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January 9, 2015

Mr. Steve Creller, President
Mr. Chad Gardner, Chief
Members of the Administrative Board and Council
Red Creek Protective Fire Company, Inc.
P.O. Box 359
Red Creek, NY 13143

Report Number: 2014M-271

Dear Mr. Creller, Mr. Gardner and Members of the Administrative Board and Council:

The Office of the State Comptroller (OSC) 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 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 Red Creek Protective Fire Company, Inc. (Company) which addressed the following question:

- Are Company controls adequate to help ensure that financial activity is properly recorded and reported and that Company moneys are 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 indicated that they planned to initiate corrective action.

Background and Methodology

The Company is a volunteer organization located in the Village of Red Creek (Village), Wayne County. The Company is affiliated with the Village and provides fire protection and rescue services for the Village and to residents outside of the Village pursuant to contracts with the Towns of Butler, Victory and Wolcott.¹ The Company reported expenses totaling approximately \$33,500 for the 2013 fiscal year.

¹ The Company received no money directly from the fire protection contracts with the towns - these funds are collected by the Village each year. The Village purchases and maintains fire equipment for the Company.

The Company's primary sources of revenue are from annual fund-raising events such as a Mother's Day barbeque, Father's Day barbeque, clam booth and auction. We estimate that the Company received \$21,400 in 2012 and \$30,700 in 2013 from fund-raising activities.² The Company also receives donations and foreign fire insurance premium tax moneys.³ The Company collected foreign fire insurance premium tax moneys totaling \$7,552 in 2012 and \$6,097 in 2013.

The Company operates in accordance with its bylaws. The Company is governed by a five-member Council, which is responsible for preparing and prescribing bylaws for the proper management of the Company's affairs and disposition of funds, and safeguarding its resources. The Company also has an Administrative Board to preside over the monthly meetings, which includes a President, Vice President, Treasurer, Assistant Treasurer and Secretary.⁴ According to the bylaws, the Treasurer is responsible for the Company's financial duties, which include receiving and maintaining custody of Company funds, disbursing and accounting for those funds, giving a monthly verbal report of financial transactions and account balances at the Company meeting and preparing an annual financial report. In addition, the bylaws require the Treasurer to submit a written financial report of all accounts to the Village Board semi-annually and to meet any other reporting requirements.

We examined the internal controls over the Company's financial operations for the period January 1, 2012 through December 31, 2013. We interviewed appropriate Company officials and reviewed financial records and general 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 Council is responsible for overseeing the Company's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Council establish a system of internal controls, which consists of policies and procedures that ensure that transactions are authorized and properly recorded; financial reports are accurate, reliable and filed in a timely manner and the bylaws and other applicable laws, rules and regulations are complied with. In addition, the Council is responsible for adopting a code of ethics, as required by law.

It is important for the Treasurer to maintain complete, accurate and timely records to account for all of the Company's financial activities and to submit these reports to the Council monthly. A routine review of bank statements and the monthly reconciliations of the bank statements to Company records provide an important control over disbursements.

² Due to poor accounting records, we could not determine the exact amounts received from all fund-raising activities.

³ Insurance companies organized or incorporated outside of New York State that write fire insurance policies on properties located in the State must pay 2 percent of the premium to the State. New York State Insurance Law provides that the treasurer or fiscal officer of the fire departments or fire companies affording fire protection should receive these funds. Foreign fire insurance premiums collected by the Company totaled \$7,552 in 2012 and \$6,097 in 2013.

⁴ The President of the Administrative Board creates a nominating committee, which then selects candidates for administrative officers for the following year. A membership vote is taken in April to determine who will be selected as administrative officers.

Council Oversight – The Council does not provide adequate oversight of the Company’s financial activities. While the Council adopted the Company’s bylaws, which dictate the manner in which operations are to be conducted, these procedures are insufficient. This is especially true given the concentration of financial duties with the Treasurer. The bylaws provide no guidance for addressing cash receipts and disbursements, auditing claims, using debit cards, auditing the Treasurer’s records and conducting fund-raising activities.

The Council also does not regularly review bank statements and canceled checks as a way to mitigate the risk posed by the Treasurer having sole responsibility for financial record-keeping and custody of Company funds.

Additionally, the Council did not ensure that the Secretary included adequate details in the Department’s minutes to identify that Company purchases were properly authorized, or that the Treasurer maintained an accurate account of all finances and submitted financial reports as required by the bylaws. Further, the Council did not adopt a code of ethics, as required by law.

Without sufficient policies and procedures and fulfillment of requirements as laid out by the bylaws, the Council cannot properly monitor financial operations and ensure that Company moneys are safeguarded.

Treasurer – The Treasurer performs all of the Department’s financial activities without sufficient oversight by the Council. We found that the overall state of accounting records was poor. The Treasurer does not maintain a record of daily cash balances in the checking and savings accounts. The Treasurer cannot perform monthly reconciliations without these records. In addition, the Treasurer stated he did not file required reports because he was unaware of the requirements to submit an annual written financial report to the membership and semi-annual written financial reports to the Village, as stated in the bylaws.

Disbursements – The Treasurer informed us that the Council does not review day-to-day bills for such items as utilities, Internet service and small food purchases. However, the Treasurer told us that the Council will review and approve all claims that are nonrecurring or will require significant amounts of Company moneys to be expensed. We found the minutes to be vague regarding the voting procedure for approving disbursements and votes were not well-documented.

We reviewed all 153 check disbursements, totaling approximately \$40,800, made during our audit period to determine if they were adequately documented and for appropriate Company purposes. We found that 50 disbursements totaling \$16,300 did not have adequate supporting documentation to determine what was purchased. The limited documentation that Company officials did maintain indicated these disbursements could have been for Company-related expenditures, such as food or drink purchases, change for fund-raisers and retail purchases. However, the lack of adequate supporting documentation diminishes the transparency of transactions and puts Company resources at risk. In addition, the Treasurer made 11 payments after the due date and incurred finance charges and two overdraft fees, which cost the Company \$109 in unnecessary expenses.

Debit Cards – The use of debit cards has inherent risks because it provides the user with direct access to the Company’s bank accounts, and the unauthorized use of debit cards may not be readily detected. Unlike credit cards, debit cards circumvent the audit of claims because payment is directly withdrawn from the Company’s bank account at the time of purchase, before approval is

authorized. The Treasurer used a Company debit card for purchases such as food items for fund-raisers, small tools and other smaller Company needs. The debit card generally remains in the Treasurer's custody. However, the Treasurer will occasionally give the debit card to another officer and will not always receive supporting documentation, such as a receipt, back with the debit card. The Company did not adopt policies and procedures surrounding the use of the debit card.

We reviewed all 76 debit card transactions, totaling approximately \$13,400, during the audit period to determine if they contained adequate supporting documentation and were for appropriate Company purposes. We found 35 transactions totaling \$7,000 did not contain any supporting documentation, such as an invoice or payment receipt. These purchases were made from retail stores and restaurants. While these purchases could have been valid Company expenditures, without supporting documentation indicating the items purchased and the reason for the purchases, the Company does not have assurances that they were legitimate.

Receipts Journal – An integral component of financial record-keeping is a cash receipts journal to record the daily collection and deposit of fund-raiser and donation moneys. It is important that the person in charge of donations and fund-raising events have controls in place to ensure that all cash collected is accounted for and deposited. This could include selling tickets in consecutive order, documenting the number of tickets sold and amounts collected and reporting to the Board all amounts collected for these activities. Board minutes should document all amounts collected.

The Treasurer does not maintain a cash receipts journal. Additionally, the Treasurer maintained little to no supporting documentation of moneys collected from donations and fund-raisers. For example, the Treasurer did not maintain profit and loss reports for fund-raising activities in 2012. In 2013, the Treasurer implemented profit and loss reporting for fund-raising activities. Further, the Company disposed of customer meal tickets at barbeque fund-raisers that could have been used to support reported revenues. In addition, there was no documentation in the Board minutes regarding amounts collected from donations and fund-raising events. Without supporting documentation, the Company had limited means to determine if all cash collected from donations and fund-raising events was appropriately deposited into the Company's bank accounts.

We reviewed 39 deposits totaling \$68,350 that were made from January 1, 2012 through December 31, 2013. We found that 28 deposits totaling \$33,645 did not have sufficient supporting documentation to reasonably determine the composition of each deposit. Further, of those cash collections with supporting documentation, we could not trace six pieces of supporting documentation totaling \$3,400 to a particular deposit due to the lack of a receipts journal. While we found that larger deposits were made after fund-raisers occurred, because the Treasurer did not maintain documentation regarding amounts collected, we could not determine if all amounts were deposited. Further, it appears that fund-raising receipts were deposited with other receipts, such as donations, but the Treasurer did not maintain documentation to support how much was collected for each activity to determine deposit composition and provide reasonable assurance that all moneys collected were deposited.

We discussed other minor deficiencies with Company officials during the conduct of our fieldwork.

Due to the poor state of accounting records and the Council's lack of oversight of the Treasurer, the Council cannot be sure that all Company disbursements and receipts are authorized and

properly recorded; that financial reports are accurate, reliable and filed in a timely manner or that the Company complies with its bylaws and other applicable laws, rules and regulations.

Recommendations

The Council should:

1. Develop and adopt a code of ethics as required by law.
2. Review the Company's bylaws and amend them to include policies and procedures relating to:
 - Receiving and disbursing cash.
 - Credit cards.
 - An annual audit of the Treasurer's books and records.
 - A monthly review of all unpaid bills by the Council to ensure they are for appropriate Company purposes and supported by adequate documentation.
 - A clear documentation of the Council's approval of the bills in the minutes including the names of the payees and the amounts to be paid.
 - Conducting fund-raising activities.
3. Use credit cards in place of debit cards.
4. Review bank reconciliations.

The Treasurer should:

5. Maintain running cash balances. Furthermore, the Treasurer should perform bank reconciliations, which should be signed and dated, and present these reconciliations and the related bank statements to the Council for review monthly.
6. Prepare and submit monthly written financial reports to the Council.
7. Prepare an annual written financial report to the Council and written, semi-annual financial reports to the Village in accordance with Company bylaws.
8. Maintain a cash receipts journal to record all moneys collected from fund-raisers, donations and foreign fire insurance premiums.
9. Retain supporting documentation for all cash receipts and disbursements.

The Council 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 Council to make this plan available for public review.

We thank Company officials and staff 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.

**RED CREEK PROTECTIVE
FIRE COMPANY INC**

SINCE 1905

PO BOX 359

7026 MAIN STREET

RED CREEK, NY 13143

December 4, 2014

Office of the State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

Re: Red Creek Protective Fire Company Inc

Report No. 2014M-271

Dear Sir:

Please accept this as our response to the preliminary draft findings as of November 21, 2014 meeting with the representatives of State Comptroller Office. We feel the report presents a fair view of the Red Creek Protective Fire Company, Inc. concerning operations as reported.

We appreciate and understand the importance of the findings and the recommendations. We are in the process of implementing the changes that your findings found.

We thank you for the assistance in this project and look forward to working with you to help with the changes.

Sincerely,

Red Creek Protective Fire Co. Inc.

Steve Creller, President