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June 2015

Carol Trifaro, President
Members of the Board of Directors
Clifton Park Volunteer Fire Department
38 Old Route 146
Clifton Park, NY 12065

Report Number: 2015M-069

Dear President Trifaro and Members of the Board of Directors:

The Office of the State Comptroller works to identify areas where fire department officials can improve their operations and to provide guidance and services that will assist them in making 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 Clifton Park Volunteer Fire Department (Department) which addressed the following question:

- Are Department controls adequate to ensure that financial activity is properly recorded and that Department money is 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 generally agreed with our recommendations and initiated, or indicated they planned to initiate, corrective action.

Background and Methodology

The Department is a volunteer organization that comprises volunteer firefighters who serve the Clifton Park-Halfmoon Fire District No. 1 (District) in Saratoga County. The District provides the Department with fire equipment, safety gear and a fire house, and funds the Department's fire protection operations. The Department's primary sources of revenue are foreign fire insurance taxes,¹ donations and proceeds from fund-raising activities. The Department received \$67,838 in

¹ Any insurance Company organized or incorporated outside of New York State which writes fire insurance policies on properties located in the State must pay 2 percent of the premium to the State, to be distributed to certain firefighting organizations.

foreign fire insurance taxes in 2014 and generated approximately \$20,000 from donations and fund-raising activities. The Department's expenses for 2014 totaled approximately \$95,000.

Department members elect a Treasurer, who is responsible for the Department's financial duties, including receiving and maintaining custody of the Department's funds, disbursing and accounting for those funds and reporting monthly to the membership.

We examined the internal controls over the Department's financial operations from January 1, 2014 through January 31, 2015. We interviewed appropriate 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 based on our audit objective.

Audit Results

The Board is responsible for establishing policies and procedures that help ensure cash is properly safeguarded and transactions are authorized and properly recorded in the accounting records. Board oversight becomes particularly important in smaller operations which may not have an adequate system of controls because employees are required to perform duties that should optimally be segregated. Duties are not segregated when one person performs several key functions, such as receiving and disbursing cash, maintaining the accounting records and reconciling bank statements. If such a segregation of duties is not practicable, the Board should implement compensating controls, such as providing additional oversight or requiring that the Treasurer provide monthly financial reports that include all receipts, disbursements and cash balances. Another effective control would be an independent review of monthly bank reconciliations.

Overall, we found that the Department has good controls over financial activity. However, officials could improve them by clearly defining the financial processes as part of the Department's official procedures. The Department's bylaws require the Treasurer to maintain complete and accurate records to properly account for all of the Department's financial activities, which includes keeping an accurate account of the sources from which all moneys are derived and providing paper copies of financial reports at the monthly meetings. However, Department officials have not adopted written procedures to provide specific guidance to the Treasurer regarding her duties.

The Treasurer maintains the accounting records and prepares, prints, signs and mails checks. The Treasurer also has access to incoming mail, makes deposits and prepares the bank reconciliations. As a mitigating control for the Treasurer's incompatible duties, the Board provides oversight to ensure that financial activity is properly recorded and that Department money is safeguarded. For example, Department officials ensure that at least three members count and sign off on cash collected from donations and fund-raising events before turning the cash over to the Treasurer for deposit. The fund-raising sales and bank deposit amounts are then reported at the monthly meeting.

Department officials have adequate informal procedures over disbursements, such as requiring that all disbursements be sufficiently documented with supporting information which details the type of goods or materials purchased. While the Board allows the Treasurer to disburse funds for routine

and recurring expenses, the Treasurer is required to obtain Board approval for infrequent or uncommon disbursements. The Board has also implemented an additional control that requires two approval signatures prior to any disbursement being made. The two approval signatures are documented on a claim cover sheet or directly on the invoice. The Board also enforces the bylaw requirement of two authorized signatures on each Department-issued check.

The Board has also established controls that ensure that financial activity is properly recorded. For example, on a monthly basis, the Board reviews financial records including the original bank account statements, the associated bank reconciliation and a listing of all receipts and disbursements during the month. However, the Board does not review canceled check images because they are not returned with the Department's bank statement. The lack of these images prevents the Board from verifying that all disbursements were made as intended and only for appropriate Department purposes.

Three Board members are responsible for reviewing the financial records. The Board also has access to financial records, disbursements listings and all claims packets. Additionally, the Treasurer presents the receipts and disbursements listing to the Board and the membership during monthly meetings. The Treasurer posts the listing of receipts and disbursements in a public and conspicuous area of the Fire Station. However, the Board has not adopted written financial policies or procedures addressing cash receipts and disbursements. As a result, the Department relies on informal rather than written policies and procedures.

Due to this weakness, we reviewed a sample² of 11 receipts totaling \$71,264. All of the receipts were deposited in the proper bank account intact and in a timely manner, and the deposits agreed with the supporting documentation. Additionally, the receipts were appropriately recorded in the accounting system. We also reviewed a sample³ of 30 check disbursements totaling \$19,672 made by the Department during our audit period. In all disbursements, the face amount of the check agreed to the related invoice, invoices were approved by appropriate Department officials, claims were audited by the appropriate Department officials and all checks had the appropriate signatures. All of these disbursements were for valid Department purposes.

Although our audit testing did not disclose any discrepancies, without formal Board adopted written policies and procedures, there is a risk that Department cash receipts and disbursements may not be adequately processed. Further, the Department's financial activity may not be accurately recorded if there is a change in the Department's management structure.

Recommendations

1. The Board should adopt written financial procedures to ensure that the informal processes in practice continue to provide adequate oversight of the Department's financial transactions.

² We judgmentally selected the foreign fire insurance receipt and randomly selected 10 receipts using a computerized random number generator.

³ We judgmentally selected 15 disbursements based on professional judgment and randomly selected 15 disbursements using a computerized random number generator. We requested and received duplicate copies of canceled checks from the Department's bank.

2. The Treasurer should contact the Department's bank and request that copies of the canceled checks be returned with the monthly bank statements.

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 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 pages.



CLIFTON PARK VOLUNTEER FIRE DEPARTMENT, INC.

38 OLD ROUTE 146
CLIFTON PARK, NEW YORK 12065
(518) 371-8400 • FAX (518) 371-8426

June 16, 2015



NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Clifton Park Volunteer Fire Department
Audit Report: 2015M-069



The Board of Directors of the Clifton Park Volunteer Fire Department has reviewed the draft audit report and wish to thank you and the auditing team for your comments and recommendations. Based on your draft report we appreciate your positive comments on what you found during the audit that we are doing correctly and your recommendations on things we can improve on. We agree with the findings of the report.

This Audit Response will also serve as our Corrective Action Plan as approved by the Board of Directors of the Clifton Park Volunteer Fire Department at the regular board meeting on June 16, 2015.

For each recommendation included in the audit report, the following is our correction action taken.

Recommendation 1:

The Board should adopt written financial procedures to ensure the informal processes in practice continue to provide adequate oversight of the Department's financial transactions. At the time of the audit, adoptions of written financial procedures were already in progress.

The Board of Directors and the Bylaws and Constitution Committee are updating the company constitution and bylaws to specifically detail the Board responsibilities and the Treasurer duties regarding cash receipts, cash disbursements, claims processing and audit of claims. The draft of the updated constitution was presented at a special meeting of the membership on May 28,

2015 for discussion. The final version will be presented to the Fire Company at the September 14, 2015 meeting and voted on at the October 5, 2015 meeting. The bylaws are presently being reviewed by the committee and will be reviewed, presented and voted on by the Fire Company this fall.

Recommendation 2:

The Treasurer should contact the Department's bank and request that copies of the canceled checks be returned with the monthly bank statement.

The Treasurer has paid a visit to the bank that the Fire Company is doing business with and has discussed with our account advisors at the bank the need for us to receive copies, front and back, of the canceled checks with the monthly bank statements. This is scheduled to start with the July 2015 statements.

We are confident that in providing this response and our Corrective Action Plans, that the Clifton Park Volunteer Fire Department will satisfy your recommendations and strengthen our constitution and bylaws, as well as ensure checks and balances for future boards to follow.

Thank you again for your assistance.

Respectfully,

Carol Trifaro, President
Board of Directors
Clifton Park Volunteer Fire
Department

June 16, 2015