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May 8, 2015

Gary Lamar, President
Members of the Executive Board
Shelby Volunteer Fire Company
4618 Alabama Road
Medina, NY 14103

Report Number: 2014M-372

Dear Mr. Lamar and Members of the Executive Board:

The Office of the State Comptroller works to identify areas where fire company 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 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 Shelby Volunteer Fire Company (Company) which addressed the following question:

- Are Company controls adequate to ensure that financial activity is properly recorded and reported and that Company money is 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. Except as specified in Appendix A, Company officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the Company's response letter.

Background and Methodology

The Company is located in the Town of Shelby (Town) in Orleans County. The Company contracts with the Town to provide fire protection services. In 2014, the Town paid the Company \$160,382 pursuant to the contract. The Company also received \$115,687 from fundraising, hall rentals, foreign fire insurance funds and donations. The Company's expenses totaled \$222,263¹ for the 2013 calendar year.

¹ The Company's expenses included building repairs (\$51,441), fundraiser expenses (\$30,211), interest expense (\$23,825), insurance (\$15,344), utilities (\$14,964), equipment repairs (\$12,446) and miscellaneous (\$74,032).

An Executive Board (Board) consisting of 12 elected members is responsible for the Company's overall financial management. The elected Treasurer acts as the Company's chief fiscal officer. The bylaws state that the Treasurer is responsible for the receipt and custody of Company funds, for disbursing and accounting for those funds, for preparing financial reports for the regular meetings and annually, and for meeting any other reporting requirements.

We examined the internal controls over the Company's financial operations for the period January 1, 2013 through July 10, 2014. We interviewed Company 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 is responsible for overseeing the Company's financial activities and safeguarding its resources. To fulfill this duty, the Board should ensure that the Company's bylaw requirements are met, including the requirement that the Board annually audit the Treasurer's records, thereby ensuring that the Treasurer maintains complete, accurate and timely records and reports. The Board should also approve bills/claims prior to payment to ensure that Company funds are used only for legitimate Company purposes. Each fundraiser has a chairperson who is responsible for all finances related to the event. The chairperson should provide the Board with a written accountability of all tickets sold and all fundraising revenue collected and deposited. A timely reconciliation or accountability helps to ensure that Company management is apprised of any differences between ticket sales and deposits of the proceeds of ticket sales. Any differences discovered during this accountability should be investigated and resolved in an appropriate manner. Finally, New York State General Municipal Law requires that the Board adopt a code of ethics.

The Board does not ensure that all financial activity is properly recorded and reported and that money is properly accounted for. As a result, the Treasurer does not prepare and present detailed financial reports to the Board² or reconcile the bank balances to the cashbook balances and present them to the Board in a timely manner.³ In addition, the Board does not perform an annual audit of the Treasurer's records.

We also found that the Board does not properly audit claims. At each meeting, claims to be paid are read aloud to the membership by the Treasurer for approval, but there is no list in the minutes of what claims were approved by the Board. Furthermore, during fundraisers, purchases are made from the collected cash receipts before they are deposited, circumventing the claims approval process. We also found that, while summaries of revenues from fundraisers are prepared by the chairperson and presented to the membership, there is no reconciliation of tickets sold to cash deposited to ensure that all fundraising revenues are accounted for. A reconciliation between ticket

² The bylaws indicate that "the Treasurer shall make a report at each regular meeting, showing all amounts received and expended and the date, purpose, and payee, with respect to each expenditure."

³ The bank reconciliations from July 2013 through October 2013 were prepared on October 14, 2013.

sales and fundraising activities is crucial to safeguarding Company assets.⁴ The Board has also not adopted a code of ethics. Between April and November 2013, the Company paid \$10,714 to a vendor that was owned by the Company president. A written code of ethics would provide clear guidance and ensure transparency for related-party transactions.

We reviewed all disbursements from January 1, 2013 through July 10, 2014, totaling \$359,345. While these disbursements appeared to be for legitimate Company purposes, disbursements totaling \$25,184 had no supporting documentation,⁵ including \$8,081 for fundraising activities, \$7,757 for the annual installation dinner and the remaining \$9,346, which was related to equipment repairs (\$1,645), disability insurance (\$1,382), bell jar expenses (\$904), donations (\$550) and other miscellaneous expenses.

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

Recommendations

The Treasurer should:

1. Prepare and provide written financial reports, including all receipts and disbursements, to the Board.
2. Ensure that all bank reconciliations are prepared in a timely manner and present them to the Board for review.

The Board should:

3. Conduct an annual audit of the Treasurer's financial records.
4. Audit claims, indicate approval of claims to be paid and ensure that approved claims are listed in the official proceedings of the Board.
5. Ensure that all disbursements, including those associated with fundraising activities, are supported by adequate documentation, including receipts, prior to payment.
6. Ensure that the chairperson of each fundraiser properly accounts to the Board for all tickets distributed and sold and demonstrates that all fundraising revenue was properly collected and deposited. Any differences noted after these reconciliations should be investigated and resolved in an appropriate manner.
7. Develop and adopt a code of ethics.

The Board 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

⁴ We did not test ticket sales to determine the reasonableness of revenue deposited because the Company did not keep ticket stubs or any indication of how many tickets were actually sold.

⁵ Supporting documentation includes receipts or invoices related to the purchases.

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 to make this plan available for public review.

We thank the officials and staff of the Shelby Volunteer Fire Company for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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



SHELBY VOLUNTEER FIRE COMPANY INC.

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DEDICATED SERVICE TO OUR COMMUNITY

Jeffery D. Mazula
Chief Examiner of local Government
And School Accountability

We at the Shelby Volunteer Fire Company, Inc. appreciate your input on our financial processes. We agree in part with your findings, however disagree with some as well. A treasurer's report is given at every monthly meeting, however we agree that it should be more in depth and better documented in the minutes of the meeting. We do have a CPA do a cursory audit of our books periodically; however our auditing committee needs to become more active in that role as well.

All of our bills and expenditures are gone over at the executive board meeting on a monthly basis for approval, however we agree that they need to be documented into our meeting minutes better.

In the past the body of our organization has approved, at a monthly meeting, for the chairman to make advance purchases for fundraiser prizes up to a certain amount and the bill be sent to the fire company. Our new system with credit cards will now make the chairman more accountable. The chairman's report should include the number of tickets sold and the amount of money made from those tickets, however we use the ticket stubs for the following years raffle so the sellers can sell the same ticket to the same person.

Although we agree a code of ethics should be put in writing, the disbursement that is mentioned to the former president's company as a vendor was for services performed by that vendor. This was voted on by the body of our organization. It has always been our policy to get three bids for jobs, however three vendors do not always bid the job.

As for the \$25,184 in disbursements not appropriately documented we agree that however they were legitimate expenses, they should have had supporting documentation.

Again we appreciate the effort and the recommendations and will be working on our corrective action plan. Any further recommendations from your office will be welcome.

Respectfully Submitted

Gary Lamar, President
Shelby Volunteer Fire Co., Inc.

See
Note 1
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APPENDIX B

OSC COMMENT ON THE COMPANY'S RESPONSE

Note 1

While the Treasurer presents ending bank balances to the Company at monthly meetings, we did not consider this to be an adequate Treasurer's report. The Board cannot fulfill its responsibility of monitoring financial operations based on the limited information presented. We revised the report to clarify this matter.