

Frankfort Hill Volunteer Fire Company

Financial Activities

JUNE 2020



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

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Report Highlights

Frankfort Hill Volunteer Fire Company

Audit Objective

Determine whether Company officials ensured that financial activities were properly recorded and reported and that money was safeguarded.

Key Findings

- The bylaws provided limited guidance on financial responsibilities and the Board did not establish any supplemental financial policies or procedures.
- The Treasurer did not maintain adequate accounting records and prepare monthly bank reconciliations.
- Most claims were paid without Membership approval, as required by the bylaws and 47 claims totaling \$34,437 were paid without proper supporting documentation.
- Company officials did not ensure that cash receipts were adequately documented. Of 125 deposits totaling \$318,091 made during the audit period, 43 deposits totaling \$16,023 were either supported by only a deposit receipt or had no supporting documentation.

Key Recommendations

- Amend the bylaws or adopt separate written financial policies and procedures to establish internal controls over key financial areas.
- Maintain complete and accurate accounting records.
- Ensure claims are audited before payment and have adequate supporting documentation.
- Ensure cash receipts are supported by adequate documentation.

Company officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action

Background

The Frankfort Hill Volunteer Fire Company, Inc. (Company) is a not-for-profit organization that provides fire protection for a portion of the Town of Frankfort (Town) in Herkimer County.

The Company is composed of volunteer members (Membership) and is governed by its adopted bylaws. The members elect a five-member Board of Directors (Board) and seven elected officers: a President, Vice President, Treasurer, Secretary, Chief, 1st Assistant Chief and 2nd Assistant Chief.

The Company's primary sources of revenue include a fire protection contract, foreign fire insurance, storage rental fees, donations and fundraisers.

Quick Facts

Active Members	19
2019 Budgeted Revenues	\$108,711
2019 Budgeted Expenses	\$104,350

Audit Period

January 1, 2017 – August 31, 2019

Financial Activities

The Treasurer is the Company's chief fiscal officer responsible for receiving, disbursing, maintaining custody of and accounting for all money and preparing monthly and annual financial reports. During our audit period, three different individuals held the position of Treasurer. After the former Treasurer resigned, in January 2018, the President performed the Treasurer duties from January through April 2018. The Membership elected the current Treasurer in April 2018 and the current President in December 2018.¹

What Is Effective Board Oversight?

To effectively manage operations, good management practices require establishing policies and procedures and clearly defining bylaws to ensure transactions are authorized, properly reviewed and recorded, funds are adequately safeguarded, collections are deposited in a timely manner and claims are approved before payment.

The board is responsible for overseeing financial activities and safeguarding company resources. An important aspect of this responsibility is to provide a process to routinely monitor and review the work performed by those who handle money as part of their duties. Oversight becomes particularly important in operations that do not have adequate segregation of duties.

When segregating duties is not practical, the board should implement compensating controls, such as having the board or someone independent of the cash receipt and disbursement process review monthly bank reconciliations, bank statements and cancelled check images; compare receipts with deposits; review financial records at least annually to help ensure funds are used for legitimate expenses and properly accounted for and reported.

The Company bylaws require the Treasurer to keep the financial records up-to-date and present a financial report to the Membership at the monthly meeting. The bylaws further require that the Treasurer provide the accounting records to any member, when requested.

Sufficient Guidance Was Not Provided Over Financial Operations

The bylaws provide limited guidance for Board oversight responsibilities and Treasurer duties. The Board did not provide any additional guidance or procedures for these duties. As a result, the Membership lacked written policies and procedures over key financial operations, such as accounting records, financial reports, cash collection, disbursement and fundraising activities.

¹ The accounting records were not turned over to the current Treasurer until July 2018.

Although the bylaws require the Treasurer to provide the Membership with a monthly financial report, no specific guidelines were in place specifying the information to be provided. As a result, both the current and past Treasurers did not provide adequate reports to the Board and Membership. While the Treasurers provided the Board and Membership with a monthly report that included bank and investment account balances and a total amount of deposits and disbursements for the month, they did not provide a budget-to-actual report.

Additionally, the Treasurers did not include a detailed breakdown of cash receipts received (e.g., from contracts and fundraising) and disbursements made (payee, date, amount, purpose). Without adequate financial reports, the Board and Membership did not have sufficient information to adequately oversee financial operations.

Further, the Treasurers handled nearly all aspects of financial operations, including receiving and depositing cash, preparing and signing checks, maintaining the accounting records and preparing bank reconciliations. However, the Board did not provide sufficient guidance or oversight to ensure the records were accurate and reconciled with bank balances, all money collected was deposited and disbursements were reviewed to determine whether each payment was adequately supported and for a valid purpose.

As a result of the limited guidance and oversight by the Board, Company funds were not adequately safeguarded and there is an increased risk that errors and irregularities could occur and not be detected in a timely manner.

Accounting Records Were Not Properly Maintained

The Treasurers did not maintain adequate accounting records for bank and investment accounts to account for all money received and disbursed. The accounting records consisted of incomplete manual and computerized check registers for the general and donation checking accounts and an investment account.

We compared all deposits and disbursements listed on bank statements during our audit period to the manual check registers maintained by the Treasurer and found that nine disbursements totaling \$10,022 and two deposits totaling \$225 were not recorded in the manual check registers. In addition, the Treasurer did not deduct a check written for \$8,750 from the running balance in the manual check register. Further, the computerized check registers were inaccurate and incomplete. For example, the Treasurers failed to record five deposits totaling \$81,436 and eight disbursements totaling \$79,746 and erroneously recorded a \$2,707 deposit twice.

The current Treasurer had not completed a bank reconciliation for the general checking account since December 2018 and we found no evidence that anyone

reconciled the investment account and donation checking account during our audit period. The Treasurer told us that he stopped preparing bank reconciliations for the general checking account when the accountant hired to prepare the Company's Form 990 informed him that the 2018 ending cash balances in the manual and computerized check registers did not agree with the ending balances.²

Had proper bank reconciliations been completed, the Treasurer could have identified and corrected the errors we identified in the records. Because the Treasurer did not maintain reliable accounting records and prepare monthly bank reconciliations, there is an increased risk that errors or fraudulent transactions could occur and not be identified. In addition, the Board may not have accurate financial information available for overseeing financial operations.

What Are Effective Procedures for Cash Disbursements?

The Company bylaws require the Treasurer to submit all statements of claims received from the Secretary or other members at the monthly meeting for approval.³ It is important for the Membership to conduct a thorough and deliberate review of each claim.

During its review, the Membership should determine whether each claim contains adequate supporting documentation, is properly itemized and whether the Company actually received the goods or services described in each claim. It is also important for the Membership to determine whether the proposed payments are actual and necessary expenses and are in accordance with the bylaws.

Debit cards pose significant risks because members using them have direct access to the Company's bank account and unauthorized use may not be readily detected. In addition, unlike credit cards where a statement is received before payment, a debit card allows a payment to be directly withdrawn from the bank account at the time of purchase before the Membership has an opportunity to review the associated claim and determine whether the purchase is for a legitimate purpose.

Disbursements Were Made Without Adequate Support and Authorization

Company officials did not establish adequate controls over disbursements. We found that most claims were paid without Membership approval, as required by the bylaws. In addition, the Company had three debit cards used by the President,

2 Form 990 (Return of Organization Exempt from Income Tax) is required to be filed with the Internal Revenue Service annually and provides information about an organization's finances, activities and governance.

3 Except statements for electricity, telephone, gas and oil for fire equipment and heating fuel

Treasurer and Chief. As a result, funds from purchases made with these cards were directly withdrawn from the bank accounts at the time of purchase, which significantly increased the risk of inappropriate payments and did not allow the Membership to approve the claim before being paid.

We reviewed all 383 disbursements totaling \$244,837 (including 32 debit card purchases totaling \$3,082) made during the audit period.⁴ We found that 47 disbursements totaling \$34,437 (14 percent of the disbursed amount) did not have adequate supporting documentation. Specifically, 24 disbursements totaling \$20,242 did not have any supporting documentation other than a description written in the memo section of the check register.

- The Company was unable to provide support for a \$9,500 payment for truck repairs. While the meeting minutes showed that repairs were being made to a specific vehicle, the vendor, amount and type of work completed were not listed. Additionally, the minutes did not specify whether the Membership approved a claim for this payment.
- No claim was on file to support a payment totaling \$8,243 for fire apparatus maintenance and repairs. Also, we found no indication in the minutes this payment was approved by the Membership.

The remaining 23 payments totaling \$14,195 contained insufficient documentation because these claims were paid from statements or packing slips or the support provided did not agree with the amount disbursed.

- A \$459 disbursement made to the former Chief for vehicle batteries for two Company trucks contained supporting documentation that totaled \$359. Company officials were unable to provide an explanation for why \$100 more was paid.
- A disbursement for \$1,753 was paid based on a billing statement from the vendor that listed invoice numbers but did not provide a detailed breakdown of the goods purchased. However, based on our review of the memo section of the check register, the payment was for fire helmets and badges.
- A \$474 debit card purchase for defibrillator pads and a battery was supported by a packing slip that listed the goods purchased. However, the packing slip did not list the total amount to be paid.

Also, the current Treasurer and past President made five duplicate payments totaling \$1,843 to three vendors. We determined that two of these vendors provided credits totaling \$1,162 on subsequent billing statements and the third vendor had not credited or refunded the Company for the \$681 overpayment.

⁴ We excluded transfers to other Company bank accounts. Refer to Appendix B for information on our methodology.

Company officials were unaware that they had overpaid this vendor until we inquired about the duplicate payment during our audit.

Because of the weak controls over the claims approval process, we expanded our testing to include another 10 purchases and attempted to locate these items, which included a pick-up truck, a camera, three computers, pagers, a projector and a snow plow. We were able to locate all of these items.

We discussed certain payments that lacked adequate documentation with the Board Chairman to help determine the propriety of the payments. With the exception of the previously discussed duplicate payments and the apparent \$100 overpayment to the former Chief, we did not identify any payments that were inappropriate or for non-Company purposes.

However, given the significant number of disbursements without supporting documentation, the Membership has no assurance that funds were appropriately used. Furthermore, by paying claims without Membership approval, there is an increased risk funds could be spent for services or goods the Membership may not have approved of.

What Are Effective Procedures for Collections and Bank Deposits?

The Company bylaws require that the Treasurer receive all money due the Company and deposit it within seven days. Good business practices require that Company members remit collections (including those from fundraising events) and supporting documentation to the Treasurer. Supporting documentation should include the date collections were received, payer name, amount, purpose and composition (cash or check). This could be accomplished by issuing pressed-numbered receipts or some other method to record collection details.

The Treasurer should compare the collections to the corresponding supporting documentation to ensure that all collections are accounted for and deposit collections timely and intact (in the same amount and form as received). In addition, the Treasurer should prepare and retain duplicate deposit slips with enough detail to identify the deposit composition of cash and checks received. When deposits are not made in a timely manner, there is a greater risk that money could be lost or stolen without detection.

Company officials should maintain adequate documentation on file to support all cash collections, which is especially important for fundraising activities. After a fundraising activity, a general fundraising report should be completed detailing the amount collected, including the number of items sold. For each fundraising event, at least two members should be available to count the money collected and certify the amounts remitted to the treasurer.

Controls Over Cash Receipts Could Be Improved

The Board did not establish adequate controls to ensure that all money received was properly recorded and deposited. The Treasurers were responsible for receiving and depositing all collections remitted by mail and from members responsible for fundraising activities.

We reviewed all 125 deposits totaling \$318,091 (excluding transfers from other Company bank accounts) made by the Treasurers serving during our audit period to determine whether receipts were properly recorded and supported and deposited timely and intact. The Treasurers' deposits of checks issued by the Town for fire protection and foreign fire insurance money totaling \$281,177 were adequately supported.

However, Company officials were unable to provide supporting documentation to show the source of funds for 43 deposits totaling \$16,023. Two of these deposits totaling \$431 had no support on file and the other 41 deposits totaling \$15,592 had only a deposit receipt from the bank showing the deposit date and total amount.

These deposits were made when the former Treasurer and former President, who served in place of the Treasurer, were responsible for the collections and deposits. The former President told us that all financial records were retained in the safe at the firehouse. However, officials were unable to provide us with sufficient supporting documentation for these deposits.

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

The current Treasurer made some improvements in the recordkeeping for cash receipts since his election in April 2018. During the last quarter of 2018, the current Treasurer began maintaining a manual cash receipt log that included check date, check number, check payer, amount and purpose of funds received. He also retained copies of deposit slips and the deposited checks. However, the current Treasurer did not record the date the funds were received in either the log or the supporting documentation and duplicate pressed-numbered receipts for cash received were not issued.

For example, the Treasurer made six deposits (from July 1, 2018 through August 30, 2019) that contained cash for which the source was not documented. Although the cash collected was recorded in the manual cash log or on the deposit slip along with the purpose of the funds received, there was no documentation showing who the money was received from and the date received.

Therefore, we were unable to determine whether all cash collected was deposited in a timely manner.

In addition, the current Treasurer did not always deposit funds intact. We found two instances when the current Treasurer retained the cash fees collected from customers for storage rental fees and wrote personal checks to the Company for the total amount collected (\$240).

The current Treasurer told us that he kept the cash and wrote personal checks because he felt this was a better control over cash and was fearful he would misplace the cash before it was deposited. However, there are no circumstances when cash received by Company officials should be exchanged for personal checks. This practice weakens controls and reduces accountability over the cash collections.

Further, Company officials did not maintain adequate records and prepare reports for fundraising activities. For example, the records maintained did not include total revenues and expenses, the beginning cash available for the events and the number of dinners sold to adequately account for the funds collected at two chicken barbeque fundraisers hosted in 2017 and 2019. The deposits from these fundraisers totaled \$3,975.

The sole support provided for the 2017 barbeque was a handwritten note showing \$2,221 in receipts. However, \$2,246 was deposited (\$25 more). For the 2019 event, a handwritten note showed \$1,868 in receipts. However, \$1,729 was deposited (\$139 less). Because supporting records were insufficient, officials were unable to determine whether all funds received for these events were deposited.

These deficiencies occurred, in part, because the bylaws provided little guidance for financial responsibilities of officials related to cash receipts and fundraising activities. Also, the Company had no other policies and procedures in place to ensure money was adequately safeguarded. Due to the limited accountability over cash receipts, there is an increased risk that funds could be lost or stolen without detection.

What Do We Recommend?

The Board and Membership should:

1. Review and amend the bylaws and/or adopt separate written policies or procedures to provide adequate internal controls and clear guidance over key areas of financial operations (including cash receipts/fundraising, cash disbursements, claims processing, bank reconciliations and recordkeeping requirements).

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2. Designate the Board or a member(s) to routinely review the Treasurer's work (for example, review monthly bank reconciliations, bank statements and canceled check images and compare receipts to deposits).
 3. Perform or provide for a review of the Treasurer's records, at least annually.
 4. Ensure claims are properly supported, audited and approved before payment by the Treasurer and that the approval for payment is documented in the Company's meeting minutes.
 5. Discontinue the use of debit cards.
 6. Review the \$100 potential overpayment to the former Chief and consult with legal counsel if necessary about seeking recovery of the funds.
 7. Ensure that members responsible for fundraising activities create fundraising activity reports detailing the amount collected, including the number of items sold.

The Treasurer should:

8. Maintain accurate, complete, and up-to-date accounting records.
9. Provide the Board and Membership with monthly reports on receipts and disbursements and budget-to-actual information.
10. Prepare monthly bank reconciliations for all bank accounts and investigate and correct any differences between adjusted bank balances and recorded cash balances in a timely manner.
11. Make payments only after a proper audit and approval of claims and retain all supporting documentation for all payments.
12. Seek recovery of the \$681 duplicate payment made to a vendor.
13. Discontinue the practice of depositing rental fees collected to a personal account and then issuing personal checks to the Company for the fees collected.
14. Ensure collections are properly accounted for and issue duplicate pressed-numbered receipts or maintain some other documentation to show the source, date received, amount, payment type, and purpose of each collection.

Appendix A: Response From Company Officials



Frankfort Hill Vol. Fire Company

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RE: Frankfort Hill Volunteer Fire Company, Inc.
Financial Activities Report of Examination 2020M-47

The Frankfort Hill Volunteer Fire Company Board of Directors are acknowledging receipt of the preliminary findings for the audit report conducted by your office. The Board of Directors have reviewed and discussed the draft audit report we received on May 2nd, 2020.

We would like to express our appreciation to your office for the time and effort put into our audit report, which will help us develop a stronger oversight of Company finances, and operations.

The Board of Directors is in agreement with your office's findings in the audit report, and have already began developing and implementing a corrective action plan to ensure better financial documentation, and a stronger oversight of income, and expense's.

Sincerely,

Frankfort Hill Volunteer Fire Company, Inc.

Stephen Christensen, 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 bylaws and meeting minutes to gain an understanding of the cash receipt and disbursement process, including Membership oversight.
- We reviewed all bank reconciliations prepared by the Treasurers from January 1, 2017 through August 31, 2019. We interviewed the Board Chairman to determine whether Board members or other officials reviewed bank statements, cancelled check images and bank reconciliations.
- We compared deposits and disbursements listed on Company bank statements for all bank accounts to entries recorded in the manual and computerized check registers to determine whether all deposits and disbursements were properly recorded. We reviewed the running balances of the manual check registers to determine whether these records were accurate.
- We reviewed all 383 disbursements totaling \$244,837 shown on bank statements from January 1, 2017 through August 31, 2019 (excluding transfers between Company bank accounts). We compared these disbursements to the financial records and supporting documentation, such as invoices, receipts and cancelled check images, to determine whether the disbursements contained adequate support, were appropriate expenses and approved by the Membership before payment.
- Using our professional judgment, we identified 10 high-dollar purchases (costing more than approximately \$500) that could be used for personal purposes. To determine whether the items purchased were on-site at the Company, we traced them to a physical location. We discussed other purchases with the Board Chairman to determine whether all items paid for by the Company were received.
- We reviewed all 125 deposits totaling \$318,091 listed on the bank statements from January 1, 2017 through August 31, 2019 (excluding transfers between Company bank accounts) and compared them to the financial records and supporting documentation to determine whether receipts were properly recorded and supported and deposited timely and intact.

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.

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. 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 the CAP available for public review.

Appendix C: Resources and Services

Regional Office Directory

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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