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September 5, 2014

John Labourr, President
Members of the Board of Directors
North Queensbury Volunteer Fire Company
2663 Route 9L, Box 61
Cleverdale, NY 12820

Report Number: 2014M-167

Dear President Labourr and Members of the Board of Directors:

The Office of the State Comptroller works to identify areas where local 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 local 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 North Queensbury Volunteer Fire Company, Inc. (Company) which addressed the following question:

- Has the Company's Board of Directors (Board) provided adequate oversight of the Company's financial operations to ensure that assets are adequately safeguarded?

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

Background and Methodology

The Company is a not-for-profit corporation located in the Town of Queensbury (Town) in Warren County. The Company contracts with the Town to provide fire protection services to the Town's northern area and had 57 active members during 2013. During 2013, the Company received approximately \$345,000 in revenue, (\$329,500 from the Town and \$15,524 in foreign fire insurance proceeds¹) and disbursed approximately \$307,000.

¹ Foreign fire insurance money represents a tax on the premium paid on insurance policies as provided for in New York State Insurance Law. Fire companies protecting an eligible area are entitled to receive an appropriate share of the tax collected on fire insurance policies written by foreign insurers on policies within their area of protection. The fire company's treasurer or fiscal officer should receive these funds.

The Company is governed by a seven-member Board which includes an elected President and six Directors. The Board is responsible for the general management and control of the Company's financial affairs. According to the Company's bylaws, the member-elected Treasurer is responsible for receiving and depositing funds, maintaining accounting records and preparing the Company's annual financial report. The Treasurer is assisted by a part-time bookkeeper to maintain the accounting records.

We examined the internal controls over the Company's financial operations for the period January 1, 2012 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 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 overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls which include policies and procedures to ensure that transactions are authorized and properly recorded in a timely manner; that financial reports are accurate, reliable and filed in a timely manner; and that the Company complies with its bylaws and applicable laws, rules and regulations.

The Company's bylaws allow the President to appoint any and all committees necessary to carry out Company activities. Pursuant to this authority, the President appointed 15 committees² to authorize purchases and approve payments on behalf of the Board. After a committee has approved payment by signing the invoices, the Treasurer reviews the invoices before payment is made and ensures that prior Board approval was obtained for purchases over \$1,000 as required in the bylaws. Board approval for purchases over \$1,000 is documented in the Board minutes.

We found that the Board and Company officers generally provided adequate oversight of the Company's financial activities. The bookkeeper enters all accounting transactions into the computerized accounting system, maintains the general ledger and performs the monthly bank reconciliations. As a mitigating control, the Treasurer reviews the financial reports generated from the accounting system (balance sheet, statement of revenues and expenditures, check registers and journal entries) for accuracy, completeness and reasonableness. The Treasurer also reviews the bookkeeper's monthly bank reconciliations.

Once the Treasurer's review of the monthly accounting records is completed, he presents monthly financial reports (balance sheet and statement of revenues and expenditures) to the Board. The

² These committees comprise one to seven members each and are responsible for separately approving claim payments for the corresponding segment of operations that they oversee. These committees include House and Grounds, Uniform, Capital Improvement, Marine Division, Budget, New Truck/Boat, Bylaws, ATV/Rope Rescue, Fire Prevention, LaFrance, Air Packs, Rescue Squad Liaison, Office, Banquet and Sunshine.

Board also ensures that an annual financial audit is performed each year by an independent public accountant. We reviewed the accounting records and reports for our audit period and found that the accounting records agreed with the audited financial statements and the records were up-to-date. To determine the reliability of the accounting records, we traced supporting documentation for receipts and disbursements to the accounting records.

However, the Board does not provide adequate oversight of purchases costing less than \$1,000 and the corresponding cash disbursements because this authority was delegated to the committees.³ As a result, there was a lack of segregation of duties over authorizing and making purchases and approving payment for those purchases because the same committee members were able to perform all these phases of the purchasing process. Further, five committees comprise one member.

As a result, these committees did not function as committees, but as one individual making decisions for the entire Company without sufficient oversight in approving purchases and the corresponding payments. For example, the Fire Chief (Chief) who makes all credit card purchases is also the sole member of the office committee that approves the credit card charges for payment.⁴ Although the committees review and approve invoices for payment and the Treasurer reviews the invoices before payment, these procedures did not ensure that credit card payments were adequately supported and made for appropriate Company purposes.

The Company has several mitigating controls in place over cash disbursements such as the timely completion and review of bank reconciliations, check disbursements requiring two signatures⁵ and the Treasurer's review of invoices before payment. However, these controls were not effective because a significant number of credit card payments were made without adequate supporting documentation for the items purchased.

Due to these weaknesses, we selected 82 disbursements⁶ totaling about \$157,300 made during the audit period to determine if they were properly supported by detailed receipts and/or invoices and were for valid Company purposes. We found that the disbursements were properly authorized and accurately recorded in the accounting records. However, three disbursements totaling \$590 were not adequately supported by receipts or invoices; therefore, we were unable to determine if these payments were for proper Company purposes. Two of these disbursements were for credit card purchases totaling \$566.

Due to the lack of supporting receipts for credit card payments disclosed during our initial disbursements testing, we reviewed all 23 credit card statements and payments totaling

³ Eight committees lack a Board member serving on the committee.

⁴ The Company has one credit card that is in the custody of the Chief.

⁵ All check disbursements require the signature of the Treasurer and one other authorized officer or the signature of the President and one other authorized officer.

⁶ During the audit period the Company made 702 disbursements totaling \$452,379. We selected 50 disbursements to test using a random number generator. The remaining disbursements were selected based on the dollar amounts of payments made to related parties and gaps in check numbering sequences.

approximately \$33,000 made during our audit period to determine if the unsupported credit card payments were an isolated incident or systemic throughout the audit period. We found that 18 (78 percent) of the credit card payments totaling about \$13,300 were paid based on the credit card statement alone, with no original receipts or invoices to determine if the credit card purchases were for valid Company purposes.

Although unsupported when paid, the Treasurer authorized these credit card purchases and checks were properly signed by two authorized signers. However, we found that unsupported credit card purchases made by the Chief included \$5,507 for dive team expenditures and \$4,022 for small parts, tools and equipment.

We provided the Treasurer and the Chief with a list from the credit card statements of 64 credit card transactions with missing receipts or corresponding invoices. Prior to the end of audit fieldwork, the Chief, Treasurer and bookkeeper located the original receipts or, in some cases, obtained duplicate invoices from the vendors supporting these purchases. However, Company officials were still unable to provide us with receipts or invoices for 25 individual purchases totaling more than \$3,000 (10 percent) that were included on the credit card statements.

Because supporting documentation did not exist for all Company disbursements, the Board would be unable to determine whether the related disbursements were appropriate Company expenditures. Prior to the end of fieldwork, the Board amended its credit card policy. The new policy requires that only one credit card account be maintained with the card to be held by the Chief or the President, who shall review all charges, attach all pertinent receipts and submit the statements to the Treasurer, President or Board for final approval. Implementing this change will provide an important improvement to the system of controls.

Recommendations

The Board should:

1. Approve all payments for purchases made by committees.
2. Ensure that all disbursements are properly supported with appropriate documentation before the Treasurer signs the checks.

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 North Queensbury Volunteer Fire Company for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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



NORTH QUEENSBURY VOLUNTEER FIRE COMPANY, INC.

2663 Route 9L, Box 61 Cleverdale, New York 12820. tel: 518.656.9614

Mr. Gabriel F. Deyo
Deputy Comptroller
Division of local Government and School accountability
110 state Street
Albany, New York 12236

August 21, 2014

Report Number: 2014M-167

Dear Mr. Deyo:

The members of the Board of Directors of the North Queensbury Volunteer Fire Company have reviewed the Draft Letter Report, its findings, and recommendations as prepared by your office. The board, officers and members of the company appreciate the professional manner in which the audit was conducted. Please consider this letter as our "Written Audit Response" and "Corrective Action Plan".

We are pleased that you found that the Board and Company officers generally provided adequate oversight of the Company's financial activities. The Board agrees with the audit results and the recommendation. As noted in the report, prior to the end of the audit fieldwork the Board of Directors began the process to amend policies per the recommendation of your office staff.

Recommendations and CAP:

1. **The Board should approve all payments for purchases made by committees.** As noted the Board amended its credit card policy that the Board of Directors will review all credit card purchases including all support documentation. The Board has approved and begun implementing a policy that calls for a final review of all purchases. This review will be conducted at the regular scheduled board meeting and will include review and approval based on bills and supporting documentation. Any bills that were paid based on preapproval of the board will be reviewed for accuracy and supporting documentation. (policy adopted August 2014 BOD meeting)
2. **Ensure that all disbursements are properly supported with appropriate documentation before the treasurer signs the checks.** Supporting documentation will be attached to any bill statement prior to signing of check. The company requires two signatures for all checks. As in response to recommendation 1 above, all disbursements will be reviewed for completeness of supporting documentation not only by the treasurer but also the Board of Directors.

On behalf of the members' of the North Queensbury Volunteer Fire Company, its board of Directors, and officers' thank you for the review of our operations and guidance for improved service.

Sincerely,

John Labourr, President
North Queensbury Volunteer Fire Company