

Montezuma Volunteer Fire Department

Financial Operations

MAY 2018



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Montezuma Volunteer Fire Department

Audit Objective

Determine whether financial activity is properly recorded and reported and that money is adequately safeguarded.

Key Findings

- The bylaws provide limited guidance to enable Department officials to adequately oversee financial operations.
- The Department has not fulfilled its reporting requirements with oversight agencies such as the Internal Revenue Service (IRS) and Office of the State Comptroller (OSC).
- The Treasurer did not prepare bank reconciliations.

Key Recommendations

- Amend the bylaws and develop, adopt and implement written policies and procedures to control and monitor the Department's financial operations.
- Ensure monthly financial reports are complete, accurate and include detailed receipt and disbursement information.
- Prepare and provide monthly bank reconciliations for the membership's review.

Department officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Montezuma Volunteer Fire Department (Department) is affiliated with the Montezuma Fire District No. 1 located in Cayuga County. The Department provides fire protection services to District residents.

The Department is governed by its adopted bylaws. The President is the Department's chief executive officer. The Treasurer serves as the chief fiscal officer and is responsible for receiving Department funds, disbursing funds for authorized expenses, maintaining accounting records and preparing monthly financial reports.

Quick Facts

| | |
|-------------------------|---------|
| Active Members | 20 |
| Annual Calls | 125 |
| 2016 Revenues | \$6,464 |
| 2016 Operating Expenses | \$8,258 |

Audit Period

January 1, 2016 – September 30, 2017

Financial Operations

The Department's bylaws established the following member-elected officers: President, Vice President, Treasurer, Secretary, Chief, First, Second and Third Assistant Chiefs, EMS Captain, Fire Police Captain, Fire Police Lieutenant, EMS Lieutenant and four Truck Lieutenants. The Department's primary sources of revenues are fundraising events and foreign fire insurance tax money.¹

How Can Department Officials Provide Adequate Oversight?

The bylaws require the Treasurer to provide a monthly detailed report and an annual presentation of all revenues and expenses to the membership. To fulfill this duty, it is essential that Department officials establish policies and procedures to help ensure that transactions are authorized and properly recorded and financial reports are accurate, reliable and filed in a timely manner, while ensuring compliance with its bylaws and applicable laws, rules and regulations.

Adequate Accounting Records Were Not Maintained

The Department's bylaws establish the Treasurer's responsibility for maintaining the Department's accounting records. However, the bylaws do not provide clear guidance for how the Treasurer is to perform these duties. The Treasurer should maintain complete, accurate and up-to-date records to provide Department officials with essential information to effectively manage cash and monitor financial affairs.

These records should include checkbook registers for each bank account listing all deposits and disbursements and a running cash balance. The Treasurer should also reconcile the checkbook balances with the bank statements on a monthly basis to ensure that financial transactions are properly recorded and that all cash is accounted for. It is also essential that bank statements, reconciliations and cancelled check images are presented to the membership on a regular basis for their review and approval to fulfill their financial oversight responsibilities.

The Treasurer did not provide formal, detailed reports of cash receipts and disbursements or prepare and provide bank reconciliations. Instead, the Treasurer presented an oral report during the monthly membership meetings summarizing cash receipts and disbursements. She also prepared a report reflecting the bank statement activity. However, the reconciled cash balance is not reported because monthly bank reconciliations are not prepared.

The Treasurer's books and records are reviewed by three members at the end of the monthly meetings. However, because the members are not provided with

¹ New York State General Municipal Law (GML) Sections 9104 and 9105 impose a tax at the rate of two percent on the premiums of fire insurance policies written by certain out-of-state insurers. In general, the foreign fire insurance taxes imposed by the New York State Insurance Law are paid by the insurer to the New York State Department of Financial Services, which in turn, distributes the proceeds to the proper local recipient.

bank reconciliations or cancelled check images, Department officials lack the detail necessary to adequately oversee the financial operations. Additionally, the Treasurer did not annually prepare or present all revenues and expenses to the membership as required by the bylaws.

We performed bank reconciliations for the checking account for each month of our audit period and found minor discrepancies between the bank balance and the book balance due to recordkeeping errors, which we discussed with Department officials. Additionally, we reviewed all 109 disbursements totaling \$14,826 made during the audit period. Other than minor discrepancies, which we discussed with the Treasurer, disbursements were supported with adequate documentation and for appropriate purposes.

When the Treasurer does not provide detailed records or prepare and present monthly bank account reconciliations to the membership there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

Required Reports Were Not Filed

The Treasurer has not prepared and filed the Department's 2016 Form 990 with the IRS² and annual report of foreign fire insurance tax receipts, expenditures and the remaining balance with OSC.³ Furthermore, Department officials were unable to provide documentation of their federal tax-exempt status.

The Treasurer told us that she was unaware of these filing requirements. When officials fail to comply with annual filing requirements, such as Form 990, they unnecessarily put the Department's tax-exempt status at risk. In addition, because the annual foreign fire insurance report was not prepared and submitted Department officials did not provide any evidence to its members that this money was properly expended on their behalf.

What Do We Recommend?

The Membership should:

1. Amend its bylaws or establish sufficient policies and procedures relating to the financial operations.
2. Review bank reconciliations and supporting documentation.

² 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.

³ In accordance with GML

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3. Ensure compliance with all necessary reporting requirements to oversight agencies.

The Treasurer should:

4. Provide Department officials with a written monthly financial report that includes all money received and disbursed during the month reconciled with cash balances for each bank account.
5. Prepare monthly bank reconciliations for all department bank accounts and provide them to Department officials along with bank statements and canceled check images.
6. Prepare an annual presentation of all revenues and expenses to the membership.
7. Prepare and submit the Form 990 to the IRS and the annual foreign fire insurance report to OSC, as required.

Appendix A: Response From Department Officials



MONTEZUMA FIRE DEPARTMENT

8115 HIGH STREET

PO Box 457

Montezuma, N.Y. 13117

Company officials generally agreed with the recommendations and plan to initiate corrective action.

Sincerely,

The Board of the Montezuma Fire Department

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Department officials and reviewed the bylaws and various financial records and reports to gain an understanding of the procedures related to the collection, recording, depositing, disbursing, reconciling and reporting financial transactions.
- We reviewed meeting minutes and interviewed officers to determine the oversight over the Treasurer's records, including whether or not an annual report was prepared and presented to the membership.
- We requested all manual records, receipts and invoices, deposits and bank statements and prepared bank reconciliations for the checking account each month of the audit period.
- We reviewed all 109 disbursements totaling \$14,826 made during the audit period to determine whether disbursements were reviewed and approved by the membership and ensure adequate support documentation existed and disbursements were for appropriate Department purposes.
- We determined whether the Treasurer prepared and provided Department officials with a monthly financial report as required by the bylaws and assessed the adequacy of monthly financial reports that were prepared.

We conducted this performance audit in accordance with GAGAS (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.

The Membership has the responsibility to initiate corrective action. We encourage the Membership to prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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