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May 2015

Roberta Woods, President  
Board of Directors  
Hamlin Fire Department  
1503 Lake Road  
Hamlin, NY 14464

Report Number: 2015M-013

Dear Mrs. Woods and Members of the Board:

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 Hamlin Fire Department (Department) which addressed the following question:

- Has the Board of Directors provided adequate oversight of the Department's financial operations to ensure that assets 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. Except as indicated in Appendix A, Department officials generally agreed with our findings and recommendations and indicated they have initiated, or plan to initiate, corrective action.

### **Background and Methodology**

The Department is a not-for-profit organization that was incorporated in 1929. The Department is located in the Town of Hamlin in Monroe County. It is affiliated with the Hamlin Morton Walker Fire District and provides fire protection services to the Towns of Hamlin, Kendall and Clarkson. The Department has more than 60 active members and responds to approximately 745 calls each year. The Department's primary sources of revenue are donations, bar and food sales, hall and space rental and fund-raising activities. The Department's 2013 revenues were \$147,989 and expenses were \$150,415.

The Department is operated in accordance with its constitution and bylaws (bylaws) and governed by an eight-member Board of Directors (Board). The Board is responsible for the general management of the Department's financial affairs. The Treasurer is responsible for all funds and financial transactions, including making deposits; preparing, signing and endorsing checks; maintaining accurate financial records; and submitting monthly financial reports at the Board's monthly and annual meetings. The former Treasurer was relieved of duties in May 2012 due to poor financial records and reporting. Upon the Treasurer's dismissal, the Department hired an external public accountant to review the Department's financial records. The external accountant identified poor accounting records, a weak control environment and lax oversight of the Treasurer function. Since this time, the current Treasurer and Board have been continually developing and improving the financial processes and procedures. While they improved documentation and oversight over the course of the audit period, they need to formalize their improved procedures with written policies and make additional improvements to adequately safeguard the Department's assets.

We examined the Board's oversight and internal controls over the Department's financial operations for the period January 1, 2013 through January 6, 2015. 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.

## **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 comprising policies and procedures to ensure that 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 applicable laws, rules and regulations. The Department's bylaws require the Board to develop and submit a proposed budget for the following year at its October meeting. While not required by the bylaws or statute, sound business practices require that the Board physically review and approve bills prior to their payment; periodically review the computerized financial records, bank statements and reconciliations, especially if financial duties are not segregated; and annually audit the Treasurer's records to ensure that funds are used for legitimate Department expenses and properly accounted for and reported.

The Board did not provide adequate oversight and did not establish appropriate internal controls over the Department's financial activities. The Department's bylaws provide very limited guidance regarding the Board's responsibilities and the Treasurer's duties. In fact, one of the bylaws' few specific financial requirements is the adoption of an annual budget at the October meeting. However, prior to our audit fieldwork, the Board had not proposed and the membership had not approved an annual budget.<sup>1</sup> In addition, the Board had not adopted written financial policies or procedures addressing cash receipts, disbursements, purchasing or claims processing and approval. Absent detailed guidance, the Board had not taken steps to adequately segregate the Treasurer's

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<sup>1</sup> On January 28, 2015, Department officials told us that the Board had adopted a budget for 2015 at its January 5, 2015 organizational meeting.

duties or provide adequate oversight of the Treasurer. The Treasurer makes all deposits, disburses cash without the Board's prior approval and performs all recordkeeping functions without adequate oversight. Further, we found that, while Board members review most of the bills, they typically do so after the payments have been made, and their approval is not documented in the minutes.<sup>2</sup> This review and approval process provides little assurance that the Department is paying for appropriate goods and services because it is less likely and more difficult to recover a payment that has already been made than to withhold payment for questionable purchases. Lastly, the Board did not conduct an annual audit of the Treasurer's records.

The current Treasurer maintained appropriate financial records and made disbursements which were for reasonable Department expenses. The Treasurer prepares a monthly financial report from the computerized accounting system, which details the cash balances by account for the last year and includes the receipts and disbursements that occurred during the month. However, without an adopted budget, the Board and membership could not properly monitor the Department's financial results against an established spending plan or effectively control Department spending. Additionally, the Treasurer did not provide the Board with any bank account information. Without bank statements and reconciliations, the Board is unable to determine if the Treasurer's reports are accurate. While we found that the Treasurer's monthly reports were generally accurate, the annual financial report (Form 990<sup>3</sup>) filed by the Treasurer was not. The accounting system report used to generate the Form 990 excluded certain expenses that had not been coded to an expense account in the accounting system. Therefore, the expenses were underreported. Additionally, some of the revenues were not properly categorized. These errors resulted in the Department reporting a net gain of approximately \$2,000 while we calculated a loss of about \$2,500. Therefore, the Board and membership lacked an accurate picture of the Department's financial status at the end of the year and did not have sufficient assurance that all Department funds had been adequately safeguarded.

Due to these deficiencies, we reviewed all 568 disbursements<sup>4</sup> totaling \$257,948 made during our audit period. We identified 118 (21 percent) of the disbursements, totaling \$62,670, which did not contain sufficient documentation, such as itemized receipts or invoices, although they appeared to be consistent with the Department's other expenses.

We also reviewed all 209 recorded receipts and deposits totaling \$281,049 and found that 108 (52 percent) were not adequately supported. Specifically, we could not support cash collections from donations and fund-raisers. We compared the Department's fund-raising report for the Carnival fund-raiser<sup>5</sup> in 2013 with recorded and reported revenue and deposits and identified a discrepancy of \$1,009. While the Treasurer attributes this to inaccurate reporting, the Board's failure to ensure that amounts were collected, deposited and accounted for in a timely manner increases the risk that errors or irregularities could occur and remain undetected. There also was no independent 2014

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<sup>2</sup> The Department's minutes were not complete. The Department experienced turnover in the secretary position during our audit period.

<sup>3</sup> Internal Revenue Service (IRS) Form 990 is used by tax-exempt organizations to provide the IRS with required information.

<sup>4</sup> This includes check and debit disbursements

<sup>5</sup> The Department's largest fund-raiser

Carnival report completed.<sup>6</sup> We discussed other minor deficiencies with Department officials during our audit fieldwork.

The weaknesses in the Department's internal controls create a risk that Department resources may not be used for appropriate purposes or that related decisions may not be in the best interest of the general membership.

## **Recommendations**

To ensure an adequate system of internal controls over Department operations, the Board should:

1. Amend the bylaws or adopt financial policies and procedures to establish adequate internal controls over cash receipts, disbursements, purchasing and claims processing to guide the proper management and oversight of financial activities.
2. Prepare, present to the membership and adopt an annual budget prior to the start of each year.
3. Audit and approve all claims prior to payment, ensuring that each claim includes an itemized invoice with enough detail to support the claim as an actual and necessary Department expense. Further, ensure that audited and approved claims are documented in the minutes.
4. Ensure that the Treasurer is preparing and providing monthly bank reconciliations and supporting bank information for review.
5. Conduct an annual audit of the Treasurer's books and records.
6. Ensure that proper reports are prepared for fund-raising events.

The Treasurer should:

7. Provide the Board with monthly bank reconciliations and bank statements.
8. Ensure that the financial reports generated from the accounting system are accurate for the timely completion of the annual Form 990.
9. Reconcile fund-raising reports with the cash turned over for deposit and ensure all fund-raising activity is recorded and deposited properly and in a timely manner.

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,

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<sup>6</sup> At the December Board meeting, more than four months after the Carnival, the fund-raiser Chairman told the Board that he was not going to prepare a Carnival report.

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 Department officials 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 pages.



# Hamlin Fire Department, Inc.

1503 Lake Road

P.O. Box 12

Hamlin, New York 14464

May 26,2015

## Audit Response

And

## CAP

## Background

While the Board of Directors of the Hamlin Fire Department, Inc. has learned a great deal of information from the audit from the State Comptroller's office and have put many suggestions into effect. Some suggestions are simply too labor intensive to be particle in our setting. It must be remembered that the Board is made up of non-paid volunteers that have paying careers outside the fire department, as well as families and personal lives. It should also be noted that the Hamlin Fire Department and District, Morton Fire Department and District and Walker Fire Department and District have been recently combined into the Hamlin Morton Walker Fire District. Because of this, the three departments are currently engaged in creating a new constitution and new bylaws that can reflect some of the suggestions made by the Comptroller's office.

## Audit Response

The general theme throughout the audit report centered on a lack of *written* policies and procedures within the departments operating structure. Many of our policies and procedures were passed along from one generation to the next, never being written out. We are currently creating a policy and procedure handbook within the department. Started while the audit was in progress, the handbook outlines, in detail, job description, duties and responsibilities of each board member. It also details the procedures each board member must use to accomplish their duties. The procedures also outline the handling of credit cards, check books , purchase orders and the mechanisms to maintain proper use and control of each.

Since the audit, the Board has established an audit committee that reviews the financial reports on a quarterly basis and an annual, internal audit. The committee does include the deputy treasurer of the Fire District. Organization of the monthly financial information is based on the Comptroller's office

suggestions. Bank statements and reconciliations are reviewed by the audit committee. Budgets will be presented in accordance to the guidelines outlined in the new constitution.

With only one Board meeting a month, time does not allow for all bills to be pre-approved prior to payment. The Board did pass a resolution in October, 2013 and has updated the list, when necessary, of vendors that could be paid without prior Board approval. This is recorded in the monthly minutes of the Board. The Treasurer works with a voucher system. Bills are submitted to the Board as a packet. The packet consists of a voucher, original bill, bank conformation of bill payment and, when possible, a copy of the endorsed check. Bills for alcohol must be paid within ten (10) days; therefore it is not practical to wait to preapprove those bills. All Board members also receive a statement of all accounts for a one year period and a monthly record of all transactions, by account. While the potential for an overpayment does exist, the additional time and labor required to adhere to the Comptroller's office suggestions does not make it feasible. Again, we are not a paid staff and do not work full time at the fire department.

All income from fund raisers and donations are counted, separately, by two people. Amounts are recorded on double sided count sheets and then compared. The money is then counted a third time by the treasurer and recorded. On Mail-in fund raisers, envelopes are opened by two people, the amount is recorded on the empty envelope and then the money is counted, as above. This method using a double sided count sheet is also used in counting cash during fund raisers such as carnival and gun raffles.

In 2015, the Board agreed that all financial matters for carnival, including interim and final report, will be performed by the treasurer. The treasurer will not be allowed to sign contracts.

Sincerely,

Roberta Woods

President

Cc: Board members