



Vestal Fire Department Financial Activities

Report of Examination

Period Covered:

January 1, 2013 — June 30, 2014

2014M-265



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2014

Dear Fire Department Officials:

One important function of the Office of the State Comptroller is to help fire department officials manage department resources efficiently and, by so doing, provide accountability for money spent to support department operations. The Comptroller oversees the fiscal affairs of fire departments statewide, as well as compliance with relevant statutes and observance of good business practices, through the conduct of audits. Our audits may also identify opportunities for improving operations and fire department governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard fire department assets.

Following is a report of our audit of the Vestal Fire Department, entitled 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 New York State General Municipal Law.

This audit's results and recommendations are resources for fire department officials to use in effectively managing operations and in meeting the expectations of the public. 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 Vestal Fire Department (Department) is a volunteer organization located in the Town of Vestal (Town) in Broome County. The Vestal Fire Department operates within the Town of Vestal Fire District which provides fire protection services to the Town. The Department is governed by a 19-member Board of Directors (Board),¹ which is responsible for the general management and control of the department's financial affairs. The Department is made up of four fire companies (Stations). The Stations are each governed by 11-member Executive Committees (Committees),² which are responsible for the general management and control of the Stations' financial affairs.

The Department and the Stations are governed by the Department's bylaws and each of the five entities has its own Treasurer and Financial Secretary. According to the bylaws, the Treasurers are responsible for the financial duties, which include depositing and disbursing funds as well as keeping an accurate account of all funds. The Financial Secretaries are responsible for authorizing expenditures before payments are made and receiving and recording all receipts before turning them over to the Treasurers for deposit. The bylaws require the Board and Committees to perform an annual audit of the cash receipts and disbursements and the Treasurers' accounting records.

The Department's primary sources of revenue are from foreign fire insurance premium tax moneys³ and donations. The Stations' primary sources of revenue are the distribution of foreign fire insurance moneys from the Department, fund-raising activities and donations. The Department disbursed approximately \$66,000 and collected approximately \$135,000 during our audit period. The Stations disbursed approximately \$75,000 and collected approximately \$98,000 during our audit period. The Department has approximately 145 members who responded to about 750 calls in 2013.

Objective

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

¹ The Board consists of the Department Chief, four Assistant Chiefs, four Captains, four First Lieutenants, the President, three Vice Presidents, the Secretary and the Treasurer.

² Each Committee consists of the President, two Vice-Presidents, the Secretary, the Treasurer, the Financial Secretary, the Sergeant-at-arms, the Steward and three Trustees.

³ The foreign fire tax program as set forth in New York State Insurance Law requires out-of-state insurance companies to pay a 2 percent tax on premiums written for insurance against loss or damage by fire on property located in New York State.

- Are the Department's and Stations' controls adequate to ensure that financial activity is properly recorded and reported and that moneys are safeguarded?

**Scope and
Methodology**

We examined the Department's and four Stations' internal controls over cash receipts and disbursements and accounting records from January 1, 2013 through June 30, 2014.

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.

**Comments of
Department Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Department and Stations officers, 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 initiate corrective action.

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, pursuant to Section 35 of the New York State General Municipal Law. 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 in the Department Secretary's office.

Financial Activities

The Board and Committees are responsible for overseeing the Department's and Stations' fiscal activities and safeguarding resources. The Board establishes internal controls for the Department and for each Station in its bylaws. The Board should also monitor financial activities to ensure that the bylaws are being followed.

The Board and Committees did not ensure that financial activities were properly recorded and reported and moneys were adequately safeguarded. In addition, the bylaws were not consistently followed. The Financial Secretaries did not approve vouchers in a timely manner and the Treasurers often disbursed moneys before the expenditures were approved for payment. Furthermore, the Financial Secretaries also did not consistently record receipts in press-numbered duplicate receipt books, and, therefore, we were unable to determine if the Treasurers' deposited all the moneys collected. Lastly, the Board and Committees failed to perform adequate annual audits.

Cash Disbursements

The Board and Committees should ensure that disbursements are properly authorized, supported and recorded. The bylaws state that the Treasurers should disburse moneys upon approval of the Financial Secretaries by the direction of the Board and membership of the Stations, should present the vouchers at the annual meeting or whenever called upon and are required to keep an accurate account of money expended. These records should also be reconciled with the adjusted bank balances and compared to the canceled check images on a monthly basis.

The Board did not monitor compliance with the bylaws to ensure that officers were executing them sufficiently. Neither the Department nor any of the four Stations obtained check images with the monthly bank statements. Therefore, we are uncertain of how anyone can verify that all expenditures are for proper Department or Station purposes. Further, although each Treasurer performed a monthly bank reconciliation, without check images, there would be no way to detect errors or irregularities or have any mechanism for someone independent of the process to adequately review the reconciliations. We reviewed copies of 30 canceled checks⁴ and their supporting documentation totaling \$16,396 and determined that the disbursements appeared to be for appropriate purposes. However, two of these disbursements

⁴ We obtained check images from the Department's and Stations' banks for all bank accounts.

totaling \$630 lacked adequate support. We also found 11 of these disbursements totaling \$3,463 were not authorized in accordance with the bylaws because three of the five Financial Secretaries⁵ did not approve the disbursements. We compared the total disbursements authorized by the Financial Secretaries with the disbursements during our audit period and found discrepancies in four of the five units as shown in Figure 1.

Figure 1: Disbursements

	Authorized by Financial Secretary	Disbursed	Amount Disbursed Without Authorization
Department	\$65,073	\$65,529	\$456
Station 1	\$18,572	\$18,572	\$0
Station 2	\$24,830	\$24,930	\$100
Station 3	\$0	\$8,730	\$8,730
Station 4	\$29,790	\$22,488	\$0
Total Unauthorized^a			\$9,286

^a Does not include \$7,302 authorized, but not disbursed by Station 4.

Although these disbursements appear to be for appropriate purposes, when disbursements are made before they are authorized, the risk of errors or irregularities occurring and remaining uncorrected and undetected increases significantly. Without proper oversight, there is a risk that fraud, waste or abuse will go undetected and disbursements could be made for expenditures that are not proper Department or Station purposes.

Cash Receipts

The Board and Committees should ensure that all receipts are collected, deposited and recorded. Receipts should be documented in the monthly meeting minutes and adequate records should be maintained. The bylaws state that the Financial Secretaries shall receive all money collected in the name of the Department or Stations and pay the same to the Treasurers within five days of collecting the receipts as well as issue a receipt for each sum of money received out of a book of receipts consisting of press-numbered duplicate receipts.

No one can ensure that all receipts collected are recorded or deposited into Department or Station accounts since the bylaws were not followed and the minutes were often silent as to receipt activity. Receipts include donations, foreign fire insurance premium, fund-

⁵ Only Stations 2 and 4 had all vouchers signed in a timely manner.

raisers and inter-station reimbursements. Without consistent use of a receipt book, we could not determine if all receipts collected were deposited in a timely manner. Four of the five Financial Secretaries who collected receipts did not consistently maintain required records or document collections in the minutes. We compared the total money recorded in the available duplicate receipt books with the deposits made during our audit period.

Although the receipts we tested were deposited, without proper controls, the Department and Stations cannot ensure that all receipts are properly collected, recorded and deposited. It is also difficult for the Board and Committees to audit cash receipts to ensure that the Treasurers deposited all moneys collected.

Additionally, although the bylaws required an annual audit of the books and accounts of each Station, only Station 2 documented what audit procedures it performed and documented the audit in its monthly minutes. However, because neither the Department nor any of the Stations obtain canceled check images, we believe the effectiveness of any audit performed would be limited.

These deficiencies in disbursements and receipts occurred because the Board did not ensure that officers were following the bylaws. Officers told us that the bylaws were often not followed because the amount of money collected was immaterial to follow such complex financial processes. They also stated that low membership interest and the turnover of members holding the Treasurer and Financial Secretary positions limited the ability to have consistent record keeping processes.

Recommendations

The Board should:

1. Ensure that officers are following recordkeeping and financial requirements established in the bylaws or consider amending the bylaws to simplify these requirements and reduce the number of administrative positions to levels in line with current membership.
2. Require someone other than the Treasurer to periodically review check images and the Treasurer's bank reconciliations.
3. Perform thorough and timely audits of the financial records on an annual basis and document the results of the audit in the minutes.

The Financial Secretary should:

4. Authorize disbursements only upon receipt of adequate support.
5. Collect all receipts, issue a press-numbered duplicate receipt and record receipts appropriately in the accounting records and provide copies to the Recording Secretary to record in the minutes.

The Treasurer should:

6. Issue checks only after the Financial Secretary authorizes the disbursements.

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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



Vestal Fire Department

**605 Vestal Parkway West
Vestal, New York 13850**

November 25, 2014

H Todd Eames Chief Examiner
Office of the State Comptroller
Division of Local and Government & School Accountability
Binghamton Regional Office
44 Hawley St, Suite 1702
Binghamton, NY 13901-4417

RE: Unit Name: Vestal Fire Department
Audit Report Title: Vestal Fire Department Financial Activities Report of
Examination
Audit Report: 2014M-265

Dear Mr. Eames:

The Vestal Fire Department Board of Directors has received your draft copy of the recent audit for the period of January 1, 2013-June 30, 2014 and has passed draft copies to our "Audit Committee" which is comprised of all Department/Station Presidents, Financial Secretaries and Treasurers.

We have reviewed your recommendations and agree with your findings. We will work on developing a corrective action plan that will work for all five organizations and will have it submitted within the 90 day period.

Sincerely,

Hugh Reynolds
Department President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the internal controls over the Department's and Stations' financial activities from January 1, 2013 through June 30, 2014. To accomplish our objective and to obtain appropriate audit evidence, we performed the following:

Fire Department

- We reviewed the Department's bylaws and Board minutes and interviewed Department officers to gain an understanding of the operations.
- We tested six disbursements totaling \$1,855 from canceled check images to support, approval vouchers and minutes to determine if cash disbursements were properly recorded, supported and approved.
- We selected the month with the largest total deposit which amounted to \$57,181 and reviewed bank deposits to determine if the Financial Secretary issued pre-numbered receipts for those transactions.
- We compared \$135,000 in bank deposits to the Financial Secretary's pre-numbered receipts book to determine if all receipts were properly recorded in our audit period.

Fire Stations

- We reviewed the Stations' bylaws and minutes and interviewed Station officers to gain an understanding of the operations.
- We tested 24 disbursements totaling \$14,541 for all four Stations from canceled check images, approval vouchers and minutes to determine if disbursements were properly authorized, recorded and approved.
- We contacted six vendors that the Stations contracted with for fund-raising activities to determine if vendor-reported receipts totaling \$40,211 were properly deposited and recorded.
- We selected one month's bank activity in the audit period from each of the four Stations (based on largest dollar total of deposits) and reviewed bank deposits totaling \$20,896 to determine if the Financial Secretaries issued pre-numbered receipts for those transactions.
- For the audit period, we compared \$98,164 in bank deposits to the Financial Secretaries pre-numbered receipts books to determine if all receipts were properly recorded.

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 objectives. 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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