

Hancock Fire Department

Financial Operations

MAY 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Financial Operations. 2**
 - How Should Officials Ensure Collections Are Deposited and Disbursements Are Proper? 2
 - Cash Receipts and Disbursements Procedures Need to Be Improved 2
 - What Do We Recommend? 5

- Appendix A – Response From Department Officials 6**

- Appendix B – Audit Methodology and Standards 7**

- Appendix C – Resources and Services. 8**

Report Highlights

Hancock Fire Department

Audit Objective

Determine whether officials ensured collections were deposited and disbursements were proper.

Key Findings

- The Board President (President) did not publicly disclose, in writing, his deemed interest in the oral agreement between his business and the Department. It appears that the President's business owed the Department at least \$3,500.
- Department officials did not ensure collections totaling \$75,200 from fundraising activities were adequately supported.
- The Treasurer did not keep adequate documentation for 55 disbursements totaling \$38,500.

Key Recommendations

- The President should disclose, in writing, his deemed interest in the oral agreement between his business and the Department.
- Periodically perform reviews to determine whether delinquent rental payments are owed to the Department, and, if appropriate, consult with legal counsel as to whether any actions should be taken to collect on possible delinquent payments.
- The Board should require more support for collections, such as tickets or receipts.
- The finance committee should audit the Treasurer's records. This could include reviewing deposits or scanning check images and invoices.

Department officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Hancock Fire Department (Department) is located in the Village of Hancock in Delaware County. The Department provides fire protection and other emergency services to the Hancock Fire District residents and two townships in Pennsylvania.

The Department is governed by its adopted bylaws, with the following elected administrative officers (officials): President, Vice President, Treasurer and Secretary. The Treasurer is responsible for safeguarding all Department funds. The finance committee is composed of two members of the Department and is responsible for auditing the Treasurer's records. The Secretary is responsible for keeping the minutes.

Quick Facts

Members	50
2017 Deposits	\$112,700
2017 Disbursements	\$166,400

Audit Period

January 1, 2017 – May 31, 2018. We extended our scope back to June 2012 and forward to August 31, 2018 to analyze rental payments from the President's business.

Financial Operations

How Should Officials Ensure Collections Are Deposited and Disbursements Are Proper?

Officials are responsible for overseeing fiscal activities and establishing a system of internal controls to safeguard resources. The Treasurer is responsible for collections and making deposits, which includes maintaining a record of payments received from third-party sources. General Municipal Law (GML)¹ provides, in part, for public disclosure by any elected and/or appointed officer of a volunteer fire company responsible for governance who has, will have or later acquires an “interest”² in any actual or proposed contract or other agreement, including oral agreements, with the fire company of which he or she is a member. The public disclosure is to be made in writing and be made part of the official record of the proceedings of the governing board. As a best business practice, we also suggest that agreements between the parties be put in writing to help facilitate, if necessary, enforcement of the agreement and to provide additional transparency of the agreement.

Although the bylaws do not outline record-keeping requirements for fundraising activities, officials should keep adequate documentation on file to support cash collections. For example, good business practice would suggest the issuance of tickets or duplicate press-numbered receipts for all money received to ensure it is properly collected and deposited. In addition, at least two people should be present to count the money and certify the amounts remitted to the Treasurer for deposit.

The Treasurer is also responsible keeping documentation for all disbursements supporting their legitimacy and Board approval. The Department’s bylaws require the Board to review the bills at each regular meeting. In order to maintain proper documentation of the Board’s approval, the Treasurer should, for example, submit a signed report of bills to be paid to the Board monthly and the minutes should indicate the total amount of bills the Board approved. In addition, the bylaws require the finance committee to audit the Treasurer’s records at least quarterly; this audit should include reviewing deposit slips to ensure funds are deposited, and reviewing bank statements, check images and bills to ensure checks are properly written.

Cash Receipts and Disbursements Procedures Need to Be Improved

Department revenues include payments made by the President’s business³ for the rental of a Department-owned building, an organization that collects donated

1 GML Section 209-ee[2]

2 GML Section 209-ee provides that an elected or appointed officer is deemed to have an interest in the contracts of, amongst others, a firm, partnership or association of which such individual is a member or employee (see GML Section 209-ee[3][b]).

3 The President owns an auto mechanic and wrecker business.

clothing on the Department’s premises and a local ambulance corporation for the repayment of a loan. The Department also holds various fundraising activities throughout the year including barbecues, golf tournaments, bowling tournaments and annual field days. We reviewed money received from the President’s organization, clothing organization, ambulance corporation and fundraising activities totaling \$117,390.

Rental Payments — We reviewed the accumulated payments made from the President’s business to the Department for our original audit scope period. Although there was no written rental contract or agreement between the President’s business and the Department, we were told by the President and several Board members that it was their understanding that the President’s business would pay a monthly rent amount of \$500.⁴ When we asked about the arrangement, the President told us that he may have disclosed his interest in the oral agreement 20 years ago. We found that the President’s business, at times, combined multiple months’ payments into one payment, but, based on the apparent oral agreement, did not always pay the Department the full amount owed. We expanded our audit period as far back as we could obtain bank records (June 2012) and forward through August 2018. Based on the oral agreement, it appears that the President’s business owed the Department at least \$3,500 during this audit period. We verified that as of December 2018, after our fieldwork was complete, the President’s business paid all past due rent amounts and the remaining rent amounts owed for 2018. Furthermore, Department officials located the original lease between the Department and the President’s business, and have updated the terms and executed a new lease.

Figure 1: Rent Payments

Year	Amount Owed by the Business	Amount Paid	Difference
June ^a – December 2012	\$3,150	\$3,150	\$0
2013	\$5,400	\$5,400	\$0
2014	\$6,000	\$5,500	\$500
2015	\$6,000	\$5,500	\$500
2016	\$6,000	\$5,500	\$500
2017	\$6,000	\$5,000	\$1,000
January – August 2018	\$4,000	\$3,000	\$1,000
Total	\$36,550	\$33,050	\$3,500

a The bank could only provide deposit compositions back to June 2012.

⁴ The President and several Board members told us that, although there is no written agreement, the agreed amount of rental payments starting in 2014 was \$500 per month. The President told us that prior to 2014, the agreed amount of rental payments was \$450 per month.

We found no indication that the President disclosed, in writing, his deemed interest in the oral agreement to the Board. When Department officials contract or have an agreement with the Department on behalf of their private business without public disclosure, it could create the appearance of impropriety, especially if the agreed upon payments are delinquent.

Clothing and Ambulance — We attempted to verify that receipts from the clothing organization and the ambulance corporation were deposited. However, the Treasurer did not maintain a record for payments from these organizations and no receipts were issued. Therefore, we obtained payment histories from the two organizations and verified that all payments made to the Department from these organizations totaling \$9,140 were deposited.

Fundraising — Although \$75,200 was deposited for the 12 fundraising activities we reviewed, none of the fundraising activities were adequately supported by tickets or any other form of receipt to allow us to determine how much money should have been collected. The golf tournament, bowling tournament and annual field days fundraising collections were supported by reports detailing the various sales at the events. Other event collections, such as for barbeques and raffles, were generally supported by an envelope with the amount of cash collected written on it; however, one raffle did not have any support. Officials informed us that two members counted cash collected at events, but they did not record and certify the amounts submitted to the Treasurer for deposit.

These deficiencies occurred because the Department's bylaws do not address proper cash handling procedures for fundraising activities. Although we verified that cash recorded as collected at these events was deposited, we could not verify that the amounts recorded as collected at these events were accurate. Therefore, we could not determine if more money was collected and not deposited.

Disbursements — The Treasurer submits a report of bills to be paid to the Board monthly, but this report is not signed and the minutes do not indicate the total amount of bills that the Board approved. We tested all 196 disbursements totaling \$193,000 to determine whether they were for legitimate purposes. While the majority of the disbursements were adequately supported and for proper purposes, the Treasurer did not keep documentation such as invoices for 55 disbursements totaling \$38,500 supporting their legitimacy and Board approval. However, based on our review of canceled check images, vendor and purchase descriptions and discussions with Department officials, these purchases appeared to be for appropriate Department purposes.

These deficiencies occurred, in part, because the finance committee did not review adequate documentation during its annual audit. For example, the finance committee members review the Department checkbook to ensure disbursements are appropriate and the checkbook balance is reasonable when compared to the bank statement balance. However, they do not review deposits for completeness or scan check images and invoices to ensure vendors and amounts recorded in

the checkbook are accurate and supported. When established internal control procedures are not followed or if adequate control procedures are not in place, there is a greater risk that errors and irregularities could go undetected and uncorrected.

What Do We Recommend?

The President should:

1. Publicly disclose, in writing, his deemed interest in the oral agreement between his business and the Department.

The Treasurer should:

2. Maintain a record of rental payments from the President's business and other third-party sources.
3. Keep documentation for disbursements supporting their legitimacy and Board approval.

The Board should:

4. Continue to ensure there is a formalized agreement with the President's business for rental payments.
5. Periodically perform reviews to determine whether delinquent rental payments are owed to the Department, and, if appropriate, consult with legal counsel as to whether any actions should be taken to collect on possible delinquent payments.
6. Establish procedures to require more support for collections, such as tickets or duplicate press-numbered receipts.
7. Ensure established procedures are followed including the audit of the Treasurer's records.

The finance committee should:

8. Audit the Treasurer's records quarterly. This could include reviewing deposits for completeness or scanning check images and invoices to ensure disbursements are properly supported.

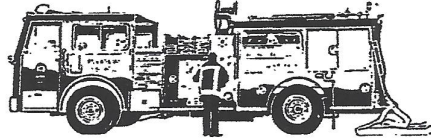
The Membership should:

9. Issue tickets or duplicate press-numbered receipts for fundraising events where it is practical to do so.
10. Ensure two members always count the money received at fundraising events and record and certify the amounts submitted to the Treasurer for deposit.

Appendix A: Response From Department Officials

HANCOCK FIRE DEPARTMENT

P.O. Box 883



Hancock, NY 13783

April 26, 2019

[REDACTED]
Office of the State Comptroller
44 Hawley Street
Binghamton, NY 13901

Re Hancock Fire Department Inc.

Dear [REDACTED]:

We have received the draft of your report from the audit you did on our organization. Your organization has identified the following areas that need improvement; tracking of rental payments approving the lease agreement with Don Oralls Garage annually, formalizing a loan with the Town of Hancock Ambulance, improve record keeping of fundraising events, approving payment of bills at meetings and form an audit committee.

We will be working to submit a formal Corrective Action Plan to you in the near future. As we discussed during our exit conference, we have taken a proactive response. And the majority of the items you have identified we have rectified. We will identify all of these items in the CAP.

Sincerely,

Gregory Gill
Vice President

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed officials and reviewed bylaws, Board minutes and other supporting documentation to obtain an understanding of the Department's financial operations.
- We interviewed the President to determine his financial interest in the business that rents a building from the Department and if this interest was ever disclosed to the Board.
- We traced known revenues from third-party sources totaling \$42,190 to bank statements to determine whether those funds were deposited.
- We traced revenues from available source documents for all fundraisers totaling \$75,200 to bank statements to determine if those funds were deposited. We also assessed the adequacy of the source documents.
- We reviewed the Treasurer's monthly reports and the Board's meeting minutes to assess their adequacy as records for disbursements.
- We traced all disbursements totaling \$193,000 from canceled check images to supporting documentation and discussed disbursements with Department officials to determine whether the disbursements were for appropriate Department purposes.

We conducted this performance audit in accordance with GAGAS (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.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

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www.osc.state.ny.us/localgov/index.htm

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