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October 3, 2014

Paul Hendershot, President
Members of the Company
Hortonville Fire Company
100 Main Street
Hortonville, NY 12745

Report Number: 2014M-210

Dear President Hendershot and Members of the Company:

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 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 Hortonville Fire Company (Company) which addressed the following question:

- Did the Company members establish adequate controls to ensure that financial activity is properly recorded and reported to safeguard Company moneys?

The results of our audit 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 findings and indicated they planned to initiate corrective action.

Background and Methodology

The Company is a volunteer organization associated with the Hortonville Fire District (District), which covers the hamlet of Hortonville and is located in the Town of Delaware in Sullivan County. The Company has a fire hall, a pavilion, a party tent and one fire truck. The District provides the Company with all other firefighting equipment and most of the related firefighting gear. The Company rents its boardroom to the District and a space in the fire hall to a local nursery school. The Company reported approximately \$100,655 in revenues from foreign fire insurance money,¹ fundraising activities, rental income and donations and almost \$100,000 in disbursements during 2013.

¹ Foreign fire insurance money represents a tax on the premium paid on insurance policies as provided for 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.

The Company is operated in accordance with established bylaws and is governed by approximately 40 active members, including five officers,² who are responsible for the Company's overall financial management. The Treasurer acts as the Company's chief fiscal officer and is responsible for receipt and custody of Company funds, disbursing and accounting for those funds, preparing monthly and annual financial reports and any other reporting requirements. In addition, three member-appointed Trustees are responsible for administering members' death benefits and have custody of all money set aside for such purposes.

We examined the internal controls over the Company's financial operations for the period January 1, 2013 through May 19, 2014. We interviewed Company officials and reviewed financial records and meeting 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 Company's members are responsible for overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the members establish a system of internal controls, which comprises policies and procedures to help ensure receipts and disbursements are properly authorized and accurately recorded and reported and that the Company complies with applicable laws, rules and regulations.

As stated in the bylaws, it is imperative that the Treasurer collects most Company money,³ maintains complete, accurate and timely records to account for all money collected, disburses money as authorized by the members and submits monthly reports to the members. The members should also establish procedures to help ensure that all money collected at fundraising events is deposited into Company bank accounts.

Further, good management practices dictate that the members perform an annual audit of the Treasurer's records. The members should also perform a thorough audit of claims and supporting documentation before they are paid and compare canceled check images with the approved list of claims to be paid to ensure that Company funds are used for legitimate Company expenditures.

The members complied with applicable laws, rules and regulations by adopting a code of ethics and Company bylaws which include a death benefit preamble that clearly states the duties to be performed by the Treasurer and the Trustees. However, members did not provide adequate oversight of cash receipt and disbursement activities. Additionally, the members did not audit all claims prior to payments being made or conduct an annual audit of the Treasurer's records.

The Treasurer maintains complete, accurate and timely records and presents monthly and quarterly reports of most Company activities including total receipts and expenditures and bank account

² The officers consist of a President, a Vice President and three Directors. The bylaws do not specify any financial duties expected of the officers; therefore, the responsibility for managing the Company's financial activities rests with the members (including the officers).

³ Except for amounts collected by the Trustees for member death benefits

balances to the members and prepares monthly bank reconciliations. However, death benefit payouts and grant activities were not included on any reports submitted to the members.

Receipts – The Company receives revenues from various sources throughout the year. The highest revenue-generating activities were boardroom rentals (totaling \$57,000 annually), pavilion rentals and fundraising activities. The Company holds four major fundraising activities each year, including a Mother’s Day pancake breakfast, a pre-paid chicken barbeque, a fireman field days event and an annual pancake breakfast. Other fundraising activities include pavilion rentals for private parties and winter storage, party tent rentals and space rented in the fire hall for a nursery school.

We found a general lack of controls over all fundraising activities. For example, a member sells tickets at the door for both pancake breakfasts and this individual also records the first and last ticket numbers from the ticket roll to track the number of tickets sold. Additionally, no records are maintained for winter storage or tent rentals and cash is collected by members or volunteers at various field days locations (i.e., beer tent, food booths, game booths). Company officials told us that they discussed controls over events such as the pancake breakfasts and field days; however, they were concerned about controls being so restrictive to those attending the events that attendance would decrease.

Due to these weaknesses, we reviewed 84 receipts totaling \$172,339⁴ to determine if they were deposited in Company bank accounts, recorded in the accounting records and reported to the members. We traced these receipts from supporting documentation maintained⁵ to meeting minutes, checkbook registers, bank statements and duplicate deposit slip images.

We found no discrepancies for the receipts we reviewed. However, due to the lack of controls, Company officials have no assurance that all receipts are deposited in a timely manner and accurately recorded and reported. Further, there is a risk that errors or irregularities, including fraud and abuse, could occur and remain undetected.

Disbursements – The Treasurer performs most aspects of the disbursement process. He compiles claims to be paid, writes and signs checks, records the disbursements, prepares bank reconciliations and reads aloud a list of claims to be approved for payment each month. However, the members have no process in place to verify that the list is complete, because no one reviews the canceled check images, bank statements or bank reconciliations. Therefore, there is a risk that the Treasurer could write a check without the members’ knowledge. Additionally, the members do not provide for an annual audit of the Treasurer’s records.

Due to these weaknesses, we reviewed 169 disbursements totaling more than \$180,000.⁶ We compared vendor names and check amounts from the cleared check images, vendor invoices or receipts and the check dates with the claims the members approved for payment as indicated in the

⁴ We selected our sample to include all boardroom rent payments, all foreign fire insurance payments and all fundraising deposits received during our audit period. We also reviewed all the receipts reported in the meeting minutes during four months of our audit period (August and October in 2013 and February and April in 2014).

⁵ Supporting documentation reviewed included District rent payment records, foreign fire insurance payment records, documents maintained for fundraising and receipts disclosed in the meeting minutes.

⁶ Our review included 164 fundraising and general activity disbursements, three death benefit disbursements and two disbursements for grant related expenditures. We selected our sample to include all grant and death benefit disbursements made during our audit period and all canceled check images included with the bank statements for eight months of our audit period.

meeting minutes. We found that the members did not approve 53 claims before payments were made. Further, we could not determine if 13 payments were for legitimate Company expenditures because no supporting documentation for these purchases was maintained, although they appear to be for typical company business.⁷

Specifically, we found that disbursements for 32 fundraising expenditures totaling \$15,610 (including five checks totaling \$6,750 made payable to “cash”),⁸ 16 general activity expenditures totaling \$59,233,⁹ three death benefit payments totaling \$1,500 and two grant related expenditures totaling \$650 were not approved by the members before payments were made. Additionally, 10 general activity expenditures totaling \$1,511 and the three death benefit payments contained no supporting documentation. Company officials told us all claims were not presented or approved by the members because they thought death benefit disbursements, disbursements for grant expenditures and disbursements made for fundraising activities did not require such approval. Company officials gave no explanation for the other general activity disbursement discrepancies our audit revealed.

Because Company members did not review and approve all disbursements and adequate supporting documentation was not maintained, Company members have no assurance that disbursements are made for appropriate Company purposes and that all goods and services purchased are actually received.

Recommendations

Company members should provide more oversight of the Treasurer and all members collecting and disbursing Company funds by:

1. Routinely comparing the financial activity recorded by the Treasurer with the bank statements (including canceled check images) to ensure that all money collected is deposited and all disbursements made are paid as approved.
2. Ensuring that the Trustees submit monthly reports containing all death benefit activity to the members.
3. Establishing controls over all fundraising activities to ensure that all money collected is deposited into Company bank accounts in a timely manner.
4. Conducting an annual audit of the Treasurer’s records.
5. Auditing and approving all claims before payment is made, including the payments for death benefits and grant related expenditures.
6. Ensuring that all disbursements are supported by adequate documentation and are for appropriate Company purposes.

⁷ The payments comprise 10 general activity expenditures and three death benefit payments.

⁸ Used as start-up cash to make correct change for customers at fundraising events

⁹ General activity includes expenditures for uniforms, calendars, striping and paving of parking lot, donations, and phone bills

The Company's members have 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 members to make this plan available for public review.

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

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

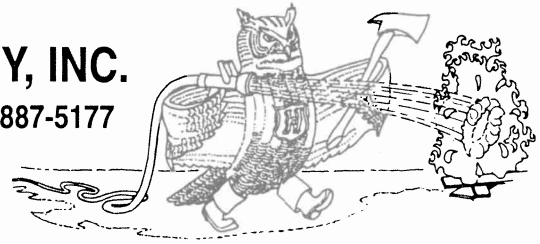
The Company officials' response to this audit can be found on the following page.

HORTONVILLE VOLUNTEER FIRE COMPANY, INC.

P.O. Box 71

Hortonville, New York 12745

845-887-5177



September 22, 2014

Office of the State Comptroller

Binghamton Regional Office

Attn: Mr. H. Todd Eames, Chief Examiner

State Office building

44 Hawley Street Suite 1702

Binghamton, NY 13901-4417

Re: Report Number 2014M-210

Dear Mr. Eames,

We have reviewed the draft of the Office of the State Comptroller's audit report's findings and recommendations along with our notes compiled from meetings during the audit process and find that the report accurately reflects our present operations.

The auditors were courteous and helpful throughout the audit process and went to great lengths to ensure that their findings were accurate. We have begun discussions of possible policies and procedures to be considered for corrective actions as we await the release of your final report.

Yours truly,

Paul M. Hendershot Sr.

President