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February 27, 2015

David James, President  
Members of the Board of Directors  
Fair Haven Volunteer Fire Department, Inc.  
14447 Fair Haven Road  
Fair Haven, New York 13064

Report Number: 2014M-335

Dear President James 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 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 Fair Haven Volunteer Fire Department, Inc. (Department) which addressed the following question:

- Has the Board provided adequate oversight over Department operations to ensure that financial activity was properly recorded and reported and that Department funds were 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 agreed with our recommendations and indicated they have taken or plan to take corrective action.

### **Background and Methodology**

The Department is a not-for-profit organization incorporated in 1923.<sup>1</sup> The Department, located in the Village of Fair Haven (Village) in Cayuga County, has approximately 35 members and responds to over 400 calls annually. The Department provides fire protection to the residents of the Village and to the Town of Sterling in Cayuga County and Town of Wolcott in Wayne County. The Department's primary sources of revenues are fire protection contracts, foreign fire insurance

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<sup>1</sup> The Department was originally incorporated in 1923 but was required to refile its incorporation information in 2013, as New York State did not have any record of the original incorporation because these processes were handled at the county level at the time of the original incorporation.

premiums<sup>2</sup> and fundraising activities. During our audit period, the Department's revenues were approximately \$174,000 and its disbursements totaled \$201,488.<sup>3</sup>

The Department is operated in accordance with its constitution and bylaws and governed by a nine-member elected Board of Directors (Board), which comprises four Directors, three Trustees, the President and Treasurer. The Board is responsible for the general management and control of the Department's financial affairs. The President is the Department's chief executive officer, while the Treasurer is the Department's chief fiscal officer. The Treasurer is responsible for receiving and maintaining custody of Department funds, disbursing and accounting for those funds and preparing regular expenditure reports for the Board and the Department's general membership (Membership). The Treasurer is also required to present the Department's books and records to the audit committee annually for audit.<sup>4</sup>

We examined the internal controls over the Department's financial operations for the period April 1, 2013 through July 9, 2014. We interviewed appropriate 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 policies and procedures that ensure transactions are authorized and properly recorded; financial reports are accurate, reliable and filed in a timely manner; and the Department complies with its bylaws and applicable laws, rules and regulations. The Board is also required to adopt a code of ethics that provides standards of conduct and procedures for disclosure of interests.

The Department's bylaws require that the Board and Membership approve purchases over \$1,000. The bylaws also require the Treasurer to pay all bills and report the payments at regular Department meetings. The Treasurer is also required to obtain Membership approval prior to transferring Department funds. Additionally, the bylaws require the President to appoint a committee of three members to annually audit the Department's books and financial records and the Board to prepare an annual budget. While not required by the bylaws or statute, it is essential that the Board also review and approve bills prior to payment to ensure that funds are used for legitimate Department expenditures.

We found that the Board could improve its oversight of the Department's financial activities. Although the Board has adopted Department bylaws which include cash disbursement policies, we found them to be inadequate. Even though the Department's bylaws specifically detail the

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<sup>2</sup> Insurance companies organized or incorporated outside of New York State which 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 providing fire protection should receive these funds.

<sup>3</sup> Disbursements are for the period April 1, 2013 through May 31, 2014, as complete records for June and July 2014 were not available prior to completion of fieldwork.

<sup>4</sup> The President appoints an audit committee comprising three Department members.

Board's responsibilities and the Treasurer's duties, these guidelines did not adequately segregate or provide oversight of the Treasurer's duties. Further, the Board has not adopted policies or procedures for financial operations such as cash receipts, procurement and claims processing. As a result, the Treasurer receives all Department funds, prepares and makes all deposits, pays Department bills and performs all recordkeeping functions, including bank reconciliations,<sup>5</sup> with little or no Board oversight. In addition, the Treasurer did not always obtain Membership approval prior to transferring funds in the Department's bank accounts as required by the bylaws.

We found that the Treasurer generally maintained appropriate financial records; however, completed bank reconciliations were not maintained. Because of this we reconciled the Department's general checking account for March 2014 through June 2014,<sup>6</sup> and identified no unreconciled balances. While the Treasurer provided a verbal biweekly report to the Board and Membership detailing the Department's finances, the Treasurer did not provide the Board with written financial reports for review. Furthermore, the audit committee did not complete an adequate annual audit<sup>7</sup> and the results were not documented in the meeting minutes. The concentration of key financial duties with one individual, without adequate oversight or mitigating controls, increases the risk of errors or irregularities occurring without being detected and corrected. The Board also did not prepare or adopt an annual budget and has not adopted a code of ethics.

Due to these deficiencies, we reviewed all 325 disbursements from our audit period, totaling \$201,488, to determine whether they were properly endorsed, reviewed and approved prior to payment, adequately supported and for reasonable Department purposes. In general, we found that disbursements were appropriately endorsed, adequately supported and for reasonable Department purposes. However, the Board did not review or approve the majority of the bills prior to payment. In addition, the Department did not follow its bylaws and approve any purchases over \$1,000.<sup>8</sup> For example, there was no record that the Board approved the purchase of an all-terrain vehicle on May 7, 2013 for \$15,754. Without properly reviewing and approving all bills before payment, the Board does not have adequate assurance that the purchases were for a valid Department purpose. In addition, there is an increased risk that Department funds could be used for inappropriate purposes.

We also reviewed all 82 deposits from our audit period, totaling \$331,368; these deposits consisted of proceeds from fire protection service contracts, foreign fire insurance and fundraising events.<sup>9</sup> We found that they were accurately recorded in the manual accounting records and deposited in a timely manner. Nine of the deposits, totaling \$16,532 correspond with the time frames of each of the fundraising events. However, we could not verify that all fundraising proceeds were properly deposited because the Treasurer did not maintain accurate records for the funds collected at the

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<sup>5</sup> We performed bank reconciliations for the general checking account for the months of March through June 2014 and reviewed the Treasurer's bank reconciliation for this account for June 2014. Reconciliations were not performed for other Department accounts due to minimal activity. No issues were identified.

<sup>6</sup> We reconciled the last month of the most recently ended fiscal year (March 2014) up through the last statement available (June 2014) at the time of our audit fieldwork.

<sup>7</sup> An annual audit, as required by the bylaws, includes a review of cash receipts, disbursements and bank statement information.

<sup>8</sup> Department officials stated that they are approving all disbursements over the \$1,000 threshold; however, we could not find any documentation of these approvals within the Board minutes or other Department records.

<sup>9</sup> These events included chicken barbecues, fish fries and a harvest dinner.

various fundraisers. Lack of records indicating the number of meals sold and amounts collected increases the risk that Department funds could be stolen or misused.

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

## **Recommendations**

The Board should:

1. Adopt financial policies and procedures that adequately segregate duties and provide oversight, including policies and procedures related to cash receipts and disbursements, procurement and claims processing.
2. Adopt a code of ethics that sets forth guidance for its officers and members regarding the standards of conduct that are expected.
3. Audit bills and approve them for payment.
4. Ensure an adequate, documented annual audit is completed by the audit committee as required by the bylaws, which includes a review of cash receipts, disbursements and bank statement information.
5. Prepare an annual budget as required by the bylaws and provide it to the Membership for review and approval.

The Treasurer should:

6. Document monthly bank reconciliations and provide a copy of this information to the Board and Membership for review.
7. Provide the Board with written interim financial reports for use in monitoring the Department's finances.
8. Present account transfers to the Membership for approval.
9. Keep accurate records for the amount of funds that are collected at all the fundraising events.

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 Directors to make this plan available for public review.

We thank the officials of the Fair Haven Volunteer Fire Department, Inc. for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

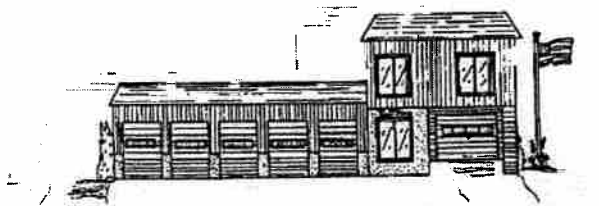
Gabriel F. Deyo  
Deputy Comptroller

## **APPENDIX A**

### **RESPONSE FROM DEPARTMENT OFFICIALS**

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

Fair Haven Volunteer Fire Dept  
P.O. Box 334  
Fair Haven, New York 13064



Fire House Phone: 1-315-947-5145

Dear Chief Examiner Ed Grant,

The Fair Haven Fire Department accepts and appreciates the findings of the State Comptrollers Auditors as were outlined in the exit meeting on Friday January 23<sup>rd</sup>. The only addition we have is the treasurer gives an expenditure report at each business meeting, which are held twice a month not monthly.

The Board of Directors has adopted or is working on all five of the auditor's recommendations.

The treasurer has begun printing monthly bank reconciliation statements (item6), providing the board with interim financial reports (item7), receiving membership approval for account transfers (item8), and will begin more accurate record keeping at our first fund raiser of the year on Friday February 13<sup>th</sup>(item9).

The Board of Directors is also writing the CAP and will forward that to your office.

Yours Truly,

Richard Bills  
Treasurer, Fair Haven Fire Department.