



# Pennellville Volunteer Fireman's Association, Inc. Financial Operations

## Report of Examination

Period Covered:

January 1, 2013 — September 30, 2014

2015M-144



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**

November 2015

Dear Fire Association Officials:

One important function of the Office of the State Comptroller is to help fire association officials manage association resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support association operations. The Comptroller oversees the fiscal affairs of fire associations 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 association assets.

Following is a report of our audit of Pennellville Volunteer Fireman's Association, Inc., entitled Financial Operations. 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 Association 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*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Pennellville Volunteer Fireman's Association, Inc. (Association) is a not-for-profit organization located in the Town of Schroepfel (Town) in Oswego County. The Town contracts with the Association to provide fire protection services to its residents. The Association's primary sources of revenue are the fire protection contract, gaming activities and community fundraising events, such as music events, chicken barbecues and an annual fund drive. The Association has 17 members, and its 2014 budgeted appropriations were approximately \$192,000.

The Association is operated in accordance with its constitution and bylaws and is governed by a five-member Board composed of four elected directors and the Vice President.<sup>1</sup> The Treasurer is the Association's chief fiscal officer and is responsible for receiving, maintaining custody of, disbursing, recording and accounting for Association moneys. The Treasurer also is required to report the status of Association finances by providing monthly financial reports to the Board and membership.

#### **Scope and Objective**

The objective of our audit was to evaluate internal controls over the Association's financial activities for the period January 1, 2013 through September 30, 2014. Our audit addressed the following related question:

- Did the Board implement adequate internal controls over the Association's financial activities and adequately safeguard Association assets?

#### **Audit Results**

The Board did not ensure that cash disbursements and receipts were properly accounted for and that the assets were safeguarded and used for proper Association purposes because it did not include key internal controls in its adopted bylaws. The Board also did not provide adequate oversight of the Treasurer's duties to reduce the risk associated with a lack of segregation of duties. The Treasurer does not maintain adequate accounting records and does not file required reports with the Board, the State Comptroller's Office and the Internal Revenue Service.

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<sup>1</sup> Association Officers are appointed and are responsible for the Association's daily operations. The Association Officers are the President, Vice President, Treasurer and Secretary. The bylaws state that the Vice President is a member of the Board, while the other Association officers are not.

For example, the Treasurer did not maintain a general ledger, receipt and disbursement journals, subsidiary revenue and expenditure ledgers or any cash control accounts that show cash transactions and balances. Accordingly, the Treasurer did not prepare monthly bank reconciliations because there were no cash accounts available to compare with the bank statement balances. The Treasurer did not maintain sufficient documentation for Association officials to determine whether all the moneys generated by Association fundraising efforts were reported, deposited and recorded properly. In addition, Association moneys are not deposited in a timely manner as required by Association bylaws and there is no system in place to establish accountability for moneys collected. We determined that the Treasurer did not have cash receipts records to identify the source of the money deposited for 261 deposits totaling \$134,882.

Board members told us they are unsure whether certain music events held as fundraisers benefitted the Association. They believe the music event held in September 2014 lost money, but could not quantify the loss because the Treasurer did not provide any report for the event. We estimate the Association received approximately \$18,500 in revenues from the four music events and disbursed approximately \$35,700, for a total operating loss of approximately \$17,200. Because the Board did not require the Treasurer to prepare accurate financial records and reports, its ability to provide oversight and safeguard the Association's resources is limited.

The Board also did not audit and approve bills for payment by the Treasurer. We identified 195 checks totaling \$111,041 and 34 debit transactions totaling \$11,300 that were not adequately supported to ensure they were for legitimate Association expenditures. We also examined all eight cash withdrawals made during the audit period totaling \$9,800 and found that none of them had supporting documentation showing that they had been made for appropriate Association purposes. These weaknesses increase the risk that fraud, waste or abuse will go undetected, and disbursements could be made for non-Association purposes.

The Board has also not developed any written policies governing fuel use, which has led to Association members assuming various versions of informal policies. The Chief told us that he has allowed members to purchase fuel at the local convenience store for their personal vehicles with the understanding that they must pay the Association back as soon as possible. However, the Chief was unsure if the Association was reimbursed for such purchases. Association officials told us that, prior to April 2014, the Chief used his personal vehicle for fire and emergency calls. However, due partially to a concern over the excessive amount of gas being charged, in April 2014 Association officials provided the Chief with an Association-owned vehicle that uses diesel fuel. From January 2013 through March 2014, the Chief charged \$5,432 of gasoline to the Association's account. Based on the Chief's uncorroborated gas allowance of \$50 per month during this time period, he would have been entitled to \$750 of gasoline charges, resulting in what could be as much as \$4,682 in unauthorized gasoline charges.

Subsequent to our audit fieldwork, Association officials informed us that the Chief<sup>2</sup> sold an Association vehicle without authorization and did not turn the \$1,500 sale proceeds over to the Treasurer in a timely fashion. Also, in March 2015, Association officials notified us there had been two alleged thefts of diesel fuel within a two-week period from their bulk fuel tank. Officials filed a police report after the second incident, but they were unable to quantify the number of gallons of fuel that had allegedly been stolen because they did not maintain inventory records.

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<sup>2</sup> The Board and Association members later voted to terminate the Chief as a member.

Our Division of Investigations has referred these issues to law enforcement.

**Comments of Association Officials**

The results of our audit and recommendations have been discussed with Association officials, and their comments, which appear in Appendix A, have been considered when preparing this report. Association officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

# Introduction

## Background

The Pennellville Volunteer Fireman’s Association, Inc. (Association) is a not-for-profit organization located in the Town of Schroepel (Town) in Oswego County. The Town contracts with the Association to provide fire protection services to its residents. The Association’s primary sources of revenue are the fire protection contract, gaming activities and community fundraising activities, such as music events, chicken barbeques and an annual fund drive. The Association has 17 members, and its 2014 budgeted appropriations were approximately \$192,000.

The Association is operated in accordance with its constitution and bylaws and is governed by a five-member Board composed of four elected directors and the Vice President.<sup>3</sup> The Treasurer is the Association’s chief fiscal officer and is responsible for receiving, maintaining custody of, disbursing, recording and accounting for Association moneys. The Treasurer also is required to report the status of Association finances by providing monthly financial reports to the Board and membership.

## Objective

The objective of our audit was to evaluate internal controls over the Association’s financial activities. Our audit addressed the following related question:

- Did the Board implement adequate internal controls over the Association’s financial activities and adequately safeguard Association assets?

## Scope and Methodology

We examined the Association’s financial activities for the period January 1, 2013 through September 30, 2014. We extended the scope period to review fuel purchases through February 28, 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 B of this report.

## Comments of Association Officials and Corrective Action

The results of our audit and recommendations have been discussed with Association officials, and their comments, which appear in

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<sup>3</sup> Association Officers are appointed and are responsible for the Association’s daily operations. The Association Officers are the President, Vice President, Treasurer and Secretary. The bylaws state that the Vice President is a member of the Board, while the other Association officers are not.

Appendix A, have been considered when preparing this report. Association officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

Association officials have 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, pursuant to Section 35 of the General Municipal Law. 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 Association officials to make this plan available for public review.

## Financial Operations

The Board is responsible for overseeing the Association's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls which includes policies and procedures to ensure transactions are authorized and recorded in a timely and accurate manner and that duties are properly segregated so that no one person controls all aspects of a transaction. If such segregation of duties is not practicable, the Board should implement compensating controls, such as reviews of financial records, bank statements and canceled checks. The Treasurer is responsible for accounting for all receipts and disbursements and providing the Board with financial reports in accordance with the bylaws.

The Board did not ensure that cash disbursements and receipts were properly accounted for and that Association assets were safeguarded and used for proper purposes because it did not include key internal controls in its adopted bylaws and other policies. The bylaws, last updated in May 2008, establish the Treasurer's financial responsibilities, but the Treasurer does not follow the minimal guidelines established. In addition, the bylaws do not require that an official review and approve Association invoices/bills prior to the Treasurer making payment. Further, the bylaws provide limited guidance on cash receipts procedures. The Board has not provided any guidance or adopted procedures for the Association's fundraising activities. These controls and guidance should be included in the Association's bylaws or other adopted policies so that each person elected to a management position within the Association knows exactly what is expected of them while holding office.

The Board also did not provide adequate oversight of the Treasurer, who was responsible for receiving, recording and disbursing Association funds. The Treasurer does not maintain any accounting records and does not file required reports with the Board, the State Comptroller's Office or the Internal Revenue Service (IRS). Further, Association officials have not implemented necessary policies and procedures over the purchase and use of fuel, resulting in an apparent misuse of fuel by the Chief and an alleged theft of diesel fuel. Because the Board did not establish adequate internal controls over Association financial activities, the risk is increased that Association assets could be lost or misused.

## Records and Reports

Association bylaws require the Treasurer to keep proper and accurate records of all money received and disbursed and to prepare written reports of the status of all accounts for presentation at monthly meetings. The bylaws further state that, when asked, the Treasurer must present all records and documents to the Board for a proper audit of accounts. Adequate accounting records consist of journals, ledgers and other financial documents that provide a record of all transactions and account balances in a timely manner. In addition, it is good business practice for the Treasurer to perform monthly bank reconciliations to ensure the timely identification and investigation of differences between cash balances recorded in the accounting records and bank balances. Because the Association receives revenue from foreign fire insurers, the Treasurer is required to file an annual report with the State Comptroller's Office, and, as a not-for-profit corporation, the Association is required to annually report relevant financial information to the IRS using Form 990.<sup>4</sup>

The Treasurer did not maintain adequate records to account for all money received and disbursed by the Association. The Treasurer told us she has a computerized accounting system which is primarily used to record disbursements and provide a monthly check detail report to the Board. However, the Treasurer did not provide us with any reports when we requested them and a Board member told us he could not recall ever seeing such a report. In addition, the Treasurer did not maintain a general ledger, receipt and disbursement journals, subsidiary revenue and expenditure ledgers or any cash control accounts that show cash transactions and balances. Accordingly, the Treasurer did not prepare monthly bank reconciliations, because there were no cash accounts available to compare with the bank statement balances.

Without accurate accounting records, the Treasurer was unable to provide the Board and membership with written monthly financial reports as required by the Association's bylaws. In addition, the Board did not require the Treasurer to present her records to the Board for audit as also required by the bylaws. Had the Board requested these accounting records, it would have realized that the Treasurer was not maintaining them. Also, the Treasurer did not file Form 990 with the IRS or a report of foreign fire insurance activity with the State Comptroller's Office as required by law. The Treasurer told us she did not file these reports because she was unaware of the annual filing requirements. Not filing Form 990 could result in monetary penalties against the Association or the loss of its tax-exempt status.

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<sup>4</sup> IRS Form 990 is used by tax-exempt organizations to provide the IRS with required information.

The Association's bylaws also provide for loaning moneys from the "rainy day fund" to help Association members in times of need, such as health and home emergencies.<sup>5</sup> The bylaws further provide that, if possible, anyone receiving a loan must try to replenish the amount so that funds will continue to be available for others in need. According to the bylaws, the President and Treasurer are supposed to track the loans. The President and Treasurer stated that, over the last few years, they have provided various loans to members but have not maintained records showing the loans given, payments received and loan balances.

As a result, Association officials do not know how much Association money has been loaned to members or how much money has been paid back. In one instance, the Treasurer was able to provide us with a document signed by two Association members verifying that, in April 2014, they had borrowed \$1,000 from the Association which they promised to pay back within three months. However, the Treasurer could not provide us with any records showing repayments or the amount of the outstanding loan balance.

Because the Board did not require the Treasurer to prepare accurate financial records and reports, its ability to provide oversight and safeguard the Association's resources is limited. As a result, there is risk that fraud, waste and abuse will occur and go undetected.

## **Cash Receipts**

The Board should establish policies and procedures to ensure that all receipts collected are properly recorded, supported and deposited and that adequate oversight is provided of all individuals who receive cash. The Association's bylaws require the Treasurer to receive, record and maintain all money in the safe after each event and to deposit it into Association accounts within 72 hours. Good business practices require the Treasurer to provide the Board with a written accountability of all fund-raising events and perform a reconciliation of tickets sold and all fund-raising revenue collected and deposited. A timely reconciliation or accountability helps to ensure that the Board is apprised of any differences between ticket sales and deposits of the proceeds of ticket sales. Any differences discovered during this accountability should be investigated and resolved in an appropriate manner.

We found that the Association's controls over cash receipts were extremely weak. Although the bylaws address some of the Treasurer's overall recordkeeping and deposit responsibilities, the Board has not adopted any other policies or procedures to provide guidance on

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<sup>5</sup> The scope of our audit was not intended to render an opinion on the authority for the Association to provide loans to its members. Association officials should consult with the Association's attorney to determine the legality of this practice.

what records should be maintained for each Association fundraising activity or the preparation of supplemental activity reports, including profit and loss statements, to determine if the activity is financially worthwhile for the Association.

The Treasurer did not maintain any cash receipts records to document the date, amount and source of moneys received and the corresponding deposits, and there is no system in place to establish accountability for moneys collected. As a result, Association officials have no way to determine whether all moneys generated by fundraising efforts were properly accounted for and deposited. We examined all Association bank statements and deposit compositions<sup>6</sup> for the audit period and found that the Treasurer made 265 deposits totaling \$390,316, of which \$119,152 was cash. Using deposit compositions, we were able to identify the source and verify the amount of deposits for payments of \$250,587 from the Town for fire contracts and payments of \$4,847 from foreign fire insurers. There were no cash receipts records to identify the source of the remaining 261 deposits totaling \$134,882.

The Association conducts a number of fund-raising activities throughout the year, including weekly bingo games, bell jar ticket sales, food sales and music concerts. However, due to a lack of records, Association officials are unable to determine if all money collected at these events was turned over to the Treasurer and deposited. For example, the Association did not maintain inventory records of bingo cards sold to verify the number of bingo card sales each week and the Treasurer did not maintain records necessary to report to the Board showing how much money was collected and disbursed for Association fundraising events during the audit period.

Association officials told us that money collected at various fundraising events is placed in a safe until the Treasurer has the time to deposit the money in the bank. They told us that the Treasurer, President and Bingo Chairperson have access to the safe. We conducted a cash count of all Association funds on hand on September 25, 2014. Prior to conducting the cash count, Association officials told us they regularly maintained approximately \$1,500 to \$1,600 in the safe that is used as start-up money at weekly fundraising events. At the time of our cash count, the Association had \$8,114 in cash in the safe; each type of revenue was segregated in an envelope identifying the source. For example, an envelope marked music event contained \$4,794. Association officials told us this \$4,794 was related to the concert that was held as a fundraiser on September 14, 2014. They were unable to provide any records or reports to support this assertion. Cash from the concert was still on hand 11 days after the event, even

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<sup>6</sup> Images of deposit slips and deposited checks obtained from the bank

though the bylaws require that receipts be deposited within 72 hours of collection.

During our audit period, the Association hosted four music events as fundraisers. The Association entered into a verbal agreement with a local restaurant owner to construct a stage and hold these events. However, there was no written contract outlining each party's responsibilities. According to Association officials and the restaurant owner, the informal agreement consisted of each party splitting start-up costs and the cost for the bands. In turn, the Association was to receive the revenues from parking, a portion of the food and beer sale profits and a portion of ticket sales.

Because Association officials did not maintain adequate records, they were unable to determine if revenues received from these events were sufficient to cover the Association's costs. Board members stated they are unsure whether each music event benefitted the Association, but feel that the music event held in September 2014 lost money. They could not quantify the loss because the Treasurer did not provide any reports for the event. Based on our discussions with the Treasurer and review of available documentation,<sup>7</sup> it appears the Association received approximately \$18,500 in revenues from the four music events and disbursed approximately \$35,700, for a total operating loss of approximately \$17,200.

## **Cash Disbursements**

While not specifically addressed in the Association's bylaws, the Board should review and approve bills prior to payment and document this approval in the Board minutes to ensure that Association funds are only used for legitimate Association expenditures. This review and approval provides assurance that the Association pays for goods or services that are supported by adequate documentation (e.g., itemized receipts or invoices) and that purchases are made for appropriate purposes.

Neither the Board nor any other Association officials reviewed and approved the bills prior to the Treasurer making payment. Instead, Association officials told us that some disbursements made by the Treasurer, excluding routine operational costs (i.e., utilities, fuel purchases, etc.), were verbally discussed among Association officials and members. The Treasurer told us that she provides the Board with a monthly check detail report after paying Association bills, but could not provide us with reports to confirm this. In addition to paying bills by check, the Association has one debit card. The Treasurer told us she maintains possession of the debit card which she and the Chief

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<sup>7</sup> We reviewed canceled checks, debit transactions reflected on bank statements, deposits made following the music events and supplemental information provided by the Treasurer.

use for various purchases. There is no process in place for someone other than the Treasurer to review bank statements and canceled checks to help verify that debit card transactions and checks written by the Treasurer are adequately supported and legitimate.

We reviewed all 723 check disbursements totaling \$507,975, 42 debit transactions totaling \$16,958 and 38 known cash payments totaling \$3,055 made during our audit period to determine if they were adequately supported and for appropriate Association purposes. We found 195 checks totaling \$111,041 and 34 debit transactions totaling \$11,300 that were not adequately supported to enable Association officials to ensure they were for legitimate expenditures. Of these 229 total transactions, 214 totaling \$110,434 had no receipts, invoices or any other type of documentation available for review. The other 15 transactions totaling \$11,907 had receipts showing support for part of the payments but not for the entire amounts of the purchases.<sup>8</sup>

These unsupported payments included \$8,120 to two local auto parts stores (\$4,270 and \$3,850, respectively) where the Association had opened charge accounts. The Association's policies state that only the President, Chief or Treasurer may purchase truck or automobile supplies on Association accounts. Any other members must first get permission to use the Association's account and repay the Association within 30 days or a reasonable time. In addition, the policies provide that the Association will cover general maintenance on the Chiefs' vehicles (Chief 1, Assistant Chief 1, 2, 3) while their term is active. The Association also will cover general maintenance on the President's, Treasurer's, Bingo Chair's and Kitchen Leader's vehicles if they use them for Association business. If any of their vehicles break down or need repair while on the alarm or due to heavy usage resulting from Association activities, the Association will pay for the cost of repairs.

Because no invoices were on file to support the payments, we contacted the two vendors and attempted to obtain the sales records for charges made on the Association's account. Only one of the vendors provided us with the records we requested to support \$3,038 of the \$4,270 in purchases. The vendor's records included purchases of parts that did not appear to be for vehicles owned by the Association, such as parts for a Dodge Neon, Ford Windstar, Toyota Corolla and a Ski-Doo snowmobile totaling approximately \$200. The vendor's representative told us that the store has no agreement with the Association that states who is allowed to purchase supplies on the Association's account. Due to a lack of records, Association officials would not be able to determine if purchases of auto parts for vehicles

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<sup>8</sup> For example, a check was made out to a fire safety company in August 2014 in the amount of \$226.92. We were able to locate a receipt for \$125.95 of the total, but the other \$100.97 was not supported.

not owned by the Association were allowed by the Association policies or if any had been paid back when required. The Chief told us that, on occasion, he allowed Association members to charge auto parts for their personal vehicles on the Association's account; however, he was unsure whether members have reimbursed the Association.

We also examined all eight cash withdrawals made during the audit period totaling \$9,800 and found that none of them had supporting documentation showing that they were for appropriate Association purposes. The Treasurer could not recall the purpose of a \$100 automated teller machine withdrawal from the general checking account in March 2013. The Treasurer made the remaining seven withdrawals totaling \$9,700 from various bank accounts as follows: the fund drive account (\$4,000), the Bingo account (\$4,000), and the soda account (\$1,700). The Treasurer indicated that she made these withdrawals because it was her responsibility to make sure there was enough cash on hand to cover the Bingo games and that she used money from the fund drive and soda accounts for the music events. We verified that the withdrawals from the fund drive and soda accounts were made during the summer months about the same time as the music events were occurring. However, there are no records to support the Treasurer's assertions or to substantiate that the withdrawals were appropriate.

With no controls to ensure proper approval and documentation of purchases and cash withdrawals, there is a significant risk that Association funds could be diverted or used to purchase items that were not for Association purposes.

## **Fuel Controls**

The Board is responsible for protecting Association assets, including fuel inventory and fuel charge accounts, from the threat of loss, theft or inappropriate use. This can be achieved by establishing written policies and procedures detailing where and when fuel will be purchased, who is authorized to do so and what information must be recorded when the transaction takes place. Written procedures should also require maintaining perpetual fuel inventory records to monitor fuel use.

The Association has a charge account for gasoline at a local convenience store. The convenience store maintains a manual record of gasoline purchases made by Association officials and bills the Association monthly. Each person is required to sign for their purchase. The Association also purchases diesel fuel that is delivered to its 500-gallon above-ground tank located on the side of the fire hall. The tank has a pump that records the number of gallons pumped which, according to Association members we interviewed, must be recorded along with the date, user's name and vehicle ID on a usage

log. Association officials were unable to produce these logs for our review.

The Board has not developed any written policies governing fuel use which has led to Association members assuming various versions of informal policies. For example, some Association members told us they believe the Chief and the Assistant Chief are allowed to charge gas for their personal vehicles. However, they were not sure as to what limits had been placed on the frequency and amount of these charges. Some Association members believe that members are allowed to charge fuel at the local convenience store after receiving permission from either the President, Treasurer or the Chief. The Chief told us that he is allowed \$50 each month for gas in his personal vehicle when used for Association purposes, but he could not provide us with any written support for this allowance. The Chief stated he has allowed members to purchase fuel at the local convenience store for their personal vehicles with the understanding that they must pay the Association back as soon as possible. However, the Chief was unsure if the Association was reimbursed for the purchases.

Association officials told us that, prior to April 2014, the Chief used his personal vehicle for fire and emergency calls. However, due partially to a concern over the excessive amount of gas being charged, in April 2014 the Association provided the Chief with an Association-owned vehicle that uses diesel fuel.

From January 2013 through March 2014, the Chief charged \$5,432 of gasoline to the Association's account. Based on the Chief's uncorroborated gas allowance of \$50 per month during this time period, he would have been entitled to \$750 of gasoline charges, resulting in what could be as much as \$4,682 in unauthorized gasoline charges. We interviewed the Chief about the unauthorized gas charges and subsequent fuel purchases and use. He told us that, on occasion, he has used the Association vehicle and fuel to conduct his personal business. He could not say with any degree of certainty the extent to which this occurred.<sup>9</sup>

## Subsequent Events

We concluded our audit field work in early March 2015. District officials informed us of two other situations that occurred after the conclusion of our field work: a theft of diesel fuel and the inappropriate sale of a pick-up truck.

Theft of Fuel – In March 2015, Association officials notified us there had been two alleged thefts of diesel fuel within a two-week period from their bulk fuel tank. The Chief told us that the Association has a security camera installed on the building; however, it was not properly

<sup>9</sup> The Chief also included this admission in a written statement.

working on either occasion. The Chief and Treasurer were notified by members who found the fuel tank was empty. Officials filed a police report after the second incident but, without fuel usage records being maintained, they could not effectively quantify the number of gallons of fuel that had been allegedly stolen in each incident.

Sale of Truck – In April 2015, we were notified by the newly-elected President that the Chief had been suspended from the Association for 30 days pending an investigation into his involvement in the unauthorized sale of an Association vehicle. According to the President, the Association had recently learned the Chief had sold the Association's 1976 Dodge truck to an individual without Board and membership permission. When this individual was asked about the sale, he provided the Association with a Bill of Sale (receipt) issued to him in October 2014 by the Chief. The receipt showed he had purchased the truck for \$3,000 by giving the Chief \$1,500 with a balance due of \$1,500. According to the President, when the Chief was asked about this, he said he had turned the \$1,500 over to the Treasurer in October. However, the Treasurer could not recall ever receiving this money from the Chief.

A few days later, the Chief turned over \$1,500 to the Association, stating he realized he had failed to turn over the money to the Treasurer. Subsequent to these events, the individual who purchased the truck voluntarily returned the truck to the Association and received his \$1,500 back. The Board and members later voted to terminate the Chief. In a written statement, the Chief stated that the Association membership approved the sale of this truck at an open meeting prior to the sale. We were later informed that minutes from Association meetings prior to October 2014 were missing.

Our Division of Investigations has referred these issues to law enforcement.

## **Recommendations**

The Board should:

1. Amend the Association's bylaws or adopt other financial policies and procedures to strengthen internal controls and provide specific guidance for cash receipts and disbursements procedures, for the audit and approval of bills and for fund-raising activities.
2. Provide the Treasurer with appropriate guidance and training to adequately perform the duties of that position.
3. Provide oversight of duties performed by the Treasurer, such as requiring written monthly financial reports and activity

reports for fundraising events and reviewing bank statements, canceled checks and bank account reconciliations.

4. Periodically audit the Treasurer's financial records in accordance with the bylaws.
5. Determine whether it is in the Association's best interest to continue to host music events as fundraisers. If the Board decides to continue to host music events, it should require officials to enter into written agreements with all parties that outline each party's responsibilities.
6. Audit and approve bills prior to the Treasurer making payment and document the approval in the Association's meeting minutes. As part of the approval process, the Board should ensure that all disbursements are properly supported.
7. Ensure that duplicate press-numbered receipts are issued or another form of supporting documentation is maintained to account for all Association funds collected.
8. Consult with the Association attorney concerning the propriety of the Association bylaws relating to loans provided to members, as well as the use of Association charge accounts.
9. Strengthen controls over fuel purchases and inventories by monitoring gasoline purchases, ensuring that diesel fuel usage logs and inventory records are maintained and reconciled monthly to inventory levels.

The Treasurer should:

10. Maintain accurate, complete and up-to-date accounting records, including cash balances, and ensure that all financial records and supporting documentation are kept on file and available for review.
11. Maintain detailed financial records for each fundraising event indicating, at a minimum, the start-up money provided, the receipts from each event activity, amounts disbursed with supporting documentation and the proceeds deposited.
12. If the Association continues to provide loans to members, then maintain records for each loan showing the loan amount, repayments and the outstanding balance.

13. Ensure that all funds collected are deposited in a timely manner, in compliance with Association bylaws.
14. Document monthly bank reconciliations and provide a copy of this information to the Board for review.
15. Prepare and submit written monthly and annual financial reports and fundraising activity reports to Association officials for review.
16. Annually file Form 990 with the IRS and the report of foreign fire insurance funds activity with the State Comptroller's Office.

## **APPENDIX A**

### **RESPONSE FROM ASSOCIATION OFFICIALS**

The Association officials' response to this audit can be found on the following page.

This letter is in response to the AUDIT OF THE Pennellville volunteer Firemans Association Inc. that we received in September 2015.

The Board of Directors Looked over the findings of the Audit and also looked over the recommendations from the Audit. The B>O>D> agreed with recommendations and we have already implemented most of them.

The Treasurer must provide all bills to the B>O>D> to be looked over and approved to be paid before any type of payment is made. The Treasurer must also provide us with a monthly Deposit of our Bank Accounts. .

The Fuel tank at the station gets filled when the Providing Company passes by the station and tops it off. The Chief and Assistant Chief get a monthly fuel allowance from our local convenience store of 50 gallons a month. Anyone who uses their own vehicle for the Fire Dept. must get approval from the Chief or President to get any fuel or reimbursement. Additionally, We have Fuel logs in all of our apparatus and the fuel tank has a power switch inside the station to access fuel from the tank. We also have a light inside the station and at the fuel tank that come on when the switch is on .The B.O.D. and the By-Laws Committee are in the process of Re-writing our By-Laws and are implementing all of the recommendations that have been made to us from the Audit.

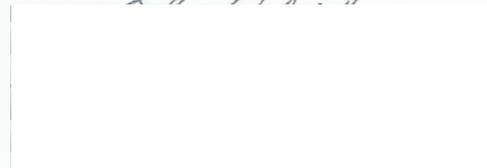
The Pennellville VFD will no longer hold any concerts with the establishment that we were currently working with Any concerts or Fundraisings will be done by our Fire Dept. only and no outside entities

We have already implemented all of the above with new officers that we have placed. However, the dept. is still working on re-writing the BY-Laws as this will take a little more time to do. After we have a final draft of them we will take them to our lawyer to make sure everything is right before we vote to adopt them.

The President Treasurer, and the B.O.D. will continue to ensure that all of our implement are being followed and that we will continue with our checks and balances of our bank accounts. We will continue our efforts to make sure that our Fire Dept is operating correctly and continue with our re-writing of the By-Laws. If you have any questions about anything feel free to contact the President, Chief, Treasurer, or the B.O.D. anytime.

Sincerely

John Roberts, President



## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

We examined internal controls over the Association's financial operations for the period January 1, 2013 through September 30, 2014. We conducted the following audit procedures:

- Interviewed Association officials and reviewed Board minutes from January 2013 through September 2014 and the Association's constitution, bylaws and policies to gather information about the Association's policies and procedures related to cash receipts and disbursements and to records and reports.
- Interviewed appropriate Association officials to gain an understanding of Association processes and operations and to determine if internal controls were in place over financial operations.
- Interviewed Board members to determine if financial information was provided allowing them to provide oversight of Association finances.
- Reviewed all bank account activity from January 2013 through September 2014. To accomplish this, we obtained bank statements, deposit compositions and canceled checks directly from the bank.
- Reviewed all cash disbursements reflected on bank statements to determine whether supporting documentation was available to ascertain their propriety.
- Performed a cash count of the funds held by the Treasurer.
- Interviewed Board members, the Chief and the Treasurer to determine if certain claims paid through the Association's bank accounts to vendors and officials were proper Association charges.
- Interviewed Association officials to determine if the Association had any policies regarding the purchase of fuel for personal vehicles and analyzed fuel purchases.

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 C

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