (\$2,400) and annual banquet (\$1,600).

The Company is operated in accordance with its by-laws, which stipulate that an elected Executive Committee, consisting of a President, Vice President, Treasurer, Secretary, Chief, Emergency Management Services Captain and three Directors, is responsible for the Company's overall financial management. The by-laws state that the Treasurer is responsible for the collection of Company moneys and their deposit within three days of receipt. He is also responsible for paying all Company bills when authorized by the Executive Committee and ensuring that no money is withdrawn unless authorized by the Executive Committee. The Treasurer must also keep a correct accounting of Company funds, prepare monthly and annual financial reports and present his records when requested. The by-laws also state that the Directors are responsible for auditing the Treasurer's books and auditing all bills, if they deem necessary.

We examined the internal controls over the Company's financial operations for the period April 1, 2012 through October 10, 2013. We interviewed appropriate Company officials and reviewed financial records and Company 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 Executive Committee is responsible for overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Executive Committee establish a system of internal controls, which consists of policies and procedures that ensure transactions are authorized and properly recorded; that financial reports are accurate, reliable and filed in a timely manner; and that the Company complies with its by-laws and other applicable laws, rules and regulations.

The Treasurer should maintain complete, accurate and timely records to properly account for all of the Company's financial activities. The Treasurer should prepare and submit written monthly and annual reports to the Executive Committee. These reports are an important fiscal tool which provides the Executive Committee with information necessary to monitor Company operations and gives other interested parties a summary of the Company's financial activities. The Directors should approve bills/claims prior to payment to ensure that Company funds are used for only legitimate Company expenditures.

We found that the Executive Committee generally does not provide adequate oversight of Company financial activities because the Treasurer does not provide it with adequate monthly or annual reports. In addition, the Treasurer was unable to provide us monthly reports for 10 of the 18 months in our audit period. Without monthly reports, the Executive Committee does not have a means of assessing and monitoring the Fire Company's financial operations.

We reviewed all 226 disbursements totaling \$54,054 made during the period April 1, 2012 through September 17, 2013.<sup>2</sup> While these disbursements appeared to be for legitimate Company purposes, 198 disbursements totaling \$49,682 were not recorded in the Treasurer's report or

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<sup>2</sup> Most recent available bank statement

Company minutes as having been authorized for payment, including \$10,858 for accident and health insurance and \$3,639 to a local grocery store/gas station. We also found that 70 disbursements totaling approximately \$15,000 had no supporting documentation, including \$1,999 to a home improvement store and \$1,215 to an electronics store. These unsupported payments included four checks totaling \$1,770 made payable to “cash”<sup>3</sup> and 15 checks totaling \$3,564 made payable to individuals.<sup>4</sup> In addition, the Treasurer is not monitoring daily cash flow needs in the checking account, which resulted in \$224 in overdraft fees from January 1, 2013 through August 18, 2013. When disbursements are made without proper authorization and appropriate documentation, the risk is increased that payments could be made for other than legitimate Company purposes.

We also reviewed Company receipts totaling \$8,467 that were deposited from April 1, 2013 through September 17, 2013<sup>5</sup> and found that the Treasurer did not include \$5,533 of these receipts in his monthly reports. For example, \$4,045 for fundraising and soda sales was deposited on July 26, 2013 but not included in the July monthly report.

The Treasurer does not prepare an annual report and does not prepare bank reconciliations. We reconciled the Company’s bank accounts at March 31, 2013 and found that the amount totaled \$30,987. However, because this balance included \$28,078 from the Town’s fire protection contract for the 2013 calendar year, the March 31, 2013 cash balance is not a good indicator of the Company’s fiscal health. Therefore, we compared revenues to disbursements for fiscal year 2012-13 and determined that the Company had an operating surplus of \$198. The Treasurer’s failure to prepare an annual report leaves the Company without a means to demonstrate its financial standing to its members and other interested parties. Had the Executive Committee required that the Treasurer prepare monthly and annual financial reports, and had the Directors performed an adequate audit of the Treasurer’s records, they may have identified the discrepancies described in this report.

We discussed other minor deficiencies with Company officials while conducting our fieldwork.

## **Recommendations**

1. The Members should review and authorize all claims prior to payment to ensure that they have supporting documentation and are for legitimate Company purposes. The Treasurer should pay only authorized claims.
2. The Treasurer should prepare and maintain complete and accurate records, including preparing monthly bank reconciliations.
3. The Directors should audit the Treasurer’s records at least annually, as authorized in the by-laws.

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<sup>3</sup> Notations on the checks indicated two were for fund raiser start-up money, one was for repairs and one was for petty cash.

<sup>4</sup> Included a \$500 loan to a member of the Company that has since been repaid

<sup>5</sup> The portion of the 2013-14 fiscal year for which monthly reports were available at the time of our fieldwork

4. The Executive Committee should ensure that the Treasurer prepares the required written monthly and annual reports.

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

Sincerely,

Gabriel F. Deyo

## **APPENDIX A**

### **RESPONSE FROM COMPANY OFFICIALS**

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

# Lily Dale Volunteer Fire Company Inc.

A Volunteer Company Since 1906  
PO Box 245 East Street Lily Dale, NY 14752-0245  
Non-Emergency Phone: 716-595-3090



January 20, 2014

Mr. Robert E. Meller  
Chief Examiner of Local Government and  
School Accountability  
1032 Ellicott Sq Bldg.  
295 Main St.  
Buffalo, NY 14203

Dear Mr. Meller:

We have reviewed the draft report for the recent audit of the Lily Dale Volunteer Fire Co., Inc. This letter is in response to the recommendations.

All bills are currently reviewed at the membership meetings and approval for payment is by vote of the membership at monthly meetings.

Upon reading the recommendations we feel it is necessary for the fire company to review our by-laws and make such changes as deemed necessary. We will specify under the duties of the Treasurer to maintain complete and accurate records and to require monthly reconciliations.

It will be clarified in the by-laws the prior to the monthly membership meeting the Executive Committee will review all bills presented to the fire company. These claims will then be presented to the membership for final approval to pay the bills.

The by-laws currently require the Treasurer to make a monthly report showing all monies received and all expenditures. The Treasurer is also required to make an annual report. The by-laws will be amended to require the treasurer to make these reports in writing.

The section of the by-laws listing the duties of the Secretary will be amended to require the Secretary to receive all monies and make a receipt stating the amount of money and its' origin. The Secretary will then turn such monies over to the Treasurer, who is required to deposit the money into either the checking or savings account.

The Directors are currently charged with keeping accurate records of all equipment owned by the Fire Company and to audit the accounts of the Treasurer, when deemed necessary.. The by-laws will be amended to require the Directors to conduct an audit of the Treasurer twice every year.

These changes have already been put into practice. By means of amendments to the by-laws these changes will be formally required for all future officers.

Sincerely,

Bernard Payne, *BP*  
President Lily Dale Vol. Fire Co., Inc.