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October 17, 2014

Deb Filkins, President
Members of the Board of Trustees
Westerlo Volunteer Fire Company, Inc.
PO Box 87
Westerlo, NY 12193-0087

Report Number: 2014M-179

Dear President Filkins and Members of the Board:

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 Westerlo Volunteer Fire Company (Company) which addressed the following question:

- Are internal controls over cash disbursements adequate to ensure that Company money is safeguarded?

We discussed the findings and recommendation with Company officials and considered their comments in preparing this report. The Company's response is attached to this report in Appendix A. Company officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background and Methodology

The Company is located in the Town of Westerlo (Town) in Albany County and is a not-for-profit organization incorporated in 1938. The Company contracts with the Town to provide fire protection services to its residents and is composed of three battalions: firefighting, fire police and auxiliary. The firefighting battalion is the Company's main component, which provides the fire protection services, while the fire police and auxiliary battalions provide support services to fulfill the Company's mission. The Company's revenues for 2013 totaled approximately \$370,000.

These revenues included the Town's annual contract payment, grants, foreign fire insurance proceeds, fund-raising activities, member dues and private donations.

We examined the internal controls over the Company's disbursements for the period January 1, 2013 through February 28, 2014. We interviewed Company 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 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 the audit objective.

Audit Results

The Board of Trustees (Board) is responsible for overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential the Board establish a system of internal controls, which consists of policies and procedures ensuring that all transactions are authorized and properly recorded. Such policies and procedures should require the Board to review each disbursement prior to payment and that the Company complies with its bylaws and other applicable laws, rules and regulations.

According to the Company's bylaws, the Treasurer is responsible for accounting for cash receipts and disbursements under the Board's direction. The bylaws require two Board members' signatures to authorize all business transactions, including cash disbursements. Either the President or Vice-President's signature, as well as the Treasurer's signature are required on all Company checks. In addition, the Treasurer is required to provide the Board with a monthly financial report and a written statement detailing the status of Company funds at the Board's annual meeting¹ or as directed by the Company membership. The audit committee, which is appointed by the President and comprises three Company members, is required to annually audit the Treasurer's records and also submit its audit report at the annual meeting.

The bylaws establish various controls to help safeguard Company assets. However, there are no controls or other procedures in place requiring the Board's review and approval of claims prior to payment. These procedures would strengthen the controls over the cash disbursement process.

Although the President appointed an audit committee as required in the bylaws, the audit committee did not audit the Treasurer's records prior to the annual meeting and submit its audit report as required. Without the annual audit, the Board cannot be sure the Treasurer adequately maintained all Company records and that all disbursements were properly recorded.

In addition, the Board did not audit each claim prior to payment. Instead, the Treasurer provides a list of paid disbursements to the Board and Company members at the meetings. While providing information regarding these disbursements to the Board allows it to monitor the Company's disbursements, this is not as effective or as strong a control as reviewing and approving claims

¹ In addition to its regular monthly meetings, the Board has an annual meeting which is held on the last Wednesday of November each year.

before payments are made. By auditing claims the Board is assured that the disbursements are for proper Company purposes and adequately supported prior to payment.

We reviewed all 273 disbursements totaling \$327,969 made during the audit period for purchases made by the Company's three battalions.² We traced the disbursements from the canceled check images to the cash disbursement journals to the vouchers or other supporting documents to determine if the checks included dual signatures according to the bylaws, were properly recorded and were for legitimate Company purposes.

We found that except for minor discrepancies, which we discussed with Company officials, the disbursements reviewed contained two signatures on the checks, were properly recorded in the accounting records and were for legitimate Company purposes. However, when claims are not audited before the disbursements are made and no annual audits are conducted, there is an increased risk that errors, irregularities or fraud could occur and not be detected or corrected in a timely manner.

Recommendations

The Board should:

1. Establish policies and procedures requiring the Board to review and approve claims prior to payment to ensure that each disbursement is for legitimate Company purposes.
2. Ensure that the audit committee annually audits the Treasurer's records and submits an audit report for the Board's review at its annual meeting.

The Company 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 and OSC Audit Report*, which you received with the draft audit report. We encourage the Company to make this plan available for public review.

We thank the officials of the Westerlo Volunteer Fire Company for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

² The firefighting battalion made purchases for 236 disbursements totaling \$317,115, the fire police battalion made purchases for 21 disbursements totaling \$1,395 and the auxiliary battalion made purchases for 16 disbursements totaling \$9,459.

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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



**Town of Westerlo Volunteer Fire Company Inc.
PO Box 87
Westerlo, NY 12193**

Gabriel F. Deyo
Deputy Comptroller
Division of Local Government and
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110 State Street
Albany, NY 12236

The Board of Directors for the Town of Westerlo Volunteer Fire Company Inc. have received the Draft Letter Report with its results and recommendations as prepared by your office. The agency appreciates your assistance in ensuring that the funding given to us for providing emergency services to the Town of Westerlo and neighboring towns is appropriately accounted.

We are pleased that you found that the agency generally provided adequate oversight of the fiscal activities and safeguarded resources. The board is reviewing the recommendations and will be looking to make the required bylaw changes and instituting policies and procedures for the following recommendations.

1. Establish policies and procedures requiring the Board to review and approve claims prior to payment to ensure each disbursement is for legitimate Company purposes.

As was noted in the audit all documentation was included for all payments and the payments are presented to the board monthly but after payment had been made. We are changing this process to include the presentation to the board with the documentation prior to payment when feasible.

2. Ensure that the audit committee annually audits the Treasurer's records and submits an audit report for the Board's review at its annual meeting.

The agency is made up of all volunteers who's time has many demands which lead to the audit not being complete at time of the audit. The agency will make it a priority of the audit committee to complete the audit report for the Board's review at its annual meeting.

On behalf of the Town of Westerlo Volunteer Fire Company Inc, board of directors, officers and members we thank you for your review of our operations and the recommendations to improve.

Sincerely,

Debra Filkins, President
Town of Westerlo Volunteer Fire Company Inc.