

Magee Volunteer Fire Department, Inc.

Financial Activities

MARCH 2018



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

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Report Highlights

Magee Volunteer Fire Department, Inc.

Audit Objective

Determine if financial activity is properly recorded and reported and that Department money is safeguarded.

Key Findings

- The Board and Directors do not receive formal, detailed reports of cash receipts and disbursements, nor are bank reconciliations consistently prepared and provided for review.
- The Board has not filed the required Internal Revenue Service (IRS) Form 990 for tax-exempt organizations.
- The Board is not reporting payments made to an individual performing custodial/maintenance services as either an employee or a contractor.

Key Recommendations

- Ensure that monthly financial reports are received, and are complete, accurate and include detailed information regarding receipts and disbursements.
- Ensure required forms are filed with the appropriate oversight agency.
- Determine whether the individual performing custodial/maintenance services is an employee or an independent contractor and properly report the payments.

Department officials generally agreed with our findings and indicated they planned to initiate corrective action.

Background

The Magee Volunteer Fire Department, Inc. (Department) is located in Seneca County and was incorporated in 1948. The Department contracts with the Town of Tyre (Town) to provide fire protection services to Town residents. The Department is governed by an elected four-member Executive Board (Board) and five-member Board of Directors (Directors). The Board and Directors are responsible for the Department's general management and oversight. The President serves as the chief executive officer and the Treasurer is the chief financial officer. The Treasurer is responsible for receiving and disbursing funds, maintaining accounting records and preparing monthly financial reports. The Department's primary sources of revenues are from a fire protection contract and fundraisers.

Quick Facts

Active members	20
Annual Calls	200+
2017 Budget	\$118,776

Audit Period

January 1, 2016 – September 7, 2017

Financial Activities

How Should the Board Provide Proper Oversight of Financial Activities?

The Board is responsible for overseeing the Department's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board establish a system of internal controls which consists of policies and procedures that ensure transactions are authorized and properly recorded; financial reports are accurate, reliable and filed in a timely manner; reports are prepared and filed according to legal requirements and regulations; and the Department complies with its bylaws and applicable laws, rules and regulations.

The Department's bylaws and Best Practice Guide establish the Treasurer's responsibility for maintaining the accounting records. The Treasurer should maintain complete, accurate and up-to-date records to provide Department officials with essential information to effectively manage cash and monitor the Department's financial operations. The Treasurer is also required to provide monthly financial reports to the Board. The bylaws state that the Department's funds, books and records are at all times under the Board's supervision and subject to its inspection and control. It is essential that the Board reviews and approves bills prior to payment to ensure that Department funds are used for legitimate expenditures. The Board should also review cash receipts documentation, including bank statements and reconciliations, to ensure revenues are properly recorded and deposited.

The Board and Directors Are Not Providing Adequate Oversight of Financial Activities

The Treasurer relinquished most of his duties to the Secretary,¹ even though the bylaws state that holding dual offices is not permitted. The Secretary performed the majority of the financial activities and therefore, the duties were not properly segregated and no compensating controls were put in place. The Board and Directors do not receive formal, detailed reports of cash receipts and disbursements, and bank reconciliations are not consistently prepared and provided for review. However, the Secretary generally provides the Board with verbal financial reports at the monthly Department meetings.

Due to the inadequate segregation of duties and lack of oversight, we reviewed all 305 disbursements for the regular checking and bingo checking accounts totaling \$176,111 to determine whether they were properly reviewed and approved prior to payment, adequately supported and for reasonable Department purposes. In general, we found that disbursements were timely and appropriately reviewed and approved, adequately supported and reasonable.

¹ With the exception of making bank deposits

Additionally, we reviewed 14 deposits made to the regular checking and money market accounts during the audit period,² totaling \$357,591, to ensure that all transactions were for Department operations and authorized and approved. We found that deposits and transfers were reviewed and approved by the Board.

We found weaknesses related to fundraising activities during our review of 53 fundraising cash receipts and related deposits totaling \$44,100.³ Kitchen and bingo cash sales sheets are maintained and signed by three members then attached to the deposit receipts. The Fire Chief tracks all Fall Festival raffle ticket sales which are reconciled to the Treasurer's records. However, deposits from donations, boot drives and 50/50 raffles lacked adequate supporting documentation. Additionally, adequate records of inventories were not maintained, and profit and loss statements were not prepared for fundraising activities. Without adequate supporting documentation for fundraising activities there is an increased risk that Department assets could be stolen or misused.

Because bank reconciliations were not performed, we reconciled the Department's six accounts as of December 31, 2016. We found no discrepancies between the bank and book balances. However, failure to prepare and present monthly bank account reconciliations to the Board along with checkbook registers and bank statements increases the risk that errors or irregularities could occur and remain undetected and uncorrected.

What Reports Are Required to Be Filed?

Form 990 (the Return of Organization Exempt from Income Tax) is a United States IRS form that provides the public with financial information about a nonprofit organization. It is often the only source of such information. It is also used by government agencies to prevent organizations from abusing their tax-exempt status. If a nonprofit organization does not file annual returns or notices for three consecutive years, it will have its tax-exempt status revoked as of the due date of the third return or notice.

It is critical that the Board and Treasurer correctly determine whether the individuals providing services are employees or independent contractors. Generally, the Department would withhold income taxes, withhold and pay Social Security and Medicare taxes, and pay unemployment tax on wages paid to an employee. All payments are reported on a wage statement (W2) at year-end. Conversely, payments to independent contractors do not require the Department to withhold or pay any taxes. Payments to independent contractors are reported

² Which included five transfers from the money market account to the regular checking account totaling \$96,000

³ From the three separate fundraising bank accounts: bingo, kitchen sales and the fall festival.

on form 1099-MISC and the contractor is responsible for any taxes due resulting from the income.

Required Reports Were Not Filed

The Treasurer did not file Form 990⁴ with the IRS during our audit period because the Board was unaware of this reporting requirement. When the Board fails to ensure annual filing requirements are satisfied, it puts the Department at risk of losing its tax-exemption status.

Additionally, the Department is not properly reporting payments, as required by law, made to an individual, as an employee or an independent contractor, who provides custodial/maintenance services. The Board approved 21 payments totaling approximately \$7,500 to this individual for the period January 1, 2016 through July 31, 2017. However, there was no documentation detailing the individual's duties and compensation, such as a signed contract, or a determination regarding this individual's status as an employee versus an independent contractor. Department officials stated they were unaware of the required reporting and/or any withholding requirements. When the roles and relationships between contracted entities are not clearly defined there is an increased risk of non-compliance with various laws and statutes and potentially exposure for additional liability and expense.

What Do We Recommend?

The Board should:

1. Ensure monthly financial reports are received and are complete, accurate and include detailed receipts and disbursement information.
2. Ensure no officer performs the duties of more than one office, in compliance with the bylaws.
3. Establish policies and procedures over cash receipts and a system to ensure that all funds received from fundraisers are properly accounted for and recorded.
4. Ensure compliance with all necessary reporting requirements for oversight agencies.

⁴ IRS Form 990 is an informational return filed by organizations exempt from income tax under sections 501(c), 527 or 4947(a)(1) of the Internal Revenue Code (see Internal Revenue Code Section 6033).

The Treasurer should:

5. Maintain complete, accurate and up-to-date records to provide Department officials with the information essential to effectively manage cash and monitor the Department's financial operations.
6. Provide a written monthly financial report that includes all funds received and disbursed during the month and reconciled with cash balances for each bank account. Provide the reconciliations, bank statements and canceled check images to Department officials for review.
7. Ensure that the responsibilities of his office are not delegated to an individual with incompatible duties.
8. Ensure required forms are filed with appropriate oversight agencies.

Appendix A: Response From Fire Department Officials

Magee Volunteer Fire Department, Inc.
1807 Route 318
Seneca Falls, New York 13148

March 16, 2018

Edward V. Grant, Jr.
Chief Examiner
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608

Dear Mr. Grant:

The President, the Board of Directors, the Treasurer and the Chief of the Magee Volunteer Fire Department have received and reviewed the written preliminary draft report of our audit from the period of January 1, 2016 to September 7, 2017. We accept the audit findings as detailed in the draft report dated February 14, 2018. The Board of Directors is prepared to implement the recommendations from our audit as they are applicable to our organization.

The Board of Directors has the responsibility to initiate the corrective action plan. We are currently working on our corrective action plan that addresses the recommendations in our audit report. We will forward the corrective action plan to your office within 90 days. We would also like to thank the audit team that came to our fire department for all of their professional help and support during this process.

Sincerely,

Michael Toombs
President, Magee Volunteer Fire Department, Inc.

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 Department officials and reviewed the Department's bylaws, Best Practice Guide, meeting minutes and various financial records and reports to gain an understanding of the operations.
- We reviewed the Department's financial records, including the check register, cancelled checks, receipts and invoices, deposit slips, bank statements and other related supporting documentation.
- We assessed the adequacy of monthly financial reports.
- We reviewed all disbursements made from the regular and bingo checking accounts for a total of 305 disbursements totaling \$176,111 for January 1, 2016 through July 31, 2017 to determine whether disbursements were reviewed and approved in accordance with the bylaws and the Best Practice Guide and to ensure that adequate supporting documentation existed and disbursements were for appropriate Department purposes.
- We judgmentally selected three months (July, August and September 2016) to review cash receipts for fundraisers, which would include the Department's Fall Festival, for a total of 53 deposits totaling \$44,102. We determined if cash receipts information was presented to the Board and if adequate supporting documentation was maintained.

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/lgli/pdf/cybersecurityguide.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

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.state.ny.us

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

Local Government and School Accountability Help Line: (866) 321-8503

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