



Circleville Fire Company

Selected Financial Activities

Report of Examination

Period Covered:

January 1, 2012 — October 22, 2013

2013M-391



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2014

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 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 Circleville Fire Company, entitled Selected Financial Activities. 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*

Introduction

Background

The Circleville Fire Company (Company) is a volunteer organization located in the Town of Wallkill (Town) in Orange County. The Company is associated with the Circleville Fire District and is one of seven companies that provide fire protection for the Town. From January 1, 2012 through October 22, 2013, the Company received approximately \$162,000 in revenue including \$47,700 in foreign fire insurance premiums.¹ For the same period, the Company expended approximately \$59,500.

Company officers include the President, Vice President, Secretary, Financial Secretary, Treasurer and Chaplain. The Company also has line officers. The President is the chief executive officer, and the Treasurer is the chief fiscal officer.

Objective

The objective of our audit was to evaluate internal controls over the selected financial activities. Our audit addressed the following related question:

- Does the Company have adequate controls over cash disbursements and maintain adequate financial records to safeguard Company moneys?

Scope and Methodology

We examined the Company's disbursements and reviewed accounting records for the period January 1, 2012 through October 22, 2013.

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 is included in Appendix B 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. Company officials agreed with our recommendations and indicated they planned to take corrective action.

Fire Company officers have the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the

¹ The law entitles fire companies or fire 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. This money can generally be used for any purpose which the members of the fire company or department determine to be for the use and benefit of the department or company as a whole.

findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. 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 officers to make this plan available for public review in the Company Secretary's office.

Financial Activities

The President and officers are responsible for overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that a system of internal controls is established. Controls should consist of policies and procedures that ensure transactions are authorized and properly recorded; financial reports are accurate, reliable and filed in a timely manner; and the Company complies with its by-laws and applicable laws, rules and regulations. By-laws should clearly establish the responsibilities of the officers and members.

The Company's by-laws assign duties to specific individuals. The President is responsible for enforcing the by-laws. The Treasurer's duties include receiving all moneys collected, paying all authorized bills, maintaining an accurate account of all receipts and disbursements, and submitting records of accounts to Company officers. The Secretary is responsible for recording the proceedings of the monthly meetings. Company members approve purchases at the monthly meeting.

The President did not ensure that the Treasurer fulfilled his duties. The Treasurer was allowed to pay bills and make cash withdrawals without evidence of Company approval or without proper supporting documentation. The Treasurer did not perform bank reconciliations and failed to supply the members with necessary financial reports. As a result, Company members cannot be assured that Company cash is adequately safeguarded.

Cash Disbursements

According to the Company's by-laws, the Treasurer pays all bills after payments are authorized at a Company meeting. The Treasurer must also keep a complete account of all disbursements. The President did not review disbursements prior to payment to ensure they were made for proper Company purposes. The Treasurer made 211 disbursements totaling \$59,534 during our audit period. We randomly selected 40 disbursements totaling \$25,832 (19 percent) of all disbursements and found that 22 disbursements (55 percent) did not comply with the Company's by-laws.

Insufficient Supporting Documentation — Of the 40 disbursements tested, 16 totaling \$4,048 had no documentation available to identify the purpose of the payments. Of the 16 disbursements, 11 were approved by Company members without the support. The remaining five were mentioned in the Board minutes. However, without supporting documentation, the President and Company members have

no assurance that the disbursements were for legitimate Company expenses.

Unauthorized Disbursements — The President allowed the Treasurer to pay bills without evidence of Company approval. Of the 40 disbursements tested, 17 totaling \$13,228 had no evidence of Company approval. The majority of these payments were made between monthly meetings. These payments included \$7,720 for the Company's 2013 annual dinner and \$3,560 for various social events in 2012 and 2013. Four withdrawals totaling \$4,400 were made by the Treasurer without proper authorization. This included two withdrawals totaling \$2,900 that were made to pay raffle winners and two for scholarship recipient payments. While the President was aware of these disbursements, the Company members were not informed at the following monthly meeting.

While all disbursements tested appeared to be for legitimate Company purposes, the lack of internal controls increases the risk that errors or irregularities could occur and remain undetected and uncorrected.

Reconciliations and Reports

Timely, complete and accurate accounting records, bank reconciliations² and reports provide Company members with essential information needed to effectively manage and safeguard cash and to properly monitor the Company's fiscal affairs. Bank reconciliations also provide the opportunity for an internal verification of cash receipts and disbursement transactions. The Treasurer is responsible for maintaining the Company's accounting records and providing the officers and Company members with periodic financial reports and reconciliations.

Bank Reconciliations — The Treasurer does not perform monthly bank reconciliations because the President, other officers and members do not request them. We reviewed all bank statements from January 1, 2012 through September 30, 2013. Although deposits and transfers into Company bank accounts appear to be for appropriate Company purposes, the lack of adequate oversight puts the Company at risk for discrepancies or errors and/or irregularities occurring without being detected and corrected.

Incomplete Records — The Company's meeting minutes indicated that the Treasurer provided, on a monthly basis, a Treasurer's report to the Company and that these reports were reviewed. The monthly report included cash balances of the Company accounts. A formal list of bills including the vendor name, amount, and description of the purchase is read at each meeting; however, the bills that were

² Accurate and complete bank reconciliations include timely identification and documentation of any differences.

paid between the meetings are not included in the Treasurer's report because the report template does not include a section for bills paid prior to meeting. Because the financial records and reports are incomplete, the officers and Company members cannot be assured that the disbursements made in between meetings are for legitimate Company purposes.

Recommendations

1. The President should ensure that the Treasurer:
 - Documents the legitimacy of Company expenses,
 - Makes disbursements only after Company members authorize them and
 - Performs monthly bank reconciliations.
2. The Treasurer should maintain accurate, up-to-date and complete reports and provide the reports to the members at each monthly meeting.

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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



Circleville Volunteer Fire Co., Inc.

2147 ROUTE 302, CIRCLEVILLE, NEW YORK 10919

March 10, 2014

Office of State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, New York 12553

RE: Circleville Fire Company
Selected Financial Activities
Report of Examination
2013M-391

Attn: Tenneh Blamah

Dear Ms. Blamah:

I have reviewed your Report of Examination for the Circleville Volunteer Fire Company. It appears that our record keeping methods have been lacking. Some of our disbursements are done between the meeting dates due to a lack of planning on our part, and sometimes due to emergency situations. I have tried my best to track down receipts, but sometimes fail to do so due to a lack of time, and confusion on everyone's part. The company books are entered into a [REDACTED] Program, but a more detailed accountability of the booking system is needed. I do not write checks unless authorized by a committee, or the President or Vice- President, which is sometimes done in person or by phone.

Thank you for your time in reviewing our booking system, and I am looking forward to correcting our shortcomings.

Thank You for your comments.

Sincerely:

Kevin Holland
President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the internal controls over selected financial activities of the Company for the period of January 1, 2012 through October 22, 2013. To accomplish our audit objective and obtain valid and relevant audit evidence, we interviewed appropriate Company officials and tested selected records and transactions, examined pertinent documents including meeting minutes and performed the following procedures:

- We reviewed all bank statements from January 1, 2012 through September 30, 2013 and randomly selected 40 payments totaling \$25,832. We then attempted to trace them to supporting documentation including invoices, purchase receipts, Treasurer's reports and Company minutes to ensure that they were supported, Company-approved and legitimate Company expenditures.
- We reviewed all bank statements from January 1, 2012 through September 30, 2013 for any cash withdrawals and transfers out of Company bank accounts. We traced all five transfers out of Company bank accounts to deposits or transfers into Company bank accounts to ensure they were appropriate.

We conducted this performance audit in accordance with 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.

APPENDIX C

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