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July 3, 2014

William Rockhill, President  
Members of the Board of Directors  
Woodgate Volunteer Fire Department, Inc.  
12445 State Route 28  
Woodgate, NY 13494

Report Number: 2014M-120

Dear Mr. Rockhill 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 Woodgate 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?

The results of our audit and recommendations have been discussed with Department officials. Department officials were given an opportunity to respond to our findings and recommendations within 30 days of the exit conference, but they did not respond.

### **Background and Methodology**

The Woodgate Volunteer Fire Department is located in the Town of Forestport, Oneida County. During the period January 1, 2013 through January 31, 2014 the Department Treasurer made 160 disbursements totaling approximately \$78,000. The Department's primary source of revenue is from a fire protection contract with the Town of Forestport. Other revenue sources include fundraising, donations and proceeds from foreign fire insurance premiums.<sup>1</sup>

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<sup>1</sup> Insurance companies organized or incorporated outside of New York State that write 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.

The Department is operated in accordance with its bylaws which stipulate that a Board of Directors comprising five elected<sup>2</sup> members – a President, Vice President, Treasurer, Secretary and Chief – is responsible for the Department’s overall financial management. The Treasurer acts as the Department’s chief fiscal officer. According to the bylaws, the Treasurer must keep a full account of all money received and paid out and submit a written report of such transactions at each annual meeting. The bylaws further require that the Treasurer pay out Department money only after receiving an order from the Secretary, countersigned by the President, based on a motion and approval of the Department membership, and that all disbursement checks bear the signatures of both the President and Treasurer. Finally, the bylaws require the Department to have a three-member Auditing Committee which is responsible for examining the Department’s fiscal transactions of the previous year.

We examined the internal controls over the Department’s financial operations for the period January 1, 2013 through January 31, 2014. 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 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 bylaws and other applicable laws, rules and regulations.

The Treasurer should maintain complete, accurate and timely records to account for all of the Department’s financial activities properly. While the bylaws require the Treasurer to submit annual reports to the Board, it is also good business practice for the Treasurer to submit monthly reports to the Board as well. These reports are an important fiscal tool for the Board to monitor Department operations and give interested parties a summary of the Department’s financial activities. The Board should also approve bills/claims prior to payment to ensure that Department funds are used for only legitimate Department expenditures.

The Board needs to improve its oversight of the Department’s financial activities to ensure that sufficient controls are in place to safeguard Department assets. Although the Treasurer verbally updates the Board on bank balances at the monthly meetings, he does not provide written monthly or annual financial reports. While the Treasurer does prepare monthly bank reconciliations, the Board does not review them or periodically review the bank statements and canceled check images which could help identify an improper disbursement. Furthermore, there was no documented order signed by the Secretary and President listing the bills approved by the Department members for any payment made during our audit period. Finally, the Board did not appoint an Auditing Committee of three members to examine the Department’s finances each

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<sup>2</sup> Elected annually at the December meeting

year. These combined control weaknesses impede the Board's ability to monitor and manage Department finances and increase the risk of errors and irregularities.

The Board also failed to ensure that all disbursement checks contained two signatures as required by its bylaws. The Treasurer paid 126 of the Department's 160 disbursements<sup>3</sup> during the audit period online (33 disbursements totaling \$5,831) and through the Department's bank using electronic checks (93 disbursements totaling \$48,415), none of which contained the required two signatures.<sup>4</sup> Although the President and Chief said that the Board discussed allowing the Treasurer to pay bills using electronic checks, there was no record of this discussion in the Department meeting minutes or amendments to the bylaws allowing this practice. District officials said that they discuss bills before payment and that the Chief reviews individual claims. However, without controls in place to ensure that the Board formally approves all bills for payment, documents such approval and specifies the bills to be paid in a properly signed order to the Treasurer, there is an increased risk of erroneous, unauthorized or inappropriate disbursements.

We reviewed a sample of 103 disbursements totaling \$69,679<sup>5</sup> made during our audit period and found that documentation was not sufficient to determine whether all claims were actual and necessary Department expenditures. Of the 103 disbursements, the following 21 totaling \$13,700 did not contain sufficient documentation such as itemized receipts or invoices:

- Three payments to the Department's credit card totaling \$691 for a medical bag, meal and a firefighting conference,
- One payment for fuel totaling \$1,735 to the vendor used to supply the Department's heating fuel,
- Nine payments for reimbursements to Board and Department members totaling \$1,718,
- Four payments totaling \$7,238 for firefighting equipment such as uniforms, medical supplies and a used pontoon boat,
- One payment for insurance totaling \$1,060,
- Two payments totaling \$1,168 for items purchased for a raffle (three guns and a kayak) and
- One donation to a local school totaling \$90.

Further, although all 103 disbursements tested were properly recorded in the Treasurer's accounting records, there was no documented order to pay signed by the Secretary and President and indicating which disbursements were approved for payment by the membership.

The President provided the explanations for these payments and stated they were proper Department expenditures. Nonetheless, when disbursements are made without proper

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<sup>3</sup> The remaining 34 disbursements totaling \$23,475 were hardcopy checks which were properly signed.

<sup>4</sup> The signature area on the electronic check reads: *Signature on File Account Holder Has Preapproved This Check*

<sup>5</sup> We reviewed all 16 disbursements totaling \$6,496 paid in the month of September 2013. We also reviewed a risk-based sample of 87 disbursements paid during the audit period, totaling \$63,183 (online or electronic check disbursements, payments that appeared unusual, credit card payments or payments made to Department officials or related parties).

authorization and appropriate documentation, there is an increased risk that payments could be made for other than legitimate Department purposes.

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

### **Recommendations**

1. The Board should ensure that the Treasurer prepares a written annual report of all moneys received and disbursed as required by its bylaws.
2. The Board should consider requiring the Treasurer to provide written monthly financial reports.
3. The Board should appoint an Auditing Committee to audit the Treasurer's records at least annually, as authorized in the bylaws.
4. The Board should review monthly bank reconciliations prepared by the Treasurer and should periodically review bank statement activity, including canceled check images.
5. As required by the Department bylaws, the Board should ensure that the Treasurer disburses Department moneys only after bills have been approved for payment by the membership and listed on an order to pay from the Secretary, countersigned by the President.
6. The Board should ensure that disbursement checks include two signatures.

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 Woodgate Volunteer Fire Department for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo