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October 2015

Sloan Russell, President
Members of the Board of Trustees
Stony Creek Volunteer Fire Company
42 Harrisburg Road
Stony Creek, NY 12878

Report Number: 2015M-188

Dear President Russell and Members of the Board of Trustees:

The Office of the State Comptroller works to identify areas where fire company 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 company 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 Stony Creek Volunteer Fire Company (Company) which addressed the following question:

- Has the Board of Trustees provided adequate oversight over cash disbursements to ensure that Company funds were safeguarded?

We discussed the findings and recommendations with Company officials and considered their comments in preparing this report. The Company's response is attached to this report in Appendix A. Company officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background and Methodology

The Company provides fire protection services for the Town of Stony Creek (Town) in Warren County, with approximately 30 members. The Company's primary source of revenue is from a fire protection contract with the Town. The Company also receives money from foreign fire

insurance tax,¹ grants and fundraising activities. For the period January 1, 2013 through March 31, 2015, the Company's revenues totaled \$301,870 and expenses totaled approximately \$290,000.

The Company is operated in accordance with its bylaws, which stipulate that a Board of Trustees (Board), composed of nine elected members is responsible for the Company's overall financial management. The Board and Company officers appoint a Treasurer who acts as the Company's chief fiscal officer. The bylaws state that the Treasurer is responsible for the receipt and custody of Company funds, for disbursing and accounting for those funds, for preparing financial reports for the regular meetings and annually and for meeting any other reporting requirements.

We examined the internal controls over the Company's financial operations for the period January 1, 2013 through March 31, 2015. 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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not our intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 consist of policies and procedures that ensure that transactions are authorized and properly recorded; that financial reports are accurate, reliable and filed in a timely manner; and that the Company complies with its bylaws and other applicable laws, rules and regulations, including the New York State General Municipal Law requirement for a code of ethics.

According to the bylaws, the Treasurer should pay all bills reviewed and approved by the Board and ordered to be paid by a majority vote of the Company members. The bylaws also require that all banking transactions, which includes checks, withdrawals and transfers, have two Board member signatures.

It is important that Company procedures provide for segregating duties so that one individual does not control all aspects of a transaction. Where segregation is not possible due to a limited number of staff, detailed Board reviews could ensure that policies and procedures are properly followed and that the Company's cash is properly accounted for, accurately reported and adequately protected. In addition to properly auditing claims, the Board should review financial records including monthly bank statements, canceled checks, bank reconciliations and a list of all approved disbursements each month.

¹ Foreign fire insurance money represents a tax on the premium paid on insurance policies as provided in New York State Insurance Law, which entitles fire companies 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.

Disbursements - We found that, overall, the Board provided sufficient oversight of the Company's cash disbursements. However, Company officials could improve the process because the Treasurer made certain disbursements that were not made in accordance with the bylaws.² The Board also did not establish effective internal controls to address a lack of segregation in the Treasurer's cash disbursement duties. The Treasurer has access to check stock, prepares checks, records disbursements in the accounting records and receives the bank statements. In addition the Treasurer has custody of a debit card, receives and reviews bank statements and canceled checks and does not provide the Board with bank statements or reconciliations.³

We reviewed 169 disbursements totaling \$91,601 made during the audit period⁴ to determine if the Board reviewed the associated claims before payment and the claims were for valid Company purposes.⁵ Except for a few instances where payments were made before Board approval, which we discussed with Company officials, we found the disbursements to be adequately supported and audited and approved by the Board before payment. However, when duties are not adequately segregated, which is inherent in a fire company of this size, it is increasingly important that the Board provide oversight for disbursement of all Company funds.

Debit Cards - Debit card use posed a significant risk because the Treasurer had direct access to the Company's bank accounts and any unauthorized use may not be readily detected. In addition, because the Treasurer used the card to pay for purchases without prior Board audit and approval and the payments were not made by checks signed by two Trustees, the Company's bylaw requirements were circumvented. Therefore it is essential the Board establish formal written policies and implement procedures for using the card and review all debit card transactions to ensure the purchases made are for appropriate Company purposes.

Because the Board did not establish policies or implement any procedures governing debit card use or review or approve any card-related transactions, we reviewed 22 debit card transactions totaling \$7,928. We found that the debit card purchases the Treasurer made were for items associated with Company dinner fundraisers, car shows and other Company events, which were for appropriate Company purposes. However, obtaining Board authorization for all debit card purchases before the card purchases are made would be an additional safeguard to better protect Company funds from loss or misuse.

² See Debit Cards

³ The Treasurer does not perform complete bank reconciliations by comparing the reconciled bank balance to the cash balance in the accounting records. Instead, the Treasurer determines if checks issued cleared the bank.

⁴ For our sample of 169 disbursements, we selected 100 disbursements using a random number generator and included all disbursements paid to the Fire Chief (8) and the Treasurer (16), all disbursements paid to a vehicle repair garage owned by the Treasurer (23) and debit card transactions (22).

⁵ The Board was aware the Treasurer owned the vehicle repair garage and approved all such claims. The Treasurer, as a nonvoting Board member, was responsible for recording these transactions in the accounting records and did not approve these claims for payment or sign the checks.

The Board's failure to provide oversight of the Treasurer's activities and audit and approve debit card transactions represent significant control weaknesses that substantially increase the risk that Company funds could be misused and remain undetected.

Recommendations

The Board should:

1. Provide oversight of the Treasurer's activities by requesting and reviewing financial records, including the bank statements, canceled checks, bank reconciliations and a list of all approved disbursements each month.
2. Review and approve all debit card transactions before card purchases are made and implement policies and procedures for Company members to follow when using the card.

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.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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

Stony Creek Volunteer Fire Company, Inc.

AND

Stony Creek Emergency Squad

Stony Creek, N.Y. 12878

COMMUNITY SERVICE 24 HOURS A DAY

Stony Creek Volunteer Fire Co. Inc.
Audit Report Number – 2015-188

Recommendations

1 – Provide oversight of the Treasurer's activities by requesting and reviewing financial records, including the bank statements, cancelled checks, bank reconciliations and a list of all approved disbursements each month.

The Trustees of the fire co. will review the bank statements, canceled checks, and bank reconciliations at their Trustees meeting at the first meeting of each month . The secretary writes the purchase orders and records them in the minutes of the trustees meeting each month to provide a clear record of approved disbursments.The Trustees will start this procedure starting November 2015.

2- Review and approve all debit card transactions before card purchases are made and implement policies and procedures for Company members to follow when using the card.

The Fire Co. has decided to switch to a credit card instead of a debit card so that the Company has better protection of it's funds. All purchases made with the credit card will have a purchase order before the charge is applied to the credit card. The only person who can use the card will be the Treasurer and the Trustees will review all purchases at their monthly meeting. This change from a debit card to a credit card will be done within the next thirty days.

The Stony Creek Volunteer Fire Co. agrees with the findings of this audit and is taking the appropriate actions.

This audit response is also serving as our CAP.

Sloan Russell, President
