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February 15, 2013

Mr. Ed Sharpe, President
Members of the Board of Directors
Lakeville Volunteer Fire Department
P.O. Box 334, 5939 Stone Hill Road
Lakeville, NY 14480

Report Number: 2012M-234

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

One of the Office of the State Comptroller's primary objectives is to identify areas where local government 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 local government 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 Lakeville Volunteer Fire Department (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 generally agreed with our recommendations and indicated that they plan to initiate corrective action.

Background and Methodology

The Lakeville Volunteer Fire Department was established in 1921 and provides fire protection and rescue operations to the Lakeville Number 2 Fire District (District) as well as the South Lima Fire Protection District as contracted by the District. The Department has approximately 45 members. The Department's primary sources of revenue are bell jar and bingo profits, and donations. The Department's revenues and expenses for the 2011 fiscal year totaled approximately \$65,000 and \$53,000, respectively.

The Department is operated in accordance with its by-laws, and is governed by a seven-member Board of Directors (Board). The Board is responsible for the Department's overall financial

management. The Department's members elect a Treasurer¹ who is responsible for the Department's financial duties, which include receiving and disbursing funds, maintaining accounting records, and preparing financial reports.

We examined the internal controls over the Department's financial operations from January 1, 2011, to August 23, 2012. We interviewed Department officials and reviewed financial records and meeting 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 adequate 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, applicable laws, rules, and regulations. While not required, the Board should also physically review and approve bills prior to their payment, review the computerized financial records, audit or contract for an audit of the Treasurers' records, and review the bank reconciliations. This review is especially important if there is a lack of segregation of duties over the Treasurers' duties. The Board must also ensure that Department resources are used for only legitimate Department purposes and that related decisions are in the best interest of the general membership.

We found that the Department Treasurer maintained appropriate financial records and that disbursements were generally for reasonable Department expenditures and were properly recorded. However, the Board does not provide adequate oversight of the Department's financial activities. Although the Department's by-laws specifically detail the Board's responsibilities and each of the three Treasurers' duties, these guidelines do not adequately segregate their duties or ensure that the Board monitors their activities. Each of the Treasurers receives and disburses cash, records these transactions, and provides written monthly and annual reports to the membership and Board. The Department Treasurer also is responsible for recording all the Department's cash receipts and disbursements in the online computerized financial software and preparing the monthly bank reconciliations for all of the Department's accounts, including bingo, bell jar, and auxiliary. Although all the Board members have online access to review the Department Treasurer's records, they do not do so. Furthermore, the Board does not review any of the bank reconciliations prepared by the Department Treasurer or annually audit or cause to be audited any of the Treasurers' records. In addition, the Board members had not adopted financial policies and procedures addressing cash receipts and disbursements, procurement, or claims processing, nor had they adopted a code of ethics or information technology policies. Department officials stated that the members adhere to the District's code of ethics, which they

¹ The Department also has a Bingo/Bell Jar Treasurer and an Auxiliary Committee Treasurer who are tasked with doing the accounting for these areas and reporting the transactions to the Department Treasurer for entry into the financial software.

approved. The Board's inadequate oversight creates a risk that disbursements may not be for appropriate purposes.

Because of these deficiencies, we reviewed all bank statement activity and examined all 479 check disbursements and 38 transfers from January 1, 2011, to July 24, 2012, totaling \$205,131. Of these disbursements, 11 did not have supporting documentation, three did not trace to approved claims, and 20 had cleared the bank before being entered into the financial software. According to Department officials, approved claims should be signed by five Board members; however, we found that 46 claims did not have the required number of signatures. These claims appeared to be for legitimate Department expenditures, such as six disbursements totaling \$900 to a cleaning contractor and another disbursement of \$40 for postage. Other examples included claims for credit card payments, dues to various fire associations, gaming licensing fees to the local government, and contracted repairmen for building maintenance. Furthermore, we reviewed bank reconciliations² for all eight of the Department's accounts to ensure there was no unusual activity. We also tested all deposits made from January 1, 2011, to July 24, 2012 and confirmed that moneys collected from fundraising events and donations were properly recorded and deposited.

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

Recommendations

1. The Board should adopt written policies and procedures that establish a strong system of internal controls over the Department's financial operations.
2. The Board should implement mitigating controls over the Treasurers' lack of segregation of duties, such as regularly reviewing the financial software, or, at minimum, the activity log, and monthly bank reconciliations as compared to monthly reports, bank statements and the financial accounts.
3. The Board should periodically audit, or engage a person or firm to conduct, an annual audit of the Department's records.
4. The Board should ensure that all claims are properly supported prior to approval and payment and that their approval of claims is noted in the Board minutes.

² December 2011 (year-end) and June 2012 (most recent)

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,

Steven J. Hancox
Deputy Comptroller
Office of the State Comptroller
Division of Local Government
and School Accountability

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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



Lakeville Volunteer Fire Department
5939 Stone Hill Road
P.O. Box 334
Lakeville, New York 14486



January 30, 2013

Office of the State Comptroller
The Powers Building
16 W. Main Street, Suite 522
Rochester, New York 14614

Report Number: 2012M-234

Dear Mr. Steven J. Hancox, Deputy Comptroller

This letter addresses the findings and recommendations made to us by your recent audit of the Lakeville Volunteer Fire Department through the following Corrective Action Plan (CAP):

Recommendation 1: That the Board adopts written policies and procedures to establish a strong system of internal controls over the Department's financial operations:

CAP: It is the plan of the Board to establish written policies and procedures within the next six months.

Recommendation 2: Director's taking a more pro-active stance with the on-line accounting system.

CAP: The Treasurer has strongly advised the Directors to oversee the on-line accounting system on a regular basis. The two additional treasurers have been made aware of the on-line accounting system, they have agreed to check their accounts but will continue using their own accounting system and still report to the Fire Department Treasurer.

Bank statements will be reviewed and signed off on by another Director on a monthly basis.

Recommendation 3: The Board should periodically audit or engage a person for firm to conduct an annual audit of the Department's records.

CAP: A periodical audit will be conducted by a local CPA firm.

Recommendation 4: The Board should ensure that all claims are properly supported prior to approval and payment and that their approval of claims is noted in the Board minutes.

CAP: Board approval has been changed to four Director's signatures instead of the original five signatures; all payment requisitions with signatures will be noted in the Board minutes.

The Lakeville Volunteer Fire Department would like to thank the auditors and your department for your recommendations to improve the internal controls within our Department. We, as a volunteer organization, will initiate the above corrective action in timely fashion.

If there are any further questions or concerns, please contact me at 585-766-1127.

Sincerely,

Edward D. Sharpe
President
Lakeville Volunteer Fire Department