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April 4, 2014

Joe Crandall, President
Members of the Board of Directors
Hoags Corners Volunteer Fire Company, Inc.
PO Box 218
East Nassau, NY 12062

Report Number: 2014M-09

Dear Mr. Crandall and Members of the Board of Directors:

The Office of the State Comptroller works 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 local government officials to reduce costs, improve service delivery and to account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Hoags Corners Volunteer Fire Company, Inc. (Company) which addressed the following question:

- Did the Company establish adequate controls to ensure that financial activities are properly recorded and that Company moneys are safeguarded?

We discussed the findings and recommendation 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 have initiated, or indicated they planned to initiate, corrective action.

Background and Methodology

The Company, located in Rensselaer County, is a not-for-profit organization which was incorporated in 1946 and is affiliated with the Hoags Corners Fire District No. 1 (District). The Company provides fire protection services to the District's residents. The Company's revenues for the 2012 fiscal year totaled \$68,360 and operating expenditures totaled \$80,477.

The Board of Directors (Board) comprises six Directors that are elected by the Company's members. The Board is responsible for the Company's overall financial management. The President of the Board is the Company's chief executive officer. The Treasurer serves as the

chief fiscal officer and is responsible for receiving, disbursing, maintaining custody of and accounting for Company funds as well as preparing periodic financial reports.

We examined the internal controls over the Company's financial operations for the period January 1, 2012 through June 30, 2013. We interviewed appropriate Company officials and reviewed financial records and the Company's by-laws. 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 Board is responsible for overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, the Board should establish a system of internal controls consisting of policies and procedures to ensure that transactions are authorized and properly recorded; that financial reports are accurate, reliable, and timely; and that the Company complies with its by-laws and other applicable laws, rules and regulations.

The Treasurer uses a computerized accounting program to record the Company's financial activities and generate financial reports. She provides financial information to the Board on a monthly basis, including balance sheets and the unpaid claims for the Board's review and approval. During our audit period, she initiated procedures using a claim voucher form which documents the claims' audit and approval for payment by the President and the Board of Directors. The Treasurer also prepares monthly reconciliations of the cash balance per the bank statements and the general ledger cash balance. Upon our recommendation during our audit, the Treasurer also started to provide the Board with the monthly bank statements, bank reconciliations, and canceled checks.

According to the by-laws, the Treasurer is responsible for accounting for all receipts and disbursements, depositing all moneys received in a timely manner and providing financial reports to the Board at each regular meeting. However, the by-laws provide limited guidance pertaining to issuing receipts, using debit cards and conducting fundraising activities. For example, although the by-laws require timely deposits, "timely" is not defined in the by-laws. Also, the Treasurer does not issue any receipts for collections whether she receives them directly or when collections are received by other Company members. Furthermore, the by-laws do not address the assignment of responsibility for conducting fundraising activities and the accountability of moneys received through fundraising events.

The Company receives money from various sources. For example, the Company owns a fire house and receives \$12,000 annually in rent from the District. The Company also receives moneys from various fundraising events, foreign fire insurance proceeds,¹ member dues, private

¹ Foreign fire insurance moneys represent a tax on the premium paid on insurance policies. 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.

donations and other activities. The Company follows different informal procedures for conducting the various activities. For example, the individuals involved in the pancake breakfast fundraising events maintain summary sheets of the number of attendees and the money received. Recent changes in procedures require two people to count the money and review the summary sheets before turning the money over to the Treasurer, who deposits the money and records the activity in the accounting program. However, the Treasurer does not issue receipts to the individuals turning money over to her, which would provide a chain of custody for moneys received.

Due to the lack of formal written guidance for financial transactions, we reviewed all receipts, disbursements and debit card transactions during the audit period to determine if they were adequately documented, properly recorded and reviewed by the Board.

We reviewed all 133 deposits, totaling \$90,855, that were made during the scope period to determine if they were adequately documented, recorded, and deposited timely and intact.² We traced the transactions from source documentation to related deposits listed on the bank statements. The documentation included summary sheets and registration forms for fundraising events and photocopied checks.

We found that the collections were deposited intact and were properly recorded in the accounting program. However, the collections were not always deposited in a timely manner. There were 23 deposits, totaling \$7,546, that were made more than 10 days after the collections were received. Deposits were made between 11 and 50 days after collected and in one instance, collections totaling \$920 were not made until 102 days after received. The collections were from various sources including fundraising activities. The Treasurer was unable to explain why some collections took so long to be deposited. Deposits should be made timely to reduce the risks of loss and theft.

We reviewed all 178 disbursements, totaling \$77,292, which were made during the scope period, to determine if they were for appropriate purposes, adequately documented, properly recorded and reviewed by the Board. The disbursements included 152 checks and 26 electronic fund transfers. We also reviewed the transactions to determine if they were signed by both the President and Treasurer, as required by the by-laws. We found all the disbursements were for legitimate Company purposes, properly recorded, and reviewed and authorized by the Board. However, we found that 117 of the 152 checks, totaling \$63,405, only had one signature (either the Treasurer's or the President's) instead of the two required signatures. During 2013, the current Treasurer ensured that there were two signatures on checks. In a small organization with limited segregation of duties, the requirement for two signatures on the checks is a useful control that helps to ensure the protection of Company assets.

The use of debit cards has inherent risks because it provides the user with direct access to the Company's bank accounts and the unauthorized use of debit cards may not be readily detected. The Board established a "best practices" policy for use of debit cards. However, the term "best practices" is vague, and the guidance provided in the policy is very limited and does not indicate

² Intact means the deposits are for the same amount and form (cash and/or check) as received.

whether pre-approval by a Company official is required before someone uses the debit card. Because of the risks associated with the use of debit cards, we reviewed all 136 debit card transactions, totaling \$17,879, during the audit period to determine if they were for appropriate Company purposes. We found that the purchases, which included general supplies and items related to the fundraising events, were appropriate.

Overall, we found the books and records were reliable and the monthly financial reporting to the Board was adequate. While we found that the Board was reviewing and approving vouchers prior to payment, it should improve controls over debit card payments. Because the Company is small, it may not be practical to have substantial segregation of duties and formal policies and procedures. However, adding some additional internal controls could greatly improve the protection of Company assets.

Recommendations

1. The by-laws should be revised to define the timeframe in which collections are to be deposited after being received.
2. The Board should ensure that the Treasurer issues receipts for all collections received, even those collected by other members.
3. The Board should continue to ensure that two signatures are provided for all cash disbursements in accordance with the by-laws. The bank should be notified that two signatures are required on all Company checks.
4. The Board should strengthen its policy for the use of debit cards including a requirement for authorization prior to the use of the card.

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

We thank the officials of the Hoags Corners Volunteer Fire Company, Inc. 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 pages.



Hoags Corners Fire Vol. Fire Company

7237 NY Route 66,
East Nassau, New York 12062

March 25, 2014

Joe Crandall, President
Members of the Board of Directors
Hoags Corners Volunteer Fire Company, Inc.
PO Box 218
East Nassau, NY 12062
Report Number: 2014M-09

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations. I, with the support of the Board of Directors, would like to have this audit response serve as our Corrective Action Plan.

Audit Recommendation:

1. The by-laws should be revised to define the timeframe in which collections are to be deposited after being received.
2. The Board should ensure that the Treasurer issues receipts for all collections received, even those collected by other members.
3. The Board should continue to ensure that two signatures are provided for all cash disbursements in accordance with the bylaws. The bank should be notified that two signatures are required on all Company checks.
4. The Board should strengthen its policy for the use of debit cards including a requirement for authorization prior to the use of the card.

Implementation Plan of Action(s):

1. The Board with the help of the By-Laws Committee will be revising the bylaws with the help of The Pinsky Law Group within the next 6 month.
2. As of January 1, 2014 the Treasure issues a receipt for any cash transaction.



Hoags Corners Fire Vol. Fire Company

7237 NY Route 66,
East Nassau, New York 12062

March 25, 2014

3. As of January 1, 2014 all check have two signatures for any disbursements in accordance with the by-laws.
4. The Board is developing a debit/credit card policy with The Pinsky Law Group and will be completed in the next 6 months.

Implementation Date:

Implementation of the above plan will be completed by if not before September 1, 2014.

Person Responsible for Implementation:

Joseph Crandall President Hoags Corners Vol. Fire Company with the assitants of the Board of Directors and the Pinsky Law Group

Signed:

Joseph A Crandall
President

03/25/14

Date