

Niagara Engine Company No. 6, Inc.

Cash Receipts and Disbursements

AUGUST 2019



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

Contents

- Report Highlights 1**

- Cash Receipts and Disbursements 2**
 - What Are Adequate Controls Over Cash Receipts and Disbursements? 2
 - Controls Over Cash Receipts Are Weak. 2
 - Controls Over Cash Disbursements Could Be Improved 3
 - What Do We Recommend? 4

- Appendix A – Response From Company Officials 6**

- Appendix B – Audit Methodology and Standards 8**

- Appendix C – Resources and Services. 10**

Report Highlights

Niagara Engine Company No. 6, Inc.

Audit Objective

Determine whether the Board and Membership provided adequate controls over the Company's receipts and disbursements.

Key Findings

- Controls are inadequate over receipts and disbursements because the Treasurer, without adequate oversight, is the only one who receives, counts, deposits and reports cash receipts and prepares, signs, reports and maintains a manual ledger of checks. The Treasurer sends listings of the receipts and disbursements to the bookkeeper to record in the accounting records.
- We could not determine whether 75 purchases totaling \$27,514 were approved by the Membership because of inadequate documentation.
- We could not determine whether 20 purchases totaling \$3,245 were for proper Company purposes.

Key Recommendations

- Provide better oversight over cash receipts by implementing additional procedures such as requiring at least two people to count and certify the money collected at fundraising events.
- Document the bills approved by the Membership.
- Ensure disbursements for purchases are adequately supported and for proper Company expenses.

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

Background

The Niagara Engine Company No. 6, Inc. (Company) is a not-for-profit organization that provides fire protection and emergency rescue services to residents in the Village of Schoharie (Village) in Schoharie County pursuant to a contract.

The Company is composed of volunteer members (Membership) and is governed by its adopted bylaws, a six-member Board of Directors (Board) and five elected officers: a President, Vice President, Treasurer, Assistant Treasurer and Secretary. The President also serves as the Treasurer, thereby serving as the chief executive officer and chief fiscal officer. The Treasurer is responsible for receiving, disbursing, recording and reporting Company funds.

Quick Facts

Members	60
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2017-18 Operating Expenses excluding \$109,563 for consulting related to the Federal Emergency Management Agency (FEMA)	\$155,341
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2017-18 Operating Revenues excluding approximately \$2.4 million from FEMA	\$99,661
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Audit Period

April 1, 2016 – March 31, 2018. We extended our audit period to October 5, 2018 to determine whether select fundraising receipts were deposited.

Cash Receipts and Disbursements

The Company contracts with a third-party bookkeeping service (bookkeeper) to maintain accounting records and provide financial reports. The Company's primary sources of income include fundraising events, grants, foreign fire insurance proceeds and fire protection contracts.

What Are Adequate Controls Over Cash Receipts and Disbursements?

The board should establish policies and procedures to safeguard cash receipts and disbursements. These procedures should include segregating duties so that no one person is responsible for all phases of cash receipts or disbursements. If this is not possible, the board should implement mitigating controls by involving someone who is separate from these processes. For example, company officials could require at least two individuals to count and certify money collected at fundraising events and require someone to verify it was deposited. Also, someone other than the Treasurer should review bank statements and canceled check images to ensure only approved, legitimate company disbursements were actually paid. The bylaws require the Treasurer to keep an accurate accounting of all Company receipts and to report all receipts collected at the regular meetings to the Membership. The Secretary should ensure that the meeting minutes contain receipts collected and deposited.

The bylaws also require that the Membership approve all bills prior to payment and that the Treasurer report all money expended and the date, purpose and payee to the Membership. All bills should include adequate supporting documentation, such as receipts or vendor invoices, before they are approved and paid. Also, the Secretary should document the check numbers and amounts approved to be paid in the meeting minutes. Furthermore, the board should establish policies and procedures over credit cards and gas cards that include who is authorized to use the cards, the types of purchases that are allowable, credit limits and requirements for documentation to support each charge.

Controls Over Cash Receipts Are Weak

There is a lack of segregation of duties for cash receipts because the Treasurer performs the majority of the duties including opening mail, collecting, counting, depositing and reporting all money received. The bookkeeper performs monthly bank reconciliations and provides financial reports to the Treasurer. Although this slightly mitigates the risk, the Treasurer is the only one counting money collected without anyone else certifying it or verifying it was deposited. The Company held various fundraising events, including an annual donation mailing, "Las Vegas nights"¹ and other events. The Company contracts with a third-party vendor to

¹ "Las Vegas nights" include games of chance such as blackjack, table craps and a money wheel.

mail the annual donation letters, including a donation ticket to be filled out and submitted with any donations. The donations and donation tickets are mailed to the Company, and the Treasurer collects and deposits the donations. The Treasurer submits the donation tickets to the third-party vendor who records the amount of donations received; however, no one (other than the Treasurer) verifies that the amounts recorded by the third-party vendor were actually deposited. Additionally, at the “Las Vegas nights,” the Treasurer told us that participants purchase casino chips from him or from the table workers to play the different games of chance. The Treasurer periodically collects the cash collected by the table workers throughout the night and counts the money alone the next day. There is no certification of the money collected by the table workers or the money collected by the Treasurer during any of these events, and the Treasurer is solely responsible for making deposits. Therefore, we could not verify that the amounts recorded as collected at these events were accurate. Furthermore, the bylaws require the Treasurer to report all receipts collected at the regular meeting; however, the meeting minutes did not always include details of all receipts.

We tested all receipts from all known sources, including the fire protection contract with the Village, grants, fundraising events, meeting minutes, foreign fire insurance and Membership dues, totaling \$183,371,² to bank deposits, accounting records and meeting minutes and determined that, with the exception of minor discrepancies discussed with Company officials, these funds were recorded and deposited. There was an additional \$19,070 recorded in the accounting records we determined was also deposited. However, \$132,630 of the collected receipts tested were not reported to the Membership in the meeting minutes.

Controls Over Cash Disbursements Could Be Improved

The Treasurer prepares and signs the checks. In addition, he maintains a manual ledger of the monthly bills including check number, payee and check amount. According to Company officials, the Treasurer reads the bills aloud during monthly meetings for the Membership to approve. The Treasurer provides his manual ledger of all disbursements to the bookkeeper, who records these disbursements in the accounting records and reconciles the bank accounts. Therefore, there is a lack of segregation over the Treasurer’s duties, as he has control over the approval, recording and disbursing functions. Although not required by the bylaws, the Membership did not address the lack of segregation of duties by having someone else periodically review the bank statements and canceled check images to ensure only approved, legitimate Company disbursements were actually paid. Furthermore, the Company has three credit cards and two gas cards but has not developed any written policies or procedures governing their use.

² This excludes a grant receipt of \$8,200 paid directly to a vendor.

We reviewed 123 disbursements totaling \$65,412. We were unable to determine whether 75 purchases totaling \$27,514 were approved by the Membership because the meeting minutes did not consistently include adequate documentation or a list of approved bills, check numbers, vendor names and amounts to be paid. We could not determine whether 20 of the 123 purchases totaling \$3,245 were for proper Company purposes, including purchases of unleaded gasoline and items purchased online and from a tractor supply store and a department store.³ Additionally, 23 of the 123 purchases tested, totaling \$5,008, were not adequately supported, lacking vendor invoices or receipts. We also traced withdrawals and transfers to deposits to determine whether they were for proper Company purposes and found no significant findings.

Without adequate policies and procedures, proper approvals and supporting documentation, there is an increased risk that unauthorized purchases and disbursements may occur and be undetected by the Company.

What Do We Recommend?

The Board and Membership should:

1. Segregate the duties related to cash receipts and disbursements or provide mitigating controls such as requiring at least two individuals to count and certify the money collected at fundraising events.
2. Require someone other than the Treasurer to verify that money collected and amounts recorded by the third-party vendor are deposited.
3. Ensure that someone other than the Treasurer reviews the bank statements and canceled check images periodically to ensure only approved, legitimate Company disbursements were actually paid.
4. Establish policies and procedures governing the use of credit cards and gas cards including who is authorized to use the cards, the types of purchases that are allowable, credit limits and requirements for adequate documentation to support each charge.
5. Ensure all disbursements for purchases are for proper Company purposes and adequately supported.

The Treasurer should:

6. Report all receipts collected and deposited at the regular meetings to the Membership.

³ None of these 20 purchases were documented as approved by the Membership. We interviewed Company officials and reviewed detailed invoices, as available, Membership meeting minutes and sign-in sheets for trainings, events or other Company activities to determine whether the purchases were for proper Company expenses.

The Secretary should:

7. Ensure that the meeting minutes contain all receipts collected and deposited and adequate information regarding the bills approved by the Membership, such as a list of approved bills, check numbers, vendor names and amounts to be paid.

Appendix A: Response From Company Officials



Niagara Engine Company No. 6, Inc.

Schoharie Fire Department

114 Fort Road - P. O. Box 428

Schoharie, New York 12157

July 30, 2019

[REDACTED]
Office of the State Comptroller – Regional Office

Division of Local Government and School Accountability

State Office Building, Suite 1702

44 Hawley Street - Binghamton, New York 13901-4417

Re: Niagara Engine Company No. 6, Inc. Audit

Dear [REDACTED]

The Niagara Engine Company No. 6 hereby submits the following response to its audit. The Company has also included our written corrective action plan (CAP).

While it is our intention to implement and make changes as your audit recommends, please keep in mind that we are a rural department with limited volunteer resources.

- 1) Two members will separately count funds collected at fundraising events, and certify the total collected and deposited.

- 2) The third-party vendor mentioned in the audit does not receive any of the donated funds. The funds are deposited by the treasurer with only donation slips going to the vendor. The Assistant Treasurer will reconcile all records for accuracy.

- 3) The Assistant Treasurer will review bank statements, verifying that disbursements were approved.

- 4/5) For accountability and paper trail purposes, if anyone makes a purchase, whether on-line, in person, etc. they must get a receipt/invoice that includes the date, place of purchase, what was purchased, the reason for the purchase, and the cost. Also, the form should include the meeting date such purchase was approved. If no receipt/invoice is received, that person will be held responsible for payment of such purchase.

- 6/7) The Treasurer's report is read, approved and copy filed with the monthly meeting minutes.

Sincerely,

Martin Shrederis, President
Niagara Engine Company No. 6, Inc.
Schoharie Fire Department

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 receipts and disbursements processes, including Membership oversight.
- We reviewed meeting minutes, a grant administrator list of all grants received, canceled check images from the Village for contracted fire protection, a New York State Department of Financial Services list of all payments to the Company, bylaws, the Membership list, returned fundraising tickets, a third-party vendor report on annual donation letters and "Las Vegas nights" reports in an attempt to determine whether the amounts that should have been collected were collected and recorded. We then traced the amounts recorded to deposit compositions and bank statements to determine whether they were deposited timely and intact and reviewed meeting minutes to determine whether they were reported to the Membership.
- We reviewed the accounting records for all additional receipts that we had not traced to in our other testing, such as reimbursed expenses, pancake breakfasts, bottle returns and other fundraising events, and traced all of those to the meeting minutes, deposit compositions and bank statements to determine whether they were reported to the Membership and deposited timely and intact.
- We used our professional judgment to select a sample of three months of credit card statements (November 2017, December 2017 and February 2018 containing 48 purchases totaling \$4,498) and three months of gas card statements (May 2016, May 2017 and December 2017 containing 11 purchases totaling \$339) and traced them to receipts and meeting minutes to determine whether these purchases were adequately supported, approved by the Membership and for proper Company expenses. Our sample was selected based on the months with the highest dollar amounts of total purchases.
- We scanned the bank statements and selected all 15 canceled check images paid to Company officials and cash totaling \$2,217 and used our professional judgment to select a sample of 27 canceled check images from two months' (August 2016 and May 2017) bank statements totaling \$27,122 and seven canceled check images payable to unusual or utility vendors totaling \$3,622 and traced all canceled check images to vendor invoices and meeting minutes to determine whether all disbursements were adequately supported,

approved by the Membership and were proper Company expenses. Our sample was selected with no expectation of finding more or less deficiencies.

- We traced all 15 electronic purchases on the bank statements totaling \$27,615 to vendor invoices and meeting minutes to determine whether they were approved by the Membership, adequately supported and were for proper Company purposes.
- We scanned the bank statements and selected all 74 withdrawals, electronic or check transfers and traced them to a deposit into another Company bank account to determine whether they were for proper 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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days.

Appendix C: Resources and Services

Regional Office Directory

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

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

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

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

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

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

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

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

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

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

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

Contact

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