



Le Roy Fire Department, Inc.

Oversight of Fire Department Finances

Report of Examination

Period Covered:

January 1, 2012 — December 10, 2013

2014M-25



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2014

Dear Fire Department Officials:

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 to account for and protect their entity's assets.

Following is a report of our audit of the Le Roy Fire Department, entitled Oversight of Fire Department Finances. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for Department officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Le Roy Fire Department, Inc. (Department) provides fire protection services to the Village and Town of Le Roy in Genesee County. The Department is comprised of members from the Oatka Hose Company, Excelsior Hook and Ladder Company, and the Chemical and Hose Company.¹

The Department's officers include, among others, a President, Vice-President, Secretary, Treasurer, Chaplain, Department Chief, two Assistant Chiefs, and a Board of Directors. The Board of Directors generally consists of five members, with one person from each fire company and two at-large members.²

According to the bylaws, the Business Officers³ have control and management of the Department's financial affairs. The Treasurer's duties include the maintenance of all bank accounts, accounting records and reports. The Treasurer of the Department is, by law, also the Treasurer of the Firemen's Benevolent Association of the Village of Le Roy. We also conducted an audit of the Firemen's Benevolent Association of the Village of Le Roy and issued a separate report, *Oversight of the Association's Foreign Fire Insurance Tax Moneys (2014M-26)*.

The Department's revenue for the past three fiscal years 2011 through 2013 averaged about \$3,400, primarily from fundraising and donations. The average expenditures for the three years were \$2,400, for fundraiser prizes, antique fire truck expenses, little league sponsorship and donations.

Objective

The objective of our audit was to examine internal controls over the Department's financial operations and addressed the following related question:

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

Scope and Methodology

We initially examined the Department's records and reports for the period January 1, 2012 through December 10, 2013. Upon identifying questionable transactions, we expanded our scope back to 2005.

¹ Each of these companies has a separate Treasurer who is responsible for maintaining financial records for their respective companies.

² At-large members can come from any of the Department's three fire companies.

³ Business Officers include the Board of Directors, President, Vice-President, Treasurer and Secretary.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of
Department Officials and
Corrective Action**

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

The Department's Business Officers have 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 Department to make this plan available for public review.

Oversight of Fire Department Finances

The Department's Business Officers are responsible for establishing adequate internal controls over cash receipts and disbursements. The Business Officers should periodically review the Department's financial records to ensure that the Treasurer accurately records and promptly deposits all cash receipts. They should also periodically compare financial transactions on bank statements and canceled check images with the amounts recorded by the Treasurer as received and disbursed. In addition, they should compare cash balances on bank statements (as adjusted for deposits in transit and outstanding checks) with the corresponding cash balances in the accounting records and reported by the Treasurer in the annual financial report.

The Business Officers did not establish adequate internal controls over cash receipts and disbursements to ensure that Department moneys were safeguarded. The Treasurer managed the Department's funds with little or no oversight by any of the other Business Officers. We found that the Treasurer made approximately \$18,100 in questionable disbursements that were not supported by invoices or authorized by the Department's membership. Of this amount, checks totaling \$7,866 were paid to the Treasurer, checks totaling \$6,925 were paid to Total Quality Plus (a business purportedly owned by the Treasurer), and electronic funds transfers totaling \$3,307 were made to a credit card company. In addition, cash receipts totaling almost \$2,600 were unaccounted for. Further, 14 transfers totaling \$14,305 were made from the Le Roy Firemen's Benevolent Association's (Association) bank accounts to the Department's checking account, and four unauthorized transfers totaling \$8,600 were made from the Department to the Association. The Department Treasurer is also Treasurer of the Association. Officials from the Department and Association told us that there should be no reason for transfers to occur between these two organizations.

The Department's bank balance on October 10, 2013 was \$7,824 less than the cash balance in the Treasurer's accounting records. Subsequently, the Treasurer made an unexplained deposit of \$7,500 on October 24, 2013 to the Department's bank account, which was composed entirely of cash. In November 2013, the President of the Department accepted the Treasurer's request for a leave of absence pending the full resolution of our audit and any subsequent investigation.

Cash Disbursements and Receipts

The Department's bylaws require that the Treasurer manage all moneys received and disbursed by the Department and keep an accurate record of all cash receipts and disbursements. The bylaws

require that the membership approve expenditures greater than \$500 prior to payment. The bylaws also state that withdrawals can only be made with the signature of any two of the following officers: President, Vice-President or Treasurer. Also, no money can be withdrawn from any bank unless authorized by Department officials at a regular, annual or special meeting. Good management practice suggests that Department officials issue press numbered duplicate receipts when no other documentation to support the receipt of cash is available, and deposit cash and checks received in a timely manner.

Cash Disbursements – The Treasurer processed cash disbursements with limited oversight by other Business Officers. Bank withdrawals and expenditures over \$500 were not authorized by the membership and cash disbursement records were not accurate. We identified questionable disbursements totaling \$18,098 that were made by the Treasurer from September 2007 through September 2013, as indicated in Table 1. Of this amount, 19 checks totaling \$7,866 were paid to the Treasurer, nine checks totaling \$6,925 were paid to Total Quality Plus and five electronic funds transfers totaling \$3,307 were made to a credit card company. None of these payments were supported by invoices, included on the annual Treasurer’s report or approved by other Business Officers or the membership as noted in the minutes.

The Department Secretary and former President told us that they did not authorize any compensation to be paid to the Treasurer and did not authorize Total Quality Plus to provide any services to the Department. In addition, they did not provide the Treasurer with a credit card or have knowledge of reimbursements made to the Treasurer for any Department transactions for which the Treasurer’s personal credit card would have been used.

Table 1: Questionable Disbursements

Date	Disbursement Type/Payee	Amount
9/18/2007	Check –Treasurer	\$783
2/26/2008	Check –Treasurer	\$218
9/9/2008	Check –Treasurer	\$507
9/23/2010	Check –Treasurer	\$425
12/21/2010	Check –Treasurer	\$655
4/5/2011	Check –Treasurer	\$650
7/18/2011	Check –Treasurer	\$225
7/26/2011	Check –Treasurer	\$279
8/30/2011	Check –Treasurer	\$206
11/17/2011	Check –Treasurer	\$503
4/11/2012	Check –Treasurer	\$232
6/19/2012	Check –Treasurer	\$759
6/20/2012	Check –Treasurer	\$329
7/25/2012	Check –Treasurer	\$335
9/5/2012	Check –Treasurer	\$289
9/11/2012	Check –Treasurer	\$215
11/6/2012	Check –Treasurer	\$479
4/23/2013	Check –Treasurer	\$165
9/4/2013	Check –Treasurer	\$612
7/23/2009	Check – Total Quality Plus	\$895
9/8/2010	Check – Total Quality Plus	\$350
9/16/2010	Check – Total Quality Plus	\$1,550
9/29/2010	Check – Total Quality Plus	\$595
12/21/2010	Check – Total Quality Plus	\$200
9/7/2011	Check – Total Quality Plus	\$950
1/4/2012	Check – Total Quality Plus	\$995
8/28/2012	Check – Total Quality Plus	\$500
9/18/2012	Check – Total Quality Plus	\$890
10/19/2010	EFT – Credit Card Payment	\$578
11/8/2010	EFT – Credit Card Payment	\$200
8/19/2011	EFT – Credit Card Payment	\$212
9/7/2011	EFT – Credit Card Payment	\$1,567
2/6/2012	EFT – Credit Card Payment	\$750
Total		\$18,098

We reviewed the canceled check images and found that all 28 checks included the purported signatures of the Treasurer and another Department official. We showed the canceled check images to the former Department President, whose signature appeared on 23 of these checks. He indicated that he did not recall signing these checks and that the signature on the canceled check image did not appear to be his. We attempted to contact two other former Presidents, including the Treasurer’s son, whose signature appeared on the five remaining checks, but they did not return our calls.

Cash Receipts – We found five instances where the amount recorded as received in the Treasurer’s records was more than the amount deposited. As indicated in Table 2, cash receipts totaling \$2,592 are unaccounted for.

Date	Description From Records	Treasurer’s Report	Bank Deposit	Difference
8/21/2010	Donation	\$2,420	\$2,030	(\$390)
7/9/2011	Parade Prize	\$35	\$0	(\$35)
8/18/2011	Fundraiser Raffle Ticket Sales	\$1,640	\$1,440	(\$200)
8/22/2011	Fundraiser Raffle Ticket Sales & Donations	\$3,665	\$3,355	(\$310)
8/31/2013	Fundraiser Proceeds	\$1,657	\$0	(\$1,657)
Unaccounted for Cash Receipts				(\$2,592)

The fundraising activity consisted primarily of an annual raffle at a local camping resort. Department members who managed the raffle told us they collected, counted and recorded the proceeds from the event, then provided the cash and checks collected to the Treasurer, who was responsible for making the bank deposit.

We also obtained deposit compositions for the Department’s bank accounts and compared them to the Treasurer’s records. As indicated in Table 3, we found nine deposits totaling \$2,290 of cash and checks that were not included in the Treasurer’s records. The Department Secretary was unable to explain these deposits. Department officials did not issue duplicate receipts when they collected cash; therefore, we are unsure of the source of the cash deposits and whether any of the amounts deposited relate to the unaccounted for cash receipts included in Table 2. The dates and the amounts of these deposits do not align with any of the unaccounted for receipts previously discussed. For example, the largest receipt (\$1,657) that was not deposited was for fundraiser proceeds recorded as received on August 31, 2013. Unidentified cash after this date totaled \$400, which was deposited on October 16, 2013.

Date	Composition	Amount
3/7/2005	NA ^a	\$200
10/19/2007	Cash	\$100
4/7/2008	Cash	\$500
4/15/2010	Four Checks	\$355
10/12/2012	One Check	\$25
1/9/2013	Cash	\$310
2/12/2013	Cash	\$300
8/12/2013	Cash	\$100
10/16/2013	Cash	\$400
Total		\$2,290
^a A bank composition for this deposit was not available due to its age. We are unsure if this was cash or checks.		

The four checks deposited on April 15, 2010 included three donations of \$50, \$100 and \$200, and one \$5 check for a fire report. The check deposited on October 12, 2012 was an award from another Fire Department which was labeled “Best Pumper.”

Transfers – The Treasurer of the Department is also the Treasurer of the Association. We found that 14 transfers totaling \$14,305 were made from the Association’s bank accounts to the Department’s checking account. In addition, four transfers totaling \$8,600 were made from the Department to the Association. According to officials from the Department and the Association, there should be no reason for transfers to occur between these two organizations.⁴ We found that at least seven of the transfers from the Association to the Department were likely made to ensure adequate moneys were on hand prior to questionable disbursements being made to the Treasurer or his business. The net effect of these transfers is that the Department may owe the Association \$5,705.

We asked the Treasurer about the questionable cash disbursements, receipts and transfers. He stated that he provided all available supporting documentation to us and that, on many occasions, he paid for Department expenses with cash, personal checks and personal credit cards and then reimbursed himself at a later date. He also indicated that, on numerous occasions, he would transfer moneys as needed to prevent overdrafts. However, he did not provide us with any additional documentation to support these transactions.

⁴ The Department’s bylaws state that no money shall be withdrawn from any bank unless authorized at a regular, annual or special meeting. There was no documentation in the minutes indicating the transfers were authorized by any of the other Business Officers.

Reported Cash

The Treasurer should prepare and submit annual reports to the Business Officers. These reports provide the Business Officers with information necessary to monitor Department operations and give other interested parties a summary of the Department's financial activities.

At the annual meeting held in April 2013, the Treasurer presented an annual report of the Department's financial activity to the membership. The report listed receipts and disbursements from the prior calendar year and a Statement of Accounts and Funds, which included the Department's bank account balances. The minutes indicate that no one present questioned any of the financial information on the Treasurer's report. We reviewed year-end bank account balances dating back to 2005 and found that the amounts reported by the Treasurer were consistently more than the corresponding balances found on the bank statements (as adjusted for deposits in transit and outstanding checks) since 2006, as indicated in Table 4.

The Business Officers did not compare transactions on the bank statements with amounts recorded by the Treasurer, or cash balances with the accounting records or annual report. Department officials told us that bank statements were mailed to the Treasurer's home and that he always kept the bank statements and canceled checks there and they never saw them.

Fiscal Year	Per Treasurer's Report	Per Bank Statements	Difference
2005	\$4,939 ^a	\$5,004	\$65
2006	\$5,834	\$1,137	(\$4,697)
2007	\$4,899	\$3,897	(\$1,002)
2008	\$4,812	\$1,025	(\$3,787)
2009	\$4,301	\$619	(\$3,682)
2010	\$5,263	\$1,754	(\$3,509)
2011	\$8,717	\$5,254	(\$3,463)
2012	\$8,315	\$795	(\$7,520)
2013 ^b	\$8,247	\$423	(\$7,824)

^a A deposit of \$4,947 in Foreign Fire Insurance Tax proceeds was made into a Department bank account in 2005, but was not recorded on the 2005 annual report. If this deposit had been recorded on the annual report, the difference would have been (\$4,882).

^b General Ledger balance at October 10, 2013

The Department's bank balance on October 10, 2013 was \$7,824 less than the cash balance in the Treasurer's accounting records. Subsequently, the Treasurer made an unexplained deposit of \$7,500 on October 24, 2013⁵ to the Department bank account, which was

⁵ We initially contacted the Treasurer, who agreed to meet with us on October 11, 2013. He did not make himself available on that date and instead provided the Secretary with virtually none of the records we requested.

composed entirely of cash. When we questioned him regarding the source of that cash, he stated that this was a return of funds that he had invested for the Department. We found nothing in the minutes to indicate that the Business Officers had authorized the Treasurer to make any investments with Department funds. When we asked for documentation to demonstrate what investments he had made, he stated that where these funds were invested was irrelevant and that the funds were always available for Department use.

Recommendations

The Business Officers should:

1. Investigate the questionable financial transactions identified in this report and take appropriate action to recover any misappropriated moneys, as necessary;
2. Approve disbursements and transfers as required in the bylaws; and
3. Periodically request and review bank statements and canceled check images, comparing them with invoices and the Treasurer's accounting records.

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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



LE ROY Fire Department Inc.

4 Clay Street, Le Roy, NY 14482
Tel 585-768-2527 - Fax 585-768-7564
www.leroyfiredistrict.com

July 28, 2014

Office of the State Comptroller
Division of Local Government and School Accountability
295 Main Street
Buffalo, New York 14203-2510

ATTN: Mr. Jeffrey D. Mazula
Chief Examiner of Local Government and
School Accountability

Re: 2014M-025

Dear Mr. Mazula:

This is to affirm that Fire Department Secretary James A. Spear and I met today with [REDACTED] from your organization.

The purpose of this meeting was to review the preliminary draft of your organization's findings as the result of the recent examination of the LeRoy Fire Department's financial affairs.

Upon review and discussion of these findings, we feel they are in order, and have no further comment as to their content.

Within 90 days of receipt of the final "Report of Examination", we will furnish your office with a detailed Corrective Action Plan (CAP) based on Recommendations contained in the Report.

Please feel free to contact me if there are further questions or comments concerning this matter.

Sincerely,

Michael H. Green, President
LeRoy Fire Department, Inc.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We performed the following audit procedures to complete our audit objective:

- Reviewed the Department's minutes and available documentation for information concerning approval of disbursements and the annual Treasurer's reports;
- Reviewed the Department's bylaws to determine what guidelines were in place regarding financial activity;
- Interviewed Department officials in regards to financial operations, with a focus on the receipt, deposit and disbursement practices and procedures;
- Compared canceled checks, check images and activity noted on bank statements to Treasurer reports, available receipts and invoices, and other Department records to determine the validity of disbursements; and
- Reviewed payments made to Department officials to determine if they were authorized.

We conducted this performance audit in accordance with GAGAS. 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.

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