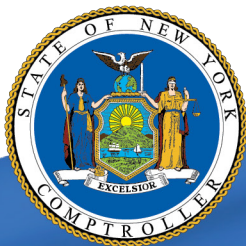


Salem Volunteer Fire Department, Inc.

Financial Activities

DECEMBER 2019



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

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Report Highlights

Salem Volunteer Fire Department, Inc.

Audit Objective

Determine whether Department officials ensured financial activities were properly recorded and money was safeguarded.

Key Findings

- Collections were not always adequately supported to allow officials to determine whether funds were deposited. We found that 462 collections paid by checks totaling \$84,076 were not deposited in a timely manner.
- Twelve credit card payments totaling \$6,855 were not approved by the Board as required by the bylaws.
- The Board did not ensure that the Treasurer's records were annually reviewed, as required by the bylaws, or obtain the statutorily required annual audit.

Key Recommendations

- Establish procedures to adequately account for all collections received by the Department and ensure deposits are made timely and intact (in the same form and amount as collected).
- Ensure that all disbursements are authorized by the Board before payment and adequately supported.
- Ensure that the Treasurer's books and records are annually audited when required by law.

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

Background

The Salem Volunteer Fire Department, Inc. (Department) is a not-for-profit organization which contracts to provide fire protection services to the Towns of Salem and Jackson (Towns) in Washington County.

The Department is governed by its adopted bylaws. The member-elected Board of Directors (Board), composed of five Directors and the Chief, are responsible for all business functions and upholding and enforcing the bylaws.

The Treasurer is the chief fiscal officer responsible for disbursing and accounting for funds, preparing financial reports and meeting other reporting requirements. The Financial Officer/Secretary (Finance Officer) is responsible for receiving, recording and depositing all money received.

Quick Facts

2018 Revenues	\$367,209
2018 Expenses	\$348,216
Active Members	33

Audit Period

January 1, 2018 – May 31, 2019

Financial Activities

The Department's primary sources of revenue are from the contracts with the Towns, grants, donations and foreign fire insurance.¹

How Should Officials Provide Effective Financial Oversight?

To effectively manage operations, good management practices require a board to establish policies, procedures and clearly defined bylaws to ensure that transactions are properly recorded, collections and disbursements are adequately accounted for and bills are approved before payment.

The Department's bylaws require the Treasurer to keep a correct accounting of all cash collections and disbursements. The Finance Officer is directed by the bylaws to receive all cash collections, keep a record of the collections and deposit all money received in the Department bank accounts and provide the Treasurer with the documentation maintained for these collections.

The bylaws require the Board to approve all vouchers before the Treasurer makes payment and to annually submit all financial records to an independent auditor for review. In addition, a fire company² with revenues of \$300,000 is required by New York State General Municipal Law to obtain an annual audit of its financial records by an independent certified public accountant or an independent public accountant.³

The board should require sufficient documentation be maintained for all money received, which includes the date of receipt, amount and composition (cash or check) and the date collections are deposited. The Finance Officer should ensure that all collections are supported and deposited intact and in a timely manner. The Board and Treasurer should ensure that disbursements are properly authorized and accounted for, supported by adequate documentation and for appropriate purposes.

Officials Did Not Ensure That Collections Were Adequately Supported

Collections were not always adequately supported to allow Department officials to determine whether they were deposited. Officials did not maintain complete records for the 16 fundraisers held during our audit period.

At the end of each fundraiser, two members counted the money collected and the Finance Officer made the bank deposits. The Finance Officer made a copy of the checks to deposit and prepared a summary of checks and cash collected

1 Foreign fire insurance funds represent a tax on the premium paid on insurance policies. The law entitles fire companies or departments protecting an eligible area to receive an appropriate share of the tax collected on insurance policies written by foreign or alien insurers on policies within their area of protection.

2 On June 9, 1970, two fire companies were merged to form the Salem Volunteer Fire Department.

3 New York State General Municipal Law, Section 209-z

to support the deposit. However, the summary was insufficient because it did not include the date checks and cash were received or include records showing the amount of cash given to the Finance Officer for deposit.

The Treasurer maintained records showing the money deposited by the Finance Officer and completed a profit and loss analysis for each fundraising event. Even though the Department had established some procedures for collections, we were unable to determine whether all money collected was deposited timely and intact.

We reviewed all 104 bank deposits totaling \$573,345 (composed of 533 checks totaling \$446,936, two electronic deposits of \$79,935 and \$46,474 in cash) that were made during our audit period to determine whether collections were deposited timely, intact and accurately recorded in the accounting records.

For the checks, we compared the check date to bank deposit date to determine whether the checks were deposited timely.⁴ We found that 462 checks totaling \$84,076 (87 percent) were not deposited timely. These checks were deposited from 11 to 189 days after the check date. For example, the March 6, 2018 deposit totaling \$16,136 included two checks dated January 1 and February 7, 2018.

Aside from minor discrepancies, which we discussed with the Treasurer and Board Chairman, all checks were deposited intact and accurately recorded in the accounting records. Although the Finance Officer was aware that deposits should be made timely, he told us that deposits were late because he works full-time and did not always receive the collections from members until the monthly meetings.

For the 61 cash deposits, we compared the dates of fundraising events to the collection records maintained to determine whether deposits were made in a timely manner and intact. With the information provided by officials, we were able to determine that 28 deposits totaling \$30,898 (46 percent) were deposited timely and 30 deposits totaling \$36,209 (49 percent) were deposited intact. However, because the Finance Officer did not maintain adequate records for all cash collections, we were unable to determine whether the remaining 31 deposits were deposited timely and intact.

The Board and the Treasurer did not provide adequate oversight over Department collections to ensure all collections were adequately accounted for and deposited timely and intact. As a result, there is an increased risk that collections could be lost or misused and not be detected in a timely manner.

⁴ Check dates were determined from copies of the checks maintained by the Finance Officer. Good business practices dictate that all money received should be deposited as soon as possible. For our audit, we considered checks deposited within three business days of the check date to be timely. However, we considered checks received by mail to have been deposited timely if they were deposited within 10 days of the check date.

The Treasurer Disbursed Funds Without Adequate Support and Authorization

Department officials did not establish adequate controls of disbursements. Although the bylaws require the Board to approve bills before payment, the Treasurer paid bills that were not approved. Additionally, the Treasurer did not provide the Board with documentation for the bills disbursements.

The Treasurer paid 488 disbursements totaling \$461,628 during our audit period. We reviewed 237 disbursements totaling \$194,783 to determine whether they were properly recorded in the accounting records, approved by the Board, adequately supported and for appropriate purposes.⁵

Except for minor discrepancies, which we discussed with Department officials, we found the disbursements were accurately recorded in the accounting records. However, 63 disbursements totaling \$25,654 (27 percent) were not approved by the Board as required by the bylaws. In addition, although 218 disbursements totaling \$188,712 were adequately supported and for a valid purpose, 19 disbursements totaling \$6,071 were unsupported.

We discussed the unsupported disbursements with the Treasurer and Chairman, and based on our review of Board minutes, profit and loss summaries for the fundraisers, the vendors previously used for fundraisers and vendor websites, we determined that all these payments were for appropriate purposes. For example, eight disbursements totaling \$2,746 were for expenses related to the carnival, five totaling \$1,800 were for startup money for fundraisers, one totaling \$772 was for fire equipment and two totaling \$325 were for entertainment services at the annual banquet.

We also reviewed all 32 credit card payments totaling \$16,673 made during our audit period. Except for minor discrepancies, which we discussed with Department officials, the credit card purchases were adequately supported and for valid purposes. However, we found that 12 credit card payments totaling \$6,855 (38 percent) were not approved by the Board as required. The Treasurer told us that he paid these bills without approval to avoid fees and interest costs.

Although we did not find any inappropriate payments, the Treasurer's practice of paying bills that were not authorized by the Board increases the risk that money could be spent for inappropriate purposes.

⁵ Refer to Appendix B for information on our sampling methodology.

Financial Records and Reports Were Not Audited

The Board appointed two Department members to annually review the Treasurer's records but it did not hire an independent auditor to review his records as required by the bylaws or obtain the statutorily required annual audit.⁶ The Treasurer and Chairman believed that having two members review the Treasurer's records satisfied the bylaw requirement. However, the review conducted by the members was inadequate because they did not compare information in the accounting records with the bank statements, cancelled check images and invoices.

The Board members told us that they were unaware that the accounting records were required to be audited by an independent certified public accountant or independent public accountant when revenue equaled \$300,000. Without proper oversight and an audit of the Treasurer's records, there is an increased risk that financial information could be inaccurately reported and collections and disbursements may not be properly accounted for.

What Do We Recommend?

The Board should:

1. Adopt procedures to ensure that collections are documented, accurately accounted for and deposited timely and intact.
2. Authorize all disbursements before payment and ensure they are adequately supported and for appropriate purposes.
3. Ensure the Treasurer's books and records are annually audited, when required by law.

The Treasurer should:

4. Ensure that all disbursements are authorized by the Board and adequately supported before payment is made.

The Finance Officer should:

5. Ensure that the amount of cash received for deposit, and the date that checks and cash are received are included on the summary of cash and checks collected to support the deposits.

⁶ Although the Department filed a Federal Form 990 with the IRS in 2018, which was completed by an independent contractor, the compilation and filing of this form did not satisfy the bylaws requirement for an audit.

Appendix A: Response From Department Officials



SALEM VOLUNTEER FIRE DEPT., INC.

53 SOUTH MAIN STREET, P.O. BOX 449
SALEM, NEW YORK 12865

December 9, 2019

Jeff Leonard, Chief Examiner
Glens Falls Regional Office, OSC
One Broad Street Plaza
Glens Falls, NY 12801

Dear Mr. Leonard:

The trustees of the Salem Volunteer Fire Department, Inc. have received the written draft of the audit your office completed for the period from January 1, 2018 to May 31, 2019. This is our written response and corrective action plan in response to the draft Audit report 2019M-205.

Recommendations:

1. Adopt procedures to ensure that collections are documented, accurately accounted for and deposited timely and intact.

Corrective action: Procedures have been adopted to ensure that collections are documented, accurately accounted for and deposited timely and intact.

2. Authorize all disbursements before payment and ensure they are adequately supported and for appropriate purposes.

Corrective action: We have implemented a process to ensure all disbursements will be authorized before payment, ensured they are adequately supported and for appropriate purposes.

3. Ensure the Treasurer's books and records are annually audited, when required by law.

Corrective action: The Department is actively investigating businesses that can perform an external Audit with fire service financial experience to ensure that the Treasurer's books and records are annually audited, when required by law.

4. Ensure that all disbursements are authorized by the Board and adequately supported before payment is made.

Corrective action: We have put a process in place to ensure that all disbursements are authorized by the Board and adequately supported before payment is made.



SALEM VOLUNTEER FIRE DEPT., INC.

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SALEM, NEW YORK 12865

5. Ensure that the amount of cash received for deposit, and the date that checks and cash are received are included on the summary of cash and checks collected to support the deposits.

Corrective action: Procedures were adopted to ensure that the amount of cash received for deposit, and the date that checks and cash are received are included on the summary of cash and checks collected to support the deposits.

Respectfully Submitted,

Joseph F. Wever
Chairman, Board of Directors

JW/kf

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 to gain an understanding of financial procedures and processes.
- We reviewed the Treasurer's records, bank statements and other supporting documentation to determine whether the records and reports provided to the Board were accurate and reliable.
- We reviewed all collections for our audit period to determine whether they were adequately safeguarded, deposited intact and in a timely manner and reported to the Board and Department members in the monthly Treasurer's reports.
- We used our professional judgment to select a sample of eight months of financial activity during the audit period (five months from 2018 and three from 2019) based on those months with significant reconciling items such as deposits in transit and outstanding checks. We recalculated the cash balances reported on the monthly Treasurer's reports using the balances presented in the month-end bank statements.
- We reviewed all disbursements during our sample months to determine whether the Board authorized payment and whether the disbursements were adequately supported and for a valid purpose.
- We reviewed all credit card charges for our audit period to determine whether the Board authorized payment and whether the charges were adequately supported and for a valid purpose.
- We reviewed the December financial reports provided by the Treasurer for 2017 and 2018.
- We made inquiries of Department officials to determine whether they complied with the bylaws and the statutory requirement for an annual audit of the Treasurer's books and records.
- We determined whether the Treasurer prepared and submitted the 2017 and 2018 foreign fire insurance funds activity with the State Comptroller's office.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

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. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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. The CAP should be posted to the Department's website for public review.

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/pubs/cyber-security-guide.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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www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

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