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January 31, 2014

Todd MacConnell, President
Members of the Board of Directors
Warsaw Fire Department
40 East Buffalo Street
Warsaw, NY 14569

Report Number: 2013M-347

Dear Mr. MacConnell and Members of the Board of Directors:

The Office of the State Comptroller works to identify areas where fire company 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 company 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 Warsaw 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 officials and considered their comments in preparing this report. The Department's response is attached to this report in Appendix A. The officials agreed with our recommendations.

Background and Methodology

The Warsaw Fire Department comprises one fire company, Cry-Res Corporation (Company).¹ The Company provides services for the Village of Warsaw (Village) in Wyoming County and fire protection² services to residents outside the Village pursuant to contracts with the Towns of Orangeville, Warsaw and Middlebury.

¹ While there are other subsets of the Department including the Rescue Squad, Fire Police Squad, Junior Fire Department and Benevolent Association – each with its own separate set of officers responsible for oversight and financial activity – our audit focused primarily on Cry-Res Corporation.

² The Company received no money directly from the fire protection contracts with the Towns. These funds are collected by the Village each year. The Village's adopted budget includes allocations for Fire Department operations. The Village purchases and maintains fire equipment for the Company.

The Company is a volunteer organization which provides manpower to operate the fire equipment owned, maintained and housed by the Village. The Company's operations are funded by donations and various fundraising activities. During the 2012-13 fiscal year (July 1, 2012 through June 30, 2013), Company officials deposited approximately \$128,000 into Company bank accounts. The Company's disbursements during the 2012-13 fiscal year totaled approximately \$117,000.³

The Company is operated in accordance with its by-laws which stipulate that an elected Board of Directors, also known as the Fire Council (Board) and comprising 12 elected members, is responsible for the Company's overall financial management. The by-laws state the Treasurer is responsible for collecting all Company moneys and depositing them within three days of receipt. The Treasurer is also responsible for paying all Company bills when authorized and only allowing money to be withdrawn when authorized. The Treasurer must keep a correct accounting of those funds, prepare monthly financial reports and present her records when requested. The by-laws also state that two elected Board members are responsible for auditing the books of the Treasurer semi-annually.

We examined the internal controls over the Company's financial operations for the period June 1, 2011 through October 21, 2013. We interviewed Company officials and reviewed financial records and Company 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 Company'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 that ensure transactions are authorized and properly recorded; that financial reports are accurate, reliable and filed in a timely manner; and that the Company complies with its by-laws and other applicable laws, rules and regulations. The Treasurer should maintain complete, accurate and timely records to properly account for all of the Company's financial activities and submit monthly and annual reports to the Board.

Although the Treasurer generally maintained appropriate financial records, the Board does not provide adequate oversight of Company financial activities because the Treasurer does not provide the Board with monthly or annual reports. These reports are an important fiscal tool that provides the Board with information necessary to monitor Company operations and gives other interested parties a summary of the Company's financial activities. Additionally, the Treasurer does not prepare a monthly bank reconciliation to be presented to the Board.

³ Company expenses comprised the following major categories: fundraising costs (\$62,000), equipment purchases and repairs (\$27,000), annual banquet (\$5,000), insurance (\$5,000), supplies (\$5,000), department-sponsored functions (\$4,100), clothing (\$2,000), consulting fees (\$1,500), officer salaries (\$1,350), dues (\$1,100), utilities (\$1,000), miscellaneous expenses (\$1,000) and donations (\$900).

Further, the Board did not elect two members to audit the Treasurer's records as required by the by-laws and did not audit bills or approve payments prior to checks being issued. While Board resolutions authorized significant purchases and disbursements, the Board did not subsequently review the bills before payment. Additionally, not all Company funds were accounted for or in the custody of the Treasurer as required by the by-laws; instead, the Grounds Superintendent collected fees and made disbursements related to the rental and maintenance of a Company facility. The Board's inadequate oversight of financial activity creates a risk that Company disbursements may not be for appropriate purposes and that all moneys due the Company may not be received and deposited.

Disbursements – We reviewed all 163 disbursements⁴ of over \$300, totaling approximately \$257,000, made during the period June 1, 2011 through August 30, 2013.⁵ Generally, financial activity was properly recorded and disbursements appeared to be for Company purposes. However, 24 disbursements totaling \$27,439 had no supporting documentation. These unsupported payments included nine checks totaling \$21,200 made payable to cash. Notations on the checks indicated they were for fundraiser start-up money, and the Treasurer's cash disbursement journal also indicated that the checks were issued to provide start-up funds for various Company events and fundraisers. However, the Treasurer did not maintain records indicating how the cash was used for the events or how much cash was returned at the end of the event. When disbursements are made without proper authorization and appropriate documentation, the risk is increased that payments could be made for other than legitimate Company purposes.

Receipts – The Company's main source of revenue is fundraising activities which include an annual carnival, tournaments and raffles. During the 2012-13 fiscal year, receipts from fundraising totaled more than \$89,000. However, Company officials do not maintain appropriate records to indicate how much money was collected from each fundraising activity or the amount of net proceeds that the Treasurer should have received. The Treasurer records the source of funds for each deposit in her cash receipts journal and prepares a fundraising reconciliation for each event to account for receipts, amounts disbursed (costs) and net proceeds. However, Company officials do not properly account for the tickets sold at each event and maintain no suitable records to substantiate fundraising proceeds.

We analyzed the receipts, costs and net proceeds of three Company fundraising events held during the period July 1, 2012 through June 30, 2013. The largest fundraising event was the Company's annual Fourth of July carnival which generated more than \$18,000 in net proceeds in 2013. Two smaller events, the 2013 ham raffle and 2012 turkey raffle, each generated approximately \$1,700. We compared our analysis to the Treasurer's fundraising reconciliations and found no material differences; however, because officials maintained no record of raffle tickets sold for the two raffles or of food and beverage tickets sold at the annual carnival, Company officials could not demonstrate and we could not readily confirm that all moneys were received and deposited.

To evaluate the reasonable accuracy of the reported financial activity from the 2013 Fourth of July carnival, we estimated sales for beer, soft drinks, water and food based on the amounts

⁴ There were 581 disbursements totaling \$290,438 during this period.

⁵ August 2013 was the last month for which we had bank statements during our audit period.

purchased⁶ for the event and compared estimated sales to the Treasurer's reported sales of these items. We found that estimated sales exceeded reported revenue by more than \$18,000. According to Company officials, the large difference can be attributed, in part, to members and volunteers being allowed to eat and drink for free and to any leftover food and beverages being brought back to the fire hall for Company consumption. However, without suitable records to substantiate the amounts sold, consumed and left over, Company officials have no accountability and there is a significant risk of cash receipts and purchased goods being misused or diverted.

Grounds Rental Fees and Expenses – The Department grounds include a shelter that can be rented for personal use. The Board appointed one of its members to serve as Grounds Superintendent (Superintendent) responsible for cleaning and maintaining the grounds and shelter, as well as scheduling rentals. However, the Superintendent also approves all rental requests and collects and deposits rental fees into a separate checking account he maintains on behalf of the Company. This is not authorized by the Company by-laws, which require all Company funds to be accounted for or in the custody of the Treasurer. The Superintendent records deposits and disbursements for maintenance expenses in his check register, but does not maintain detailed accounting records and does not report grounds rental financial activity to the Treasurer or the Board.

We used bank statements, canceled check images, bills and other miscellaneous documentation to analyze grounds rental deposits and disbursements during the audit period. We identified 44 cash disbursements totaling \$8,355 and 15 deposits totaling \$6,975. Of these, we found that three disbursements totaling \$703 had no supporting documentation and eight disbursements totaling \$475 were recorded as customer deposit refunds but were not supported by rental applications or any other documentation. According to the Superintendent's records, \$6,775 in deposits was derived from grounds rental fees and the remaining \$200 was a donation. However, the Superintendent did not maintain any records to support the amount of rental fees collected, such as signed rental agreements or rental request forms. Therefore, the Superintendent could not demonstrate and we could not confirm that all rental fees were collected and deposited.

We discussed other minor deficiencies with Company officials during our fieldwork.

Recommendations

1. The Board should provide oversight of the Treasurer's responsibilities to ensure they are fulfilled, including the preparation of comprehensive monthly and annual reports to assist the Board in monitoring financial activity.
2. The Treasurer should prepare monthly bank reconciliations and present them to the Board for review.
3. The Board should elect two members to audit the Treasurer's financial records as authorized in the by-laws.
4. The Board, in accordance with the by-laws, should approve bills prior to payment and ensure that appropriate supporting documentation is included.

⁶ We reduced estimated sales for unopened cases of beer that were returned to the vendor for a credit.

5. The Treasurer should maintain detailed financial records for each fundraising event indicating, at a minimum, the start-up money provided, receipts from each event activity, amounts disbursed (with supporting documentation), and the net proceeds deposited. Such records should include the amounts of food and beverages sold, consumed and left over at each fundraising event.
6. Company officials should ensure that tickets sold at each fundraising event are press-numbered and properly accounted for at the beginning and end of the event.
7. The Treasurer should collect, record and disburse all Company moneys, including grounds rental fees, as required by the by-laws.
8. The Board should ensure that Company officials approve and retain grounds rental contracts and/or applications when renting Company grounds. The contracts should be approved by someone other than the Treasurer and should clearly establish the payment amounts that the Company is to receive.

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

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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

Cry-Res Company
Warsaw Fire Department

40 E. Buffalo St
Warsaw, NY 14569
(585) 786-2468

January 28, 2014

To whom it may concern,

This letter is in response to the financial audit conducted on the Warsaw Fire Department.
We have met with the auditors and accept their report.

Todd MacConnell
President , Warsaw Fire Department