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December 2015

Robert Hickey, President
Members of the Board of Directors
Lake George Fire Company
179 Ottawa Street
Lake George, NY 12845

Report Number: 2015M-216

Dear Mr. Hickey 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 Lake George Fire Company (Company) which addressed the following question:

- Were Company collections properly accounted for and deposited timely and intact?

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 provides fire protection services to the Town¹ and Village of Lake George pursuant to a contract between the Town and Village. The Company receives revenue from fundraising, apparel sales, donations and foreign fire insurance money.² Revenues totaled approximately \$114,000 for 2013 and \$125,000 for 2014. Annual fundraising events included two craft fairs, a letter drive for donations and a family fun festival. Collections for the craft fairs and donations from the annual letter drive were received through the mail in the form of check or money order.

¹ The service contract covers a portion of the Town referred to as Fire Protection District Number 2.

² Foreign fire insurance money represents a tax on the premium paid on insurance policies as provided in New York State Insurance Law, which entitles fire companies 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.

Collections from selling apparel as well as fundraising at the family fun festival were received directly by the members and typically consisted of cash.

The Company is a volunteer organization located in Village of Lake George in Warren County with approximately 40 members. The Company has a Board of Directors (Board) that is composed of seven individuals elected by the Company's members and is responsible for overseeing the Company's finances. To fulfill this duty, the Company has established bylaws, adopted by the members that specify the Board's officers and their responsibilities. The Board's officers include a President, Vice President, Treasurer and Secretary. The President has sole authority over all administrative activities. However, at his discretion, he may delegate certain administrative duties. The Treasurer is responsible for receiving all moneys collected by the Company and for maintaining records to account for the Company's moneys. The Company also established the position of Financial Secretary to assist the Treasurer in these duties. During September 2014 the President delegated the Treasurer's collecting and accounting duties to an independent bookkeeper and the depositing duties to the Secretary. Furthermore, the Company has developed written administrative and operational policies for day-to-day operations.

We examined the internal controls over the Company's collections for the period January 1, 2013 through April 30, 2015. We interviewed Company officials, analyzed the financial records and reviewed Company 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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not our intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 policies and procedures that ensure transactions are properly authorized and recorded and that the Company complies with the applicable bylaws, rules and regulations. The bylaws require the Treasurer to receive all money collected by members or due to the Company, issue a receipt for such collections and deposit the collections within five business days. In addition, deposits should be made intact³ and the Treasurer should maintain adequate documentation of collections including the names of the payers, the dates collections were received, the amounts collected and the forms in which the collections were received (cash, check or money order).

The Treasurer did not properly account for all collections or deposit all of them timely and intact. The Treasurer also did not issue receipts for collections as required by the bylaws or maintain other adequate documentation of collections remitted to him. Furthermore, the Company did not institute controls over collections associated with its craft fair fundraising events. As a result, Company officials lack assurance that all collections were properly remitted to the Company.

³ Intact means for the same amount and in the same form (i.e., cash, check or both) as the collection.

Deposits of Collections – During our audit period, the Company recorded collections totaling \$257,570. We selected a judgmental sample⁴ of seven months and examined all collections and deposits made during those months to determine whether they were deposited timely and intact.⁵ During the seven months selected, the Treasurer received 813 collections totaling \$145,244 of which 802 collections totaling \$144,460 were deposited. The remaining \$784 that was collected for the sale of apparel and fundraising events could not be traced to any deposits as follows:

- The member responsible for selling Company apparel maintained a log of moneys collected and amounts remitted to the Treasurer. We identified three instances where the log indicated that moneys collected were remitted to the Treasurer. However, we could not trace the collections to a deposit, leaving the \$273 unaccounted for.
- We identified eight instances where members collected cash for fundraising events and prepared cash count sheets, but the amounts documented on the cash count sheets were not equal to the amounts deposited. The cash collected according to the eight cash count sheets totaled \$9,343, but only \$8,832 of this amount was deposited, leaving \$511 of collections unaccounted for.

The Treasurer did not issue receipts to the members who remitted the cash to him or document in some other form his verification of the amounts recorded on the cash count sheets or remitted to him from the members. As a result, the Board cannot verify that the funds were actually turned over to the Treasurer.

In addition, 546 collections totaling \$103,276 were deposited intact, but they were not deposited in a timely manner as required by the Company's bylaws. These funds were deposited between six and 72 days after they were collected.⁶ For example, the Company received a \$2,000 check in 2013 that was deposited seven days late and received a \$1,499 check in 2015 that was deposited 37 days late. Deposits were not made timely because the members responsible for collections placed the funds in a lockbox for the Treasurer to retrieve, record and deposit. The Treasurer did not retrieve and deposit the collections in a timely manner. Without effective controls in place, the Board lacks assurance that all collections were properly accounted for and deposited in a timely manner.

Collection Records – The Treasurer did not adequately document all collections by issuing receipts as required by the Company's bylaws or keeping detailed records to account for the collections. In some instances, we found the Treasurer retained copies of checks and copies of donation letter drive stubs that included the collection amounts as well as validated deposit slips received from the bank for collections records. In other instances, such records were not available for our review. When collections were made by members and later remitted to the Treasurer, we found members

⁴ We examined a judgmental sample of seven months of collections and deposits based on the timing of Company activities and collections. The months selected were July 2013, August 2013, May 2014, June 2014, July 2014, August 2014 and March 2015.

⁵ Because the Treasurer did not maintain adequate collection records, we obtained deposit compositions from the Company's bank and requested documentation maintained by members to support collections.

⁶ Due to the Treasurer not recording the dates of collections for payments made by check in the records, we compared the check dates to the deposit dates to determine timeliness of deposits. For those collections that were cash, we determined whether they were deposited timely, based on supporting documentation such as cash count sheets.

generally maintained documentation of their collections. For example, for certain fundraising events, members prepared cash count sheets whereby two members counted the total collections, documented the amount collected and signed the sheets. The collections were then remitted to the Treasurer. However, the Treasurer did not issue receipts to the members who remitted the collections or verify that the amounts remitted agreed with the collection amounts recorded on the cash count sheets.

We reviewed 813 collections totaling \$145,244 to determine if they were properly supported and accounted for. We found 802 of the 813 collections totaling \$144,460 that were deposited were recorded in the accounting records. However, we found the collections were not adequately supported as follows:

- 54 collections totaling \$69,045 were received by the Treasurer for which the Treasurer was required to issue a receipt to the payers. The Treasurer did not issue any receipts for these collections.
- 759 collections totaling \$76,303 were received by members and later remitted to the Treasurer. As a result, the Treasurer was required to issue receipts to the members remitting funds to him. The Treasurer did not issue any receipts for these collections.
- 19 of the 759 collections remitted from the members to the Treasurer totaling \$3,864 lacked adequate documentation to determine if the total amounts collected by members were remitted to the Treasurer. For example, in two instances members remitted cash in the amounts of \$780 and \$1,010 for the sale of apparel. The cash was remitted in an envelope with the collection amount and date recorded on the envelope, but there were no records or documentation to support the amounts being remitted.

Because the Treasurer did not adequately account for collections or issue receipts as required by the bylaws, the Board lacks assurance that all collections were accounted for and deposited.

Craft Fairs – The Company holds two annual craft fairs (fairs) and collects funds from vendors who want to reserve a site to sell goods. The fairs are managed by a craft show coordinator (coordinator), who is a non-member selected by the Board. According to the President, Vice President and Secretary, the coordinator is responsible for collecting vendor fees and remitting them to the Company and providing the Company with an annual report accounting for all collections and expenses incurred⁷ during each fair. However, the Board did not enter into a written contract with the 2013 coordinator outlining the provisions and responsibilities for collecting fair vendor fees and remitting them to the Treasurer or the compensation allowed for managing the fairs.

The Company recognized significantly less revenue for the fairs held in 2013 compared to the revenue from both the 2012 and 2014 fairs. Based on the Company's financial records, revenues recognized for the 2013 fairs were \$6,500, which were \$5,675 less than the 2012 fairs' revenues of \$12,175 and \$15,465 less than the 2014 fairs' revenues of \$21,965. Although the Company did not have receipts or other documentation to support fair collections, we reviewed the 2013 fairs'

⁷ According to Company officials, the former coordinators used personal funds to pay for costs associated with managing the fairs.

vendor application forms on which vendors specified which fairs they would be attending and the amount remitted for vendor fees. Additionally, the vendors' check numbers, payment amounts and booth numbers were written on the applications. For 2013, 63 fair applications were submitted with checks totaling \$13,800.⁸ However, the coordinator remitted only \$6,500 to the Company for the 2013 fairs, which was \$7,300 less than the amount recorded on the fair applications. Furthermore, we noted two applications stated that checks for the fair could be made out to the Company or the coordinator personally. Vendors were later⁹ informed by the former President that checks were to be made out to the Company.

The coordinator did not report expenses to the Board or provide an accounting or any other documentation of collections for the 2013 fairs. As a result, the Board was unable to quantify the amount collected by the coordinator. According to Company officers, the 2013 coordinator was directed by the Board to pay herself for her expenses associated with managing the fairs from the collections and remit the remaining collections to the Treasurer. However, because the Board did not enter into an agreement with the coordinator, the amount of expenses to be reimbursed was not stipulated and the coordinator was not required to submit an accounting to the Board. Because the 2013 fair coordinator did not provide the Company with documentation of personal expenses associated with the fairs, the Board was unable to determine if a portion of the \$7,300 revenues not remitted to the Company was used to fund the coordinator's personal expenses for operating the fairs, and this money remains unaccounted for.

At the January 2014 Board meeting, the audit committee suggested to the Board that the Company improve its internal controls over fair collections, due in part to the significant decline in revenues for 2013. Stronger internal controls were established and implemented over the 2014 fairs, including instructing vendors to make checks payable to the Company, requiring the Secretary to receive payments from vendors by mail and making a copy of all the checks before placing them in a lockbox for the coordinator to retrieve. The coordinator is required to then make a copy of all checks and deposit slips before making the deposits and remit the copies to the Company with the validated bank deposit slips. The Board also required the coordinator to prepare and submit an annual report of all vendors and collections. Additionally, at the September 3, 2013 Board meeting, the former President¹⁰ appointed a fair committee for 2014 to increase the Company's oversight of the 2014 fairs.

Due to the weak internal controls over the Company's processes for collecting moneys and the Treasurer's failure to adhere to the Company's bylaws for issuing receipts, depositing collections timely and adequately accounting for collections, numerous discrepancies were identified between collections, deposits, records and other documents related to supporting the collections. Cash has a high inherent risk for theft and other types of irregularities, and the lack of adequate internal controls over the handling of cash collections increases the risk that errors or irregularities with the collections could occur and remain undetected and allowed at least \$7,300 of Company money to be unaccounted for.

⁸ Not all vendors sent full payment with their application. Records were not available to account for additional funds received by the fair coordinator.

⁹ During the August 2013 fair, the former President distributed letters to all vendors informing them that all checks should be made payable to the Company.

¹⁰ The former President held office for a portion of our scope period, from January 2013 through June 2014.

Recommendations

The Treasurer should:

1. Maintain detailed collection records.
2. Issue receipts for all collections, including collection remittances from Company members.
3. Count moneys, with members present, for remittances from the members for Company collections they received, and verify the count to the documentation of collections provided by the members.
4. Ensure all collections are deposited timely and intact, in accordance with the Company's bylaws.
5. Maintain adequate supporting documentation for all deposits, such as validated bank deposit slips.

The Board should:

6. Continue to ensure fair collections are adequately accounted for and the Company receives all the revenues it is entitled to from the vendor fees paid by the vendors.
7. Continue to enter into agreements with the coordinator to ensure that the coordinator submits an accounting of the vendor fees received and the expenses incurred, with supporting documentation, for each fair.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendation 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. The Board should make the CAP available for public review.

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

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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

LAKE GEORGE FIRE DEPARTMENT

P.O. Box 828
Lake George, New York
12845
www.lakegeorgefire.org

November 9, 2015

We would like to thank the State Comptroller's office for coming in and helping us develop our goals both short and long-term strategies to reduce cost, improve service deliveries and protect our assets.

We agree with the background and methodology.

We agree with the audit results and have made the following changes per the recommendations:

1. Maintain detailed collection records.
 - a. Detailed Collections are now verified by a copy of the individual collection noted as to the form of payment and also stamped with a received date.
2. Issue receipts for all collections, including collection remittances from Company members.
 - b. A dated receipt is now issued for all collections remitted by the Company members.
3. Count moneys with members present, for remittances from the members for Company collections they received, and verify the count to the documentation of collections provided by the members.
 - c. The counting of money by Company members is now verified by two members and submitted to the Treasurer for documentation and depositing.
4. Ensure all collections are deposited timely and intact in accordance with the Company's bylaws.
 - d. The Company has implemented a procedure that the deposits are completed in a timely fashion in accordance with the Company bylaws.

5. Maintain adequate supporting documentation for all deposits, such as validated bank deposit slips.
 - e. Procedures have now been put in place that deposits must receive a valid banking deposit slip and have attached supporting documentation.
6. Continue to ensure fair collections are adequately accounted for and the Company receives all the revenues it is entitled to from the vendor fees paid by the vendors.
 - f. The Company has implemented procedures that the Craft Show Coordinator submits all vendor payments to the Treasurer for deposit. The Treasurer in turn gives the Craft Show Coordinator a copy for their record.
7. Continue to enter into agreements with the coordinator to ensure that the coordinator submits an accounting of the vendor fees received and the expenses incurred, with supporting documentation, for each fair.
 - g. A contract has been established between the Company and the Craft Show Coordinator detailing all duties for both parties. Included in this contract the Craft Show Coordinator must submit a year-end report stating the total amount of vendor fees received and expenses for each fair to the Board.

This letter is to serve as our response and our corrective action plan to our audit.

Sincerely,

Robert Hickey, President