

Hartsdale Volunteer Fire Company

Board Oversight

FEBRUARY 2018



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

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Report Highlights

Hartsdale Volunteer Fire Company

Audit Objective

Assess whether the Board provided adequate oversight of Company financial activities to ensure resources are properly safeguarded.

Key Findings

- The Board did not provide oversight or ensure the Treasurer's duties were adequately segregated or monitored.
- The Treasurer did not maintain accurate accounting records or prepare and provide the Board with monthly financial reports.
- Thirteen percent of Foreign Fire Insurance (FFI) and 60 percent of Company Fund (CF) expenditures were unsupported.

Key Recommendations

- The Board should improve oversight of financial activities.
- The Treasurer should maintain accurate accounting records and provide reports to the Board.
- Implement procedures to ensure that all claims are properly supported, reviewed and approved before they are paid.

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

Background

The Hartsdale Fire Company (Company) is an organization located in the Town of Greenburgh and was established in 1904. The Company provides fire protection for a four and half square mile area.

The Company is operated in accordance with its bylaws. The Board of Trustees (Board), is composed of three members and administers the Company's financial affairs. Elected officers include the President, Vice President, Secretary and Treasurer. The Treasurer acts as the Company's chief fiscal officer and is responsible for the receipt and custody of Company funds, disbursing and accounting for those funds and preparing financial reports for the Board.

Quick Facts

2015 Fundraising Revenues	\$14,566
2015-2017 Foreign Fire Insurance Revenue	\$52,550

Audit Period

January 1, 2015 – July 10, 2017

Board Oversight

How Can the Board Provide Adequate Oversight?

The Board is responsible for overseeing the Company's fiscal activities and safeguarding its resources. 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 increased oversight and an annual audit of records and reports.

The Company's bylaws provide for the Treasurer to maintain complete and accurate records to properly account for the Company's financial activities. The bylaws also provide for the Treasurer to submit a written report at each regular meeting on the condition of funds, specifying the amounts received and expended. The Treasurer is also responsible for filing the annual report of foreign fire insurance (FFI) tax revenue with the Office of the State Comptroller (OSC).¹ It is the duty of the Secretary to accurately record and file minutes of every meeting. Additionally, the bylaws state that the Board should oversee the disbursement of Company funds.

Duties Are Not Segregated

The Treasurer's duties related to cash receipts and disbursements were not adequately segregated, which resulted in the Treasurer performing incompatible duties such as collecting cash, recording receipts, writing checks and preparing bank deposits. The Board did not implement compensating controls such as having someone other than the Treasurer perform bank reconciliations, or reviewing claims prior to payment. Because duties are not segregated and there are no compensating controls, there is an increased risk that Company funds could be lost, or misappropriated without detection.

Records and Reports Are Not Accurate

The Treasurer did not maintain accurate accounting records or prepare and provide the Board with financial reports. While the Treasurer verbally reports the bank balances at the meetings, he does not prepare and present monthly financial reports to the Board and members for the cash received or the disbursements made for the prior month or a list of disbursements to be authorized for the current disbursement cycle.

¹ General Municipal Law (GML) provides that the Treasurer, or if there is none, the chief fiscal officer of such entity, who receives and disburses FFI tax money, to file with OSC an annual report of the receipts, expenditures and balances related to such money (see, GML § 30-a).

We reviewed bank statements and transaction registers for the audit period and found that:

- Several fundraising donations, which make up 13 separate deposits totaling \$5,819 were deposited in the bank, but not recorded in the Company's transaction register. Fundraising donations were received in amounts of \$5 to \$300. The Treasurer deposited the donations from fundraising activity, but failed to record the transactions.
- The transaction register balance went from \$8,056 to \$12,263, an increase of \$4,206. This occurred when the Treasurer tried to reconcile the records to the bank statements and found that they did not agree. He adjusted the records to reflect the bank balance without identifying the specific transactions not captured in the register, leaving the register incomplete of all transactions.
- There was a \$601 discrepancy between the fundraising envelopes and bank statements. The Treasurer maintained the envelopes which contains the amount donated written on the envelopes. Fundraising revenue of \$14,566 were deposited in the bank, however, fundraising envelopes only totaled \$13,965. Four of the 396 envelopes did not contain an amount received. As a result, Company officials have no assurance that all money received was deposited.

We examined all fire company expenditures and identified expenditures of FFI tax money, which must be reported on the annual FFI filing. As shown in Figure 1, the Treasurer did not report a total of \$3,645 in FFI tax expenditures when he filed the annual reports for 2015 and 2016.

Figure 1: Foreign Fire Insurance Filings

	2015	2016	Total
Actual Expenditures	\$10,861	\$12,713	\$23,574
Amount per FFI Filing	\$8,123	\$11,806	\$19,929
Amount Not Included on Filing	\$2,738	\$907	\$3,645

This occurred because the Treasurer uses a transaction register to log receipts and disbursements related to fundraising, donations, FFI tax money and Company money, and does not consistently itemize the transactions according to the category to which they belong.

In addition, the Secretary did not provide an accurate or complete record of Company meetings. The bylaws require the Secretary to record the attendees at the meeting. However, attendees were not recorded in the minutes for 4 of the 10 meetings reviewed for the audit period. Although the Treasurer said he verbally reported the balances in the bank at the meetings, this was noted in three of the

meeting minutes. The bylaws also require the Treasurer to prepare and provide monthly reports at each regular meeting, which include a list of receipts and disbursements for the month and cash balances for each bank account. Since this was not done, it could not be included in the minutes.

Because the financial records and reports were incomplete and inaccurate, the Board, officers and members may not adequately be assured that the Company's fiscal affairs are properly safeguarded.

Disbursements Were Unsupported

Company members voted on a resolution which established how the Company would use the foreign fire insurance funds. During our audit period, the Company made 157 disbursements totaling \$47,197 from Company funds and FFI proceeds. We found that 13 percent of FFI expenditures and 60 percent of Company expenditures were unsupported, thus we were unable to determine if the money were appropriately spent.

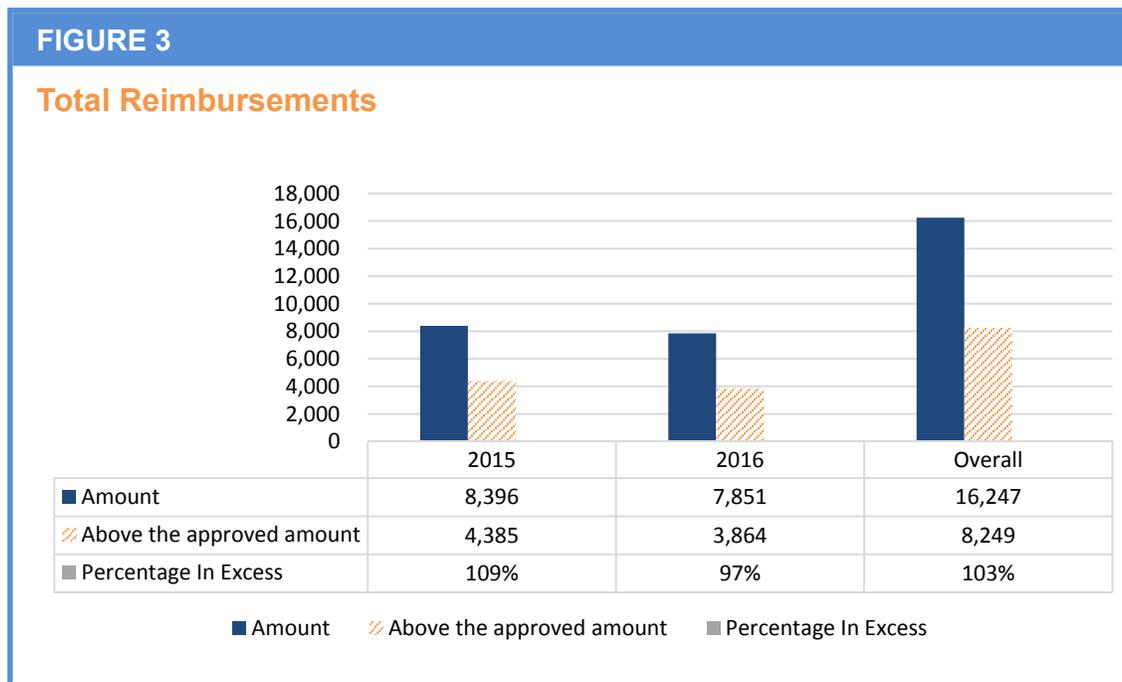
Figure 2: Transactions Tested

	Transactions tested	Transactions value tested
Supported - FFI	45	\$27,412
Unsupported - FFI	7	\$ 2,285
Supported - CF	42	\$7,974
Unsupported - CF	63	\$9,526
Total	157	\$47,197

For example, 48 (76 percent) of the CF unsupported invoices totaling \$6,924 were for food transactions, while 15 (24 percent) were made payable to miscellaneous vendors. The Treasurer told us that the food was for meetings, trainings and parades and the other vendor payments were for fundraising and other general expenditures. The FFI unsupported invoices were for 6 (85 percent) reimbursements to members. The Treasurer was able to indicate valid reasons for the purchases. However, no documentation was available to confirm this.

The Treasurer told us that the Board does not review invoices before they are paid. He also told us that he does not write checks without the necessary support being provided. The Treasurer indicated that the unsupported disbursements that we identified occurred because he was unable to provide the documentation because someone had cleaned the office and inadvertently discarded the documentation.

We were provided with a Board resolution which stated that members could be reimbursed 80 percent up to a maximum amount of \$600. However, we found that reimbursements were made at 100 percent rather than 80 percent and often exceeded \$600. For 2015 and 2016, the Company provided reimbursements that exceed the maximum allowed by a total of \$8,249 (see Figure 3). We were unable to review 2017 costs because reimbursements had not been made at the time of our fieldwork.



The Treasurer stated that the members voted to increase the reimbursement to \$2,000. However, they were unable to provide us with an updated resolution, or other documentation to support membership approval of the increase. Without such documentation, we were unable to verify whether the reimbursements were issued in accordance with the membership’s determination.

Without adequate oversight over disbursements, there is an increased risk that Company funds could be used for inappropriate or illegitimate purposes.

No Audit of Claims or Annual Audit

The Board has not implemented procedures to address the review of claims or outlined the documentation that should accompany a purchase. 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 food there is an increased risk that purchases may not be for legitimate and appropriate Company purposes.

Further, the Treasurer stated that an annual audit has not been performed. If the Board had performed an annual audit of the Company's records, they would have been aware of the poor state of the records or that disbursements lacked sufficient documentation.

What Do We Recommend?

The Board should:

1. Segregate the duties of the Treasurer or establish compensating controls to routinely monitor and review the work of the Treasurer.
2. Review annual reports to help ensure accuracy before they are submitted to OSC.
3. Implement procedures to address the review of claims and outline the documentation that should accompany purchases to help ensure that all claims are properly supported, reviewed and approved before they are paid.
4. Conduct annual audits of the accounting records.

The Treasurer should:

5. Maintain complete and up-to-date accounting records, including itemized receipts and disbursements and keep an accurate cash balance in the transaction register.
6. Provide a written report on the condition of the funds at each regular meeting.

The Secretary should:

7. Accurately record and file the minutes of every meeting.

Appendix A: Response From Fire Company Officials



HARTSDALE FIRE COMPANY

300 WEST HARTSDALE AVENUE
HARTSDALE, NEW YORK 10530
949-2325

ORGANIZED 1904

January 31, 2018

Chief Examiner
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive
Suite 103
New Windsor, New York 12553

Dear Sir:

After a careful review of the Preliminary Audit Report submitted to the Hartsdale Fire Company by your office, the Board of Trustees accepts the findings of the report. It should be noted, that during recent years, the membership of the Company has decreased substantially leaving the burden of responsibility to a few. As a result, and with no malice intended, some basic, while important, functions have been overlooked. The Board recognizes the importance of proper bookkeeping and the vital role that oversight plays especially in financial matters. In that spirit, the following corrective action plan will be instituted forthwith.

- The secretary will prepare accurate minutes of each business meeting conducted by the Fire Company.
- The treasurer will prepare a written report which will include bank balances and expenditures for the appropriate time period. This report will be attached to the minutes and kept as part of the permanent file. All proposed expenditures will be reviewed by the trustees and if approved by them included in the report which will be signed by both the treasurer and at least one trustee.
- All 2% expenses will be clearly designated as such in this report.
- The medical reimbursement plan will be placed on the agenda at the first meeting of the year to be put forward as a resolution for the company to vote on.
- A new filing system for all expenditures with appropriate backup receipts will be implemented.
- Every effort will be made to differentiate the various elected positions within the Fire Company to ensure that no person holds more than one key function.
- All disbursements will be authorized by a two signature check.

I concur with the Board that implementing these important measures will provide a blue print for sound and accurate bookkeeping while ensuring a more consistent financial oversight.

Respectfully submitted,

Richard J. Casterella
President

Install a Smoke Detector for Someone You Love

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, we performed the following audit procedures:

- We interviewed Company officials, reviewed the Company's bylaws, bank statements, accounting records and FFI tax money reports related to the Company's financial activities to gain an understanding of the internal controls over the collection, recording, depositing, disbursing, reconciling and reporting of financial transactions.
- We examined all Company bank statements during our audit period to determine whether there were any deposits made that were not recorded in the accounting records.
- We attempted to trace all collections that were recorded in the Company's accounting records during our audit period to the Company's bank statements to determine whether the amounts recorded were actually deposited.
- We reviewed all check disbursements made during our audit period to assess whether they were approved before payment was made, supported by adequate documentation and for appropriate Company purposes.
- We reviewed all reimbursement invoices to assess if the supporting documents were adequate and were paid according to policies.
- We reviewed the monthly members meeting minutes to assess if the Treasurer provided a Treasurer's report indicating the balances in each account and the amounts received and expended, and if the Secretary maintained a record of members' attendance at the meeting according to bylaws.

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.

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.

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/lgli/pdf/cybersecurityguide.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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Local Government and School Accountability Help Line: (866) 321-8503

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