



# Bloomington Fire Company #1 Disbursements

## Report of Examination

Period Covered:

April 1, 2011 — February 22, 2013

2013M-83



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

June 2013

Dear Local Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and fire company governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Bloomingburg Fire Company #1, entitled Disbursements. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Bloomingburg Fire Company #1 (Company) is a volunteer organization located in the Village of Bloomingburg in Sullivan County. The Company is associated with the Bloomingburg Joint Fire District (District). The District provides fire protection for the Village of Bloomingburg and parts of the Towns of Mamakating and Wallkill located in the Counties of Sullivan and Orange, respectively. The District owns the fire station, trucks, and all its fire gear. The Company owns the furniture and appliances. From April 1, 2011, to January 31, 2013, the Company received approximately \$119,000 in revenue, including \$19,900 in foreign fire insurance premiums. For the same period, the Company made 149 check disbursements totaling \$81,400 and 157 debit card transactions totaling \$32,200.

The Company is operated in accordance with its by-laws. The Company officers consist of a President, Vice-President, Secretary, and Treasurer. The President is the chief executive officer of the Company, and the Treasurer is the chief fiscal officer.

## Objective

The objective of our audit was to evaluate the internal controls over the Company's disbursements. Our audit addressed the following related question:

- Did the President ensure that disbursements were made for proper Company purposes?

## Scope and Methodology

We examined the disbursements of the Bloomingburg Fire Company #1 for the period April 1, 2011, to February 22, 2013.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

## Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Company officials and their comments, which appear in Appendix A, have been considered in preparing this report. Fire Company officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Company officers have the responsibility to initiate corrective action. We encourage the Company officials to prepare a plan of action that addresses the recommendations of this report and forward the plan to our office within 90 days. For more information on preparing and

filing a Corrective Action Plan (CAP), please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Company officials to make this plan available for public review in the Secretary's office.

## Disbursements

The President is responsible for enforcing the Company's by-laws. The by-laws assign duties to certain individuals. The Treasurer is responsible for paying all bills as ordered by the Company and for reporting to the Company. The Company membership approves purchases at the monthly meetings. According to Company officers, the President and Vice President are allowed to make purchases of up to \$500 without prior approval by the Company. The Secretary is responsible for keeping regular minutes of the meetings. These minutes should be detailed enough to show the vendor names and amounts of purchases being approved for payment.

The President did not ensure disbursements were made for proper company purposes. The President allowed the Treasurer to pay bills without evidence of Company approval for the majority of the transactions we tested. Seventy-six payments totaling \$27,600 of the 100 disbursements<sup>1</sup> we tested had no evidence of company approval. Nine of the 40 checks totaling \$8,700 and 20 of the 60 debit card transactions totaling \$7,500 had no documentation available to identify the purposes of the payments.

These deficiencies occurred because the Treasurer performed all duties related to cash disbursements without adequate oversight. Company officers told us that an audit committee reviewed the records every six months; however, we found no evidence of what the audit committee's review consisted of, other than the verbal finding that checks and receipts should be documented by the Secretary and Treasurer which was noted in the minutes. The audit committee review should be formally documented to include their procedures and findings. Further, although we commend the audit committee for improving the internal control environment through its audits, the Company cannot rely on the audit committee as the sole control for disbursements. The President and Treasurer told us they did not realize that this lack of oversight was a problem and thought the audit committee's review was a sufficient control. Further, the bylaws do not address the necessary segregation of incompatible duties. In this case, the Treasurer prepares, records, and signs all checks but also performs the bank reconciliation. As a result, disbursements can be made without the involvement of another individual. The minutes indicated that the Treasurer provided, on a monthly basis, a Treasurer's report to the Company. However, the report only included

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<sup>1</sup> Sixty were debit card transactions and 40 were checks. They totaled \$41,800.

cash balances<sup>2</sup> of the Company accounts. Essential information such as a formal list of bills including the vendor name, amount, and description of the purchase was not regularly included. Further, because the minutes only included motions to “pay the bills,” they did not identify vendor names and the amounts approved.

Although the audit committee disclosed similar deficiencies in December 2012, the Company has not taken any corrective action. Moreover, debit cards were used 157 times for purchases totaling \$32,200 during our audit period up to January 31, 2013; similar to cash, debit cards are a more risky means of purchasing because purchases can be made before approval is given. Credit cards would provide greater control because the bills would have to go through the Company approval process, while debit cards allow for cash to be directly withdrawn from the Company’s bank account. Because of the lack of adequate support, Company officers could not verify that disbursements were for legitimate Company purposes.

## **Recommendations**

1. The Treasurer should only pay bills after being ordered to do so by the Company.
2. The Company should only approve bills based on adequate documentation that allows the Company members to verify that they are legitimate Company expenditures.
3. The Company should update its bylaws to address the segregation of incompatible duties. At a minimum, the duties of signing and recordkeeping of disbursements should not be performed by an individual who reconciles bank accounts.
4. The Treasurer should provide monthly reports to Company members that include a detailed list of all bills, including vendor name and amounts to be paid, and provide supporting documentation to the Company members.
5. The Secretary should document the Company’s approval to pay bills in the minutes with more detail such as vendor names and amounts.
6. The Company should consider using credit cards in place of debit cards.

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<sup>2</sup> The monthly reports of the previous Treasurer included cash balances and sometimes list of bills paid.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



# BLOOMINGBURG FIRE CO. #1

P.O. Box 1039

BLOOMINGBURG, NEW YORK 12721



June 20, 2013

Bloomington Fire Company #1  
Disbursements  
Period Covered  
April 1, 2011-February 22, 2013  
2013m-83

To the Office of the State Comptroller  
Division of Local Government & School Accountability  
PSU –Cap Submission,

The Officers of the Bloomingburg Fire Company have read and reviewed your Recommendations in regards to our State Audit from April 1, 2011-February 22, 2013.

The Following is our responses to your recommendations:

1. The Treasurer should only pay bills after being ordered to do so by the Company.  
Bills are paid after they are read at the monthly meeting and are approved by the Company Members. We will institute including a spread sheet of all bills that were approved in the Monthly Meeting Minutes.
2. The Company should only approve bills based on adequate documentation that allows the Company members to verify that they are legitimate Company expenditures.  
The Company does votes on bills or expenditures; with receipts, when a committee spends monies for a function example: fund raiser, and the function has previously been voted on. The vote has been recorded in meeting notes. Now the Committee after an event will present to the Company a spread sheet of all expenditures. The Spread Sheet will become part of that monthly meeting note.
3. The Company should update its bylaws to address the segregation of incompatible duties. At a minimum, the duties of signing and recordkeeping of disbursements should not be performed by an individual who reconciles bank accounts.  
A new Bylaw committee will review and recommend changing the Bylaws to account for monthly review of the books.
4. The Treasurer should provide monthly reports to Company members that include a detailed list of all bills, including vendor name and amounts to be paid, and provide supporting documentation to the Company members.  
As stated in #1, Treasurers spread sheet done monthly will be added to monthly meeting notes.
5. The Secretary should document the Company's approval to pay bills in the minutes with more detail such as vendor names and amounts.  
The Secretary will have spread sheet and will record vote to pay the Bills.
6. The Company should consider using credit cards in place of debit cards.  
The Company will not be going to credit cards.

President Bloomingburg Fire Company-Steve Schwartz-Bloomington Fire Company

TELEPHONE: (845) 733-1000

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine financial information to determine if only authorized disbursements were made. To accomplish our audit objective and obtain valid and relevant audit evidence, we interviewed appropriate Company officials and tested selected records and transactions, examined pertinent documents including meeting minutes and performed the following procedures:

- We reviewed all bank statements and cancelled checks from April 1, 2011, to January 31, 2013 and selected 60 debit card payments totaling \$19,600 and 40 check payments, totaling \$22,200, to utilities, cable, Internet, phone, garbage, fuel, or other unusual vendors including pubs, restaurants, and retailers. We then attempted to trace them to supporting documentation including invoices, purchase receipts, and Company minutes and abstracts, to ensure that they were supported, Company-approved, and legitimate Company expenditures.
- We reviewed all bank statements from April 1, 2011, to January 31, 2013 for any cash withdrawals and transfers out of Company bank accounts. We traced all three withdrawals totaling \$22,100 and all 16 transfers out of Company bank accounts to deposits or transfers into Company bank accounts to ensure they were appropriate.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

## APPENDIX C

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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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