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November 14, 2014

Matthew Gould, President
Members of the Board of Directors
West Fort Ann Volunteer Fire Company
49 Joe Greene Road
Fort Ann, NY 12827

Report Number: 2014M-242

Dear President Gould 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 West Fort Ann Volunteer Fire Company, Inc. (Company) which addressed the following question:

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

The results of our audit and recommendations have been discussed with Company officials. Company officials were given an opportunity to respond to our findings and recommendations within 30 days of the exit conference, but they did not do so.

Background and Methodology

The Company is a not-for-profit volunteer organization located in the Town of Fort Ann (Town) in Washington County. The Company contracts with the Town to provide fire protection services to the Town's western region. During 2013, the Company received approximately \$221,750 in revenue and disbursed approximately \$177,500. Company revenues included the Town's annual contract payment, fund-raising activities, private donations and foreign fire insurance proceeds.¹

¹ Foreign fire insurance money represents 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.

The Board of Directors (Board) comprises six member-elected individuals and includes the President,² Chairman and four Directors. The Board is responsible for the Company's overall financial management. The President is the Company's chief executive officer. The Treasurer³ serves as the chief fiscal officer and is responsible for receiving, disbursing and maintaining the Company's accounting records as well as preparing periodic financial reports. In September 2013, the Company's membership formed an internal support group to assist in fund-raising and other activities previously managed by the Company's former ladies auxiliary.

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, Board minutes and Company bylaws. 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 is responsible for overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls which includes policies and procedures to ensure that transactions are authorized and properly recorded in a timely manner; that financial reports are accurate, reliable and filed in a timely manner; and that the Company complies with its bylaws and all applicable laws, rules and regulations. The Treasurer is responsible for accounting for all receipts and disbursements and providing the Board with financial reports at each regular meeting in accordance with the bylaws.

The Treasurer provides the Board with monthly financial information including a detailed balance sheet and a list of unpaid claims for its review and approval as required. For each claim, the Treasurer prepares a claim voucher detailing the expenditure's purpose, which Board members sign to show approval of the claims to be paid. The Treasurer also prepares monthly bank reconciliations showing the bank statement cash balance and the general ledger cash balance. After we brought it to the Treasurer's attention, he also began providing the Board with the monthly bank statements, bank reconciliations and canceled checks.

However, the Company bylaws provide no guidance about issuing receipts for cash collected, conducting fund-raising activities or using debit and prepaid cash cards. For example, the bylaws do not address the following fund-raising responsibilities: who is responsible for conducting fund-raising activities, how money received and disbursed is accounted for and when or how event profits or losses are reported to the Board. Additionally, the Treasurer and Company members handling fund-raising events do not issue any receipts for amounts collected from the public or when the money collected is remitted between Company members. Adding some additional internal controls to enhance Board oversight and increase accountability over Company funds could greatly improve the protection of Company assets.

² The President is a non-voting member of the Board.

³ The same individual serves as President and Treasurer.

Fund-raising Receipts – During our audit period, the Company received and deposited \$43,865 into its fund-raising accounts.⁴ For example, the Company held periodic breakfast and dinner events at its firehouse that raised \$6,860 during the period October 1, 2013 through April 30, 2014. Additionally, a Board member and her sister donated \$20,000, which was deposited with other fund-raising money.

The Company followed differing informal procedures to conduct its various fund-raising activities. For example, the support group volunteer⁵ who oversees the breakfast and dinner fund-raising events told us she counts the number of attendees and compares the count to the amount of money she collects and that another Company member also counts the amount of money collected. The documentation maintained for these events are the bank deposit receipts that the volunteer submits to the Treasurer to record the events' collections in the accounting system. However, there are no records or reports maintained for these events to compare the number of attendees with the total amount of money received or to account for the money spent for event-related supplies.

The Company held a direct mail campaign⁶ in 2013, which was managed by the Fire Chief (Chief). The Chief maintained a log book in which he recorded each donor's name and the amount collected. However, he did not record the date money was collected and deposited, and receipts were not issued to the donors. The Company also held an annual golf event in 2013. The record maintained for this event was a list of contributing sponsor donations. However, no record was maintained of the amounts collected from participating golf teams or amounts spent on event expenses.

Without adequate fund-raising event records, the Treasurer was not able to prepare any reports for the Board showing how much money was collected or spent on the fund-raising events. Furthermore, on the day of the golf event, the Treasurer was unavailable so the member overseeing the event paid the golf course fee in cash from the money collected during the week of the event. When we requested a copy of the receipt for the cash payment to the golf course, we were told a copy of the receipt was not retained.

Due to the lack of formal written guidance and adequate records for fund-raising events, we reviewed all 40 deposits totaling \$38,402 made during our audit period for the Company's three fund-raising activities⁷ to determine if the collections were adequately documented, recorded in the accounting records and deposited timely and intact.⁸ We traced the amounts collected from source documents⁹ to the related deposits listed on the bank statements and recorded in the accounting records.

⁴ The fund-raising accounts consisted of two bank accounts, a kitchen checking account and a fellow firefighter checking account.

⁵ The volunteer is also a Board member.

⁶ The Company sends letters to the public requesting donations.

⁷ Deposits for these activities included donations totaling \$20,000; breakfast, dinner and pie sales totaling \$6,860; direct mail campaign donations totaling \$8,555; and annual golf tournament proceeds totaling \$2,987.

⁸ The deposits made were in the same amount and form (i.e., cash or check) as the amounts collected.

⁹ The documents we reviewed included photocopied checks, deposit receipts, collection logs and event dates from the Board minutes.

We found that the deposit tickets were properly recorded in the accounting system. However, due to the lack of adequate fund-raising activity recordkeeping, we could not determine if money collected from these activities was deposited intact or in a timely manner. For example, eight deposits totaling \$6,095 were made to the kitchen fund-raising account from one to seven days after each event. However, no collection records or deposit tickets¹⁰ were maintained to verify that the amounts collected agreed with the amounts deposited or that the moneys collected were deposited intact.

Without adequately accounting for fund-raising activities, there is an increased risk that all fund-raising money may not be deposited and errors or irregularities could occur and not be detected.

Disbursements – We reviewed 63 disbursements totaling \$95,616 which were made during two months of our audit period¹¹ to determine if they were for appropriate purposes, adequately documented, properly recorded and reviewed by the Board. We also reviewed the canceled checks to determine if they were signed by the Treasurer as required by the bylaws.

Although the Treasurer signed all the checks for these disbursements, we found five totaling \$7,223 that lacked Board-approved claim forms and receipts for the items purchased. While these purchases appeared to be for Company purposes, we found one disbursement for three prepaid cash cards totaling \$1,600. Due to the lack of a Board-approved claim and receipts for the prepaid cash cards, we extended our review to include all purchases made with these cards as discussed in the Debit and Prepaid Cash Cards section of the this report.

We also reviewed all 26 check disbursements totaling \$17,012 which were made from the kitchen checking account¹² during the audit period to determine if they were for appropriate purposes, adequately documented, properly recorded and reviewed and approved by the Board. We also reviewed the related canceled checks to determine if they were signed by the Treasurer as required. All the disbursements we reviewed were for legitimate Company purposes and properly documented and recorded. However, while the Treasurer reviewed these disbursements and prepared the bank reconciliations, these disbursements were not presented to or approved by the Board as required by the bylaws.

Further, the Treasurer did not sign any of these checks as required. Instead, these checks were signed by the support group volunteer put in charge of the kitchen fund-raising activities. According to Company officials,¹³ this volunteer managed the kitchen fund-raising activities as Treasurer of the former ladies auxiliary. In 2013, when the Company took over these activities,

¹⁰ While bank deposit receipts were available, copies of the deposit tickets listing the composition of the individual amounts deposited were not retained.

¹¹ We reviewed all checks that cleared the bank during two randomly selected months. We reviewed June 2013 and January 2014 for the general checking account and June 2013 and April 2014 for the fellow firefighter checking account.

¹² The Company opened the kitchen bank account to separately account for firehouse kitchen collections and disbursements including breakfast and dinner fund-raising events.

¹³ We held discussions with the Treasurer, Chairman and various Board members.

the Treasurer opened a bank account dedicated to kitchen activities. Both the Treasurer and the volunteer were authorized to sign checks for this account.

Debit and Prepaid Cash Cards – Debit cards pose significant risks because individuals using them have direct access to the Company’s bank accounts and any unauthorized use may not be readily detected. Prepaid cash cards pose similar risks because these cards also provide individuals with unrestricted access to Company cash for the amount funded on the card. Additionally, both types of cards can be used without prior Board approvals needed for specific expenditures. Therefore it is essential the Board establish formal written policies and implement procedures for using these cards. The Board should also review all debit and prepaid cash card transactions to ensure that they are used for appropriate Company purposes.

The Board did not establish policies or implement any procedures for using debit and prepaid cash cards nor did the Board review and approve any card-related transactions. Because of the risks associated with these cards and the lack of policies and procedures, we reviewed all 10 debit card transactions made from the kitchen account totaling \$768 and all prepaid cash card transactions totaling \$2,900¹⁴ during our audit period to determine whether the purchases were for appropriate Company purposes.

We found that the debit card purchases, which included general supplies for the kitchen fund-raising events, were adequately documented and for appropriate Company purposes. However, while the Board was aware the Treasurer purchased the prepaid cash cards, there were no Board-approved claims authorizing the cards’ purchase or funding amounts. The Treasurer did not provide any receipts for purchases totaling \$1,340 made with these cards and indicated that the receipts were either lost or not remitted to him by the individuals using the cards.

For example, no receipts or other documents were available for the prepaid card issued for \$600. Company officials told us this card was used for lodging for three members to inspect a new truck in Wisconsin. For the other prepaid card purchases (for which receipts were not available), we identified the items purchased by reviewing the detailed card statements and through discussions with the Treasurer and Chairman. Based on the payees listed on the card statements and our discussions, these expenditures appeared to be for valid Company purposes.

After we brought the lack of Board review of prepaid card purchases to the Treasurer’s attention, he prepared claim forms for six of the most recent card purchases for the Board’s review. He also indicated that, as funds are added to the Chairman’s card,¹⁵ the Chairman will be required to remit a copy of the card statement and all receipts detailing the purchases made prior to the Board approving adding new funds to the card. Company officials plan to handle the Chairman’s cash

¹⁴ In April 2013, the Company paid \$2,900 to fund three prepaid cash cards and expended \$2,659 from these cards as of the end of our audit period. The Treasurer purchased these cards, which were funded for a total of \$1,600 (two cards were issued for \$500 each and one card was issued for \$600). He periodically replenished the \$500 card held by the Chairman for miscellaneous Company purchases with an additional total of \$1,300. The other two prepaid cash cards, funded with \$500 and \$600, were purchased for a trip to inspect a new truck.

¹⁵ The Company plans to continue adding funds to the card issued to the Chairman for miscellaneous purchases.

card similar to an imprest petty cash fund.¹⁶ However, requiring that all Company members authorized to use the debit or prepaid cash cards also obtain prior Board approval before using the cards would be an added safeguard to better protect Company funds from loss or misuse.

Overall, we found that the accounting records and monthly reports to the Board for Company operations were reliable. However, the lack of adequate accounting and reporting for fund-raising receipts, the lack of formal written procedures for fund-raising activities and the Board's failure to review and approve debit and prepaid cash cards transactions are significant control weaknesses that substantially increase the risk that funds could be lost or misused and remain undetected.

Recommendations

The Board should:

1. Examine bank statements and reconciliations and compare them to the approved claims to ensure that checks are prepared after there is evidence of audit and adequate supporting documentation. Sufficient documentation should include a completed claim form and all receipts and invoices.
2. Adopt financial policies and implement procedures to account for fund-raising cash receipts and disbursements. Such procedures could include issuing receipts for cash collected when no other related documentation exists, and reporting fund-raising event profits or losses.
3. Implement a policy and procedures for members to follow when using debit and prepaid cash cards that require Board authorization before using the cards.

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 West Fort Ann Volunteer Fire Company, Inc. for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

¹⁶ Such a cash fund is set for up for a fixed amount which, after money has been spent, is replenished based on the total amount of receipts retained to support any miscellaneous expenditures.