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November 1, 2013

Doris Maxwell, President
Members of the Board of Directors
Caton Volunteer Fire Company, Inc.
1118 Caton Road, Suite 102
Corning, NY 14830

Report Number: 2013M-237

Dear Ms. Maxwell 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 company officials to reduce costs, improve service delivery, and to account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Caton Volunteer Fire Company, Inc. (Company), which addressed the following question:

- Are Company controls adequate to ensure that financial activity is properly recorded and reported and that Company moneys are 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. Company officials generally agreed with our recommendations and indicated they plan to take corrective action.

Background and Methodology

The Caton Volunteer Fire Company, Inc. (Company), is located in the Town of Caton, in Steuben County. The Company contracts with the Caton No. 1 Fire District (District) to provide fire protection services and also receives money from fundraising, foreign fire insurance and donations. The Company's revenue and expenditures for 2012 totaled approximately \$6,100 and \$9,500, respectively.

The Company's officers consist of a President, Vice-President, Secretary, Treasurer, and five Directors (Board). All officers are elected by the membership. The President is the Company's chief executive officer. The Treasurer is the Company's chief fiscal officer and is responsible for all of the financial duties, which include receiving and disbursing funds, maintaining accounting records, and preparing monthly and annual financial reports.

We examined the internal controls over the Company's cash receipts and disbursement process for the period January 1, 2012, through July 12, 2013. 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 and membership are responsible for overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls, which consist 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 Company complies with its by-laws and applicable laws, rules and regulations. The Company's by-laws should clearly establish the responsibilities of the officers and members. It is also important for the Company to adopt a code of ethics and maintain its status as a not-for-profit organization.

According to the by-laws the Treasurer is required to present an annual report to the Board and membership and submit the records for an annual independent audit by a certified public accountant, which would be available for the May Board meeting. The Board or the Company is responsible for approving all the Treasurer's receipts and disbursements. The Board stated that its understanding of the by-laws is that it is responsible to review and approve the claims before the membership votes to pay them.

The Company by-laws did not clearly establish the responsibilities of the Board and membership. As a result, the Board and membership did not provide adequate oversight of the Company's financial activities. The Board did not adequately segregate the Treasurer's duties. The Treasurer submitted monthly and annual financial reports to the Board; however, reports were not accurate because the Treasurer did not reconcile the bank statements or include all disbursements. The Board also did not oversee fundraising activities, did not review all claims, and did not receive reconciled bank statements. Therefore, it did not ensure that all receipts and disbursements were properly recorded and reported.

Furthermore, the President did not require the annual independent audit of the Treasurer's records, as required by the by-laws. In addition, the Company does not have a code of ethics as required by statute,¹ and the Board is not certain of the Company's status as a not-for-profit organization as recognized by the Internal Revenue Service. As a result of the inadequate oversight, there is an increased risk that errors and irregularities may not be prevented or detected in a timely manner.

Due to these deficiencies we reviewed all 61 disbursements paid during 2012 totaling \$9,517² to determine if they were properly supported, authorized, and legitimate Company expenditures. We found 23 disbursements totaling \$5,666 (generally for the annual banquet and chicken barbecue) that were not authorized. Additionally, eight disbursements totaling \$3,494 (generally

¹ The President stated that legal counsel advised them the Company could adopt the District's code of ethics.

² There were 53 disbursements, totaling \$7,025, from the Company's general checking account and eight disbursements, totaling \$2,492, from its special checking account during 2012.

for sweatshirts and the annual banquet) did not have proper supporting documentation. However, all these disbursements appeared to be proper Company expenditures.

We also reviewed all the receipts (\$2,437) for the annual chicken barbecue fundraiser held in May 2013. We could not verify the receipts recorded from the sale of dinners because of a lack of documentation and oversight of the receipts process, which was done by one individual.³ We calculated the estimated revenue based on the number of chickens purchased as compared to the number of chickens sold and determined that the revenue deposited appeared reasonable.

We discussed other minor record keeping deficiencies with Company officials during our fieldwork.

Recommendations

1. The Company should revise its by-laws to include more guidance as to the roles and responsibilities of the Board and membership, specifically those duties pertaining to financial oversight.
2. The Company should develop policies and procedures to adequately safeguard cash receipts and disbursements, including fundraising activities, by providing oversight and segregation of duties.
3. The Board should ensure that the Treasurer prepares and it reviews all bank reconciliations and verify that the Treasurer's monthly and annual reports are complete and accurate.
4. The Board should audit all Company claims, and contract for an independent audit of the Treasurer's records as required by the by-laws or amend the by-laws and complete the audit itself.
5. The Company should adopt a code of ethics and pursue clarification of its not-for-profit status with the Internal Revenue Service.

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,

Andrew A. SanFilippo
Executive Deputy Comptroller
Office of State and Local Government
Accountability

³ This individual was the Treasurer or another member of the Company.

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

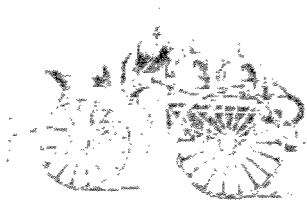
The Company officials' response to this audit can be found on the following pages.



To whom it may concern,

In the report we received, you requested a response to the issues that were found in your audit of the Caton Volunteer Fire Company. We the Board of Directors, The President, The Treasurer, and the rest of the elected leaders are in agreement with your findings. We meet for several hours to discuss what corrective actions we must take. With a great deal of input from all, we feel that we have a plan in place the will be satisfactory to you.

Even before the audit started we recognized the need for changes in how we manage the fire company. We have been in contact with legal counsel to help us obtaining our 501-C 3 status with the Internal Revenue Service. And help use establish clear and detailed rolls and responsibilities for all of the leadership, and include them into our by-laws. In regards to expenditures and income. It is the Boards decision to require purchase requisitions be submitted in advance of any purchase on items less than \$100. The purchase requisition must have the originators name, date, Items or services and amount requested before we will authorize payment. It is also agreed upon that no one in the fire company is to use personal monies to obtain items of any kind unless they plan to donate it. Our signatures are required on all bank statements, receipts, bills and the



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monthly reports. With our fundraisers we will have a representative from the Board along with the Treasure verify all monies coming in. They will enter the totals on a form with their signatures and submit it at the next Board meeting.

We recognize the need for a code of ethics, and are planning meetings to draft a copy and roll it out to the membership for approval by years end.

All of us in the Caton Volunteer Fire Company hold each other accountable in everything we do. Being small in numbers requires us to put in many hours helping our community in times of need. We have a chicken Bar-B-Q and calendar sales to raise money to pay our bills and buy uniforms that we wear at funerals and parades. We also use that money to purchase flags that we put on our fallen members graves.

We have an obligation to the next generation of leaders to make sure that the fire company is functioning efficiently and according to all federal, state and local laws. I hope this letter addresses all of the issues you found in your audit. If there is anything that I missed please contact me at anytime

Sincerely yours
Kevin R. Smith

Chairman of the Board of Directors
