



Rescue Fire Company, Inc. Unaccounted-for Bar Receipts

Report of Examination

Period Covered:

January 1, 2010 — January 24, 2013

2012M-250



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2013

Dear Fire Company Officials:

A top priority 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 tax dollars 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. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board 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 Rescue Fire Company, Inc., entitled Unaccounted-for Bar Receipts. 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 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 their constituents. 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 Rescue Fire Company (Company) is located in the City of North Tonawanda, in Niagara County. The Board of Directors (Board) consists of the President, Vice President, Recording Secretary, Financial Secretary, Treasurer, Sergeant-at-Arms and five Trustees. The Company contracts with the City of North Tonawanda to provide fire protection services and also receives moneys from fundraising activities and investments. The Company's expenses totaled \$148,073¹ for the 2011 fiscal year.

The Company operates a bar for the benefit of the Company's membership, which is open for business every day except Sunday and Wednesday.² A four-member bar committee controls the bar's financial operations. One member of the bar committee is appointed Chairman by the President of the Company.

Objective

The objective of our audit was to evaluate the Company's financial operations for the period January 1, 2010, to January 24, 2013. Our audit addressed the following question:

- Were bar receipts properly accounted for?

Scope and Methodology

We examined the internal controls over the bar's financial operations. We interviewed appropriate Company officials and reviewed financial records and Board minutes.

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 B of this report.

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

¹ Expenses included fundraising and bar supplies (\$74,735), building maintenance/supplies (\$20,392), utilities (\$17,488), debt service (\$13,047), stipends (\$6,750), conventions and Company events (\$6,673), insurance (\$6,535), and miscellaneous (\$2,453).

² The bar is only open four days per week during the months of June, July and August. The bar ended Sunday operations in September 2012.

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 Company Secretary's office.

Bar Receipts

The Board is responsible for safeguarding the Company's cash resources generated at the bar. To fulfill this duty, it is essential that the Board establish a system of internal controls to ensure cash collected is safeguarded, properly recorded and promptly deposited, and that cash disbursements are reviewed and approved by the Board prior to payment by the Treasurer. According to the Company's by-laws, the bar committee is required to audit the bar's records every three months and report its findings to the Company. Further, the Company's audit committee is required to audit the bar's finances annually.

All four bar committee members had unmonitored access to the safe where the cash from bar operations was stored.³ The Board did not require bar committee members to have a second member present while conducting cash counts or adding or removing cash from the safe. Bar committee members routinely paid for bar-related purchases with undeposited cash generated from bar sales.⁴ These purchases should have been paid by the Treasurer after they were reviewed and approved for payment by the Board. Furthermore, although Company by-laws require the Treasurer to make all Company deposits, the Treasurer did not do so. The bar co-chairman deposited cash from bar sales in the bank once each month and did not compare the amount of the deposit to the cash reports showing what was collected. He also told us he normally left \$1,000 in cash in the safe, which committee members used to purchase bar supplies.

Finally, although the bar committee did not audit the bar's books every three months and report its findings to the Company as required by the by-laws, it is doubtful that this audit would have been an effective internal control. The bar committee members would have been reviewing records that they had prepared themselves based upon transactions that they had executed. Further, the Company audit committee did not audit the bar's finances for 2010 and 2011; as a result, any deficiencies that had occurred were not detected.

³ At the close of business each day, the bartender locks the cash drawer in a cabinet. Subsequently, one of the four bar committee members routinely counts cash in the drawer from the previous day's business and reconciles it to the corresponding cash register tape total. This reconciliation is documented on a weekly cash report.

⁴ When committee members made a purchase, they were required to place a receipt or invoice in the safe with the remaining cash. A committee member then reconciled cash on hand and invoices from purchases with the total amount of cash collections recorded on the weekly spreadsheet. After the weekly money is reconciled, it is moved to a safe in the liquor locker.

We compared bar cash register tape totals to daily cash reports and bank deposits. We also reviewed invoices that Company officials told us represented purchases made with cash generated from bar sales. From January 1, 2010 to January 22, 2013, bar cash register tape totals exceeded corresponding bank deposits by \$41,359. In addition, invoices from this period purportedly representing purchases made with cash generated from bar sales totaled only \$14,708. After deducting these purchases and \$2,897 in bar cash on hand as of January 24, 2013, \$23,754 in cash remained unaccounted-for.

On August 21, 2012, we discussed the deficiencies that occurred with Company officials. According to Company officials, the bar committee chairman produced \$10,505 in cash at the Company meeting held that evening. Company officials told us that over the last several years, the bar committee chairman was able to divert cash from the cash register in the bar without their knowledge. Had someone other than a member of the bar committee compared the bar cash register tapes and the cash reports to the amount deposited, they may have determined that not all cash recorded as collected through the cash register was deposited, and taken corrective action to address the diversion of moneys. After considering the cash produced by the bar committee chairman, the cash deficiency was reduced to \$13,754. A detail of the deficiency, by year, is indicated in the chart below. We will refer our findings to the appropriate authorities.

Table 1: Unaccounted-for Bar Revenue					
Year	Cash Register Tape Totals	Less: Deposits	Difference Between Sales and Deposits	Less: Invoices for Supplies Paid with Bar Cash	Unaccounted-for Bar Cash
2013	\$1,900	\$500	\$ 1,400	\$121	\$1,279
2012	\$35,932	\$26,764	\$9,168	\$3,036	\$6,132
2011	\$44,567	\$31,007	\$13,560	\$5,753	\$7,807
2010	\$48,720	\$31,489	\$17,231	\$5,798	\$11,433
Total	\$131,119	\$89,760	\$41,359	\$14,708	\$26,651
		Less: Cash on Hand January 24, 2013			(\$2,897)
		Less: Cash provided by Bar Chairman ^a			(\$10,000)
Unaccounted-for Bar Revenue Cash at January 24, 2013					\$13,754
^a The bar chairman turned over \$10,505. Company officials gave back \$505 to the bar to cover liquor provided for the installation dinner. This amount was presumably included in the December 2012 deposit. The remaining \$10,000 was not deposited in the bar bank account until January 24, 2013.					

In addition, bar tabs paid by cash or check are not always run through the register. Further, occasionally hall rentals are paid at the bar. In both of these situations, cash and checks would be deposited with the nightly bar revenue. Since our analysis only compared cash register tapes to deposits, the amount of undeposited revenue is even greater than indicated in our analysis.

Recommendations

1. The Board should require bar committee members to have a second member present while conducting cash counts and adding or removing cash from the safe.
2. The Treasurer should deposit all bar cash collections in the bank more frequently than once each month.
3. The Board should review and approve invoices representing the purchase of bar supplies prior to the Treasurer making payment.
4. The Company audit committee should conduct an audit of bar financial activity and report its findings to the Board. This audit should include comparing bar cash register tape totals and daily cash reports to the amount deposited.

APPENDIX A

RESPONSE FROM COMPANY OFFICIALS

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



RESCUE FIRE COMPANY #5

VIA FAX AND US MAIL FAX NUMBER: 716-847-3643

March 22, 2013

[REDACTED]
State of New York
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, NY 14203

Dear [REDACTED]:

Enclosed please find the Response of the Rescue Fire Company Inc.

Thank you.

Sincerely,

Larry Kuebler
President, Board of Directors
Rescue Fire Company
1241 Strad Avenue
North Tonawanda, NY 14120

1241 Strad Avenue, N. Tonawanda, NY 14120 (716) 695-3923



RESCUE FIRE COMPANY #5

Response of the Rescue Fire Company Inc.

The Response of the Rescue Fire Company Inc. Board says that it acknowledges it has reviewed the audit of its operation and collection bar receipts for the period January 1, 2010 to January 24, 2013. It acknowledges the issue of unaccounted for bar cash. The explanation of that short fall is, in essence, gratuity to volunteer members who serve as bartenders. These payments have averaged out to approximately \$4,700.00 per year based on hours of operation. It is clear from this audit, that there should be better oversight of this arrangement.

As a result of this audit, steps are and have already been taken to implement the recommendations of the Auditor. A written correction action plan (CAP) is being prepared with proof of its implementation and will be forwarded within the 90 days called for in the audit report dated March 1, 2013.

1241 Strad Avenue, N. Tonawanda, NY 14120 (716) 695-3923

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We examined the internal controls over the bar's financial operations for the period January 1, 2010 to January 24, 2013.

We interviewed appropriate Company officials and reviewed financial records and Board minutes.

We compared bar cash register tape totals to daily cash reports and bank deposits.

We reviewed invoices that Company officials told us represented purchases made with cash generated from bar sales.

We conducted a cash count of Fire Company cash on January 24, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards (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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