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January 9, 2015

Kenneth Miller, Board President
Members of the Board of Directors
Elba Fire Department
4 South Main Street
Elba, NY 14058

Report Number: 2014M-286

Dear Mr. Miller 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 Elba 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 money is 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. Company officials agreed with our recommendations and indicated they have taken or plan to take corrective action.

Background and Methodology

The Elba Fire Department is located in the Village of Elba (Village) in Genesee County. The Department is a volunteer organization that provides fire protection services for the Village and residents outside the Village pursuant to a contract with the Town of Elba.¹ Department personnel operate the fire equipment owned and maintained by the Village.

¹ The Department received no money directly from the fire protection contract with the Town. These funds are collected by the Village each year. The Village's adopted budget includes appropriations for Department operations.

The Department's operations are funded by donations, hall rental fees, foreign fire insurance premium tax² and various fund-raising activities. During the 2013 fiscal year, cash receipts from Department fund-raising events totaled more than \$117,000. The Department's largest fund-raiser is the annual Onion Festival. During the 2013 fiscal year (January 1 through December 31), total Department revenues were \$136,783 and expenses were \$155,700.³

According to the Department's bylaws, the Board of Directors (Board), comprising nine elected members, is responsible for the Department's overall financial management. The Department elects a Treasurer who acts as the chief fiscal officer. The bylaws state that the Treasurer is responsible for receiving and disbursing Department funds, maintaining accounting records and preparing financial reports for the Board. The bylaws also require the Board to perform an annual audit of the Treasurer's records and to review all bills prior to payment. In addition, the Board should establish adequate controls over revenue received at fund-raising events. Detailed records should document ticket sales and the proceeds received from fund-raisers. These records should be reconciled to cash advances and deposits and submitted to the Board for its review.

We examined the internal controls over the Department's financial operations for the period January 1, 2013 through August 6, 2014. We interviewed 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

Our audit identified significant weaknesses in the Department's internal controls which allowed certain records, reports and supporting documentation to be inadequate. The Board did not provide adequate oversight of Department financial activities and did not perform an annual audit of the Treasurer's books as the bylaws required. While we found no evidence that Department funds were misused, the weak control environment provides ongoing opportunity for potential theft without detection.

We found that eight disbursements totaling \$40,566 were not adequately supported or reviewed by the Board before payment. In addition, the Treasurer could not prepare appropriate reports to substantiate the accuracy of revenue received and deposited from the Department's biggest fund-raiser, because receipts from sales were not properly tracked. Furthermore, cash advances and deposits could not be reconciled with ticket sales and proceeds received because there were no suitable records to substantiate them. As a result, \$1,365 in cash advances could not be properly accounted for.

² Insurance companies organized or incorporated outside of New York State that write fire 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.

³ Department expenses comprised the following major categories: fund-raising costs (\$88,500, including the car raffle), utilities (\$24,700), equipment purchases and repairs (\$19,100), insurance (\$11,700), annual banquet (\$7,300), miscellaneous (\$3,700) and officer salaries (\$700).

The Board's inadequate oversight and weak controls increase the risk that Department disbursements may not be for appropriate purposes and that all money due the Department may not be received and deposited.

Disbursements – We reviewed 30 disbursements⁴ totaling \$96,469 made during the 2013 fiscal year from the Department's general checking account. Generally, financial activity was properly recorded and disbursements appeared to be for Department purposes. However, eight disbursements totaling \$40,566 (42 percent of the amount in our sample) had no supporting documentation and were made prior to Board review. All eight payments were associated with Department fund-raising activities.⁵ The Treasurer informed us that, although bills are always reviewed by the Board, it is not necessarily prior to payment. Further, the Treasurer occasionally pays bills prior to the Board's review, with the Board President's knowledge, to avoid paying bills after their due date. The Board President allowing the Treasurer to circumvent the internal control provided by the Board's review and approval of claims prior to payment creates a serious weakness in controls.

We also reviewed all disbursements from the Department's other checking accounts⁶ and found adequate support for all of them, including evidence that the Board had approved the payments.

Fund-Raising Receipts – The Onion Festival is held each August and includes carnival rides, games, food tents and a car raffle.⁷ The Treasurer prepares a fund-raising report that shows cash receipts, amounts disbursed (costs) and net proceeds. According to the Treasurer's records, the 2013 Onion Festival cash receipts totaled \$87,210 and cash disbursements totaled \$78,886, yielding a profit of \$8,324.

Although the Treasurer records the amount of cash she receives from each stand in a cash receipts journal, there were no records to substantiate that the sales reported by the stands were accurate. The members running the stands do not track the number of tickets or items sold, with the exception of the car raffle stand (the members selling raffle tickets for the car use press-numbered raffle tickets and keep track of the tickets sold). Further, although Department officials indicated that press-numbered food and beverage tickets are sold at the individual food and beverage stands, no one tracked or recorded the number of tickets sold or retained records documenting the number of ticket rolls purchased for the event or remaining at the end.

Additionally, the Treasurer's records indicated that the "clam stand" did not report any income (i.e., income was listed as \$0). The Treasurer told us that the money from this stand's sales was deposited with cash collected from the other food tents and was not accounted for separately.

⁴ There were 324 disbursements totaling \$125,571 made from the Department's general checking account during the 2013 fiscal year, including the \$7,500 cash advance discussed under "Fund-Raising Receipts." We selected all payments over \$700 to review for proper Board approval and sufficient supporting documentation.

⁵ Two checks totaling \$21,000 were for raffle prizes, one check for \$7,500 was for Onion Festival start-up funds and the remaining five payments, totaling \$12,066, were for miscellaneous fund-raising expenses such as music/entertainment and security services.

⁶ These included 108 disbursements from the bingo account, totaling \$21,260; 33 disbursements from the bell jar (raffle drawing) account, totaling \$5,998; 10 disbursements from the foreign fire insurance account, totaling \$2,749; and one disbursement of \$154 from the games-of-chance (card drawing) account.

⁷ The raffle grand prize is a new car and the winner can opt to receive the car or the car's cash value as the prize.

Without sufficient records, food and beverage sales cannot be confirmed and the Treasurer cannot verify that all money collected was remitted to her.

The Treasurer wrote a check for \$7,500, payable to cash, as an advance for the initial 2013 Onion Festival expenses. Although \$3,250 of this amount was accounted for by the individual stands, the remaining \$4,250 was not accounted for on the Treasurer's report. The Treasurer stated that unaccounted-for start-up cash was placed in a bag and used as change for the remainder of the Onion Festival, but she did not maintain records indicating how the cash was used at the event or how much cash was returned at the end. We found that the amount of deposits, which totaled \$6,135, exceeded the cash collections reported in the Treasurer's fund-raising report by \$2,885. Therefore, \$1,365 of the \$7,500 cash advance⁸ was not properly accounted for. The Treasurer said the money may have been used for miscellaneous cash expenses, but could not provide any receipts or invoices to substantiate this. The Board's failure to properly oversee fund-raising activities substantially increases the risk that fund-raising money could be lost or stolen without detection.

Recommendations

The Board should:

1. Audit the Treasurer's books annually as required in the bylaws.
2. Review all bills prior to payment to ensure they are for appropriate purposes and supported by adequate documentation.
3. Ensure that fund-raising revenue is properly accounted for.

The Treasurer should:

4. Account for press-numbered tickets sold at each fund-raising event, reconcile cash advances and deposits with records of ticket sales and proceeds received and properly report to the Board.

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

Sincerely,

Gabriel F. Deyo

⁸ \$7,500 advance - \$3,250 accounted-for expenses - \$2,885 deposited in excess of reported sales = \$1,365

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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



ELBA FIRE DEPARTMENT

P.O. BOX 58
ELBA, NEW YORK 14058-0058

December 29, 2014

Jeffrey D. Mazula

Chief Examiner OSC

Buffalo Regional Office

295 Main St Suite 1032

Buffalo, NY 14203-2510

Re: Elba Fire Dept . Audit Report Number: 2014M-286

Dear Sir:

In response to our audit we agree with your findings. We have implemented changes in 2014 and will continue to do so in the future as needed.

Sincerely,

Elba Fire Dept.

Robert Ziphel

Acting President