

Kirkwood Fire Company District No. 1 Inc.

Collections and Disbursements

OCTOBER 2021



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

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Report Highlights

Kirkwood Fire Company District No. 1 Inc.

Audit Objective

Determine whether the Kirkwood Fire Company District No. 1 Inc. (Company) officials established adequate controls over collections and disbursements.

Key Findings

The Board did not fulfill its fiduciary responsibilities to ensure money was adequately safeguarded and accounted for and Company officials did not establish adequate controls over collections and disbursements. As a result, neither the Company nor we were able to confirm all money was properly deposited, disbursed and accounted for.

- 21 collections (43 percent) totaling \$7,770 lacked proper supporting documentation to determine whether they were deposited in full.
- \$385 received for fire safety services was not deposited and cannot be accounted for.
- 225 disbursements (27 percent) totaling \$106,360 were not properly supported or authorized prior to being made, including a \$800 credit card payment to a non-Company vendor, \$540 for member reimbursements, \$1,455 in unauthorized withdrawals and \$945 for an unidentified vehicle's repair.
- Officers improperly borrowed Company money.

Key Recommendations

- Establish adequate controls and provide additional oversight of collections and disbursements.
- Ensure all collections are properly supported and deposited in full.
- Ensure all disbursements are properly supported and authorized by the Board prior to payment.

Company officials agreed with our recommendations and have taken corrective action.

Background

The Company is a not-for-profit organization that provides fire protection services for the Town of Kirkwood (Town) in Broome County. The Company is composed of volunteer members and is governed by its adopted bylaws and nine-member Board of Directors (Board).

The Board is responsible for overseeing the Company's financial activities and approving all disbursements. The Treasurer is responsible for receiving and disbursing money, accounting for financial activities and reporting the account balances and disbursements at each regular meeting.

The Company's primary revenue source is a fire protection contract with the Town. Additional revenues come from foreign fire insurance, insurance reimbursements, donations, racetrack fire safety services, fundraisers and hall rentals.

Quick Facts

2020 Active Members	40
Audit Period Collections	\$605,215
Audit Period Disbursements	\$647,045

Audit Period

January 1, 2018 – November 30, 2020

Collections and Disbursements

What Are Adequate Controls Over Collections and Disbursements?

A board is responsible for overseeing a company's financial activities and safeguarding its resources. To fulfill this duty, it is essential that a board establishes internal controls to ensure collections are properly supported, accounted for and deposited in full and disbursements are authorized, supported, and for proper company purposes. For instance, fire companies are prohibited from allowing company directors, officers or key persons to borrow money.

Good controls include: issuing duplicate press-numbered receipts, maintaining documentation for any billable services, reconciling money collected with deposits, limiting both the authorization to initiate claims and use of debit cards to specific officers, ensuring claims are supported and authorized prior to being paid, maintaining documentation for all disbursements, reconciling and reviewing bank statements with canceled check images and periodically reviewing the treasurer's work. In addition, the Company's bylaws state that all claims must be approved by the Board prior to payment.

Collections Were Not Properly Supported, Accounted For or Deposited In Full

The Treasurer did not ensure that all money received was properly supported, accounted for and deposited in full. The Treasurer did not maintain sufficient records, such as itemized deposit slips or issue press-numbered duplicate receipts for money received. In addition, the Treasurer did not reconcile money received to amounts deposited in bank accounts. Lastly, the Board did not have someone other than the Treasurer prepare monthly bank reconciliations to ensure the adjusted bank balance agreed with the Treasurer's recorded cash balance, nor did the Board periodically review the Treasurer's records to ensure they were complete and maintained in a timely manner.

Due to the lack of adequate supporting documentation, we were unable to determine whether all collections were properly accounted for and deposited in full. During the audit period, the Company made 30 deposits totaling \$605,215, comprised of 34 check collections totaling \$592,750 and 15 cash collections totaling \$12,465. We were only able to verify that 28 of the 49 deposited collections totaling \$597,445 represented the total amount received from various sources. Seventeen of these collections were checks totaling \$587,675 issued by the Town, vendors, New York State and the federal government, eight were checks totaling \$3,625 for donations and three were cash collections of \$6,145 from former Company officers for the repayments of borrowed money and an unauthorized withdrawal.

We were unable to determine whether the remaining 21 collections totaling \$7,770 represented the total amount actually received. For instance, there were

The Treasurer did not ensure that all money received was properly supported, accounted for and deposited in full.

nine checks totaling \$1,450 that were deposited for hall rentals. However, officials did not use a calendar or other record indicating rental dates, hall rental request forms or adopt a standard fee schedule to ensure renters paid the appropriate fees. Therefore, we could not determine what amounts were supposed to be charged or collected for hall rental activity. In addition, there was a cash deposit of \$1,525 that we were told by the current President was from a fundraiser, however, there were no records to indicate what was actually collected at the event. There were also three deposits of cash collections totaling \$2,205 that multiple officials could not tell us what they were for and we could not identify a source. The remaining eight instances were deposits for cash payments received for fire safety services provided at a local racetrack. Although Company officials had no record of the amounts received from the racetrack, we obtained documentation from the racetrack owner for \$2,975 in cash paid to the Company and found that only \$2,590 was deposited, which was \$385 less than received. Officials stated that a portion of the cash received was used to purchase snacks and beverages at the races. However, officials could not provide support or account for the missing \$385.

“...officials could not provide support or account for the missing \$385.”

Because the Treasurer did not issue press-numbered duplicate receipts or retain itemized deposit slips or other documentation to show the source and amount of the funds collected, Company officials are unable to determine whether all money received was properly accounted for and deposited in full.

Disbursements Were Not Properly Supported or Authorized

The Board did not establish adequate controls to ensure that claims were properly supported and authorized prior to being paid. Various members were authorized to use the Company’s debit cards which poses significant risk because the use of the cards results in a withdrawal of Company funds from the bank account at the time of purchase. The use of debit cards prohibits the Board from reviewing and authorizing the claim prior to payment. In addition, the Treasurer did not maintain sufficient documentation (such as receipts and invoices) to support claims nor ensure all claims were authorized by the Board prior to making payments.

Due to these weaknesses, we reviewed all 841 disbursements totaling \$647,045 made during the audit period (See Figure 1). We found that 273 disbursements (\$121,185) were made without proper support, of which 176 or 64 percent were debit card transactions. Additionally, we found that the Board did not authorize 381 disbursements (\$223,740) prior to payment, of which 254 or 67 percent were debit card transactions.

Figure 1: Breakdown of Disbursements

Description	Number	Amount	Debit Card Charges	Amount of Debit Charges
Properly Supported and Authorized	412	\$408,480	18	\$1,415
Not Properly Supported or Authorized	225	106,360	175	19,415
Properly Supported, But Not Authorized	156	117,380	79	19,075
Properly Authorized, But Not Supported	48	14,825	1	130
Total Disbursements	841	\$647,045	273	\$40,035

We determined that 829 of the 841 disbursements (\$638,035) were for appropriate Company purposes. However, we found one disbursement was to former officers (\$5,145) for improperly borrowing money and 11 other questionable disbursements totaling \$3,865. These included disbursements for: an unauthorized withdrawal from the former Board chair without Board approval (\$1,000)¹, auto repairs without any detail of the vehicle repaired (\$945), a credit card payment to a non-Company credit card vendor (\$800), member reimbursements without receipts attached detailing the reason (\$540), ATM withdrawals (\$455) and online vendor purchases (\$125).

Officials were unable to provide us with reasonable assurance that these disbursements were for proper Company purposes because they did not have support for them. They also acknowledged that ATM withdrawals were generally prohibited.

Without supporting documentation and authorization, there is an increased risk that unauthorized purchases and disbursements may occur and remain undetected by Company officials. Furthermore, because no one performed bank reconciliations or periodically reviewed the Treasurer’s work, there was no identification and investigation by officials of whether these disbursements and withdrawals were legitimate.

Officers Improperly Borrowed Money From the Company’s Bank Account

Due to the internal control weaknesses, officers were able to inappropriately take money from the Company bank account. On February 13, 2020, the Company’s debit card was used to pay \$5,145 to a racetrack in Ohio. The February 18, 2020

Due to the internal control weaknesses, officers were able to take money from the Company bank account without Board approval.

¹ On February 20, 2020, the former Board chair withdrew \$1,000 cash from the bank without Board approval. According to current officials, the former Board chair withdrew this money for the former Fire Chief to purchase lockers. However, these lockers were never purchased. During three Board meetings between June 16, 2020 and July 21, 2020, Board members questioned the \$1,000 withdrawal and discussed seeking recovery. On July 21, 2020, the former Fire Chief verbally agreed to repay the \$1,000 and the money was deposited on August 19, 2020.

Board meeting minutes indicated that the former President and former Fire Chief asked to borrow \$5,145 and the Board approved the request at that meeting, even though the Company is prohibited from allowing officers to borrow money and the Board lacks the authority to approve such a request. The borrowed money was fully repaid on February 26, 2020.

Board members were unaware that fire companies are prohibited from allowing officers to borrow money. However, improper borrowings and unauthorized withdrawals could continue to be made if the Board does not implement proper controls and enforce legal requirements.

What Do We Recommend?

The Board should:

1. Ensure that the Treasurer maintains supporting documentation for all collections and disbursements.
2. Limit the authorization to initiate claims and the use of debit cards to specific officers.
3. Approve all claims prior to payment and only when properly supported and for appropriate Company purposes.
4. Provide additional oversight over collections and disbursements by requiring someone outside of the collections and disbursements processes to perform bank reconciliations and periodically review the Treasurer's records to ensure they are current and complete.
5. Prohibit officers from borrowing money from the Company.

The Treasurer should:

6. Issue duplicate press-numbered receipts for all collections received.
7. Reconcile all collections received with deposits to ensure all receipts are deposited in full.
8. Maintain supporting documentation for all collections and disbursements.
9. Only make disbursements after they have been approved by the Board.

Appendix A: Response From Company Officials



KIRKWOOD FIRE CO. DIST.No.1, Inc.

Chartered July 24th 1937

297 Main Street

Kirkwood, NY 13795

Phone: 607-775-2411

www.kirkwoodfirecompany.com

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September 27, 2021

To whom it may concern,

The administration conducted a meeting regarding the audit of all items from January 1, 2018 through November 30, 2020. We went over the findings, and we fully agree that there is lack of supporting documents for spending by the previous administration. We realize that the way financial items were handled did not meet proper business practices.

As the audit was being conducted, the current administration put a corrective action plan into place. The plan is as follows:

1. All disbursements of any kind, money transfers, bill payments, withdrawals and deposits require supporting documentation, ie: a copy of the bill to be paid, meeting minutes that show approval was given, written board approval. etc.
2. We have adopted the policy that no loans of any kind will be given to any member or non-member.
3. All checks now require 2 signatures.

We appreciate the time spent on the audit, and the information we received from it.

Sincerely,

Robert A. Pierson

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 Company officials and reviewed the Company Constitution and Bylaws along with Not-For-Profit Laws to gain an understanding of the Company's policies and procedures related to collections and disbursements.
- We obtained bank statements with check images and deposit composition reports from the bank and verified information against supporting documentation.
- We contacted a third-party payor to obtain payment information, and verified against collections deposited in the bank by the Company to determine if all collections were deposited in full.
- We reviewed all 49 collections totaling \$605,215 during the audit period along with supporting documentation of amounts collected, bank statements and deposit composition reports to determine whether collections were properly accounted for and deposited in full.
- We reviewed all 841 disbursements totaling \$647,045 made during the audit period to determine whether disbursements contained adequate documentation to support the purchase, were properly authorized prior to payment and were for appropriate Company 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 written corrective action plan (CAP) that addresses the recommendations in this report and forward it 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 the CAP available for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

www.osc.state.ny.us/local-government/publications

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www.osc.state.ny.us/local-government/fiscal-monitoring

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/resources/planning-resources

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

www.osc.state.ny.us/files/local-government/publications/pdf/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/local-government/required-reporting

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