OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Golden Glow Volunteer Fire Company, Inc.

Internal Controls Over Financial Operations

Report of Examination

Period Covered:

January 1, 2011 — June 29, 2012

2012M-170

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

January 2013

Dear Company Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and the fire company governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Golden Glow Volunteer Fire Company, Inc., entitled Internal Controls Over Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

The Golden Glow Volunteer Fire Company, Inc. (Company) is a not-for-profit organization incorporated in 1951. The Company is located in the Town of Big Flats in Chemung County. The Company has approximately 40 members. The Company currently has two existing fire stations and is building a new fire station that is near completion. The Company's primary sources of revenue are rent from the Big Flats Fire District No. 2 (District), foreign fire insurance premiums, and fundraising activities. The Company's revenue for the 2011 fiscal year totaled approximately $41,500 and operating expenditures totaled approximately $20,100.

The Company is operated in accordance with its Constitution and Bylaws (bylaws), which were amended and approved on September 9, 2010. The officers of the Company consist of a President, Vice-President, Secretary, Treasurer, and three Directors all who are elected by the membership. The President is the chief executive officer of the Company. The Treasurer is the chief fiscal officer and is responsible for the receipt, custody, disbursement, accounting, and reporting of Company moneys.

Scope and Objective

The objective of our audit was to examine selected Company financial operations for the period January 1, 2011, through June 29, 2012. Our audit addressed the following related questions:

- Did Company officials adequately plan the new fire station construction?
- Did the Company officials provide adequate oversight of the Company's financial operations?

Audit Results

We found that the Company did not adequately plan for the construction of the new fire station. Because the Company did not solicit competitive bids for this large building project, it cannot be assured it obtained the best price. Furthermore the Company's plan to repay the debt issued to finance construction is based on contingencies such as the sale of the two existing fire stations, continuation of increased rent from the District, and fundraising in amounts that far exceed amounts raised in the past.

We also found that the Officers and Directors had not established written policies and procedures governing cash receipts and disbursements. As a result, the Treasurer's duties are not adequately segregated and there is a lack of ongoing, regular oversight by the Officers and Directors as a compensating control. The Treasurer is responsible for maintaining all of the Company's bank accounts and handling all moneys received and disbursed by the Company, including preparing bank reconciliations, electronic fund transfers and financial reports, with little oversight. Due to these deficiencies, we reviewed all of the Company's financial transactions (cash receipts, disbursements, and electronic fund transfers) for the period January 1, 2011 through May 31, 2012.

Comments of Company Officials

The results of our audit and recommendations have been discussed with Company officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Company officials generally agreed with the recommendations and indicated they have initiated or plan to initiate corrective action. Appendix B includes our comments on the issues raised in the Company's response letter.

Introduction

Background

The Golden Glow Volunteer Fire Company, Inc. (Company) is a not-for-profit organization incorporated in 1951. The Company, located in the Town of Big Flats in Chemung County, has approximately 40 members. The Company currently has two existing fire stations and is building a new fire station that is near completion. The Company's primary sources of revenue are rent from the Big Flats Fire District No. 2, (District) foreign fire insurance premiums, and fundraising activities. The Company's revenue for the 2011 fiscal year totaled approximately $41,500 and operating expenditures totaled approximately $20,100.

The Company is operated in accordance with its Constitution and Bylaws (bylaws), which were amended and approved on September 9, 2010. The officers of the Company (Board) consist of a President, Vice-President, Secretary, Treasurer, and three Directors all who are elected by the membership. The President is the chief executive officer of the Company. The Treasurer is the chief fiscal officer and is responsible for the receipt, custody, disbursement, accounting, and reporting of Company moneys.

Objective

The objective of our audit was to examine selected Company financial operations. Our audit addressed the following related questions:

- Did Company officials adequately plan the new fire station construction?
- Did Company officials provide adequate oversight of the Company's financial operations?

Scope and Methodology

We examined the Company's financial operations for the period January 1, 2011, to June 29, 2012.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

Comments of Company Officials and Corrective Action

The results of our audit and recommendations have been discussed with Company officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Company officials generally agreed with the recommendations and indicated they have initiated or plan to initiate corrective action. Appendix B includes our comments on the issues raised in the Company's response letter.

Company officials have the responsibility to initiate corrective action. We encourage the Company officials to prepare a plan of action that addresses the recommendations in this report and forward the plan 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 Company officials to make this plan available for public review in the Secretary's office.

Fire Station Construction

Acquiring capital assets or financing capital improvements often requires significant cost outlays. Prior to the start of a major capital project, such as construction of a new building, a capital plan should be developed to determine the estimated costs of the project, how the project will be financed, and whether the organization has sufficient revenue to meet future operating expenditures.

We found the Company did not adequately plan for the construction of the new fire station. The Company did not work with an engineer/architect to develop a design for the building. Instead, the Company contacted a neighboring fire company to obtain the name of their builder and information about the cost of a new fire station. The Company then contracted with the builder on January 12, 2011, to build an 11,016 square foot building, which included a 5,976 square foot hall and office space, at a cost of $480,000. Because the Company did not solicit any competitive bids for this large building project, it cannot be assured that this was the best price.

On January 24, 2011, the Company contracted with an engineer to develop the site plan. Company officials stated that the engineer estimated the site work to cost $100,000. In August 2011, the Company contracted with a second engineering firm to complete the necessary site plans because the first engineering firm would not respond to them. As site plans were developed and excavation commenced, unforeseen circumstances related to the excavation significantly increased the cost of the construction. As a result, the Company had to acquire more financing than originally anticipated. As of the end of audit field work, the Company had expended $456,275 for the construction of the new fire station and anticipates $178,700 in additional construction costs prior to completion. Therefore, the Company expects to expend $635,000 to build the new fire station, which is $55,000[1] more than it originally anticipated.

To finance the construction, the Company negotiated three loans totaling $550,000[2] and contributed $85,000 of Company funds towards the construction costs. Over the next two years, the Company's annual debt payments will be $33,712. However, there

[1] $635,000 less $480,000 for the building and $100,000 for the site work

[2] The three loans consist of a loan for $300,000 with an annual payment of $19,244, another loan for $115,000 with an annual payment of $8,731, (principal and interest amortized over 20 years for 59 months and outstanding principal due in the 60th month) and a two-year loan for $135,000 with annual interest payments totaling $5,736 for the first two years and principal payments due at the end of two years.

is a concern that the Company will not be able to meet its future operating expenditures and debt payments because the repayment of the Company's debt is based on certain contingencies, including:

- The timely sale of the existing fire stations for the near-appraised value is central to the Company's plans to repay the $135,000 loan. Although Company officials stated that the two fire stations were appraised at $60,000 and $80,000, no documentation was provided, after repeated requests, to support this assessment.

- The Company is also relying on fundraising in amounts that far exceed the amount of funds raised in the past. We estimate that the Company would need to generate approximately $19,000[3] in fundraising revenues in each of the next two years to meet its operating expenditures and debt payments. However, the Company only received $7,717 in fundraising revenue for 2011, which is not even half of the amount needed. As of May 2012, the Company had generated only $1,373 in fundraising revenues.

If these contingencies are not met, the cost of the fire station, in particular repaying the $135,000 loan, will be more burdensome for the Company's finances and could result in the Company trying to pass on substantial rent increases to the taxpayers of the District.

Recommendation

1. The Company needs to develop contingency financial plans in the event that the sale of the existing firehouses and their increased fundraising plans do not happen as planned.

[3] The estimated fundraising revenue that would be necessary is based on 2011 actual revenue of $33,752 (before any fundraising revenue) and operating expenditures of $18,767 (not including fundraising expenditures) resulting in a net revenue of $14,985 to cover anticipated annual debt payments of $33,712. A revenue shortfall of $18,727 would need to be funded by fundraising activities.

Board Oversight

The Officers, Directors, and members of the Company are responsible for overseeing the Company's financial activities and safeguarding its resources. To fulfill this duty, it is essential that the Company establish a system of internal controls over cash receipts and disbursements based on policies and procedures designed to provide for, among other things, the proper segregation of financial duties, effective managerial oversight of financial activities, and accountability of moneys collected during fundraising events. Control policies and procedures that segregate the transaction approval, accounting, and asset custody functions are designed to prevent or timely detect errors and fraudulent activity. Policies and procedures also should require independent oversight of the work performed by those involved in financial operations. The issuance of duplicate press-numbered receipts or raffle tickets is an important control for tracking money collected for fundraising events and for checking the accuracy of the financial records. The lack of appropriate oversight increases the risk that errors and/or irregularities may not be prevented or detected in a timely manner.

According to the Company's bylaws, no obligations of the Company are to be incurred or paid without prior authority of the Company and are to be paid by check prepared and signed by the Treasurer, or the President if the Treasurer is absent. The bylaws also require the Treasurer to report all income, expenditures, and the cash balance on hand at each regular meeting. Although the bylaws do not specifically list the Treasurer's other responsibilities, the bylaws indicate that these duties are contained in separate Company policies. However, the Company has not adopted any additional policies. The bylaws also state that the Treasurer's books and records are to be audited annually between the December and January Company meetings by the Board of Directors.

We found that the Officers and Directors had not established written policies and procedures governing cash receipts and disbursements. As a result, the Treasurer's duties are not adequately segregated and there is a lack of ongoing, regular oversight by the Officers and Directors as a compensating control. The Treasurer was responsible for maintaining all of the Company's bank accounts and handling all moneys received and disbursed by the Company, including preparing bank reconciliations, electronic fund transfers and financial reports, with little oversight. Due to these deficiencies we reviewed all of the Company's financial transactions (cash receipts, disbursements, and electronic fund transfers) for the period January 1, 2011 through May 31, 2012.

Cash Receipts — To avoid the misuse of Company funds, it is important to deposit cash receipts as soon as practicable, or in the timeframe specified in the Company's bylaws. Maintaining a log of pre-numbered raffle tickets is an important control for tracking money collected for fundraising events and for checking the accuracy of the financial records.

We traced cash receipts totaling $542,461[4] listed on the Treasurer's monthly reports to the Company's various bank account statements to determine if cash receipts were deposited intact and in a timely manner. We also examined the bank statements to determine if there were any cash deposits that were not recorded on the Treasurer's monthly reports. We found that all of the cash receipts were properly recorded and deposited. However, we found that cash receipts were not deposited timely. For example, the Treasurer did not deposit cash receipts from the end of January 2011 and February 2011 until March 31, 2011. Although the actual dollar amount of the cash receipts retained by the Treasurer from month to month was small, when receipts are not deposited in the bank in a timely manner, the risk of loss or theft is greatly increased.

We also reviewed the controls over the Company's raffle ticket fundraiser and found that they were inadequate because logs were not maintained for the tickets the members received. As a result, a reconciliation of sold and unsold tickets could not be performed. Therefore, there is an increased risk that cash received from the sale of the tickets was not properly remitted to the Treasurer or deposited.

Cash Disbursements — The Officers and Directors are responsible for performing a thorough audit of claims, prior to payment, to ensure that the claims are for legitimate expenditures. We reviewed all of the Company's cash disbursements for the period January 1, 2011 through May 31, 2012 to determine if there was adequate supporting documentation and proper approval prior to payment. We identified 185 disbursements totaling $476,911[5] that were listed on the Treasurer's monthly reports. With the exception of four disbursements totaling $1,168, we found that disbursements had adequate supporting documentation. Although only three disbursements had prior membership approval before payment, we determined that all of the disbursements were for valid and legal purposes. We also reviewed all the bank statements to determine if there were any cash disbursements that were not recorded on the Treasurer's monthly reports. We found that all cash disbursements were properly recorded by the Treasurer. We discussed other minor

[4] This includes proceeds in the amount of $435,000 from loans related to the construction of the new fire station.

[5] This includes payments for construction costs of the new fire station.

deficiencies related to cash disbursements with Company officials at the conclusion of our field work.

Electronic Fund Transfers — Electronic or wire transfers are transfers of funds, usually effective within minutes of being executed. It is important to have strong authorization controls for wire transfers. We traced electronic fund transfers totaling $389,406 listed on the Treasurer's monthly reports from and to the Company's various bank accounts to determine if the funds transferred from one account were transferred in the same amount to the other bank account. We also reviewed bank statements to determine if there were any electronic fund transfers that were not recorded on the Treasurer's monthly reports. All electronic fund transfers were determined to have been properly recorded and transferred.

Recommendations

2. The Officers and Directors should develop comprehensive written policies and procedures for controls over the Company's cash receipts and disbursements.

3. The Treasurer's duties should be segregated or compensating controls should be established to routinely monitor and review the Treasurer's work. Compensating controls could include someone independent of financial responsibilities reconciling the bank statements and reviewing and approving electronic fund transfers.

4. The Treasurer should deposit cash receipts in a timely manner.

5. Adequate controls should be implemented over raffle ticket fundraising activities to ensure that cash received from the sale of raffle tickets is adequately accounted for to reduce the risk of theft.

6. Cash disbursements should be properly reviewed and approved by the membership as required in the Company's bylaws prior to payment. Membership approval of payments should be clearly indicated in the Company's monthly meeting minutes.

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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

GOLDEN GLOW VOLUNTEER
FIRE COMPANY
PO Box 3045
Elmira, NY 14905

JANUARY 4, 2013

Edward V. Grant, Jr.
Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
110 State Street
Albany, New York 12236

Dear Mr. Grant:

Please find enclosed the Audit Response Letter from the Golden Glow Volunteer Fire Company from our recent audit.

We appreciate the opportunity to recognize and make appropriate changes as needed in our policies and procedures, and we will be sending a Corrective Action Plan within 90 days to inform you of our plan and progress.

Sincerely,

William Dickinson- President GGVFC

David Stewart- Treasurer GGVFC

Cc: GGVFC Board
File

RESPONSE TO STATE COMPTROLLER DRAFT AUDIT REPORT

FOR GOLDEN GLOW VOLUNTEER FIRE COMPANY, Inc.

Multiple meetings were held with the Comptroller's Office and the Golden Glow Volunteer Fire Company(hereafter GGVFC). Following are our positions as to findings and recommendations of the Comptroller's Office.

William Dickinson and David Stewart met multiple times with the auditor, [redacted]. There were several requests by GGVFC to allow other members of the Building Committee to attend these meetings, and those requests were denied by the auditor. We believe if additional members were allowed to attend those meetings, the first question/finding would not have been made. Mr. Dickenson and Mr. Stewart were not members of the Building Committee when it began in 2003; they joined later and therefore were not involved in much of the planning and research which went into the project in the early stages. More specific information will follow to this first finding later in this response.

See Note 1 Page 16

As to the Authority Letter, we again remind the auditors we are not a "local government officials"- we are a 501-c-3 Not for Profit Corporation, although we agree we are subject to audit as a Fire Company.

As to the Executive Summary, our actual count of members is larger than is stated here; we currently have a constantly expanding membership which consists of 38 current members.

See Note 2 Page 16

As to the statement we "didn't solicit competitive bids" for this project, we in fact visited several area new stations approximately the same size as our proposed new building, and we discussed with at least three(3) such stations in our immediate area the costs of construction, including labor costs and quotes made on their projects. We also, early on in this process, acquired an Estimate/proposed plans for our new building from Finger Lakes Construction(this estimate came in at 1.25 Million Dollars) which caused us to research local Fire Departments who had recently built a new building. We in fact hired a Construction Company to build our new building that employs Amish construction workers, which resulted in substantial savings in the construction costs.

See Note 3 Page 16

As to the statement "fundraising in amount that far exceed amounts raised in the past", we agree this to be true, and we have created a specific Committee(Fundraising Committee) which has been meeting at least once per week since mid 2011 to address this issue. Our fundraising efforts have increased over the last few years, as will be detailed in our Corrective Action Plan.

We agree we had not, as of the commencement of the audit, established written policies and procedures governing cash receipts and disbursements. We are in the process of establishing such written policies, most of which as of the writing of this response have been completed, and all of which will be set forth in our Corrective Action plan, including but not limited to the prompt depositing of cash receipts by The Treasurer; segregating The Treasurer's duties and instituting compensating controls; implementing adequate controls over raffle ticket fundraising activities; and proper review and approval by the membership of cash disbursements, which shall be clearly indicated in the Company's monthly minutes.

We view this audit procedure as an opportunity to improve on our already existing policies and procedures, and to continue to strive to manage our resources efficiently and effectively.

Respectfully submitted:

William Dickinson
President GGVFC

David Stewart
Treasurer GGVFC

APPENDIX B

OSC COMMENTS ON THE COMPANY OFFICIALS' RESPONSE

Note 1

We held two meetings with the Company's CFO and CEO, the entrance conference and exit conference, per OSC policy. At both meetings, we stated that any Board member could meet, call or email us at anytime to discuss the audit or set up a meeting. In addition, our engagement letter, which was sent to all Board members, expressed the same sentiment. We were never contacted by anyone for such a meeting.

Note 2

After the end of our audit, Company membership increased significantly. We have revised the number to reflect this increase from approximately 25 to 40.

Note 3

When the Company obtained the $1.25 million estimate and determined it was not feasible to build this design, a new design should have been created, reviewed and approved. In addition, once approved, the Company should have sought competitive bids to ensure that the cost was not excessive. Whether the Company is subject to prevailing wage law requirements, with respect to the use of Amish workers, is outside the scope of our audit. We have referred this issue to the New York State Labor Department for review.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by Company officials to safeguard assets and monitor financial activities. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial transactions, cash disbursements, claims auditing, control environment, purchasing and personal services.

During the initial assessment, we interviewed Company officials, performed limited tests of transactions, and reviewed pertinent documents such as the meeting minutes, and financial records and reports for the period January 1, 2011, through May 31, 2012.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/ or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected the fire station construction and Board oversight for further review.

To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed Company officials to gain an understanding of the Company's operations.
- We reviewed all Company cash receipts, disbursements and electronic fund transfers for the period January 1, 2011, through May 31, 2012.
- We reviewed Board meeting minutes to confirm the documentation of the annual audit of the Treasurer's records and reports.
- We reviewed the construction costs and related loan documents for the new fire station, which is under construction.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

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