



**THOMAS P. DiNAPOLI**  
COMPTROLLER

STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**  
110 STATE STREET  
ALBANY, NEW YORK 12236

**GABRIEL F. DEYO**  
DEPUTY COMPTROLLER  
DIVISION OF LOCAL GOVERNMENT  
AND SCHOOL ACCOUNTABILITY  
Tel: (518) 474-4037 Fax: (518) 486-6479

September 12, 2014

Rick Jennings, President  
Members of the Board of Trustees  
Malta Ridge Volunteer Fire Company, Inc.  
5 Hearn Road  
Ballston Spa, NY 12020

Report Number: 2014M-170

Dear President Jennings and Members of the Board of Trustees:

The Office of the State Comptroller works to identify areas where local government 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 local government 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 Malta Ridge Volunteer Fire Company (Company) which addressed the following question:

- Did the Company provide adequate oversight of the Company's financial operations to ensure that Company moneys are safeguarded?

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

### **Background and Methodology**

The Company is a not-for-profit organization, which is located in the Town of Malta (Town), in Saratoga County. The Company provides fire protection services to the residents of the Town, except those located within the Village of Round Lake. The Company's revenues for the 2013 fiscal year were approximately \$1.8 million, which included the annual payment received from the Town for fire protection services, fundraising activities and other sources of income. Total expenditures were \$1.6 million.

The Company is governed by a five-member Board of Trustees. The Executive Committee, (Committee) which includes the President, Vice President, Treasurer, recording secretary and the financial secretary is responsible for the Company's overall fiscal affairs. The Company's bylaws authorizes the President to preside over all Company meetings and make appointments to committees as necessary. The Treasurer is responsible for the receipt and custody of Company funds, disbursing and accounting for those funds and preparing periodic financial reports.

We examined the internal controls over the Company's financial transactions from January 1, 2013 through January 31, 2014. We interviewed Company officials and reviewed the Company's constitution, bylaws and financial records. We conducted this performance audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence which provides 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 Committee is responsible for overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Committee establish a system of internal controls which consists of policies and procedures to ensure that transactions are authorized and properly recorded, financial reports are accurate and timely and the Company complies with its bylaws and other applicable laws, rules and regulations. To meet these goals, the Company has established bylaws and adopted a financial policy that charged the audit committee or other designated group<sup>1</sup> with the responsibility to ensure accountability and provide oversight of the Company's financial operations.

According to its' bylaws, it is the Treasurer's duty to maintain accurate records to account for all of the Company's financial activities and prepare and submit a report at each monthly meeting to the audit committee. The Treasurer is also required to submit an annual fiscal report for the prior year at the first regular meeting of the year. The bylaws further authorize withdrawals from the Company's bank accounts only upon the signatures of two members of the Committee who are all approved to sign checks.

The Committee needs to enforce the requirements of the Company's financial policy. The policy requires that the audit committee perform an audit of each bill prior to payment to ensure that it is for a valid purpose, the goods and services have actually been received, no sales tax is being paid and the transaction is adequately documented by an itemized invoice. The audit committee is also responsible for reviewing the Treasurer's records on a monthly basis. This includes the review of the cash receipts, bank statements and bank reconciliations and verifying the timeliness and accuracy of the financial transactions and reports.

We found that the audit committee did not audit the bills or review the Treasurer's records. There was also no review of the bank statements, canceled checks or bank reconciliations. Furthermore,

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<sup>1</sup> The audit committee was the only group assigned this responsibility.

we noted that the audit committee included the Treasurer, which negates the internal controls intended by having an oversight committee monitor the Treasurer's work. Additionally, although the Company obtains an annual independent financial audit, it is not an adequate substitute for the regular and detailed oversight called for in the Company's financial policy.

The Treasurer performs virtually all duties related to the Company's financial transactions, including preparing, signing and mailing checks, depositing and recording receipts, reconciling the bank statements; and preparing financial reports. At the monthly meetings, he provides financial information to the Board, which includes budget status reports and the balances of the Company's bank accounts. Every year, the Treasurer prepares an annual fiscal report that is submitted to the Company and to the Town for review. In a small organization, the absence of an adequate segregation of duties or the mitigating controls of oversight places the Company's financial transactions at risk and susceptible to errors and abuse.

Due to the absence of the required oversight, we reviewed all receipts during the audit period to determine if they were adequately documented and accurately recorded and reported to the Company and the Town. We found that all 26 receipts totaling about \$1.8 million were accurately recorded and reported to the Company and the Town. We reviewed all 431 disbursements totaling \$1,651,448 to determine if they were for appropriate Company purposes, adequately documented and accurately recorded and reported. We traced all transactions between the cash disbursement ledger, check book, bank statements, canceled checks and supporting documentation such as invoices and credit card statements. We found all disbursements were for appropriate Company business and were accurately recorded and reported to the Company and the Town. We also reviewed the canceled checks to determine if they were signed by two officers as required by the bylaws and found that only the Treasurer signed the checks.

We also reviewed 26 transfers totaling \$701,420 made between Company bank accounts to ensure that they were adequately documented and accurately recorded. We found that the transfers were adequately documented and accurately recorded.

Although we found that the Company's financial transactions were adequately supported, recorded and reported, when the Treasurer performs all financial transactions, including signing all the checks with little or no oversight, there is an increased risk that errors and irregularities could occur without being detected.

## **Recommendations**

1. The Executive Committee should ensure that the audit committee provides oversight of financial transactions as required in the financial policy.
2. The audit committee should ensure that:
  - a. Bills are audited prior to payment.

- b. The Treasurer's records are reviewed.
  - c. Two signatures are provided on all checks in accordance with the by-laws.
3. The President should ensure that audit committee members are exclusive of the Treasurer.

The Company 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 and OSC Audit Report*, which you received with the draft audit report. We encourage the Company to make this plan available for public review.

We thank Company officials for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

## **APPENDIX A**

### **RESPONSE FROM COMPANY OFFICIALS**

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

**MALTA RIDGE VOL. FIRE COMPANY INC.**  
**5 HEARN ROAD - MALTA, NEW YORK 12020**

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Station (518) 584-6155 - Fax (518) 587-3290

State of New York  
Office of the State Comptroller  
110 State Street  
Albany, New York 12236

26 August 2014

Mr. Gabriel F. Deyo  
Deputy Comptroller:

As President of the Malta Ridge Volunteer Fire Co. Inc. it is my duty to respond to the audit findings and recommendations of an audit conducted by [REDACTED] of the Glens Falls Office. In July we received a draft letter from your office and have taken all of your recommendations into advisement and plan to address them with our Treasurer and Financial Audit Team, as well as make any changes as required. Changes may require updates to both our By-Laws & Policies dealing with the Treasurer, Audit Teams, as well as educate both of them as to what is expected through our By-Laws and Financial Policy. It is our intent to protect the fund that we receive from the Town Of Malta Taxpayers.

Respectfully

Richard D. Jennings/  
President – MRVFCo. Inc.  
[president@maltaridgefire.com](mailto:president@maltaridgefire.com)  
1 (518) 858-7742