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Nancy Falker, President
Members of the Board of Directors
Crittenden Volunteer Fire Department, Inc.
13415 Genesee Street
Crittenden, NY 14038

Report Number: 2015M-190

Dear Ms. Falker 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 to account for and protect their entity's assets.

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

- Did the Board provide adequate oversight of the Department's financial operations?

The results of our audit and recommendations have been discussed with Department officials and their comments were considered in preparing this report. The Department's response appears in Appendix A. Department officials generally agreed with our recommendations and indicated they would take corrective action.

Background and Methodology

The Department is a volunteer organization that provides fire protection services for the residents of the Town of Alden (Town) in Erie County.¹ The Department also receives money from fundraising and other miscellaneous activities. The Department's 2014 budget totaled \$147,343.

The Department is operated in accordance with its bylaws and standard operating guidelines, and is divided into two branches: administrative and firematic.² The nine-member administrative branch is composed of an elected five-member Board of Directors (Board), a President, a Vice-President, a Treasurer and a Recording Secretary. The Board is responsible for the Department's

¹ During 2014, the Department received \$136,714 from the Town for fire protection services.

² Department officers and members directly involved with the protection of the residents and their property from the dangers of fire.

overall financial management. The firematic branch is composed of the Chief, a 1st Assistant Chief and a 2nd Assistant Chief, all of whom are elected.

We examined the internal controls over the Department's financial operations for the period January 1, 2014 through April 6, 2015.³ 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

We found that Board oversight of Department financial operations was not adequate. There was no evidence that nearly \$64,000 in payments were authorized by the Department's membership. The Treasurer did not perform and retain monthly bank reconciliations and did not retain custody of all Department funds as required in the bylaws. The audit committee did not properly perform an audit of the Treasurer's records. Further, the Board did not properly assign the Treasury duties or monitor the financial activities and documentation for the daily lottery account. Consequently, there is a risk that Department funds could be misspent or misappropriated. Our audit identified the following deficiencies:

Disbursements – According to Department officials, all bills are required to be submitted to the membership, with supporting vouchers, for their approval. The bylaws require the President and Recording Secretary to sign the bills. Done properly, this review would allow the Board to determine, prior to payment, if there is appropriate documentation, such as receipts and invoices, supporting the purchase and if the purchase represents a legitimate Department expense.

We reviewed 191 payments, totaling \$148,097, and found that 120 payments, totaling \$63,526 were not approved by the membership.⁴ For example, there was no approval for nearly all of the debit and electronic payments we reviewed totaling approximately \$25,000, including payments of \$3,889 at a grocery store, \$3,350 at a sporting goods store and \$2,988 at an electronics/appliance store. Additionally, among the remaining unapproved payments were checks totaling \$8,627 to utility service providers and \$2,479 to a local restaurant.

We also identified more than \$5,500 in payments that did not have adequate supporting documentation available to demonstrate that they were for valid Department purposes.⁵ For example, there was no supporting documentation for seven debit card transactions totaling \$2,445 which were made to vendors for home improvements, groceries and electronics/appliances. This occurred in part because the Board has not developed and adopted cash disbursement policies governing the use of debit cards or electronic payments.

³ We extended our testing back to January 2012 to review lottery ticket sales.

⁴ Includes check, debit card and online payments

⁵ Eight of the nine payments, totaling \$5,500, were included in the 120 payments that were not approved by the membership.

Without supporting documentation coupled with the lack of authorization by the membership, there is a risk that purchases were not for legitimate Department purposes.

Bank Reconciliations and Quarterly Audits – According to the bylaws, the Treasurer is responsible for preparing and providing bank reconciliations to the Department on a monthly basis. The audit committee is required to audit the Treasurer’s records every three months.

While monthly financial reports showed reconciled balances, the Treasurer did not provide us with detail to substantiate those balances. The Treasurer indicated that she does not retain the bank reconciliation documentation. Further, the audit committee did not request to view canceled check images from the bank. In 2014, there was only one report on file which showed an audit of a seven-month period. Without bank reconciliation supporting documentation, such as bank statements, and the absence of check images to verify the payee, it is unclear how the audit committee could have properly audited the Treasurer’s records.

Daily Lottery – Although the bylaws require the Treasurer to regularly receipt, account for, deposit and provide monthly reports on all Department funds, another individual, the Department’s Sergeant-at-Arms (Sergeant), manages the Department’s daily lottery account and activities. The Sergeant is responsible for maintaining the records and reports for the Department’s daily lottery activities, depositing all funds collected for ticket sales and signing all checks for related award disbursements. The Board has not adopted policies and procedures regarding the daily lottery activities and dual signatures are not required on this account. In 2014, the Department recorded approximate collections totaling \$16,900 and approximately 700 disbursements totaling \$17,280.⁶

According to the Sergeant, tickets ranging from 001 to 999 are available for purchase each month at a cost of \$5 each. A daily winner is determined based on the New York State daily evening lottery drawing. Fifty dollars is awarded to the winner with the exact number (unless the drawing is on a Wednesday, in which \$100 is awarded). Boxed numbers are also awarded \$10 on Wednesday and \$5 on all other days.⁷ The Sergeant also indicated that if there is a \$100 or \$50 winning ticket, the person who sold the ticket will receive a \$5 commission.

We noticed that many of the checks were made out to either the Sergeant or his wife (also a Department member). As such, we extended our testing back to January 2012 and found 85 payments, totaling \$1,125, which were either made payable to the Sergeant or his wife. We asked to see the cash receipt journal to verify that the Sergeant had either purchased a winning ticket or sold the winning ticket. However, the Sergeant indicated that he did not maintain a cash receipt journal. Instead, he keeps track of who purchases which ticket by a review of the ticket stub. At the end of the year, he discards those ticket stubs. He did provide us with a listing of ticket numbers that are given to various fire members to sell. We reviewed 15 payments made to the Sergeant or his wife. For four of these payments, we could not find that the Sergeant was assigned this ticket on the information he provided to us.

⁶ The legal authority for a volunteer fire department to operate a daily lottery is not within the scope of this audit.

⁷ A boxed number is a combination of the winning number. For example, if the winning number is 123, the following tickets would receive \$5: 132, 213, 231, 312 and 321.

The absence of a cash receipt record makes it more difficult to provide accountability of the purchase of these tickets and who won on each day. Therefore, money could be paid inappropriately and go unnoticed.

Recommendations

The Board should:

1. Verify that disbursements are properly authorized and have supporting documentation.
2. Develop and adopt comprehensive cash disbursement policies which includes provisions for debit cards and online payments.
3. Monitor the Treasurer's records and reports to ensure that she is performing and retaining monthly bank reconciliations.
4. Develop and adopt policies and procedures regarding the daily lottery activities and ensure that only the Board-approved Treasurer manages the financial activities of the daily lottery account, retaining all ticket stubs sold, and maintaining proper cash receipt records showing which tickets were sold and by whom each month.

The Treasurer should:

5. Pay bills only after the membership approves them and retain all original financial documents at the fire hall.
6. Prepare and retain monthly bank reconciliations.

The audit committee should:

7. Perform an audit of the Treasurer's records every three months, including obtaining and reviewing canceled check images.

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

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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



CRITTENDEN VOLUNTEER FIRE DEPT.
PO BOX 120
13415 Genesee Street
Crittenden, New York 14038

The recommendations by the office of the State Comptroller will be followed as such:

1. Disbursements will be approved by the membership at the monthly business meeting provided they are accompanied by supporting documentation or have been approved prior to the purchase. All disbursements will have the proper receipts.
2. Credit card/debit card usage—An SOG regarding the card appointment and usage will be written and adopted no later than December 31st of the year 2015. Credit/debit cards will be issued to the Chief of the department with a spending limit of \$5,000; 1st Assistant and 2nd Assistant with a spending limit of \$2,000; the Chairman of the Board of Directors with a spending limit of \$2,500. All receipts will be the responsibility of the card holder to be turned in to the treasurer before the monthly business meeting for acceptance by the body. Online payments made by the treasurer will be read at each monthly business meeting and bank statements viewed by the audit committee should reflect these payments for authorization each quarter.
3. The audit committee from this day forward will ensure he/she is retaining monthly bank reconciliations each audit.
4. The daily lottery starting no later than December 1, 2015, will have the outgoing checks signed by the chair of that committee and the financial treasurer of the company. A spread sheet will be utilized by the chair that shows any and all expenses by the committee with check # and amount. All ticket numbers will be listed with name sold to, any money won and check number used. All ticket stubs and unsold tickets will be retained by the chair and given to the treasurer for safe keeping at the fire hall.
5. Bills are to be paid at each monthly business meeting after the approval of the membership. This is a practice we do according to our bylaws presently. Every conceivable measure is made to have receipts for all purchases. Any bill that demands payment before the meeting—such as insurance or utilities, for example, are to be paid as they are previously budgeted for. All receipts will be retained at the fire hall.
6. Going forward, all bank reconciliations will be retained by the financial treasurer.
7. The audit committee will review either online or printed statements of all cancelled check payments and online payments.

We appreciate your views on our practices and will do our utmost to make sure the appropriate measures are put into practice.

Nancy L. Falker
President