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August 8, 2014

Ann Steimle, President
Members of the Department
Lumberland Fire Department, Inc.
1088 Route 31
Glen Spey, NY 12737

Report Number: 2014M-110

Dear Ms. Steimle and Members of the Department:

The Office of the State Comptroller works to identify areas where local government 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 government 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 Lumberland Fire Department, Inc. (Department) which addressed the following question:

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

The results of our audit have been discussed with Department officials and their comments, which appear in Appendix A, have been considered in preparing this report. Department officials agreed with our findings and indicated they planned to initiate corrective action.

Background and Methodology

The Lumberland Fire Department, Inc. (Department) is a volunteer organization located in the Town of Lumberland in Sullivan County. The Department provides fire protection and emergency services for the Town of Lumberland. The Department collected \$248,000 in 2013.

The Department membership is responsible for the Department's overall financial management. The Department's Executive Officers (Officers) comprise the President, Vice-President and Secretary-Treasurer. The Secretary-Treasurer is responsible for receiving and maintaining custody of Department funds, for disbursing those funds as approved by the Department

membership and the President, accounting for those funds, preparing monthly and annual financial reports as well as meeting any other reporting requirements.

We examined the internal controls over the Department's financial operations for the period January 1, 2013 through March 5, 2014. We interviewed appropriate Department officials and reviewed financial records and 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

The Officers are responsible for overseeing the Department's fiscal activities and safeguarding its resources. To fulfill this duty, the Officers should establish a system of internal controls which consists of policies and procedures that ensure that transactions are properly authorized and recorded, and that the Department complies with the applicable by-laws, rules and regulations.

The Secretary-Treasurer should maintain complete, accurate and timely records to account for all of the Department's financial activities and report these activities to the Department. Department membership should perform a thorough audit of all claims prior to payment to ensure the legitimacy and propriety of those expenditures to safeguard Department funds. A routine Department review of bank statements, monthly bank statement reconciliations and Department records provides an important control over disbursements. Department by-laws state that members must have reasonable access to review financial records. The by-laws also state that the Secretary-Treasurer must have the financial records audited and available for review by June for the Department meeting.

Department officials did not always ensure compliance with the Department's by-laws. In addition, the by-laws assign all of the financial duties to the Secretary-Treasurer. The Department does not provide any oversight of the Secretary-Treasurer's duties, and compensating controls have not been established. The Secretary-Treasurer prepares reconciliations on an infrequent basis¹ and the current Secretary-Treasurer does not maintain adequate accounting records for review, such as financial statements or accounting ledgers. The Department has no process in place for an independent review of bank reconciliations to help mitigate errors or irregularities. The Secretary-Treasurer did not have the books audited for fiscal year 2012. The President indicated that the Department plans to have an audit completed for 2013. However, as of June 3, 2014, the Department has not taken the steps to retain an auditor. According to the Department's by-laws, the audit is to be completed by the June meeting of the following year. As a result, the Department faces an elevated risk of waste, fraud or abuse of Department funds.

¹ The Secretary-Treasurer prepared reconciliations intermittently and in some cases, reconciliations covered two months of transactions.

While the Department adopted by-laws to dictate the manner in which it should conduct operations, Department officials do not provide adequate oversight to ensure the adherence to the procedures prescribed in the by-laws. For example:

- The by-laws require the President to co-sign checks along with the Treasurer for amounts in excess of \$500. We selected 19 checks totaling \$38,123 with amounts greater than \$500 and found the Secretary-Treasurer was the sole signatory of the checks. The President did not sign any of the checks.
- The by-laws also require the Secretary-Treasurer to review all bills and prepare the abstract of bills requiring payment. The Department's membership approves these abstracts for payment. However, no process currently exists to verify the proper payment of all claims approved by the Department, or that the Department has reviewed and approved all the claims paid. For example, no one compares canceled check images to approved payments to ensure that proper parties received payment for the correct amount.

Due to these deficiencies and the lack of segregation of the Secretary-Treasurer's duties, we reviewed 44 payments totaling approximately \$83,790.² One payment for \$36,900 for the purchase of a used ambulance lacked documentation for the amount approved by the membership. We also found six payments totaling \$1,026 paid by the Department either not listed on the abstracts or approved for lesser amounts. The six payments generally appeared to be for proper Department purposes. Four of the 44 payments totaling \$970 lacked proper support, such as an invoice or receipt. The four payments generally appeared to be for proper Department purposes. We also communicated additional minor deficiencies to Department officials.

The Secretary-Treasurer deposited \$247,999 in receipts during the 2013 year. We reviewed supporting documentation for the Town of Lumberland fire protection contract, fundraising events, receipts for various donations, grants and sale of assets totaling \$208,823³ and verified the Secretary-Treasurer properly deposited and recorded the amounts in the accounting records. We could not determine if the Secretary-Treasurer deposited all cash receipts for the 2012 letter campaign, certain donations and grants due to a lack of sufficient detail documentation such as a list of donors and amounts received and applications for grants received.

By not adhering to the approved by-laws and not providing sufficient oversight of the Secretary-Treasurer's financial duties, Department moneys could be used to make inappropriate purchases. When established internal control systems lack sufficiency or do not work properly, Department officials cannot prevent or detect the theft or waste of Department moneys.

Recommendations

Department membership should:

1. Ensure that the Secretary-Treasurer is performing the financial duties defined in the by-laws,

² Samples were selected based on payee name or type of payment.

³ Sufficient documentation was not available, such as a list of donors and amounts received and applications for grants received, to verify the remaining \$39,176 of deposits.

2. Ensure that the Officers establish compensating controls for the Secretary-Treasurer's financial duties,
3. Ensure that the Secretary-Treasurer is reconciling monthly bank statements to verify completeness and timeliness of deposits,
4. Ensure that the Secretary-Treasurer's records are audited in accordance with Department by-laws,
5. Ensure that the President co-signs all checks in excess of \$500,
6. Review check images to ensure payments represent proper Department expenses,
7. Ensure accuracy and completeness of approved abstracts presented to Department membership,
8. Maintain adequate documentation for approved purchases, such as receipts or invoices and
9. Maintain adequate detail documentation of receipts collected and amounts deposited.

Department membership has the responsibility to initiate corrective action. We encourage the Department membership to prepare a plan of action that addresses the recommendations of this report and forward the plan to our office within 90 days. For more information on preparing and filing a corrective action plan (CAP), please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Department officials to make this plan available for public review in the Secretary-Treasurer's office.

We thank the officials of the Lumberland 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 response to this audit from Department officials can be found on the following page.

Lumberland Fire Dept
P.O. Box 91
Glen Spey, N.Y. 12737



July 22, 2014

Gabriel F. Deyo
Deputy Comptroller
110 State ST
Albany, NY 12236

Report 2014M-110

Dear Mr. Deyo and State Members,

Lumberland Fire Department agrees with our areas of weakness and non compliance of certain parts of our policies and procedures. We had explained that we recognized our by laws were not a good fit for Lumberland Fire Dept, and were in the process of re-tooling them. However, we do acknowledge it is our responsibility to have abided by said by laws before amendments were ratified.

Additionally, we acknowledge the position of secretary/treasurer, at the time, had placed too much responsibility and control of the departments finances on one person. However, the benefit for a small department such as ours to have a combined secretary/treasurer position is very beneficial. Your department provided accurate subjective observations and we are/have/will be adjusted our secretary/treasurers policies and procedures.

In response to your draft report we have begun a well thought through formal CAP to your allegations. Some by laws will be changed and this process may take a period of two to three months. Please advise if you would like the CAP in a preliminary (sooner mailed) or finalized state (later mailed). Many of the simple procedures that our secretary/treasurer had been doing were already changed during the audit process based on recommendations. It should be noted that a new secretary/treasurer took oath of office in January of 2013.

The experience we had was positive.

Sincerely,

Ann Steimle
President