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January 16, 2015

Lance Jobe, President  
Members of the Executive Committee  
Allegany Engine Company, Inc.  
188 West Main Street  
Allegany, NY 14706

Report Number: 2014M-176

Dear Mr. Jobe and Members of the Executive Committee:

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 Allegany Engine Company (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?

We discussed the findings and recommendations 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 agreed with our recommendations and plan to take corrective action. We have referred the matters presented in this report to the Cattaraugus County District Attorney.

### **Background and Methodology**

The Allegany Engine Company is located in the Town of Allegany (Town), in Cattaraugus County. The Company provides fire protection within the Town and provides mutual aid to surrounding areas. The Company receives money from fundraisers, foreign fire insurance, hall rentals and other

donations and miscellaneous income. For the 2013 fiscal year, the Company's revenues<sup>1</sup> totaled \$279,036 and expenses totaled \$353,614.<sup>2</sup>

The Company is operated in accordance with its by-laws which stipulates that an Executive Committee/Fire Advisory Board (Board) consisting of the President, the Chief and six elected members is responsible for the general management and control of the Company's financial affairs. According to the Company's by-laws, the Secretary-Treasurer (Treasurer) is responsible for the Company's financial duties, which include receiving and disbursing funds, maintaining accounting records and preparing financial reports.

We examined the internal controls over the Company's financial operations for the period January 1, 2013 through April 28, 2014. We interviewed appropriate 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 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 that ensure transactions are authorized and properly recorded; that financial reports are accurate, reliable and filed in a timely manner; and that the Company complies with its by-laws and other applicable laws, rules and regulations.

The Treasurer should maintain complete, accurate and timely records to account for all of the Company's financial activities and prepare and submit monthly and annual reports to the Board. These reports are an important fiscal tool which provides the Board with information necessary to monitor Company operations and gives other interested parties a summary of the Company's financial activities. Additionally, the Company's by-laws require that an appointed finance committee conduct an annual audit of the Treasurer's records. The by-laws also require the finance committee to review and approve all bills prior to payment to ensure that Company funds are used for only legitimate Company expenses.

We found that the Board does not provide adequate oversight of the Company's financial activities. Further, the President did not appoint a finance committee to review and approve Company bills or the Treasurer's records as required by the by-laws. While the Treasurer verbally presented all bills for payment to the Board, the Board did not actually review the bills for payment. Also, the

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<sup>1</sup> Company revenues comprised the following major categories: fundraisers (\$119,878), foreign fire insurance (\$119,365), rentals (\$19,549), donations (\$12,040), concessions (\$3,471), games of chance (\$2,303), interest earnings (\$1,485), miscellaneous (\$532) and membership dues (\$413).

<sup>2</sup> Company expenses comprised the following major categories: rescue truck purchase (\$79,007), fundraising (\$74,175), debt service (\$71,577), equipment maintenance (\$25,475), utilities (\$20,208), company activities (\$18,908), annual dinner (\$15,158), repairs and maintenance (\$10,677), professional services (\$8,400), miscellaneous (\$6,012), donations (\$5,709), supplies (\$5,462), cleaning (\$5,326), small equipment purchases (\$2,353), officer fees (\$1,500), property taxes (\$1,402), advertising (\$1,171) and food (\$1,094).

Treasurer did not submit written monthly or annual financial reports to the Board. The Board's lack of internal controls over financial activity creates a risk that Company disbursements may not be for appropriate purposes and that all money due the Company may not be received and deposited.

Disbursements – The Company's by-laws state that the Treasurer is responsible for paying all Company bills when authorized at a regular, special or annual meeting. It is important that the Board Secretary document in the Board minutes the bills that have been authorized for payment. All bills should include documentation, such as receipts and invoices, for the Board, or the Board appointed finance committee, to review when determining whether the payments comply with Company policies and are proper expenses.

We reviewed all 449 check disbursements, totaling more than \$195,532,<sup>3</sup> and all bank account transfers made during the period January 1, 2013 through December 31, 2013 and found that the Company's financial activity was properly recorded and payments appeared to be for legitimate Company purposes. We also found that all bills paid during this period were supported by adequate documentation such as original invoices or receipts. However, we found that 121 disbursements totaling \$66,877 were not recorded in the Board minutes as having been authorized for payment. When disbursements are made without proper authorization and review, the risk is increased that payments could be made for other than legitimate Company purposes.

Additionally, we found that the Treasurer made 15 cash withdrawals from the Company's fundraiser savings account totaling \$12,505 without required Board approval. The Treasurer provided several receipts for purchases totaling \$2,471 and he had approximately \$611 in cash on hand. We also traced \$1,000 withdrawn for the Old Home Week fundraising event as start-up cash to a profit and loss statement for the event and believe it is reasonable to conclude that the cash was used for this purpose. Additionally, the Treasurer's financial records indicated \$1,300 had been withdrawn for the same event. Although he could not provide supporting documentation to demonstrate the purpose of this withdrawal, we found that a deposit in the same amount was made just three days later. The Treasurer did not offer a legitimate Company purpose for the remaining \$7,123 in cash he withdrew during 2013. However, he admitted withdrawing \$1,700 from Company accounts for personal use after depositing \$3,000 in cash into Company accounts. He told us, but could not demonstrate, that the \$3,000 was his own personal funds.

Fundraising – The Board should establish procedures to ensure that all funds received from fundraising events are properly accounted for and recorded. Cash reports and duplicate receipts should be maintained for each fundraising activity and reconciled accordingly to deposits. Company officials should prepare and remit collection records and reports on all fundraising events to the Board for its review. Also, Company officials should deposit all fundraising money into the Company's bank accounts.

The Company held several fundraising activities including various raffle events and an annual carnival. We reviewed Company fundraising records including profit and loss reports and deposits totaling \$178,983 that were made from January 1, 2013 through December 31, 2013. We found

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<sup>3</sup> Company expenses totaled \$353,614 of which \$195,532 was paid by check. The remaining expenses for the year are associated with the purchase of a rescue truck and the related debt service payments totaling \$145,577 paid via wire transfer and \$12,505 in miscellaneous expenses paid in cash.

that the Treasurer did not record \$21,329 of these receipts in the financial records and \$25,917 of these receipts in the fundraising records. The Treasurer's failure to properly account for the receipt of fundraising proceeds and the Board's failure to properly oversee fundraising activities are significant control weaknesses that substantially increase the risk that fundraising money could be lost or misused and remain undetected.

Had the Board required that the Treasurer prepare monthly and annual financial reports, and had a finance committee been appointed to perform an audit of the Treasurer's records, the Board may have identified the discrepancies described in this report. We discussed other minor deficiencies with Company officials during the conduct of our fieldwork.

## **Recommendations**

1. The Board should investigate all withdrawals made by the Treasurer and determine the status of the \$7,123 in questionable cash withdrawals.
2. The President should appoint a finance committee to review and approve all payments to ensure that each has appropriate supporting documentation and audit the Treasurer's books at least annually.
3. The Board Secretary should document in the minutes of the Board's proceedings the bills that have been authorized for payment.
4. The Board should approve all withdrawals as required by the by-laws.
5. The Treasurer should provide written monthly and annual financial reports to the Board.
6. The Board should develop and implement procedures for Company officials to follow during and after fundraising events to ensure that all funds received from fundraising events are properly accounted for and recorded. These procedures could include:
  - Maintaining cash reports and duplicate receipts for each fundraising activity,
  - Reconciling cash receipts records to deposits and
  - Preparing and remitting collection records and reports on all fundraising events to the Board for review.

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 Allegany Engine 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.



# Allegany Engine Company, Inc.

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Lance R Jobe  
President  
Allegany Engine Company  
188 West Main Street  
Allegany NY 14706

October 27, 2014

188 West Main Street  
Allegany, NY 14706-1233  
(716) 373-2310

Office of State Comptroller  
Buffalo Regional Office  
Jeffrey Mazula, Chief Examiner  
295 Main Street Suite 1032  
Buffalo NY 14203-2510


Re: Draft Findings  
Report Number 2014M-176

Dear Mr. Mazula

This letter is in response to the preliminary findings of the recent examination by your office of the Allegany Engine Company. It is the contentions of the Allegany Engine Company that the findings by your office are partial accurate and it is not in full agreement with said findings.

It is the intentions of the Allegany Engine Company to aggressively revise its practices with regards to its finances. It will take all recommendations from your office and immediately implement new policies and procedures.

Sincerely,

  
President  
Allegany Engine Company