



Willsboro Fire Department Financial Operations

Report of Examination

Period Covered:

January 1, 2013 — April 30, 2014

2014M-206



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2014

Dear Fire Department Officials:

The Office of the State Comptroller works to identify areas where fire department 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 department officials to reduce costs, improve service delivery and to account for and protect their entity's assets.

Following is a report of our audit of the Willsboro Fire Department, entitled Financial Operations. 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 Department 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 Willsboro Fire Department (Department) is located in the Town of Willsboro in Essex County. The Department provides fire protection and other emergency services to Willsboro Fire District (District) residents. The District provides the Department with fire equipment, safety gear and two fire houses and funds the Department's fire protection and emergency service operations. The Department also receives donations and engages in fund-raising activities to supplement the foreign fire insurance money¹ received from the District. The Department deposited \$20,428 and disbursed \$22,718 during 2013.

The Department operates under its adopted bylaws,² which stipulate that the Department consists of six entities as follows: the Willsboro Fire Company, the Reber Fire Company (RFC), the Willsboro Emergency First-Aid Squad (EMS), the Willsboro Auxiliary (Auxiliary), the Willsboro Fire Police and the Willsboro Fire Department Board of Inquiries.

The Department has a member-elected Chief and two Assistant Chiefs and an appointed Secretary/Treasurer (Department Treasurer)³ who are responsible for the Department's overall general and financial affairs. In addition to these Department officials, the RFC, EMS and Auxiliary each has a separate Treasurer responsible for maintaining their entities' financial records.

Objective

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

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

Scope and Methodology

We examined the Department's financial operations for the period January 1, 2013 through April 30, 2014.

¹ Foreign fire insurance money represents a tax on the premium paid on insurance policies as provided for in New York State Insurance Law, which entitles fire departments protecting an eligible area to receive an appropriate share of the tax collected on insurance policies written by foreign insurers on policies within their area of protection.

² The bylaws were amended in January 2006 and approved in April 2006.

³ The Treasurer is appointed by the Chief.

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 are included in Appendix A of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Department officials. Department officials were given an opportunity to respond to our findings and recommendations within 30 days of the exit conference, but they did not respond.

The Department officials have 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 Department officials to make this plan available for public review.

Financial Operations

Department officials are responsible for overseeing the Department's financial operations and safeguarding its resources. To fulfill this duty, it is essential that Department officials establish a system of internal controls, which consist of policies and procedures that ensure transactions are properly recorded; financial reports are accurate, reliable and filed in a timely manner; cash receipts are supported and deposited in a timely manner; and disbursements are properly authorized and supported by adequate documentation.

Department officials did not establish policies and procedures or provide oversight of Department financial activities. Consequently, the Department's accounting records were not properly maintained, bank reconciliations were not performed and crucial financial reports were not prepared and submitted for Department officials' review. In addition, press-numbered receipts were not issued to provide supporting documentation for the funds collected during our audit period, checks received totaling \$19,318 were not deposited in a timely manner and personal checks totaling \$400 were cashed using Department funds.

Further, Department officials did not review and approve all bills prior to payment or document approval in the minutes. As a result, 23 disbursements totaling \$2,819 were not supported by adequate documentation, which would have allowed Department officials to determine if these disbursements were for appropriate Department purposes. The Department's failure to establish adequate internal controls over financial activities increases the risk that Department money could be lost or misused.

Policies and Oversight

It is essential that Department officials establish policies and procedures fully describing the records each Treasurer and Department members must maintain and the duties and procedures that must be followed to adequately safeguard Department money. The Department's bylaws should also clearly specify which Department officials are responsible for overseeing the Department's financial activities.

The bylaws did not address the Department's financial activities, except for requiring the Department Treasurer to prepare and submit monthly reports to Department officials. Department officials also did not establish any written policies and procedures providing guidance and internal controls relating to financial activities (e.g., cash receipts and disbursements). The bylaws also did not specify which Department officials are responsible for overseeing the financial records and reporting activities.

Although not clearly defined by the Department's bylaws, the Chief stated that he and the two Assistant Chiefs are responsible for these duties. However, we found that Department officials did not provide any oversight of the RFC, EMS or Auxiliary financial activities. Instead, each entity's Treasurer was responsible for maintaining financial records without any oversight. As a result, the Department's financial records and reports were inadequate and significant internal control weaknesses existed over cash receipts and disbursements.⁴ The failure of the Department to establish policies and procedures related to financial activities and Department officials' lack of oversight over financial activities has resulted in financial transactions not being properly accounted for, which increases the risk that errors or irregularities could occur and remain undetected and uncorrected.

Records and Reports

Each Treasurer should maintain complete, accurate and up-to-date accounting records to provide Department officials with essential information to effectively manage and safeguard cash and monitor the Department's financial affairs. The Treasurers should also reconcile the checkbook balances with the bank statement balances on a monthly basis to ensure that financial transactions are accurately recorded and that cash assets are properly accounted for. It is also essential that Department officials review the reconciliations and bank statements on a regular basis to fulfill their financial oversight responsibilities. Additionally, the bylaws require the Department Treasurer to prepare and present monthly reports to Department officials at their monthly meetings. While not specifically addressed in the bylaws, each of the other entities' Treasurers should also prepare monthly reports. Additionally, each Treasurer should prepare and submit an annual report to Department officials at the annual meeting.

The Department's accounting records were not adequately maintained for the Department's nine bank accounts.⁵ For example, although the Department Treasurer maintained checkbook registers that contained deposits, disbursements and running cash balances, the Department's main operating account's running cash balances did not agree with the bank statement balances for any month-end during our audit period. The differences ranged from \$1,000 to \$2,000 each month.

In addition, the EMS Treasurer maintained a checkbook register for one bank account that did not include deposits or a running cash balance and did not maintain a checkbook register for the other bank

⁴ Refer to Records and Reports, Cash Receipts and Cash Disbursements sections of this report for further information.

⁵ The Treasurers are responsible for maintaining records for Department bank accounts. The Department Treasurer maintains four accounts, the EMS Treasurer maintains two accounts, the RFC Treasurer maintains two accounts and the Auxiliary Treasurer maintains one account.

account she was responsible for. Further, none of the Treasurers prepared monthly bank reconciliations and no one other than the Treasurers responsible for maintaining these bank accounts reviewed the bank statements.

The Department Treasurer did not provide Department officials with written monthly financial reports at monthly meetings as required by the Department's bylaws. Instead she presented a verbal report at the meetings that included an accounting of the receipts received and disbursements made during the month. However, the verbal reports did not include any financial activity related to the RFC, EMS or Auxiliary. Additionally, the RFC and Auxiliary Treasurers did not prepare and provide any monthly reports to Department officials regarding these entities' financial activities. Further, although the EMS Treasurer prepares a written monthly financial report, Department officials stated they never formally review these reports. Finally, none of the Treasurers prepared or provided Department officials with annual financial reports disclosing their entities' financial activities.

Department officials failed to require and review accurate financial records and reports in a timely manner. This limited officials' ability to provide oversight and safeguard the Department's resources. As a result, there is a risk that errors or irregularities could occur and remain undetected and uncorrected.

Cash Receipts

A well-designed system of internal controls over cash receipts provides for timely supervision of those charged with handling money, and for issuing duplicate press-numbered receipts or using some other method to accurately document the source, date, amount and purpose of the amounts collected. Good business practices require that cash and checks be deposited as soon as possible to prevent loss or misuse. Under no circumstances should funds received be exchanged for members' personal checks.

Department officials did not establish adequate internal controls over cash receipts. For example, Department officials have not designated specific officials or members to be responsible for receiving Department funds.⁶ As a result, money was collected by each Treasurer as well as other Department officials and members at the fire houses and at their personal residences. In addition, Department officials and members did not issue press-numbered receipts for the funds collected nor was any other documentation maintained supporting the amounts received. Each of the Treasurers stated that any Department receipts collected or remitted to them were kept at their personal residences until the money was deposited. As a result,

⁶ The Department receives money from donations, fund-raising (activities such as an annual golf tournament and chicken barbeque) and foreign fire insurance.

Department officials had no assurance that all the funds collected were deposited in Department authorized bank accounts.

Because of these weaknesses, we examined all Department bank statements for our audit period to determine if there were any deposits made that were not recorded in the Treasurers' accounting records. We found that the Department Treasurer deposited \$2,846 that was not recorded in the accounting records. In addition, we traced all funds that were recorded in each Treasurer's accounting records⁷ during our audit period to the Department's bank account statements to determine if all the amounts recorded were actually deposited. We found no exceptions. We also verified that a corresponding deposit was made for all known fund-raising activities during our audit period and found no exceptions.

We then obtained bank compositions⁸ from the Department's bank for all 40 deposits,⁹ totaling \$34,900, made to Department bank accounts during our audit period to determine if deposits were made in a timely manner. Because the Department's records did not contain the date that the amounts collected were received, we could not determine if \$9,503 in cash included in the deposits was deposited in a timely manner. However, for the 188 checks totaling \$25,397 included in these deposits we used the date recorded on each individual check to determine if these checks were deposited in a timely manner. We found 110 checks totaling \$19,318 were deposited more than 20 days after the recorded check date. For example, one check totaling \$6,965 dated August 30, 2013 was not deposited until March 12, 2014 or 194 days later. In addition, one check totaling \$1,000 dated December 10, 2013 was not deposited until April 14, 2014 or 125 days later. When Department officials do not deposit collections timely, there is a risk that the funds collected could be lost or misused.

We also reviewed these bank compositions to determine if any checks were included in the deposits that did not appear to be from a proper Department revenue source. We found four deposits made by the Auxiliary Treasurer included checks that were not proper Department revenues. Specifically, these four deposits¹⁰ each included a personal check from the Auxiliary Treasurer in the amount of \$100. The

⁷ The accounting records consisted of checkbook registers and notebooks for each Treasurer.

⁸ Bank compositions consist of a copy of each check included in a specific deposit and a copy of the deposit slip.

⁹ The deposits consisted of nine totaling \$19,160 made by the Department Treasurer, six totaling \$3,701 made by the RFC Treasurer, 14 totaling \$6,863 made by the EMS Treasurer and 11 totaling \$5,176 made by the Auxiliary Treasurer.

¹⁰ These deposits were made on June 17, 2013, August 30, 2013, October 31, 2013 and April 8, 2014.

Auxiliary Treasurer stated that her personal checks¹¹ were included in the deposits because she cashed them by using Department funds. When personal checks are cashed by using Department funds accountability over the funds is lost and there is no way to ensure that all the funds collected are deposited.

Department officials' failure to issue press-numbered receipts for the amounts collected and deposit funds received in a timely manner increases the risk that errors or irregularities, including fraud and abuse, could occur and remain undetected. In addition, due to the Department's poor recordkeeping practices and allowing personal checks to be cashed using Department funds, Department officials lack assurance that all Department funds collected are deposited in authorized bank accounts.

Cash Disbursements

While not specifically addressed in the Department's bylaws, Department officials should review and approve bills prior to payment to ensure that Department funds are used for legitimate Department expenditures. Additionally, Department officials should document approval in the meeting minutes. This review and approval provides assurance that the Department pays for goods or services that are supported by adequate documentation (e.g., itemized receipts or invoices) and that purchases are made for appropriate purposes.

Department officials did not review and approve all bills prior to payment or document approval in the minutes. Instead, Department officials stated that disbursements made by the Department Treasurer were verbally discussed among Department officials. In addition, the RFC, EMS and Auxiliary Treasurers made disbursements for their respective entities without any oversight by Department officials. As a result, Department officials had no assurance the Treasurers issued checks for appropriate Department purposes.

Due to these deficiencies we reviewed all 114 check disbursements¹² totaling \$29,905 made during our audit period to verify that they were adequately supported and appeared to be for appropriate Department purposes. We found 23 checks totaling \$2,819 were not adequately supported. For example, two checks totaling \$850 were issued to a wholesale store and no supporting documentation was retained to explain what was purchased.

In addition, the Auxiliary Treasurer issued five checks totaling \$760 payable to "cash." The Auxiliary Treasurer stated that these checks

¹¹ The dates on all four personal checks were the same as the date the deposits were made.

¹² The checks consisted of 38 totaling \$14,301 issued by the Department Treasurer, 18 totaling \$4,863 issued by the RFC Treasurer, 19 totaling \$5,832 issued by the EMS Treasurer and 39 totaling \$4,909 issued by the Auxiliary Treasurer.

were cashed and used as start-up cash¹³ during the Auxiliary's pancake breakfasts. The Auxiliary Treasurer stated that once the fund-raising events were complete the cash was subsequently deposited with the amounts collected at the fund-raising events. However, based on our review of the Department's records, we could not determine if the \$760 in cash was subsequently deposited because the records maintained did not document the amounts collected at fund-raising events.

Because Department officials did not review and approve disbursements and maintain adequate supporting documentation, Department officials have no assurance that disbursements are made for appropriate Department purposes and that all goods and services purchased are actually received.

Recommendations

Department officials should:

1. Establish and adopt comprehensive financial policies to assist in safeguarding Department assets, including policies for cash receipts and disbursements.
2. Review and revise the Department's bylaws to include the Department officials responsible for overseeing the Department's financial activities.

The Treasurers should:

3. Maintain accurate, complete and up-to-date accounting records. Such records should include checkbook registers for each bank account listing all deposits and disbursements and a running cash balance.
4. Perform monthly bank reconciliations for all Department bank accounts and present the reconciliations, bank statements and cancelled check images to Department officials for review.
5. Prepare and submit written monthly and annual financial reports to Department officials for review.

Department officials should:

6. Designate the Department officials or members responsible for receiving Department funds.
7. Ensure that duplicate press-numbered receipts are issued or another form of supporting documentation is maintained to account for all Department funds collected.

¹³ Start-up cash is used to make correct change for customers at fund-raising events.

8. Ensure that all funds collected are deposited in a timely manner.
9. Prohibit the cashing of personal checks from Department funds.
10. Review and approve all disbursements prior to payment and document the approval in the minutes.
11. Ensure that all disbursements are supported by adequate documentation and are for appropriate Department purposes.

APPENDIX A

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the internal controls over the Department's financial operations for the period January 1, 2013 through April 30, 2014.

To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed the Department officials. We reviewed the Department's bylaws and various financial records and reports related to the Department's financial activities to gain an understanding of the internal controls over the collection, recording, depositing, disbursing, reconciling and reporting of financial transactions and documented any associated effects of deficiencies in those controls.
- We assessed the adequacy of the Department's accounting records and financial reports provided to Department officials. We also reviewed each Treasurer's checkbook registers for the audit period to document any recordkeeping discrepancies.
- We determined if the Treasurers performed monthly bank reconciliations and if the bank reconciliations were presented to the Department officials and whether someone other than the Treasurers reviewed the bank statements.
- We examined all Department bank statements for our audit period to determine if there were any deposits made that were not recorded in the Treasurers' accounting records.
- We traced all funds that were recorded in the Treasurers' accounting records during our audit period to the Department's bank account statements to determine if all amounts recorded were actually deposited.
- We verified that a corresponding deposit was made for all known fund-raising activities during our audit period.
- We obtained bank compositions from the Department's bank for all 40 deposits made to Department bank accounts during our audit period to determine if deposits were made in a timely manner and if there were any checks included in the deposits that did not appear to be from a proper Department revenue source.
- We reviewed all check disbursements made during our audit period to verify that they were adequately supported and appeared to be for appropriate Department purposes.

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 B

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