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March 14, 2014

Tom Hogle, President
Members of the Board of Directors
Caledonia Fire Department
P.O. Box 1
Caledonia, New York 14423

Report Number: 2013M-356

Dear Mr. Hogle and Members of the 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 those 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 Caledonia Fire Department (Department) which addressed the following question:

- Has the Department's Board of Directors provided adequate oversight of the Department's financial operations to ensure that assets 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. Except as indicated in Appendix A, Department officials generally agreed with our findings and recommendations and indicated they have initiated, or plan to initiate, corrective action.

Background and Methodology

The Caledonia Fire Department is a volunteer organization located in the Town of Caledonia (Town) in Livingston County. The Department is affiliated with the Caledonia Joint Fire District (District) and provides fire protection services to the Town. The Department has approximately 95 active members who responded to about 200 calls during 2012. The Department reported expenditures totaling approximately \$62,500 for the 2012 fiscal year.¹ The Department's primary

¹ This does not include expenses netted against revenues earned for fundraising (\$17,673), gaming (\$7,238) and costs of goods sold (\$28,813).

sources of revenues are from fundraising, gaming activities, sales and foreign fire insurance premium tax² moneys.

The Department is governed by a five-member Board of Directors (Board), which is responsible for the general management and control of the Department's financial affairs. According to the Department's by-laws, the Treasurer is responsible for the Department's financial duties, which include receiving and disbursing funds, maintaining accounting records and preparing an annual financial report. The current department Treasurer has been in the position since 2011.

We examined the internal controls over the Department's financial operations for the period January 1, 2012 through October 16, 2013. 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 is responsible for overseeing the Department's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls which include policies and procedures to ensure that transactions are authorized and properly recorded in a timely manner; that financial reports are accurate, reliable and filed in a timely manner; and that the Department complies with its by-laws and applicable laws, rules and regulations. The Board is also required to adopt a code of ethics that provides standards of conduct and procedures for disclosure of interests.

The Treasurer is responsible for maintaining complete, accurate and timely records to account for all of the Department's financial activities and for preparing and submitting monthly and annual reports to the Board for monitoring Department operations. The Board should also ensure that claims are supported by adequate documentation; review financial records, bank statements and reconciliations; and ensure that funds are used for legitimate Department expenditures. While not required by the by-laws or by statute, it is essential that the Board also review and approve bills prior to payment, especially if financial duties are not segregated.

We found that the Board generally does not provide adequate oversight of Department financial activities, particularly related to policies and procedures, records and reports, and disbursements.

Policies/Procedures and By-Laws – The Department has not adopted any written policies and procedures for financial operations other than the by-laws, which were not adequate or consistently followed. The by-laws, last updated in May 2011, establish responsibilities for the Treasurer, President and other individuals and establish limited guidelines for financial operations. However, the by-laws do not address all areas of financial operations and contain contradictory provisions related to responsibilities for check signing and purchase order (PO)

² 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.

approvals.³ Further, the Department did not consistently comply with the established requirements. For example, the by-laws:

- State that a financial review committee of at least four members shall be appointed by the President annually to review the Department's accounts. They also require that the Treasurer submit books and records by February 15, following the end of the fiscal year, for the Board's financial review. However, the President and Treasurer stated that the Department had no committees, and no financial review of the Treasurer's records was documented.
- Require the Treasurer to make an itemized annual report to present at the annual Department meeting. However, the Treasurer did not prepare an annual financial report.
- State that "a purchasing agent shall be appointed by the President to serve annually from January to December to review each purchase order submitted to verify the need for the requested purchase and sign the purchase order authorizing the purchase." The by-laws also state that the Fire Chief as well as the President and Treasurer or their assistants are ineligible to be the purchasing agent because they also sign the checks, which would eliminate the desired checks and balances from the separation of duties. However, the President has not appointed a purchasing agent and stated that, in fact, the Department's practice was to have the PO signed by the President or the Fire Chief.⁴
- Do not clearly state who should sign disbursement checks or how many signatures are required. Under the President's duties, the by-laws indicate that his should be one of the signatures on all checks. Another provision states that the Treasurer should "pay all bills by check accompanied with a purchase order countersigned by the Fire Chief or President, depending on the fund involved." This provision has caused confusion because it is not clear whether the countersigning requirement refers to the checks or to the POs.
- Do not provide for any detailed audit or review of bills and POs, and the Board members do not, individually or as a whole, approve bills for payment before they are paid. This is a crucial oversight responsibility of the Board, especially given the lack of other adequate controls over financial operations.

The Board also failed to adopt the statutorily required code of ethics to provide standards of conduct and procedures for disclosure of interests. As a result, one Board member did not provide the legally required written disclosure⁵ of his ownership interest in a business to which the Department made three payments totaling \$3,072.

Financial Records and Reports – The Board did not provide adequate oversight of the Treasurer, who was responsible for all financial duties. As a result, the Treasurer did not present to the Board financial records, detailed monthly or annual reports for cash receipts and disbursements, bank statements or reconciliations of the Department's bank accounts. The Treasurer's reports to the Board were limited to a report of bank account cash balances for 13 of the 20 months in our

³ The Department does not use POs for approving purchases before they are made, but as a voucher system for approval of payment after the purchases are made.

⁴ This was the case for the majority of POs that contained signatures.

⁵ The Board member said it was well known that he owned the business.

audit period. From January through August 2012, the Treasurer consistently documented bank reconciliations for two of the Department's seven active monthly-statement bank accounts⁶ and did not document any subsequent bank reconciliations for September 2012 through March 2013.⁷ Further, the Treasurer did not maintain current financial records which, as of July 23, 2013, were completed through part of May 2013. The Treasurer said this was due to his vacation absence during the summer months. The Treasurer also did not include one Department bank account⁸ in the Department's financial records, and there was no available bank documentation for the Department's certificates of deposit, which according to the May 2013 Treasurer's report totaled \$4,384.

Additionally, we found no evidence that the Board prepared or presented an Annual Report of Directors to the membership at the Board's annual meeting, as required by law;⁹ the preparation of such a report would involve a Board review of the Treasurer's annual financial report and accounting records. Lastly, the Department has not filed the required foreign fire insurance tax report¹⁰ because the Board and Treasurer were unaware of this annual requirement. The Board's failure to require and review timely and accurate financial records and reports limited its ability to provide oversight and safeguard the Department's resources.

Disbursements – We reviewed all 915 check disbursements made from January 2012 through May 2013, totaling \$363,124. These comprised 661 vendor payments totaling \$210,785; 13 transfers between Department bank accounts, totaling \$9,073; and 241 checks for start-up cash and prizes for various fundraising activities, totaling \$143,266. We found that numerous vendor payments reviewed had deficiencies (some payments had more than one deficiency):

- 66 payments totaling \$23,459 were paid before PO approval.
- 47 payments totaling \$6,856 did not have a properly signed PO (44 POs were unsigned and three POs were signed by someone other than the President or Chief).¹¹
- 124 vendor payments totaling \$31,318 did not have a PO, but only the invoice for support. The larger payments included \$2,057 to the Mumford Fire Department, \$1,600 for accounting services, \$377 for babysitter training and \$309 for “miscellaneous liquor.” Ninety payments, totaling \$25,241, were for routine services throughout the year such as garbage pick-up, Internet service and utility bills. While such recurring payments could be accounted for with “blanket” POs without requiring individual POs to be issued for each payment, the by-laws did not provide for blanket POs.
- 23 payments totaling \$4,812 had only a PO and no invoice or other supporting documentation.

⁶ Bank reconciliations were not documented for any of the five quarterly-statement bank accounts.

⁷ All of the accounts were reconciled with detail through April 2013 by the certified public accountant hired to prepare the Department's annual Federal tax Form 990.

⁸ This was a new specific-purpose account opened in 2012 and expected to be closed out in 2013.

⁹ The New York Not-For-Profit Corporation Law requires the Board to present to the members, at the annual meeting, a verified report of all assets, liabilities, revenues and expenses for the previous year.

¹⁰ General Municipal Law requires the Department to file with the Office of the State Comptroller a report on the receipts, expenditures and balances of foreign fire insurance premium tax proceeds.

¹¹ The Department's stated practice was for the President or Chief to sign the POs in lieu of appointing a purchasing agent as required by the by-laws.

- 52 vendor payments had a PO amount that differed from the amount paid, including 20 POs that did not have an amount listed at all; these include instances with a blank PO that was signed but otherwise incomplete. The checks paid exceeded the PO amounts by a net total of \$13,975.
- 142 vendor payments, totaling \$35,094, were completely unsupported;¹² the Department was unable to provide POs, bills or receipts. The larger payments included \$7,942 to a caterer for two events, \$6,600 for a tractor/mower, \$2,636 for NYS liquor licenses (two years), \$2,256 for 10 purchases at a local grocery store, \$1,137 in 10 payments to three bartenders and six payments totaling \$650 to the President for fuel reimbursements. The unsupported payments appeared to be consistent with the Department's other routine expenditures.

Additionally, 68 of the 915 disbursements, totaling \$35,088, were made without the President's signature on the checks as required in the by-laws, and 40 checks totaling \$38,159 (including 10 Department cash transfers) contained only one signature.

We found Board approval for some of the larger payments in the minutes, and the Treasurer stated that the other unsupported payments were proper Department expenditures. However, without supporting receipts – particularly for groceries, fuel or other items commonly used by individuals – there is an increased risk of purchases that may not be for legitimate Department purposes.

The Board's inadequate oversight of policies and procedures, financial records and reports, and disbursements limits its ability to monitor operations and ensure that Department moneys are appropriately spent.

Recommendations

1. The Board should adopt and enforce written policies and procedures that establish a strong system of internal controls over the Department's financial operations. This should include compensating controls over the Treasurer's unsegregated duties, such as regular reviews of financial records and reports, bank statements and reconciliations. The Board should also adopt a code of ethics.
2. The Board should review and update the by-laws to eliminate contradictory provisions and align the by-laws to the current practices and needs of the Department. The Board should also monitor operations to ensure that the Department is in compliance with the by-laws.
3. The Treasurer should maintain complete, current and accurate financial records for all Department activity, prepare and document bank reconciliations, file the report on foreign fire insurance tax moneys annually and provide the Board with timely and detailed monthly and annual financial reports.

¹² These include 17 payments (\$6,252) for the account not maintained by the Treasurer (see footnote 8) as well as 50 payments (\$2,121) handled by the assistant treasurer. The Treasurer said those individuals may have supporting documentation, but he was unable to obtain and provide to us any additional documentation.

4. The Board and Treasurer should ensure that all disbursements are properly supported with appropriate documentation and authorization before payments are made.

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 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 Caledonia 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 page.



Caledonia Fire Department

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February 16, 2014

Board of Directors
The Caledonia Fire Department
Audit Report Number: 2013M-356

Audit Response and CAP

We agree with your findings except one. We disagree with the finding that one board member did not give written disclosure of his ownership of his business. He does not own the business his wife does. However he is the vice president of the business. This business venture started before he was a board member.

See
Note 1
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We have already initiated some changes, purchasing agents will be the four Directors on the Board of Directors plus two alternates that will be appointed by the President, The board of Directors will review and approve all P.O.'s at the monthly Board of Directors Meetings, before any purchase is made.

Blanket purchase orders will be made for some expenditures such as utilities, possibly start up cash for fund raisers.

Financial review committee will do a semi-annual audit / review in July 2014 because none was done in February of 2014 and the books will be turned over to the financial review committee by February 2015.

The President will be a signer on all checks along with the Treasurer or Assistant Treasurer.

Treasurer will provide by March 2014 to the Board of Directors Meeting an itemized Treasurers Report on all accounts to the Board of Directors as well as the Fire Department and will be available at meetings to answer questions. No transfer of funds will be made without prior approval from the Board of Directors, which will be obtained at the Board of Directors Meetings,

(The above changes have been instituted as of February 5, 2014)

There are several By-Law changes that will be proposed at the February 2014 Department meeting.

We are also going to adopt a code of ethics we are gathering information now and hope to have that in place by June 201

Sincerely,

President Tom Hogle

APPENDIX B

OSC COMMENT ON THE DEPARTMENT'S RESPONSE

Note 1

The Board member told us, during our audit fieldwork, that he did own the business and did not officially disclose his interest to the Board, but believed it was common knowledge. Nonetheless, General Municipal Law provides that a director or officer must publicly disclose (which shall be made part of the official record of the proceedings of the Board) any interest in actual or proposed purchases that he or his spouse has, will have or later acquires.