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October 10, 2014

Steve Finch, President
Halcottsville Fire Department
PO Box 97
Halcottsville, NY 12438

Report Number: 2014M-190

Dear President Finch and Department Members:

The Office of the State Comptroller works to identify areas where fire department 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 department 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 Halcottsville Fire Department (Department) which addressed the following question:

- Did the Department members ensure that the Treasurer properly accounted for cash receipts and disbursements?

The results of our audit have been discussed with Department officials and their comments, which appear in Appendix A, have been considered in preparing this report. Department officials agreed with our findings and indicated they planned to initiate corrective action.

Background and Methodology

The Halcottsville Fire Department is a volunteer organization located in the Town of Middletown in Delaware County. The Department is affiliated with the Middletown-Hardenburgh Fire District, provides fire protection services to the District and has approximately 15 active members. The Department's primary sources of revenue are from grange hall rentals, donations and foreign fire insurance money.¹ Revenues totaled approximately \$15,000 and expenditures totaled approximately \$28,000² in 2013.

We examined the internal controls over the Department's financial operations for the period January 1, 2013 through May 16, 2014. We interviewed Department officials and reviewed

¹ Foreign fire insurance money represents a tax on the premium paid on insurance policies as provided in New York State Insurance Law, which entitles fire departments protecting an eligible area to receive an appropriate share of the tax collected on insurance policies written by foreign insurers on policies within their area of protection.

² \$20,500 of these costs related to a planned restoration project for the Department's grange hall.

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 Department's members are responsible for overseeing the Department's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the members establish bylaws to provide internal control policies and procedures over the Department's cash receipts and disbursements. These policies and procedures should require that all disbursements made are for valid Department purposes and are supported by an invoice and that all cash receipts and disbursements are properly recorded, reported and reconciled to supporting documentation.

The Department operates in accordance with member-established bylaws, which specify the Department's officers and their responsibilities. The officers include a President, Vice President, Treasurer, Secretary, Fire Chief and various firefighting assistants. The President is responsible for enforcing the bylaws and other policies and procedures. The Treasurer is responsible for receiving and expending Department funds and accounting for those funds. The bylaws require the Treasurer to maintain complete and accurate records to properly account and report to the members the Department's financial activities monthly and annually. The bylaws also established an audit committee, which consists of three Department members appointed by the President. The committee is required to perform an annual audit of the Treasurer's financial records. In addition, all Department checks should be signed by two officers.³

Although the Department members developed good policies and procedures, the bylaws could be improved by adding specific language specifying who is responsible for approving bills for payment and reviewing the Treasurer's work to ensure that all Department cash receipts and disbursements are properly accounted for. We found that the Treasurer performed most accounting duties with limited oversight. For example, the Treasurer collects money, records receipts and disbursements, deposits all money, signs all checks, reports monthly and annually to the members and reconciles the bank accounts.

Although the Treasurer maintained accurate records and reports, no one reviewed the accounting records or compared the bank reconciliations with the bank statements and canceled check images. Department members approved some bills and transfers prior to making payment, but no one audited and approved all Department bills before they were paid. Department officers also did not follow the dual signature requirement for 11 identical checks for food at the meetings, totaling \$495, that were signed only by the Treasurer.

Moreover, the Department's bylaws do not contain any specific cash receipts requirements. As a result, there were limited procedures in place to verify cash receipt accountability. For example, two individuals and the Treasurer are responsible for counting fund-raising cash receipts prior to depositing the money, thus providing a level of assurance that money received was deposited. However, no one compares the amounts received with the number of items sold, which would

³ The members passed a resolution requiring two signatures on all checks in August 2011. The officers who are authorized bank account signatories include the Treasurer, President and Fire Chief.

provide additional assurances that all the proceeds were actually collected and deposited. Department officials informed us that, because they are volunteers and have limited time and resources, implementing more controls over cash receipts and disbursements is difficult.

We traced all 35 cash receipts, totaling \$20,000, to the accounting records and deposits listed on the bank statements and found no discrepancies. In one instance, the member meeting minutes indicated that \$30 of fund-raising money was received; however, it was not deposited in a timely manner.⁴ Even though the amount of this deposit was immaterial, it demonstrates that money was received and not deposited in a timely manner.

We also tested all 101 disbursements, totaling \$33,600, and all 11 transfers, totaling \$28,400. All the disbursements we reviewed appeared to be legitimate Department expenditures, but about half of them were paid without following the Department's procedures. We found five transfers totaling \$13,400 and 50 disbursements totaling \$4,800 that were not approved or discussed by the Department's members in the minutes. All the transfers we reviewed were deposited into an authorized Department bank account. We also found minor discrepancies when we compared the canceled check images with the supporting invoices, which we discussed with Department officials during our fieldwork.

Without a proper approval process for all Department disbursements, Department officials have no assurance that purchases made are for proper Department purposes or that goods and services were actually received. Additionally, without proper oversight of the Treasurer, there is an increased risk that errors, irregularities or fraud could occur and not be detected and corrected in a timely manner.

Recommendations

1. The Department's members should revise the bylaws to include detailed policies and procedures to provide guidance and establish controls over the Department's cash receipts and disbursements. These policies and procedures should include segregating the Treasurer's duties, if practical, or implementing mitigating controls such as:
 - Having someone independent review the Treasurer's bank reconciliations, bank statements and canceled check images on a monthly basis,
 - Auditing and approving all bills prior to payment and
 - Reconciling the fund-raising receipts by comparing the amounts received with the amounts deposited.
2. The Department members should ensure that they are following the bylaws and resolutions related to:
 - Approving all transfers prior to initiating them and
 - Requiring two officers' signatures on all checks.

⁴ After we brought this to the Treasurer's attention, she found the money in an unsecure location and deposited it into the Department's bank account.

The Department 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 Department to make this plan available for public review.

We thank the officials of the Halcottsville Fire Department for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM DEPARTMENT OFFICIALS

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



FIRE DEPARTMENT

BOX 97

HALCOTTSVILLE, NY 12438

September 16, 2014

H. Todd Eames, Chief Examiner
Office of the State Comptroller
Binghamton Regional Office
44 Hawley St, Suite 1702
Binghamton, NY 13901

Report Number: 2014M-190

Unit Name: Halcottsville Fire Department

Halcottsville Fire Department (HFD) is in receipt of your audit report referenced above. HFD is a very small town volunteer fire department with limited membership and resources, working for the good and protection of our neighbors and friends in a very small, rural upstate community. Like many volunteer fire departments in struggling small towns, it is most difficult to retain members and to have the resources to keep our doors open. We pride ourselves on ensuring that every penny raised or earned is used for the good of our community. To that end, HFD officers and members would like to thank the audit team for their professionalism, understanding and courtesy toward the volunteer members during the recent examination of our accounting practices.

For each recommendation included in the audit report, the following is our response and corrective actions taken or proposed. Where corrective action has not been taken or proposed, we have included the following explanations.

Audit Recommendation:

1. The Department members should revise the bylaws to include detailed policies and procedures to provide guidance and establish controls over the Department's cash receipts and disbursements. These policies and procedures should include

segregating the Treasurer's duties, if practical, or implementing mitigating controls such as:

- **Having someone independent review the Treasurer's bank reconciliations, bank statements and canceled check images on a monthly basis**

Currently it is not practicable to have an independent review of the Treasurer's bank statements and reconciliation and canceled check images on a monthly basis. We simply do not have the volunteer manpower. We do, however, have an independent audit annually. We agree that our annual audits should be conducted in a timely manner.

- **Auditing and approving all bills prior to payment**

All bills received before the first Thursday of the month are currently presented to the members at the monthly meeting before payment, and recorded as approved in the minutes of the meeting by the Secretary. Occasionally, the department receives bills following the first Thursday of the month that must be paid prior to the next monthly meeting. Our proposed corrective action plan for this recommendation is as follows: For bills and invoices received after the first Thursday of the month that require payment before the next meeting will require alternative methods of approval: approval will be 1) obtained via email to and from the members, initiated by the Treasurer and 2) such approval will be announced and recorded by the Secretary in the minutes at the following monthly meeting.

- **Reconciling the fundraising receipts by comparing the amounts received with the amounts deposited**

Our proposed corrective action plan is as follows: Each of the three members who count any cash received at a fund raiser will initial a sheet (referred to hereafter as "fundraising receipt") that reflects each person's count. The fundraising receipt will be presented at the next meeting by the Secretary (who will not be one of the counters), along with the bank deposit receipt by the Treasurer. Members can then see for themselves that the amounts equal. Announcement of the deposit and reconciliation between the bank deposit receipt and fundraising receipt will be included in the meeting minutes by the Secretary.

Implementation Plan of Action:

In addition to the above corrective action plans, we agree to review and consider a revision of the bylaws to reflect such requirements.

2. The Department members should ensure they are following the bylaws and resolutions related to:

- **Auditing the Department's financial records annually**

As stated above, our corrective action plan is to make every effort to conduct our independent annual audits in a timely manner.

- **Approving all transfers prior to initiating them**

Our proposed corrective action plan is as follows: All transfers of funds from one account to another will be approved by members at the monthly meeting and such approval will be recorded in the minutes by the Secretary. If transfer of funds is necessary between meetings, approval will be obtained via email to and from the members, initiated by the Treasurer, and such approval will be announced at the next meeting and recorded in the minutes by the Secretary.

- **Requiring two officers' signatures on all checks**

As acknowledged by the audit team, all checks, with the exception of the monthly chow checks in the amount of \$45, have the required dual signature. Our corrective action plan, which has already been implemented, is as follows: to obtain the second signature for the \$45 chow check at the preceding meeting, so that on the day of the next meeting, the check will already be co-signed. Department members will consider a by-laws change allowing only one signature on the monthly chow check.

Respectfully submitted,

✓ Lilly Golden

Treasurer

Stephen Finch

President