



Wallkill Hook, Ladder and Hose Company

Financial Activities

Report of Examination

Period Covered:

January 1, 2012 — February 28, 2014

2016M-223



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Company Officials and Corrective Action	2
FINANCIAL ACTIVITIES	4
Board Oversight	4
Bingo	5
Fundraising	6
Audit of Claims	7
Bonding of Officials	8
Recommendations	8
APPENDIX A Response From Company Officials	9
APPENDIX B OSC Comment on the Company's Response	13
APPENDIX C Audit Methodology and Standards	14
APPENDIX D How to Obtain Additional Copies of the Report	16
APPENDIX E Local Regional Office Listing	17

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2016

Dear Company Officials:

One important function of the Office of the State Comptroller is to help fire company officials manage company resources efficiently and effectively and, by so doing, provide accountability for money spent to support company operations. The Comptroller oversees the fiscal affairs of fire companies statewide, as well as compliance with relevant statutes and observance of good business practices, through the conduct of audits. Our audits may also identify opportunities for improving operations and fire company governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard fire company assets.

Following is a report of our audit of the Wallkill Hook Ladder and Hose Company, entitled Financial Activities. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for fire company officials to use in effectively managing operations and in meeting the expectations of the public. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Wallkill Hook, Ladder and Hose Company (Company) provides fire protection services for a portion of the Town of Shawangunk in Ulster County. The Company also receives money from fundraising, donations, hall and building rental and bingo. For the 2013 fiscal year, the Company's revenues totaled \$89,745 and expenses totaled \$95,386.

The Company is operated in accordance with its bylaws which stipulate that a Board of Directors (Board) composed of five elected members is responsible for the Company's overall financial management. The Board appoints a Treasurer who acts as the Company's chief fiscal officer. The bylaws state that the Treasurer is responsible for the receipt and custody of Company funds, disbursing and accounting for those funds, preparing financial reports and for meeting any other reporting requirements.

Objective

The objective of our audit was to evaluate the Board's oversight of the Company's financial activities. Our audit addressed the following related question:

- Did the Board implement adequate controls over the Company's financial operations?

Scope and Methodology

We examined the Company's financial activities for the period January 1, 2012 through February 28, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the 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.

Comments of Company Officials and Corrective Action

The results of our audit and recommendations have been discussed with Company officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Company officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the Company's response letter.

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 in the Secretary's office.

Financial Activities

The Board and officers are 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. Controls consist of policies and procedures that help ensure transactions are properly segregated so that no one person controls all aspects of a transaction or that compensating controls are in place, bingo operations are operated in compliance with applicable regulations, Board members can verify amounts received from fundraising and all claims, including reimbursements, are audited prior to payment.

The Board needs to improve controls over the Company's financial activities. The Board has not established policies and procedures for cash receipts, cash disbursements, fundraising or the audit of claims. Bingo operations did not follow applicable regulations. Fundraising reports were not always complete and did not contain sufficient information to verify proceeds.

We found that \$14,787 (54 percent) of bingo deposits were not made timely and 37 canceled checks totaling \$9,016 (23 percent) did not contain the required two signatures. The Company paid hall rental expenses of \$24,900 to itself, which it then deposited into the Company's checking account, and paid the Treasurer six checks totaling \$1,090 as reimbursements for supplies which is not permitted by bingo regulations. We also found disbursements made without supporting documentation identifying the purpose for the payments.

Board Oversight

The Board is responsible for establishing policies and procedures to help ensure that cash is properly safeguarded. Board oversight becomes particularly important in smaller operations because employees are required to perform duties that should optimally be segregated. Duties are not segregated when one person performs several key functions, such as receiving and disbursing cash, maintaining the accounting records and reconciling bank statements. If such a segregation of duties is not practicable, the Board should implement compensating controls, such as an independent review of monthly bank reconciliations.

The Board has not established policies and procedures for the procurement of goods and services, cash receipts, cash disbursements or the audit of claims. While Company bylaws detail the Treasurer's duties and responsibilities, they do not include detailed procedures that segregate day-to-day financial operations. As a result, the Treasurer receives money, prepares and makes deposits, records receipts and

disbursements in the financial software program, handwrites checks and is the signatory on the Company's bank accounts. The Treasurer also prepares bank reconciliations for the Company's checking account. Although the Treasurer provides a monthly report of the bank balances to the general membership, bank reconciliations, bank statements and check images are not reviewed by anyone other than the Treasurer. Further, the Board has not required the Treasurer to submit an annual report or conducted an annual audit of the Treasurer's records as required by the Company's bylaws.

The absence of written policies and procedures and the concentration of key financial duties with one individual, without adequate oversight or compensating controls, increases the risk of errors or irregularities occurring and not being detected. The Board's failure to require and review financial records and reports limits its ability to provide effective oversight of the Company's financial activities.

Bingo

The Company generally holds bingo every week, which is subject to New York State Gaming Commission regulations (Regulations). The Regulations require that two signatures be made on all checks disbursed from the bingo account and that deposits be made intact and no later than the next business day. The commingling of money derived from bingo activities with any other funds of the licensee is strictly prohibited. Further, the Regulations state that at no time shall bingo funds be transferred, in whole or in part, to any other bank account maintained by the licensee and there can be no reimbursement of expenses paid to any person for conducting or assisting in the conduct of bingo. Rather, expenses should be paid directly from the account to the vendor.

The Board has not developed procedures to ensure that Company officials comply with bingo Regulations. We tested bingo revenue deposits and found that 42 of 78 deposits were not made the next business day as required. Of these, 20 deposits were made the second day, while the remaining 22 deposits were made between three and 14 days. We also reviewed the deposit composition to determine if deposits were made intact and found that Company officials accepted or cashed checks 18 times, which is not permitted by the Regulations.

We reviewed 159¹ (100 percent) canceled check images totaling \$30,941 and found that 37 checks totaling \$9,016 did not contain the required two signatures. Further, six checks totaling \$1,090 were made payable to the bookkeeper as reimbursements for supplies, which is also not permitted. Also, \$24,900 in checks written for hall rental expenses were deposited into the Company checking account.

¹ All bingo deposits and checks were tested for the period January 1, 2012 through December 25, 2013.

The Regulations state that rent is only permissible if the premises where the bingo games are conducted are being rented. The Wallkill Fire District (District) owns the building and there is no agreement for rent to be paid to the District. Therefore, the Company is essentially transferring funds from the bingo account, in the form of rent, to the Company account, which constitutes commingling of funds. This occurred because Company officials were not familiar with the Regulations. Subsequent to this audit, Company officials stated that they met with the Gaming Commission and have made changes to comply with the Regulations.

Fundraising

The Company holds various fundraising activities throughout the year, including pancake breakfasts, spaghetti dinners, bingo, a bingo kitchen, an annual auction and Christmas tree sales. Individuals involved in fundraising activities are responsible for accounting for and turning over all money collected to the Treasurer. Good internal controls require that press-numbered duplicate receipts be issued for all cash received to help ensure that cash is properly recorded. Further, formal procedures should be developed to provide accountability over fundraisers that would enable Board members to verify amounts received.

The Board has not established adequate internal controls to ensure all fundraising proceeds are properly accounted for and deposited. After fundraising activities, a general fundraiser report is completed. However, we found that this report was not always completed. Also, the report does not contain sufficient information to verify proceeds and does not account for start-up funds or money turned over to the Treasurer. Additionally, attendance is not tracked for pancake breakfast or spaghetti dinners, the list of items auctioned and the amount received for each item is not retained, reimbursements to members are made from proceeds of fundraisers and the quantity of items sold at the bingo kitchen are not tracked.

Fundraisers start with a certain amount of cash. In certain instances a check is written for the start-up funds and cashed, whereas money for the startup of bingo and the bingo kitchen is kept in a safe at the firehouse. There is no accountability for money kept in the safe. The Treasurer stated that at the end of the night she puts the money back in the bags for the next bingo night. We found that the amount of start-up bingo money had changed several times. In addition, money was retained from proceeds of the bingo kitchen to replenish start-up money. With no accountability for money in the safe, there is an increased risk that funds could be lost or stolen without detection.

Audit of Claims

Conducting a proper audit of claims before the Company pays them is an integral part of any internal control system. The claims audit process should entail a thorough and deliberate examination of all claims to determine whether each claim is a legal obligation and a proper charge against the Company. A claim package should contain enough detail and sufficient information, including an original receipt or invoice for the goods or services purchased to make that determination. Further, there should be evidence in the form of signatures that an audit has been performed.

The Board has not implemented procedures to address the processing and review of claims or outlined the documentation that needs to accompany a purchase. We tested 408² disbursements (100 percent) and found that 70 disbursements (17 percent) totaling \$50,371 had no supporting documentation to identify the purpose for the payments. In addition, for 208 disbursements (51 percent) there was no evidence that the claims were reviewed by the Board.

The Company's bylaws require the Treasurer to obtain a second signature for all checks exceeding \$500. During our review of disbursements, we found 61 disbursements totaling \$106,376 were for checks exceeding \$500 that did not contain a second signature. Three of the 61 checks, totaling \$2,000, were made payable to the Treasurer and were signed only by the Treasurer. These payments were for start-up funds for various fundraisers, and while they did not go through the correct process, Board officials were aware that start-up money was issued for several fundraisers in advance.

Additionally, we found instances where members were reimbursed for various expenses from the proceeds of fundraisers, which is outside the normal claims process. For example, the December 2012 fundraiser report shows \$170 was paid to the bingo committee for their restaurant bill. A handwritten note indicated what the \$170 was used for but no actual receipt was present. Also, in November 2013, a member was reimbursed \$363 for t-shirts from the proceeds of the pancake breakfast.

Although the disbursements tested appeared to be for legitimate Company purposes, there were a significant number of disbursements that did not have documentation to substantiate their legitimacy. Without supporting documentation, particularly for groceries, kitchen items and other items commonly used by individuals for personal purposes, there is an increased risk that purchases may not be for legitimate and appropriate Company purposes.

² All Company deposits from the regular checking account were tested for the period January 1, 2012 through February 28, 2014.

Bonding of Officials

Bonding can help protect the Company from losses resulting from dishonest acts or other unfaithful performance of duties by officials. All Company officials handling cash receipts or responsible for making disbursements should be adequately bonded. The Board should consult with the Company's insurance agent each year to determine the appropriate level of bonding needed to protect the Company against loss. Company officials must ensure that the amount of the bond is sufficient to recover Company funds in the event that an employee does not perform his or her duties faithfully.

Neither the Treasurer nor Board members are bonded. Without adequate bonding, inappropriate transactions could occur and the Company would have no recourse for recouping its loss.

Recommendations

The Board should:

1. Adopt and enforce written policies and procedures that establish a strong system of internal controls over the Company's financial operations. This should include compensating controls over the Treasurer's unsegregated duties, such as regular reviews of financial records and reports, bank statements and reconciliations. In addition, the Board should conduct annual audits of the Treasurer's records.
2. Develop procedures to ensure compliance with Regulations for bingo operations.
3. Establish procedures for each fundraiser which allow the Board to verify the amounts received, such as tracking attendance at breakfasts.
4. Develop fundraiser forms which require duplicate signatures, verifying start-up money and verifying all money received.
5. Implement procedures to address the review of claims. Establish the documentation that needs to accompany a purchase to ensure that all disbursements are supported with documentation and approved before payments are made.
6. Develop procedures to ensure that all reimbursement money is properly receipted and paid through the normal claims process.
7. Adequately bond the Treasurer and all other officials who handle cash.

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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



Wallkill Hook, Ladder and Hose Company

18 Central Avenue • P.O. Box 460
Wallkill, New York 12589
(845) 895-9708
www.wWallkillFD.org



September 1, 2016

Ms. Tenneh Blamah
Office of the State Comptroller – Newburgh Regional Office
33 Airport Center Drive Ste. 103
New Windsor, NY 12553

Dear Ms. Blamah,

The Board of Directors of the Wallkill Hook, Ladder and Hose Co. would like to thank the Office of the State Comptroller for your thorough review of our financial activities. In general, the Board agrees with the findings and the recommendations listed on pages 9 and 10. This letter will serve as both our response to the draft report and our Corrective Action Plan (CAP).

The Board feels it should be noted that most of the oversight issues listed are due to not retaining certain documents or improving on processes already in place. We feel this report fails to list what is done correctly, giving only a partial picture of the overall operation.

See
Note 1
Page 13

We feel it is also worth noting, although there are improvements needed, we are pleased with the actions and professionalism the members of the Wallkill Hook, Ladder and Hose Co. maintain. In addition to the Life Safety roles of firefighter, the members of the Fire Company engage in more social events in our community than any other Fire Company in Ulster County. Dedicated men and women that volunteer hundreds of hours for their community.

- Protecting Life and Property Since 1902 -



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The following will act as the CAP for the recommendations listed on the Report of Examination. The Board, Treasurer and President will continually monitor, and alter if necessary, to ensure future oversight of financial/operations to safeguarding our resources.

1. The Board will review at the monthly meeting all disbursements, current budget progress and account balances. The Board will audit all claims and bank statements and sign each document. Beginning in 2017, the Board will perform an audit of the Treasurers records at the beginning of each year. This audit will take place prior to the February meeting, and a report will be made to the Membership and be reflected in the minutes of the Fire Company.
2. As stated in the Report Document, Company officials met with the Gaming Commission and made changes to comply with the Regulations. The Board will audit Bingo banking statements to ensure timely deposits are made. Should there be a future change of the Bingo Chairperson, the Board will direct the President to have that individual attend the training seminar offered by the Gaming Commission.
3. Tracking of Fundraisers will be accomplished by the following methods, starting 9/1/2016:
 - a. Monthly Breakfast – the cash register “Z” Report will be printed and attached to the fundraiser report. This report lists total quantity of transactions and dollar amount.
 - b. Bingo Kitchen – Order slips will be retained and attached to the fundraiser report.
 - c. Annual auction – sales sheets that list names and items bought, will be retained and attached to the fundraiser report
4. Fundraiser forms have been revised to include more detail on finances, dual signature requirements, Board approval and an area to provide comments/notes.
5. The Treasurer will not present any bills to the Board, for approval, unless all supporting documentation is present. If there is any question about a specific disbursement, it will be held for payment until the Board is satisfied to it's validity.

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6. The Treasurer will begin using press-numbered duplicate receipts for all cash received, to ensure that all cash is properly recorded.
7. The President is currently working with BDDA Insurance, to have Crime Coverage for all Fire Company Officers be added to the Fire District Policy.

Sincerely,

Scott Annacone

Chairman

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APPENDIX B

OSC COMMENT ON THE COMPANY'S RESPONSE

Note 1

The audit noted that 17 percent of disbursements had no supporting documentation, and we found no evidence that the issue stemmed from lack of retention of the supporting documentation. The objective of the audit was to evaluate the Board's oversight of the Company's financial activities, not the overall Company operations.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to examine the internal controls over cash receipts and disbursements for the period January 1, 2012 through February 28, 2014. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed key members to gain an understanding of the Company's policies, procedures and processes. Further, we interviewed various members to obtain explanations or clarifications of issues identified.
- We reviewed the Company's bylaws and documented the roles and responsibilities of the various officers regarding fiscal responsibilities such as financial oversight, cash receipts and disbursements.
- We reviewed Board minutes for information related to policies and procedures, to identify revenues, and for information on purchases and related disbursements, personnel changes and fundraising activities.
- We reviewed the Company's standard operating procedures.
- We compared bank records for the audit period to the records to determine if the records were complete and accurate. Further, we verified that accounts closed during the audit period were closed and that the money was deposited in remaining Company accounts.
- We reviewed bank accounts for transfers in and out during the audit period to determine if all transfers were to valid accounts.
- We reviewed supporting documentation for disbursements made to determine whether the purchases were made for valid Company purposes, included signatures by Board members and were in compliance with Company bylaws.
- Through review of Board minutes, online calendars, Treasurer's reports and fundraiser reports provided by the Company, we compared amounts stated to amounts deposited and noted any discrepancies between the various sources.
- For all money received, we documented the composition of deposits and verified that all donations per the minutes and Treasurer's reports were deposited. Also, we analyzed revenue for recurring sources.
- We recalculated bingo sales based upon information provided and compared them to the official filings made to the Town and to the deposits.
- We sorted the bingo disbursements by vendor and evaluated whether expenditures were permissible or appropriate.

We conducted this performance audit in accordance with GAGAS. 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.

APPENDIX D

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