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November 21, 2014

Donald Jacoby, President
Members of the Board of Directors
Limestone Volunteer Firemen, Inc.
616 Main Street
Limestone, NY 14753

Report Number: 2014M-219

Dear President Jacoby 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 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 Limestone Volunteer Firemen, Inc. (Company) which addressed the following question:

- Are Company controls adequate to ensure that financial activity is properly recorded and reported and that Company money is safeguarded?

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 plan to initiate corrective action.

Background and Methodology

The Company is located in the Town of Carrollton (Town) within the Carrollton Joint Fire District in Cattaraugus County. The Company provides fire protection services to Town residents and mutual aid to surrounding areas. The Company receives money from foreign fire insurance,¹ various fund-raising activities and hall rentals. Additionally, the Company operates² a bar known as the Fireman's Social Club (Club) for the benefit of the Company's membership and for members of the public for an annual \$10 membership fee.

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.

² The Club uses the Company's tax identification number when filing sales and income tax reports. Moreover, the Board appoints the Club's manager and, in at least one instance, has appointed the Club's treasurer. In view of these circumstances, we assume for purposes of this audit that the Club is part of the Company, and the Company operates the bar and that the bar's financial transactions are subject to the Company's bylaws. In making these assumptions, we express no view as to the propriety of the Company operating a bar. We also recommend that Company officials consult with an attorney to ensure they are complying with all applicable laws and regulations and take any appropriate remedial action that may be necessary.

The Company is operated in accordance with the New York State Not-For-Profit Corporation Law (NFPCL) and its bylaws. The bylaws provide for a Board of Directors (Board), which consists of a President, Fire Chief and five elected members.³ Under the NFPCL, the Board is responsible for the management of the Company's affairs.⁴ According to the bylaws, the Treasurer is responsible for certain financial duties which include receiving and disbursing all funds, maintaining accounting records and reporting cash balances to the membership at all regular meetings. Although not addressed in the bylaws, the Board appoints an individual to manage the Club.⁵ The Club also has a separate Treasurer responsible for certain aspects of Club finances such as preparing and filing quarterly sales tax returns.

During 2013, the Company's deposits totaled \$139,236 and the Club's deposits totaled \$110,191. The Company's disbursements totaled \$110,679 and the Club's disbursements totaled \$105,215.

We examined the internal controls over the Company's financial operations for the period January 1, 2013 through April 30, 2014. We interviewed 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 did not develop and implement adequate internal controls over the Company's cash disbursement and receipt functions and did not cause the Company's financial records to be annually audited as required by the bylaws. Additionally, the Board did not provide adequate oversight of Company financial activity. As a result, we found approximately \$38,000 in unsupported disbursements that may not have been for appropriate Company purposes, including approximately \$3,800 paid to the Club Treasurer and about \$3,000 paid to the Fire Chief. Additionally, we identified approximately \$18,700 in unidentified Club deposits and at least \$3,700 in unremitted fund-raising proceeds and hall rentals deposited in the Club's bank account.

Records and Reports – The Company Treasurer should maintain complete, accurate and timely records to account for all Company and Club financial activities. Although not required by the bylaws, as a matter of sound business practice, the Treasurer should prepare and submit monthly and annual reports to the Board. These reports are an important fiscal tool which provide the Board with information necessary to monitor both Company and Club operations and give other interested parties a summary of financial activities.

We found that the Company Treasurer and the Club Treasurer failed to maintain appropriate financial records and that the Board did not provide adequate oversight of all financial activities.

³ The bylaws appear to be inconsistent with the Company's certificate of incorporation which provides that "the number of directors of the Corporation shall be three (3)." Company officials should discuss this discrepancy with an attorney and take such action as may be necessary to conform the two documents.

⁴ Under the NFPCL, a not-for-profit corporation is managed by its board of directors, except as otherwise provided in the corporation's certificate of incorporation. In this instance, the Company's certificate of incorporation does not appear to divest the Board of its management responsibilities. Therefore, for purposes of this audit, we assume that the Board is responsible for managing the Company. To the extent that responsibility for managing the Company is vested elsewhere, either pursuant to the Company's bylaws or in practice, Company officials should discuss the matter with an attorney and take such remedial action as may be necessary.

⁵ The Company's bylaws do not mention or define duties for a separate Club Treasurer or manager.

The Treasurers did not perform monthly bank reconciliations and did not prepare or submit written monthly or annual financial reports to the Board. The Treasurers' accounting records consisted of manual checkbook registers used to record deposits and disbursements. Neither Treasurer maintained records summarizing financial activity or categorizing revenues and expenses. As a result, the Board was put at a disadvantage when attempting to monitor all Company operations.

Disbursements – All disbursements should be for valid Company purposes, supported by a detailed invoice or receipt and accurately recorded. While not always required by the bylaws, the Board should review and approve all bills prior to payment to ensure that Company and Club funds are used for only legitimate expenses. The Company Secretary should document the bills that have been approved for payment in the Board minutes.

We reviewed 228 disbursements⁶ totaling \$252,545 for Company and Club expenses paid during the audit period. Generally, disbursements were recorded and appeared to be for appropriate purposes. However, the Board did not review these bills or approve any of these disbursements prior to payment. The Company Treasurer told us he pays all Company bills presented to him and the Board does not review the bills prior to or after payment.

We also found that 42 of these disbursements totaling \$38,190 had no supporting documentation. These unsupported payments included a \$2,000 check paid to the Club Treasurer and four checks totaling \$3,024 paid to the Fire Chief. The Company Treasurer issued the \$2,000 check to the Club Treasurer to provide start-up cash for an annual Company fund-raising event.⁷ However, neither Treasurer maintained records showing how the cash was used nor how much cash was returned after the event was over. According to the Fire Chief, the four payments he was issued represented compensation for mowing and snow plowing services. However, he provided no supporting documentation to substantiate this claim, such as a Board-approved written contract or invoice.

These unsupported payments also included two checks totaling \$1,842 the Club Treasurer wrote payable to herself from the Club's checking account. The Club Treasurer collected receipts from an annual Company fund-raising event on behalf of the Company Treasurer, deposited the receipts into the Club's checking account and wrote two checks payable to herself to obtain cash⁸ to pay for event related expenses. However, she provided no supporting documentation for these event expenses. We also found that the money she collected from the event was not deposited into the Club account until five days after the event and totaled only \$1,650. The Club Treasurer was unable to explain her actions and did not provide the Company Treasurer with documentation showing that she subsequently remitted the funds collected or a detailed list of the event's expenses.

Additionally, 38 disbursements totaling \$32,208 were non-check withdrawals (electronic payments) from the Club's checking account for supplies purchased at local stores and online bill payments to various vendors for the purchase of alcohol.⁹ Although these electronic payments were adequately supported and appeared to be for appropriate purposes, the Club manager made and authorized these transactions without any oversight.

⁶ We reviewed bank statements and selected all payments over \$300 for review.

⁷ See Fund-Raising section for further information

⁸ These two checks were deposited back into the Club bank account on the same day they were written, suggesting that the Club Treasurer cashed the Dice Run (see the Fund-Raising section) registration checks using undeposited cash generated from bar sales.

⁹ These payments included six electronic fund transfers totaling \$8,098 paid to the NYS Department of Taxation and Finance.

When disbursements are made without adequate oversight, proper authorization and appropriate documentation, there is an increased risk that payments could be made for other than appropriate Company purposes.

Club Receipts – According to Company officials, the Club is a separate and distinct entity from the Company and has always operated separately from the Company. Therefore, Company officials do not consider the Club’s money to be Company money. However, for the purposes of our audit we considered the Club to be part of the Company.¹⁰ Additionally, because the Board is responsible for managing the Company, it is also responsible for establishing a system of internal control procedures to safeguard and properly record all Company cash receipts, including Club receipts.

Although the Company’s bylaws require the Treasurer to collect and deposit all Company money, the Club manager deposited cash from bar sales into the Club’s bank account and did not remit any bar proceeds to the Company Treasurer. The Club retained all profits from bar sales. Further, Company hall rental fees are paid and collected at the bar and retained as Club revenue. During the audit period, the Club collected and retained \$2,650 in hall rental revenue that should have been remitted to the Company Treasurer. The Club manager stated that the Board authorized the Club to retain Company hall rental revenue. However, he was not sure when such authorization was given and further stated that the authorization was not documented in the Board minutes.

The Club manager stated he compared bar cash register tape totals with daily cash reports and bank deposits but did not retain these records or documents. We compared the deposit amounts with the monthly sales tax reports showing the amounts collected during the audit period and found that bar deposits exceeded reported cash sales by more than \$31,700. Based on the records available, it appears that hall rentals, Company fund-raising proceeds, donations and other miscellaneous¹¹ revenue totaling approximately \$13,000 were deposited into the Club’s bank account during this time. After deducting these revenues, the source of approximately \$18,700 deposited into the Club account remained unexplained.

The Board’s failure to properly oversee bar and hall rental receipts and ensure that the Company Treasurer accounts for and deposits all receipts are significant control weaknesses that substantially increase the risk that money could be lost or misused and remain undetected.

Fund-Raising – The Board should establish procedures to ensure that all funds received from fund-raising events are properly accounted for and deposited in Company bank accounts. Fund-raising records and receipts¹² should be maintained for each fund-raising activity, reconciled to deposits and remitted to the Board for its review.

¹⁰ The Club is not incorporated separately from the Company and, according to the New York State Liquor Authority, could not be issued a “club” liquor license independently of the Company or some other not-for-profit corporation or benevolent order; see New York State Alcoholic Beverage Control Law, Section 3[9].

¹¹ The Club manager and his wife run a concession stand for a local youth soccer league and purchase supplies through and deposit concession revenue into the Club checking account. We express no view as to the propriety of this arrangement because it is outside our audit scope.

¹² While issuing duplicate press-numbered receipts may be a “best practice,” depending on the nature of the fund-raiser it may not always be practical (e.g., a “boot drive”). Press-numbered registration forms corresponding with press-numbered wristbands and press-numbered tickets could be considered a form of receipt.

The Fire Chief and his wife, who also serves as the Club Treasurer, manage the Company's annual Dice Run¹³ and collect registration fees on behalf of the Company Treasurer. According to the Fire Chief, he and his wife use cash collected to pay for event related expenses and cash checks using bar receipts.

We reviewed Company records for the 2013 Dice Run. We found that Company officials did not maintain accurate records to show how much money was collected from the event or the total net proceeds the Company Treasurer should have received.

A Company member issued numbered wristbands to all participants that corresponded with the number on the participants' registration forms.¹⁴ However, Company officials did not properly account for wristbands issued or registration forms. Although Company officials stated a total of 1,508 wristbands were issued to participants, 1,486 completed registration forms were on file and at least 70 forms were missing from the numbering sequence used.

Our review of the registration forms also disclosed that, in addition to these missing forms, 25 forms used the same (already issued) number, nine forms had no number and one form was for a dinner only. Because of the missing registration forms, the event's total registration fees and chicken barbecue sales¹⁵ could not be confirmed nor could we verify the total number of wristbands issued. Registration fees and dinners associated with available registration forms totaled \$32,328. Furthermore, the Company collected additional revenue from food and t-shirt sales at the event, but no records were retained to substantiate these sales.

The Fire Chief prepared an event reconciliation showing that the 2013 Dice Run yielded a profit of \$40,281, but the total amount remitted to and deposited by the Company Treasurer totaled \$39,172, a difference of \$1,109. Additionally, \$3,842 (\$2,000 in event start-up cash and \$1,842 for event expenses) received by the Club Treasurer was not accounted for on the event reconciliation nor was it clear if the \$1,650 in pre-registration fees deposited into the Club bank account was included.

The Board's failure to properly oversee fund-raising activities is a significant control weakness that substantially increases the risk that fund-raising money could be lost or misused and remain undetected. Had the Board required that the Company Treasurer prepare monthly and annual financial reports and annually audited or caused an audit of the Treasurer's records, it may have identified the discrepancies described in this report.

Recommendations

The Board should:

1. Monitor the Company Treasurer and require that monthly financial information be provided.

¹³ The annual all-terrain vehicle Dice Run is the largest Company fund-raising event. Participants pay a fee to navigate an off-road course during which they must stop at checkpoints and roll dice to accumulate points. The participant with the most points is the event winner.

¹⁴ To enter this event, the driver and passenger each complete a registration form. However, the wristbands and registration forms were not pre-numbered. Event participants could register as a driver for a \$20 fee or a passenger for a \$15 fee and order a chicken barbecue meal for \$7.50.

¹⁵ The invoices for food purchased for the event did not clearly show the amounts or types of meat purchased. As a result, the approximate amount of chicken purchased could not be determined or used to estimate chicken barbecue meal sales.

2. Ensure that the Company Treasurer's financial records are annually audited.
3. Investigate all transactions conducted by the Club Treasurer and determine the status of all Company money in her custody.
4. Review and approve bills prior to payment and ensure that each bill has appropriate supporting documentation. The Company Secretary should document which bills the Board approves for payment in the minutes.

The Company Treasurer should:

5. Maintain detailed financial records to properly account for all financial activity, provide the Board with written monthly and annual financial reports and prepare and present monthly bank reconciliations to the Board for its review.
6. Collect, record and disburse all Company money, including hall rental fees and bar receipts.
7. Maintain detailed financial records for each fund-raising event indicating, at a minimum, the amount of start-up money provided, receipts from each event activity, amounts disbursed (with supporting documentation) and net proceeds deposited. Such records should include the amounts of food and merchandise purchased, sold and remaining for each fund-raising event.

Company officials should:

8. Ensure that wristbands or tickets sold at each fund-raising event are press-numbered and properly accounted for.

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 this plan available for public review.

We thank the officials and staff of the Limestone Volunteer Firemen, 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 page.

LIMESTONE VOL. FIRE DEPT.

*616 Main Street
Limestone, NY 14753*

November 5, 2014

Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Re: Limestone Volunteer Firemen, Inc.
Report No. 2014M-219

Dear Sir:

Please accept this as our response to the preliminary draft findings as proposed by the Office of the State Comptroller. We believe that the report presents a fair overview of the Limestone Volunteer Firemen, Inc. concerning the operations as outlined therein.

We appreciate and understand the importance of the findings and the recommendations. As I am sure you often discover we are a volunteer organization of dedicated individuals who put our mission first such that business matters are often left to a few volunteers who end up having to do more than they should have to. The end result being the lack of internal controls/and supporting documentation your report highlighted.

It is our intention to revamp our internal structure and financial reporting to address the shortcomings your report noted and inconsistencies in our paperwork. We will seek the assistance of accounting and legal professionals to help us accomplish this together with the help of our membership and community.

We appreciate your office's assistance in this project and look forward to your further recommendations as might be appropriate.

Sincerely,

Limestone Vol. Fire Dept.

Donald Jacoby, President