



THOMAS P. DiNAPOLI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

GABRIEL F. DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

December 13, 2013

Edwin Sandberg, President
Members of the Board of Directors
Kiantone Independent Fire Department, Inc.
2318 Foote Avenue Extension
Jamestown, NY 14701

Report Number: 2013M-295

Dear Mr. Sandberg and Members of the Board of Directors:

One of the Office of the State Comptroller's primary objectives is 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 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 Kiantone Independent Fire Department, Inc. (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 agreed with our recommendations.

Background and Methodology

The Kiantone Independent Fire Department, Inc. is located in the Town of Kiantone, in Chautauqua County. The Department contracts with the Town of Kiantone to provide fire protection services and also receives moneys from fundraising and other activities. The Department's budget totaled \$174,935¹ for the 2013 fiscal year.

The Department's by-laws indicate that a Board of Directors (Board) consisting of six elected members and one appointed member (Treasurer) is responsible for the Department's overall

¹ Department expenses included the following major categories: apparatus \$64,600, building and grounds maintenance \$32,500, membership \$19,500 (training, physicals, events, parade uniforms, etc.), insurance \$17,000, debt service \$16,500, fundraising expenses \$9,000, office expenses \$3,800, fuel \$3,500, licenses/taxes \$3,400 and other \$5,100.

financial management. The Treasurer acts as the Department's chief fiscal officer. The by-laws state that the Treasurer is responsible for receiving and maintaining custody of Department funds, disbursing and accounting for those funds, preparing monthly financial reports and meeting any other reporting requirements.

We examined the internal controls over the Department's financial operations for the period January 1, 2012 through September 5, 2013. We interviewed 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 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 Department 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 Department's financial activities. The Department's by-laws state that the Treasurer shall make a report at each regular meeting indicating all amounts received and expended. These reports are an important fiscal tool which provides the Board with information necessary to monitor Department operations and gives the membership a summary of the Department's financial activities. The Board is also responsible for approving all bills and claims to ensure that Department funds are used for only legitimate Department expenditures.² The by-laws also require the Board to perform a semi-annual audit of the Treasurer's records and then report its findings to the Department.

We found that the Board generally does not provide adequate oversight of Department financial activities. We found no evidence that the Board is adequately reviewing and approving all claims prior to payment or that a semi-annual audit is conducted. Further, the Treasurer does not provide adequate monthly reports.

Due to these deficiencies, we reviewed disbursements totaling \$522,862³ made during the period January 1, 2012 through September 5, 2013. Other than a \$246,324 truck purchase, \$41,366 debt payment and \$1,695 for mowing services, we found no indication in the minutes that the Board approved claims for payment. The President indicated that the Board reviews payments after they have been made. He also stated that he routinely signed blank checks.

² Board members should refer to our publication entitled *Local Government Management Guide – Improving the Effectiveness of Your Claims Auditing Process*.

³ We reviewed 425 disbursements including all of the general fund disbursements, and used a risk-based selection process for payments that appeared unusual or excessive or were made to Department officials or related parties for disbursements from the bingo and bell jar accounts. We also reviewed the disbursements for a fundraising activity held in May 2013.

As a result, the Treasurer made disbursements with little or no oversight and disbursements totaling \$50,053 were not supported by appropriate documentation, including the following:

- Payments totaling \$19,690 were made to the Treasurer for the following purposes: compensation⁴ and fuel reimbursements (\$4,950), “bank” money⁵ (\$7,650), unsupported payments from the bingo account (\$2,700), travel advances⁶ (\$1,850), Super Bowl fundraiser (\$1,350), internet use (\$450), banquet (\$600) and office expenses (\$140). Included in the fuel reimbursements to the Treasurer was \$508 that was also paid by the Department directly to the fuel vendor.
- Payments totaling \$13,504 were made to individuals, including annual stipends to the fire chiefs, and payments for cellular telephone use, lawn mowing⁷ and catering services.
- Payments totaling \$14,560 were made to a warehouse store and \$2,299 to a local hardware store, all of which were paid from statements that had no itemized receipts attached.

Further, we found no approval for payments totaling \$12,270 made to the custodian, \$1,935 of which was paid in advance of the services being performed. Disbursing Department funds without proper supporting documentation does not adequately safeguard Department moneys.

Although the Treasurer does provide a verbal monthly report to the Board, the minutes indicate that it is simply a report on bank account balances and does not include an adequate description of all receipts and disbursements for the month as required by the by-laws. Further, the Board does not conduct a semi-annual audit of the records as required by the by-laws. In addition, we requested all banking information for our audit period and found certain original bank statements and images of canceled checks were not available. The Treasurer stated that he shredded the canceled check images.⁸ These control deficiencies expose the Department to the risk that errors and/or irregularities could occur and not be detected and corrected in a timely manner.

Recommendations

1. The Board should review and approve all claims prior to payment to ensure that all claims have supporting documentation and are for legitimate Department purposes. The Treasurer should pay only Board-approved claims.
2. The Board should approve all rates of compensation for officers and other individuals conducting Department business.

⁴ We found no indication in the minutes that the Board authorized compensation for the Treasurer.

⁵ This was up-front money used for prizes at fundraising events.

⁶ Travel advances included two checks, \$1,000 (dated August 24, 2012) and \$850 (dated May 6, 2013), for travel related to the purchase of the new truck. We found meal, beer and fuel receipts totaling \$272 that were apparently related to this travel and 15 restaurant gift certificates totaling \$375, all dated in 2013. We could not confirm the redeposit of any unused portions of the travel advances or the purpose for the gift certificates purchase.

⁷ We found no invoice from this vendor for these services.

⁸ The Board President also receives banks statements and was able to provide some of the original statements and check images.

3. The Treasurer should ensure that all services have been rendered prior to compensating any individuals.
4. The Treasurer should submit written monthly financial reports, including all receipts and disbursements.
5. The Treasurer should retain all relevant banking records.
6. The Board should conduct a semi-annual audit of Department financial records, as required by the by-laws.

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.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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

Kiantone Independent Fire Department

2318 Foote Avenue Extension

Jamestown, New York 14701

Office of the State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

Kiantone Independent Fire Department
Mr. Edwin Sandburg, President
2318 Foote Avenue Extension
Jamestown, NY 14701

Report Number: (2013M-295)

Dear Sirs,

The Board of Directors held a meeting December 3rd, 2013 at 7:30 p.m. Board members Edwin Sandburg, James Mitchell, Josh Ostrander, Michael Haller, John VanDeWark, Donald Weber, and Joseph Shelters were present.

Absent: Board member Bradley Weber.

The Draft Audit received from the State Comptroller office was reviewed in its entirety. After considerable discussion, the Board of Directors position is to agree with the findings of the Draft Audit Report.

Signed:

12-4-13

Edwin Sandburg
President
Kiantone Independent fire Department