



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

January 3, 2014

Chuck Sherman, Board President
Members of the Board
Afton Hose Co. Emergency Squad
15 Spring Street
Afton, NY 13730

Report Number: 2013M-275

Dear Mr. Sherman and Members of the Board:

One of the Office of the State Comptroller's primary objectives is 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 Afton Hose Co. Emergency Squad, Inc. (Company) which addressed the following question:

- Are Company controls adequate to help ensure that financial activity is properly recorded and reported and that Company moneys are 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 indicated they plan to initiate corrective action.

Background and Methodology

The Afton Hose Co. Emergency Squad, Inc. is a volunteer organization located in the Village of Afton, Chenango County. The Company provides fire protection and emergency services for the Town of Afton. The Company is associated with the Afton Fire District.

The Company's Oversight Board (Board) comprises seven elected members and is responsible for the Company's overall financial management. The Board appoints the Treasurer who acts as the Company's chief fiscal officer. The Treasurer is responsible for the receipt and custody of Company funds and for disbursing and accounting for those funds, preparing monthly and annual financial reports and meeting any other reporting requirements. The Board also created an

Administrative Board to preside over the monthly meetings, which includes the President, Secretary and Treasurer.

We examined the internal controls over the Company's financial operations for the period January 1, 2011 through August 6, 2013. We interviewed appropriate 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.

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 consists of policies and procedures that ensure transactions are authorized and properly recorded, and that the Company complies with applicable laws, rules and regulations, including the General Municipal Law requirement for a code of ethics.

It is also imperative that the Treasurer maintains complete, accurate and timely records to account for all of the Company's financial activities and submits these reports to the Board monthly. The Board should then perform a thorough audit of all claims before they are paid to ensure that Company funds are used for only legitimate Company expenditures. A routine Board review of bank statements or the monthly reconciliation of the bank statements to Company records provides an important control over disbursements. Lastly, the Board is responsible for performing, or providing for, an annual audit of the Treasurer's records. The Board has delegated many of these responsibilities to its Administrative Board.

While the Board adopted the Company's constitution and bylaws, which dictate the manner in which operations are to be conducted, these procedures are insufficient. The bylaws require the Treasurer to collect all moneys for the Company, pay all bills upon order of the members at the monthly meeting, prepare a written report to the Administrative Board and have the records audited by a disinterested third party. These controls are not adequate to help ensure that financial activity is properly deposited, recorded and reported and that Company moneys are safeguarded. In addition, the Board is not providing adequate oversight to ensure the procedures in the constitution and bylaws are being followed and did not establish a code of ethics.

Although the Administrative Board authorizes each claim for payment presented to it through a resolution noted in the minutes, there is no process in place to verify that all claims approved by the Administrative Board are properly paid, or that the Administrative Board is presented with and approves all the claims that are actually paid. Neither the Board nor the Administrative Board reviews monthly bank statements or requires the Treasurer to perform bank reconciliations. Also, the Treasurer's report is usually verbally communicated as the Treasurer is not timely with recording financial information.¹ Finally, the Treasurer's books are consistently reviewed by a disinterested third party who reported that everything was in good order; however,

¹ We verified that the Treasurer was a month behind on recording transactions.

this review was not an effective audit as it failed to identify the weaknesses and discrepancies we found in our audit.

We reviewed 88 disbursements² from January 1, 2011 through July 5, 2013 totaling \$27,800. All 88 disbursements were recorded in the financial records. However, 37 disbursements totaling \$20,000 did not have supporting documentation and 85 disbursements totaling \$27,000 were not approved by the Administrative Board. We determined that those disbursements with supporting documentation appeared to be for proper Company purchases but question the propriety of the disbursements without such support. Furthermore, our review of the January 2011 through June 2013 bank statements showed that the Treasurer wrote approximately 300 checks which cleared the Company's bank account but, based on our review of Administrative Board minutes from the same period, only 31 of those disbursements were approved by the Administrative Board. The disbursement of Company funds without Administrative Board approval is a direct violation of Company bylaws.

We also reviewed three donations to the Company totaling \$595 that were mentioned in the Administrative Board minutes and verified that the amounts were deposited to the bank and properly recorded in the accounting records. We also examined the two most recent fundraising events in 2013 and determined that, while the Treasurer reported net profit of the events to the Administrative Board, total cash receipts and cost of the events were not disclosed to the Board. Furthermore, we could not determine that total cash receipts for the events were actually deposited as no list or documentation was prepared stating how much money was actually collected.³

When established internal control systems are not sufficient or working properly, the Board cannot prevent or detect the theft or waste of Company moneys.

Recommendations

1. The Board should modify its current policies and procedures to establish a code of ethics, ensure that cash receipts are documented and accounted for properly and require the Treasurer to perform monthly bank reconciliations for all accounts and provide them, along with bank statements, to the Board for its review.
2. The Board should ensure that its current procedures noted in the bylaws are working properly. For example, all claims should be presented to the Administrative Board for its approval before payment.
3. The Treasurer should prepare monthly written reports which reflect the most up-to-date financial information. These reports should include total cash receipts from fundraising events and itemized costs so the Board can verify that all moneys received were deposited.

² We selected all personal reimbursements over \$50 and all payments to utility companies, personal-use vendors and local stores.

³ There was a deposit listed on the bank statement shortly after the event, but we were not able to determine if this deposit was from a donation or from the event itself.

4. The Board should stop contracting with its current third party to review the Treasurer's records and should provide for a proper annual audit.
5. The Treasurer should ensure that all disbursements have proper supporting documentation on file.

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 the CAP available for public review.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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



AFTON FIRE DEPARTMENT

15 SPRING ST., AFTON, N.Y. 13730

www.aftonfiredepartment.com

December 18, 2013

Office of the State Comptroller
State Office Bldg.
Rm. #1702
44 Hawley Street
Binghamton, New York 13901-4417
Attn: [REDACTED]

Re: Report #2013M-275, Afton Hose Co. Inc.

Gentlemen:

This letter is in response to the draft report of audit dated November 2013 as requested in the booklet, "Responding to an OSC Audit Report."

We agree with the recommendations in that letter however we were somewhat surprised by a number of errors and inconsistencies in the letter but will address those concerns in our CAP letter which should be mailed by early January.

Yours truly,

Thomas C. Vail, Treasurer and Clerk
The Afton Hose Co. Inc. aka Afton Fire Department
15 Spring Street
Afton, New York 13730