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November 2017

Steven Murnan, President
Members of the Board of Directors
East Bloomfield-Holcomb Fire Department
105 Main Street
East Bloomfield, NY 14443

Report Number: 2017M-160

Dear President Murnan 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 East Bloomfield-Holcomb Fire Department (Department) that addressed the following question:

- Has the Board 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. Department officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background and Methodology

The Department provides fire protection services for the East Bloomfield Fire District (District), which covers the Town of East Bloomfield and certain areas of the Town of Canandaigua¹ in Ontario County and has approximately 75 volunteer members. The Department receives revenue from fundraising events, foreign fire insurance and donations. The Department had combined total revenues and expenses for 2015 and 2016 of approximately \$121,000 and \$57,000, respectively.

¹ In accordance with a fire protection agreement between the District and the Town of Canandaigua

The Department operates in accordance with its bylaws. The Board of Directors (Board), composed of four elected officers² and the Fire Department Chief, is responsible for overseeing the Department's overall financial management and safeguarding its resources. The Treasurer is responsible for receiving, depositing, disbursing and accounting for Department funds and accurately recording and reporting all activity so the Board is able to determine the Department's financial position. The decision-making power lies with the vote of the membership.

We examined the Department's financial operations and Board oversight for the period January 1, 2015 through April 12, 2017. 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

The Board is responsible for overseeing the Department's financial operations and safeguarding its resources. To fulfill these duties, it is essential that the Board establish a system of internal controls, which consists of written policies and procedures that assign and segregate duties, where possible, and 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. If segregating financial duties is not practical, Department policies should include compensating controls such as having someone independent of the process review applicable records and supporting documentation to ensure that transactions are properly recorded and reported.

It is imperative that the Treasurer submits complete monthly reports to the Board and membership, including bank reconciliations, and provides the Board with adequate documentation to support all financial activity for fundraising collections and disbursements. In addition, the bylaws require the Board to make provisions to conduct an annual audit of the Department's finances. Furthermore, the bylaws require that documentation for any purchase be signed by the purchaser and include the officer's name who provided prior approval.

We found that the Board did not provide adequate oversight to safeguard Department assets. The bylaws do not adequately segregate financial duties and instead assign them all to the Treasurer. They also do not provide for mitigating controls such as requiring someone other than the Treasurer to review and reconcile the bank account statements to the accounting records. Additionally, we found the financial provisions in the bylaws confusing and contradictory. For example, one section states that all purchases must be approved by an elected Department officer, then says approval is required for purchases over \$25. Other sections set different approvers and differing amounts. Additionally, Department officials did not follow the purchasing requirements outlined in the bylaws. The bylaws are limited, and the Board has not developed any additional policies and procedures over financial operations to provide guidance in areas such as cash receipts and disbursements, purchasing and prior approvals, credit or debit card use or sufficient accounting records, reconciliations and reviews. Finally, the Board does not conduct an annual audit of the

² The President, Vice-President, Secretary and Treasurer

Department's records, as required by the bylaws. As a result of the Board's inadequate oversight, various control weaknesses put the Department's assets at greater risk of loss or theft.

The Treasurer is responsible for updating and maintaining all the Department's financial records and preparing reports,³ collecting and depositing cash generated during fundraising events, printing and mailing checks to pay invoices and reviewing bank statements and performing bank reconciliations. Although the Treasurer maintained financial records, he did not provide monthly bank statements or reconciliations to the Board and was unable to provide us with reconciliations during our audit. Additionally, while the Treasurer generated written monthly reports, consisting of a balance sheet and a list of bills to be paid, for the Board, he did not provide a budget-to-actual comparison for revenues and expenses or a profit and loss statement. At the monthly meetings, the Treasurer reads the bills aloud to the membership for approval, but does not provide a written list or supporting documentation, such as invoices, for their review. Furthermore, the Treasurer did not maintain – or provide to the Board and membership - detailed records or reports for the Department's fundraising events.

Receipts – The Department has five main revenue sources: two semi-annual chicken barbeques, an annual mail fund drive and an occasional boot fund drive in addition to foreign fire insurance money. The chicken barbeques are cash-and-carry events, with no advanced sales. The Department does not use tickets or receipts to document or quantify dinner sales. Therefore, they have no record of the amount they should have collected from these events. According to the Department's records, the 2015 chicken barbeques grossed \$11,129 and the 2016 chicken barbeques grossed \$9,869. The Treasurer was solely responsible for receiving,⁴ counting and depositing the cash collected from the barbeques.

The mail fund drive is organized and run solely by the Treasurer. The Treasurer maintained a spreadsheet of donor contact information and receipts, but did not maintain the donation forms or make deposits intact. Therefore, we could not verify that all funds were properly deposited and recorded. Department records indicate that the Department collected \$13,467 in 2015 and \$14,276 in 2016 from the mail fund drive. However, officials had no supporting documentation to substantiate these amounts. We were also advised that fire department members occasionally collect money from a boot drive as part of Department events. However, there were no boot drive fundraising records during our audit period, even though Department officials told us they had a “fill the boot campaign” at their Halloween event in 2016.

We found deposits for the chicken barbeques and mail fund drive events on the Department's bank statements and in the records. However, because of the lack of adequate supporting documentation for fundraising and donation activities, we were unable to determine if all receipts collected were properly recorded and deposited into a Department bank account. Therefore, there is no assurance that all revenue was accounted for and properly deposited. However, we found that total chicken costs (by the pound) for the four barbeques during our audit period averaged 18 percent of reported revenues, which appears reasonable.

³ With the exception of the Department's Internal Revenue Service Form 990, which is prepared by an external accounting firm

⁴ Other members collect cash at events but the Treasurer receives and counts the cash at the end of the events for deposit.

Disbursements – Due to the lack of segregation of duties and mitigating controls over cash disbursements, we reviewed all 252 disbursements from January 2015 through December 2016, totaling \$56,591, to determine if they were adequately supported and appeared to be for reasonable Department purposes. While disbursements were generally adequately supported and for reasonable Department purposes, we found that the supporting documentation did not comply with the bylaws because it did not include a signed sales slip by the purchaser indicating the name of the authorizing officer or other indication of approval. Without properly reviewing and approving all bills prior to payment, the Board does not have adequate assurance that the purchases were for a valid Department purpose, increasing the risk that Department funds could be used for inappropriate purposes.

We also found that the Treasurer made 59 (23 percent) of the 252 disbursements we tested, totaling \$7,120, with a debit card. Debit card purchases were for varied purposes including online purchases, supplies for fundraisers and refreshments after calls or drills. The use of a debit card poses a significant risk because it provides direct access to the Department's bank account (similar to paying with cash) and any unauthorized use may not be readily detected. Additionally, because the Treasurer used the card to pay for purchases without prior approval⁵ by the Board and membership, he circumvented the Department's bylaw requirement that all purchases receive prior approval.

Recommendations

The Board should:

1. Consider comprehensively reviewing the Department's bylaws and making amendments to financial operation provisions as necessary to eliminate unclear provisions, better segregate duties and incorporate the procedures appropriate for and/or used by the Department.
2. Adopt adequate policies and detailed procedures to provide guidance over Department financial operations and mitigate the risk associated with the lack of segregated financial duties, including these key areas: prior approval of purchases; review and approval of bills for payment; appropriate use of debit or credit cards; recording and reporting all revenues and expenses, especially for fundraising events; adequate internal controls for safeguarding fundraiser revenues; and preparing suitable monthly bank reconciliations and reports to the Board and members.
3. Conduct an annual audit of the Department's accounting records, as required by the Department's bylaws.
4. Prepare or review, and retain, monthly bank reconciliations and timely address any identified discrepancies to ensure the accounting records are complete and accurate.
5. Review the Treasurer's records and reports to ensure that all cash receipts are properly controlled, accounted for and deposited, and that all fundraiser revenues and

⁵ When a purchase is made with a debit card the bank account is automatically debited, thereby circumventing the approval process.

disbursements are independently reviewed by an individual not involved in cash-handling and recordkeeping.

6. Monitor compliance with the Department bylaws and policies.

The Treasurer should:

7. Prepare monthly bank reconciliations for all bank accounts and provide them to the Board along with the bank statements for review.
8. Provide monthly profit and loss (revenues and expenses) and budget-to-actual reports to the Board.
9. Provide the Board and membership with a detailed record of all financial activities, including fundraising activities, and retain detailed supporting documentation.
10. Discontinue the use of a debit card for Department purchases.

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 of the East Bloomfield-Holcomb Fire Department for the courtesies and cooperation extended to our auditors during this audit.

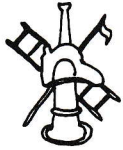
Sincerely,

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.



East Bloomfield-Holcomb Fire Dept., Inc.

P.O. Box 246

East Bloomfield, New York 14443

October 30, 2017

State Of New York
Office of the State Comptroller
110 State Street
Albany, NY 12236

Gabriel F. Deyo,

We have received the draft audit report and, after review, are in general agreement to the findings of the audit. We have the following points regarding addressing concerns:

1. Department Bylaws – We are updating the department bylaws to eliminate inconsistencies and address concerns including consistency in naming of the Executive Board, purchase approvals and segregation of duties.
2. Financial Oversight – We have developed a draft Executive Board Code of Ethics pending department approval. We are developing an Executive Board Standard Operating Guidelines for financial oversight. This will address concerns about establishing written policies regarding financial duties and establish procedures for guidance over financial operations.
3. Audits – We are establishing a defined timeline of scheduled annual audits.
4. Reconciliation – We are changing our reconciliation procedures to address concerns regarding approval of bills and supporting documentation for review. This will be subject to the Standard Operating Guidelines including prior review by another Executive Board member and printed copies available for Executive Board review.
5. Fund Raising – Fund Drive: Although 2016 was run solely by the Treasurer, prior years were run by a volunteer committee chair other than the Treasurer from the department. In 2017 we will use co-chairs separate from the Treasurer. Supporting documents are on file for past years fund drives including donation forms and these are available for review by the auditors. Chicken BBQ – In 2017 we have already instituted the recommended receipt process for payments, and segregated receiving, counting and depositing functions. Other fund raising efforts such as Fill The Boot will be subject to Standard Operating Guidelines including segregation of receiving, counting and depositing functions.
6. Treasurer and Executive Board - The Treasurer and Executive Board will comply with all the recommendations specified in the draft report including use of a credit card from the current debit card to address concerns.

In summary, we will prepare a separate Corrective Action Plan to follow.

Sincerely,

Steve Murnan, President
East Bloomfield-Holcomb Fire Department