



# Clinton Volunteer Fire Department, Inc.

## Oversight of Financial Activities

### Report of Examination

Period Covered:

January 1, 2011 — December 19, 2013

2014M-142



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

August 2014

Dear Department 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 Executive Committee 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 Clinton Volunteer Fire Department, Inc., entitled Oversight of Financial Activities. 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 Clinton Volunteer Fire Department, Inc. (Department), incorporated in 1931, is a tax-exempt, not-for-profit corporation that provides fire protection services to the East Clinton Fire District (District). It is located in the Town of Clinton (Town) in Dutchess County. In 2013, the Department had 43 volunteer members. The Department's civil officers (President, Vice President, Secretary and Treasurer) are responsible for the Department's administration. Although required by the Articles of Incorporation, the Department does not have a Board of Directors. The Department's Executive Committee (Committee) consists of the four civil officers plus a Chief, the heads of three specialized units, two members at-large and a District commissioner. The Committee is responsible for oversight and financial management of the Department. The President is the chief executive officer.

Annually, Department members elect a Treasurer, whose duties include receiving and disbursing funds, maintaining accounting records and preparing financial reports. The Department is funded through fund-raising activities and revenue from foreign fire insurance tax distributions.<sup>1</sup> From January 1, 2011 through December 31, 2013, the Department received approximately \$55,000 in revenue from donations and \$27,580 in foreign fire insurance tax distributions.

## Objective

The objective of our audit was to evaluate the Department's internal controls over selected financial activities. Our audit addressed the following related question:

- Did Department officials provide adequate oversight of Department financial activities to ensure that the Department's resources were properly safeguarded?

## Scope and Methodology

We examined the Department's oversight of financial activities for the period January 1, 2011 through December 19, 2013. We expanded the scope to December 31, 2013 to review transactions corresponding to year-end financial records and back to 2010 for foreign fire insurance premium reports.

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 is included in Appendix B of this report.

<sup>1</sup> New York State Insurance Law entitles fire companies protecting an eligible area to receive an appropriate share of the tax collected on insurance premiums for policies written by foreign or alien (out-of-state) insurers within their area of protection. This money can generally be used for the benefit of the members.

**Comments of  
Department Officials and  
Corrective Action**

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

The Committee 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 Committee to make this plan available for public review.

## Financial Activities

The Department's Bylaws<sup>2</sup> require the Treasurer to receive all moneys collected, pay all authorized bills, maintain an accurate account of all receipts and disbursements and annually submit accounts for audit. While not required by the Bylaws, it is essential that the Committee establish internal controls that include written policies and procedures for the Treasurer's duties, review of financial records and bank statements and reconciliations of financial records. The Department should also implement controls to ensure that the Treasurer properly records all transactions, book balances agree with cash in the bank and all disbursements are approved. The Committee should ensure that all statutory reports are prepared and filed in a timely manner.

From January 1, 2011 through December 31, 2013, the Department received over \$80,000 in revenues. However, the Committee did not establish policies and procedures for financial transactions. As a result, the Treasurer's monthly financial reports lacked information for units within the Department, such as the rescue squad and the ladies auxiliary, and the Treasurer did not prepare annual reports for the Committee to summarize financial activities or reconcile financial records. Furthermore, the Treasurer disbursed moneys without explicit prior authorization and there was no evidence that the Audit Committee<sup>3</sup> reviewed the Treasurer's books and records to ensure they fairly represented fiscal events. Furthermore, fund-raising chairpersons and the Treasurer did not provide receipts for donations and the Treasurer did not file Internal Revenue Service (IRS) Form 990 with the United States Treasury Department and reports of receipts, expenditures and balances of fire insurance premiums with the Office of the State Comptroller (OSC). As a result, there is an increased risk that Department money could be misappropriated or misused without detection and that the Department could lose its tax-exempt status.

### Treasurer's Reports

Accurate and complete accounting records are essential to maintain accountability over financial resources. The Bylaws require the Treasurer to prepare a monthly report showing all amounts received and expended, including purpose and payee to date, and to make an annual report at the Department's annual meeting. Regular reports

<sup>2</sup> The Department's Bylaws dictate the manner in which Department operations are to be conducted and set forth the duties of the Committee and the Treasurer, along with various other positions.

<sup>3</sup> According to the Bylaws, the Audit Committee consists of three members appointed immediately prior to the annual meeting. The Audit Committee shall examine the account of all the treasuries.

are tools that should provide the Committee with the information necessary to monitor Department operations. An annual report, based on reconciled financial records, should provide Committee members with a summary of the Department's financial activities for the past year and help guide them in the future.

The Treasurer's monthly reports were incomplete and she did not prepare an annual report. Monthly Treasurer reports did not include financial information for all Department units because the Treasurer said that she did not have access to the rescue squad and ladies auxiliary information. The rescue squad and ladies auxiliary both had separate bank accounts under their control. The rescue squad provided us with the bank statements but the ladies auxiliary did not. The Department President told us that there was no ladies auxiliary bank account. However, we identified a check written by the President to the ladies auxiliary that was endorsed as payable to the ladies auxiliary bank account. The Bylaws did not provide for ancillary groups to have separate bank accounts or separate accounting records. We also found the Committee did not establish comprehensive written policies and procedures over financial transactions to include the requirements that ancillary groups provide any financial records they maintained to the Treasurer and that the Treasurer reconcile the Department's financial records.

Without control over all accounts, the Treasurer's records and reports will continue to be incomplete. Without regular reports submitted to the members, there is no assurance that the moneys received and expended are proper. Therefore, there is a risk that Department funds can be misappropriated and misused without detection.

## **Accounting**

The Committee is responsible for overseeing the Department's fiscal activities and safeguarding its resources. To meet its responsibility, it is essential that the Committee establish policies and procedures that ensure that transactions are authorized and properly recorded in a timely manner and that the Department complies with its Bylaws and applicable laws, rules and regulations. The Department's Bylaws<sup>4</sup> require the Treasurer to keep a correct account of all receipts and disbursements and that no moneys be withdrawn from any bank unless authorized at a regular meeting. The Bylaws also require receipts for all moneys collected and the Treasurer to pay all Department bills. Lastly, the Audit Committee is charged with examining the accounts of all treasuries before the annual meeting.

The Treasurer did not keep a complete and accurate account of all receipts and disbursements and instead used check registers and

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<sup>4</sup> The Department's Bylaws set forth the duties of the Committee, Treasurer and other officer positions.

bank accounts as accounting records. While check registers and bank statements were adequate for the accounts under her control, she did not have control over the rescue squad's and ladies auxiliary's bank accounts as previously discussed. Therefore, the ancillary groups' transactions were not included in the Treasurer's accounting records. As a result, the Treasurer was unable to present the Department with an accurate accounting, assuring the members that all transactions were authorized. We also found poor accountability for fund-raising events, a lack of specific approval for expenditures and no evidence that the Audit Committee examined the accounts of all treasuries.

Fund-raising Activities —Fund-raiser event chairpersons, along with two committee members, are accountable for all moneys collected by fund-raisers. The chairperson for each event must remit all receipts and provide a complete accounting to the Treasurer to be included in Department accounts.

Annually, the Department holds several fund-raisers, including a lobster and steak dinner, barbeque chicken dinner and breakfast. In addition, the Department annually sends out letters to elicit community donations. The Department has poor accountability over collections from fund-raising events. Because the Committee did not establish comprehensive written policies and procedures over fund-raising activities, there was no audit of the receipts and expenditures for each event. In addition, the chairperson of each event did not maintain detailed financial records, issue receipts or prepare and submit a complete summary report to the Treasurer. Various Department members submitted receipts for purchases directly to the Treasurer for reimbursement rather than the chairperson paying from the startup funds or the Treasurer paying directly. In addition, the Treasurer did not issue receipts for the donations received. The chairperson of the lobster and steak fund-raiser maintained records but did not submit them to the Treasurer. Department officials could not provide records to verify the accuracy of receipts and expenditures. Receipts were also not issued for fund-raising donations. During the three-year audit period, 29 percent of the \$55,577 deposited to Department accounts was from cash donations.

Foreign Fire Insurance Disbursements —State Insurance Law entitles fire companies to receive 2 percent of the tax collected on insurance premiums for policies written by foreign or alien insurers within their area of protection. This money is collected from the insurers and distributed to the fire companies by New York State. This money can generally be used for the benefit of the members. However, the Bylaws provide that no moneys may be withdrawn from any bank unless authorized at a regular meeting.

The Department disbursed approximately \$13,300 in moneys for various purposes. While members' approval was sought in advance



of the expenditures, Department officials did not provide members with all of the specifics at the time of their approval, such as who or how many members would be participating, or the transportation or food arrangements. As a result, the members only approved the general purposes of the expenditures, not the specific checks that were subsequently written by the Treasurer.

Audit Committee — The Audit Committee is charged with examining the accounts of all treasuries before the annual meeting. There was no evidence that the Audit Committee reviewed the Treasurer’s books and records at the annual meetings to ensure that they provided a fair representation of fiscal events as required by the Bylaws. Furthermore, the Audit Committee did not meet during 2012 and 2013 to manage and monitor the Department’s fiscal activities.

Without a full accounting and receipts for each event, a specific approval for all disbursements in advance or a review of the Treasurer’s books and records, the membership does not have adequate assurance regarding fund-raising effectiveness or whether all funds collected were deposited and disbursed for authorized purposes and according to members’ wishes. As a result, Department funds are at higher risk of misuse or misappropriation without detection.

## Statutory Reports

The Treasurer is required to annually prepare and submit two statutorily required reports: IRS Form 990 due to the United States Treasury Department by May 15 and a report of receipts, expenditures and balances relating to the use and application of foreign fire insurance premium tax funds due to OSC by March 1.

Because the Committee did not establish comprehensive written policies and procedures over statutory reporting, the Treasurer did not prepare and file the required reports. The Treasurer did not prepare and file the annual IRS Form 990 during the audit period. For more than four years, the Treasurer did not prepare and file the annual report of the receipts, expenditures and balances relating to foreign fire insurance premium tax funds. The Treasurer was unaware of the statutory requirements to prepare and file the reports and the Committee did not identify and correct this error.

Without filing IRS Form 990 or the annual report of the receipts, expenditures and balances relating to foreign fire insurance premium tax funds, the Department is at risk of losing its tax-exempt status<sup>5</sup> and cannot provide assurance that foreign fire insurance funds are spent for authorized purposes.

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<sup>5</sup> The IRS is required to revoke the exempt status of any nonprofit that is required to file an annual return (Form 990, 990-N, 990-EZ, or 990-F) but has failed to do so for three consecutive years. Revocations are mandatory and automatic under the law.

## Recommendations

1. The Committee should establish comprehensive written policies and procedures for controls over financial transactions and recordkeeping, including fund-raising events.
2. The Committee should ensure that ancillary groups, such as the ladies auxiliary and rescue squad, provide financial records to the Treasurer to be incorporated into the Department's records. The Committee should regularly examine the Department's financial records.
3. The Treasurer should reconcile the Department's financial records and prepare a complete and accurate written report to the Department each month and annually.
4. The Treasurer should collect, record and disburse all Department moneys, as required by the Bylaws.
5. Department officials should ensure that members are informed of all specifics for expenditures of foreign fire insurance proceeds, in advance, so they can specifically authorize each disbursement.
6. Each fund-raising event chairperson should maintain detailed financial records for each fund-raising event and prepare an accounting for start-up money and donations received and all expenditures, including those that were reimbursed separately, and the profit or loss from the activity.
7. The fund-raising chairpersons and the Treasurer should provide receipts for donations when collected.
8. The Committee should require the Treasurer to complete and file IRS Form 990 and the report of receipts, expenditures and balances relating to distributions of foreign fire premium tax funds with OSC.

## **APPENDIX A**

### **RESPONSE FROM DEPARTMENT OFFICIALS**

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

CVFD  
**Clinton Volunteer Fire Dept., Inc.**  
CLINTON CORNERS, NEW YORK  
Incorporated 1931

*August 14, 2014*

██████████  
*Office of NYS Comptroller  
Division of Local Government  
33 Airport Center Drive , Suite 103  
New Windsor, NY 12553*

*Dear* ██████████

- 1, The committee is preparing a policies and procedures manual to include financial transactions and recordkeeping.*
- 2, Both Ladies Auxiliary and Rescue accounts have been closed and monies turned over to fire company.*
- 3, the new treasurer is prepared to reconcile all account monthly and annually.*
- 4, The new treasurer has read the Bylaws and will follow accordingly.*
- 5, All members will be informed of all specific expenditures before an event.*
- 6, Fundraising chairman will prepare financial records for all start up monies, donations , and all expenses and report to the company.*
- 7, The fundraiser chairman and treasurer will provide receipts for all donations when collected.*
- 8, The new treasurer will file all report with the IRS and OSC.*

*Sincerely,*

*Edward Olson  
President*

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the internal controls over selected financial activities of the Department for the period of January 1, 2011 through December 18, 2013. To accomplish our audit objective and obtain valid and relevant audit evidence, we interviewed appropriate Department officials and tested selected records and transactions, examined pertinent documents, including meeting minutes, and performed the following procedures:

- We reviewed the certificate of incorporation and Bylaws to determine what the governing body was over the Department, with the aid of our Legal Services Unit.
- We reviewed the Bylaws and policies of the Department and the enforcement of such Bylaws and policies.
- We reviewed all bank statements from January 1, 2011 through December 31, 2013 to determine total revenues and disbursements.
- Because the Treasurer did not have check images, we requested that our Investigations Unit subpoena the composition of deposits and check images.
- We reviewed the composition of deposits for the checking accounts and calculated the amount of cash deposited.
- We compared check images to check registers to verify the accuracy of the check registers and the propriety of endorsements.
- We traced all bank transfers that occurred in 2011 when the Treasurer closed all accounts in the Department's depository bank and opened new accounts in a different bank.
- We reviewed and compared all 2012 and 2013 original receipts provided to the check registers to determine if disbursements in the registers were supported by receipts.
- We obtained a record of foreign fire insurance tax distributions made to the Department by the New York State Insurance Department to verify revenues to the 2-percent account. We also reviewed District minutes and disbursement records to determine if disbursements of 2-percent moneys were specifically authorized by the membership.
- We inquired to determine if the Treasurer filed statutorily required reports.

We conducted this performance audit in accordance with 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**

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Gabriel F. Deyo, Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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