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July 18, 2014

Carl Peter, Chairman
Members of the Board
York Fire Department
P.O. Box 92
Retsof, NY 14539

Report Number: 2014M-112

Dear Mr. Peter 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 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 York 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 moneys 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 the recommendations and indicated they have initiated or plan to initiate corrective action.

Background and Methodology

The York Fire Department (Department) was established in 2007 and provides fire protection and rescue operations to the Town of York, as contracted by the Town. The Department's primary sources of revenue are its fire protection contract with the Town and donations from taxpayers. The Department's revenues and expenses for the 2013 fiscal year totaled approximately \$213,000 and \$138,000, respectively.

The Department operates in accordance with its Department bylaws (bylaws), and is governed by a five-member Board of Directors (Board). The Board is responsible for the overall financial management of Department operations. The Department's members elect a Treasurer who is responsible for most financial duties, including receiving and disbursing funds, maintaining

accounting records, and preparing financial reports. The elected Assistant Treasurer is responsible for assisting the Treasurer and preparing bank reconciliations.

We examined the internal controls over the Department's financial operations from January 1, 2012 through October 30, 2013. We interviewed 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 and managing the Department's financial operations and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls over financial operations. This system should consist of adequate policies and procedures that ensure all transactions are authorized, properly recorded and accurately reported in a timely manner. The Department is also required by General Municipal Law (GML) to adopt a written code of ethics to set forth standards of reasonably expected conduct.¹ In addition, the Board should monitor compliance with its bylaws and policies, as well as applicable laws, rules and regulations to ensure the Department is complying with all legal requirements.

The Treasurer should maintain complete and accurate records to account for all of the Department's financial activities and report on these activities monthly to the Board.² The Treasurer and Board should prepare and submit annual reports to the membership.³ These reports are important fiscal tools which provide the membership and Directors with information necessary to monitor the Department's financial activities. The bylaws require the Board to examine, audit and approve all of the Department's books and records. The bylaws also require the books to be audited by an independent public accountant before a new Treasurer takes office. Additionally, GML requires the Board to obtain an independent audit of the Department's records when annual revenues exceed \$200,000.⁴ According to the bylaws, no bills shall be paid by the Treasurer unless authorized by the Board. In addition, the Board should review and approve bills prior to payment to ensure that all disbursements are supported by appropriate documentation and that Department funds are used for legitimate Department expenditures. This review is especially important where there is a lack of segregation of financial duties.

We found that the Board generally does not provide adequate oversight of the Department's financial activities. The Board did not adopt financial policies and procedures addressing cash receipts and disbursements, procurement, or claims processing and review, and has not adopted a

¹ GML Section 209-ee requires that a fire company that contracts with, or is under the control of, a municipality or fire district must adopt a code of ethics.

² Bylaws require the Treasurer to report to the Board monthly on receipts, disbursements and account balances, as well as provide a statement of assets and liabilities.

³ Bylaws require the Treasurer to make an itemized statement of receipts and disbursements at the annual meeting of the membership in December. Additionally, Not-For-Profit Corporation Law requires that a Directors' report be presented at, and entered into the minutes of, the annual meeting of the members; it must detail the Department's assets, liabilities, revenues and expenses.

⁴ This law was amended to increase the revenue threshold to \$300,000, effective for the 2013 fiscal year.

written code of ethics. Although the bylaws specifically detail the Board's responsibilities and the Treasurer's duties, these guidelines alone do not adequately segregate their duties or ensure that the Board monitors financial activities. Further, the Board did not require the Treasurer to provide it with adequate monthly reports that included receipt, asset and liability information. The Board also did not require that the Treasurer provide an annual financial report to the members, in accordance with the bylaws. Further, the Board did not present the statutorily required Directors' report to the membership at the annual meeting.

In addition, we found no evidence that the Board annually audited and approved all of the Department's books and records, as required by the bylaws. Furthermore, in 2012, the Board did not obtain an independent audit of the 2011 records, which was required by GML because 2011 revenues exceeded \$200,000. The bylaws also required an audit because a new Treasurer took office in 2011. Lastly, there was no evidence that the Board reviewed and approved bills before they were paid. The Board's inadequate oversight exposes the Department to increased risk that errors and irregularities could occur and not be detected and corrected in a timely manner.

Due to these deficiencies, we reviewed all bank statement activity and examined all 440 check disbursements totaling \$377,990 that were made from January 1, 2012 through July 31, 2013. We found that 47 disbursements totaling \$162,134 did not have adequate supporting documentation. These payments appeared to be for legitimate Department purposes. For example, six transfers totaling \$141,385 were made to the Department's savings accounts for future building and equipment expenditures but did not have documented Board authorizations for the transfers. Other examples included claims for: startup cash for fund raisers (\$16,170), services provided by other fire departments (\$514) and dues to various fire associations (\$225). In addition, we reviewed bank reconciliations⁵ for the Department's three accounts, verified they were reasonable and identified no unusual activity. We also tested all deposits made from January 1, 2012 through July 31, 2013 totaling \$396,303 and confirmed that moneys collected from fundraising events and donations were properly recorded and deposited. We discussed other minor deficiencies with Department officials during the conduct of our fieldwork.

The Board's failure to develop and adopt policies and procedures, its inadequate oversight of financial records and reports and its failure to ensure that disbursements were properly supported limit its ability to monitor operations and ensure that Department moneys are appropriately spent.

⁵ December 2012 (year-end) and July 2013 (most recent)

Recommendations

1. The Board should adopt written policies and procedures that establish a strong system of internal controls over the Department's financial operations.
2. The Board should adopt a code of ethics as required by law.
3. The Treasurer should provide adequate monthly reports to the Board including all financial information required in the bylaws.
4. The Treasurer and Board should provide annual reports to the membership as required in the Department's bylaws and by statute.
5. The Board should audit and approve all of the Department's books and records as required by the bylaws and should engage an independent accountant to audit the Treasurer's records when required by the bylaws and GML.
6. The Board should review and approve all bills and claims before they are paid to ensure they are properly supported. Board members should document their approval for payment.

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

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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



York Fire Department

P. O. Box 92 - Retsof, New York 14539
Established 2007

Office of the State Comptroller

16 West Main St. Suite 522

Rochester, NY 14614

To: Chief Examiner- NYS Comptroller's Office

Although we dispute the wording that we do not have adequate oversight of the financial records of the dept., we do acknowledge a better written policy and procedure for financial dealings would be beneficial to the dept. to ensure present and future personnel in these positions understand and review our duties. We have already adopted a comprehensive policy and procedure document that addresses many of these issues, specifically the ethics policy. We will be working toward specific procedures for both the Board of Directors and the Treasurer to follow so there will be a better written record of all department funds.

Respectfully,

Carl A. Peter
Chairman- Board of Directors
York Fire Department, Inc.