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September 26, 2014

Michael Porter, Board President
Members of the Board
Margaretville Volunteer Fire Department
77 Church Street
Margaretville, NY 12455

Report Number: 2014M-172

Dear President Porter and Members of the Board:

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 account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Margaretville Volunteer Fire Department (Department) which addressed the following question:

- Did the President and Executive Committee ensure the Treasurer properly accounted for cash receipts and disbursements?

The results of our audit have been discussed with Department officials and their comments, which appear in Appendix A, have been considered in preparing this report. Department officials generally agreed with our findings and indicated they would take corrective action.

Background and Methodology

The Department is a volunteer organization located in the Town of Middletown in Delaware County. The Department, which has approximately 60 active members, is affiliated with the Middletown-Hardenburgh Fire District (District) and provides fire protection services to the District. The Department's primary sources of revenue are proceeds from their annual summer carnival, which includes food and ride sales, donations, and a raffle, and foreign fire insurance

premium tax¹ moneys. Revenues totaled approximately \$72,000 for 2013 and expenses totaled approximately \$81,500.²

The Department is operated in accordance with its “By-Laws and Constitution” (bylaws) which detail the responsibilities of the Department’s officers. The officers include a President, Vice President, Treasurer, Secretary, Chief and various assistants. The President is responsible for enforcing the bylaws and any other policies or procedures. The Treasurer is responsible for receiving and expending Department funds and for accounting for those funds, including preparing monthly reports. The bylaws established an Executive Committee which consists of all elected officers plus two active members from the Department.

We examined the internal controls over the Department’s financial operations for the period January 1, 2013 through March 26, 2014. We interviewed appropriate Department officials and reviewed financial records and membership 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 President and Executive Committee should ensure the Department is following their bylaws and other financial policies. The Department members establish the bylaws which should provide policies and procedures relating to control of the Department’s cash receipts and disbursements. These policies and procedures should detail specific requirements that all disbursements are for valid Department purposes and supported by an invoice and both cash receipts and disbursements are properly recorded, reported and reconciled. The bylaws should also indicate the specific requirements relating to deposit of cash receipts. Additional oversight of the cash receipts and disbursement process should be provided through an annual audit. Currently, the bylaws require the Treasurer to maintain complete and accurate records to properly account and report the Department’s financial activities. The bylaws also state that two members of the Executive Committee should be auditing all disbursements prior to the Treasurer disbursing moneys. Additionally, a resolution passed by members requires that any checks over \$2,500 be signed by the Treasurer and the President.

While the Treasurer does maintain up-to-date and accurate accounting records, the President and Executive Committee did not provide adequate oversight to ensure the Treasurer properly accounted for all of the cash receipts and disbursements. The Treasurer is properly performing all the cash receipt and disbursement duties, but with little oversight. Moreover, the Treasurer is paying all of the more routine bills as he receives the invoices with no audit performed. However, donations and other unusual expenses³ are being paid after the membership approves them. Finally,

¹ Insurance companies organized or incorporated outside of New York State (State) that write fire insurance policies on properties located in the State must pay 2 percent of the premium to the State. New York State Insurance Law provides that the treasurer or fiscal officer of the fire department affording fire protection should receive these funds.

² A portion of these expenses related to a 2014 expense totaling \$13,000 that was paid in 2013.

³ Including fireworks and bands for the carnival, shirts, hats, jackets, a flag, a coffee maker and dues to the local County Firefighters’ Association

three out of the eight checks over the \$2,500 threshold, totaling \$19,800, cleared the bank and were not signed by both the President and Treasurer. The President told us he had also discovered these and discussed the matter with the Treasurer. The President believed they may not have notified their bank of the dual-signature requirement.

Department officials told us that they were unaware of the need for additional controls over the cash disbursement process (such as an annual audit) as they trusted the Treasurer, and additional procedures may be too cumbersome for members to perform.

We tested all 32 deposits during our scope period, totaling \$91,700, and 175 disbursements, totaling \$103,200, with only minimal discrepancies when tracing between the deposits on the bank statements and accounting records. We also found 28 disbursements totaling approximately \$10,100 that lacked documented support but appeared to be legitimate Department expenses. Lastly, there were 11 cash payments, totaling about \$1,600, paid directly out of money not yet deposited. Although we did not find any payments for improper Departmental purposes, there is an increased risk that errors or irregularities could occur without detection and correction.

Recommendations

1. The Department members should revise their bylaws to include detailed written policies and procedures that establish controls over the Department's cash receipts and disbursements. These could include:
 - Segregating the Treasurer's duties, and if not possible implementing mitigating controls;
 - Notify their bank of the dual-signature requirement for some checks;
 - Auditing the bills prior to their payment; and
 - Annually auditing the Department's financial records.
2. The President and Executive Committee should ensure they are following the Department's bylaws and resolutions.

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 of the Margaretville Volunteer Fire Department for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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

MARGARETVILLE VOLUNTEER FIRE DEPARTMENT
77 CHURCH ST. PO BOX 201
MARGARETVILLE, NY 12455

RESPONSE FROM FIRE DEPARTMENT OFFICIAL

INTRODUCTION TO RESPONSE:

This year's audit of the Margaretville Fire Department (MFD) proceeded with few hitches and/or significant findings of inadequacies in the financial processes of the Department. Discussion centered upon the handling of cash income and disbursements and all questions that the audit examiners brought up were answered and possible remedies discussed. At no time were there any serious issues raised and any documents asked for were freely provided. As a result of these meetings, the MFD Executive Board representatives were satisfied that any criticisms and solutions were really minor and easy to rectify.

The members of the Audit Team had assured us throughout the process that even though there were more proper methods that could be employed to carry out our financial doings, no real problems were found. After our final meeting with the Audit Team the MFD representatives left with a good feeling about the audit process. We had resolved among ourselves, that a few best practice guidelines (BPG) added to our BPG list and resolutions adopted each year would insure that issues discussed would be adequately addressed.

As the Report was read following the rewrite on our Audit it is now obvious that there are some simple things that Margaretville Fire Department can do to make its oversight better in the financial realm of our Department. All Audit Team discussions and suggestions were put in constructive terms that would lead to more correct, efficient financial procedures.

With the exception of the notification of the Bank in regards to our two signature requirement on checks of \$2500 or more, any shortcomings will be addressed by BPG or Annual Resolutions as shown in our CAP report. Also a letter written to the National Bank and Trust of Norwich informing them of our signage requirement will be written.

SPECIFICS OF RESPONSE:

We acknowledge that the auditing of disbursements, covered in our By-Laws, prior to Treasurer disbursing money is not being followed and will begin immediately to rectify this shortcoming.

During our Annual Field Days when we handle virtually all of our cash, there is a Business Committee that helps with counting and affirming deposits made during the events. Each day when cash boxes are started, the start-up cash is entered in the record as a negative amount that automatically is accounted for by the math in the spreadsheet program.

In regards to the payment of bills prior to being approved, the Department authorized the Treasurer to pay regular standing bills (utility bills, janitorial services and the like) each month without bringing the amounts to the membership for approval. All other bills that come in on a periodic basis, that are not anticipated, are brought before the membership and not paid until proper motions are made, seconded and approved by a vote of the membership present. See CAP for our suggest remedy for paying All bills in an "acceptable" manner.

CLOSING COMMENTS:

After a few phone calls and emails, issues with the wording of our report were worked out to all parties satisfaction. Any wording that could have been detrimental to our financial support has been taken care of very well. It should be noted that Margaretville Fire Department is a volunteer organization that is supported by generous donations of local and part time residents. We are not unlike all volunteer departments in the state and country in that any indication of impropriety would be a deathnell to its financial support. It is my hope that the Audit Process for all Volunteer Fire Departments be modified in the ways that were exhibited in the changes in our Report.

Sincerely,

Michael Porter,
President of Margaretville Fire Department