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September 2015

Richard Young, Chairman  
Members of the Board of Directors  
Barnard Fire Department  
3084 Dewey Avenue  
Rochester, NY 14616

Report Number: 2015M-134

Dear Mr. Young 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 Barnard 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 agreed with our findings and recommendations and indicated they plan to initiate corrective action.

### **Background and Methodology**

The Department is a volunteer organization established in 1927 and located in the Town of Greece, Monroe County. The Department is affiliated with the Barnard Fire District (District) and provides fire protection and rescue services for the District's taxpayers. The Department's primary sources of revenue are fundraisers and donations. For the 2014 fiscal year, the Department's recorded revenues totaled approximately \$249,000<sup>1</sup> and its recorded expenses, approximately \$245,000.<sup>2</sup>

The Department operates in accordance with its bylaws. It is governed by a five-member Board of Directors (Board) and elected officers including the President, Vice President and Treasurer.

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<sup>1</sup> Comprising the following major categories: fundraisers (\$205,953), donations (\$27,865) and other income (\$14,810)

<sup>2</sup> Comprising the following major categories: fundraisers (\$182,648), other expenses (\$28,035), administrative (\$23,850), officer and parade expenses (\$7,639) and association dues (\$3,102)

The Board is responsible for the overall financial management of Department operations and for safeguarding its resources. The President is responsible for presiding over meetings, countersigning all checks<sup>3</sup> and appointing all committees. The Treasurer is responsible for most financial duties, including receiving and disbursing funds, maintaining accounting records and preparing financial reports.

We examined the internal controls over the Department's financial operations from January 1, 2013 through December 31, 2014. 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.

### **Audit Results**

It is essential that the Board establish a system of internal controls over financial operations, consisting of policies and procedures<sup>4</sup> to ensure all receipts are properly recorded and deposited in a timely manner and that all disbursements are authorized, properly recorded and reported in a timely manner. In addition, the Board should monitor compliance with its bylaws and policies and with applicable laws, rules and regulations.

The Treasurer should maintain complete and accurate records to account for the Department's financial activities and prepare and provide monthly reports to the Board, which include detailed receipts, disbursements to vendors and bank statements and reconciliations. The Treasurer and Board should prepare and submit annual reports to the membership.<sup>5</sup> Monthly and annual financial reports are important fiscal tools that provide the membership and Board with information necessary to monitor the Department's financial activities.

The bylaws require the President to appoint a five-member Finance Committee. They further require at least three Finance Committee members to audit the Treasurer's annual report for accuracy, audit all bills before they are paid and audit the financial statements of any committee before accepting the committee's required final report. The Treasurer is responsible for paying all Department bills after the Finance Committee's audit and requiring all expenses, including purchases made by credit card, to have a completed purchase order – prepared by the applicable committee chairperson – containing all necessary information and documentation.

The Board did not enforce the financial provisions in its bylaws and did not adopt policies and procedures to establish internal controls over cash receipts – including timely deposit and proper accounting of all fundraising revenues and activities – and disbursements for purchasing, claims processing and auditing, credit card use, stipends, gifts and service awards. Officials stated that

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<sup>3</sup> As defined under President's Duties. The bylaws also state, under Administration of Finances, that a second signature by the President, Vice President or Board Chairman is required for expenditures of over \$500.

<sup>4</sup> In accordance with the bylaws, the Board shall formulate, in conjunction with other elected Department officials, all rules for conducting the business of the organization and for the management and control of its property.

<sup>5</sup> New York State 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.

they believed such policies could not be adopted outside of the bylaw provisions and, because amending the bylaws could entail a tedious process, they did not do so.<sup>6</sup> In addition, the President did not appoint a Finance Committee to perform the key financial oversight duties required by the bylaws, and no other Department officials performed them. Neither the Treasurer nor the Board prepared the required annual financial reports, no Board or committee members audited bills before they were paid and neither the President nor the Board required or reviewed detailed reports from each fundraising committee to ensure that all revenues were deposited and that both revenues and expenditures were properly recorded and reported.

Reports – The Treasurer submits a monthly report to the membership that shows the beginning bank balance, total receipts and disbursements during the month and the ending bank balance, but does not list the specific disbursements made or contain any budget-to-actual comparisons. In addition the Treasurer does not provide bank statements and reconciliations as a part of her monthly reporting, and no Department official regularly reviews them. In fact, the Treasurer does not save or print the reconciliations she prepares in the accounting software and, thus, could not provide bank reconciliations for our review. This level of detail is not sufficient for the membership or the Board to make informed decisions or ensure that all Department financial activity is accurately accounted for and all expenses are appropriate.

Disbursements – We reviewed all bank statement activity and examined all 465 disbursements totaling \$297,225 that were made from January 1, 2013 through June 30, 2014 to determine if they were supported by purchase orders and adequate documentation, including original invoices or receipts, and evidence of prior approval. We found that 385 disbursements totaling \$261,693 were not supported by a purchase order as required by the bylaws. Furthermore, 198 disbursements totaling \$133,600 did not have any invoices or other supporting documentation.<sup>7</sup>

The unsupported disbursements included multiple payments for stipends, gift cards and service awards that were not previously stipulated or authorized in the bylaws, Board policy or other official action recorded in the Board or membership meeting minutes, and payments<sup>8</sup> to four vendors for purchases made on the District’s eight credit cards (four bank credit cards and four from grocery and retail stores). For example:

- Fourteen payments totaling \$9,030 were made to various members for stipends as noted in the disbursement “memo” field on the computerized general ledger reports. The President and Secretary/Treasurer received stipends totaling \$2,280 which appeared to be included as budget line items, though not clearly labeled as stipends to be paid directly to them. Five Carnival Committee members received stipends totaling \$6,750 for the 2013 and 2014 carnivals. These stipends were not budgeted, approved in the minutes or otherwise provided for or authorized.
- Nine payments totaling \$2,330 (ranging from \$100 to \$400 depending on years of service) were made to members as service awards. The bylaws provide for service awards at the completion of 10 years of active service and each five years thereafter, but provide no

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<sup>6</sup> The bylaws do not prohibit the adoption of such rules independently of the bylaw provisions (see footnote 4).

<sup>7</sup> Many disbursements had more than one deficiency.

<sup>8</sup> The Treasurer often paid for credit card purchases as receipts were turned in to her, instead of making monthly payments that corresponded to the credit card statements. Some checks covered multiple purchases.

guidelines, monetary value or other explanation of the referenced “suitable gift,” which increases risk for open and inconsistent interpretation. Department officials told us service awards were paid at the rate of \$10 per year of service at the Department, but this amount or practice was not formally established or included in Board minutes or any other evidence of Board or membership action.

- Eleven purchases of gift cards from local grocery, home improvement and uniform apparel stores were made totaling \$1,950. They were supported by cash register receipts but had no indication of the reason for the purchase or the intended recipient of the gift card. The Treasurer provided explanations for some gift cards,<sup>9</sup> but we found only one approved in the Department meeting minutes.
- From January 1, 2013 through June 30, 2014, the Department made 299 credit card purchases totaling \$39,850. Department officials did not consistently require receipts for these purchases, which are inherently subject to abuse and potential fraudulent activity due to the ease of making a purchase without obtaining proper pre-approval or detailed receipts. Of the 299 credit card purchases, 223 individual credit card transactions totaling \$27,245 did not have a purchase order attached, and 103 transactions totaling \$14,386 were not supported by an original receipt or invoice.<sup>10</sup> Therefore, we were unable to determine if all the payments were for legitimate Department purposes.

Good business practices dictate that the Board should develop policy guidelines and procedures to govern payments to individuals as compensation, gifts or awards, to provide clear guidance on how, when and to whom to make these payments and to ensure full disclosure to the membership and public as to how these expenses are decided upon.

Fundraising Activities – The Board and Department officials had not developed policies to establish specific controls and procedures for recording and safeguarding fundraising revenues or approving and tracking related expenses. Furthermore, the Board did not enforce the bylaws’ provision requiring detailed reports from the various fundraising committees. The Department held several fundraising activities, the largest being its annual carnival. We reviewed bank statements for the separate carnival bank account and compared deposits, totaling \$241,341, and disbursements (checks), totaling \$144,121,<sup>11</sup> to the Treasurer’s accounting records. For 2013, the Treasurer did not record the carnival revenue deposits or the carnival-related disbursements in the accounting records. The Treasurer stated that the carnival chairman and other Carnival Committee members for 2013 made the deposits and wrote all carnival checks but did not provide detailed financial information.<sup>12</sup> Instead, the Department’s accountant made a summary entry in the accounting records, recording only total receipts (\$110,528) and expenses (\$102,176) for the event. The Treasurer stated that she was in charge of the 2014 carnival records and recorded the individual transactions in the accounting records as they occurred – a notable improvement from 2013 – which we verified without exception. However, both the 2013 and 2014 carnival reports,

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<sup>9</sup> Such as dinner gift cards for firemen on duty on major holidays, thank-you gifts for volunteer helpers with various events and additional service award gifts

<sup>10</sup> Many transactions had more than one deficiency.

<sup>11</sup> The deposits and disbursements comparison was for the period January 2013 through June 2014.

<sup>12</sup> The Treasurer subsequently requested documents for 2013 disbursements from the carnival chairman, for our audit, and provided supporting documentation for 57 of the 100 disbursements.

as well as one other fundraiser report provided for 2014,<sup>13</sup> included total income, total expenses and net income but no detailed financial or other supporting information for Department officials to audit, as required by the bylaws. The President and Board did not enforce bylaw provisions, ensure that the Treasurer paid all bills based on approved purchase orders or require the Carnival Committee chairman (or other fundraising committee chairpersons) to provide detailed reports and financial information for audit. As a result, there is an increased risk that fundraising money could be lost or misappropriated and remain undetected.

Had the Board required the Treasurer to prepare meaningful monthly and annual financial reports, audited her reports and accounting records and audited and approved all bills and claims before they were paid, it may have identified the discrepancies described in this report. Due to the Board's failure to adopt and enforce financial policies and procedures and its inadequate oversight of financial activities, the Board is limited in its ability to monitor operations and ensure that Department moneys are appropriately spent.

## **Recommendations**

The Board should:

1. Monitor and enforce compliance with the Department's bylaws and all adopted policies and procedures.
2. Adopt written policies and procedures for cash receipts and disbursements – including purchasing, claims processing and auditing, credit card use, and service awards and stipends – that establish a strong system of internal controls over the Department's financial operations.
3. Ensure that the Treasurer pays all bills based on approved purchase orders.
4. Present the statutorily required Directors' report to the membership at its annual meeting.
5. Audit, or ensure that a finance committee appointed by the President audits, and approve all bills and claims against the Department before they are paid to ensure they are properly supported and in compliance with the bylaws, Department policies, budgetary provisions and applicable laws.
6. Formally authorize, and present to the membership for approval, policies or annual motions for the provision of any compensation, gifts, stipends, gift cards, service awards, etc.
7. Ensure that all financial transactions are properly recorded in the financial records in a timely manner.
8. Require and review detailed financial reports from fundraising committees to ensure revenues are properly accounted for, safeguarded, deposited and reported.

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<sup>13</sup> The Treasurer provided a report for the "Bands at Barnard" event in 2014 (the first year for this event) but told us no reports were prepared for the annual Booster fund drive for 2013 or 2014.

The President should:

9. Appoint a Finance Committee to perform the key financial oversight duties as stated in the bylaws.

The Treasurer should:

10. Provide detailed monthly reports to the Board, which include all financial information and transactions for that month, a budget-to-actual comparison, bank statements and reconciliations; and provide a detailed annual report to the Board as required by the bylaws.
11. Pay all bills and sign all checks for Department expenses after audit and approval by the Board or Finance Committee.

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 Barnard 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.



# BARNARD FIRE DEPARTMENT



Michael Williams, President  
Tammy Dillingham, Vice President  
Kim Williams, Secretary/Treasurer  
Brandon Barber, Warden/Sgt. At Arms  
Dick Young, BOD Chairman  
Tom Cappon, BOD  
Jim Boss, BOD  
Mark Taliento, BOD  
Keith Thompson, BOD

John Driscoll, Chief  
John Nolan, Assistant Chief  
Mike Jarreau, Captain  
Brennan Hyman, Captain  
Josh Hueber, Lieutenant  
Dan Redmond, Lieutenant

September 17, 2015

Office of the State Comptroller  
The Powers Building  
16 W. Main Street, Suite 522  
Rochester NY 14614

To Whom It May Concern:

We have reviewed your draft findings and we completely agree. We are taking steps to repair our own short comings. A lot of the findings that you have provided to us were things that we were unaware of. We are in the process of making corrective actions for your finding and will provide that report to you within the 90 day time frame allotted.

Sincerely,

Richard Young  
Chairman of Board of Directors  
Barnard Fire Department

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