



# East Kingston Volunteer Fire Company Financial Activities

## Report of Examination

Period Covered:

January 1, 2013 – March 31, 2015

2017M-191



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

December 2017

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 East Kingston Volunteer Fire 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 East Kingston Volunteer Fire Company (Company) provides fire protection services for the Town of Ulster (Town) located in Ulster County. The Company also receives money from fundraising, foreign fire insurance funds,<sup>1</sup> donations, hall and building rental and other activities. For 2014, Company revenues totaled about \$214,000 and expenses totaled about \$163,000.

The Company operates 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 and Company officers include a Treasurer who acts as the chief fiscal officer. The Treasurer is responsible for receiving and maintaining custody of funds, disbursing and accounting for those funds, and preparing financial reports.

## Objective

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

- Did the Board establish adequate internal controls over financial activities to properly account for and safeguard Company funds?

## Scope and Methodology

We examined the Company's financial activities for the period January 1, 2013 through March 31, 2015.

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 relevant population size 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

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<sup>1</sup> Foreign fire insurance funds represent a tax on the premium paid on insurance policies as provided for 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.

as specified in Appendix A, Company officials agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on the issues 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 is responsible for establishing internal controls consisting of policies and procedures to help ensure that cash is properly safeguarded, transactions are authorized and properly recorded and financial reports are accurate and reliable. Such controls help ensure that duties are adequately segregated so one individual does not control all aspects of a transaction and budgets are properly developed. When it is not practical to segregate duties, because of limited staff resources, compensating controls such as additional oversight should be provided to reduce the risk of errors and/or irregularities occurring without being detected.

The Board needs to improve its controls over financial activities to properly account for and safeguard Company funds. The Board did not provide adequate oversight of Company financial affairs and the Treasurer did not provide the Board complete and accurate accounting reports. While the Board reviewed the Treasurer's reports, which listed the bills for review, when auditing claims it did not review the supporting documentation. As a result, the Board did not properly approve 572 disbursements totaling approximately \$283,400. These disbursements were not shown on the Treasurer's reports and included three checks totaling \$5,000 that were payable to or endorsed and cashed by the Treasurer.

We found that 155 claims totaling \$12,890 were not supported by invoices or receipts to enable Company officials to identify the purpose for these payments. In addition, deposits for fundraisers totaled \$45,096, but only \$3,411 was documented in the Board minutes as being received. Although more was deposited than appeared in the minutes, because the Treasurer did not prepare fundraising reports, Company officials are unable to determine whether all funds received were deposited.

Finally, the Company's adopted budgets exceeded actual expenses by \$36,860 in 2013 and \$51,306 in 2014. These overestimated costs were passed directly to residents through the Town's budget.<sup>2</sup>

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<sup>2</sup> The Board adopted budget included over estimation of known expenditures such as insurance, audit fees, and communications. Because the Town levies property taxes to pay for the entire amount of the Company's budget, any over estimation of expenditures results in Town residents paying more real property taxes than necessary to fund fire protection services.

## **Board Oversight**

Board oversight becomes particularly important in smaller operations, which may not have adequate controls because employees are required to perform incompatible duties that should optimally be segregated (i.e., receiving and disbursing cash, maintaining the accounting records and reconciling bank statements). If segregating duties is not practicable, the Board should implement compensating controls, such as providing additional oversight or performing an independent review of monthly bank reconciliations. The Board should also require the Treasurer to provide complete monthly financial reports that include all receipts, disbursements and cash balances.

The Board did not establish policies and procedures for cash receipts, cash disbursements, purchasing goods and services or auditing claims. The Treasurer received money, prepared and made deposits, recorded receipts and disbursements in the financial software program, prepared handwritten checks and was the signatory on the Company's bank accounts. She also prepared monthly bank reconciliations for the Company's two checking accounts. Although the Treasurer provided a monthly report of cash receipts and disbursements to the general membership, Company officials did not review the bank reconciliations, bank statements and canceled check images. Further, the Board did not require the Treasurer to submit an annual report or annually audit the Treasurer's records as required by the Company bylaws.

The absence of written policies and procedures and the concentration of incompatible financial duties with the Treasurer, without adequate oversight or other compensating controls, results in an increased risk that errors or irregularities could occur and not be detected. Because the Board did not require accurate financial records and reports, its ability to provide effective oversight of the Company's financial activities is limited.

## **Records and Reports**

Company bylaws require the Treasurer to maintain a current and accurate accounting of all financial transactions and prepare and present a written report to the Company at each regularly scheduled meeting.

The Treasurer used the financial accounting software to record all checks written and all money deposited. However, the report she provided monthly to the Board was handwritten instead of one generated from the accounting system. We compared the transactions on the handwritten reports to the transactions entered in the accounting system and found that 572 disbursements totaling \$283,401 were not included on the handwritten reports presented to the Board for approval. As a result of these incomplete financial reports, the Board,

Company officers and members cannot be assured that Company funds are properly safeguarded.

## **Audit of Claims**

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 indicating that an audit of the claim was performed.

While not specifically addressed in the Company's bylaws, Company officials should review and approve bills before payment to ensure that funds are used for legitimate expenditures. Additionally, officials should document approval in the meeting minutes. This review and approval provides assurance that the Company pays for good or services that are supported by adequate documentation (e.g., itemized receipts or invoices) and the purchase are made for appropriate purposes.

The Board did not implement procedures to address processing and reviewing claims or the documentation that should accompany purchases. We tested all 702 claims with disbursements totaling \$657,469 for the audit period and found that 155 totaling \$12,890 were not supported by invoices or receipts to identify the purpose for these payments. In addition, we identified the following significant concerns:

- The cancelled check for one claim totaling \$3,200 was payable to a gas station but endorsed<sup>3</sup> by the Treasurer.
- The cancelled checks for two claims totaling \$1,800 (one for \$1,300 and the other for \$500) were payable to cash and endorsed by the Treasurer.

The Treasurer told us that the \$3,200 check was cashed to provide money to the members attending training. The accounting records indicated that the \$1,300 check was for raffle expense, and deposits totaling \$1,740 were the return of a portion of these amounts. However, the remaining \$3,260 was unaccounted for with no supporting documentation. In addition, there was no evidence that the Board audited the previously discussed 572 disbursements totaling \$283,401, which were not included in the Treasurer's reports.

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<sup>3</sup> Signed on the back to make it payable to the Treasurer.



When claims are not thoroughly audited and paid without adequate supporting documentation, there is an increased risk that unauthorized claims could be paid and remain undetected. Further, without adequate 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.

## **Fundraising**

The Company holds various fundraising activities throughout the year, including breakfasts, spaghetti dinners, brunches and an annual car show. 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 to enable Board members to verify amounts received.

The Board did not establish adequate internal controls to ensure all fundraising proceeds are properly accounted for and deposited. After fundraising activities, a general fundraiser report should be completed, which details the money spent to hold the fundraiser and the amounts collected. Company officials did not track amounts spent for specific fundraisers or document the amounts received. The President told us that because fundraisers, such as dinners and brunches, are held to allow the Company to give back to the community, there is no charge to attend these functions, although donations are accepted.

Based on our review of Company records it appeared that several fundraisers were held. However, Company officials could not determine whether all fundraising proceeds were properly deposited, because the Treasurer and other members who collected money did not document the funds received at these various fundraisers.

We compared the amount of fundraising receipts recorded by the Secretary in the Board minutes with the deposits made and found that deposits totaled \$45,096, while the Board minutes documented only \$3,411 in receipts. Although more money was deposited than indicated in the minutes, Company officials were unable to determine whether additional funds were received and not deposited. A lack of records indicating the amounts collected for each fundraiser increases the risk that Company funds could be misappropriated.

## **Budgeting**

The Company budget identifies the cost of services to be provided to residents in the coming year, the sources of financing for those services and how these two components are balanced. It is important that the Board adopt budgets based on actual financial results from

prior years along with other relevant available data. The budget for 2013 was \$210,176 and the budget for 2014 was \$214,401.

The Board and Company officials prepare a budget that is presented to the Town's governing board and acts as the request for the amount needed to fund fire protection services for the year. The Company's approved budgets overestimated expenses each year. For example the 2013 budget exceeded actual expenses by \$36,860 or 18 percent and the 2014 budget exceeded actual expenses by \$51,306 or 24 percent. Because the Company contracts with the Town to provide fire protection services, any overestimated amounts result in a direct pass through of these costs to Town residents.

## **Recommendations**

The Board should:

1. Adopt and enforce written policies and procedures that establish strong internal controls over the Company's financial operations, which include regular reviews of financial records, reports and reconciliations.
2. Annually audit the Treasurer's records.
3. Implement procedures to address the review of claims and specify the documentation required to accompany claims to ensure that all disbursements are adequately supported before payments are approved.
4. Establish controls to ensure all fundraising money collected is properly recorded and deposited.
5. Use information on actual expenditures and past trends to prepare more accurate budgets.

The Treasurer should:

6. Issue duplicate press-numbered receipts and maintain a cash receipt journal documenting the purpose of the cash receipts. The Treasurer should also provide the Board and Company members with a list of disbursements to be authorized for the current disbursement cycle, and monthly and annual financial reports.

The Secretary should:

7. Document all Company receipts in the Board minutes.

## **APPENDIX A**

### **RESPONSE FROM COMPANY OFFICIALS**

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



# East Kingston Vol. Fire Co., Inc.

PO Box 568  
Lake Katrine, NY 12449  
eastkingstonnyfireco@gmail.com



Frank D. Rittie Sr. – President (845) 706-5605

## Written Response to the Draft Audit Report

In no particular order, the following items address various areas of the DRAFT REPORT OF EXAMINATION.

(page 4) There appears to be a tone to the document that assumes that the Board of Directors approves expenses and the payment of claims. The approval of expenses and payment of claims is part of the agenda at all company meetings. The Board of Directors reviews expenses and recommends the payment or non-payment of bills. Five or more active members constitutes a quorum for the conducting of business at any regular or special meeting. Action of the Board of Directors may be taken with the consent of three or more of its voting members. (see pages 6&7 of BY-LAWS).

See  
Note 1  
Page 12

(page 4) The Treasurer is not an appointed position. Treasurer is one of 5 Company Officers elected to one year terms. The elected offices are President, Vice President, Secretary, Treasurer and Assistant Treasurer. (see page 8 of BY-LAWS).

See  
Note 2  
Page 12

(page 8) There is no “annual auction” associated with the car show or at any other time during the year.

See  
Note 2  
Page 12

(page 9) The annual budget is prepared by analyzing the profit/loss statements for the previous full year that are generated by the company’s financial software program as well as considering current costs for large expense items such as insurance and turn out gear. One of the line items in this proposed budget is \$45,000 for capital reserve. Because we don’t have bonding authority, we save this money and any other surplus for major expenses. For instance, we will accept delivery of a new fire engine in December 2017 which will be paid for with the accumulated reserve funds for the past several years. This eliminates expensive borrowing to pay for large expenses. This apparatus will cost \$495,000.00. We are also ordering a new chief’s car/command unit which will cost \$60,000. In addition to reserve funds, we will be borrowing \$100,000 to pay for the engine and chief’s vehicle and to maintain a sufficient balance to conduct our business for one year. We find this necessary because we have been operating without a contract for several years and are never sure when we will receive payment from the Town.

See  
Note 3  
Page 12

The East Kingston Vol. Fire Co. appreciates the opportunity to improve the management of fire company resources and to improve accountability of money received and spent in the day to day operation of the company.

The financial records are now being audited and reviewed annually by a CPA who also prepares our 990s and bank statements are periodically reconciled by a local full service accounting firm.

Please mention that there was no discovery of fraud or misappropriation of funds.

See  
Note 4  
Page 12

As President of the Fire Company, I will initiate actions to develop written policies and procedures to establish strong, permanent internal controls over the Company's financial operations and which will address the review of claims (previously referred to as "bills") and the proper procedures for payment of claims. I will promote the establishment of controls for recording fund raising money.

Also I will encourage actions to redefine (by laws) duties of the Board of Directors to include a clearer definition of their oversight responsibilities, with the BOD, perhaps, approving all financial actions rather than just recommending payment of bills after review.

Also I will encourage actions to redefine (by laws) duties of the Treasurer to include specific methods for collecting and disbursing money.

Also I will encourage actions to redefine (by laws) duties of the Secretary to include proper documentation of all disbursements and receipts.

I have begun the Corrective Action Plan which will be reviewed by the Board of Directors and will forward it when completed.

Thank you for the opportunity to improve our operation,

Frank D. Rittie Sr., President

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## APPENDIX B

### OSC COMMENTS ON THE COMPANY'S RESPONSE

#### Note 1

The Company bylaws state that the Board is responsible for verifying expenses. Further, the Board is responsible for financial oversight.

#### Note 2

We revised our report to clarify this issue.

#### Note 3

As stated in our report, appropriations were overestimated in 2013 and 2014 and exceeded actual expenditures for both years.

#### Note 4

The Board did not provide adequate oversight of Company financial affairs and the Treasurer did not provide the Board complete and accurate accounting reports. As a result, the Board did not properly approve 572 disbursements totaling approximately \$283,400 that were not shown on the Treasurer's reports and included three disbursements totaling \$5,000 that were payable to or endorsed and cashed by the Treasurer.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Company members to gain an understanding of the Company policies, procedures and processes.
- We reviewed the Company bylaws and documented the roles and responsibilities of various officers' fiscal responsibilities including financial oversight, cash receipts and disbursements.
- We reviewed Board minutes for information related to policies and procedures, to identify revenues, purchases and related disbursements, personnel changes and fundraising activities.
- We reviewed supporting documentation for all disbursements made during the audit period to determine whether purchases were made for valid purposes, included Board signature authorizations and complied with the bylaws.
- We documented the composition of deposits and verified whether all donations identified in the minutes and Treasurer's reports were deposited. Also, we analyzed revenues to determine whether they were from recurring sources.
- We compared bank records for the audit period to the accounting records to determine whether the accounting records were complete and accurate.

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.

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